



Speech to the Association of British Insurers Future Leader's Conference

Charles Lewington

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Both in public and in private, the Conservatives are confident rather than complacent about the outcome of the General Election. Although Gordon Brown's personal approval ratings have been the lowest of any Prime Minister since 1997, the electorate have yet to fall in love with the Conservative Party.

There are a multitude of complicated factors contributing to the political mood. The uncompromising message that the Party is issuing on the need for an 'Age of Austerity' has the virtue of credibility but is hardly likely to generate the euphoric mood and subsequent rush to the polls of 1997.

This inescapable fact, in combination with the aftermath of the expenses scandal – a series of revelations which confirmed in the minds of many voters what they had long suspected, namely that politicians are barely better than estate agents – leads many Conservative MPs to fear that it is likely that their majority will not provide enough of a mandate given the tough choices ahead.

Although today I want to look beyond the election, rather than spending time on predictions of general election date (the smart money is still on May 6th 2010) or the precise number of seats that will change hands, it is worth having a quick look at what we can expect to see from the Parties in the next few months.

The two main political parties, egged on by Vince Cable, will be competing to establish themselves in the minds of the media and the electorate as best able to manage the country in these straightened times. This means finding new ways to demonstrate that they will deliver more for less by cutting the right budgets to reduce the deficit while increasing public sector efficiency.

The Conservatives' strategy is to be honest on the economy. They calculate that the electorate will respect them for some straight talking on the tough choices that will need to be made in the years ahead. This statesmanlike approach will set David Cameron up to be a Prime Minister who doesn't worry about his personal approval ratings, as long the country is receiving the medicine that it needs. We perhaps shouldn't give the leadership too much credit for a strategy that was forced on the Party; the state of the public finances are clear for everyone to see.

The electorate understand that cuts need to be made; to pretend that there's any other way would be to patronise the voter. In a September poll for the Sunday Times, 60% of voters said that the size of the state should be reduced to cut the deficit. 21% would prefer to raise taxes. In reality, both devices will need to be utilised. As the Shadow Business Secretary, Ken Clarke said recently "the population is only keen on tough measures so long as they don't affect them and their families." The Party leadership will be highly tuned to this and it will govern what they emphasise about their programme for Government over the coming weeks.

Of course the Conservatives need to present an optimistic vision for the future as well as their recipe for recovery, and Cameron's reference to the sunlit uplands in his conference speech was an attempt to balance the Shadow Chancellor's gloomy offering. General elections are referendums on the future as well as the past and for this reason, as well as to hedge against a possible economic upswing ahead of an election, we can expect to see Cameron offering more hope, even if it is purely rhetorical.

For the purposes of today, I am going to work on the basis that the Conservative's win a majority of around 30 on May 6th 2010. Ahead of Cameron will be an enormous political and economic challenge and behind him will be the most inexperienced political party ever.

The Conservatives will be judged on their ability to protect frontline public services while shrinking the deficit and delivering sustainable economic growth. Adding pressure is the risk that the UK loses its AAA credit rating, likely to happen if the national debt rises to

80% of GDP. The 2009 Budget predicts the UK's national debt rising to 75.6% of GDP in 2015.

How will the Conservatives go about making the savings they need to? Which parts of the state will they decide to shrink and which will be left alone? Predictably, we have a competition between Labour and the Conservatives for how much money can be saved by identifying Whitehall's waste; behind the scenes cuts that will not impact the services that the electorate receive for their (rising) taxes. This focus on waste also fits neatly into the desire of both parties to restore the standing of the political machine in the eyes of the electorate.

Reducing waste in Whitehall as a way of delivering value for money for the taxpayer is as hackneyed as pledges to cut red tape. It has always been greeted with a healthy degree of scepticism by the media and the electorate, but perhaps now more than ever given the numbers involved...the Conservative's pledge to reduce the policy, funding and regulation cost of central Government by one-third over a lifetime of their first term will save £2 billion a year, in the context of a year in which the Government's borrowing will likely exceed its £77 billion forecast.

The practical disbelief in politicians' ability to reform Whitehall, combined with Labour's specific failure to make efficiency savings since 1997, means that the Conservatives are focussing on communicating what they will do differently to achieve what to the untrained eye can seem the same end.

The dividing line they are drawing, recently articulated by the Shadow Chief Secretary Philip Hammond MP, is that the Party are **'philosophically much more open to the case for [public service] reform' and 'less constrained by ideological baggage about the configuration of public services'**.

This is a statement that no ambitious Conservative would have said pre-Cameron's decontamination of the Party's brand, but what does it mean in practice? Philip went on to talk about **'a willingness to take measured risks; to relax control; to decentralise power; to open up Government; to extend choice to service users and greater autonomy to service providers...what will matter to us is**

whether or not a successful outcome is delivered at an affordable price – not who delivers it.'

It is certainly true that if the Conservatives are really to provide more for less, there are going to have to make radical changes in the way that public services are delivered.

Sweden's former prime minister, Goran Persson, whose Party was elected in 1994 on the back of promises to cut welfare and increase tax and successfully balanced the budget, has some political tips in this area.

- It is essential to have a mandate from the electorate; they must understand the scale of the cuts that are required. The Shadow Chancellor's gloomy speech at Party Conference in October this year would indicate that he understands this necessity.

- The changes must be fair and be seen to be fair and politicians should front-load the difficult decisions; both in order to take advantage of any mandate immediately after an election and in order to increase the chances of having some early successes which will strengthen resolve for the rest of the programme.

The Conservatives have promised an 'emergency' budget within 50 days of the general election. This is likely to include a rise in VAT, a cut in corporation tax - funded by the withdrawal of some capital allowances - and a plan for further cuts which should answer the call from businesses for more certainty in the tax system. There will be no movement on the new 50p rate of tax on incomes over £150,000 – much as parts of the Party are horrified at what they see as intellectual capitulation, George Osborne understands the need to be seen to be fair, or, as he puts it, to emphasise that 'we are all in it together.'

The Shadow Chancellor has been clear about the specific measures that he will take to cut the deficit. In addition to a one-year pay freeze for public sector salaries, an early introduction of the increase in state pension age and the cut in the costs of Whitehall, he also looked to the middle class welfare bill, promising to end the child tax credit for those on incomes over £50,000 and scrap child trust funds for all but those on the lowest incomes. Together these last two measures will save £0.7 billion a year – but the think tank Reform recently put the middle class welfare bill at £31 billion a year.

The Conservatives will not only have to cut back on services and welfare provision but also take steps to ensure that what is delivered by the public sector is delivered as efficiently as possible. The Institute for Fiscal Studies estimates that to balance the current budget by 2015-16 the Government will either have to raise taxes by £1,250 per family, freeze total public spending for 5 years or combine the two. Cutting the costs of Whitehall does not, therefore, just involve making sure the paperclips are not over-ordered or trimming tax credits, but also the state withdrawing from the delivery of certain public services.

The Conservatives are looking at how they can incentivise delivery through 'outcomes based commissioning'. This simply means, 'payment by results'. This is already happening in many areas and the Conservatives are proposing it is adopted more comprehensively across public services. Broadly, this means that the state will still be involved in **what** the public service delivers, so the Conservatives will decide the priorities for public expenditure, but they will not be involved in **how** these services will be delivered.

In David Cameron's vision of a 'Big Society', the delivery of public services will be channelled through a public, private or voluntary organisation and be accountable for that service. By focussing on outcomes, productivity of programmes will rise. For example, rather than funding drug rehabilitation courses, the Government would pay for each person successfully rehabilitated.

This is not a new concept to public services delivery and in the UK it is in action in our welfare system and local government. However the Conservatives vision of locally delivered public services, combined with the fiscal imperatives, will mean this agenda will take centre stage in the coming years. It is also linked to the Party's vision for a 'post-bureaucratic age'; in which the freeing up of Government data leads to consumer driven services.

With the NHS budget ring-fenced, the Conservatives are likely to focus on the welfare bill. We spend more on welfare in this country than anything else, in 2009 the Bill was c. £199 billion, up from £109 billion in 1989 and accounting for 32.5% of GDP - so

expenditure on welfare was growing alongside our economy. And there has not been a decent return on this investment; UNICEF research of 21 industrialised nations ranks the UK last for child wellbeing, despite the Government's commitment, soon to be enshrined on the statute book, to tackle child poverty.

How can the insurance industry fill the gap? Private insurance offers protection from many social risks, most clearly in life insurance and accident protection. At their Conference this year the Conservatives proposed a voluntary insurance scheme to cover the costs of long-term care. The Insurance Industry Working Group, which will be familiar to you, painted a picture of the industry working 'in partnership with the Government to increase savings and protection provision and help consumers manage financial distress caused by accidents, ill-health or old age'. As well as long-term care, there are opportunities for collaboration in disability insurance, unemployment insurance and savings and pensions.

The Conservatives have undertaken to conduct a review of Personal Accounts, a scheme which is due to be implemented in 2012. Many commentators have seized on this as meaning that the party will scrap the scheme but it is interesting to think what it might mean if the Party look at expanding the current Government's vision for auto-enrolment into workplace schemes for those on low incomes. In Singapore, for example, individuals contribute to personal welfare accounts that provide support for unemployment, accident and injury.

In the UK there is of course a sophisticated market for private sector alternatives to social insurance, including critical illness, accident and health, PPI and long-term care insurance. However the existence of the 'protection gap' (estimated by the Insurance Industry Working Group to be £2.4 trillion) is compelling evidence of both the opportunities in this area for the industry and, perhaps, the public's ambivalence towards private sector solutions to what are seen as public sector problems. It is unlikely that the industry will be able to make up this ground unless they are supported in this aim by the Government.

Welfare to Work

With unemployment rising, the Conservatives will need to think innovatively on how to get Britain back into work while keeping the bill down. The Party's policies in this area essentially involve moving faster and more efficiently in the same direction as the Government. This is a key area for the utilisation of incentives for delivery by the private sector and the Conservatives are clear on the message for providers saying simply; 'if you don't place someone in a sustainable job, you don't earn your fee.'

Healthcare

The Conservatives have worked hard to counter their anti-NHS image – ring-fencing the budget was a political calculation and a crucial one for David Cameron.

The Party's financial commitment to the NHS allows the Shadow Health Secretary, Andrew Lansley MP, whose background is as a political strategist, to talk about different methods of delivery in healthcare. His key words in this area are equity, efficiency and excellence. In this context, the Shadow Health Secretary (who is likely to remain in his post in a Cameron administration) talks about equity not in the context of patient care but in the context of ensuring a level playing field for providers. The lesson here - that the Conservatives will not presume that the private sector is inherently more efficient than the public sector - is an important one.

However there are voices on the right of the Party who believe that identifying the NHS as a sacred cow makes no sense. These are the same voices who point out that the Government's NHS spend could be used to provide private medical insurance for the entire population. The same voices might also point out that while only the Chinese People's Liberation Army, the Wal-Mart supermarket chain and Indian Railways directly employ more people, less than 50% of those on the NHS payroll are clinically qualified.

The realities of resource allocation within the NHS mean that there could well be a point when it is not just prudent but **essential** to offer incentives for private medical insurance through the tax system. It is also clear that a missing piece of the puzzle is in the commissioning of services, utilising the right expertise from the private sector to ensure that communities have the healthcare they need. In other words, there is likely to

be a point where the Party are as open about the need for private sector involvement in health and social care as they are in education and welfare.

Education...Risk Sharing

Implementing the Conservative's education policy will be a priority for a Cameron administration. Shadow Education Secretary Michael Gove MP, memorably described as a one man think tank, will push forward his free-schools policy, to create state-funded 'independent schools' with the schools budget allocated to community associations, parents or faith-groups to run institutions. The debate over whether such schools should be run for profit or not goes to the heart of the issue of private sector involvement in our public services. Whereas parents and patients don't mind **who** provides their service, they do mind if the private sector is seen to be profiting from illness and, to a lesser but still important extent, from the provision of education.

It also goes to the heart of our willingness to share risk; would the Government bail out a failing free school as they have bailed out failing banks? David Cameron did not have an ideological issue recently when a Conservative council, faced with over-subscribed state schools, mooted spending their budget on subsidising private school fees for newly unemployed parents; but what seems merely practical in Opposition can come up against all sorts of political barriers and vested interests in Government.

Spot the Difference

Yesterday, both Parties battled to gain ownership of the efficiency agenda. The Prime Minister promised to deliver an extra £12 billion in efficiency savings over the next four years, a chunk of which will come from 'identifying new ways of working' and 'streamlining central government'. The Shadow Chief Secretary, Philip Hammond MP, who will be an influential number two in George Osborne's Treasury, endeavoured to get on the airwaves by stating that it will be impossible to deliver the savings needed without touching frontline services. Handily, he could point to the policy to limit Child Trust Funds as an example of a 'tough choice'...there will be tougher choices to come.

While some Conservatives relish the opportunity to make ideological cuts under the guise of financial necessity, the Party's leadership is genuinely examining ways to deliver cost effective reforms to public services in partnership with the private sector. How deep and long-lasting such innovations are will depend on how quickly the Conservatives act; the electorate have little time for private sector provision of public services when times are good.