



## Cut Labour's waste to stop their tax rise on working people

A Conservative Government will cut Labour's waste to stop their tax rise on jobs. As a result 7 out of 10 working people will be better off with the Conservatives.

### Cut Labour's waste...

- A Conservative Government will take immediate action to start cutting Government waste, in order to spend £6 billion less in 2010-11 than Labour's plans.
- This is just under 0.5% of GDP and less than 1% of total Government spending. It is the result of a twin assessment of what is necessary in order to establish credibility and restore confidence in our economy, and what is achievable in-year without affecting the quality of front line services.
- Former Government advisers Sir Peter Gershon and Dr Martin Read, now members of the Conservatives' Public Sector Productivity Advisory Board, have advised us that savings of £12 billion across all departmental spending are possible in-year without affecting the quality of front line services. These are over and above any savings already planned by Labour.
- We will match Labour spending plans for 2010-11 in health and overseas aid. Given our commitment to carry out a strategic defence review it would also not be appropriate to make in-year reductions to the existing defence budget in 2010-11. The £6 billion of savings will be made from the remaining departmental budgets, which make up more than half of departmental spending.
- This means that savings of £6 billion are achievable in other departments without affecting the quality of front line services. This corresponds to a 2.8% real terms reduction in non-protected departmental spending compared to Labour's plans. In health, overseas aid and defence, savings will be channelled back into improving front line services.
- In Government we will carry out a spending review that will identify further savings for 2011-12 and future years, on top of measures that we have already announced including a public sector pay freeze excluding the lowest paid one million workers. We will also introduce a new tax on banks.

## ...to stop their tax rise on working people

- Having identified these savings we can now commit to stop Labour's tax rise on working people and jobs at the same time as reducing the deficit faster.
- Labour are planning to raise Employees National Insurance Contributions (NICs) for everyone earning over £20,000. We will stop this increase altogether for everyone earning under £35,000 by raising the primary threshold at which people start paying NICs by £24 a week, and raising the Upper Earnings Limit by £29 a week.
- Relative to Labour's plans everyone liable for Employees NICs earning between £7,100 and £45,400 – which is 7 out of 10 working people – will be up to £150 better off a year under the Conservatives. Lower earners will get the greatest benefit as a percentage of their earnings. Nobody will be worse off.
- Labour are also planning to raise Employers NICs for everyone earning over £5,700. This is a tax on jobs that will undermine the recovery. We will raise the secondary threshold at which employers start paying NICs by £21 a week, saving employers up to £150 for every person they employ relative to Labour's plans. This will reduce the cost of Labour's tax rise on employers by more than half.
- The Institute for Fiscal Studies estimate that the immediate cost of these changes in 2011-12 will be £5.6 billion. Over time they estimate that higher wages in response to lower Employers NICs will reduce the cost to £4.3 billion.
- Once this effect of higher wages in response to lower Employer NICs is taken into account the maximum gain for employees will be up to £240.

## Cut Labour's waste

A Conservative Government will take immediate action to start cutting Government waste, in order to spend £6 billion less in 2010-11 than Labour's plans.

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## Early action on the deficit

Credit rating agencies, business leaders and economists have all called for faster action to tackle Britain's record budget deficit:

- **Fitch, Ratings Agency:** "we feel that the target of halving the deficit over four years is frankly too slow, it's a pedestrian pace of fiscal consolidation, quite why the U.K. feels that we've got more time than other countries on this we're not sure" (Head of European Sovereign Ratings, 9 March 2010)
- **Institute of Directors:** "This means making significant spending cuts in 2010. The argument that early cuts would jeopardise the recovery is mistaken." (IoD Business Manifesto 2010, 8 March 2010)
- **20 leading economists:** 'there is a compelling case, all else being equal, for the first measures beginning to take effect in the 2010-11 fiscal year.' (Sunday Times, 14 February 2010)
- **Jeffrey Sachs, economist and anti-poverty campaigner:** "delaying the start of deficit reduction would put long-term recovery at risk. Such an approach misjudges politics, financial markets, and underlying economic realities." (Financial Times, 15 March 2010)
- **Sir Stuart Rose:** "if we don't take the medicine now the medicine will be more painful for us to take later." (Working Lunch, BBC 2, 9 March 2010)
- **Richard Branson:** "I believe the UK's record budget deficit does pose a serious risk to our recovery... We are going to have cut our spending and I agree with the 20 leading economists who said we need to start this year." (Evening Standard, February 16 2010)

Other countries with similar deficits are also planning faster fiscal consolidation:

- 'The UK's fiscal consolidation path remains relatively unambitious compared to the weak starting point. The Treasury argues that the UK plans to eliminate a bigger proportion of its deficit than any other G7 country. But, in our view, this not an especially valid comparison because the UK's fiscal deficit is higher than any other G7 country. In our view, the appropriate comparison is with other high-deficit countries, and on this basis the UK's plans look relatively unambitious. The governments of Italy and Greece plan to get their deficits below 3 per cent of GDP in 2012, Portugal and Spain plan to get to 3 per cent of GDP or less in 2013, and Ireland's government plans to get the deficit below 3 per cent of GDP in 2014. But, according to the Budget, the UK's deficit (Maastricht definition) will still exceed 4 per cent of GDP in 2014' (Michael Saunders, *UK-2010 Budget: Ducking the Fiscal Challenge*, Citigroup Investment and Research, 24 March 2010, p. 3).

Savings of £6 billion in 2010-11 over and above Labour's plans corresponds to just under 0.5% of GDP. Our judgement is that this is the right amount of additional in-year savings needed to establish credibility and restore confidence in our economy.

## Cutting waste while protecting front line services

At the same time, Former Government advisers Sir Peter Gershon and Dr Martin Read, now members of the Conservatives' Public Sector Productivity Panel, have advised us that savings of £12 billion across all departmental spending are possible in-year without affecting the quality of services. These are over and above any savings already planned by Labour.

- **Sir Peter Gershon:** "early action would mean that a further in year saving of around £12 billion in 2010-11 is certainly achievable without affecting the quality of front line services" (Statement by Sir Peter Gershon, Monday 29 March 2010)
- **Dr Martin Read:** "I believe these actions could save large amounts of money in 2010/11, over and above existing efficiency programmes. Taken together, they could total around £12bn in 2010/11 and, if managed properly, could be achieved without damaging frontline services." (Statement by Dr Martin Read, Monday 29 March 2010)

Following the advice of Sir Peter Gershon and Dr Martin Read as set out in their statements published today, these immediate savings will be achieved through measures that include:

- A freeze on major new IT spending
- Immediate negotiations to achieve cost reductions from major suppliers
- Tighter control of public sector recruitment
- Reductions in discretionary spending
- Reducing public sector property costs

Immediate action will be taken to release additional savings in 2011/12 by:

- Accelerated outsourcing of back office and processing functions
- Abolishing the Government's top down micro-management which is stifling innovation and wasting frontline budgets

More details are set out in statements by Sir Peter Gershon and Dr Martin Read published today.

We will match Labour spending plans for 2010-11 in health and overseas aid. Given our commitment to carry out a strategic defence review it would also not be appropriate to make in-year reductions to the existing defence budget in 2010-11.

These protected areas in 2010-11 correspond to about 45% of all departmental spending. This means that savings of £6 billion are achievable in other departments without affecting the quality of services. This corresponds to a 2.8% real terms reduction in other departmental budgets. In health, aid and defence savings will be channelled back into improving front line services.

This £6 billion of savings in departmental spending is additional to the in-year savings in Annually Managed Expenditure (AME) we have already identified from cutting tax credits and child trust funds for better off families.

Labour spending plans as set out in the Budget imply a £30 billion increase in total spending in 2010-11 in cash terms. Under our plans total public spending will increase by less than £24 billion in cash terms. Total *departmental* spending (excluding spending on debt interest, benefits and other costs) will be broadly flat in cash terms at about £387 billion, based on the numbers in Table C9 in the Budget.

## The spending review period from 2011-12

The approach set out above will deliver further savings in future years over and above the £6 billion of immediate in-year savings that we will make in 2010-11.

In addition we have already announced measures that will deliver further savings in departmental spending in 2011-12 and beyond, including:

- A public sector pay freeze in 2011, excluding the lowest paid one million workers
- A reduction in the size of Whitehall and Quango bureaucracy by one third over the Parliament

Labour have refused to carry out a spending review before the election. In Government we will carry out a spending review that will identify further savings for 2011-12 and future years.

Our plans mean that in the years from 2011-12 we will be able to:

- Stop most of Labour's National Insurance increase so that 7 out of 10 working people are better off under the Conservatives, at an initial cost of £5.6 billion, falling towards £4.3 billion over time
- Work with councils to freeze council tax for two years, at a cost of up to £500 million in the first year and up to £1.1 billion in following years
- Cut borrowing relative to Labour plans by billions of pounds every year

## The mix between tax and spend

The Government's fiscal consolidation plans over the next five years are based on a mix of 67% spending cuts and 33% tax rises:

- £57 billion of tightening measures announced since the 2008 PBR
- £19 billion of tax rises
- £38 billion of spending cuts

On this basis, our plans would reduce the proportion accounted for by tax rises from 33% to about 22%. The additional savings that we will make in 2011-12 and future years will reduce this proportion further.

A balance closer to 80:20 between spending and tax measures would be in line with the balance of measures which the Government had until the 2009 Pre-Budget Report.

It is also reported to be in line with advice produced by Treasury officials for Ministers based on past successful fiscal consolidations around the world. On 1<sup>st</sup> February 2010, the Treasury released a heavily redacted version of this advice, entitled "*International examples of spending consolidations*".

The Financial Times wrote that the paper concludes “*that, when fiscal problems are tackled, 80 per cent of the gap is closed by expenditure cuts, with only 20 per cent or less being met by tax rises*” (Treasury plan urges decisive spending cuts, Financial Times, 7 December 2009).

## Stop Labour's tax rise on working people

Labour plans are for a 1% increase in both Employee and Employer National Insurance in April 2011. Employers will pay more tax on every job over £5,700 and everyone earning over £20,000 will pay more in tax.

The Federation of Small Businesses and the Centre for Economics and Business Research estimated that this will cost 57,000 jobs in small and medium sized enterprises alone<sup>1</sup>, while the CIPD found that 12% of employers intend to recruit fewer staff as a result of Labour's planned hike in employers' NICs, while 8% would cut jobs.<sup>2</sup>

This tax rise threatens the recovery and will destroy jobs. Labour's plans for rising national insurance have been roundly condemned by employer organisations:

- CBI Director General Richard Lambert said "the Chancellor has made a serious mistake imposing an extra jobs tax at a time when the economic recovery will still be fragile. Increasing the national insurance contribution will hold back job creation and growth" (Confederation of British Industry Press Release, 9 December 2009).
- BRC Director General Stephen Robertson said "this is madness... This makes it more expensive for all businesses to maintain and create jobs" (British Retail Consortium Press Release, 9 December 2009).
- FSB National Chairman John Wright said "Raising national insurance is an attack on jobs and shows a real lack of vision from the Government on tackling the key challenge of rising unemployment. While unemployment continues to rise, it is unaccountable that the Government hasn't considered a new approach, such as a National Insurance rebate for new jobs in small firms". (Federation of Small Businesses Press Release, 9 December 2009)
- FPB Chief Executive Phil Orford said "This tax hike will come at the worst possible time for small firms – just at the point where, hopefully, the economy will be in recovery and they will be looking into taking on new staff... it will stop businesses from growing, restrict job creation and take more money from potential consumers who would otherwise put it back into the economy" (Forum of Private Business Press Release, 10 December 2009).

A campaign against the increase has been launched by all the main business groups with the following statement:

- "We, the undersigned, call upon the Government to reverse the 1 percentage-point employer National Insurance Contributions (NICs) increase planned for April 2011. Businesses across the country know that it is imperative for the Government to begin the difficult job of repairing the public finances. But this NICs increase is a 'tax on jobs' - and will discourage companies of all sizes from taking on new staff at a critical point in our economic recovery. We urge the Government to work with business groups to find alternative ways to close the UK's budget deficit - beginning with a credible plan to reduce inefficiency in public sector spending. Any Government has to realise that additional taxes on businesses, especially small- and medium-sized companies, must be a last resort, not an easy way forward."  
(<http://www.no-nics-rise.co.uk/>)

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<sup>1</sup> Taxing small businesses will cause deeper unemployment, FSB warns, FSB news release, 28 October 2009

<sup>2</sup> Chartered Institute of Personnel and Development, Press Release, 22 January 2010

Having identified £6 billion of savings in 2010-11 we can now commit to:

- Stop Labour's planned National Insurance tax increase for anyone earning under £35,000
- Prevent more than half of the planned increase in Employers National Insurance, a tax on jobs.

As a result 7 out of 10 working people will be better off under the Conservatives than under Labour.<sup>3</sup>

## Employees National Insurance

We will stop Labour's increase in Employees' National Insurance for everyone earning under £35,000 by:

- Raising the primary threshold at which people start paying NICs by £24 a week, over and above Labour's plans
- Raising the Upper Earnings Limit by £29 a week.<sup>4</sup>

As a result, relative to Labour's plans:

- Everyone liable for National Insurance and earning between £7,100 and £45,400 – which is 7 out of 10 working people – will be up to £150 better off under the Conservatives than under Labour.<sup>5</sup>
- Every National Insurance payer earning between £8,400 and £43,900 will get the full benefit of £150 a year, with smaller gains below £8,400 or above £43,900.
- Nobody earning over £45,400 will benefit.
- Nobody will be worse off.

## Employers National Insurance

Labour are also planning to raise Employers NICs for everyone earning over £5,700. This is a tax on jobs that will undermine the recovery.

We will stop this tax increase for everyone earning less than £20,800 by raising the secondary threshold at which employers start paying NICs by £21 a week, saving employers up to £150 for every person they employ relative to Labour's plans.

This will reduce the cost of Labour's tax rise for employers by more than half.

## Cost

The independent Institute for Fiscal Studies estimate that the immediate cost of these changes in 2011-12 will be £5.6 billion.

Just over half of this cost is accounted for by the reduction in Employer NICs.

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<sup>3</sup> Source: Annual Survey of Hours and Earnings (ASHE), ONS; based on everyone earning between £7,100 and £45,400.

<sup>4</sup> The increase in the UEL means that people liable for NICS earning between £43,900 and £45,400 will be liable for the 40% higher rate of tax and a 12% rate of Employee NICs. All of these people will be better off compared to Labour's plans.

<sup>5</sup> Based on someone who is not contracted out. All income figures rounded to nearest £100.

Over time the IFS estimate that higher wages in response to the cut in Employers NICs will reduce the net cost to £4.3 billion.

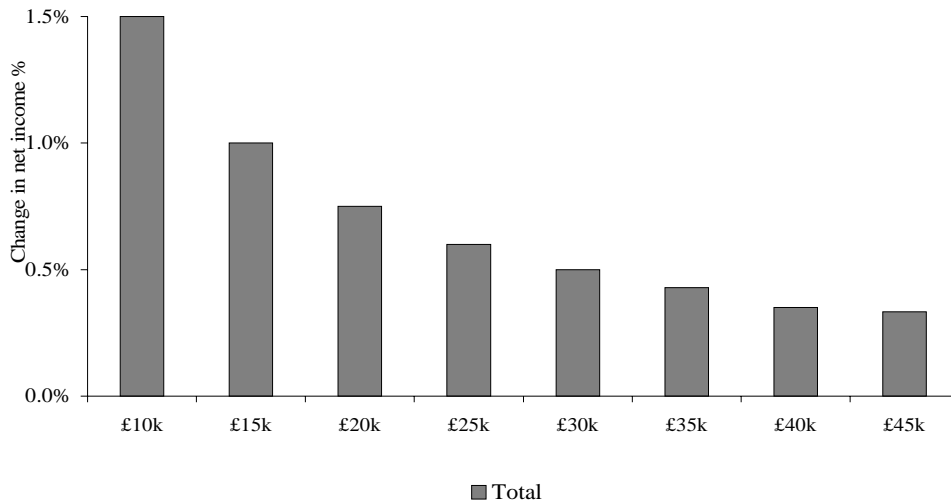
Once this effect of higher wages in response to lower Employer NICs is taken into account, the maximum benefit for employees will up to £90 higher (due to interactions with the rest of the tax system) making a maximum benefit for employees of up to £240.

### Who gains

This table shows who gains from the Employee NICs changes and by how much relative to Labour's plans:

Income	Annual gain relative to Labour plans
Less than £7,100	No change
£8,000	£105
£8,400 to £43,900	£150
£45,000	£106
More than £45,400	No change

This graph shows the gains from the Employee NICs changes as a percentage of gross earnings. People on lower incomes gain the most as a proportion of their earnings.



## Examples

- A part time office worker on £9,000 will pay £150 less in Employee NICs than under Labour's plans, and their employer will pay £150 less in Employer NICs.
- A nurse earning £27,500 will pay £150 less in Employee NICs than under Labour's plans, and their employer will pay £150 less in Employer NICs.<sup>6</sup>
- A Corporal earning £30,400 will pay £150 less in Employee NICs than under Labour's plans, and their employer will pay £150 less in Employer NICs.<sup>7</sup>
- A Police Sergeant earning £39,000 will pay £150 less in Employee NICs than under Labour's plans, and their employer will pay £150 less in Employer NICs.<sup>8</sup>

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<sup>6</sup> Nurse, Top of Band 5, from 1 April 2010. Source: DoH, The NHS Terms and Conditions of Service Handbook, Pay Circular (AforC) 2/2010, February 2010

<sup>7</sup> Corporal, Level 3 higher band, from 1 April 2010. Source: Armed Forces Pay Review Body, 39th Report - 2010, March 2010

<sup>8</sup> Police Sergeant, pay point 2, from 1 September 2010. Source: Police Negotiating Board, PNB Circular 09/6, 5 August 2009

## Statements by Sir Peter Gershon and Dr Martin Read

Sir Peter Gershon and Dr Martin Read are two of Britain's most experienced industrial leaders. They have extensive experience of driving efficiency programmes across a wide range of industries, helping British companies to become competitive in their global markets.

Both Sir Peter and Dr Read were chosen by the current Government to offer independent and authoritative advice on the scope for efficiency savings in the British public sector. In their separate high profile reports, they identified billions of pounds of savings.

In 2009, they each decided to join the Conservatives' Public Services Productivity Advisory Board, supporting George Osborne and Philip Hammond in their plans to improve the productivity of the public sector.

They have both responded to a request from the Conservatives to help identify what actions a new Government needs to take in 2010, over and above that planned by the current Government, and what additional savings could be achieved by a more effective approach to reducing waste.

### Statement by Sir Peter Gershon

Fixing the fiscal deficit will require any new Government to take difficult political decisions about what can be afforded and to undertake deep reform of the public sector to make major savings. However, there are substantial savings which can be made very rapidly without reducing the quality of front line services. I would commend a 5 step plan to a new Government on how to make such major savings in its first year:

**Firstly, a new Government should stop any major new spending on IT projects and cancel existing projects which are not worth completing.** The Public Accounts Committee has seen lots of evidence of poorly managed and wasteful Government spending on IT based on reports produced by the National Audit Office. IT spending is now £16bn per year, on top of the massive investment in IT over the last decade. It is time for the public sector to sweat the assets it already has, rather than buying more or continuing with projects that cannot be justified in a period of austerity. Instead, a new Government should focus on better management, not more IT. Better management will drive efficiencies through process and cultural change. This will enable major savings to be made. Investment in major new IT projects can be considered again when the benefits of better management have been exhausted.

**Secondly, a new Government should be negotiating significant reductions from its major suppliers.** The public sector spent £220bn in 2008/9 on buying goods and services - much more than it spends on salaries. During the recession, the private sector has been calling in its major suppliers and saying "I can't afford this contract anymore - I need to spend less." This leads to a mature debate, where both sides look at give and take to get the cost of the contract down, whilst protecting the things that matter. It's not about beating up the suppliers - it's about both sides facing up to reality and finding a solution. Suppliers, for example, agree to share cost savings or to reduce the scope of the contract. Customers, for example, change the specification to allow the supplier more flexibility or extend the length of the contract to allow suppliers to invest in efficiency. The public sector needs to seize this opportunity. Given that procurement is the biggest part of public sector spending, the scale of savings would be very large.

**Thirdly, a new Government should outsource its back office processing functions without any delay to realise substantial savings.** Six years ago, my own Efficiency Review highlighted the scale of the Government's back office and the major opportunities for savings without harming frontline public services. Last year, the Government's latest efficiency review (the OEP) identified £18bn of spending on the back office and showed case studies where the private sector saved 35-70%. The pace of improvement in the public sector back office has been too slow in the last 6 years and there has been too much resistance to involving the private sector. A new Government faces a massive and complex agenda of driving savings to close the deficit. It ought to simplify this agenda by deciding that all back office transactional functions will be outsourced within 18 months, unless they can already demonstrate best private sector practice. Outsourcing will require proven providers to make the improvements in value for money with greater speed and certainty than leaving them in-house and to reflect these savings in the contract prices.

**Fourthly, a new Government now needs to take the same tough approach to costs that has led to substantial savings in the private sector.** The public sector has not yet adjusted to the realities of the recession, but this can't be put off any longer. There should be a very robust approach to controlling recruitment across the public sector – using natural turnover to cut costs and redeploying existing staff to the vacancies that are agreed to be essential. In addition, many private sector organisations have had to work through their spending budgets line-by-line to eradicate the costs (e.g. use of external professional advisers, advertising, membership of trade associations, away days) which are not essential. For example, a new Government should remove all but a small minority of spend on external advisers (e.g. management consultants, lawyers other than those involved in the provision of legal aid), and minimise the use of contract and temporary staff. As well as saving money this will help utilise the skills and talents of public sector employees and help avoid costly redundancies. Many companies have taken a good percent or more off their costs by taking a red pen through these sorts of discretionary budgets. One percent or more from the £300bn plus spent each year on public services is a serious amount of money - money that can be saved without reducing the quality of key front line services.

**Fifth and finally, a new Government should stop trying to micro-manage delivery and allow all providers (public, voluntary or private) to innovate against some broadly defined outcomes.** I continue to be impressed with the calibre of the best people providing public services - whether they are excellent civil servants, charities, local authorities or private companies. Major improvements will need to tap the imagination and energy of the best providers to find different ways to deliver more for less. Yet too many of the best providers feel stifled - by over-specified contracts, fragmentation of different agencies, too many process targets and a lack of freedom to operate. A new Government needs to give the best providers real control over the end to end process of delivering a service, holding them to account for the end outcome not the details of how the service is delivered. This could set alight the imagination of public service providers and lead to a radical re-engineering of public services, where quality is improved whilst costs are substantially reduced.

Not everything can be done quickly. But early decisive action by a new Government in these five areas will get the programme to reduce the deficit off to a strong start. The five areas I have outlined can drive major savings in the next Spending Review for 2011/12 onwards. However, early action would mean that a further in year saving of around £12 billion in 2010-11 is certainly achievable without affecting the quality of front line services.

## Statement by Dr Martin Read

A new Government elected in May will need to reduce public spending in the same way that a new owner would reduce costs in a business in financial trouble. Many savings will take time to deliver. But many others can be delivered quickly given political will and the right managerial focus. A new Government needs to have an immediate impact. If it doesn't increase the planned levels of savings in 2010/11, it will fail to achieve the momentum needed to push through larger savings in the following years. In my experience, there are many excellent staff in the public services who will grasp the opportunity to do things differently and deliver better services at lower cost. More efficient ways of working make it easier for staff to do a good job and create a better working environment.

I would urge a new Government to take five immediate steps to deliver increased savings from waste in 2010/11 and kick start a wider culture change around efficiency:

- ***Hold emergency sessions with each of the biggest private sector suppliers to Government.*** The Government spends over £200bn per year on private sector contracts. A company in financial difficulty would sit down with its top suppliers as a matter of urgency and work out how spending can be reduced. This would include direct price reductions but also establish how operational changes can reduce costs. I have seen limited evidence of this happening in the public sector and believe significant savings could be achieved in a relatively short time frame.
- ***Accelerate the pace of existing efficiency programmes.*** In my Operational Efficiency Programme (OEP) review for Government, I identified major savings that could be made in back office operations. I saw some excellent examples of success (for example, in National Savings & Investment) but they remain the minority. The pace of change is too slow. I would take many of the standard transactional processing and back office functions out of departments, agencies and quangos and consolidate them into separate organisations. These organisations can then be developed into professionally run businesses, streamlined and standardised to improve performance and cost. They would trade with their internal customers under service level agreements and access private sector capital and expertise to hit best practice efficiency much more rapidly.
- ***Control recruitment.*** Over the last decade, private sector service productivity increased by over 20%, whilst in the public sector it actually fell. Staff turnover across the public sector has typically been running at 8%. If we control recruitment into these vacancies as they arise and focus on delivering more with fewer people, we can reduce staff numbers and costs with minimal redundancies. This control needs to be under-pinned by the co-ordinated redeployment of staff and to be implemented without delay to make significant savings quickly.
- ***Reduce the spend on property.*** The OEP Review showed that Central Government uses 30% more office space per head than best practice. This inefficiency needs to be addressed much more urgently. Property assets should be managed separately and user departments charged for the space they use. This would focus minds on the efficient use of resources. We should require 10% of office space to be vacated within a year, consolidating staff into fewer buildings, reducing running costs and freeing buildings for sale.

- ***Empower Finance Directors in every organisation to put the brakes on discretionary spend.*** In financially stressed private sector companies, managers have to attack all discretionary spend, including travel, expenses, IT and other internal projects, consultancy and office consumables. The private sector has been doing this vigorously during the recession. It is now time for the public sector to do the same. I would expect any organisation that does this to slice around 1% off its total costs in a matter of months.

I believe these actions could save large amounts of money in 2010/11, over and above existing efficiency programmes. Taken together, they could total around £12bn in 2010/11 and, if managed properly, could be achieved without damaging frontline services. More importantly, they would establish the momentum needed to drive a culture change in the public sector – a culture change focused on delivering better services at lower cost and holding managers to account for the delivery of operational efficiency.