

**The Conservative Party Conference Demos & Resolution Foundation
Fringe Event**
Lean Government: How to make cuts without wounding low earners
7 October 2009

Chair: Jenni Russell, The Guardian
Speakers: David Willetts MP, Shadow Minister for University & Skills
Clive Cowdery, Resolution Foundation
Mike Emmerich, Manchester's Commission for the New
Economy

Jenni Russell opened the discussion and introduced who low earners were - households with incomes of between £11-27,000. She said there are 13 million adult low earners in the UK, 7.2 million in work, who are in a squeezed position. She then introduced Clive Cowdery, Chair of the Resolution Foundation.

Clive set the scene for the discussion by explaining the Foundation was set up in 2005 to focus on improving the outcomes of low earners in a mixed economy. He argued that the government and third sector's focus had been on those at the very margins of society, the socially excluded and that there has been some great work to support this group of people. However, low earners remain overlooked: too poor to access private services but too rich to be eligible for government initiatives or third sector support.

The Foundation produced an audit in June to try and improve understanding of what life is like for this group of people. It found that low earners position has got worse since 1977, with low earners only seeing improvements since 1997. In 1997 for every £1 they paid in tax they received just £0.97 back in benefits and public services consumed. It is only in the last few years that this has improved; in 2006/7 for every £1 low earners paid in tax they received £1.06 in benefits. Low earners tend to be squeezed between private and public solutions, highly exposed in the current economic context, and are often overlooked by policymakers. Even before the downturn they were living on the edge; 78% were already in poor financial health.

Clive said that it is very important that any cuts are both careful and cautious in order to ensure that the gains of the last few years are not reversed. It will be particularly important to protect tax credits for this group. There may be scope to lower the upper threshold for tax credits but any sweeping changes to the system would seriously affect low earners.

Jenni commented how thought-provoking Clive's description of the issues affecting low earners was and said this was one of the most fascinating events she'd been to over the three weeks. She was also very interested in the roles of employment agencies and offered an anecdote about a journalist friend who had a very bad experience with Job Centre Plus following redundancy which she suggested wasn't able to cope with the current new demand which comes from across the spectrum and includes a new type of clientele.

Jamie Bartlett, Demos, said that the public sector has improved by learning lessons from the private sector. In 1979, the Conservative Government tried to introduce private sector efficiencies which can be built on today such as high performance and low bureaucracy.

Jamie also pointed to initiatives in the private sector where the best private sector companies provide staff with ownership schemes. Can we introduce something similar in the public sector and save money on oversight?

He also warned that salami slicing and cutting budgets can produce false economies. For example if you reduce spending on care this can simply increase health spending down the line. By contrast, innovations such as personal budgets can save money and improve performance. Merseyside Mental Health Trust provides a good example of self-directed working in public sector. We need to think strategically about how we optimise output and mitigate against knock on effects whilst balancing the books.

Mike Emmerich, (Manchester's Commission for the New Economy), highlighted three ways in which he believed low earners could be reached:

- i) Devolution - local coalitions can do good work but need to be fit for this
- ii) De-regulation - devolution lets you innovate, but only if clutter that prevents joining up multiple programmes/initiatives/budgets is removed
- iii) Delivery – he referred to how Tony Blair always complained that all good ideas got worse the closer they got to implementation and that we needed to get better at delivery

David Willetts MP, said that the government is selling debt to itself via quantitative easing and when this ends they will need to unload debt on to the capital markets. It isn't necessary to make all the cuts in one year but whoever is in Government does need a plan to keep the market stable. He argued the prospect of a Conservative Government is the only thing keeping the markets stable at the moment. He also made further points regarding the Conservative's policy proposals and low earners:

- Public sector pay freeze proposals exclude the 1 million lowest paid workers
- Welfare reform proposals will help the unemployed
- Commitment to ring-fence NHS spending will help low earners
- Skills and education policy will put emphasis on vocational training and work rather than paper qualifications. The Conservatives will tackle the

issue of NEETS. He referred to the American community college model which provides courses relevant to the local community.

- They will reduce bureaucracy required for external compliance with targets/monitoring. He said that budgets may be lower, but service providers are likely to accept this in return for greater freedom.

David then went on to suggest that support in-work was an important means of boosting incomes for low earners and saw it as an essential corollary of low pay. However, he felt that the complexity of tax credits produces distress for families (especially the repayment of overpayments) and yet people can't hold HM Revenues and Customs to account for administrative problems because they don't share calculations, they simply present you with an award/bill. Another reason for the problem is that HMRC is not designed to give people money - it is designed to take it from them. He felt the department for work & pensions was in a better position to do this so he would want to see a simplified system built and delivered by them. He said it was crucial that the functionality of tax credits is reformed so that they work for low earners.

David went on to refer to John Hills' work on the volatility of pay for low earners which highlights how tax credits are trying to catch up with this reality and that there was some merit in providing a more stable source of fixed income. He said the CSJ report on moving from 40 benefits to two is admirable, but high upfront costs mean it is unlikely to happen.

He also added that he thought more could be done by looking at the micro issues of skills policy to help low earners. He wants to improve links between Further Education colleges and Job Centre Plus to produce a more joined-up and appropriate approach to individual circumstances.

Contact details

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