



Centre for Policy Studies

## **UNFAIR FUNDING**

**Nick Seaton**

**Also:**

**The Rt Hon The Baroness Young DL on  
"Standing up for the Family"**

**Martin McElwee on  
"Small Government"**

**THE POINTMAKER**



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*The Centre for Policy Studies never expresses a corporate view in any of its publications. Contributions are chosen for their independence of thought and cogency of argument.*

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## PREFACE

Over the last 25 years, the Centre for Policy Studies has been consistent in its support of certain fundamental political principles – the value of free markets, the importance of informed choice in education, personal responsibility and duty, limited government, the central place of the traditional family, and national independence. In this pamphlet, we revisit three of these, building on past work in the context of recent developments.

In *Unfair Funding*, Nick Seaton continues his exposure of the Government's broken promises on school funding and the scandal of the amount of money taken from the education budget by inefficient and greedy Local Education Authorities. In 1996, the CPS published the first ever league tables of school funding, showing the percentages of the money which should be destined for schools which LEAs were taking for themselves. This publication, *School Funding: Present Chaos and Future Clarity* led the Government to produce its own league tables in 1999, an exercise which it repeated this year. However, as Seaton pointed out in his subsequent pamphlet, *Fair Funding or Fiscal Fudge?*, the Government's tables remained badly flawed. What they did show, though, was that the Government's promises on the levels of funding to be delegated to schools were not being honestly fulfilled.

Seaton analyses this year's figures in *Unfair Funding*, noting that, despite the best efforts of Government, LEAs have been bigger beneficiaries than schools of the Government's recent increases in education funding. It is extraordinary that at a time when the Secretary of State for Education has declared war on "red tape", LEAs have increased their spending by 36% in just two years. Much of the money which parents and taxpayers thought would allow real improvements in school facilities and staffing has in fact been salted away by LEAs to expand their empires. Here is much of the explanation of why, despite real increases in the amount of money being spent on education, crucial

indicators, such as the pupil-teacher ratios, continue to deteriorate.<sup>1</sup> His analysis is vital reading for all those interested in the education of our children.

The importance of the family is taken up by Baroness Young, in *Standing Up for the Family*. In this text of her lecture to the CPS at the Conservative Party Conference in October, she explores why it is so essential that the Conservative Party remains a supporter of the traditional family structure and resists the blandishments of the politically correct. This lecture is a worthy addition to CPS thinking on the family, in papers such as Patricia Morgan's *Are Families Affordable?* and *More Damage to the Family*, David Willetts's *Happy Families?* and Keith Joseph's *The Importance of Parenting*.

Finally, Martin McElwee investigates the size of government and the prospects for cutting it back in *Small Government*. This was a key proposal in Tessa Keswick's alternative manifesto at the last election, *A Conservative Agenda*, which suggested cutting back the number of departments and cutting the size of the House of Commons. In this piece, McElwee is able to explore the issue in more depth, and in the light of the expansion of Whitehall bureaucracy that is taking place under the Blair Government. William Hague has promised to cut back the size of Government. This piece provides valuable pointers for how this can be done.

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<sup>1</sup> *The Guardian* reported (22 November 2000) that secondary school pupil-teacher ratios have now deteriorated to their worst level since 1975. When Labour came to power in 1997, secondary school pupil ratios were 16.7 to one; this year, they are 17.1.

## ESSAY ONE

# UNFAIR FUNDING

NICK SEATON<sup>1</sup>

### SUMMARY

In October 1996, the Centre for Policy Studies published the first ever tables of school funding. They illustrated that individual Local Education Authorities (LEAs) on average deducted over 26% of total school spending. The worst LEA took as much as 39%.<sup>1</sup> It was suggested that the complexity of the system had enabled LEAs to disguise the true extent of their extravagance. The pamphlet – not unreasonably – called for the introduction of clarity into the system by which LEAs and schools were allocated their funds.

The resulting concern – from teachers, parents, school governors, the media and politicians of all parties – encouraged the incoming Labour Government to address the obvious flaws in the system of funding LEA-controlled schools. After several months of consultation, the Rt Hon David Blunkett MP, the Secretary of State for Education and Employment, introduced his 'Fair Funding' arrangements. These took effect in April 1999.

The Secretary of State was certainly inspired by the best of intentions. As Mr Blunkett claimed at the launch of the Fair Funding arrangements:

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- <sup>1</sup> Nick Seaton is an experienced school governor and Chairman of the Campaign for Real Education (CRE). His publications include *School Funding: Present Chaos and Future Clarity*, CPS, 1996; *New Gods for Schools: Self, Society, Relationships and the Environment*, CRE, 1998; and *Fair Funding or Fiscal Fudge?*, CPS, 1999.
  - <sup>2</sup> Nick Seaton, *School Funding: Present Chaos and Future Clarity*, CPS, 1996.

Fair Funding is about minimising spending on red tape and maximising what is spent in schools.

DfEE News Release, 'Blunkett challenges LEAs on red tape spending',  
24 June 1999.

On 24 June 1999, Mr Blunkett published what he claimed were 'the first ever tables of local education authority expenditure.' The accompanying press release promised:

- reduction in central administration costs;
- at least 80% delegation of the local schools budget;
- at least 5% increase in the delegated funding per pupil.

*The system remains as complex as ever – and LEAs have been spending more than ever before on themselves.*

On 29 June 2000, Mr Blunkett published his second league tables of LEA expenditure for the financial year 2000 – 01. Like his original tables, these were vague and selective in the information they provided. They, too, tried to explain that more money was being delegated to schools. However, the full amounts spent centrally by LEAs were heavily disguised.

#### **HAS DAVID BLUNKETT DELIVERED THESE MODEST AIMS?**

##### **Have central administration costs been reduced?**

Central administration costs have increased, not reduced. Since 1998-99, LEA costs have increased by 36% overall. Despite the Government's efforts, LEAs' average deductions from their total education budgets have increased from 26% to 27% over the last two years, to the detriment of individual school budgets.

##### **Are LEAs delegating at least 80% of the Local Schools Budget to schools?**

Unless Devolved Standards Fund Grants are included, only 12 LEAs out of 150 have delegated more than 80% of their Local School Budgets. The average is 76.4%.

##### **Has delegated funding per pupil increased by 5%?**

While there has been an increase of 5% in the delegated funding per pupil, this is largely from other sources such as the centrally controlled Standards Fund, not from LEAs.

*The Government's attempts to control LEA spending by a policy of central edict has failed. Is it not time to stop tinkering with a system that has failed and undertake a radical reappraisal of the role, nature and financing of LEAs?*

Most importantly, as will be seen, the system remains as complex as ever. LEAs are still able to make deductions under four main headings – and it is no surprise that they have increased the amount they deduct from school funding to 27%.

The Government attempted to control LEA spending by a policy of central edict. It has failed. Is it not time to stop tinkering with a system that has failed and undertake a radical reappraisal of the role, nature and financing of LEAs?

#### **SOME RESPONSES TO FAIR FUNDING**

Fair Funding has not been a success.

In April 1999, a survey published by the National Association of Headteachers (NAHT) stated that seven out of ten LEAs had not increased their budgets for schools (for 1999-2000) as much as ministers intended. Councils were accused of using £180 million of the money intended for education for other council services.<sup>1</sup>

In June 1999, a number of councils admitted to the BBC's Education Correspondent, Sue Littlemore, that they were massaging their budgets:

*"Several councils have admitted that it doesn't pay to try to be honest... They believe that there is no serious alternative but to manipulate their figures" – BBC Correspondent.*

Several have admitted that it doesn't pay to try to be honest in these matters, especially when you suspect that other councils haven't been. So, they believe, there is no sensible alternative but to manipulate their own figures.

Sue Littlemore, *BBC News Online*, 25 June 1999.

In September 1999, the *Daily Mail* carried a banner headline: 'More schools beg for cash'. It opened with the warning:

Hundreds of the best schools in the country face financial meltdown, heads warned yesterday.

Steve Doughty and Barbara Davies, *Daily Mail*, 25 September, 1999.

A year after the introduction of Fair Funding, even ministers and their close colleagues were expressing dissatisfaction. On 9 March 2000, School Standards Minister Estelle Morris admitted in the *Guardian* that the system of funding state schools (which her government had overhauled a year earlier) was 'indefensible'.

By 13 September, the Schools Minister, Jacqui Smith, admitted that:

I agree that the present method of distributing resources between local education authorities isn't satisfactory.

Interview on *BBQ News Online*, 13 September 2000.

On 7 July, 2000, Professor Michael Barber, who heads the Standards and Effectiveness Unit at the DfEE, wrote that:

The system for funding schools has been too complex, has lacked sufficient transparency and has been a cause of tension...

Michael Barber, *Times Educational Supplement*, 7 July, 2000

Significantly, the 'Better Regulation Taskforce' was extremely critical of the way Professor Barber's own Standards Fund was administered. In their report, members of the Taskforce note that:

Even with a reduction in competitive bidding, there are still 38 funding streams within the [Barber] Standards Fund for schools to find their way through. This number is rising. We believe such a plethora of funding streams is unmanageable and can only serve to distract schools from their key priorities... The preparation of competitive bids is so complex that schools often need to use contractors to help them prepare applications.

*Red Tape Affecting Headteachers*, Cabinet Office, April 2000.

Then, on 1 September 2000, the NAHT published yet another report criticising the school funding system, saying it was 'a lottery' and 'too complex'. David Hart, the head of the NAHT, said that:

Heads are not prepared to tolerate much longer an unfair funding process that bears no relationship to the demands placed upon them.

*BBC News Online*, 15 September 2000.

#### **TROUBLE AT THE TOP**

At the beginning of June 2000, Mr Blunkett wrote in *The Times* that he (still) intended 'to cut red tape' and leave LEAs 'with a bare minimum'.<sup>4</sup> The Government's 'target for this year' (2000-2001), he claimed, was for LEAs to delegate 85%. But he failed to specify exactly what the 85% was a proportion of. If he meant that 85% of the real Local Schools Budget without adding in transitory Devolved Standard Fund Grants would be delegated to Individual Schools Budgets, he must be disappointed: not a single LEA has yet achieved this objective.<sup>5</sup>

In the same article, the Secretary of State also trailed the possibility that, in future, school budgets might be kept separate from LEA budgets. This would certainly be a welcome improvement. But when the Green Paper, *Modernising Local Government Finance*, appeared in September 2000 from the Department for the Environment, Transport and the Regions, this option was more or less dismissed:

The Government believes that local authorities should continue to play a major role in the planning and delivery of high quality education.

According to the Green Paper, even ring-fencing education Standard Spending Assessments<sup>6</sup> 'could weaken local accountability' and 'erode local authorities' financial responsibilities and freedom'.<sup>7</sup>

<sup>4</sup> *The Times*, 1 June, 2000.

<sup>5</sup> The Local Schools Budget includes some LEA overheads plus the Individual Schools Budget, which is the amount delegated directly to schools. See below for a description of how the funding system works and an analysis of the various budget categories within the system.

<sup>6</sup> The (education) Standard Spending Assessment is the amount that central government calculates each LEA needs to provide a standard level of service.

The proposals in the Green Paper will not solve the underlying problems of school funding. John Dunford of the Secondary Heads Association commented:

The way that the money is to be distributed by local education authorities is crucial and threatens to continue the funding muddle.

*BBC News Online*, 19 September 2000.

Union leader Nigel de Gruchy went further:

Instead of taking a bold step forward, it [the Government's Green Paper] retains too much of the status quo... It is difficult to see how the system will be simplified and made transparent, which it desperately needs to be.

One thing is clear: that school funding remains as much of a muddle and a mystery as ever before.

*One thing is clear: that school funding remains as much of a muddle and a mystery as ever.*

#### **HOW GREEDY LEAs ARE STILL DEPRIVING THEIR SCHOOLS**

The latest figures from LEA Section 52 budgets for the financial year 2000-01, obtained from the Department for Education and Employment (DfEE) – and reproduced in the Appendix – show that the 'Total Education Expenditure' for all 150 English LEAs amounts to £24,231 million. Of this, £1,160 million is the Devolved Standards Fund Grants,<sup>8</sup> leaving a total of £23,071 million for LEAs available for delegation to schools. However, before doing this LEAs will deduct from this amount:

- £223 million for 'Capital Expenditure from Revenue';
- £1,833 million for 'Non-School Funding';
- £126 million for 'Other Non-LSB Expenditure';
- £4,044 million for 'LEA Activities Within the LSB'.

All these deductions mean that out of their 'Total Education Expenditure', English LEAs are currently spending £6,227 million centrally (or 27% of the total available funds). They delegated just £16,844m (excluding Standards Fund Grants) to their schools.

<sup>7</sup> Apparently, 'the [Labour] Government intends to work with local authorities and other stakeholders to secure greater simplicity in the Fair Funding formulae.' One common-sensical improvement (and one already suggested in the 1996 Centre for Policy Studies pamphlet) is promised: budgets will include the previous year's figures to facilitate year-by-year comparisons.

<sup>8</sup> Standards Fund Grants include contributions from the DfEE and from LEAs. They are controlled by the DfEE with the 'Devolved share' going directly to schools. The 'Non-devolved share' is spent by the LEAs. A disturbing feature is that they are short-term – they are unlikely to be continued indefinitely and schools are unable to rely on them to appoint staff or to plan ahead.

The following table shows how, since the introduction of Fair Funding, LEA spending has been increasing faster than LEA delegation to individual schools:

	1998/99	2000/01	% Increase 1998/99 – 2000/01
Total Education Expenditure	£17,550 million	£24,231 million	
Minus Devolved Standards Funds	N/A	£1,160 million	
Total LEA Spending	£17,550 million	£23,071 million	
minus LEA Central Expenditure	£4,585 million	£6,227 million	+ 36%
Funds delegated to schools by LEAs	£12,965 million	£16,844 million	+ 30%
LEA Central Expenditure as % of Total LEA Spending	26%	27%	

Note: In this table, Devolved Standards Fund Grants are excluded as they are controlled by central government, not LEAs.

Clearly, Mr Blunkett's Fair Funding system has not produced 'a reduction in central administration'. Except in the case of a handful of LEAs, it has not really achieved 'at least 80% delegation'. While there has indeed been 'at least 5% increase in the delegated funding per pupil', this has only been delivered because large additional amounts of taxpayers' money have been pumped into the system as a whole.

*Mr Blunkett's Fair Funding reforms have not worked. Few LEAs have achieved 80% delegation. And the system is now more complex than ever before.*

#### HOW THE SYSTEM WORKS

1. Parliament votes a sum of taxpayers' money from the Treasury to the Department for Education and Employment (DfEE). This year (2000-01), the amount will be around £45 billion.<sup>9</sup>
2. Central Government calculates an educational Standard Spending Assessment (SSA) for each LEA, based on the numbers and ages of pupils and numerous other factors such as social deprivation. Taking all these factors into account, the SSA is intended to provide 'a standard level of service'. However, the calculations on which SSAs are based are so complicated that, in the words of John Dunford (the General Secretary of the Secondary Heads Association), the SSA formula 'runs to 14 decimal places and is said to be understood by only two people in the whole country'.<sup>10</sup> Local councillors frequently contest central government's calculation of their SSA. But whatever the outcome, the SSA is the amount upon which the Revenue Support Grant, given to LEAs by central government, is based.

9 For a critique of the DfEE's poor financial accountability, see the author's 'The baffling budgets of Mr Blunkett', *Parliamentary Brief*, May 2000.

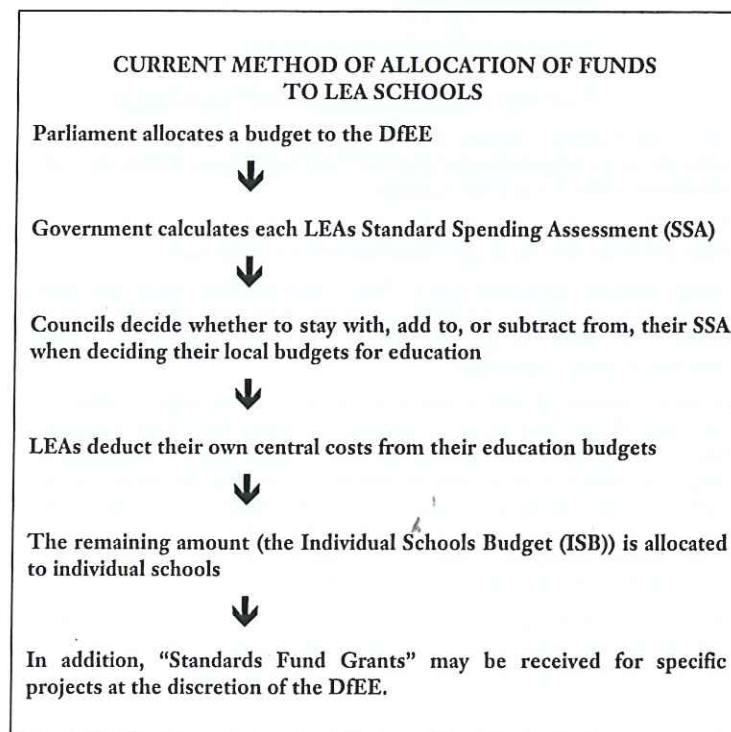
10 *The Times Educational Supplement*, 11 June 1999.

3. Elected councillors and their local officials then decide whether they will use the SSA as a 'baseline' amount for their education budget, whether they will increase it from council tax revenue, or whether they will reduce the amount for education and use the money for other services.
4. Having decided their overall spending on education, LEAs then deduct the costs of numerous items of 'central' expenditure. LEAs have four main categories of expenditure with numerous sub-categories.
5. The amount that remains after these central costs have been deducted is the 'Individual Schools Budget'. This is the amount the LEA shares among all its schools, out of which teachers are paid.

The system has been further complicated by the addition of Standards Fund Grants. Applications for these are controlled centrally by the Standards and Effectiveness Unit at the DfEE, headed by Professor Michael Barber. Obviously this extra money is helpful, but Standards Fund Grants are transitory. As John Dunford, head of the Secondary Heads Association has observed:

Over the past few years, these short-life and unpredictable funding streams have represented a high proportion of schools' income, increasing differentials and schools' ability to plan.

*BBC News Online*, 15 September 2000.





## THE PRESENTATION OF LEA BUDGETS

Details of all these amounts appear in each LEA's Section 52 (Part 1) budget statement,<sup>11</sup> which, by law, is published annually (see Appendix). So reading an LEA's Section 52 (Part 1) budget statement from the top, the main headings are:

### 'Funding Counted as Delegated':

'Individual Schools Budget Total' (ISB)  
+  
'Devolved Standards Fund Grant'  
=  
'Total Funding Counted as Delegated'

### LEA central costs:

'Strategic Management' (including up to 38 cost-items)  
+  
'Specific Grants retained by the LEA' such as Non-Devolved Standards Fund Grant  
+  
'Special Education' (including up to 15 cost-items)  
+  
'School Improvement'  
+  
'Access' (including up to 15 cost-items)  
=  
'Total LEA Activities Within the Local Schools Budget'

The 'Total Funding Counted as Delegated' plus the 'Total LEA Activities within the Local Schools Budget' give the 'Total Expenditure Within the LSB' (also known as the 'Local Schools Budget').

'Non-LSB expenditure (inter-authority recoupment)' is then added to (or subtracted from) the LSB to give 'Total Expenditure on Schools'.

Finally, additional LEA costs such as 'Non-School Funding' (about nine items which include pre-school and adult education) and 'Capital Expenditure from Revenue' are added, to give the bottom line which is the LEA's 'Total Education Revenue Expenditure'.

Of course, Section 52 budget statements would be much easier to read and understand if they were presented logically and fairly, with 'Total Education Revenue Expenditure' at the top, all the LEA's central costs (or 'exceptions to delegation') deducted below, and the bottom line showing the amount of the 'Individual Schools Budget', which is actually delegated to schools. By presenting their figures 'upside down', LEAs suggest that their costs are added to the 'Individual Schools Budget', when in fact they are deducted from 'Total Education Revenue Expenditure'.

For clear understanding, therefore, Section 52 (Part 1) budgets are best read from the bottom upwards, not from the top downwards. The Appendix uses this method, showing the 'Total Education Revenue Expenditure' for each

<sup>11</sup> Part 2 of the budgets details school-level expenditure and do not concern us here.

English LEA in the first column, from which the following main LEA cost headings are deducted:

1. 'Capital Expenditure from Revenue'
2. 'Total Non-School Funding'
3. 'Other Non-Local Schools Budget Expenditure'

The remaining amount is the 'Local Schools Budget'. Then the following additional deductions are made:

4. 'Total LEA Activities Within the Local Schools Budget' (these include the five main cost headings such as 'Strategic Management' listed above.)

In order to calculate the Individual Schools Budget, it is then necessary to exclude the Devolved Standards Fund Grants as these are included in Total Education Revenue Expenditure but are not part of the Individual Schools Budget.

Section 52 budget statements also include columns for 'estimated income' and 'net' amounts, but as this income is only 'estimated' and it comes mostly from the public purse (indeed, it is often money that LEAs claw back from their schools though it may also include some funding from the private sector), only the gross columns are considered here.

## WHAT MR BLUNKETT'S TABLES FAILED TO REVEAL

The league tables published by the DfEE in June 1999 had many faults.

Instead of showing actual amounts taken from Section 52 (Part 1) budget statements, several important columns in Mr Blunkett's tables gave only percentages. SSA amounts, for example, were not shown, only the percentage of the SSA the LEA had passed on to its 'Local Schools Budget'. Even where the columns did show actual amounts, these were 'per pupil' calculations, which are extremely difficult to check.

More seriously, neither the amounts for 'Total Education Expenditure', nor the full amounts delegated directly to schools (the ISB) were quoted – only the percentages delegated. Unquoted 'Devolved Standards Fund Resources' had already been included with the ISBs before the percentages were calculated, so although LEAs were upset by the tables, their true profligacy was cleverly disguised.

Almost every column in the tables carried a caveat saying it had been 'adjusted' for one reason or another. Because 'Central management' and 'Other strategic management' were shown in two separate columns (though neither of these headings as such appears in Section 52 budgets), the tables showed some well-managed Conservative LEAs in a poor light while hiding the excesses of some very greedy LEAs governed by the other parties.

Most telling of all, was a small print pronouncement which said:

Figures have been amended in the light of consultation with LEAs.

The tables for 2000-01, published on 29 June 2000, showed similar weaknesses. Mr Blunkett's accompanying press notice, headed 'Schools see benefit from big increase in delegation as tough new cash targets are set for Local Education Authorities', claimed that the minimum requirement for 2000-01 of 80% delegation by LEAs had been met.

However, without the addition of Devolved Standards Fund Grants, which are transitory, provided at the discretion of Mr Blunkett's own Department, and outside normal school funding arrangements, the Secretary of State's targets certainly have not been met, as the table above and the Appendix show. Certainly, schools have benefited (on a temporary basis), but so have LEA bureaucracies. There is no sign whatever of any reduction in 'red tape'. Nor is it surprising that schools remain worried – they have no guarantee of continuity.

#### THE FLAWS IN FAIR FUNDING

In many respects, the Fair Funding arrangements seem worse than the system they replaced. To the obvious detriment of schools, the new arrangements allow LEAs more opportunities to withhold funds from their schools than they had under the previous system. Whereas previously LEAs could unofficially take three slices of the cake before dividing the remainder among their schools, the Fair Funding arrangements allow LEAs officially to take four slices: 'Capital Expenditure from Revenue'; 'Total Non-School Funding'; 'Other Non-Local Schools Budget Expenditure'; and 'Total LEA Activities Within the Local Schools Budget'.<sup>12</sup> It is not surprising therefore that expenditure on LEA central costs has risen faster than that on schools.

*The new arrangements allow LEAs to take four slices of the cake before handing on what is left to their schools: it is no surprise, therefore, that LEA central costs have risen faster than spending on schools.*

Of all the improvements that could have been made to the school funding system to make it more logical and transparent, the reversal of the order in which LEA budgets are presented would have been one of the simplest and most significant.<sup>13</sup> At a stroke, it would have shown that ministers genuinely wanted to benefit schools by ensuring simple, honest financial information. Unfortunately, the Fair Funding arrangements seem to have introduced only one minor improvement on the earlier system – LEAs are now compelled to show the figure for their Standard Spending Assessment from central government.

Another problem, which Fair Funding failed to tackle, was that LEA expenditure is never 'grossed up'. It is impossible to see at a glance the total costs of all LEA central expenditure.

12 For full details of the amounts LEAs can withhold from their budgets, see *The Financing of Maintained Schools Regulations (England) 2000*, published by The Stationary Office. *The Financing of Maintained Schools Regulations (England) (No 2) 2000* cover additional one-off grants given directly to schools by the Chancellor of the Exchequer as occurred in Spring and Autumn 2000, presumably as an incentive to reduce levels of concern.

13 Currently LEA budgets are presented in a way that suggests that LEA funding is added to the Individual Schools Budget. The reverse is the case.

The fundamental problem with the school funding system, which Fair Funding fails to address, is that schools are at the bottom of the pecking order: the funds go first to DfEE officials, who take their share, then to LEA officials, who take their share. Only then is the remainder delegated directly to schools. (The imbalance in the system is clearly illustrated by the fact that, over the last two years, whilst 150 LEAs have shared a £1,642m increase (including their share of Standards Fund Grants), about 25,000 schools have had to share a £3,879m increase from their LEAs.)

#### CONCLUSION

Recent reforms to the school funding system have not been effective. Although Fair Funding uses the terminology and methods of private-sector business to suggest a new culture of efficiency, the truth is that LEA costs have increased by 36% since 1998-99.

Whilst, in general terms, schools may have received more money, the lack of transparency, plus the failure of the system to provide continuity, have all militated against good school management. They will continue to do so. The distorting effect of centrally controlled Standards Fund Grants has made good financial management more difficult, not easier.

*Crucially, the system lacks any internal pressure to reduce or constrain LEA costs. The rule-by-edict favoured by the Secretary of State has failed to prevent LEAs from taking an ever-larger slice of the school funding cake.*

Crucially, the system lacks any internal pressure to reduce or constrain the cost of bureaucracy. The rule-by-edict, apparently favoured by the Secretary of State, has failed to prevent LEAs taking more and more of the funds that should go directly to schools. It is a lesson often preached but rarely observed that public-sector organisations – such as the DfEE and LEAs – are not subject to the natural disciplines of the private sector.

It is probable therefore that, without radical reform, the system will continue to operate at an inefficient level. And, of course, it is the pupils and their teachers who suffer and the taxpayer who pays.

This is not to suggest that local authorities, in whatever form, should not incur any costs at all with regard to children and young people. But when independent schools generally perform so well without such bureaucracies, surely every effort should be made to clarify exactly how much is spent, and on what, by LEAs?

Of course, there is a much more radical solution. That is to provide a privatised (but still publicly funded) education system in which the state has no role except to distribute funds directly to parents or schools on a per-pupil basis.

### WHAT SHOULD BE DONE?

There is a clear political choice. The Conservative Party's proposed 'Free Schools' policy, which includes a National Funding Formula to be paid directly into schools' bank accounts, would at a stroke remove the opportunity for LEAs to consume so much of the education budget. A redistribution of the £6.2 billion cost of LEAs directly to schools would bring clarity to the funding system and close the potential for bureaucratic waste for good.

### *Conservative Party proposals would remove the opportunity for LEAs to consume so much of the education budget.*

If, however, the next Government continues with the current system of funding schools, some reforms of the Fair Funding arrangements might at least reduce the opportunity and scope for LEA profligacy. These should include:

- Higher priority for school-level funding, allowing schools more freedom to purchase or reject central services provided by LEAs.
- A reversal of the order in which Section 52 LEA budgets are presented to show 'Total Education Expenditure' at the top, then LEA deductions, then the delegated 'Individual Schools Budget' as the bottom line.
- Delegation by LEAs of at least 90% of the LSB and at least 75% of 'Total Education Expenditure' should be made compulsory.
- Effective sanctions should be introduced against those LEAs that fail to delegate the required proportions.
- A reduction in the headings under which LEAs can deduct funds.
- Much closer scrutiny by the National Audit Office of the amounts and percentages shown by LEAs under each cost-heading. Their findings should be published annually. There should also be public and recorded question and answer sessions to make politicians and LEA/DFEE officials accountable.
- Standards Fund Grants should be abolished and the money should be used to provide more scope for forward planning and more security for schools and teachers.

## ESSAY TWO

### STANDING UP FOR THE FAMILY

#### THE RT HON THE BARONESS YOUNG DL<sup>1</sup>

It is an honour to be asked to speak at this meeting organised by the Centre for Policy Studies. The CPS has a distinguished history. It was founded by Sir Keith Joseph, as he then was, and became immediately an important "think tank" for those with right of centre views.

I feel it is particularly appropriate that I should be speaking on the topic of "the family" for it was Sir Keith Joseph, when Secretary of State for the Social Services in the early 1970s, who first identified what he called "the cycle of deprivation" – that is, that children who grow up in deprived circumstances, go on to perpetuate this cycle of deprivation, as their own children, are equally deprived. What Sir Keith said 30 years ago is still relevant today.

At the risk of stating the obvious, may I start by saying what I mean by the family? I mean by a family a couple, consisting of a husband and wife, with or without children, living together throughout their lives. I include, too, the extended family, that is grandparents and other relatives. And throughout our history, this has been the accepted meaning of the word "family". It is a public commitment to marriage by both parties to a lasting relationship. That is what the marriage service, and indeed the civil ceremony in a Registry Office, is all about. It is not about anyone's rights. It is entirely about the duties and responsibilities of both parties. As the Prayer Book says, "for richer, for poorer, in sickness and in health, till death us do part"; an awesome promise.

<sup>1</sup> This is the text of the speech given by The Rt Hon the Baroness Young DL on Tuesday 3 October 2000 for the Centre for Policy Studies at the Conservative Party Conference in Bournemouth.

It clearly means an absolute responsibility and commitment by both husband and wife to the upbringing of children. I begin as I have because this definition of the family is now widely questioned, and the term "family" is used to cover all types of co-habitation, single parents (the single parent "family") and single sex relationships. The British are, I believe, a very tolerant people. It is one of their great strengths. But by their very tolerance, they have succeeded in, I believe, an unintended way of down-grading marriage to one of a series of equally valid alternative lifestyles. There is now a real possibility that marriage may at some date in the future, and the not-too-distant future at that, disappear altogether. The number of marriages has fallen each year. By 2020 it is estimated that married couples will be in the minority of the population for the first time ever. I am told that for an anthropologist the widespread unwillingness to marry is a sign of impending disaster.

In defending the traditional family we are up against the strongly held views of many different people who occupy important positions in our national life. Brenda Hoggett QC (now Mrs. Justice Hale), when a member of the Faculty of Law of Manchester University wrote:

Family law no longer makes any attempt to buttress the stability of marriage or any other union. It has adopted principles for the protection of children and dependant spouses which could be made equally applicable to the unmarried. In such circumstances the piece meal erosion of the distinctions between marriage and non-marital co-habitation may be expected to continue. Logically we have already reached a point at which rather than discussing which remedies should be extended to the unmarried, we should be considering whether the legal institution of marriage continues to serve any useful purpose.

There has been the recent statement from Mary Macleod, Head of the Government's National Family and Parenting Institute, that:

"homosexual marriage" is a human right and will be inevitable under the Human Rights Act.

Anthony Giddens in his book *The Third Way*, assumes that marriage is probably on the way out and that recapturing the traditional family is a "non-starter". Anyone who watches TV, and that includes most of us, knows that almost anything, that is any relationship, goes. The views expressed are often supported by what William Hague has described as the "liberal intelligentsia" and indeed, the Liberal Democrats at their Party Conference actually advocated homosexual marriage. Then there is the whole sex education industry, which is active in all schools and youth groups, putting to children day by day, year by year, a value-free society, where all lifestyles are promoted as equally valid. Those of us who question these views are regarded as, at best "intolerant bigots" who do not believe either in equality or the right of the individual to maximise his or her happiness. Worried parents, who might expect both the law and the Church to help them, get little or nothing. The law has let them down and I am sorry to say that the Church speaks with an uncertain voice. Some Church leaders are very supportive of the traditional family, like the Bishop of Winchester, but others, I fear, are not: Section 28 prevents local authorities from promoting homosexuality

in schools. When the vote to retain Section 28 was taken in the House of Lords, four Bishops voted against abolition, four voted for abolition. The trumpet certainly sounded an uncertain tune. This hardly gives the leadership that many feel they have a right to expect from the Church.

How, then, are we to stand up for the family in today's climate? And what are we to say? The Conservative Party has traditionally been the party of the family, sometimes, I feel, with more conviction than at other times. The ill-fated policy of "Back to Basics" introduced by John Major when he was Prime Minister was right, in my opinion, but failed because it did not make clear that what was being proposed was an ideal. As a consequence, Conservatives have been hesitant to stand up for the family and some of our past policies have, in my view, been less than supportive of the traditional family.

The fact is that the family as I have defined it is an ideal. The family never was and never will be perfect, because we are all imperfect individuals. But I see the family like democracy. Democracy is not perfect, but it is undoubtedly the best political system devised. So we must accept that not everyone will succeed. There are times when divorce is right and I am certainly not going round apportioning blame to anyone. But just as Beethoven remains a great composer, no matter how badly his music is played, so the traditional family remains the ideal, even if we can't all live up to our responsibilities and promises. And as politicians, surely we should state the ideal? This is especially important to the young. We can, then, at least know the direction in which we should be going, even if we stumble along the way.

There is much that we can say as Conservatives. First of all, the family stands as a bulwark against the state. It has been described as the greatest fortress of human liberty. All serious tyrannies have tried to undermine it. The family stands for stability. It has stood the test of time. Indeed, as Patricia Morgan has said in her book *Farewell to the Family*:

All societies that have survived have been built on marriage, and children have always been raised within traditional families. Even if some societies have had polygamy, and a few polyandry, while in others a number of married couples have lived in one household, it is still a truism that not only has there never been an open democratic society not based on the family, there has never been any society of any sort not based on the family.

It is unquestionably the best place in which to bring up children, who need both a father and a mother. It is the best way to pass on traditional principles and beliefs from one generation to another. And the family is equally important in old age, and we are an ageing population, most of whom are over the age of 45. And now that the elderly have leapt – if that really is the right verb – to the top of the political agenda, it is essential to consider their needs too.

All of us are living longer. The relationship between husband and wife nurtured over many years, often with grown up children, becomes even more important. As parents grow old they are more likely to be ill or incapacitated and need the support of each other and their children. And without the family, who is going to look after the elderly? I feel sorry for many people today who will inevitably find themselves old, possibly ill, and almost certainly on their own.

As John Donne said "No man is an island unto himself". The fact is we are all dependant on one another from the moment of birth to the moment of death. What the breakdown of the traditional family has led to is a world in which adults consider it their right to maximise their *own choice* in seeking happiness; they ask for their rights to marry, divorce, co-habit and have children in any one of these circumstances. But what of the children who cannot maximise their choice? As the weakest, they go to the wall. What has happened today is that adults are transferring their unhappiness on to children.

There is therefore much, as Conservatives, we can say to support the family. And we have only to look at what has happened once society has abandoned the traditional family, and has gone into freefall as it has, in my opinion, today. Over the last 30 years, or perhaps as Peter Hitchens has put it in his book *The Abolition of Britain*, since the death of Churchill in 1965, society has changed beyond recognition. We have sailed into uncharted waters. It seems quite extraordinary that a Royal Commission in 1956 could say:

...to give people a right to divorce themselves would be to foster a change in the attitude to marriage which would be disastrous for the nation... marriage in the end would come to be regarded as a temporary relationship with divorce as a normal incident of life...people have good and bad impulses and we conceive it to be the function of the law to strengthen the good and control the bad.

This, within living memory of many of us, now sounds rather quaint.

Now nearly 50% of marriages end in divorce. If there are fewer divorces, it is because there are fewer marriages. One in five children now come from a broken home. Some 40% of all live births are outside marriage, rising to 70% in some areas of the country. And we have the distinction of having the highest rate of teenage pregnancy in the EU. The cost of all this had been variously estimated at between £4 billion and £10 billion annually. A new publication *The Cost of Family Breakdown* puts it at £16 billion and gives a detailed analysis of the way these figures have been reached. The break up of the traditional family has also led to an increase in domestic violence and to an increase in crime.

Is this view simply held by Conservatives? Let me quote you what Professor A H Halsey has said in his introduction to the important book by Norman Dennis and George Erdon (both left wing sociologists) in *Families without Fathers*:

Children of parents who do not follow on the traditional norm (i.e., taking on personal, active and long terms responsibility for the social upbringing of the children they generate) are thereby disadvantaged in many major aspects of their chances of leading a successful life. On the evidence available, such children tend to die earlier, to have more illness, to do less well at school, to exist at a lower level of nutrition, comfort and conviviality, to suffer more unemployment, to be more prone to deviance and crime and finally, to repeat the cycle of unstable parenting from which they themselves have suffered.

One of the curious knock-on effects of the world today, is what Melanie Phillips has described in her book *The Sex Change Society*, is that women are

becoming like men and want men to become like women. Some women today want to do without men altogether (except for one purpose!). Many regard men as, at best, a liability and at worst, an irrelevance. A further consequence is that there is growing up what has been described as a "Warrior Class" of young men; boys who grow up childish in their attitude to life, who have not had fathers as role models, whose first experience of seeing a man taking responsibility is probably in his second year in a comprehensive school, when he is 12 or 13. He drops out of school, is unable to get a job, probably takes to crime, is totally irresponsible and is a singularly unattractive proposition to any girl as a husband. That is why he is regarded as irrelevant.

It would be good to think this bleak outlook was coming to an end. What is required is a huge cultural shift. Just as it has taken 35 years to get where we are, I think it will take as long to change. But, in my more optimistic moments, I believe we have seen a shift recently. It is not impossible to read into the vote to keep Section 28, which suddenly became a bench mark, a change. Here was an issue which everyone could understand. I had over 5,000 letters of support from a huge cross-section of the population throughout the length and breadth of the UK – consultants, doctors, social workers, teachers, school governors and of course, very many parents and grandparents and young people. They were not a part of an organised protest. They were the voice of the silent majority. The people of Scotland showed in the extraordinarily interesting referendum organised by Brian Souter the same result. 1,000,000 people voted to keep Section 28 – a larger number than those who voted Labour for the Scottish Parliament. That is an amazing achievement. Referendums are not easy to organise, but the people of Scotland made their views clear.

What have we, as a Party, said on all this at this important juncture? I greatly welcome the policies to which we are committed, which are set out in the Conservative Party publication *Believing in Britain*. All laws send a signal, and were these proposals to be implemented, they would send a message that we are serious about the traditional family and want to support it. So what are these policies? The first is to re-introduce a married couples' tax allowance. This is undoubtedly the most important stand we could take for the family. We are the only country in the EU not to have a marriage allowance and perhaps it is not insignificant that we also have the highest divorce rate.

Secondly, it is proposed that there should be family scholarships. This is a new idea and one to be welcomed. These scholarships would help young mothers who wish to return to work once their children are older, to do so.

Thirdly, we have pledged to extend invalid care allowance to new claimants over 65 – so many of the carers are members of the family. This should help families to stay together in old age.

I hope we will go further to help responsible parents. I hope that we will make a definite commitment in our Manifesto *not* to repeal Section 28. As I have already said, Section 28 has come to symbolise for parents especially, but also for the overwhelming majority of the population, something about traditional values and family life. I hope we will also make a commitment not to lower the age of consent for homosexuals. Again, this is something that responsible parents do not want, particularly mothers of sons. It is not an argument about equality, but about the traditional family and the protection of children. And I

think we should take a long and considered look at the whole sex education industry and accept that the guidelines for schools should be re-written, putting marriage at the centre. This means getting information to our colleagues in local government, and quite particularly to school governors. If a Conservative government did these things, it would be taking a number of right steps.

One thing I have learned from the important debates that we have had in the House of Lords, is that by standing up for a principle, standing up for something which is right, then others will stand up too. It is not too late – indeed, on great cultural changes, it is never too late to speak out. And if we speak out we will find that others will speak out too. We must not only support the traditional family, but create a culture again where marriage is put first.

I believe that as a country we stand at a crossroads. Our society has been based on the great Judeo Christian tradition for the last 1000 years. Now many want to make it a secular society. Some think it already is a secular society. The choice is before us all. It is up to Conservatives to stand up for the traditional family, which stands at the centre of our society.

## ESSAY THREE

### SMALL GOVERNMENT

MARTIN McELWEE<sup>1</sup>

We're going to reduce the number of Ministers, cut the size of the House of Commons, halve the number of political advisers and cut the whole size of Whitehall so that there aren't so many politicians going round dreaming up expensive meddling schemes to interfere in everybody's lives.

William Hague, Conservative Party Conference 2000

Those of a Conservative disposition tend to believe in smaller government. It imposes less of a burden on taxpayers. It leaves individuals free to run their lives as they please. It gives business the freedom to create wealth.

The Centre for Policy Studies has long promoted the idea of cutting the size of Government.<sup>2</sup> This paper continues that work by investigating William Hague's promise. How big is the political realm nowadays? Are the problems he notes the most pressing? And if he is right that Government is too big, how can it be cut back?

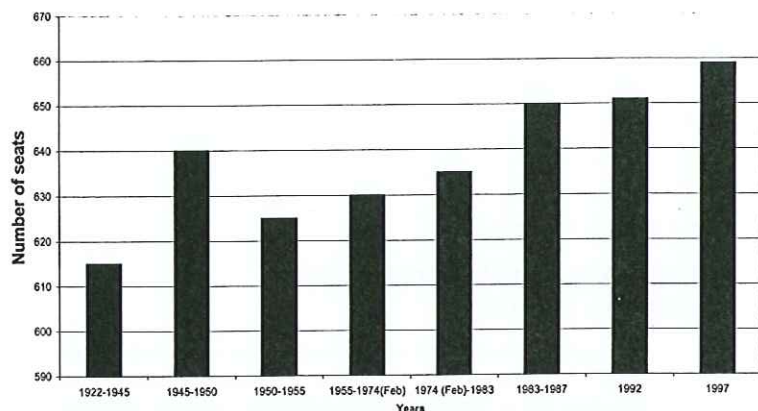
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- 1 Martin McElwee is Deputy Editor of the Centre for Policy Studies. His publications include *The Great and Good? The Rise of the New Class* (CPS, 2000) and, with Andrew Tyrie MP, *Leviathan at Large: the new regulator for the financial markets* (CPS, 2000).
  - 2 See e.g. T. Keswick & E. Heathcoat Amory, *A Conservative Agenda – Proposals for a fifth term*, CPS, 1997.

## PARLIAMENT

The House of Commons is the most visible feature of the political landscape. It currently contains 659 members – the highest figure since the partition of Ireland in 1922.

As can be seen in the chart below, the number of Members of Parliament has risen steadily over the course of the last century. In recent times, the ratchet effect has been made almost inevitable by the formula prescribed in the Rules for Redistribution of Seats.<sup>3</sup>

Number of seats in House of Commons since partition of Ireland



The current level significantly exceeds the number suggested in the Parliamentary Constituencies Act 1986, which states that the number of seats in Great Britain (i.e. not including Northern Ireland) should not be substantially greater than 613.<sup>4</sup> It is currently 641.

### *Comparable countries manage with far fewer elected members.*

The recent increases also run contrary to the report of the Home Affairs Select Committee in 1987.<sup>5</sup>

Comparable countries appear to manage with rather fewer elected members to stock their primary chamber. The Italian Chamber of Deputies has 630 members, while the French Assemblée Nationale has only 577. Both have roughly similar populations to that of the UK. Germany has a similar number of members in the Bundestag (around 656, depending on the vagaries of PR), but they represent a rather bigger population.

<sup>3</sup> Schedule 2, Parliamentary Constituency Act 1986. See *Review of Parliamentary Constituencies in England*, Boundary Commission 2000.

<sup>4</sup> See Schedule 2.

<sup>5</sup> Second Report of Session 1886-87 (February 1987) (HC 97-1).

It is perhaps unsurprising, then, that there is a feeling that backbench MPs do not have enough to do. The Labour Party even started giving its backbenchers leave of absence from the Commons after the 1997 landslide so they could spend more time nursing their constituencies.

Each MP is currently paid £48,371 per annum. To this is added a generous pension scheme and large number of allowances. These include:

- Office costs allowance (£51,572 per annum);
- Additional costs allowance (for non-London MPs, towards the cost of living and working in London - £13,322);
- Supplementary London Allowance (for London MPs, to cover the extra costs of hiring staff, renting offices in London - £1,437);
- Motor mileage allowance (for travel between Westminster and constituency/home);
- Bicycle allowance;
- Travel warrants (allowing first class travel between Westminster and constituency/home by rail, sea or air);
- Member's resettlement grant (for when an MP retires or is defeated, based on age and length of service).

*Britain also has far more members of its second house than other countries: whereas the House of Lords has 676 members, the German Bundesrat has 199; the Italian Senato has 315, the French Sénat has 321; and the American Senate just 100.*

Britain also has, of course, a second house the membership of which dwarfs any comparable body. The German Bundesrat makes do with only 199 members; the Italian Senato has 315; the French Sénat has 321; and the American Senate manages with just 100. The House of Lords currently has 676 members. Our upper house, of course, is in a state of transition. Under the old system, peers (other than ministers) were paid no more than expenses and a small attendance allowance; attendance was patchy. Any new system will almost certainly involve salaried peers and a greater level of commitment. The Government which completes the reform of the Lords should look to slim it down radically.

Moreover, the Government's penchant for creating large numbers of new politicians and new layers of government must also be noted. In its time in office, it has set up the Scottish Parliament with 129 members, the Welsh Assembly with 60 Members, the Northern Ireland Assembly with 108 members, and the London Assembly with 25 members (plus the Mayor).<sup>6</sup> All of

<sup>6</sup> To these may be added, of course, the existing councillors of the 34 County Councils, 36 Metropolitan Boroughs, 76 Unitary Authorities, 238 Urban District Councils, 22 Welsh Councils, 3 Scottish Island Councils and 33 London Boroughs (inc. City of London).

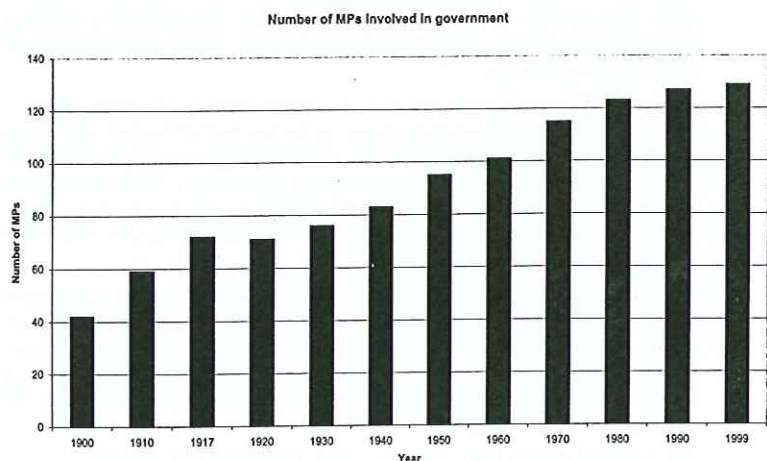
these have major administrative costs. The Scottish Parliament's operating costs for 2000-01 are expected to reach £36.28 million.<sup>7</sup> Those of the Welsh Assembly run to £29.8 million.<sup>8</sup>

*More important than the direct cost of maintaining all these politicians is their quite natural wish to prove themselves – a wish often expressed in the production of more and more legislation and regulation.*

Perhaps more important than the direct cost of maintaining all these politicians and assemblies is the quite natural wish for all involved to prove themselves – a wish which is most often expressed in the production of more and more legislation and regulation.<sup>9</sup>

#### MINISTERS AND GOVERNMENT

The Blair administration is fortunate that it enjoys such a large majority that it (almost) never has to rely on the payroll vote to get legislation through the House of Commons. The payroll vote (i.e. the number of MPs involved in the Government – Cabinet Ministers, junior ministers and Parliamentary Private Secretaries (who are unpaid, but expected to vote with the Government)) is, however, at its largest ever. 129 of Labour's 418 MPs have Government posts.<sup>10</sup>



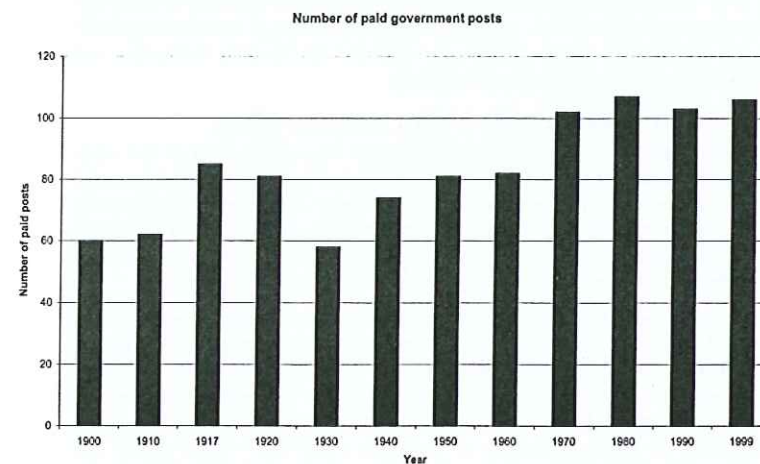
7 Figure taken from Scottish Budget, February 2000. This excludes the £200 million cost of building the Parliament.

8 Figure taken from Welsh Budget, as revised 1 April 2000.

9 In its first year, the Scottish Parliament put 427 statutory instruments and nine Acts of Parliament on the statute book.

The figures in the above chart, of course, discount the number of peers involved in Government. It might be expected that this number would have dropped considerably over time, as the public came to expect Ministers to be able to take questions from their representatives in the Commons. This is not the case. The number of peers in Government is almost as large as it ever has been. The next chart shows the total number of paid Government posts (i.e. including both peers and MPs, but excluding PPSs).<sup>11</sup>

There is no evidence that this expansion in the number of ministers has been accompanied in an improvement in the way we are governed. Indeed it is more arguable that the proliferation of Ministers each determined to make his or her mark has only increased the volume of burdensome legislation. In the last session, MPs had to wade their way through 2,537 pages of (primary) legislation, up 60% on the year before. The amount of secondary legislation has also followed a strong upward trend. In 1999 there were 3,471 statutory instruments put on the statute book, covering 8,400 pages.<sup>12</sup>



It has also increased the cost of government. Ministerial salaries range from £26,053 for a Parliamentary Under Secretary (in addition to his or her parliamentary salary), through to £66,172 for a Cabinet Minister (again in addition to the parliamentary salary)<sup>13</sup> to £110,287 for the Prime Minister (plus parliamentary salary)<sup>14</sup>. Even more highly paid is the Lord Chancellor, who earns £167,760. He is also the only Cabinet Minister who currently draws his full entitlement.

10 Source: D. Butler & G. Butler, *Twentieth Century British Political Facts 1900-2000*, Macmillan, 2000.

11 Ibid.

12 See A. Tyrie, *Mr Blair's Poodle*, Centre for Policy Studies, 2000.

13 Cabinet Ministers currently only take £48,516 of their ministerial salary. Slightly different figures apply for Ministers from the House of Lords.

14 The Prime Minister currently only takes £64,580 of his ministerial salary.



To these figures can be added the substantial cost of supporting the Minister's private office.

#### **SPECIAL ADVISERS AND SPIN DOCTORS**

Chief among the additional costs for Cabinet Ministers is the cost of the host of special advisers and spin doctors who now inhabit Whitehall. Since the last General Election, the number and cost have spiralled. In 1996-97, there were 38 special advisers in Whitehall. By 1998-99, there were 72.<sup>15</sup>

The cost in 1996-97 was £1.8 million. By 1998-99, this had almost doubled to £3.5 million. The figure for 1999-2000 was predicted to reach £3.9 million.<sup>16</sup> This reflects the generous salaries paid to special advisers. The most highly paid is the Government's Drugs Tsar, Keith Hellawell, who earns £109,027. Chief spin doctor, Alastair Campbell, and the Prime Minister's Chief of Staff, Jonathan Powell, earn £93,562. Other special advisers can earn up to £78,186.<sup>17</sup>

The Neill Committee investigated the extraordinary rise of the special adviser in 1999. Its report noted that the recommendation in the Ministerial Code that there be a maximum of two per Cabinet Minister has been breached regularly. It recommended a statutory limit (as exists for the Scottish Parliament and Welsh Assembly) to the number of advisers.

#### **QUANGOS, TASK FORCES AND REGULATORS**

Quangos, task forces and regulators represent three more arms of the state. The proliferation of quangos over the past 20 years has been much commented on, and their use has continued unabated under the Labour Government. There are currently over 1000 quangos operating in the UK, which spent £23,370 million in 1999.<sup>18</sup> Their membership is at the discretion of Ministers and the work of most of the bodies goes entirely without public scrutiny.

Task forces, meanwhile, are a peculiarly "New Labour" concept. Since the last general election, over 300 task forces have been set up, advising on Government policy on everything from the BBC<sup>19</sup> through social exclusion<sup>20</sup> and competitiveness<sup>21</sup> to literacy and numeracy<sup>22</sup>. By their very nature, they are likely to recommend further action by Government; it is difficult to imagine a task force set up by a Minister to deal with a problem recommending that nothing should be done, or that government action was unsuitable.<sup>23</sup> Moreover, several of them have very substantial budgets for their work.

Regulators, too, are a favourite of the Government. The Government appears to take the view that heavyweight regulatory action is a pre-requisite for the efficient and fair functioning of British life. Several new regulators have been

15 See Hansard, 11 November 1999, col 825-828w.

16 Ibid.

17 Ibid.

18 Source: Cabinet Office website.

19 BBC Licence Fee Review Panel.

20 Social Exclusion Action Teams 1-18.

21 Competitiveness Advisory Group, plus 14 Competitiveness Working Parties.

22 Literacy Task Force; Numeracy Task Force; Literacy and Numeracy Strategy Group.

23 See M. McElwee, *The Great and Good?*, Centre for Policy Studies, 2000.

set up since the election, including the Food Standards Agency, the Financial Services Authority, the Office of Gas and Electricity Markets, the Postal Services Commission, the Shadow Strategic Rail Authority and the Office of the International Rail Regulator. Others are in the pipeline, including the National Care Standards Commission, the Private Security Industry Authority, and PayCom.

The cost of these regulators is now immense. The compliance costs on industry (which are borne ultimately by the consumer) are rising fast as the regulatory burden increases. The administration of regulation also costs the taxpayer. The budget of OFGEM has risen from £23.1 million in 1996-97 to £64.5 million in 2000-01. The budget of rail regulator, Tom Winsor, has risen by 50% to £12 million over the same period.<sup>24</sup> There is no sign, moreover, that the costs of regulation are likely to decline. While regulatory policy under the Conservative Government was focussed on facilitating free, competitive markets in the utilities – so that the regulator could operate with an ever lighter touch, and, in time, perhaps bow out – the current Government's policy envisages the permanent use of government power to regulate these markets in pursuit of a range of political objectives.<sup>25</sup>

#### **SLIMMING DOWN GOVERNMENT**

On the above evidence, William Hague's diagnosis is entirely reasonable. Government has become huge, without any discernible improvement in performance. The case for slimming it down is clear. It will save large sums of money which can be returned to the taxpayer or spent on health and education rather than on jobs for political hacks. It will mean less legislation burdening our daily lives and less regulation burdening business. It will mean less space for cronyism and patronage.

#### **Cut the size of the House of Commons by 100 seats**

This move will be made easier by the cut in the number of Scottish MPs which is already envisaged by the Scotland Act 1998.<sup>26</sup> With the advent of the Scottish Parliament, the over-representation of Scots at Westminster could no longer be justified. At the next boundary review, the electoral quota for Scotland will be reduced to the same as that for England. This will reduce the number of Scottish MPs from 72 to under 60.

A reduction in the number of seats by about 100 would produce a substantial saving for the taxpayer. It would also increase competition for seats, hopefully raising the quality of the membership of the House. There is no evidence, moreover, that larger constituencies would overwhelm members. Although correspondence from constituents is on the increase, office technology has made it much easier for MPs to deal with it.

#### **Go ahead with the cut in the number of MSPs**

It is envisaged that when the next boundary review in Scotland reduces the number of seats in Westminster, the number of constituency seats in the

24 See K. Boyfield, *The Politics of Regulation*, European Policy Forum, September 2000.

25 See M. Spicer, "Socialism on the sly", in K. Sutherland (ed), *The Rape of the Constitution?*, Imprint Academic, 2000. See also M.E. Beesley (ed), *Regulating Utilities: A New Era?*, IEA, 1999.

26 See section 81.

Scottish Parliament should also be cut in line with the new boundaries. There has been some protest about this change – largely from Members who fear losing their seats. A slimming down of the number of MSPs would help offset the spiralling costs of the new Parliament, and there is no evidence that it would detrimentally effect its working.

#### **Abolish the DTI**

The DTI has, in recent years, had an exceedingly rapid turnover of Ministers – in part due to the fact that successive Ministers have struggled to assert themselves in a Department that is unsure of its role. A Department which was set up at a time when high levels of intervention in industry by Government was considered normal has found itself struggling to redefine itself in an age when such intervention is recognised as unhelpful. As the Treasury under Gordon Brown has taken command of Whitehall as never before, the DTI has been further diminished.

The rather vacuous mission statement of the DTI now runs thus:

To increase competitiveness and scientific excellence in order to generate higher levels of sustainable growth and productivity in a modern economy.

This is followed up by four “objectives”:

- To promote innovation and increased productivity;
- To make the most of the UK's science, engineering and technology;
- To create strong and competitive markets;
- To develop a fair and effective legal and regulatory framework.

Most of this, of course, is not really the role of government. Recent attempts by the DTI to intervene in the marketplace in support of these objectives have been ridiculed – be it the propping up of the coal industry until the next election with a huge subsidy, the clean bill of health for Britain's supermarkets from the Competition Commission after the Secretary of State insisted that they were “ripping off Britain”, or the misguided intervention in the Rover debacle. The attempts of the DTI to establish a role distinct from the Treasury have latterly led to little more than embarrassment. Stephen Byers seems now to have resorted to being the cheerleader for the euro within the Cabinet in order to give himself a role.

The dismemberment of the DTI would not be difficult. It is only fairly recently that the Department for Education and Employment ceased to have responsibility for science. As the 1970s showed, government attempts to pick winners in science should be eschewed, but to the extent that central government still has a role, that could easily be reassumed by the DfEE.

Most of the quasi-economic functions of the DTI are already dominated or performed exclusively by the Treasury. The duplication of functions on matters such as competitiveness, the euro and regulation is currently counter-productive and could be ended without difficulty.

The DTI's most useful function is the promotion of British trade abroad, which it carries out in conjunction with the Foreign Office through British Trade

International. This agency could easily – and probably more efficiently – be monitored by the Foreign Office alone, which would do well to focus much more on assisting British businesses break into and expand in export markets.

The other functions of the DTI can generally be allowed to fall into abeyance. The subsidising of industry which persists to this day should be abandoned. The plan for the DTI to become some sort of consultancy for small business can also be dropped without cost. There already exists a flourishing private sector in such matters. Why the state sector, with its myriad inefficiencies should think that it can do better is a mystery.

The previous Conservative administration managed to reduce the staff of the DTI substantially, as the need for the sort of direct support of industry which it was set up to provide disappeared. Since Labour came to power, that reduction has been reversed. The current spending plans envisage that the Department will have over 10,000 staff by the 2001-02 financial year (plus several hundred more at the regulators under its control). While some staff would have to be taken on by Departments given functions previously exercised by the DTI, there is clearly scope for substantial savings.

The salaries bill accounts for a little over half of the DTI's £570 million running costs. Major savings could also be made in the other elements of these administration costs by merging its useful functions with other Departments. The Department's overall budget (which will reach £4.63 billion in 2001-02 under the Government's spending review) also contains scope for savings from syntheses through integration with the activities of other Departments and through the abolition of programmes no longer deemed necessary.<sup>27</sup>

#### **Abolish the Department for International Development**

Until the 1997 election, international development was a function of the Foreign Office. This is still its natural home. Having two departments which deal with overseas matters is unnecessary and wasteful. Reintegrating the international development function within the Foreign Office should not mean a downgrading of its function or of its budget. In fact it would mean that less is spent on bureaucracy and more on aid. It would also mean a rather stronger voice speaking for development issues in Cabinet – the Foreign Secretary, rather than arguably the most junior member of the Cabinet.

Before the setting up of the DFID, international development employed 1069 staff. In 2000-01, it will employ 1395 – a substantial increase, based largely on the additional staff needed to run a separate department. The monies voted for running costs alone will were £68 million in 1999-2000, an amount which could be reduced significantly by reintegration.<sup>28</sup>

#### **Merge the Scotland Office and the Wales Office**

The Government has been curiously reluctant to acknowledge that the setting up of the Scottish Parliament and Welsh Assembly, which cover the work of the old Scottish and Welsh Offices, means that these two departments have become anachronistic. There is no longer any need for such significant ministerial representation at Westminster when the Scots and Welsh are running their own affairs in Edinburgh and Cardiff.

<sup>27</sup> See DTI Expenditure Plans Report 2000/01 – 2001/02 (Annex A)

<sup>28</sup> See DFID Departmental Report 2000

The Scots and Welsh still enjoy individual representation at Cabinet level, plus a Minister of State in each Department. Their sole role now is to co-ordinate matters between the devolved assemblies and central government. This does not require this number of Ministers. Indeed, John Reid, the Secretary of State for Scotland seems to spend most of his time as an all-purpose interviewee for the Government.

The Scotland Office is currently operating with 57 staff. This, though, is due to increase significantly. By 2001-2002, it is due to be operating with 112 staff. At the Wales Office, numbers will rise from 34 to 61. Given the very limited responsibilities of these departments, these higher figures hardly seem necessary.<sup>29</sup>

The running costs of the Scotland Office (£4 million in 1999-2000, rising to £6 million in 2001-2002) and the Wales Office (£2 million for each of the next three years) could be substantially reduced by uniting them in a single Department with one Cabinet Minister and possibly one junior Minister. This must be a priority for the next government.

#### **Cut the number of quangos**

The Labour Party's promises of a "bonfire of the quangos" have come to very little. The failure of the Republicans in Congress substantially to cut back on government programmes in spite of their high profile promise to do so is an indication of how difficult it can be to achieve substantial cuts in this area.<sup>30</sup> Once programmes or quangos have established themselves and have found themselves a dependent client constituency, they are difficult to dislodge. Christopher DeMuth of the American Enterprise Institute calls it "the theory of interest groups".<sup>31</sup>

It is therefore proposed that the Government should institute a moratorium on the establishment of any new quangos until there have managed to achieve cuts in the present tally. Notwithstanding public sector inertia, it is suggested that the following quangos could be cut or privatised in fairly short order:

- Advisory Committee on Conscientious Objectors
- Agricultural Dwelling House Advisory Committee x 8
- Apple and Pear Research Council
- British Film Institute
- British Potato Council
- Commission for the New Towns
- Consumer Communications for England
- Covent Garden Market Authority
- Crafts Commission
- Design Council
- Film Council

29 See the Government's Expenditure Plans 2000/01 - 2001/02: Departmental Report by the Scotland Office (Annex 6).

30 See S. Moore & S. Slivinski, *The Return of the Living Dead: Federal programmes that survived the Republican revolution*, Cato Institute, July 2000.

31 C. DeMuth, *Why the Era of Big Government Isn't Over*, Commentary, April 2000.

- Government Hospitality Fund Advisory Committee for the Purchase of Wine
- Hearing Aid Council
- Home Grown Cereals Authority
- Horserace Totaliser Board (Tote)
- Horticultural Development Council
- Investors in People UK
- Milk Development Council
- Millennium Commission
- National Consumer Council
- National Film and Television School Governors
- New Millennium Experience Co
- Post Office
- Regional Development Agencies x 8
- Resource
- Scottish Consumer Council
- Welsh Consumer Council
- Zoos Forum

The savings from abolition or privatisation could be substantial. The absurd Design Council - an obvious throwback to the post-war corporatist era - swallowed up £6.8 million of public money in 1998-99. The British Film Institute, which has had conspicuously little impact on the success of the British film industry, took £15.1 million.<sup>32</sup> Other bodies which do not benefit from large public subsidies - the Post Office, for example - would benefit from the sharper business focus that moving them into the private sector would bring.

#### **Cut and cap the number of special advisers**

The proliferation of overtly political special advisers paid by the taxpayer is a real cause for concern. The legislation for the Scottish Parliament and the Welsh Assembly places a cap on the number of special advisers. Following the advice of the Neill Commission, a similar cap should be put in place for Westminster. Two per cabinet minister would seem appropriate. Special consideration needs to be given to 10 Downing Street which employs over a quarter of all special advisers. Current numbers may be excessive, but the special situation of the Prime Minister must be acknowledged. For every special adviser employed, moreover, there should be a reduction in the number of civil servants.

There is also a question of how special advisers are paid. The rules of conduct should leave open the possibility of requiring the party of government to pay the salary of the special adviser in whole or in part where their activities come close too to or cross the line into overtly political activity.

<sup>32</sup> Public Bodies 1999



