Centre for Policy Studies

Pointmaker

SAVING £30 BILLION: 9 SIMPLE STEPS

SUMMARY

- The coronavirus crisis has left a gaping hole in the public finances. Spending has soared, and tax revenues have slumped. Some of this damage will be fixed as the economy recovers – but much of it will not.
- Before raising taxes to cover the cost of the crisis, the Government needs to ensure that it is making the best use of the money it already spends – which even before the crisis amounted to £907 billion a year – as well as its vast portfolio of assets.
- This report makes nine suggestions which would help to ease the pressure on the public finances and reduce the need for tax increases or additional borrowing.
- There would be no impact on frontline public services from these measures – indeed, the savings could be used to help pay for extra spending resulting from the coronavirus crisis.
- At a rough estimate, this combination of savings and asset sales would generate £30 billion per year over this parliament.

THE PROPOSALS

- Sale and lease back of public sector land.
- Reduce Government administrative staff.
- Sell and replace high-value council properties as they become vacant.
- Cut quangos, increase their accountability and combine their back-office functions.
- Streamline local government and its administrative costs.
- Improve e-procurement and data-sharing.
- Replace the pensions triple lock with a dual lock and tax the Winter Fuel Payment.
- Roll child benefit into the child tax credit system.
- Cut or redefine overseas aid in line with reduced global need.

INTRODUCTION

The coronavirus crisis has left a gaping hole in the public finances. Spending has soared, and tax revenues have slumped. Some of this damage will be fixed as the economy recovers – but much of it will not.

Even before the crisis, the Government had little room for fiscal manoeuvre. Spending was already increasing, in order to fund its manifesto commitments. Taxes were already high, and the Government had promised not to raise the main ones further. And borrowing was close to its limits.

In the wake of the crisis, there will inevitably be calls for further tax rises, to fill the hole in the Government's finances. But before increasing a tax burden which is already at historic highs – and thereby risking choking off any recovery – the Government should re-examine its existing spending. To say, as ministers have, that there will be no return to austerity is a very different thing to saying that every penny of the £907 billion that the state was spending each year before the crisis is wisely invested.[1]

In this report, we present nine ideas for making savings or increasing revenues without affecting frontline public services. On top of the 5% savings that the Government asked departments to produce at the start of the year, these should give the Chancellor valuable headroom in trying to cope with the increased spending and decreased tax revenues that the coronavirus crisis, and its economic aftermath, will result in.

THE FISCAL CONTEXT

Before the coronavirus crisis, the Prime Minister had promised to significantly increase capital and infrastructure spending, as part of his plan to 'level up' Britain's regions. He had also promised significant increases in spending on key public services: raising education funding, recruiting more police, and above all delivering a very significant increase in NHS funding, reaching more than £650 million a week extra by the end of the parliament.

Before the coronavirus crisis, the Prime Minister had promised to significantly increase capital and infrastructure spending, as part of his plan to 'level up' Britain's regions.

Over the coming parliament, spending as a percentage of gross domestic product (GDP) was already set to run at approximately 40%, as opposed to the 35% targeted by George Osborne.[2] Debt as a share of GDP was set to effectively plateau in the coming years at around 75% of GDP, with the budget deficit hovering at around 2-3% of GDP.[3]

1. OBR, *Public finances databank: Total managed expenditure, 2020-21*. Available from: https://obr.uk/download/public-finances-databank/.
2. *OBR, Economic and fiscal outlook, March 2019. Major receipts as a share of GDP: National account taxes*. Available from: http://obr.uk/data/.
3. ONS, *Public sector finances, UK: September 2019*. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/842880/PSF_bulletin_September_2019_corrected_HMT_V2.pdf.

All of these figures will now be vastly higher, as spending soars and tax revenues collapse in the wake of the pandemic. The final figures will not be known until we have a better picture of the duration of the pandemic and the extent of its economic consequences. However, the IFS puts the UK's 2020-21 budget deficit at £350 billion (17% of GDP) – and there is surely more to come over the next few years.[4]

While it is sensible to let borrowing take the strain of the immediate pandemic response, we cannot simply pile on debt forever. The total has already reached a staggering £2.024 trillion, equivalent to more than 100% of GDP.[5]

Ministers have indicated that they intend to stand by their manifesto commitment not to raise the three main taxes – income tax, National Insurance and VAT – and the Prime Minister has reportedly insisted that other spending commitments, such as the triple lock on the state pension, should be retained. Yet the Government has already hinted heavily that it intends to raise other taxes, in particular on business.

As we have argued elsewhere, this would be economically damaging.[6] Raising taxes would be counterproductive in the current circumstances, and taxing productive investment in the economy would be counterproductive at any time. Moreover, taxes are already close to a 50-year high, standing at 34.4% of GDP this financial year.

This paper argues that before raising taxes, or increasing borrowing yet further, ministers should urgently seek to find savings from the £907 billion (and counting) that the state was already spending, as well as its vast asset base.

We estimate that the nine specific savings we cite would free up roughly an estimated £30 billion per year by the end of the Parliament.

In that spirit, this paper identifies nine areas that offer significant opportunities for saving money or raising revenue – without impacting in any way on frontline public services such as education, the NHS and policing. We estimate that the nine specific savings we cite would free up roughly £30 billion per year by the end of the Parliament.

This package of proposals is simultaneously radical but realistic – delivering better value for money for voters and giving the Government more money to fund its response to the pandemic. Many of our figures are necessarily approximate, but the threshold we have set is that each of our proposals should deliver a significant sum to the bottom line. We therefore urge the Chancellor and his team to explore the suggestions below, and urgently identify other areas where savings can and must be made.

4. Carl Emmerson and Isabel Stockton, *IFS Green Budget 2020: Chapter 4*. Available from: https://www.ifs.org.uk/uploads/CH4-IFS-Green-Budget-2020-Outlook-for-the-public-finances.pdf.
5. Phillip Inman and Nazia Parveen, 'UK borrowing surges as Covid pushes national debt to record £2.024tn', *The Guardian* (25 September 2020). Available from: https://www.theguardian.com/business/2020/sep/25/uk-borrowing-surges-as-covid-pushes-national-debt-to-record.
6 Tom Clougherty, *Wrong Taxes, Wrong Time: The Case against Taxing Business*. Available from: https://www.cps.org.uk/files/reports/original/201014100441-TreasuryTaxRisesFinal.pdf.

Policy Proposal	**Annual Savings or Revenue Target**
1. Sale and lease back of public sector land.	£10 billion
2. Reduce Government administrative staff.	£3.5 billion
3. Sell and replace high-value council properties as they become vacant.	£1.5 billion
4. Cut quangos, increase their accountability and combine their back-office functions.	£3 billion
5. Streamline local government and its administrative costs.	£1 billion
6. Improve e-procurement and data-sharing.	£4.5 billion
7. Replace the pensions triple lock with a dual lock and tax the Winter Fuel Payment.	£2 billion
8. Roll child benefit into the child tax credit system.	£1 billion
9. Cut or redefine overseas aid in line with reduced global need.	£3.5 billion
TOTAL	**£30 billion**

1. SALE AND LEASE BACK OF PUBLIC SECTOR LAND

Proposal: The Government owns property and land valued at more than £1 trillion. We propose it should retain all operational or strategically critical sites, but sell and – where necessary – lease back other public sector land. Where operational sites (such as schools and hospitals) need modernisation, the Government should enable them to be demolished and rebuilt nearby via fast-track planning permission.

In 2017, the Cabinet Office Property Unit set a target of freeing up state-owned land with capacity for at least 160,000 homes by 2020, and raising at least £5 billion from land and property disposals.[7] In mid-2019 this strategy was judged to be on track in terms of revenue, but not in terms of land.[8]

The way the sale of surplus land is encouraged is that in a Spending Review, the Treasury carves out hypothetical receipts worth a certain amount, and then reduces its spending allocation for each department accordingly. The onus is then on individual departments to identify surplus land in order to hit their budgets.

This model is better than nothing, but it encourages departments to underestimate the value of their landholdings ahead of the Spending Review period, and then over the period just about manage to deliver the Treasury target – because if they over-deliver, the Treasury would probably assume they had been too lax before, and might cut their future funding. A dance occurs in which departments try not to be too accurate about what they own, and agree targets that are manageable but not excessive. This is an absurd way to proceed.

In 2016-17, the land and buildings owned by the Government were valued at £423 billion, with a further £617 billion in infrastructure, which can often house spare capacity.[9] Much of this land and building space is valuable and necessary – but surely not all. There is a strong case for a sensible rationalisation of the Government's office and land stock – while retaining critical and sensitive assets such as hospitals, schools, prisons, military bases and so on.

A major review should therefore be conducted to help identify all sites owned by the state. Departments can then create a list of operational or strategically critical properties. All other buildings should be considered for sale, or sale and then re-lease over a long-term period. A third party should be brought in to audit each department, with their fee related to the savings made. This could also be done on a council by council basis.

There are many examples of this sort of exercise being successful. In February 2019, National Rail completed a £1.46 billion sale of more than 5,250 rental spaces across

7. Cabinet Office, *Guide for the Disposal of Surplus Land*. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/599778/Guide_for_the_Disposal_of_Surplus_Land.pdf.
8. National Audit Office, *Investigation into the government's land disposal strategy and programmes, May 2019*. Available from: https://www.nao.org.uk/press-release/investigation-into-the-governments-land-disposal-strategy-and-programmes/.
9. HM Treasury, *Whole of Government Accounts: year ended 31 March 2018*. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/803751/WGA_2017-18_WEB_1.pdf.

England and Wales, around 70% of which were converted railway arches. The properties were sold on a 150-year leasehold basis, with National Rail maintaining access rights and the ability to take sites back into ownership in the event that they are needed.[10] Sites such as St George's Barracks in Rutland, now earmarked for a garden community, show the kind of positive impact such sales can have – both in terms of receipts for government and new housing provision.[11]

In 2016-17, the land and buildings owned by the Government were valued at £423 billion, with a further £617 billion in infrastructure, which can often house spare capacity.

If just 2.5% of the state's property portfolio turned out to be surplus to requirements and another 2.5% could be sold and leased back, this could generate £50 billion. Even if we wanted to put aside £10 billion in receipts to pay for the leased-back properties, this would give a saving of £10 billion each year over the rest of the parliament.

There could also be significant efficiency gains through more intelligent capital spending, particularly in more rural areas.[12] Where schools, hospitals, GP surgeries or other facilities need to be upgraded or expanded substantially, the original sites should be used for housing, and a modern replacement constructed on an adjacent or locally selected site – including greenbelt land.

With the value of a hectare of greenbelt land outside London rising from £22,000 if allocated for farming to nearly £3 million for housing, this would raise substantial sums.[13] People are also less likely to object to new homes on an already developed site, which come with a new school or surgery attached - providing new and better facilities for the local community and reducing concerns about infrastructure, a legitimate worry when new housing is proposed.

REVENUE TARGET: £10 billion per annum

10. Cabinet Office, *2018-19 State of the Estate*. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863283/State-of-the-Estate-in-2018-19.pdf.
11. Cabinet Office, *Government Estate Strategy: 2018*. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/725954/Government_Strategy_2018_v22.pdf.
12. OBR, *A brief guide to the public finances*. Available from: https://obr.uk/forecasts-in-depth/brief-guides-and-explainers/public-finances/.
13. MHCLG, *Land value estimates for policy appraisal 2017*. Available from: https://www.gov.uk/government/collections/land-value-estimates.

2. REDUCE GOVERNMENT ADMINISTRATIVE STAFF

Proposal: The scale of administrative savings in the private sector in recent years has been much larger than in the public sector – by around a factor of seven. Once we are through the worst of the pandemic, central government should seek to shrink administrative costs in line with the reduction achieved in comparable areas of the private sector.

With the rise of computing over the past two decades, there has been a fall in the number of staff needed for administrative tasks. Yet this has not been acted upon at the same rate across the private and public sectors. The Government has made some reductions since 2010 in administrative staff, but the state still lags well behind the private sector in making these efficiencies.

While the private sector managed to add about 5 million more jobs overall between 2000 and 2018, the number of jobs which were administrative or clerical in nature fell from about 3.2 million down to about 3 million. This translates into administrative/clerical roles going from 14.6% of all private sector employment to 11.1%.

In the public sector, total employment between 2000 and 2018 fell from 5.49 million to 5.34 million. As part of this, the number of administrative/clerical roles fell by about 66,000 – but as a percentage of public sector employment, they went down from 12.4% to just 11.7%. In other words, while the private sector cut its fairly similar share of administrative staff by 3.5 percentage points, the public sector only reduced them by 0.7 percentage points.[14]

In the public sector, total employment between 2000 and 2018 fell from 5.49 million to 5.34 million.

The average salary for an administrative/clerical role in the Civil Service is approximately £21,800.[15] If the Government had matched the reduction of administrative/clerical roles that the private sector has achieved since 2000, then such roles would have fallen by around 160,337. Multiplying 160,337 by £21,800 generates savings of about £3.5 billion.

While the data in this area is complex, the underlying story across the sectors remains the same – there is a big gap between the private and public sector ability to streamline in recent years.

There is no reason for the current gap between public and private sectors. Admittedly, with

14. ONS, *Public and private sector employment.* Available from: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/publicandprivatesectoremploymentemp02; ONS, *Employment by occupation.* Available from: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentbyoccupationemp04; DfE, *Statistics: school workforce.* Available from: https://www.gov.uk/government/collections/statistics-school-workforce; DfE, *Pupils, Teachers, Education Support Staff,Pupil:Teacher and Pupil:Adult Ratios in Maintained Schools in England: January 2002 (Provisional).* Available from: https://webarchive.nationalarchives.gov.uk/20130323081249/http://www.education.gov.uk/researchandstatistics/statistics/statistics-by-topic/teachersandschoolworkforce/a00193786/pupils-teachers-education-support-staff-pupil-teac; NHS Digital, *NHS Workforce Statistics - June 2018 - including supplementary analysis on pay by ethnicity.* Available from: https://digital.nhs.uk/data-and-information/publications/statistical/nhs-workforce-statistics/june-2018; NHS Digital, *NHS staff 2001-2011.* Available from: https://digital.nhs.uk/data-and-information/publications/statistical/nhs-workforce-statistics-non-medical-staff/nhs-staff-2001-2011-non-medical; NHS Digital, *General Practice Workforce 30 September 2019.* Available from: https://digital.nhs.uk/data-and-information/publications/statistical/general-and-personal-medical-services/final-30-september-2019; NHS Digital, *General and Personal Medical Services, England - 2001-2011.* Available from: https://digital.nhs.uk/data-and-information/publications/statistical/general-and-personal-medical-services/2001-2011.
15. Cabinet Office, *Civil Service Statistics.* Available from: https://www.gov.uk/government/statistics/civil-service-statistics-2019.

unemployment numbers spiking as a result of the pandemic, the Government is unlikely to want to make redundancies immediately. But in the longer term, it should certainly seek to reduce the number of administrative staff in the public sector in line with the rate in the private sector. This could be achieved relatively painlessly by redeploying staff to more productive roles, or through a natural process of staff turnover.

If the Government had matched the reduction of administrative/clerical roles that the private sector has achieved since 2000, then such roles would have fallen by around 160,337. Multiplying 160,337 by £21,800 generates savings of about £3.5 billion.

This process would not be cost-free: there would, for example, be a need to invest in appropriate technology in order to realise the envisaged productivity benefits. But it should be possible to close a significant proportion of that £3.5 billion a year gap, or even to generate greater savings if the Government continued to benchmark itself against further private sector reductions in administration, and reduce budgets accordingly.

SAVINGS TARGET: £3.5 billion per annum

3. SELL AND REPLACE HIGH-VALUE COUNCIL PROPERTIES AS THEY BECOME VACANT

Proposal: Require high-value council properties in each area to be sold as they become vacant, using part of the receipts to pay for a local replacement.

In 2015, the Conservative manifesto proposed that councils should sell off the most expensive housing as it became vacant, using the proceeds to build new housing in the area. This was legislated for in the Housing and Planning Act 2016. But it has not happened.

The basic idea is simple. Councils (especially in London and the South East) now own properties that are worth many times more than the local or national average. Selling them as they become vacant, and replacing them with cheaper but equivalent housing in the same council area, would maintain social housing stock while freeing up money – and ensure that no one lost their home.

This plan was abandoned in the face of opposition from councils by the Theresa May administration. But polling by YouGov found that it is strongly supported by the public: a whopping 73% all voters agree that people should not be offered council houses that are worth more than the local authority average, with just 15% in disagreement.[16] This support was found across all classes, most housing tenure types and all regions. A further 60% of voters agreed that people should not be offered council housing in expensive areas, with just 28% disagreeing.

To make this policy as uncontroversial as possible, it could be applied within rather than across local council areas – in other words, selling a property then building another one within the same local authority area. The remaining funding could either go to central government, or be counted against the grant to the local area.

In 2015, the Conservative manifesto proposed that councils should sell off the most expensive housing as it became vacant, using the proceeds to build new housing in the area.

Estimates vary on how much such sales would bring in – but an MHCLG Select Committee report put the figure at £1 billion to £4 billion a year, depending on the thresholds set for what constitutes a high-value property.[17] If we take the midpoint of £2.5 billion a year, this is a fairly substantial amount.

Some of this would, obviously, go to pay for a replacement property for each one sold. If we assume it costs around 40% to build a replacement within a certain distance. This would mean you could recycle the remaining 60%, giving a saving of around £1.5 billion or so a year.

REVENUE TARGET: £1.5 billion per annum

16. Alex Morton, *Ending Expensive Social Tenancies: Fairness, higher growth and more homes.* Available from: https://policyexchange.org.uk/wp-content/uploads/2016/09/ending-expensive-social-tenancies.pdf.
17. Communities and Local Government Select Committee, *Council home sales*. Available from: https://publications.parliament.uk/pa/cm201516/cmselect/cmcomloc/370/37008.htm.

4. CUT QUANGOS, INCREASE THEIR ACCOUNTABILITY AND COMBINE THEIR BACK-OFFICE FUNCTIONS

Proposal: Quangos are increasingly inefficient and unaccountable. All quangos should be reviewed, and those that are not abolished should be made more accountable and more effective by putting them into a government department so that ministers can oversee them. Functions such as human resources and media relations should be integrated into a streamlined body for each department that would cover all quangos that fell within its remit.

The Government is addicted to quangos. Recent figures show that it spends £33 billion a year on them, not including core NHS bodies and the Education and Skills Funding Agency (ESFA).[18] In total, there are 184 quangos which receive more than £1 million a year (again excluding the NHS and ESFA). Around 90 receive more than £10 million each year; around 60 receive more than £50 million a year; and around 40 more than £100 million a year.[19]

Many of these quangos are carrying out valuable tasks, but in almost all cases, there are severe question marks both about democratic accountability and cost-effectiveness.

Often, the Government can find policy being undermined by unaccountable sources of power, while civil servants see those who work in a supposedly supportive quango being paid more than them and able to effectively pursue their own policy agenda. For example, it sometimes seemed as if Public Health England ran parts of health policy, not the Department of Health and Social Care.

Certain departments are particularly prone to quango creation. The MoJ theoretically oversees 67 quangos. DCMS has 36, BEIS 32, DEFRA 30, and DHSC 24.[20] The proliferation of quangos has created a shadow state where there is limited accountability and democratic oversight of powerful bodies.

Certain departments are particularly prone to quango creation. The MoJ theoretically oversees 67 quangos. DCMS has 36, BEIS 32, DEFRA 30, and DHSC 24.

The Government should ask every department to undertake a review of all the quangos in its area. Where the functions can be brought completely in house, or there are overlapping responsibilities, then quangos can be abolished.

Remaining quangos should be brought under the control of a Cabinet Minister to restore democratic accountability, with the minister signing off the most senior appointments (this will be discussed further in a forthcoming CPS paper). Once this is done, each department

18. Cabinet Office, *Public Bodies*. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/786954/2017-18_ALB_Financial_Datasets_.xlsx.
19. Ibid.
20. Ibid.

should have a single body that manages all overlapping functions – such as press, human resources, payroll and so on – for every quango it oversees. It is surely unnecessary for them all to duplicate such functions. There are some small instances of functions being shared already, but these are the exceptions not the rule.

As noted below, Wiltshire councils cut administrative costs from 19% to just 9% of their budgets via a similar rationalisation exercise – although we would prefer this benchmark to be treated as a bare minimum rather than a target.

Bringing quangos more closely into the orbit of ministers would also allow for a better assessment of where there are overlapping roles and duplication over time. The Coalition's 'bonfire of the quangos' fell far short of its original ambitions – partly because it is very hard to assess the work of quangos when they are separated entirely from the department which is in charge of their area. So over time some quangos which are retained initially can be slimmed down or even abolished as this becomes clearer.

We think that over the long term, savings of around £3 billion a year should be achievable from this abolition, streamlining and greater oversight, representing around 10% of total quango spending (excluding the core NHS and ESFA mentioned above). As noted below, Wiltshire councils cut administrative costs from 19% to just 9% of their budgets via a similar rationalisation exercise – although we would prefer this benchmark to be treated as a bare minimum rather than a target.

SAVINGS TARGET: £3 billion per annum

5. STREAMLINE LOCAL GOVERNMENT AND ITS ADMINISTRATIVE COSTS

Proposal: The Government should press local government to streamline its functions, making greater use of cross-council teams in order to save money. This is particularly true around administration, property management, and other less sensitive areas – as well as for things like communications, where councils are politically aligned. Such an approach should deliver many of the savings structural reform would bring but with less disruption. Government should publish league tables on administrative costs to help facilitate this effort.

There are 353 local authorities in England, of which 27 are county councils, 201 are district councils, and 125 are single-tier authorities. Of the latter, 32 are London boroughs and 36 are metropolitan boroughs. A further tier of parish and town councils exists in some areas, and these number some 10,000 across England.[21]

The UK has a rather odd system of local government, in which we have tried to create broadly equal districts in many areas. The USA, by contrast, has a system in which counties vary widely in size, and are much more in line with actual economic and social centres. For example, Cook County covers much of Chicago (you could also point to the Dallas or Miami-Dade Counties), while many rural counties have a population in the hundreds or low thousands. Similarly, France has a system of communes which range from two million in the heart of Paris, to some with just a few dozen people.

A 2016 EY study commissioned by the County Councils Network looked at the potential savings from moving to a single unitary system in each of the 27 two-tier county council areas in England.

A 2016 EY study commissioned by the County Councils Network looked at the potential savings from moving to a single unitary system in each of the 27 two-tier county council areas in England. They found that such a move could have a potential cumulative net saving of £2.9 billion over five years, with ongoing annual administrative savings of up to £781 million.[22] Wiltshire council claims that since going unitary its administrative costs have gone from 19% of the budget to just 9%.[23]

Against this, the political disruption of merging councils would have a serious effect. In many areas a single unitary authority might not work. Local authorities are already having to help deal with multiple issues around Covid-19 and will have to do so well into the next year. There is also a strong interplay with the planning reforms which are likely to be introduced next year. Trying to push through local plans in each council while at the same time ripping up the map of councils and reconstituting it creates obvious difficulties.

21. Mark Sandford, *Local government in England: structures.* Available from: https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN07104.
22. EY, *Independent Analysis of Governance Scenarios and Public Service Reform in County Areas.* Available from: https://www.countycouncilsnetwork.org.uk/download/165/.
23. Michael Heseltine, *No stone unturned: in pursuit of growth.* Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf.

However, similar savings have been made through greater use of shared services, particularly where councils have good relationships. The tri-borough experiment between Hammersmith and Fulham, Westminster and Kensington and Chelsea delivered savings of around £8 million a year from 2011/12 to 2015/6.[24] This was due to merging management, greater procurement savings, and sharing best practice. If all 350-odd councils undertook this approach and generated savings in line with the tri-borough it would mean savings of 100 times this, or in excess of £800 million.

The tri-borough experiment between Hammersmith and Fulham, Westminster and Kensington and Chelsea delivered savings of around £8 million a year from 2011/12 to 2015/6.

Such integration can be difficult when political tension arises – Hammersmith and Fulham left the tri-borough arrangement in 2017 after the council changed political hands and the other councils felt they were no longer cooperating. However, Westminster and Kensington and Chelsea have continued to work successfully together, and there was nothing stopping Hammersmith and Fulham working with other councils.

Too often the egos of local politicians can get in the way of working between council functions. We therefore propose that the Government should encourage greater sharing of functions, and could even facilitate the 'pooling' of services or procurement across multiple councils in order to generate savings. It should also consider greater monitoring of the non-frontline costs of councils and publishing this data centrally to help push councils towards greater use of shared services and procurement. Doing this can help deliver the savings from full unitarisation without the costs.

Based on the EY figures and the savings achieved by the tri-borough model, this approach could generate at least £1 billion a year in savings toward the end of the next spending review period.

SAVINGS TARGET: £1 billion per annum

24. London Borough of Hammersmith and Fulham, *Tri- Borough Review Critical Friends Board Report to the London Borough of Hammersmith & Fulham.* Available from: https://www.lbhf.gov.uk/sites/default/files/lbhf-critical-friends-board-triborough-review-27oct2014.pdf.

6. IMPROVE E-PROCUREMENT AND DATA-SHARING

Proposal: Increase e-procurement as a proportion of government spending by an order of magnitude, and generally overhaul procurement practices across Government. Redouble efforts to promote digital government and data-sharing across and within departments.

One of the most fruitful areas for savings in government is improving procurement. Surveying the litany of disastrously over-budget projects – Crossrail, HS2, much of the MoD programme – it is clear that there is plenty of room for improvement. In his recent book *Bad Buying*, Peter Smith estimates that a 5% increase in the efficiency of government buying could pay for a doubling of the £40 billion defence budget.[25]

As Smith sets out, much of the necessary improvement could be accomplished by the elimination of very basic errors – in effect, the application of common sense and best practice across the public sector.

One particular area where significant savings could be made is by increasing e-procurement. Based on legacy e-procurement contracts, between 20% and 50% of administration costs could have been saved by rolling it out e-procurement initiatives across government over the last five years.[26] Even then, e-procurement only represents £9.23 billion of central government procurement spend.[27]

If we reached the same levels of e-procurement as countries such as South Korea and Estonia (over 50%), then this alone could generate savings of over £10 billion.[28] A more modest projection from 2015 suggested that reaching 20% e-procurement could offer savings of £1.8 billion to £4.5 billion depending on the level of pro-rata savings over five years.[29] This is without considering improvements in access, competition and cloud computing in recent years, which would further reduce costs.

If we reached the same levels of e-procurement as countries such as South Korea and Estonia (over 50%), then this alone could generate savings of over £10 billion.

Sadly, since the plans for the Crown Marketplace were dropped last year, the drive towards improving procurement has stalled. The Digital Marketplace and G-Cloud have shown it is possible to design a fully digital procurement process that helps suppliers of all sizes compete (90% of Digital Marketplace suppliers are now small and medium-sized enterprises) and provide more specialised and localised services.[30] Rolling out an integrated e-procurement platform across government could also facilitate a move away from long application documents towards a ratings-based approach in which small suppliers had easier stepping stones to prove themselves.

25. Peter Smith, *Bad Buying*. (Penguin Business, 2020)
26. Reform, *Cloud 9: The future of public procurement*. Available from: https://reform.uk/sites/default/files/2018-10/Reform__Cloud%209__the%20future%20of%20public%20procurement.pdf.
27. Crown Commercial Service, *Digital Marketplace Sales*. Available from: https://app.powerbi.com/view?r=eyJrIjoiNTEyMTZhZDAtZGNiNi00OWQxLWI5ODYtMjg1ZWNlMmNkODVhIiwidCI6IjlmOGMwZDc5LTNlODctNGNkMy05Nzk5LWMzNDQzMTQ2ZWE1ZSIsImMiOjh9.
28. Reform, *Cloud 9: The future of public procurement*. Available from: https://reform.uk/sites/default/files/2018-10/Reform__Cloud%209__the%20future%20of%20public%20procurement.pdf.
29. Ibid.
30. Government Digital Service, *Digital Marketplace turns 4*. Available from: https://gds.blog.gov.uk/2018/11/06/digital-marketplace-turns-4-what-weve-achieved/.

In terms of data-sharing, the potential benefits are harder to quantify – but are undoubtedly substantial. It is estimated that the creation of the Government Digital Service helped save departments £450 million in 2016-17 alone.[31] Going digital has already led to reductions in costs in terms of staff numbers, insourcing and re-procurement, printing and publishing and duplication more generally.[32] Online transactions cost 20 times less than telephone transactions, 30 times less than postal transactions and 50 times less than face-to-face transactions.[33]

In terms of data-sharing, it is a sad truth that government is often better at sharing data with private firms than between departments: as the Test and Trace fiasco has shown, we need to end the era of government by spreadsheet (or worse) once and for all. This will improve government efficiency and cut costs: a 2019 McKinsey report found that internationally, a larger proportion of fast-growing companies use data-driven practices compared to slower-growing companies.[34] There will also be a wider boost to the economy. For example, Transport for London's opening up of its data sets to travellers and third-party providers contributed up to £130 million per year to the London economy through time saved by travellers.[35]

Online transactions cost 20 times less than telephone transactions, 30 times less than postal transactions and 50 times less than face-to-face transactions.

Such savings are difficult to quantify, not least due to the overlap with the administrative savings identified above. But we feel that a £4.5 billion target for savings due to automation, data-sharing and improved procurement (and in particular e-procurement) is not unrealistic.

SAVINGS TARGET: £4.5 billion per annum

31. Oliver Dowden, *A government that works for everyone.* Available from: https://www.gov.uk/government/speeches/a-government-that-works-for-everyone.
32. Institute for Government, *Making a success of digital government.* Available from: https://www.instituteforgovernment.org.uk/sites/default/files/publications/IFGJ4942_Digital_Government_Report_10_16%20WEB%20%28a%29.pdf.
33. Cabinet Office and Government Digital Service, *Digital Efficiency Report.* Available from: https://www.gov.uk/government/publications/digital-efficiency-report/digital-efficiency-report.
34. McKinsey, *Catch them if you can: How leaders in data and analytics have pulled ahead.* Available from: https://www.mckinsey.com/business-functions/mckinsey-analytics/our-insights/catch-them-if-you-can-how-leaders-in-data-and-analytics-have-pulled-ahead.
35. Deloitte, *Assessing the value of TfL's open data and digital partnerships.* Available from: http://content.tfl.gov.uk/deloitte-report-tfl-open-data.pdf.

7. REPLACE THE PENSIONS TRIPLE LOCK WITH A DUAL LOCK AND TAX THE WINTER FUEL PAYMENT

Proposal: Replace the triple lock on pensions with a dual lock, removing the automatic 2.5% uplift while continuing to protect pensioners' incomes, and tax the Winter Fuel Payment.

The triple lock on pensions has seen its costs balloon since its introduction in 2010. State pension spending is on course to have grown by almost a third over the decade from 2010-11 to 2020-21, surpassing £100 billion.[36] This is many orders of magnitude higher than the original estimated cost when the proposal was agreed during the Coalition negotiations.

We must continue to preserve pensioners' living standards, of course. But the triple lock has become an engine of unfairness, ensuring that pensioners' incomes are always protected at the expense of other generations'.

By the end of the first five years of the triple lock, the basic state pension had already increased by £10 per week more than it would have under earnings-based uprating alone. If pensions had been uprated by earnings growth instead, £12.2 billion would have been saved. Likewise, £8.8 billion would have been saved had the CPI inflation rate alone been applied. If the highest of earnings growth or CPI was used – the dual lock – £4.5 billion could have been saved.[37]

The volatility in earnings resulting from the pandemic is also set to interact with the triple lock in a deeply unfair fashion. The Resolution Foundation estimates that the state pension could be set to rise by 7.6% over the next two years, versus earnings growth of 1.5% and inflation of 2.5%.[38]

The fundamental problem is that the triple lock is immune to fluctuations in economic conditions in a way that actual earnings are not. The table below shows the benchmarks for uprating used from 2010-11 to 2019-20. Highlighted are the years

Table 1. Years when the triple lock increased the rate of pension increase.[39]

Per cent increase	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Earnings growth	1.8[40]	2[41]	2.8	1.6	1.2	0.6	2.9	2.4	2.2	2.6
CPI inflation	1.1	4.6[42]	5.2	2.2	2.7	1.2	-0.1	1	3	2.4
Dual lock	1.8	4.6	5.2	2.2	2.7	1.2	2.9	2.4	3	2.6
Triple lock	2.5	4.6	5.2	2.5	2.7	2.5	2.9	2.5	3	2.6

36. OBR, *Welfare Spending: State Pension.* Available from: http://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-state-pension/.
37. Government Actuary's Department, *"Triple lock" increases to state pension.* Available from: http://paullewismoney.blogspot.com/2015/10/gad-on-triple-lock.html; DWP, *Benefit and pension rates 2019/2020.* Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/792946/Benefit_and_pension_rates_2019.pdf.
38. Karl Handscomb, *Safe harbour? Six key welfare policy decisions to navigate this winter.* Available from: https://www.resolutionfoundation.org/publications/safe-harbour.
39. DWP, *Benefit and pension rates 2019/2020.* Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/792946/Benefit_and_pension_rates_2019.pdf.
40. Earnings growth measured by Average Earnings Index up to 2011-12, and Average Weekly Earnings thereafter.
41. Ibid.
42. RPI inflation was used in 2011-12.

in which the 2.5% rate has come into effect as it was higher than CPI and earnings growth.

We therefore propose that we should increase the state pension in line with either CPI or earnings, a dual lock, scrapping the third and least sensible part which promises an increase of 2.5% regardless of inflation and earnings.

State pension spending is on course to have grown by almost a third over the decade from 2010-11 to 2020-21, surpassing £100 billion.

If we take the yearly average of savings that would have been made from 2010-11 to 2019-20 had a dual lock been in place rather than the triple lock, and then multiply by four, we get a cumulative annual saving of just over £2 billion by the end of the period – although this is not a saving that is made each and every year. We therefore suggest that by the end of the next Spending Review period, a sensible estimate for annual savings from the dual lock would be around £1.5-2 billion.

There is scope for further savings from old-age benefits. In particular, taxing the Winter Fuel Payment – which is currently paid automatically to anyone who receives the State Pension or certain other benefits – would save around £400 million a year. It is obviously important to protect the vulnerable, but there is little justification for a universal, untaxed cash payment on the current model.

Combining these measures gives a minimum realistic goal of around £2 billion per year in savings.

SAVINGS TARGET: £2 billion per annum

8. ROLL CHILD BENEFIT INTO THE CHILD TAX CREDIT SYSTEM

Proposal: Simplify the administration of child benefit and remove it from better-off families.

Since 2013, child benefit has been means tested via the tax system. This operates through a 'high income child benefit charge', which removes child benefit gradually for anyone earning over £50,000, with entitlement ending completely above £60,000.

Due to the way this operates, very high marginal tax rates can apply between £50,000 and £60,000, rising depending on the number of children. A parent receiving child benefit for two children would see a marginal tax rate of 60%, and for someone with four children it is 74%.

The system also disadvantages stay-at-home parents: a couple earning £50,000 each can receive full child benefit, but a couple where one does not work and the other earns £60,000 receive no child benefit.

We already have a means-tested benefit for children - child tax credit (and the child element of Universal Credit). It makes no sense to have two systems, one means-tested through the welfare system and one via the tax system. Child benefit could therefore be rolled into the child tax credit system, simplifying the system and removing the distortions created by the high income child benefit charge.

This would probably involve removing child benefit from some better-off families. The savings would depend on how the means test was structured, but at a minimum we could assume that households with total income above £50,000 would no longer receive child benefit, for example.

A parent receiving child benefit for two children could see a marginal tax rate of 60%, or 74% for someone with four children.

The introduction of the high income child benefit charge affects 18% of families with children and saves around £1.8 billion. If a further 10% were affected by rolling child benefit into child tax credit (these would be the best-off families still receiving the benefit) we could expect savings of around £1 billion. However, there would also be administrative savings from not administering child benefit or the high income child benefit charge, plus potential increased tax revenue from better work incentives due to abolishing the high income child benefit charge.

SAVINGS TARGET: £1 billion per annum

9. CUT OR REDEFINE OVERSEAS AID IN LINE WITH REDUCED GLOBAL NEED

Proposal: Either cut the overseas aid budget to 0.5% of GDP, or update the definition of spending to incorporate help for refugees and asylum-seekers in the UK, as well as work done by the Armed Forces and Foreign Office in support of international development.

The overseas aid budget target of 0.7% of GDP was committed to in 2005. Things have changed dramatically since then.

In 2005, the world's two most populous nations, China and India, could still plausibly be seen as needing overseas assistance.[43] In 2020, China is verging on superpower status and close to being termed a 'high income country' by the World Bank. It is now providing support via the Belt and Road initiative to other developing countries. While poverty endures in India, it is comfortably a middle-income country. More broadly, from 2005 to 2018 the group of Least Developed Countries have seen average incomes rise steadily, from $1,840 to $2,917 on a PPP basis.[44]

This shift has come over a period when the UK aid budget has roughly doubled: in 2005 it was around £8 billion in today's prices, and now stands at £15 billion.[45] Each year the budget grows and grows, even though the world has been emerging from poverty at a rapid rate. And during that time, repeated concerns have been raised about how efficiently the money is spent: each new Development Secretary appears to argue that under their predecessor, there was too much waste (a cycle ended only by DfID's absorption into the Foreign Office).

The overseas aid budget target of 0.7% of GDP was committed to in 2005.

There is substantial scope to continue the vital life-saving and economy-building work that Britain is currently doing, while adjusting aid spending to meet the needs of today. One simple option would be to cut the threshold from 0.7% of GDP to 0.5% – a course of action which would still leave us as one of the ten most generous countries in the world in relative terms, and the fourth most generous in cash terms.[46]

An alternative, along the lines of a proposal by Penny Mordaunt while Development Secretary, would be to ensure that the 0.7% target reflects the full scope of our development work – for example, our support for refugees and asylum-seekers on British shores in terms of housing, education and so forth, or the work done by the Armed Forces or wider Foreign Office to support, stabilise and promote development within those nations and regions that are most in need.

SAVINGS TARGET: £3.5 billion per annum

43. DfID, *Development on the Record: DfID Annual Report 2007.* Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/231305/0514.pd.
44. World Bank, GDP per capita (constant 2010 US$). Available from: https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.
45. Sonya Krutikova and Ross Warwick, *The changing landscape of UK aid.* Available from: https://www.ifs.org.uk/uploads/publications/bns/BN204.pdf.
46. OECD, *Net ODA.* Available from: https://data.oecd.org/oda/net-oda.htm.

CONCLUSION

Anyone who has run a business will know that rigorous cost control is essential to good management. In the wake of the coronavirus crisis, that imperative has never been stronger for the Government.

The pressures on public spending, both in the immediate and longer term, are and will remain acute. Yet increasing taxes not only risks choking off recovery, but punishes businesses and consumers – and will, in time, lead to lower growth.

The Government has promised that there will be no return to austerity. But as the Coalition found in 2010, there is a need in times of crisis to think more strategically about what Government is doing, and identify particular areas in which it is not spending effectively – or where that spending is actually having damaging side-effects.

The cuts identified in this report will not be painless. But they are structured so as to save substantial amounts of taxpayers' money while minimising any impact on public services – indeed, they should free up more cash to pay for them, and for the Government's other priorities.

We urge ministers, particularly those in the Treasury, to consider them extremely seriously.

Our thanks to Ben Bradley MP, Harriett Baldwin MP, Andrew Griffith MP, Richard Holden MP, Bob Seely MP, and many more for their support and encouragement in developing the proposals contained in this paper.

ISBN: 978-1-910627-94-5