

FELLOWS' ASSOCIATES

Conservative Party policy part 1 – economy and public services

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preface

Public services have traditionally been viewed as a battleground between Labour and Conservatives. While Labour invests, the Conservatives cut, is the old political adage.

The political landscape is changing. It's the economy stupid. Or is it? Whether voters are truly focused on economic issues is a debatable issue. However, it is clear that the economic and fiscal crisis has changed the nature of the public services debate between the parties. Now, there is all-party agreement that "efficiencies" must be made. The debate is focused on how and when cuts will be made and how the deficit will be tackled.

Other things have been changing too. The Conservative Party.

The Conservatives now:

- have a firm grip on local government – and control 225 of just under 400 local authorities in England
- no longer deny that society exists - in the new Conservative world society has a strong role to play that differs from that of the state
- criticise big, bad, central government but laud frontline public servants who they say are hampered by the technocratic nature of the current government.

This briefing focuses on Conservative Policy. It has a particular emphasis on the economy and public services. It will be followed by further guides on policy, practice and public services in the run up to the next election.

introduction

According to the New Statesman, Barack Obama described David Cameron as "lightweight."
NS, December 4 2008

"We must never forget that Europe accounts for 60 per cent of our trade ... more than 3 million British jobs depend on Europe ... "It is by putting Britain not on the fringes of Europe – but at its heart – that Britain can protect its interests within Europe and shape the future of Europe from a position of strength that delivers growth and jobs for the British people ... to walk away from this would be to deal a devastating blow to the future prospects of British business – and it's my belief that we must never allow this to happen."

Gordon Brown, November 23 2009

The Conservatives have been accused by their critics of being policy light. It is argued that even the world's most important statesman thinks this of David Cameron.

In the lengthy run up to the next election, likely to take place on May 6 2009 or later in early June, David Cameron has pledged that the Conservatives will publish more detail on policy to counter these criticisms and the draft manifesto process is now underway.

Early skirmishes with Labour, following the publication of the draft health manifesto, have found the Conservatives, at times, struggling to reconcile pre-existing policy with the new economic climate.

The publication of the draft manifesto –issue by issue –gives the Conservative Party the opportunity to ditch or amend policies as they come to terms with the impact of the economic crisis on their pre-existing policy.

Tory leader David Cameron called Labour claims of a £34bn funding gap in his party's policy commitments "junk" as he trailed his party's health plans. But he was forced on to the defensive over the tax breaks for married couples after telling the BBC he hoped to bring them in but could not promise them.

BBC, January 5 2009

David Cameron has said that the Conservatives "want to give people confidence that we can make change happen; we want to give people confidence that things can improve."¹

¹ David Cameron, October 27 2009

To do this he says that his Ministers need to have a clear idea of what they want to achieve and how they will go about it. His shadow ministers should prioritise what really matters. They should learn from the mistakes that the Labour Government made in its first term which, Cameron says, it wasted. He wants his ministers to focus on the three to five “big changes” they want to make which will be discussed with civil servants in the run up to the election.

policy test?

The test for the Conservatives is to differentiate the UK’s experience of the financial crisis with those of other countries. They have to pin the blame on Labour’s policies which favour Big Government. One difficulty for the Conservatives is that this focuses attention on international issues. This allows Labour to question the status of the Conservative Party abroad and refocus the debate on to Europe, arguably the Achilles’ heel of the Party.

Can David Cameron hold the Party together over Europe or will divisions appear, leaving members of the public with the memory of the rump years of the Conservative government?

“On Europe, he has been less successful. He recognises that the party's softening in the polls is in part due to his compromise on the Lisbon Treaty. He knows that many Conservatives are disappointed. We can expect efforts to soothe them in the New Year, though whether that will be enough to win back the defectors to UKIP who make the difference in the marginals is unclear.” Benedict Brogan, *The Daily Telegraph*, December 23 2009

It also begs questions as to how far – now that Labour has accepted that there will be public service cuts - the Conservatives have differentiated solutions to public services from the Labour Party.

The Labour Party will try to ensure that the Conservative Party is seen by voters as a potential slasher of public services. While David Cameron will

It might well be argued, therefore, that the Tories discredited themselves as potential economic managers by choosing the wrong side of the debate over fiscal stimulus, aligning themselves with right-wing Republicans, German neo-Marxists and anti-Keynesian academic ideologues, all of whom insisted that you cannot cure debt with more debt and that government stimulus plans would prove counter-productive.

Anatole Kaletsky, *The Times*, January 7 2010

attempt to position the Conservative Party as the defender of the NHS, the supporter of the “deserving” poor, and the improver of public services.

1 - economy

introduction

Ten years ago it would have been impossible to consider that the Conservatives would actually enter into an election with a policy of intervention in the economy and no net tax cuts. This is due, in part, to the effect of the economic downturn on traditional party policies.

The Conservative Party argues that Gordon Brown has left Britain's economy ill-prepared for a downturn. It says that he borrowed in a boom and left the country with one of the biggest budget deficits in the advanced world.

According to the Conservatives, Gordon Brown stripped the Bank of England of its powers to supervise the City, actively encouraged the risk-taking culture in our banks, and claimed to have abolished boom and bust.

The Conservatives say that the origins of the financial crisis lie in a complex interaction of underlying macroeconomic imbalances, poor understanding of the risks created by financial innovations, and weak regulation of financial institutions. These led to a rapid and unsustainable increase in leverage and debt. British households and banks became the most indebted of any major economy in history, leaving the British economy particularly exposed to the crisis.

The Conservative say that consumers have suffered as a result. They say that we cannot continue with a system where banks make huge profits in the good times but benefit from an implicit taxpayer guarantee when things go wrong.

cutting the deficit

The Conservatives are pledged to go further and sooner than the Government in cutting the UK's £178bn budget deficit, if they win power.

The Bill had its second reading in the House of Commons on January 5 2010

In its Fiscal Responsibility Bill the Government has pledged to cut Britain's deficit by half over four years.

The Conservatives say that tackling the deficit will have to be dealt with mainly by public service cuts. David Cameron says that it is wrong to believe public spending would pull Britain out of recession as the government argues.

The Conservatives therefore plan to begin cutting public spending earlier than the Government would. In his speech to the CBI, David Cameron said that the Conservatives will introduce an Emergency Budget within fifty days of taking office. ²

"Contained within it will not only be a plan to bring down the deficit.....but the most comprehensive plan to unleash investment and enterprise in our country.

"We will cut the red tape that makes your life a misery and simplify Labour's nightmare tax system. Any Minister who wants to bring in a new piece of regulation will first have to find an existing one to get rid of.

"We'll cut the small companies rate to 20p and the main rate of corporation tax to 25p - paid for by scrapping complex reliefs and allowances - and we want to go further.

"And we will abolish all tax on the first ten jobs new businesses create during the first two years of a Conservative government.

"So a Conservative government will be one that knows when to get out of your way."

² David Cameron, November 23 2009

In the face of political criticism, and the publication of the Labour analysis of Conservative policy, David Cameron has accepted that their plans so far do not go far enough. However, the CBI has endorsed the Conservative deficit policy, while the IMF has not.

In a speech to the LSE, George Osborne was reported as saying: “The message could not be clearer — if you find yourself on the wrong road, you take the first available exit instead of carrying on.”³ He argued that there was a danger that the world would lose confidence in Britain’s economic policy. That would push mortgage rates up and more businesses would go bust.⁴

restoring stability

The Conservatives argue that it is vital that we restore stability to the British economy and responsibility to our public finances. They say that, because of Gordon Brown's “economic mismanagement”, a Conservative government would be unable to offer big upfront net tax cuts like some other countries.

The Conservatives say that we need economic responsibility to repair the broken economy in the long run. For them, this means:

- a responsible fiscal policy, bolstered by independent oversight
- a responsible financial policy, bolstered by a renewed role for the Bank of England
- a responsible attitude to economic development that fosters more balanced economic growth

³ George Osborne, January 14 2010

⁴ *ibid.*

According to the Conservatives, the fiscal rules have failed to prevent short-term political considerations from dominating long-term sustainability. In the wake of the economic crisis, George Osborne said that “laissez faire is dead.” However, he added “let us not replace it with suffocating state control.”³

The Conservatives now believe that a set of rules is no longer enough to ensure effective regulation of the economy. Rules must be accompanied by powerful institutions. In a speech to the RSA, George Osborne stated that “where strong regulation is needed – as in financial markets – rules must be supplemented by powerful institutions who are empowered to use their discretion when necessary.”⁵

A primary goal of Conservative economic policy has been to restore stability by developing what they say is a new approach to financial regulation.

In the autumn of 2008, the Conservatives commissioned Sir James Sassoon, formerly a Managing Director at the Treasury, to conduct a review of the tripartite system of financial regulation. Their white paper built on the findings of Sassoon’s report to present a proposal for banking reform and an alternative regulatory system.⁶

To restore and maintain stability within the financial system, the Conservatives argue that credible and effective regulation is essential. The Conservatives outline four other foci of their economic policy. These are: help for struggling

³ George Osborne, 8 April 2009

⁵ *ibid*

⁶ *From Crisis to Confidence: Our Plan for sound banking*, The Conservative Party, July 2009

families, long term reform of budget policy, tax reform, and a more balanced economy.⁷

a strong and powerful Bank of England

The Conservatives are pledged to abolish the “failed” tripartite system. They would give the Bank of England responsibility for maintaining financial stability and the prudential regulation of all of banks, building societies, and other significant financial institutions including insurance companies. They say this will bring together the operation of monetary policy with regulation of the banking system to ensure that the economy is not built on debt.

The Conservatives would also give the Bank of England the power to regulate the pay structures, riskiness, complexity and size of financial institutions, and require those with structures that put financial stability at risk to hold large amounts of capital as an insurance policy to protect the taxpayer.

consumer protection

The Conservatives would abolish the Financial Services Authority (FSA). They would create a new Consumer Protection Agency (CPA). This would take the responsibilities to protect the consumer that the Conservatives say are currently and confusingly divided between the FSA and Office of Fair Trading, and place them in a single body.

The CPA would inherit the FSA's responsibilities for consumer protection. It would also take on the responsibility for consumer credit regulation that currently lies with the Office of Fair Trading (OFT). The Conservatives say that this would create a unified regulatory regime for financial services firms and consumers.

⁷ *Reconstruction: Our plan for a strong economy*. The Conservative Party, March 2009

The Conservatives are committed to ensuring that the CPA names and shames firms which break the rules and will force banks to be more transparent about their retail consumer charges.

financial institutions

The Conservatives propose that a number of requirements should be placed on financial institutions to prevent similar economic crises from occurring in the future. These include:

- increasing the quality and quantity of bank capital
- increasing capital requirements for risky trading activities
- introducing limits on banks' leverage
- improving the regulatory focus on liquidity and
- regulating risky remuneration structures

Under Conservative policy, the Bank of England would be responsible for macro-prudential regulation, as well as judging and controlling risks to the financial system as a whole. The latter would be carried out by a new Financial Policy Committee within the Bank.

This Financial Policy Committee would work alongside the Monetary Policy Committee which already monitors systemic risks, operates macro-prudential regulatory tools, and executes the special resolution scheme for failing banks. The committee would include independent members, as well as the Governor and the existing Deputy Governor for Financial Stability.⁸

⁸ *From Crisis to Confidence*, op. cit.


The Conservatives say they are keen to create a new “toolkit” of policy instruments that work at both the micro and macro level to ensure financial stability. One of these tools would be the power that the Bank of England already holds under Pillar II of Basel (and its successors) to ensure that capital and liquidity requirements recognise the additional risk implied by an institution’s size.

A Conservative government would also expect the Bank of England to take action against risky business models by imposing much higher capital requirements on high risk activities such as large scale proprietary trading carried out by banks that also take retail deposits.

bonuses

The Conservatives would empower the Bank of England to use capital requirements to crack down on risky bonus structures. They believe that this would effectively introduce a ‘tax’ on banks for risky bonus structures that incentivise employees to seek short term profits at the expense of longer term stability.

Going one step further, George Osborne infuriated the city last year by calling for the Treasury and the FSA to stop retail banks, including their investment arms, paying out profits in significant cash bonuses:⁹ He said that the cash that would have been paid out should be put onto banks' balance sheets explicitly to support new lending. And he argued that this should be a condition of continuing to receive taxpayer guarantees and liquidity support. This is the approach, he said, that is being pursued by the Obama administration in the US. He argued that government policies to restore credit had been a failure and that this, along with encouraging greater competition in



“Where banks want to pay bonuses this year to senior staff these should take the form of new equity capital - shares in the business”.

⁹ George Osborne, October 26 2009

the sector, including the formation of smaller banks, would help build recovery.

macro-prudential approach

On a macro-prudential level, the Conservatives also wish to develop a similar “toolkit” that can be operated by the Financial Policy Committee to control systemic risk at a sector or economy wide level.

immediate help for struggling families

The Conservatives argue that immediate help is required to help people facing the rising cost of living and the growing threat of unemployment.

They have announced a number of measures to help families through the recession, including a fair fuel stabiliser which would cut fuel duty when oil prices rise and revenues from North Sea oil reserves increase.

The Conservatives would also reform the Post Office Card Account to enable families without bank accounts to benefit from using direct debits to pay for utilities.

Other initiatives to help employees and job seekers include:

- a new procedure to give good companies and their creditors the breathing space to rescue their business, this would be designed to ensure that fewer companies end up in liquidation, and that fewer people lose their jobs
- reforms to the welfare system which would give job seekers access to specialist help and advice provided by experts from the private sector or voluntary organisations

The Conservatives also say that they would boost the housing market by:

- helping first time buyers facing higher mortgage costs by raising the stamp duty threshold for first time buyers to £250,000
- the abolition of Home Information Packs to save costs
- working with lenders to ensure that repossession is a last resort

budget reform

In order to create a new fiscal framework, the Conservatives plan a number of initiatives which would allow future government to “fix the roof when the sun is shining.”¹⁰

These include:

- the introduction of a “tough” new forward-looking mandate for public finances
- the creation of a new Office for Budget Responsibility to assess independently the sustainability of public finances and hold the Government to account
- enforcement of a long term strategy for living “within our means” by focusing on value for money, reforming public services, and reducing the demands on the state

The Office for Budget Responsibility would carry out a full, independent audit of the nation’s debts, including all the liabilities “hidden” off the balance sheet.

¹⁰ *Reconstruction: Our plan for a strong economy* op.cit.

tax reform

The Conservatives argue that the tax system has become increasingly complex and uncompetitive over the last decade and that the country is overtaxed. They say that they would create a simpler, greener and more transparent tax system.¹¹

The Conservative Party proposes to create an Office of Tax Simplification (OTS). The OTS would include HMRC and Treasury officials, academics and members of the tax professions. The Conservatives say that it would deliver a simpler tax code and an end to stealth taxes.

George Osborne also announced in a speech to the Institute of Chartered Accountants of England and Wales that, as Chancellor, he would “entrench a new convention that proposed changes to tax law that are of a technical nature will be produced, together with draft legislation if that is possible, no later than the Pre-Budget report before the Finance Bill in which they are to be included.”¹²

corporate taxes

The Conservatives argue that the current corporation tax rate is becoming increasingly uncompetitive and placing a burden on British businesses. They propose to cut the main corporation tax rate from 28p to 25p and to reverse the increase in small companies' corporation tax rate from 20p to 22p.

¹¹ George Osborne, July 3 2008.

¹² George Osborne, January 26 2009

environmental taxes

The Conservatives assert that there are very strong economic arguments for shifting the burden of taxation away from work and investment and towards pollution.

A Conservative government would, over time, raise the proportion of total tax revenues that come from environmental taxes. The Conservatives say that they would use these as replacement taxes as opposed to additional taxes. They would also introduce a new Carbon Levy that encourages low carbon energy use to replace the Climate Change levy; a Fair Fuel Stabiliser to ensure the British economy is less exposed to instability on international oil markets; and a new per-aircraft Airline Pollution Duty to replace the current Air Passenger Duty.

“The Tory leader admitted today that he had “messed up” when he gave the impression on Monday that he might not be able to deliver his pledge to recognise marriage in the tax system in the lifetime of the next parliament.”
Guardian , January 7 2010

personal taxes

The Conservatives pledge to raise the transferable inheritance tax threshold to £1 million and to recognise marriage in the tax system. However, under pressure from media and opposition, David Cameron has suggested that supporting marriage in the tax system may not be possible in the next parliament.

The Conservatives would also introduce an annual levy on all non-domiciles who want to avoid paying tax on their offshore income, in return for a promise not to change their tax regime for a Parliament.

Following Alistair Darling’s announcement in Budget 2009 that those earning over £150,000 would have to pay a 50 pence tax rate, the Conservatives said that they would not commit to abolishing it, as their priority would be tax cuts

for the poorest families. David Cameron has since, however, stated that the new tax rate will be abolished if it fails to raise any extra revenue.¹³

Although the Conservatives support tax credits, they believe that they are over complex. They pledge to reform their administration to reduce fraud and overpayments, and to simplify the tax affairs of millions of the poorest families in the country.

The Conservatives also plan to transfer the administration of tax credits back from HM Revenues & Customs (HMRC) to the Department for Work and Pensions (DWP) so that HMRC is focused on delivering a simpler and more efficient tax system.

support for business

The Conservatives say that they have a simple goal. It is to make Britain the easiest and best place in the world to set up and grow a business. The Conservative Party claims that it would help businesses struggling in this recession by:

- establishing a temporary National Loans Guarantee Scheme to get credit flowing again and help protect jobs
- allowing struggling firms to defer their VAT bills for up to six months
- cutting small firms' payroll taxes
- helping companies with the costs of hiring new staff by giving tax breaks for new jobs

¹³ The Guardian, October 2 2009

The Conservative Party claims that it would help Britain's competitiveness by measures including:

- cutting the main rate of corporation tax
- cutting the small companies tax rate
- reducing regulation
- simplifying employment law to make it easier to hire people
- improving skills training and apprenticeships
- reforming the Regional Development Agencies
- strengthening UK Trade and Investment
- increasing government procurement from small firms

a more balanced economy

The Conservatives believe that our future prosperity depends on a more balanced economy. They say that the economy has been too narrowly focused on financial services, housing and public spending.

The Conservative Party says that it would introduce a “raft” of supply side policies to produce a broad-based, dynamic economy than can withstand global shocks. These include:

- bottom-up reform of our education, skills and welfare systems to deliver the skills required by the economy

This would include 20,000 new apprenticeship places for 14-16 year olds

Michael Gove October 5 2009

- breaking open the monopoly of state provided education in order to provide more good school places through allowing competing providers, and allowing parents to choose between them
- funding 100,000 new apprenticeships every year
- reform of the benefits system
- a new approach to funding infrastructure - including PFI debt no longer hidden off the government's books

greening the economy

The Conservatives claim that they will deliver a step-change in the incentives for new green technology development, to encourage green energy investment and green collar jobs. This would include:

- a Green Environmental Market, the world's first trading market for green technology companies
- looking at Green ISAs to provide new sources of investment and drive green behaviour
- a new system of 'feed-in tariffs' to stimulate micro-generation and decentralised energy
- an Emissions Performance Standard to prevent unabated coal power plants
- at least three Carbon Capture and Storage demonstration projects over the next five to ten years

More information about the Conservatives' policy on the environment will be contained within a later document.

2 - public spending and services

pay

In his speech to the Conservative Party Conference, George Osborne laid out his vision for public services in the context of the economic crisis¹⁴. While the Conservatives have “a huge respect” for the many committed public servants, George Osborne warned that there was an inevitable and difficult trade off between securing jobs and restraining pay.

George Osborne pledged to cut the pay of Ministers by five per cent next year and then freeze it for the rest of the Parliament. He said that the Conservative Party would cut the number of MPs by ten per cent. It would also close its “unaffordable” pension scheme to new members.

The Conservatives say that if in Government they would “ask” the public sector from 2011 to accept a one year pay freeze, excluding public servants earning less than £18,000. “

“Excessive” salaries at the top of Whitehall would also go. Anybody who wished to pay a public servant more than the Prime Minister would have to put it before the Chancellor. There would be a £50,000 annual cap on tax relief for public sector pensions. The Conservative Party says that in government it would link senior civil servants' pay and promotion to the way they manage taxpayers' money. It would introduce a fiduciary duty in the

¹⁴ George Osborne, October 6 2009

employment agreements of all senior civil servants including Permanent Secretaries and Departmental Board members.

value and performance

The Conservatives say that they would also restore the Treasury to its traditional role as a guardian of taxpayer value and a driver of financial discipline.¹⁵

George Osborne has promised to cut the cost of Whitehall by one third over the next Parliament. In addition to curbing pay, the Conservatives plan to reduce the number of regulators, inspectors and central planners, as well as regional government. (See chapter 3 for more information on regulation)

A Conservative government would also take steps to embed performance management culture in the Senior Civil Service. It would re-define the role of Finance Director as the second most important in a department and create a dual reporting line to both the head of department and to a new Office of Financial Management. This would be led by a full-time Head of Government Finance and report to the Chief Secretary to the Treasury. A Conservative government would expect Finance Directors to be involved in all aspects of Departmental activity - including policy and planning - bringing a financial perspective to the work of the Department.

The Conservative government would publish details of all spending over £25,000 online. And they expect local government to follow. In London, the Mayor Boris Johnson has introduced greater spending transparency with disclosure of every item over £1,000 on a regular basis.

¹⁵ Phillip Hammond, June 25 2009

pfi

The Conservative party would introduce five principles for PFI:

- proper accounting - all public sector contractual payments to private promoters would be taken into account when assessing the sustainability of the public finances and all existing PFI liabilities would be entered on the government balance sheet
- proper incentives for the private sector -all state contracts with private promoters would include a few "simple and clear" outcomes
- where a Government subsidy was justified in order to make a project economically viable, it should be made transparent
- the private sector must bear the risk – a Conservative government would engage private providers if and only if it can transfer all those risks which are reasonably within the control of the providers, if no private provider was willing to bear the vast bulk of the risk, then the project would either be abandoned or take place in the public sector
- no micromanagement - a Conservative government would not seek to micromanage the performance of a contract, and would instead rely on seeking liquidated damages in the event of non-performance

private providers would pay liquidated damages if those outcomes were not delivered. If outcomes could not be clearly defined at the start of the contract, or if the contractor was unable to give sufficient assurance that damages could be paid, then the project should be either abandoned or take place in the public sector.

public services

The Conservatives say that they believe in decent public services. George Osborne told his party conference that the idea that the Conservative Party would callously damage those public services is a "shameful lie". He pointed

out that the Conservatives are committed to increasing spending on the NHS every year.¹⁶

The Conservatives claim that British people deserve more for their money and better public services. They say that they will achieve this by carrying out proper public service reform and that reform should be about choice and voice. They say that they will bring greater accountability to the provision of public services and a new relationship between the professionals who deliver public services and the public who pay for them and use them.

The Conservatives want to reform public services to reverse what they describe as the dramatic fall in productivity and to get more for less across the public sector. They advocate a constant process of:

- rooting out waste
- eliminating failing programmes
- reviewing procurement
- publishing spending information online
- increasing productivity
- ending the constant stream of “pointless eye-catching initiatives”

The Conservatives argue that the reform of public services will be driven not just by those who manage them, but by the choices of those who use them.

¹⁶ Osborne, op.cit.

The Conservatives will take out layers of management and give more power to professionals and encourage bottom up reform.

To raise productivity, a Conservative government would first permit innovation, and then foster it. It will do this, it says, in part, by freeing up professionals; granting them autonomy to explore different ways of delivering the outcomes that are mandated. These will be aligned with incentives so that the pursuit of value for money is a shared goal at the heart of public service delivery.

The Conservatives says that successful public services should be able to reinvest those savings in services. They say that they will end the “short-sighted, self-defeating policy” of clawing-back all the savings made from allocated budgets. And they say that they will end the annual “use it or lose it” budgets which create “a mad panic of wasteful spending” at the end of every year. They want to see more and more public service delivery budgets being based on the results delivered - like the NHS pay-per-treatment tariff system.

There will be further opportunities for the private and voluntary sector to work alongside the public sector as the government reshapes the delivery of publicly funded services.

3 - regulation in the post-bureaucratic age

In October 2009, the Conservative Party published further policy on regulation. It claimed that under Labour there had been an unprecedented number of new regulations which have undermined social responsibility and reduced the UK's economic competitiveness.¹⁷

The Conservative Party claims that regulation has hit businesses (particularly small businesses), but it has also increased the bureaucratic burden on individuals, charities, public bodies and social enterprises. This, they say, has hindered innovation and social action and has also led to a rapid increase in government spending on ineffective administration and inspection regimes.

The Conservatives say that, for the Left, the current economic crisis implies that there must be more regulation. The Conservatives believe that the UK has become "simultaneously and dangerously" under-regulated in some areas (particularly systemic risks in the banking sector), but chronically and severely over-regulated elsewhere.

According to the Conservatives some regulation is both necessary and desirable in a modern, liberal democracy "but once we are properly protected from unscrupulous people and hidden dangers, that is where it should stop.

¹⁷ *Regulation In The Post-Bureaucratic Age How To Get Rid Of Red Tape And Reform Quangos A Policy Paper On Better Regulation*, Conservative Party, October, 2009

Everything else should, wherever possible, be a question of individual choice rather than collective control.”¹⁸

The Conservatives believe that this minimal regulation is essential to maintain Britain’s competitiveness. They say that many of the new regulations are costly, ineffective and bureaucratic and have had an “insidious and profound” effect on British society. They claim that the Labour Government has taken power away from individuals and local communities, and from voluntary, private and public sector organisations and transferred it to quangos, regulators and bureaucrats in Westminster and Brussels instead. They argue that this sense of powerlessness, lack of involvement and distance from decision making has damaged British society, reducing people’s ability and willingness to take responsibility and control over their own lives, and to contribute to the communities and institutions within which their lives are played out.”¹⁹

the post-bureaucratic approach

The Conservative Party says that we need a “post-bureaucratic approach” to regulation that makes use of new technologies and insights from social psychology and behavioural economics to achieve policy goals in a less burdensome and intrusive way.

The Conservatives say that achieving this post-bureaucratic approach across government will not happen overnight. It will require a fundamental culture shift amongst policymakers in Whitehall and beyond, which will only be made possible through significant structural reforms. They propose institutional

¹⁸ *ibid*

¹⁹ *ibid*

changes that will aim to curb the volume of new regulations and remove existing regulations that are shown to be ineffective or overly burdensome. They also propose policy changes to improve the quality and effectiveness of any new regulations, and ensure that they are genuinely post-bureaucratic and reflect the latest insights from academic research.

Conservative proposals include:

- any new law must include cuts in old laws which together produce a net five per cent reduction in the regulatory burden
- introducing a new 'Star Chamber' cabinet committee, to be chaired by Ken Clarke, which will enforce a stringent 'One In – One Out' requirement giving the public the power to nominate the most poorly designed and burdensome regulations.
- applying a 'sunset clause' to all regulators - during the first term of a Conservative government all regulators would be re-assessed and their duties reviewed
- strengthening parliamentary accountability for regulators and inspectorates with Select Committees holding the key public service regulators to account
- making the appointment process of Chairs of major regulatory bodies subject to Parliamentary Select Committee approval
- publishing cost and value comparison measures for local councils that allow the public to see exactly how well their council is delivering on its value for money remit, replacing the "bureaucratic and expensive" system of Audit Commission inspections and reports

Professor Richard Thaler will be a senior advisor to, and member of, the Star Chamber committee. He is the joint author of *Nudge*.

- curbing the current powers of government inspectors by allowing firms to arrange their own externally audited inspections and, providing they pass, to refuse entry to official inspectors
- introducing 'MOT style' inspection reports, quoting precisely which section of which law has been broken, to prevent regulatory 'scope creep' where laws are applied too strictly by overzealous inspectors
- consulting on changes that may be required to the employment and discrimination tribunals system

IA methodology

The Conservatives' 'One-In – One-Out' approach would be underpinned by Impact Assessments (IA) of the regulatory costs and benefits of each measure. The IA would be produced by the Department sponsoring the new law, but audited and signed off by an external body such as the National Audit Office (NAO) or the Audit Commission.

The Conservative say that IA methodology will be developed and approved by an external body (equivalent to the Accounting Standards Board) to provide independent standards to be applied to the IA by the external audit body. It would apply to both policy and compliance costs, and would cover hard law, soft law and information costs. It would consider the impact of extra regulation on small firms and public or third sector organisations.

The final chapter of each new Bill would contain the deregulatory measures required to counterbalance the costs of the new rules at the front.

Every other public body which does not create hard law, but which creates soft law of any kind, would be required to produce an annual Regulatory Budget Statement showing the total cost of the requirements they currently

impose (calculated in the same way as IAs) and should aim to cut them by five per cent each year.

Any Secretary of State who cannot find the necessary five per cent regulatory cuts to get approval for a piece of new legislation would have to agree compensating net cuts with their cabinet colleagues, to affect other Whitehall departments or regulators in order to reach the five per cent target and get their agenda through.

Rolling programme of review

A Conservative government would introduce a rolling programme to review the role, scope and mandate of every regulator and regulatory quango. Each one would be given a charter which would include:

- the sunset clause requiring its role to be reviewed and renewed every seven years so its performance could be assessed over time, and so it could be modified, downsized or even merged if appropriate in future
- a new duty to reduce its overall regulatory impact by a specified amount over the course of the charter's life, by promoting competition and increasing consumer power

The Conservatives say that, in government, they would create a process for reviewing and, if necessary, modernising the thirty worst failures in regulations and red tape each year. Once a regulation has been officially entered for this process, it would automatically acquire a 'sunset clause' which would repeal it entirely twelve months later, unless the Government or Parliament takes positive action to reaffirm or modernise it in the meantime.

The regulations to be re-examined would be selected in the following way:

- the ten laws or regulations with the largest negative gaps between the costs and benefits
- the ten 'most hated' regulations nominated by the public on the BIS better regulation website subject only to the conditions that they must impose a net regulatory burden, they must not be more than five years old, and they must have not been reviewed within the past five years (so that they do not conflict with the automatic post implementation review described above)
- the ten 'most hated' laws or regulations nominated by representative business and consumer bodies such as Consumer Focus, Which, the British Chambers of Commerce, the Federation of Small Businesses, the Confederation of British Industry or the Institute of Directors, subject to the same conditions as the public nomination

Principles for rewriting regulation

The Conservatives say that the following principles would be applied to each re-written regulation:

- the Better Regulation Executive's principles of good regulation; proportionality, accountability, consistency, transparency and targeting
- the ideas which underpin behavioural economics and "going with the grain" of human behaviour, including using information to empower consumers, using social norms to improve compliance, framing decisions to encourage particular decisions, self-contracting and setting default options

- mandating outcomes which must be achieved, rather than processes which must be followed based on minimum, acceptable thresholds, not best practice - a Conservative government would undertake an immediate review of exemptions for small businesses, or for small organisations in the public and third sectors
- ensuring regulations are intuitive for anyone who is reasonably well-informed on a particular matter, and that they expect personal responsibility

Rationalising inspection

To rationalise the current system of inspection, a Conservative government would, in addition to publishing cost and value comparison measures for local councils, extend the Primary Authority Scheme introduced by the Local Better Regulation Office (LBRO). This would ensure that multi-branch organisations (like retail chains) are inspected by a single local authority. It would also require cross-regulator co-ordination of all inspections and for inspectors to turn up as a multi-disciplinary team with a single set of recommendations.

Co-regulation

The Conservative government would consider and consult on a new model of professional co-regulation. This means replacing regulator-run public teams of inspectors with a model closer to financial controls and audits.

The Conservatives say that well-run companies would employ professionally qualified experts in, for example, health and safety or food safety, in the same way as they use accountants in a finance function, to ensure that the correct internal processes and controls are in place, and that reported results are reliable.

An external member of the same profession would be paid to audit them in the same way as a company's financial accounts, and to issue an audit opinion that they are satisfactory.

This could be filed with the regulator (similar to filing annual accounts at Companies House).

Any organisation which had undertaken a co-regulation review and had published an independently audited statement that it satisfied the required regulatory outcomes would be allowed to refuse entry to official inspectors in anything other than an emergency.

Protecting consumers

A Conservative government would give every regulator a duty to reduce, modify or abolish red tape wherever consumers in their sector have enough reliable, convenient and easily understandable information to make informed decisions, and to encourage regulated organisations in their sector to make the information available wherever possible too. Where no suitable regulator exists, the OFT would own this duty in any sectors where information was not already available.

A Conservative government would also standardise and simplify regulators' existing consumer duties. It would give every regulator a duty to promote and increase competition and choice wherever the statutory framework permits within their sector, to reduce their need to regulate monopoly providers wherever possible.

4 - democracy

"We are just starting the job of building the new politics we need. Because the anger over expenses reflected something deeper. The sense that people have been left powerless by big government."²⁰

democracy

The redistribution of power and responsibility is part of the Conservative approach to mending "broken society". The Conservatives believe that communities should have control. Conservative policy is, on paper, decentralising. It also promotes greater transparency and accountability.

central government

The Conservative Party argues that Labour has weakened Parliament, undermined democracy, and brought the integrity of the ballot into question. It believes that an "unbalanced" devolution settlement has caused resentment in England and rising nationalism in Scotland and Wales. It says that there must be radical change to restore public trust in politics and increase public engagement in the decision-making process.

The Conservatives are pledged to:

- restore the "integrity" of the ballot by introducing individual voter registration and addressing the "disparities" that exist between constituency populations
- address the West Lothian question and give English MPs a decisive say on laws that affect only England

²⁰ David Cameron, October 8 2009

- replace the Human Rights Act which, the Conservatives say, has undermined the Government's ability to deal with crime and terrorism, with a British Bill of Rights

The Conservatives say that they are in favour of making Parliament more accountable and back a substantially elected House of Lords.

They are also proposing that any Bill backed by a petition of one million citizens should automatically be considered by Parliament.

MP's expenses

The Conservatives claim to have led on the campaign to bring greater openness and transparency to the system of MPs' expenses and allowances.

- scrap the MP Communications Allowance
- scrap the second homes allowance for MPs in grace-and-favour homes.
- introduce tighter controls on former Ministers taking jobs after leaving office

Cutting the cost of politics

The Conservatives say that they will cut the cost of politics by up to £120 million a year by "sweeping away" a range of subsidies, perks and allowances including:

- cutting ministerial salaries by five per cent and freezing them for the duration of the next parliament
- scrapping the subsidies on food and alcohol in Parliament
- requiring ministers to share cars and drivers
- reducing the number of MPs by ten per cent

More power to Parliament

The Conservatives say that they will strengthen Parliament. They would introduce an online public reading stage for bills, to enable the public to contribute to Parliamentary scrutiny of legislation. They would also give MPs a free vote during the Committee stage of all Bills.

The Conservatives claim that they will give more powers to backbenchers including select committees through:

- electing Chairs in a secret ballot
- reducing Whips Office powers over membership
- giving backbenchers a role in major public appointments
- presenting their reports to Parliament as Oral Statements.

The Conservatives say this will help to improve the process of pre-legislative scrutiny, forcing government to focus on the issues of consultation.

The Conservative Party would require stronger Parliamentary pre-approval of negotiation mandates for Ministers in Europe, and give the European Scrutiny Committee more power to take evidence, meet in public, force debates and votes, and control the timetable for EU scrutiny in Parliament. It would introduce presumptions that any European Directive which was being translated into English law would only be introduced once a majority of other EU states have introduced it first.

The Conservatives say that they would require official guidance to be clear and simple, expressed in plain English, and published at the same time as the rest of a Bill. They would give the public the same powers as they would already have to nominate the 30 'most hated' hard laws, so they could vote

for the 30 worst pieces of guidance, and the 30 worst official forms each year too. Each one would have to be shortened, simplified or re-written within 12 months.

Annual introduction

They would introduce annual introduction dates for all new regulations, in place of the current six monthly timetable. They say that each regulation should be introduced a minimum of three months before the expected introduction date.

Automated information collection

They would, they say, automate information collection and process and move towards data sharing and IT interfaces (where allowed by civil liberties concerns) and would launch an early consultation process to understand better the scale and significance of the opportunities.

Local communities and direct democracy

The Conservatives say that they want to see decisions taken at the lowest possible level and, where possible, by those directly affected. They aim to encourage greater use of direct democracy, with proposed measures including:

- the introduction of directly-elected police commissioners;
- enabling local residents to veto excessive council tax rises;
- allowing the public to table Bills in Parliament, if backed by a petition of one million voters.

The Conservatives say that they will create a Britain where people from different backgrounds can celebrate their diversity while sharing common civic values and national pride.

They claim that social cohesion is above all about social responsibility, much more than government and politics. They say they will introduce a number of measures including:

- supporting community groups based on their effectiveness in countering poverty and deprivation rather than on the basis of ethnicity or faith
- devolving power to local authorities, who are better placed to make decisions for their communities
- offering English language instruction for all to “cement” the English language as the bedrock of our national identity
- tackling unacceptable cultural practices, such as forced marriage and female genital mutilation

5 - surveillance state

The Conservatives have presented eleven proposals to prevent what they called the rise of the surveillance state.²¹ They argue that Labour has excessively relied on mammoth databases and wide powers of data-sharing, on the pretext that these will make government more effective and the citizen more secure. They say that Labour's track record demonstrates the opposite, with "intrusive and expensive" databases gathering masses of our personal information - but handled so recklessly that we are exposed to greater risk.

The Conservatives say that they will take a fundamentally different approach from Labour and that the government must be held accountable to its citizens.

In government, the Conservatives say that they would be guided by the following principles:

- fewer giant central government databases
- fewer personal details, accurately recorded, and held only by specific authorities - on a need-to-know basis only, and for limited periods of time
- wherever possible, personal data would be controlled by individual citizens, who would have the power to decide which agencies can access or modify this information

²¹ *Reversing the rise of the surveillance state - 11 Measures to Protect Personal Privacy and Hold Government to Account*, Dominic Grieve QC MP, Shadow Justice Secretary, Eleanor Laing MP, Shadow Justice Minister, September, 2009

- greater checks on data-sharing between government departments, quangos and local councils
- stronger duties on government to keep the private information it gathers safe

The Conservatives are committed to the following:

- scrapping the National Identity Register and ContactPoint database
- establishing clear principles for the use and retention of DNA on the National DNA Database, including ending the permanent or prolonged retention of innocent people's DNA
- restricting and restraining local council access to personal communications data
- reviewing protection of personal privacy from the surveillance state as part of a British Bill of Rights
- strengthening the audit powers and independence of the Information Commissioner
- requiring Privacy Impact Assessments (PIA) on any proposals for new legislation or other measures that involve data collection or sharing at the earliest opportunity
- requiring government to consult the Information Commissioner on the PIA and publish his findings
- requiring new powers of data-sharing to be introduced into law by primary legislation, not by order

(as the government attempted to do earlier in the year but subsequently withdrew its proposals from the Coroners and Justice Bill (now Act)

- appointing a Minister and senior civil servant (at Director General level) in each government ministry with responsibility for departmental operational data security

New technology

The Conservatives say that Labour has failed to understand how new technologies are enabling information to be dispersed and held locally rather than in centralised databases or mainframes.

They say that a local approach is not only less expensive than constructing a giant central database, but it is also more secure and enables individuals to exercise greater personal control over their data.

They say that both the National Identity Register and Contact Point are costly systems, which are seriously flawed and expose the public to unnecessary risk and the taxpayer to unacceptable contingent liabilities. They argue that the resources absorbed could be better used towards other practical measures within their relevant departmental programmes.

DNA

The Conservatives support the use of DNA in a proportionate manner to detect crimes and prosecute offenders. However, they say that the indefinite retention of DNA on the database of people who have never been convicted of a crime is unacceptable in a society founded on the basis that someone is innocent until proven guilty.

The government has now dropped plans to give ministers wide powers on holding innocent people's DNA data on record. In response to a European ruling, the Policing and Crime Bill had proposed allowing ministers to set time limits on holding DNA for up to twelve years instead of indefinitely but had not set out how long these would be. Critics argued that such plans which would go through by parliamentary order would mean less parliamentary scrutiny than a full parliamentary debate.

The Conservatives have laid down the following principles for the retention of DNA:

- DNA should be retained only whilst a person remains subject to investigation or until criminal proceedings have concluded, and should only be used for the purposes of investigating and detecting crime
- the DNA of adults convicted of a recordable offence should be retained indefinitely
- no DNA samples or profiles should be retained from adults not convicted of a crime.
- no DNA samples or profiles should be retained on children under the age of 10 (the age of criminal responsibility)
- when a child under the age of 18 is convicted of serious violence or a serious sexual offence, DNA should be retained indefinitely. In the case of conviction for any other recordable offences DNA should only be retained for a period of 5 years
- the operation of DNA Databases should be subject to independent oversight

The Conservatives say that a limited exception should be made for those charged with certain crimes of violence and serious sexual offences. In these cases, DNA on the National DNA Database or the Counter-Terrorism Database may be retained for a period of 3 years, which could be extended to a maximum of 5 years, if approved by a Crown Court

The Information Commissioner

The Conservatives want to see the powers of the Information Commissioner extended and strengthened. They say that he has proved to be one of the bulwarks against the rise of the surveillance state. They will introduce measures to ensure that he has the necessary independence and powers to hold government to account. These include:

These will include ad hoc powers of inspection and financial penalties for the deliberate, reckless or grossly negligent management of data

- appointing the Information Commissioner by Parliament rather than the Ministry of Justice
- requiring the Information Commissioner to audit government departments and other public bodies on an annual basis and granting him powers to discharge these functions.
- requiring the Information Commissioner to report directly and annually to Parliament on the discharge of all of these functions
- tasking the Information Commissioner with the issuing of best practice guidance to departments on a range of issues,
- tasking the Information Commissioner to carry out a consultation with the private sector, with a view to establishing guidance on data security, including examining the viability of introducing an industry-wide kite mark system of best practice

including data minimisation, data encryption, the length of time appropriate for data retention and requirements for ensuring data security in public sector contractual arrangements with third parties

In due course, the Conservative Party says that it will also be examining the Information Commissioner's role in overseeing the Freedom of Information system, to achieve greater transparency in public sector spending and wider governance.

6. reading

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Regulation in the post-bureaucratic age. The Conservative Party, October 2009

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George Osborne, 8 April 2009

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