

How to fix the funding of health and social care

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About this report

The UK's health and social care services face long-standing pressures. Successive governments have known about these challenges for years, but failed to adequately deal with them. As a result, there is a growing funding gap.

Successfully developing and implementing proposals will be hard. Plausible solutions will inevitably have trade-offs: there will be both winners and losers. Yet, for the settlement to be sustainable, government will need to build public and political support.

This report examines how to enable politicians to promote answers for tackling the long-term funding challenge facing health and social care. Via a wealth of case studies supported by analysis and interviews, it identifies different approaches to policy-making on contentious issues, and how these could be applied to health and social care.

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Summary

As the UK's population ages, the NHS is doing more than ever before. The fact that funding has not been increased in line with demand in recent years means we have started to see an impact on performance. Similar demographic pressures on social care, which has also seen funding cuts in real terms, have led to fewer people receiving publicly funded services and to a knock-on impact on the NHS.

On the 5th of July 2018, the NHS turns 70. In the face of increasing demand for NHS services, and following the most restricted level of funding in its lifetime,* there is a vigorous debate on what services it should provide and how they should be paid for. The topic came top of a list of public concerns in 2017.¹

This year is also the 70th anniversary of the National Assistance Act, which boldly claimed to 'abolish the Poor Law'. Its shadow lives on in social care, which, like the system it replaced, is allocated on grounds of both needs and means. While social care is less totemic than the NHS (and its funding and provision are certainly less well understood by the public), it emerged as a headline issue in the 2017 General Election. The Government is currently developing a new green paper on social care for older people, which has become the responsibility of Jeremy Hunt, the Secretary of State for Health, who had social care added to his title in 2018.

The Government has announced a settlement that would see NHS funding grow by an average of 3.4% a year over the next five years. The Government says this will be paid for by the 'Brexit dividend', tax rises and borrowing, with full details to be published in the Budget.²

This report argues that there are three key funding questions that the Government must answer and against which we must judge any claim to have placed health and social care on a firm financial footing.**

The Prime Minister's announcement only partially answers one of these questions.

1. How much more money is needed for health and social care?

Efficiency, greater investment in public health and digital solutions combined will not be enough to bridge the gap between demand and supply of services. More money is needed. There is no single 'right' answer to exactly how much, but recent independent assessments conclude that an ongoing annual increase of close to 4% is probably necessary for the NHS to improve; for social care, 4% is the minimum needed to maintain existing standards.

* Funding for the NHS has continued to grow, but at a slower rate in relation to demand than at any other time in its 70-year history (see Figure 2 on page 11).

** This report treats the funding question as a UK-wide one, while often using English examples of performance to illustrate some of the challenges. The Institute for Government, however, recognises that the arrangements for health and social care differ across the four countries of the UK – Scotland, for example, already provides free personal care – and any decision on future funding levels or future ways of raising finance would involve non-trivial discussions with the devolved governments.

2. How should additional funds be raised?

UK political parties broadly agree that more money should be spent on health and social care services. They disagree, however, on the source of the extra funding. Raising billions of pounds will be controversial, even if the public is increasingly willing to pay more. Public reception to the 'death tax' in 2010 and the 'dementia tax' in 2017 means political parties are reluctant to discuss the options. There is also no perfect funding mechanism waiting to be discovered. Rather, there is a variety of workable options that might gain sufficient public and political backing if communicated well.

3. How can funding be provided consistently over time?

Predictable funding will enable those working in health and social care to plan more effectively, improve service quality and find long-term savings. Unfortunately, the last few decades have seen significant ups and downs in the funding for both health and social care. These have occurred even where there has been no major economic shock or change of government. Rather, governments have found themselves trapped in a cycle of short-term emergency cash injections. The question is how governments can escape from this reactive cycle.

The Government's funding announcement is significant but isn't enough

The Government has acted decisively to decide the amount of funding required for the NHS. The amount promised is significant and has been welcomed by Simon Stevens, the Chief Executive of NHS England. However, it is below the funding growth averaged by the NHS over its lifetime and falls short of what most experts estimate is needed.

Unless the Government satisfactorily answers the second question – how additional funds should be raised – any funding settlement is likely to prove unsustainable. Facing the possible electoral consequences of raising billions of pounds would be a daunting prospect for a minority government. The Government has claimed that the funding increase will partly be paid for by a 'Brexit dividend', despite the Government's own estimates suggesting that leaving the European Union (EU) will have a net cost. The Government may choose to muddle through, but unless there is a clear plan for how the additional money will be raised, it will have to come from cuts to other parts of public expenditure, where there is little low-hanging fruit left to pick.

An inquiry would be the most effective way of deciding where to raise more funds

Our analysis shows that an inquiry offers the best chance of providing the Government with sufficient political cover to answer the most politically vexed of our three questions: how should additional money be raised? We argue that a parliamentary inquiry – a high-profile, cross-party group of MPs and peers – is most likely to be effective, and has the best chance of winning over parliamentary colleagues to support whatever conclusion it reaches.

More than 100 MPs, including 21 select committee chairs, have supported a campaign led by Sarah Wollaston, the Chair of the Health and Social Care, and Liaison Committees, to establish a parliamentary 'commission' into health and social care. If the proposals produced by such a parliamentary inquiry could attract a degree of

support from Opposition backbenches, the Government would have political cover to act. Even if the proposals were not fully implemented before the next election, the conclusions of a cross-party inquiry would be easier for a subsequent government of whatever political leaning to pick up.

A parliamentary inquiry could also be set up quickly and could report in time to feed into the 2019 spending review. If the inquiry were chaired by a select committee chair, there would be the advantage that a high-profile body would be available to continue to champion its recommendations beyond the life of the inquiry.

There would be ways to maximise the chances of an inquiry succeeding

1. The inquiry must have the full support of the Prime Minister and the Chancellor.
2. Opposition parties should be given an opportunity to comment on the terms of reference and membership of the inquiry.
3. The inquiry should have a chair with the political skills to sell its conclusions.
4. The inquiry should consider publishing an interim report, to frame the argument and prepare the ground ahead of its final recommendations.
5. The inquiry should carry out extensive public engagement to improve the quality of recommendations, and help build public support and awareness.

An independent body could ensure that funding increases are provided consistently...

The body would have two key roles, once the question of how much money is needed had been answered. First, it would monitor implementation and recommend the adjustment of spending plans in the light of changing circumstances, publishing updates on an annual basis. Second, it would provide scrutiny of the Government's costing of individual health and social care spending measures, and provide an endorsement of those.

Depending on the remit, which could be established by the Government acting on its own or following the recommendation of an inquiry, these functions could either be placed within an existing institution – such as the Office for Budget Responsibility (OBR) – or given to a new one. Either way, an independent body could be presented as a break from the past and the start of a new, more accountable approach to health and social care funding.

...but would require autonomy and strong leadership

Independent bodies need to be sufficiently autonomous to be credible. Institutional set-up is important, but day-to-day independence relies just as much on a body's leadership. Appointing the right first leader is particularly important, as he or she sets the tone. The credibility of a body's leadership can be enhanced through the way in which it is appointed. We would expect the chair of any new health and social care institution to be appointed with the consent of the relevant select committee.

1. What are the questions that need answering?

How much more money is needed for health and social care?

The health service is treating more people and carrying out more activities than ever before. For example, the total number of hospital admissions grew by an average of 3.6% a year between 2003/04 and 2015/16.¹ This is partly the result of a growing population. However, demand has grown faster than the population as a whole because the population is ageing. The number of people aged over 65 in England grew by nearly 20% between 2009 and 2016, and the Office for National Statistics expects that number to grow by a further 53% by 2039.² In addition, more people are surviving for longer with many demanding health conditions at once.

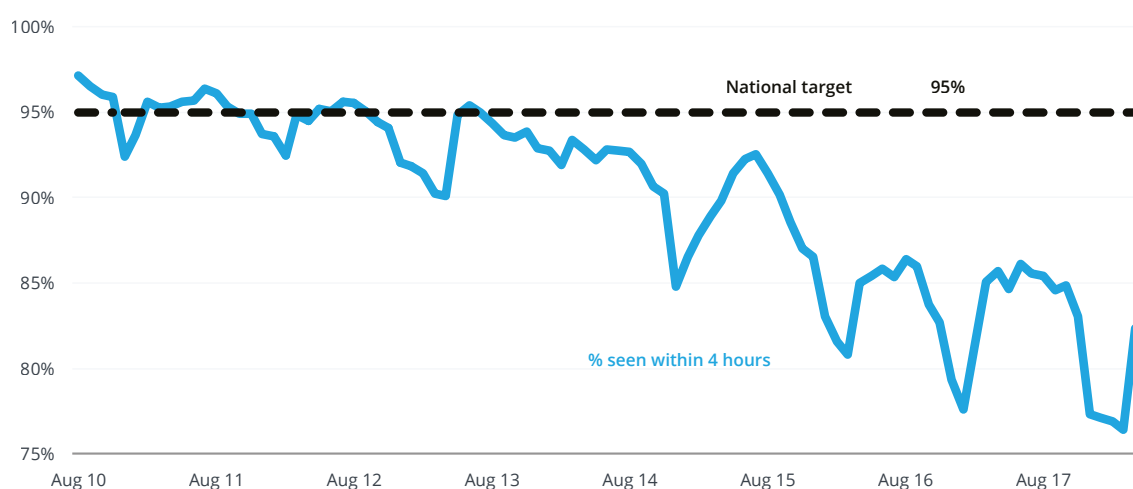
Funding has not risen in line with demand in recent years, and that has started to have an impact on performance. According to the Health Foundation, The King's Fund and the Nuffield Trust, three leading organisations which study health, the 'NHS does not have the resources it needs to maintain access to high-quality patient care'.³ They cite evidence of 'treatment rationing' and a fall in the quality of care. This is backed up by the Institute for Government's *Performance Tracker*, which has found that people are finding it harder to access their general practices and that waiting time targets for both urgent and non-urgent hospital services are being breached: this includes the four-hour accident and emergency (A&E) waiting target (see Figure 1). The provider sector – which includes NHS acute, ambulance, community and mental health services – has been in deficit since 2012, due to overspending in hospitals.

The public has been convinced that there is a problem, with 86% now of the view that the NHS is facing a funding crisis; an increase of 14 percentage points in three years.⁴

There are similar demographic pressures in social care, though funding for social care has not only failed to rise with demand, it has actually been cut in real terms (see Figure 3 on page 11). Between 2009/10 and 2015/16, these cuts resulted in 400,000 fewer people receiving publicly funded social care services.⁵ These cuts are now starting to have a knock-on effect on the NHS. For example, the number of unnecessary hospital stays due to delays in arranging social care nearly doubled between August 2010 and July 2017 (from 38,324 to 67,969 delayed days per month), although specific funding in the form of the Better Care Fund reduced the level to 47,457 in March 2018.⁶

Efficiency alone will not be enough to bridge the gap between demand and supply of services. In recent years, the NHS has performed well. Since 2004/05, the NHS has seen more than double the productivity growth of the economy as a whole,⁷ and in the US-based Commonwealth Fund's survey of international health systems, the NHS ranks as the most efficient.⁸ Although continued efficiency gains are both possible and necessary, it is unrealistic to expect these to make up the significant funding shortfall that has been identified. One reason for this is that some short-term drivers of efficiency, such as the heavy pay restraint seen in recent years, are not sustainable in the long term.

Figure 1: Percentage of emergency admissions (type 1) admitted, transferred or discharged within four hours, August 2010–April 2018



Source: Institute for Government analysis of NHS England, A&E Attendances and Emergency Admissions.

Note: A type 1 department (major A&E department) refers to a consultant-led, 24-hour service with full resuscitation facilities and designated accommodation for the reception of accident and emergency patients.

Reallocating existing health and social care spending to public health will not fill the funding gap. Well-funded public health services can improve the overall health of the population, postponing or preventing the conditions that place demand on health and social care budgets. Public health must be part of a broad, long-term funding settlement. However, while funding public health can offer a good return on investment, the benefits can be hard to quantify and will not necessarily translate into cash savings.⁹ Similarly, we should not expect digital solutions to fill the funding gap. As Jeremy Hunt, the Health and Social Care Secretary, said at an Institute for Government event, “I’m sceptical that [technological change] will necessarily lead to the huge financial savings that we might perhaps be hoping for, because in all those other industries what’s tended to happen is there’s been a policy benefit to consumers, but not necessarily a financial saving”.¹⁰

There is evidence that as countries get wealthier, they tend to spend a greater proportion of national income on healthcare.^{11,12} Even if the UK relieves the pressures identified above, it is likely that there will be continuing democratic demand for more to be spent on keeping people healthy.

Exactly how much more money is needed is difficult to determine. Among the developed countries in the Organisation for Economic Co-operation and Development (OECD), the amount spent on health ranges from 4.3% of gross domestic product (GDP) in Turkey and 6.4% in Poland, to 17% in the United States. Even among countries whose wealth is similar to the UK – France, Germany, Australia, Canada or New Zealand, for example – the range is from 9.2% to 11.3%.¹³ Spending 9.7% for public and private healthcare combined,* the UK is at the lower end of this range, but these comparisons do not tell us how much it ought to be spending.**

* The OECD estimates UK private spending on health at 2% of GDP.

** It should also be noted that seemingly small percentage differences involve very large sums of money. Increasing UK spending by 1.5 percentage points would be equivalent to pumping in £30 billion more.

While there is no single 'right' answer, recent independent technical assessments come to similar conclusions. The Institute for Fiscal Studies (IFS) and the Health Foundation estimate that a minimum annual funding increase of 3.3% is necessary over the next 15 years for quality and access to be maintained at 2015/16 levels, but that would need to be front-loaded, with average annual increases of 3.9% over the next five years.¹⁴ If the Government wishes to modernise the NHS, spending would need to increase by 4% a year over the next 15 years, with growth of 4.9% a year over the next five years. This is similar to the projection of health spending increases of an average of 3.9% a year between 2019/20 and 2033/34 made by the Office for Budget Responsibility (OBR),¹⁵ although the OBR's forecast suggests less spending pressure over the next five years than the IFS and Health Foundation modelling. It is also in line with the projections for health spending growth over the next 10 years outlined in the interim report of the Darzi Review of health and care.¹⁶

All of these figures are also similar to the average growth of 3.7% that the NHS has received since 1948.¹⁷ A 3.9% increase for each of the next five years would mean adding £32 billion (bn) to annual UK NHS spending by 2023/24 compared with 2018/19.

For social care, the story is similar, but the issue is more challenging for two reasons. First, there is no clear agreement over where personal responsibility for social care ends and public contribution begins. Second, what level of service should be provided – the current one, the more generous level of service that was publicly funded back in 2008, or a higher level of service?

On social care funding levels, the IFS and the Health Foundation estimate that adult social care spending will need to increase by 3.9% a year on average in real terms over the next 15 years to maintain the scope of social care provision that was available in 2015/16.¹⁸ Spending would need to increase more rapidly if proposals to cap private contributions to care costs were implemented, or if an improved level of service was to be offered.

How should additional funds be raised?

There is broad agreement among the UK's political parties that more money should be spent on health and social care services. Unfortunately, there is less agreement on where the additional money required should come from. All of the potential options – raising taxes,* user charges,** insurance models, tax subsidies for private medical insurance, cutting back other services further or increasing borrowing – create winners and losers. The public may be supportive of additional spending, but that does not mean that they want to pay more personally.***

* In England, some 16% of the health budget currently comes from national insurance contributions, although that is largely a government accounting arrangement, not a hypothecated tax. The notional percentage contribution from national insurance has been both higher and lower in the past.

** 1.2% of the NHS budget in England comes from charges, although the percentage has been higher in the past. The money comes chiefly from charges for NHS dental care and prescriptions, with car parking charges being accounted for separately. Scotland, Wales and Northern Ireland no longer levy prescription charges.

*** Support for higher taxes has been growing, with 26% of the public willing to pay more through their existing taxes and 35% supporting a separate tax that would go direct to the NHS (www.kingsfund.org.uk/publications/does-public-see-tax-rises-answer-nhs-funding-pressures). However, the average median annual extra that voters are willing to pay is just £63.01; equivalent to 0.42 pence of extra income tax (www.reform.uk/publication/reform-2018-health-poll-the-majority-of-electorate-believe-nhs-requires-reform-more-than-extra-money/).

The question of what mechanism should be used to fund health spending is not just financial. It is also deeply ideological. It has often been said that the NHS is the closest the UK has to a national religion. If so, for many, including the majority of parliamentarians in the Labour Party, Liberal Democrat Party and Scottish National Party (SNP), any deviation from taxpayer funding has been considered sacrilege. Even a hint, for example, that the Government was considering an insurance model for the NHS would result in allegations from opposition parties that it planned to privatise the system and replicate the US model.

Our case study on prescription charges shows what a controversial issue NHS funding can be (see page 29). Their introduction in 1951 resulted in the resignation from the Government of Aneurin Bevan, the architect of the NHS, and two other ministers, including Harold Wilson, the future Prime Minister. (A later Labour Government subsequently abolished the charges in 1965, only to reintroduce them again in 1968.)

Social care funding has, if anything, been even more controversial in recent years. This is unsurprising given that it involves the issue of how much people should pay towards their own care (mainly when they are elderly) and when the taxpayer should start to contribute. Proposals included in a government discussion paper in 2010 on how to fund free social care were quickly dubbed a 'death tax' by the Conservative opposition and dogged the Labour Party throughout that year's election. During the 2017 election campaign the shoe was on the other foot. The Conservatives' social care manifesto commitment quickly became known as the 'dementia tax' and is widely seen as contributing to the Government losing its majority. In both cases, the proposals involved tapping into the wealth tied up in people's homes.

Painful precedents such as these mean that political parties are reluctant to discuss how to raise money to fund health and social care.¹⁹ Indeed, the Prime Minister's recent NHS funding announcement was vague about where the money would come from, claiming that it would partly be paid for by a 'Brexit dividend'. However, this dividend is illusory, with the OBR estimating that Brexit will reduce tax revenues. And just as there is no absolute figure for the amount of money required, there is no perfect funding mechanism waiting to be discovered. Rather, there is a variety of workable options that could raise the funds required and might gain sufficient public and political backing to be implemented if communicated well.

How can funding increases be provided consistently over time?

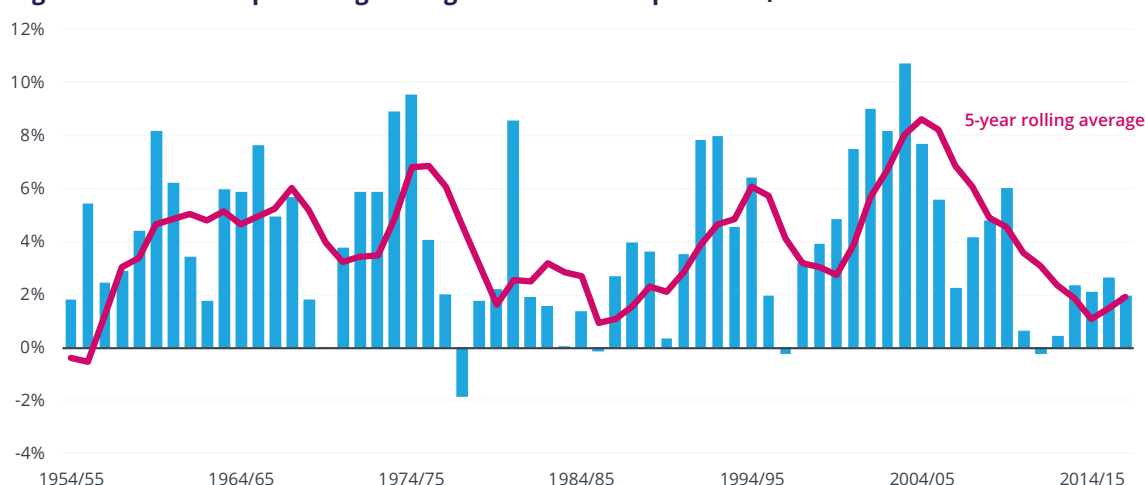
Long-term and predictable funding will facilitate better organisational and workforce planning. It may, for example, make sense to rationalise the hospital estate in order to save money and improve the quality of provision. Planning and delivering this will take time, and better decisions are likely if there is greater certainty about the funding for future years. It takes three years to train an initially qualified nurse, 10 years to train a fully qualified GP and usually a minimum of 12 years for a hospital consultant. Clarity over long-term funding would make workforce planning easier.

A long-term funding settlement should be possible as the main drivers of growth in demand – such as demographic, technological and social changes – are relatively easy to predict, at least in the medium term. Unfortunately, the historic precedents for delivering such a settlement are not promising.

The last few decades have seen significant variance in the funding for both health and social care. Figure 2 shows the growth rates in UK health expenditure since 1954/55.* Rather than seeing steady annual funding increases, the health system has gone through repeated cycles of feast and famine. Real-term increases of 8% or more have been quickly followed by years of no growth or even real-term cuts. Even the pink line, which shows the five-year rolling average, has significant peaks and troughs.**

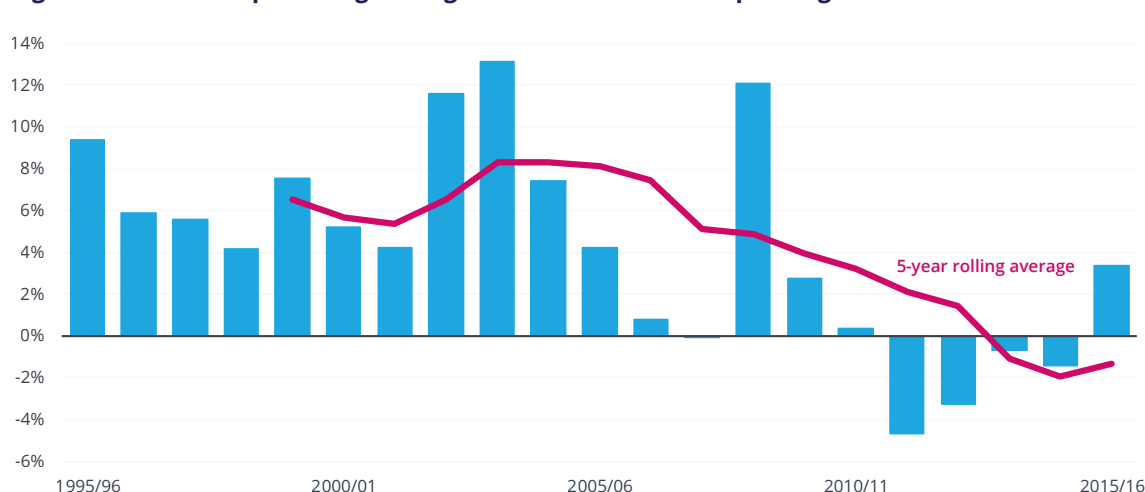
The figures for social care expenditure are even more stark. Figure 3 shows net expenditure by local authorities on social services, which includes adult social care. As with health, there have been major ups and downs, but since the mid-2000s, the rolling five-year average of real-terms expenditure has been consistently downwards, aside from the injection of the Better Care Fund in 2015/16, which in practice took money from the NHS.

Figure 2: Real-terms percentage change in UK health expenditure, 1954–2015



Source: Health Foundation analysis of HM Treasury, Public Expenditure Statistical Analyses, 1954–2017.

Figure 3: Real-terms percentage change in net social services spending, 1995–2016



Source: Health Foundation analysis of NHS Digital, Personal Social Services: Expenditure and Unit Costs, 1995–2016.

* 1954/55 is the earliest date from which a fairly consistent set of numbers can be constructed.

** The figure shows overall health expenditure, including, for example, public health and research and development. This was chosen because the precise profile for NHS expenditure differs across the four countries of the UK, thanks to the decisions of the devolved governments. But figures for purely NHS service expenditure in each of the four countries of the UK present a similar picture.

Health and social care spending will inevitably be affected by the ups and downs of the UK economy. It may also be subject to change due to the electoral cycle, with different governments prioritising spending in different areas. It is notable, however, that, particularly in the case of health, there are significant ups and downs in spending even where there has been no major economic shock or change of government. The explanation appears to be that the Treasury, as with other departments, seeks to squeeze NHS spending down until there is a crisis, with a surge in spending then seeking to repair the damage. As the impact of this short-term funding subsides, a new crisis emerges and the cycle starts again. The Institute for Government has dubbed this cycle 'crisis, cash, repeat'.²⁰

The question is how the Government can break out of this cycle of short-termism and set a more stable spending path for this Parliament and beyond.

Resolving these three issues is complicated by the differences between the health and social care systems

Addressing health and social care together is a peculiarly difficult issue in the UK, and especially in England. The NHS – a few exceptions aside – is a universal service, free at the point of use. But for historical reasons, social care is first needs-tested and then means-tested. In other words, a person needs a certain level of disability to qualify in the first place, with income and assets then taken into account before publicly funded help becomes available. The rules are complex. They differ significantly if care is provided at home, or in a care or nursing home. But crudely summarised, public funding does not kick in until savings and assets are below £23,250, and even then costs are not always fully covered. Someone in a care home or nursing home can be left, certain state benefits aside, with only £24.90 a week from their own income.

Resolving health and social care funding together is made even more complex by the range of views on how each should be paid for. Most people are very supportive of NHS care being provided according to need rather than ability to pay.²¹ It is as available to the rich as to the poor. But almost any proposal for reform of social care funding, especially to protect the minority of people who will incur very high costs, finds itself attacked – as the Dilnot Commission's proposals were – for being 'regressive'. Social care is so heavily means-tested that almost any reform to its funding and provision will benefit the better off more than those at the very bottom of the income and assets pile, who already receive their care free. That change is regressive is often used as an argument against any change to the private contribution to social care funding. Few, however, apply the same test to the NHS – that it should be means-tested because the better off also benefit from it.

Finally, there are major differences in how health and social care services are delivered. Health services are provided by the NHS and social care services are mainly run by local authorities – and unlike the NHS, local authorities are legally not allowed to overspend.

Despite these challenges, there is a broad and convincing consensus among politicians and policy experts that the funding of health and social care should be considered together because the services are so intertwined. High-quality social care can prevent patients attending hospital unnecessarily in the first place, and it can ensure swift discharge from hospital once treatment is completed.

2. What are the options open to the Government?

The Government has announced a five-year funding settlement for the NHS. However, it is not yet clear how this will be paid for or how much will be provided to other parts of the health budget and social care.

In this chapter we briefly categorise the main options open to the Government to resolve the challenge of health and social care funding. This is based on analysis of how past governments have sought to resolve challenging policy problems (primarily those issues covered in the case studies in the annexes).

Muddle through

To date, governments have generally defaulted to this option. The one exception was Tony Blair's commitment in 2000 to get NHS spending up to the European Union (EU) average, which did produce a period of sustained if not steady growth. More usually, governments have been caught in the cycle of 'crisis, cash, repeat' described in the previous chapter.¹ The Government has announced a five-year funding settlement, but unless it sets out a clear plan for how this will be paid for and sustained over time, it will be making another attempt to muddle through.

Without...a degree of cross-party agreement, there is a risk that this move will simply be reversed with the next change of government

Act decisively on its own

Governments can, should and normally do take executive action to resolve important public policy issues, even if they are difficult. By taking action, they may succeed in changing the status quo; what may have originally seemed unpopular, can quickly become the new consensus. For example, in 1997 the Conservatives opposed the New Labour Government's decision to grant the Bank of England operational independence, but in 2000 they reversed their position. There is now little political support for returning responsibility for setting monetary policy to the Chancellor.

When Labour introduced top-up tuition fees in 2004, it did so despite opposition from other parties and many of its own backbenchers. However, this was only possible because of its large majority and, even then, the bill passed by just five votes.

The current minority Government has acted on its own to propose a funding settlement, but without clarity on revenue-raising measures or a degree of cross-party agreement, there is a risk that this move will simply be reversed with the next change of government.

Set up an inquiry

In the past, governments that have decided they don't want to act on their own have looked for alternative ways of getting support for what they want. One of the most popular ways has been to establish an inquiry.* The aim is normally to lend independent credibility to a plan, depoliticise an issue or build cross-party support for policy proposals. Inquiries can provide political cover for a government to implement potentially unpopular policies and can increase the likelihood of a proposed solution lasting in the longer term.

It is no surprise therefore that many have proposed that an inquiry would be an effective way of resolving the challenges of health and social care funding.^{2,3,4} There are three broad types of inquiry that might be considered: a royal commission, an independent inquiry or a parliamentary inquiry:

- **Royal commissions**, with a 900-year pedigree, are one of the UK's oldest political institutions. They are generally used to look deeply at important or contentious issues of policy. The three most recent have explored the effectiveness of criminal justice (Runciman, 1991–93), long-term care for the elderly (Sutherland, 1997–99) and reforming the House of Lords (Wakeham, 1999–2000). Typically constituted with a panel of 12 to 16 eminent experts and other senior figures, they routinely take years to produce their findings and have not been used for almost two decades.
- In recent years, governments have preferred to use **independent inquiries**. Exploring similar types of issues to royal commissions, they are seen to be less cumbersome and often have just a handful of members. Our case studies include 10 examples of independent inquiries.** Both royal commissions and independent inquiries usually have secretariat support provided by seconded civil servants.
- An alternative approach would be a **parliamentary inquiry**. In 2012, Parliament established an ad hoc joint committee with membership from both Houses specifically to undertake an inquiry into the LIBOR scandal. This joint committee was known as a commission – the Parliamentary Commission on Banking Standards – in order to distinguish it from other select committee inquiries. Established by Parliament at the Government's instigation, its secretariat was provided by parliamentary staff, together with seconded external experts.

There is significant cross-party support for establishing a parliamentary commission on health and social care, although no public indication that it is something the Government is considering.⁵

* The term 'inquiry' can be used to refer specifically to public inquiries set up under the Inquiries Act 2005 but throughout this report we use it in its broadest possible sense.

** The Beveridge Report; the Black, Acheson and Marmot Reviews into health inequalities; the Dearing and Browne Reviews into higher education funding; the Inquiry into Human Fertilisation and Embryology; the Pensions Commission; the Dilnot Commission on Funding of Care and Support; and the Wanless inquiry into health spending.

Establish an independent body

Another way to harness independent expertise and provide an authoritative voice on knotty policy issues is to create a role for an independent body.* Bodies such as the Office for Budget Responsibility (OBR), the National Institute for Health and Care Excellence (NICE) and the National Infrastructure Commission (NIC) have a variety of roles including: undertaking analysis, providing advice, monitoring government performance, auditing, regulating and acting as an improvement agency.⁶

There have been calls in recent years for a new body that would assess health and/or social care funding. Most prominently, the House of Lords Select Committee on the Long-term Sustainability of the NHS recommended a new Office for Health and Care Sustainability⁷ and the Labour Party proposed a 'new Office for Budget Responsibility for Health to oversee health spending and scrutinise how it is spent'.⁸ In both cases, the aim was to improve accountability for spending on health (and care) and ensure greater focus on the long-term challenges facing the system.

* Our case studies include the following examples of institutions: National Institute for Health and Care Excellence (NICE), the Human Fertilisation and Embryology Authority (HFEA), the Monetary Policy Committee of the Bank of England (MPC), the Office for Budget Responsibility (OBR), the National Infrastructure Commission (NIC), the Committee on Climate Change (CCC) and the Low Pay Commission (LPC).

3. How should the Government answer the funding questions?

The Government has announced a significant funding boost for the NHS. To be a success, the Government would need to address the three critical funding questions that we have identified:

- How much more money is needed for health and social care?
- How should additional funds be raised?
- How can funding increases be provided consistently over time?

Unfortunately, the Government's announcement only partially answers one of these questions.

The Government's funding announcement is significant but isn't enough

The Government has acted on its own to decide on how much funding is required. In advance of the NHS's 70th anniversary it has announced an average annual funding increase of 3.4% over the next five years. This has been welcomed by Simon Stevens, Chief Executive of NHS England, who said that this "multi-year settlement provides the funding we need to shape a long term plan for key improvements in cancer, mental health and other critical services".¹

However, both the Health Foundation² and The King's Fund³ have questioned whether this will be enough. They have argued that an average annual increase of 4% is needed to address the fundamental challenges facing the NHS. Similarly, Jonathon Ashworth, the Shadow Secretary of State for Health and Social Care, has said that the proposed funding settlement is inadequate.⁴

Fair or not, the public may well take Labour's side. Polls consistently show that Labour is most trusted by the public on the NHS. A recent poll showed that 39% of people believe Labour will handle the NHS best, compared with only 22% for the Conservative Party.⁵

There is also still significant uncertainty about the funding settlement. The Government's announcement only applies to the budget for NHS England. It does not include public health, education and training, research and development, or elements of infrastructure. Without knowing what funding will be provided to these critical parts of the health budget, we can't make a final assessment of how generous the settlement is.

The Government has hopefully learned from past experience that any attempt to spin an injection of funding as more significant than it actually is will unravel quickly. In 2015 it became clear almost immediately that the spending review offer of £10bn a year extra for the NHS was actually worth only £4.6bn in real terms, because it

included funds that had already been committed and relied on cuts to other parts of the Department of Health's budget.⁶

Despite these challenges, if the Government provides suitable funding for other parts of the health budget, then it could be argued that it has partly answered question one.

But there is no answer for social care and the funding settlement may not be sustainable

By addressing the NHS alone, the Government has left questions about the funding of social care unanswered. Despite the crisis in adult social care being in many ways greater, it has deferred its decision about social care funding until later in the year.*

However, any effort to come up with a number should have considered health and social care together. This does not mean that the Government needed to develop a plan to integrate the two systems organisationally. But a wide range of UK experts have argued that the interdependence of health and social care (an example being the potential for delayed transfers from health to social care) means that the adequacy of a settlement for one can only be judged in the context of a settlement for the other.^{7,8,9} Our case studies on Japan and Germany demonstrate the limitations of addressing one service in isolation (see page 47 and page 50).

In addition, unless the Government satisfactorily answers question two – how should additional funds be raised – any funding settlement is likely to prove unsustainable.

Identifying where additional funds *could* come from is not challenging. The Government has a wide range of revenue-raising tools at its disposal. As with the total level of spending, there is no single right answer. Many combinations of taxes, charges, subsidies or other measures could successfully raise more money to be spent on health and social care services.

The challenge is finding a consensus on where additional funds *should* come from. While the public would like more money spent on critical services, most want someone else to pay. And raising billions more through any of these methods will inevitably create losers.

Acting on its own to choose a new mechanism for health and social care funding, and facing the possible electoral consequences, would be a daunting prospect for any government, let alone a minority one able to secure a Commons majority only via a 'confidence and supply' agreement with the Democratic Unionist Party (DUP).¹⁰ Theresa May has stated that the Government will wait until the Budget to set out how the NHS funding boost will be paid for, and that some of the money will come from a 'Brexit dividend', as well as tax rises and borrowing. Given that the Government's own forecasts suggest there will be no such dividend, the Prime Minister was not being entirely straight with the British public. By failing to clarify the source of the additional funding committed, the Government is effectively trying to muddle through again. Unless there is a clear plan for how the additional money will be raised through higher

* Even though it would take less money to fix, as overall NHS spending is considerably higher.

taxes or from other sources, it will effectively come from cuts to other parts of public expenditure.

This has been the approach taken before. Health spending has been allowed to take up a growing proportion of public spending in the past, benefiting from a squeeze on defence spending and cuts to education and transport in the 1990s, and a trimming of policing budgets in the 2000s.¹¹ However, following eight years of austerity, in which health has received an element of protection (though it has still seen the lowest funding growth in its history), there is little low-hanging fruit left to pick. Making further cuts to other areas of public expenditure in order to fund health and social care would be likely to elicit significant opposition.

Unless there is a clear plan for how the additional money will be raised... it will effectively come from cuts to other parts of public expenditure

Giving the NHS an early settlement is also a highly questionable way to conduct the spending review. Health and social care spending together represents a major component of total government expenditure. Reaching an early settlement on health reduces the fiscal space that the Government has to think strategically about its other spending priorities.

An inquiry would be the most effective way of deciding from where additional funds should be raised

A minority government muddling through or acting on its own is highly unlikely to achieve a long-term sustainable solution to the funding of health and social care. There are simply no indications that this Government will triumph where many others have failed. Providing a much-needed increase in funding¹² is welcome, but unless the Government implements revenue-raising measures to fund that increase, it will not be sustainable. The risk is a return to the yo-yo funding that has characterised government investment in the NHS for the last 70 years.

In this context, we recommend that the Government establishes an inquiry to answer the most politically vexed of our three questions – from where should additional money be raised? Although establishing an inquiry would not guarantee success – our case studies include plenty of examples of past efforts that have failed – our analysis suggests that an inquiry provides the best chance of giving the Government sufficient political cover to tackle this contentious question.

The most successful recent effort to fund a sustained growth in NHS funding followed an independent inquiry led by Sir Derek Wanless. The publication in 2002 of his inquiry's report *Securing Our Future Health: Taking a long-term view* is the only example of a systematic and public attempt by government to quantify 'the financial and other resources required to ensure that the NHS can provide a publicly funded, comprehensive, high quality service available on the basis of clinical need and not ability to pay'.¹³ As we set out in our case study on the report (see page 30), there is a lively debate about how independent the process was, with some arguing that it was commissioned simply to justify a decision that had already been made. Either way, it certainly provided political cover for the spending and tax increases that followed.

The political cover an inquiry could potentially generate for a decision on how to raise funds for health and social care would be beneficial for the Government, given the controversial nature of all the available options.

Of the three possible types of inquiry – royal commission, independent inquiry, parliamentary inquiry – the last would be the most likely to be effective.

Our analysis suggests that a royal commission is unlikely to help. Their recent record of success is poor. Two have taken place in the last two decades: the Royal Commission on Reform of the House of Lords did not see its recommendations implemented, while the core recommendations of the Royal Commission on Long Term Care were only adopted in Scotland. Royal commissions are unwieldy – Harold Wilson famously noted that ‘they take minutes and waste years’.¹⁴ One established now would be unlikely to report in time to feed into the 2019 spending review.

In contrast, in addition to Wanless, there have been a number of relatively recent independent inquiries which have been influential. The Pensions Commission is the best example, with its recommendations having been implemented in spite of the resistance of Gordon Brown, the then Chancellor. The Dearing and Browne inquiries into university tuition fees did not see their specific proposals adopted, but both provided governments with cover for unpopular decisions. An adapted version of the Dilnot inquiry’s recommendations on social care was put into legislation, though that legislation has not been brought into effect.

Often, one advantage of an independent inquiry over a parliamentary inquiry is that it can consider politically taboo topics; in this case funding for the NHS from sources other than taxation. However, the debate around NHS funding is even narrower than normal due to the politics of Brexit. Some Conservative MPs might, under normal circumstances, have looked beyond general taxation for a means to increase health expenditure. But the EU referendum pledge that Brexit would boost NHS funding by £350 million (m) a week now makes it harder to argue that a different funding mechanism is required. Indeed, the Prime Minister’s reference to a ‘Brexit dividend’ is clearly an attempt to sell the NHS funding increase to the most passionate supporters of Brexit within her party and cabinet. Given the commitment of all other major parties and many other Conservatives to a tax-funded system, there is little pressure to look elsewhere.

While it is true that other funding options for social care are controversial, they are not off-limits for some parties in the same way. All, for example, have considered tapping into housing wealth to fund social care services.

We believe that a parliamentary inquiry into health and social care funding offers the best chance of providing the Government with the political cover it needs. Indeed, there is already significant cross-party support for the idea of establishing such an inquiry. More than 100 MPs, including 21 select committee chairs, have supported a campaign led by Sarah Wollaston, the Chair of the Health and Social Care, and Liaison Committees, to establish a parliamentary ‘commission’ into health and social care.¹⁵

In the current political climate, if a high-profile, cross-party group of MPs and peers were able to reach agreement, they would probably have a better chance of winning over parliamentary colleagues than an inquiry led by independent experts. As the Wollaston letter demonstrates, whatever their party allegiances, many MPs are keen to fix health and social care funding. If the proposals were able to attract an element of support from opposition backbenches, the Conservative Government would have political cover to act. Even if the proposals were not fully implemented before the next election, the conclusions of a cross-party inquiry would be easier for a subsequent government to pick up.

Our research also suggests that the most successful inquiries and commissions continue in some way after the publication of their recommendations, scrutinising their implementation. If, like the Parliamentary Commission on Banking Standards (PCBS), the chair of a parliamentary inquiry into health and social care was also the chair of a select committee, this would help ensure that a high-profile body was available to continue to champion its conclusions, beyond the life of the inquiry. Those we interviewed for this research were clear that this kind of oversight is very effective at concentrating minds in government.

Finally, a parliamentary inquiry could probably be set up most quickly, drawing on the existing capacity of select committee staff, who are hugely experienced at running inquiries. If established as part of the NHS's 70th anniversary, it could report and make recommendations on funding mechanisms in time to feed into the 2019 spending review. Alternatively, an inquiry could be asked to report ahead of the next election, creating an opportunity for its recommendations to be taken up in party manifestos, or published at the beginning of the next Parliament. The evidence from our case studies is that inquiries which span an election – such as the Pensions Commission, Dearing Review and Browne Review – can provide a mandate for a new government to act.

There are ways to maximise the chances of an inquiry succeeding

An inquiry is not guaranteed to answer the question of from where additional funds should be raised. Our research does, however, suggest a number of factors that can give it the best possible chance.

First, the inquiry must have the support of the Prime Minister and, ideally, the Chancellor. Inquiries that have been launched by a secretary of state, with only tacit or reluctant support from the then Prime Minister and Chancellor, have tended to fail. The Dilnot inquiry, which never had the full support of Chancellor George Osborne, is a prime example of an inquiry undermined by a lack of high-level political support.

Second, opposition parties, particularly the Labour frontbench, should be given an opportunity to comment on the terms of reference and membership of the inquiry, even if they decline the offer. A genuine effort at bipartisanship will strengthen the credibility of an inquiry, potentially improving the chances of it winning support for its conclusions. The remits and membership of both the Dearing and Browne Reviews were agreed between the two main parties and this eased the path for the implementation of a form of their recommendations.

Third, the inquiry should have a chair with both the intellectual ability to tackle the issues and the political skills to sell its conclusions. The chair should have the ability, if need be, to go beyond the original remit to get answers to the questions that emerge in the course of the inquiry. For example, Lord Turner and his fellow pension commissioners unilaterally rewrote their terms of reference because they did not believe that you could adequately consider private provision without looking at its interaction with state pensions.

Fourth, the inquiry should consider publishing an interim report, as a way of framing an argument ahead of its final recommendations. An interim report could set out the potential options for raising the money, for example, with the final report making firm recommendations on the mix of mechanisms that should be used. Once again, the Pensions Commission provides the best example of this approach in action.

Last, but of critical importance, the inquiry should carry out extensive public engagement, using deliberative methods such as a citizens' assembly. In-depth public engagement can be a very effective way of developing proposals and building support:

- The **quality of policy recommendations** is likely to be improved through open-minded exploration of the issues with members of the public, particularly service users or those likely to be affected by proposals.
- Public engagement can **help build public support for proposals**. By demonstrating that the argument for proposals can be won with the public, deliberative approaches can help win the support of key stakeholders such as business bodies, unions and political parties. The endorsement of these stakeholders can in turn help win over the wider public and provide political cover for the Government to implement potentially controversial policies.
- The engagement process can help **build public awareness of policy issues**. This is particularly important in relation to social care because the entitlements and funding of social care are poorly understood by the public. A 2017 Ipsos MORI survey found that a majority of respondents thought the NHS provided social care, and nearly half thought it was free at the point of need.¹⁶ The public do not understand the scale of the problem of funding social care and consequently have little reason to support solutions to it.

Extensive public engagement was used successfully by the Pensions Commission (see the case study on page 55). Recently, the Commons Health and Social Care Committee and the Housing, Communities and Local Government Committee used a citizens' assembly as part of their joint inquiry into the long-term funding of adult social care.^{17,*}

* Public engagement can be a standalone process to try and solve a difficult policy problem, as in the case of the Irish Citizens' Assembly, but in the UK it has more usually been deployed as part of another approach. Examples include: the extensive listening exercise that fed into the 2006 white paper, *Our Health, Our Care, Our Say*; the similar approach taken by the Pensions Commission; and the survey, consultation meetings, focus groups and deliberative workshops undertaken by the Human Fertilisation and Embryology Authority (HFEA) when compiling evidence on mitochondrial donation.

An independent body could ensure that funding increases are provided consistently over time...

Ensuring policy stability is an enduring problem across government. Previous Institute for Government research has identified the high frequency with which policies are reinvented in areas as diverse as further education, regional government and industrial strategy.¹⁸

Our research suggests that an inquiry could help establish more consistent funding growth for health and social care. For example, inquiries such as the Beveridge Report and Warnock inquiry helped establish a new cross-party consensus.

An inquiry alone is unlikely to be enough. As the example of the Wanless Review into health funding shows, just because a recommendation is made and implemented, it doesn't mean it will survive in the long term. Indeed, Wanless himself recommended that a similar exercise would need to be carried out every five years; a recommendation that was not followed.

We recommend that the Government establishes an independent body for long-term health and social care funding. We envisage that the body would have two key roles:

First, once the question of how much money is needed has been answered, **the body would monitor implementation and recommend the adjustment of spending plans in the light of changing circumstances, publishing updates on an annual basis,** alongside the budget.

Even the Government's five-year funding plan will need refreshing as it goes along, not least, due to changing medical technology. Two examples illustrate this point. The development of interventional radiology has in turn brought improved outcomes, reduced the need for more conventional surgery, and resulted in greater productivity. So has the expansion of day case surgery, thanks in part to improved anaesthetics, and the advent of keyhole surgery. Predicting each of these, and how far and how fast they would be adopted, would not have been possible with any accuracy over even a five-year horizon.

The Human Fertilisation and Embryology Authority (HFEA) provides an example of how an independent body can perform this role. Set up following the Warnock inquiry, it has subsequently provided advice to government on how legislation should be updated to reflect the latest medical advances.

Second, the body could **provide scrutiny of the Government's costing of individual health and social care spending measures** and provide an endorsement of those. Each costing could be given an uncertainty rating, based on data, modelling complexity and behavioural impact.

Depending on the desired remit, which could be established by the Government acting on its own or following the recommendation of an inquiry, these functions could either be placed within an existing institution – such as the OBR – or given to a new one. The advantage of expanding the remit of an existing organisation is that it will already have an established reputation and experienced staff team that will lend credibility. However, there is always a risk that successful organisations given additional

responsibilities overstretch their remit, potentially reducing their ability to perform their original task well.

In whatever way they are established, a new body or an existing one with an expanded remit could help ensure that funding increases are more consistent over time. It could also increase the Government's credibility in this area; something which Theresa May herself has expressed concern about, saying: "Some people question our motives. They wonder whether we care enough about our NHS."¹⁹ Like the establishment of the Monetary Policy Committee (MPC) and the OBR, an independent body could be presented as a break from the past and the start of a new, more accountable approach. However, unless the question of revenue-raising is also answered satisfactorily, the funding settlement is likely to be unsustainable in the long term.

... and there are ways to maximise the chances of an independent body succeeding

Independent bodies need to be seen as sufficiently autonomous in order to be credible, but don't need absolute independence. Many bodies – including the OBR, the Committee on Climate Change and the NIC – have independent membership, but rely on the analytical capability of Whitehall departments. A body looking at health and social care funding would need data-sharing agreements with relevant departments and agencies; it would also need a clearly articulated purpose that differentiated its work from other bodies.

Institutional set-up is important – independent bodies established as non-departmental public bodies in statute are more likely to stand the test of time. But day-to-day independence and credibility rely just as much on a body's leadership. For example, despite being an executive agency of the Treasury, the NIC is widely seen as independent, in large part due to the approach taken by Lord Adonis, its first Chair. Similarly, the reputation for integrity and impartiality of the OBR's Chair Robert Chote has cultivated an enduring impression of credibility for the organisation's forecasting and costing. Both Adonis and Chote show that getting the first leader right can play an important role in setting the tone for how a body acts and is perceived.

The credibility of a body's leadership can be enhanced through the way in which it is appointed. In the case of the OBR, the Chancellor appoints the chair with the consent of the Treasury Select Committee, which holds a veto over the appointment. Political appointment ensures buy-in from the Government, and parliamentary scrutiny of the new body's leadership helps to maintain cross-party support for it. Given the importance of the role and the need to build long-term policy stability, the chair of any new health and social care institution would need to be appointed in a similar way.

Conclusion

Following years of under-investment and a relentless rise in demand, the cracks in the country's health and social care services are clearly visible. Waiting lists are growing, targets are being missed and unmet need is mounting.

The Government has acted, but it has only partially answered one of the three funding questions we have identified:

1. How much more money is needed for health and social care?
2. How should additional funds be raised?
3. How can funding be provided consistently over time?

The Government's failure to answer these questions properly is understandable. The issues are highly political, the precedents are poor, and the situation is complicated significantly by the differences between the health and social care systems.

But the situation is not impossible. This report has plotted out a realistic route – using a parliamentary inquiry and an independent body – that this or any future government could follow to resolve these questions. Success is far from guaranteed, but our analysis shows that this approach stands the best chance of success.

Annex A: Health case studies

Beveridge and the National Health Service

The Beveridge Report of 1942 is probably the best example of a government inquiry that led to major change that has stuck. In many people's eyes, Beveridge's report, with his call for an assault on the 'five giant evils' that stood on the road to post-war reconstruction, was the founding document of Britain's modern welfare state.

His call for an attack on the five giants – upon Want, by which he meant poverty; Disease, 'which often causes that Want'; Ignorance, 'which no democracy can afford among its citizens'; Squalor, which is usually taken to mean slum housing; and Idleness, 'which destroys wealth and corrupts men' – undoubtedly caught the national mood.

Origins of a national health service

But it is important to recognise that the dragon's teeth he planted to assault these evils – the five giant programmes of improved schooling, a new national health service, a new social security system, a vast house building programme and a policy of full employment – were sown into fertile ground.

The school leaving age had in fact been due to rise on the day war broke out, but got postponed. His new social security system, which was a vastly more extensive 'from cradle to grave' approach than anything that had gone before, was built on the social insurance principles which were already in place ahead of the war, although on a much more limited scale, for unemployment and for health. With huge swathes of housing already destroyed or damaged by bombing, it was housing – not the NHS – that was to be *the* dominant issue at the 1945 General Election, along with jobs. And it was John Maynard Keynes's 'new economics' of the 1930s that persuaded governments that they could run the underpinning policy for all of this – the policy of full employment.*

Pressure for a national health service had been growing for years. Beatrice Webb, in her 1909 minority report to the Royal Commission on the Poor Law, is generally credited with the first call for a 'public medical service' or 'state medical service'. In 1920 the Government had commissioned a report from Lord Dawson which argued that 'the best means of maintaining health and curing disease should be made available to all citizens'. In 1926 a royal commission had foreshadowed a health service, paid for 'out of general public funds' rather than insurance. The British Medical Association (BMA), despite the battles to come with Aneurin Bevan over the establishment of the NHS, had called in the 1930s for 'a general medical service for the nation' and in June 1942, just ahead of the Beveridge Report, the BMA had supported an insurance-based scheme to cover the whole community. Furthermore, the

* For an excellent account of the long-term run-up to the Beveridge Report, see Fraser D (2009) *The Evolution of the British Welfare State: A history of social policy since the Industrial Revolution* and Renwick C (2018) *Bread for All: The origins of the welfare state*. For what has happened since, see Timmins N (2017) *The Five Giants: A biography of the welfare state*.

Emergency Medical Service that the Government was running, and which was providing free care to an ever enlarging part of the population – war wounded, evacuees, those injured by bombing – was providing practical evidence that the Government could run a health service.

Impact of the Beveridge Report

There was an element of luck to when it was published. It came out a mere fortnight or so after the battle of El Alamein which, even then, was seen as a potential turning point in the war, one that hinted at light at the end of the tunnel.

The main ideas promoted by Beveridge had been widely discussed, but it was his report that provided 'the prince's kiss' – 'the decisive breath of life'.¹ It was his sweeping rhetoric, and the all-encompassing vision, that gave it such impact – 'all for one and one for all. The Three Musketeers meet the Government Actuary', as the American historian Peter Baldwin has neatly put it.²

The report's impact was enhanced by Beveridge's own skills as a highly determined self-publicist. His background included being a journalist and broadcaster – he was a regular contributor to radio's *The Brains Trust*. Through broadcasts, articles and half-leaks, he trailed his report extensively ahead of publication – even telling a *Daily Telegraph* reporter in an aside he promptly withdrew that the proposals would take the country "half way to Moscow". Once published, he was everywhere. In the newspapers, on *Pathé News*, in *Picture Post* and on public platforms – selling the report to the often intense annoyance of Churchill and other members of the Government. It was, he was later to recall, "like being carried on an elephant through a cheering mob".

While Beveridge is often seen as a founder of the modern, free at the point of use, NHS, he had no specific design for it (his half-hearted attempt at one in the report is deeply unconvincing). Rather it was one of three 'assumptions' that he made; things that had to happen outside his detailed social security recommendations, but which were needed to make them work.

Nonetheless, the power of that assumption undoubtedly played a part in all three political parties, ahead of the end of the war, accepting that a national health service had to be created. For example, the Beveridge Report is credited in the war-time Coalition Government's 1944 white paper – published by the Conservative health minister Henry Willink well ahead of Labour's subsequent creation of the NHS – which promised in its first paragraph a 'comprehensive health service for everybody' regardless of 'whether they can pay'.

Notably, Beveridge had largely ignored his terms of reference. He had been asked to undertake a survey 'of the existing scheme of social insurance and allied services... and to make recommendations'. He had vastly extended that with his clarion calls for full employment, for a national health service, and for an assault on Ignorance and Squalor.

Pros: Beveridge's report caught a moment in time and helped make the case for a national health service, whoever won the post-war election.

Cons: His social security recommendations were not, in practice, entirely adopted by the Labour Government of 1945 (though they were the foundation for what followed).

Lessons: The report was written at a time when many of the key arguments had been thoroughly aired, so there was a moment when decisive recommendations, rhetorically argued, could be adopted. There was luck involved in its impact, but Beveridge was a highly effective salesperson for the report. He also refused to be restricted by his terms of reference, effectively rewriting them.

Prescription charges

Prescription charges have long been a totemic issue. Charges for NHS dental care aside (and charges for hospital car parking which are treated separately), they are the largest source of charged revenue for the health service, contributing to the NHS being not entirely 'free at the point of use'. They have only once been subject to an independent inquiry.

Introduction, abolition and re-introduction

Initially, in 1948, there was no charge for prescriptions. As the service cost more at its outset than anticipated, the Treasury sought additional sources of revenue. The Labour Government legislated to permit a prescription charge (and the first dental charges) in 1949, the proposal then to introduce them in 1951 being one factor in Aneurin Bevan's resignation. In practice, it was the Conservative Government in 1952 that introduced the prescription charge at the rate of one shilling per prescription, with a limited number of exemptions.

In 1956 the charge was applied to each item rather than just the prescription as the Treasury again sought additional sources of revenue, with the charge doubling to two shillings in 1961. The Labour Government then abolished prescription charges in 1965 as part of a more substantial improvement in benefits more generally in the wake of the 1964 General Election. It then found itself forced to re-introduce them in 1968, still with a charge for each item, in the wake of the sterling crisis. The health minister of the day, Kenneth Robinson, faced with a choice of curtailing a big hospital building programme or re-introducing the charges, chose the latter.

Abolition produced a 16% increase in prescriptions in the first year, which then tailed off. That led to an entirely predictable and unresolved argument over whether this was unmet need being fulfilled or people making unnecessary trips to the doctor to fill up the medicine cabinet. Their re-introduction came with a much wider range of exemptions than previously, with the result that their re-appearance raised less than the Treasury hoped.

Exemptions and review

Since being re-introduced, there have been some extensions to the exemptions, and there was an occasional increase in the level of the charge until the 1980s, when the then Conservative Government regularly raised it, usually in line with inflation, but occasionally above it.

In the 2000s, as devolution took effect, first Wales and then Scotland and Northern Ireland abolished prescription charges. In England, in Gordon Brown's time as Prime Minister, the decision was made to give cancer patients all their prescriptions free, not just those for their cancer treatment which, being hospital administered, were already not charged for. That, however, only helped to highlight long-standing anomalies around who, among those with long-term conditions, did and did not receive some or all of their medicines free of charge. A review was set up in 2008. However, the Prescription Charges Review,³ while being commissioned by the Labour Government, was published under the Coalition Government in 2010 as big spending cuts were made in the wake of the financial crisis. As a result, its recommendations to widen exemptions were not adopted.

Anomalies over free prescriptions for those with long-term conditions aside, there are other odd aspects to the current charge. Exemptions are now so extensive that while 40% of the population is liable to pay, fewer than 10% of items are in fact charged for – the exemptions covering those most likely to need a prescription. The charge is currently £8.80 per item, which is relatively high by international standards. And it does mean that someone on an income just above the income means test who needs three prescriptions a month faces a bill in excess of £25. Assuming they are on longer-term medication and know they will need treatment, a pre-payment certificate, or 'season ticket', is available at £29.10 for three months or £104 for a year.

The charge raised around £550m in England in 2016/17, or a fraction over 5% of the primary care prescribing budget, or less than 0.5% of the English NHS budget.

Lessons: Prescription charges have always proved controversial, and not only when they have been increased. The Department of Health, for example, unsuccessfully resisted the Prime Minister's desire in 2008 to make all prescriptions for cancer patients free, believing that the £150m a year that cost could have been spent better elsewhere.⁴

The Prescription Charges Review aside, and with the exception of the decision to abolish prescriptions charges (temporarily as it turned out) in the 1960s, decisions to raise money from them have always been Treasury-driven, and have been undertaken without seeking political cover from an inquiry.

The Wanless Report

The Wanless Report of April 2002 – *Securing Our Future Health: Taking a long-term view* – is the only occasion that a government has attempted in public to quantify 'the financial and other resources required to ensure that the NHS can provide a publicly funded, comprehensive, high-quality service available on the basis of clinical need and not ability to pay'. It is thus an important case study.

To some, Wanless was an independent exercise whose conclusions allowed the Labour Government to re-make and to win again the argument for the sort of service set out in its terms of reference – publicly funded, and based on clinical need and not ability to pay. With that it made the case for increased spending, and thus justified the tax increases that would inevitably follow.

To others, however, it was essentially a 'His Master's Voice' report, commissioned by the then Chancellor, Gordon Brown, to justify the big increases in NHS expenditure to which the Government was already committed. In other words, it essentially had a pre-ordained outcome, its construction a reflection of the tensions between Gordon Brown and Tony Blair over who was in charge of this key area of government activity.

Commissioning Wanless

Part of the reason for that is the background to its creation. In January 2000, after a winter of terrible headlines about the state of the NHS, Tony Blair stunned everyone by going on the *Breakfast with Frost* television programme and pledging that, assuming the economy performed, NHS expenditure as a share of GDP would rise to meet the average among the then 15 members of the European Union (EU). That implied at least a 25% real-terms increase in spending.

Gordon Brown initially sought to downgrade that to 'an aspiration'. But the die had been cast. In the subsequent budget in March 2000, he delivered the first step towards that with a 6% real-terms increase in expenditure – roughly double the long-run average. Much more, over a longer period, would however be needed to meet the Prime Minister's pledge.

In March 2001, the Chancellor commissioned Derek Wanless, the former Chief Executive of NatWest, to quantify the resources that would be needed to provide a high-quality service, without any presumption, in the terms of reference, that the EU average was the correct figure.

Interim and final reports

Supported by a team of civil servants from the Treasury, Wanless produced an interim report in November 2001 which spelt out the UK's relatively poor performance on key health outcomes compared with seven other countries, its relatively low numbers of doctors and nurses per head, and its slow take-up of newer technologies. Perhaps its most telling point was that over the quarter century to 1998, the UK had underspent by between £220bn and £267bn cumulatively compared with the EU average. It was therefore not surprising that 'with such significantly lower spending, UK health service outcomes have lagged behind continental European performance.... The surprise may be that the gap in many measured outcomes is not bigger'.⁵

The final report⁶ in April 2002 projected an increase in annual spending over the next 20 years from £68bn to between £154bn and £184bn, depending on a range of factors which included productivity and how hard individuals themselves worked to stay healthy.* That implied average increases of between 4% and 5% a year in real terms, but something bigger, around 7%, in the first five years, 'reflecting the need to deliver improvements as quickly as sensibly possible'.

Implementation and legacy

It was essentially that which Gordon Brown then delivered – a promise of just over 7% over five years, paid for by a significant increase in national insurance – although it is

* Wanless's other big calculation was that, assuming that private health expenditure remained at a constant 1.2% of GDP, total health spending was likely to rise to between 10.6% and 12.5% of GDP by 2022.

worth noting that, with hindsight, the extra cash might have delivered more lasting improvements if the promise had been 5% in real terms over seven years.

It is not in question that the report provided a justification for the Chancellor's big spending increases. Whether it really killed off arguments at the time about alternative funding for healthcare is more questionable. The Conservatives, for example, still went into the 2005 election with a proposal for a 'patient passport' that would have allowed patients to take the average cost of their NHS procedure and use it for private treatment, paying any additional cost on top. It was David Cameron who put an end to

that idea as soon as he became party leader in 2005, re-committing the Conservatives to a tax-funded service, largely free at the point of use, with treatment according to need, not ability to pay.

 **It is not in question that the report provided a justification for the Chancellor's big spending increases**

 The report also set its recommendations in two contexts. First, it set out three scenarios for future spending – slow uptake, solid progress, fully engaged. In these the public look after their own

health to a lesser or greater degree, and the service becomes more or less responsive and efficient. That implied that there was a 'rights and responsibilities' agenda here, not just a case for money. By underlining that, and setting out what higher expenditure might achieve, it secondly made the case that this was a 'something for something' approach. In other words, it was not just a case for money, regardless of what that might achieve.

It is important to note, however, that Wanless made significant recommendations that were not enacted.

First, he said the exercise should be repeated every five years. That did not happen. Second, that there should be a further study of social care expenditure. He had been able to give only limited attention to that, partly because of the limited data then available. But, the report declared, 'no review of healthcare resources would be complete without considering the link' between health and social care, given the need to integrate the two. Again, that did not happen, at least not in the form Wanless intended. The Treasury did commission a further and less influential report from Wanless on public health measures that might affect future healthcare expenditure. And The King's Fund did commission Wanless to undertake the social care study he recommended. Inevitably, that carried less weight than a study commissioned by the chancellor of the day.

It is worth noting that the report acknowledged that any long-term projection of the likely resources required – in this case over 20 years – is 'fraught with uncertainty'. Factors it sought to embrace included rising expectations, demography, prices, productivity, and whether public health measures and greater engagement of the public in their own health might reduce demand. It also assessed changing medical technologies, the trends for which, it noted, are 'particularly uncertain' towards the end of the 20-year period.

It did develop a model to project costs, but conceded that, depending on the assumptions made, 'many other scenarios are, of course, possible and could result in very different estimates'.

Pros: This was, in the report's own words, 'the first time in the history of the NHS that the Government has commissioned such a long-term assessment of the resources required to fund the health service'. It used an interim report to set out the scale of the challenge and why the issue needed to be addressed – the UK's relatively poor performance on some key health outcomes. The final report provided a justification for the big increases in health expenditure that had already been promised. Its most powerful argument, however, may have been that 'we have achieved less because we have spent very much less [than other comparable countries] and have not spent it well'.

Cons: It proved not to be an easy exercise. As the report itself acknowledges, different assumptions about future scenarios could have led to very different estimates of the resources likely to be needed. The projections were, inevitably, more uncertain the further out they went. It made recommendations for an additional study involving social care, because of the intimate links between health and social care expenditure, and it recommended that the exercise be repeated five-yearly. Neither happened. There was a lack of follow-through, both in those areas and in finding mechanisms that made more likely the achievement of the more productive scenarios that Wanless envisaged.

Lessons: The success of the Wanless Report can be attributed in large part to the buy-in of the most senior members of the Government. It was commissioned by the Chancellor, who was committed to its outcome, and supported by the Prime Minister, who had already announced that large increases in health expenditure were needed and would, economy permitting, be delivered. Whether or not you agree that it was used to justify a decision that had already been made, it is certainly true that the use of an independent inquiry provided the Government with political cover to act. However, a one-off inquiry cannot guarantee stable funding in the long term.

Health inequalities

Back in 1948, as the NHS was founded, it was broadly assumed by many, though not by all, that inequalities in health – the fact that some people have much worse health, die earlier, and have less good access to services – was an issue that the creation of the service itself would largely solve. This proved not to be the case and over the years there have been three major government reviews to explore the issue.

The Black Report

Over the 1950s and 1960s, data began to emerge showing that the creation of the NHS had not solved inequalities in health, and in 1971, a South Wales GP, Julian Tudor Hart, published his 'inverse care law': that the availability of good medical care tends to be available least to those who most need it.

Later in the 1970s, a young social epidemiologist called Richard Wilkinson, who three decades later was to publish *The Spirit Level*,⁷ wrote to David Ennals, then the Labour Secretary of State for Health, pointing out that inequalities in death rates by social class had become the largest since accurate records were collected.

In 1977, Ennals, influenced by Brian Abel-Smith, his special adviser and a London School of Economics Professor, announced an inquiry into health inequalities to be chaired by Sir Douglas Black, the Chief Scientist at the then Department of Health and Social Security. Its membership included key figures from among the relatively small group of academics who had been studying the issue. It was to be the first of three significant inquiries into health inequalities over the coming decades.

By 1980, when Black reported, there had been a change of government. Health inequalities were anything but Margaret Thatcher's top concern. The inquiry made 37 recommendations that included free school meals for all, big increases in both child benefit and housing expenditure (including a distrust of the flagship Thatcherite policy of council house sales), a quadrupling of the maternity grant to restore its 1948 value, a new infant care allowance, more pre-school education and much else. Patrick Jenkin, Ennals's successor, costed the recommendations at upwards of a mighty £2bn a year, and declared them 'unrealistic... in any foreseeable economic circumstances', at a time when the entire NHS budget was barely £10bn. He moved to bury it.

Just 260 copies were released late on the Friday evening before the August bank holiday and Black was barred from holding a departmental press conference on it. Sir Douglas, who was one of those rare people who became more radical as he aged, was made of sterner stuff. He held his own launch at the Royal College of Physicians; the attempt to bury the report garnering it far more attention than it would otherwise have received. None of its substantive recommendations – which lacked any economic evidence to support the assertion that they would reduce health inequalities – were implemented. But it put health inequalities firmly on the map, not just in the UK but also abroad, although it was to take until the early 1990s and John Major's Government for another Health Secretary – William Waldegrave – to acknowledge that health inequalities mattered and needed to be addressed.

The Acheson Report

Black was followed in 1998 by a report from the former Chief Medical Officer Sir Donald Acheson. This was commissioned by Tony Blair's incoming Labour Government as one of its first acts. It came to very similar conclusions to the Black Report – that income inequality was a key driver of health inequalities and more resources should be concentrated on children, and particularly children in poorer households. It produced 39 recommendations. Again, it lacked an economist on its membership and had little in the way of economic analysis to support its work. Unlike the Black Report, its recommendations were couched in broad terms, which made them un-costable.

The Government's response this time was warmer. An 'action plan' followed, which contained some specifics that the report lacked. Critics, however, felt the scale of the formal response, which involved some £96m of identifiable expenditure, fell well short of the challenge. Against that, however, the Acheson Report chimed with, and to that extent may have reinforced, much else that the Government was anyway doing to seek

to make Britain a more equal society, although the Government was coy about describing it that way: for example measures such as Sure Start, child tax credit, the aim of abolishing child poverty in a generation, welfare-to-work programmes, neighbourhood renewal, social housing repairs and the pension credit.

The Marmot Review

A decade on, in 2008, Sir Michael Marmot was commissioned to undertake another review, reporting in 2010, just ahead of that year's General Election. The conclusion was the same: 'The more favoured people are, socially and economically, the better their health.' Those living in the poorest neighbourhoods were dying on average seven years earlier than those in the richest neighbourhoods, and the average difference in disability-free life expectancy was 17 years. Rather than list a set of costed policies, Marmot sought to turn the economic argument on its head, highlighting the costs of inaction in both human and economic terms.

The review's core conclusion was that 'health inequalities result from social inequalities. Action on health inequalities requires action across all the social determinants of health'. In other words, while the NHS had a contribution to make to reducing health inequalities, the key drivers lie elsewhere. Its ultimate argument contained a bigger challenge: one of 'doing things differently, to put sustainability and well-being before economic growth and bring about a more equal and fair society'.

Despite that challenging conclusion, the 2010 white paper⁸ on public health endorsed much of the review's analysis. The Marmot Review's project manager judged in 2013 that 'the response to the review locally and nationally has more than met our expectations and hopes', while pointing to 'worrying signs' that health inequalities were continuing to widen, with them being 'made worse by the economic climate since 2008 and by welfare reforms'.⁹

Pros: Three inquiries over three decades have undoubtedly moved the argument about health inequalities on, and by a long way – feeding into and reflecting back a wider international debate about the issues, and the advantages, or otherwise, of seeking to create more equal societies.

Cons: Direct attribution of policy changes to any of these inquiries is not always easy. All three tended to change the climate rather than make particular bits of the weather.

Lessons: Health inequalities are, so to speak, the symptom rather than the disease. Their causes lie in inequalities in income, education, housing, work or its absence, working conditions, early childhood development, gender and ethnicity. As the Marmot inquiry acknowledged, it is probably impossible to eliminate them; it is possible to reduce the gradient, however. Tackling them is a multi-faceted issue to which no single inquiry is ever likely to provide the answer, or answers. Successive inquiries, however, have moved the argument on appreciably and led to greater concern about, and some measures aimed at tackling, health inequalities.

The National Institute for Health and Care Excellence

The origins of the National Institute for Health and Care Excellence (NICE) go back a long way – at the very least to the 1970s. Its establishment and continued success point to the ongoing desire of politicians to delegate controversial and technically difficult decisions to independent experts.

Background

In 1972, Dr Archie Cochrane published his seminal book, *Effectiveness and Efficiency: Random reflections on health services*.¹⁰ In it, Cochrane argued that, in the face of rising healthcare costs, treatments in future would have to be based not just on 'custom, tradition and hunch', but on hard evidence, and indeed ideally on randomised controlled trials. This work is often seen as one of the origins of the 'evidence-based medicine' movement.

'More and more requests for additional facilities', he argued, will have to be based not just on 'the opinion of senior consultants' but 'on detailed argument with "hard evidence" as to the gain to be expected from the patients' angle, and the cost'. With what proved for many years to be considerable optimism, he declared that 'few can possibly object to this'.¹¹

Later drivers included the explosive reaction of Gerry Malone, the Minister of State for Health in 1995, when asked to decide whether the NHS should provide beta-interferon, a new and enormously costly treatment for multiple sclerosis, whose long-term benefits were far from clear. On some estimates it was believed it might take 10% of the then drug budget. Malone's reaction was to ask 'how the hell am I meant to make that decision?'. The answer, Malone says, 'was "because you are the minister, minister". But I pointed out that I was probably the least equipped person to make the judgement around its efficacy and its costs and benefits, even with the no doubt excellent advice of my civil servants.'

After lengthy consultation a compromise was reached that allowed a slow introduction of the product, but at the end of it, Malone says, 'I got together some of the key people in the department and said "Look, we have got away with this on this occasion. But I never want a minister to be put in this position again. Go away and devise some scheme where ministers do not have to take these decisions. This is not something that in my view should ever again land on a minister's desk"'.¹²

It was to take some years for such a scheme to be devised, and many other tributaries led to the creation of NICE, including the development of a key tool – the QALY or Quality Adjusted Life Year – which allowed comparison of the cost-effectiveness of different types of treatment across medical specialisms.

Its creation was also driven by the concerns of Stephen Dorrell, then Health Secretary, and Chris Smith, as the Labour opposition spokesperson, about 'quality' in the NHS; a concern that coincided with a furious public debate about whether 'rationing' had to be introduced into what was then a cash-strapped health service. The issues were not just about who should take the decisions on which expensive new treatments the NHS should provide, but about the quality of the proliferating number of 'guidelines' on best practice which clinicians increasingly felt the need for amid an explosion in the medical research literature.

Remit

It was the Labour Government elected in 1997 which eventually established NICE. It was initially given two roles – and was to acquire others. First, producing authoritative guidelines on best practice. Second, undertaking cost benefit analyses of new products before recommending whether the NHS should or should not adopt them, on grounds of cost-effectiveness. It was the latter which grabbed the headlines. Though frequently described in the media as a 'rationing' body, that in fact was not its role. It assessed new treatments on the grounds of whether they were cost-effective or not. Many of its recommendations proved not to be a simple 'yes' or 'no' – although there have been examples of each. Quite often it recommended limited adoption of a new treatment in particular groups of patients, pending further evidence on cost-effectiveness in other groups.



Ministers have held the line – allowing NICE to do the task for which it was created



What it did not do – and why it was not a 'rationing' body – was recommend limited uptake on the grounds that the NHS could not afford the treatment. It simply recommended whether a treatment was cost-effective or not. Whether the overall cost of the treatment was affordable at the time, remained a decision for ministers.

When it began operations in 1999, NICE's recommendations were purely advisory. Ministers nominally could overturn them, although in practice they did what NICE had been set up to allow them to do: hide behind its 'expert' recommendations. That changed in 2002, when the NHS was required, in normal circumstances, to implement NICE's recommendations within six months. But even then, its recommendations technically remained advisory to ministers.

Operation of NICE

NICE's activities – particularly in relation to newer cancer drugs – have continually been controversial. When it rejects or adds conditions to the implementation of new treatments, it frequently faces the ire of the pharmaceutical industry and the fury of patient groups who want the new treatment regardless of whether it is judged to be cost-effective or not.

But ministers have held the line – allowing NICE to do the task for which it was created. The closest that came to being breached was in 2005 with the arrival of Herceptin, a highly effective treatment for a particular form of breast cancer. Patricia Hewitt, the then Secretary of State for Health, told the NHS to prepare for its introduction ahead of the drug even getting its European licence, let alone NICE having assessed its cost-effectiveness. But she stopped short of telling the NHS to adopt it ahead of NICE's assessment.

There was also a crisis in Andrew Lansley's time as Health Secretary. At the time, Lansley was hoping to move to 'value-based pricing' for new drugs. The concept is complex, but essentially the idea was that the Department of Health would negotiate with the industry a price for new products based around their overall value to patients and the NHS. NICE would continue to appraise them, but once the price was settled, it would be up to doctors whether to prescribe them. NICE would no longer make a formal recommendation for adoption or otherwise.

Both the industry and the medical profession, particularly family doctors, were strongly opposed. Dr Clare Gerada, the President of the Royal College of General Practitioners, warned that '[individual] GPs will be exposed to lobbying by patients, patient groups and the pharma industry'.¹³ The industry was also opposed because, in the words of Sir Michael Rawlins, the then Chairman of NICE, 'any negotiation about price involves a trade-off between price and volume, and without a recommendation from NICE the industry would not have a clear idea about volumes'.¹⁴ It lobbied hard for NICE's recommendation role to be retained, while the GPs feared, again in Rawlins' words, 'that having to make the decisions about cost-effectiveness themselves would damage relations with patients, some of whom would believe that doctors were personally profiting when they said "no". They wanted a "blame quango" to be responsible – i.e. NICE'.¹⁵ The idea was dropped.

More recently, questions have arisen after NICE agreed to a request from NHS England that where a new product is likely to cost the NHS more than £20m annually in any of its first three years, NHS England can ask NICE to make recommendations about its pace of introduction. While NHS England was the originator of this idea, the decision was taken by the two bodies, without a ministerial direction.

This is a big conceptual shift because it does potentially turn NICE into a 'rationing' body. If NHS England decides something is not affordable without a slower rate of adoption, NICE will recommend the timetable.

To date, the threat of such action has seen the industry agree reduced prices such that no product has crossed the £20m threshold. But it still leaves NICE likely at some point to recommend a 'rationing timetable' for new products. Some see that as a significant change to, and a significant undermining of, its role.¹⁶

Pros: NICE has successfully allowed politicians to delegate politically controversial and technically difficult decisions to a body that, in effect, takes them for them. In 2019 it is due to celebrate its 20th anniversary, and it is one of few of the many arm's-length bodies or quangos that the last Labour Government set up to have survived with its remit essentially unchanged.

Cons: Partly because of its success, NICE has been given many additional roles since its creation which does run the risk, at least in the eyes of some, of 'mission creep', diluting its original purpose.

Lessons: NICE has only survived because NICE itself and the Department of Health have succeeded in explaining to successive ministers its role, and the value of that role. If that memory around its original purpose gets lost so, in the end, will NICE. And there is a risk in its own recent agreement to play a part in financially driven 'rationing' decisions.

The core lesson, however, is that NICE has worked because ministers recognise its role and have allowed it to operate with little interference – twice stepping back from decisions that would have undermined and potentially destroyed it.

Human Fertilisation and Embryology Authority

In 1978, Louise Brown, the world's first person conceived by in vitro fertilisation (IVF), was born in the UK. Her birth began a new conversation on reproductive and embryological technologies, one instantly mired in controversy. Four decades, one body and multiple reviews later, the UK continues to lead the world in this area, under the supervision of the Human Fertilisation and Embryology Authority (HFEA). Despite some controversies and the need for regular adaption to meet the fast pace of development, this executive non-departmental public body has successfully regulated treatment and supported world-leading policy-making on complex ethical and scientific matters.

The Warnock Report

When Louise Brown was born, there were no existing rules or regulation in this area, and no international models to follow. As concern surfaced about the morality of IVF, there were widespread calls for an inquiry. In 1982, the Secretary of State for Social Services, Norman Fowler, announced the establishment of a Committee of Inquiry into Human Fertilisation and Embryology. Its Chair was the philosopher Mary Warnock, deliberately chosen as an 'outsider' to the health sector and as someone capable of grappling with the social and ethical issues involved. Multiple interviewees commended her in her role as chair. Former Health Secretary, Frank Dobson, described her as an 'inspired choice' to chair, who was 'clear, concise, persuasive and to the point'.¹⁷ The rest of the committee was composed of seven doctors and scientists, and eight individuals from other professions (including a theologian).

Two years (and 200 IVF babies) later, the committee produced its final report.¹⁸ It made 64 recommendations, which supported both fertility treatment and embryo research so long as there were safeguards. It proposed that a new statutory licensing body should regulate future treatment and research.¹⁹ The committee recognised the absolute legitimacy of its objectors and the philosophical debate over its subject. The report included expressions of dissent, one on surrogacy and two on the use of embryos for research. Later Warnock wrote that if her committee had been undivided 'then it would inevitably also have been unrepresentative'.²⁰

The Human Fertilisation and Embryology Act

Due to the ethical topics covered by the report, the parliamentary debate which followed was not party-political, with broad consensus between the leaders of the parliamentary parties. Opposition from the backbenchers, however, resulted in substantial parliamentary debates, even ahead of the Government's own legislative proposals.

One specific proposal dominated parliamentary reaction – that human IVF embryos should be available for scientific research during the 14 days following fertilisation. In 1985, Enoch Powell introduced a Private Members' Bill – the Unborn Children Protection Bill – to block this proposal. Two hundred and thirty-eight MPs supported Powell's Bill, but it fell as the Government refused to make parliamentary time available.²¹ Meanwhile, the Royal College of Obstetricians and Gynaecologists formed a voluntary licensing authority (along the lines recommended by the Warnock Committee), to counter the accusation that it would be impossible to monitor experimentation on human embryos. This demonstrated that benefits could be gained from embryo research, without 'social disruption and moral decay'.²² A group of

scientists and parliamentary representatives also formed the Progress Campaign for Research into Human Reproduction, one of whose tactics was to bring 200 families affected by genetic diseases to Parliament to advocate for embryo research.

In 1986, the Government consulted on the report's recommendations and in 1987 proposed a framework for legislation. This led to the Human Fertilisation and Embryology 1990 Act, which passed in a free vote.²³ There were 362 votes in favour

The creation of the HFEA did not close the issue... with a continuing need to periodically update the Act due to scientific advances

of embryo research and 189 votes against (a significant change from 1986, when 64% of the House of Commons favoured its prohibition). The case had been successfully made to the 'middle ground' of British politics, with the Warnock Report having allowed Kenneth Clarke, then Secretary of State for Health, to "depoliticise" the issue.²⁴ Michael Mulkey has argued that 'Labour progressives and Conservative moderates were unable to resist the authoritative reassurances provided by leading figures from the loyal

community of British medical science'.²⁵ Despite the sense of imperative, eight years had passed between the launch of the inquiry and legislation receiving Royal Assent. But the delay allowed public attitudes to shift. The moral objections remained the same. But the benefits of fertility treatment were clearly being shown through an increasing number of new births.

The legislation created, in 1991, the Human Fertilisation and Embryology Authority. It was tasked with licensing and regulating clinics and embryo research, collecting and protecting information about treatments, donors and children, and considering any emerging ethical issues. Its board reflected a wide range of perspectives, including not just doctors, scientists and researchers, and crucially it was required to have a lay majority – including the chair and deputy chair.

Updating the legislation

The creation of the HFEA did not close the issue, however, with a continuing need to periodically update the Act due to scientific advances. A series of reports by the Science and Technology Select Committee in 2004/05 raised questions about the sufficiency of the framework that the 1990 Act provided.²⁶ A consultation in 2005 led to a white paper in 2006 and a draft Human Tissue and Embryos Bill in 2007, which was then scrutinised by a joint committee of both Houses. Lord Willis led the committee of six, which included fertility experts, a former HFEA chair and a bishop. Lord Willis has written that 'the need to re-examine the legislation and the regulatory framework came, not from a sense of failure, but from its success'.²⁷

The joint committee made 31 recommendations, the most significant of which was the rejection of the Government's proposal to merge the HFEA with the Human Tissue Authority (HTA, which regulates organ donation and research on human tissues) into a single Regulatory Authority for Tissue and Embryos (RATE). The committee argued that the 'regulatory oversight provided by the HFEA and the HTA is better than the oversight that could be provided by RATE'.²⁸ The Government conceded the point and the Human Fertilisation and Embryology Act was passed, again on a free vote,

in 2008.²⁹ The Act extended the HFEA's remit to include regulation of all human embryos outside the body, loosened restrictions on data collection for research, ensured regulation of interspecies embryos, banned sex selection and recognised same-sex couples as legal parents.³⁰

Two years later, however, the HFEA came under threat during the Coalition Government's 'bonfire of the quangos'. In July 2010, the Government proposed transferring both the HFEA and HTA's responsibilities to the Care Quality Commission and the Health Research Authority (arguing that this would produce significant financial savings and that IVF was no longer new, making certain HFEA functions 'superfluous'). Seventy-five per cent of responses to a consultation on the idea opposed it, with the HFEA arguing that a coherent and dedicated regulatory body was important for public trust. It committed to reducing its expenditure (which did indeed decline by 25% between 2010 and 2013).³¹ A further independent review on efficiencies, carried out by Justine McCracken (the Chief Executive of the Health Protection Agency) and commissioned by the Government, also concluded that there would be more risks than benefits from a merger.³² The Government accepted these recommendations, and the HFEA and HTA remain separate bodies.

Operation of the HFEA

The HFEA is well regarded within the health sector. It has good relationships with the British Fertility Society and the Royal College of Obstetricians and Gynaecologists, which former Chair Dame Suzi Leather said "sustain [the HFEA] through bumps with the clinics".³³ Civil servants within the Department of Health have also been largely supportive and appreciative of the HFEA's value. Despite being a small body, it has benefited from this continuity of support, having access to the wider department if necessary. And while the HFEA engages less directly with the general public (speaking mostly with clinics and patient groups, and usually reaching the general public through the media and consultations), it has what former Chair, Walter Merricks, describes as a largely "sympathetic and easy to understand objective": helping people have children.³⁴

Starting in 2006, it led a prominent campaign to reduce the multiple birth rate from IVF, setting a target of just 10% of births. By 2017, 84% of clinics were meeting this target, and the national multiple birth rate had declined from 24% to 11%.³⁵

This is not to say the HFEA hasn't faced controversy, although many of these are in the past. In 2002, the Department of Health commissioned an independent inquiry into a series of recent IVF errors that led to a number of changes, including unannounced inspection visits. In 2007, the HFEA saw legal action and intense scrutiny over the entry and search of two fertility clinics, which were broadcast in a *Panorama* investigation. Walter Merricks says the pressures over this incident are "indicative of how a small organisation can be brought to its knees" when it lacks the time or resources for its defence.³⁶

However, Dame Suzi Leather attributes much of the body's effectiveness to the fact that it is a "niche, expert body... set up to do a very necessary and doable job", largely without interference from government.³⁷ It has successfully addressed controversial topics such as donor anonymity, sibling survivors and gender selection. The current Chair, Sally Cheshire, told us that at other times the HFEA has been able to "take

responsibility for considering controversial issues away from politics”.³⁸ This was the case on mitochondrial donation, where the Government specifically requested the HFEA review of the scientific evidence on safety and efficacy, so that it could then decide its position. Following intensive public engagement – comprising deliberative public workshops, a public representative survey, a consultation questionnaire, open consultation meetings and patient focus groups – the HFEA recommended that the practice be allowed within a regulatory framework. Based on this work the UK Government was the first in the world to pass legislation allowing mitochondrial donation.³⁹ That same year the HFEA licensed the Francis Crick Institute in London to undertake research on gene editing in human embryos, another world first.

The HFEA has also long been proactive, creating in 2005 a Horizon Scanning Committee, which Sally Cheshire describes as “anticipating emerging developments rather than reacting in real time to ethical controversy”.⁴⁰ Made up of international experts, the panel looks at new technologies and methodologies in fertility treatment and embryo research around the world, recommending which issues the HFEA’s Scientific and Clinical Advances Advisory Committee will need to explore in more detail.

Pros: The HFEA, and the inquiries, review and legislation which created and maintain it, have helped the UK preserve its world-leading role in fertility treatment and embryology research. Cutting-edge research and treatment have been allowed to progress in return for regulatory oversight. The HFEA has also been able to continually make the case for its existence in the face of possible dissolution, and has successfully adapted its remit to meet changing demands.

Cons: Like other regulatory bodies, the HFEA has faced criticisms over its lifetime for operational errors and for being bureaucratic.

Lessons: The HFEA is a clear example of how an inquiry and then an independent body can create consensus in a difficult policy area, particularly when there is an urgent need. Both the HFEA and the Warnock Report before it were able to establish credibility by acknowledging the existence of dissenting opinions, and using them to test their argumentation. Both benefited from having knowledgeable lay chairs and a broad mix of expertise and perspectives for decision making. Finally, it is also clear that independent bodies need to ‘future proof’ – both the initial inquiry and subsequent legislation focused on creating a specific remit for the HFEA, but providing enough flexibility so that it could meet unknown future needs.

However, this case study’s applicability to other situations is limited. The issues it addresses are essentially ethical rather than party-political, which makes it easier to disincentivise politicians from challenging it. The HFEA may also have been successful because it holds a broad remit within a very narrow policy area. However, it does illustrate how a good use of an inquiry and independent body can help prevent a difficult issue becoming party-political. There may be other public policy areas where progress will need to balance the opportunities of new technology with public trust. For example, a recent House of Lords report on the oversight of artificial intelligence (and the Government’s own proposed Centre for Data Ethics and Innovation) acknowledges the HFEA model as an example of an independent body providing an ethically acceptable framework for responsible innovation.

Annex B: Social care case studies

Social care reform

Few, if any, issues of public policy in England have been subject to quite so many failed attempts at a resolution as the funding of social care.

Since 1997 there have been: four white papers; two formal green papers plus 'a statement' that was halfway between a green paper and a white one; one 'policy paper'; five public consultations; two commissions, one of them a royal commission; and two significant pieces of legislation, plus some more minor ones.

That leaves aside assorted attempts by think tanks to resolve the issue, including substantive pieces of work such as Sir Derek Wanless' study for The King's Fund in 2006, one by the Joseph Rowntree Foundation in the same year, and the Barker Commission in 2014.¹

The challenge of fixing social care

There have been 16 attempts by government alone in the last 20 years to inform a debate, achieve a consensus and legislate successfully on social care. Why have these not succeeded?

One explanation is that the funding and organisation of social care involves three separate but linked issues. The first is the appropriate balance between individual responsibility and that of the taxpayer when it comes to care of the elderly. In other words, how much do individuals or their families contribute?

The second is the level of service and quality that the publicly funded element of social care provides. That applies not just to older people but also to adults of working age with a long-term disability, who mostly have no assets to protect and are totally reliant on public funding: they account for about half of all adult social care spending.

The third is how social care is organised. Currently it is run separately from the health service, through local government.

Behind those issues, however, lies a more fundamental challenge. The NHS is in essence a tax-funded, universal service that is free at the point of use. Social care, by contrast, retains some traces of the old Poor Law. Namely, it is first needs-tested – one needs a certain level of disability to qualify (and the level of disability needed to qualify has risen over the past decade as resources have been constrained). And then it is 'means-tested' – only those with limited resources qualify, regardless of their level of need.

The system is extremely complex but, to put it very simply, most people pay for their own care until their savings and assets are reduced to £23,250, and if they go into

residential or nursing home care the value of their home is taken into account unless a partner, parent or child is still living there.

The public feel immensely proud of the fact that the NHS is open to all, regardless of the ability to pay. Yet, any change that reduces the financial burden on those who require residential care, or who require social care support at home, is seen by critics to be 'regressive' – giving money away to the better-off (as the least well-off already receive free social care).

These conflicting views – that it is right that the NHS should be free to all, but that those who can afford to should pay for their own social care – have undermined attempts at reform over the last 20 years. It may be the case that, until those two views are reconciled in some way, a long-term solution to social care funding may not be achievable.

The attempts at solving the social care funding issues are nonetheless worth reviewing.

Social care reform under the Conservatives

In March 1997, the Conservative Government published *A New Partnership for Care in Old Age*, a 'policy statement' that was part way between a green paper and a white one.* It offered £1.50 worth of protection from the means test for every £1 of private insurance cover that individuals took out. Legislation was promised, and nominally the proposition had the support of the then Chancellor, who was a signatory to it. It was, however, very much a pre-election document, and fell at the General Election in May that year as Labour took power.

Social care reform under Tony Blair

Labour had removed the need to respond to that 'partnership' scheme by promising a royal commission on the issue. That was duly set up, its report *With Respect to Old Age* emerging in March 1999. The commission lacked a good model to cost its recommendations until halfway through its life, and it split, producing a majority report and a two-person minority one. The majority report recommended that all personal care – washing, dressing and eating as well as nursing care – should be free (although those in residential or nursing homes would still have to meet their accommodation costs). The minority report rejected free personal care, seeing that as very expensive and chiefly benefiting the better-off. Any extra resources, the two-person minority argued, should go into the quality of care. As one member who signed the majority report neatly put it: "The majority recommended what they thought the Labour Government *should* do. The minority what they thought the Labour Government *would* do."

In practice, the Labour/Liberal coalition in Scotland, in one of the first big acts of divergence for a newly devolved government, accepted the majority report. Labour in England rejected free personal care, lining up more closely with the argument in the minority report. It did legislate to make high-demand nursing care in residential homes free, while easing the means test slightly, and setting up a care homes inspectorate.

* A green paper canvasses options for reform, sometimes indicating a favoured approach. A white paper sets out proposals for legislation.

Given the Government's huge majority, Conservative opposition to the majority proposals played little part in this decision.

In 2002, the Wanless Review of healthcare spending recommended that a similar exercise be undertaken for social care funding and expenditure. That did not happen, although a green paper in 2005² proposed 'a new vision' for adult social care without any specific funding proposals. In the following year, Wanless published, for The King's Fund,³ the review of social care funding that he had recommended but the Government had not implemented. The review suggested a distinctly different version of the 1997 'partnership' approach to social care funding. Under this, the first two thirds of the basic care bill would have been met by the taxpayer, with individuals and the state splitting the remainder 50/50.

In 2006, *Our Health, Our Care, Our Say*, which involved an extensive public engagement exercise, also looked at social care, but did not produce new funding proposals.

Social care reform under Gordon Brown

In 2007, after that year's spending review had 'welcomed' both the Wanless study and a similar exercise undertaken by the Joseph Rowntree Foundation which came up with a rather different funding solution, Gordon Brown's Government announced a consultation on options for how social care should be funded. A six-month exercise to do precisely that followed in 2008, producing in 2009 a green paper that launched a 'Big Care Debate'. In the October of that year, the Conservatives produced their own paper proposing a voluntary insurance scheme for social care, only for the Government to introduce a bill to provide free personal care at home for those with the highest needs.

In 2010, the Health Secretary Andy Burnham outlined plans for a National Care Service, essentially funded out of a form of inheritance tax. Informal cross-party talks on this broke down with the Conservatives labelling the proposal 'a death tax', publishing pre-election posters of a gravestone embellished with 'R.I.P. Off'. Burnham nonetheless published a white paper on the proposal in March 2010.

Social care reform under the Coalition

The Coalition Government elected in May 2010 scrapped all those proposals, appointing Andrew Dilnot, the former director of the Institute for Fiscal Studies, to head an independent inquiry that was to make recommendations on 'how to achieve an affordable and sustainable funding system for care and support'.

That was a limited remit that only by implication addressed the level of service that the taxpayer should provide and specifically did not address the organisation of health and social care.

Dilnot's broad approach was to argue that the need for social care support was about the only major life risk that is uninsurable – there being next to no insurers willing to take the hard-to-assess risks over the small minority who end up needing hundreds of thousands of pounds worth of social care. The inquiry's solution was to make the means test at the bottom end appreciably more generous – effectively raising the threshold from £23,000 to £100,000, thus allowing the less well-off to keep a larger

share of their assets – while setting a 'lifetime cap' on the care costs (not the accommodation costs) that any individual or family should face. In other words, once that cap had been reached, the taxpayer would pick up the tail-end risk of the really expensive cases. With a lifetime cap set, the hope was that insurers would come into the market, at an affordable price, for those who wanted insurance to cover their risk of having to pay out that much.

The Coalition Government legislated on the Dilnot recommendations, with the Liberal Democrat part of the coalition a particularly firm supporter. The Government did modify the recommendations a bit, setting the lifetime cap at £75,000. The legislation was due to take effect fully in 2016, and the National Audit Office judged that preparations for it – which included constructing a 'taxi meter' to clock up how much eligible expenditure had been incurred as individuals moved towards the £75,000 cap – had gone well.⁴

Social care reform under the 2015 Conservative Government

Immediately after the 2015 General Election, as the deficit continued to come down more slowly than anticipated, George Osborne, by now Chancellor in a purely Conservative Government, and one who had always been somewhat sceptical about the proposition, 'postponed' implementation until 2020 on the ground of the costs

involved. To many, this looked as though Dilnot had been kicked deep into the long grass.

 **The Conservatives' proposition was labelled by their political opponents as a 'dementia tax'**

 At the 2017 General Election, and out of the blue, the Conservative manifesto promised what it claimed was 'the first ever proper plan to pay for – and provide – social care'.⁵ What it in effect did was promise the bottom end of the Dilnot reform without the top end. The means-test threshold for

care was to be raised four-fold to £100,000 so that 'no matter how large the costs of care turn out to be, people will always retain at least £100,000 of their assets and savings, including value in the family home'. The 'lifetime cap', however, was missing. So poor is the public understanding of how social care funding works, however, that this was clearly seen by many as a 'cut' – they would only be allowed to retain £100,000 of assets – whereas in practice people are currently required to run them down to around £23,000. For the first time, it proposed that the value of someone's home would be taken into account in the means test when they were receiving care at home. Under current rules that only applies when people move into a residential or nursing home.

Just as Labour's earlier proposals for a National Care Service were killed by being labelled a 'death tax', this time the Conservatives' proposition was labelled by their political opponents as a 'dementia tax'. The proposition was dropped mid-campaign. Theresa May then promised a green paper on future social care funding options, in which a cap of some sort on expenditure would be consulted on as an option.

Pros: There are, by definition, remarkably few. The Coalition Government did get to a solution to one part of the three-pipe problem: a new answer to the division of responsibility between taxpayers, individuals and families in paying for social care.

It did not directly, but did implicitly, address the level of disability needed to qualify for social care funding. And it did not address – though not everyone would see this as crucial – the issue of whether the divided organisation of social care between the NHS and local government needs tackling. That legislation, however, is now so deep into the long grass that it remains unclear which, if any, parts of it will form part of the current considerations for the now long-promised green paper.

Cons: Repeated attempts to crack this nut have failed. The reasons are manifold. But they include – despite repeated consultation exercises – the public’s profound lack of understanding, until the situation hits them, of how the current social care funding system works. And the exploitation of that lack of understanding by both the Labour and Conservative Parties to attack each other’s proposals, often for short-term gain.

Lessons: Inquiries, whether government-sponsored or not, do not necessarily lead to solutions. Essentially what has undermined them all is the absence of agreement *within* parties in England, let alone across them, about how the responsibility for funding social care should be divided between the individual and the state. The same has applied to the linked question of how the system, if it is to be made more generous, should be funded. For example, it was partly Osborne’s unease about both the cost and the approach that led to the delay to implementing Dilnot. Until those twin issues are resolved – the division of responsibility and the funding mechanism – a broader resolution to the challenge of social care will remain elusive. In addition, repeated consultation exercises have so far failed to foster greater understanding among the general public of how the current system works, although recent polling suggests that concerns about social care and its operation are rising up the public’s agenda.⁶

Japanese long-term care insurance

Japan is the most rapidly ageing society in the history of the world.⁷ Since 2000 it has had a system of long-term care insurance (LTCI) which broadly covers what we would define as social care. The scheme has addressed many of the issues which accompany Japan’s ageing society, but population pressures and costs are still rising.

The Gold Plan

In the 1980s, Japan was facing a growing issue of ‘social hospitalisation’, wherein the elderly were unnecessarily staying in hospital because there was no other way to meet their care needs. It was a problem decades in the making. The population was ageing, driven by rising life expectancy and declining fertility rates. At the same time, urbanisation, a reduction in the rate of cohabitation with adult offspring and greater female participation in the workforce meant that traditional reliance on the family for social care became harder. The expectation that families would perform these tasks had contributed to a national shortage in care infrastructure, and a limited role for the state.⁸

Japan did have tax-funded provision of home care services and nursing homes, but these were oversubscribed, expensive, means-tested and offered little choice to users. Conversely, health treatment was essentially free for the elderly, following the 1961 introduction of universal health coverage via social insurance, and then a 1973 revision which meant the elderly were exempt from the insurance co-payment.

As health treatment offered greater choice and was fully covered, hospitals came under pressure. By 1990, the average length of stay for the over 65s exceeded 50 days.⁹ A new system of social care was clearly needed.

Change came only when the Government introduced a consumption tax in April 1989. This was the first major indirect tax in Japan, which the Government said was necessary to meet the demands of an ageing society. The unpopularity of the new tax led to the defeat of the ruling Liberal Democrat Party in an Upper House election that summer. Facing a General Election the next year, the Government promised action and in December 1989 published the *Ten-Year Strategy to Promote Health Care and Welfare for the Elderly* (or, as it came to be called, the 'Gold Plan').

It was an ambitious strategy, which committed to tripling the number of care programmes and building a national infrastructure to support ageing and prevent rapid cost increases. However, the Gold Plan was 'thrown together as a quick campaign promise' for the 1990 election, and it lacked detail. But once the plan was announced, there 'turned out to be too much support' for the Government to roll it back.¹⁰

Designing and implementing LTCI

What followed was a "very bureaucratic" process, which largely took place away from public view.¹¹ The Ministry of Health and Welfare created a series of advisory groups composed of experts and civil servants, and in 1994 published a report supporting the establishment of LTCI. Meanwhile, municipal governments undertook fact-finding surveys on the elderly, which determined that the initial targets of the Gold Plan were insufficient to meet rising demand. In 1994 the Government formulated a new Gold Plan, with more ambitious targets.

The development of LTCI was aided by the unusual political situation in Japan. After four decades of Liberal Democrat governments, there was a series of coalitions in the 1990s. For several months in 1994, the ruling coalition consisted of Liberal Democrats, Social Democrats and New Party Sakigake. Coalition politics 'worked in favour' of LTCI, and it was enthusiastically supported by the smaller coalition members (who encouraged the more conservative Liberal Democrats to support the concept).¹² After both the Ministry of Health and Welfare and the Government's Advisory Council on Social Care recommended the creation of LTCI, the two bodies jointly developed a proposed outline which eventually formed the basis of an LTCI Bill submitted to the Diet (the Japanese Parliament) in 1996.¹³

The concept was not particularly controversial, particularly as social insurance already existed within Japan. The Ministry of Finance was a supporter as it wanted Japan to adopt more indirect taxes. In the public there was a broad sense that the growing crisis of care meant 'something had to be done', and social insurance was well established in other elements of public policy.¹⁴ Opinion polls conducted by national newspapers showed that an overwhelming majority of people considered an LTCI scheme necessary, and the generosity of the system helped make it acceptable. Civil society helped create momentum, with the Women's Association for a Better Ageing Society and JICHIRO (the nearly one million-strong All Japan Prefectural and Municipal Workers Union) supporting the social insurance model. Another source of support was the '10,000 Citizens' Committee for Promoting Public-supported Long-term Care' – a campaign composed of politicians, civil servants, care professionals, academics and community activists.¹⁵

However, reservations remained within municipal government, which was intended to be an insurer for a new LTCI system. Municipal government already acted as a health insurer, but had found the task challenging. Many could not raise premiums sufficiently, and had used tax revenues to cover some expenditure. Thus, there was a period of negotiation to gain their confidence, which included nearly 20 billion yen being set aside to help with preparations.¹⁶ The LTCI Bill was ultimately passed into legislation in 1997, with LTCI coming into effect in 2000.

Operation of LTCI

Demand increased faster than expected (particularly for home and community care, which saw beneficiaries triple in the first 10 years) and as of 2015 there were over five million service users.¹⁷ Care was no longer means-tested, so there was a sharp uptake in the use of formal services, particularly by the middle class.

The system was very generous by international standards, with the institutional legacies of the existing health and welfare systems meaning a number of people were unnecessarily covered in the initial offer. Over time, steps have been taken to contain costs. Means-tested charges for accommodation and food in institutional care were introduced, and home care was restricted to those with moderate to severe need or those living alone.¹⁸ Further reforms in 2015, and then 2018, saw co-payments double for a relatively small minority of recipients with higher incomes and assets. There has also been more focus on community-based care.¹⁹

The system still has pressures. The Government has been unwilling to build more public residential facilities to increase the supply of expensive, institutional beds, resulting in long waiting lists for certain forms of care. Its care workforce has failed to keep pace with demand, exacerbated by restrictions on immigration. Japanese society has also continued to age: in 1990, 12% of the population was over the age of 65. By 2017 this had increased to 28%, and by 2060 it is estimated to reach 40%.²⁰ Meanwhile the cost of LTCI services rose from 3.6 trillion yen in 2000 to 8.9 trillion in 2012, and it is estimated to reach 21 trillion in 2025. Consequently, premiums are expected to rise from a national average of 2,911 yen per month in 2000, to 8,165 per month in 2025 (the equivalent of about £56).²¹ However, there is still broad satisfaction with LTCI, which has provided a stable source of revenue for providers and a market for service users.²²

Pros: The introduction of LTCI has been a success on many of its initial terms: the burden on hospitals and families has been reduced, and service users get more care with greater choice. Existing health and welfare structures were integrated and re-designed to create an infrastructure for care.

Cons: While the financial pressures on municipal governments and health institutions have been reduced, recent attempts at cost containment have been less successful, and expenditure seems set to increase as the ratio of older, dependent adults in Japanese society to those in employment (and thus able to support them via taxation) continues to rise.

Lessons: Japanese LTCI shows how a workable solution to care needs can be created within an ageing society (although any solution will likely need to be flexible enough to adapt to emerging patterns of need). Developing from a political promise, in

response to financial and societal pressures, actors across different levels of government, the health and care profession, and public interest groups helped to build a new consensus for how the country should approach care.

However, there are limits to how applicable this example is to the UK. The issue and eventual solution were not extremely contentious. This was because there was a general consensus among the dominant political parties (aided by the necessity of cross-party working), there was public support for change and systems of social insurance were familiar (and indeed popular). Even in such a favourable climate, there was a decade between the initial government study and the legislation finally taking effect.

German long-term care insurance

In the 1990s, Germany remodelled its system of social security to introduce a universal entitlement to a basic level of social care. It did so in the face of rising costs and against the background of reunification. The system which was created was a necessary compromise of different political positions, and these trade-offs are still very present in the system today.

Background

During the 1990 General Election campaign, Norbert Blum, Chair of the Christian Democratic Union (CDU) and Minister of Social Affairs, began a national debate on a new policy for supporting the frail elderly. Social care, which had been a prominent issue in Germany for decades, gained new prominence following reunification as a higher proportion of the population in East Germany relied on state support for their care. The population was ageing, and the increasing number of dependants was putting significant financial pressure on municipal government. Residential care was expensive and largely funded by tax-based, means-tested welfare assistance. In addition to the financial imperative, there were also social pressures for change. Means testing was regarded as demeaning and against the German ideal of social solidarity, and it was considered unworthy for the elderly to have to depend on welfare after a full working life.²³

Blum proposed a new social insurance – a fifth pillar to join the existing health, accident, unemployment and pensions insurances. His proposals were met with resistance, particularly among the employment associations and their traditional allies, the Free Democratic Party (FDP), who favoured a private system of insurance. But Germany had a long tradition of meeting needs through social insurance systems, which were more popular with the public. The idea was also supported by Germany's powerful welfare associations, who wanted a secure source of future financing. Conversely, a tax-funded system was politically and financially contentious, as reunification had already resulted in higher taxes. So once the Government decided to act, the ultimate approach was 'nearly inevitable', and in 1991 the CDU committed to support a social insurance scheme.²⁴

Designing and implementing LTCI

The development of an insurance system in Germany was bureaucratic from the beginning, largely taking place in financial and political rather than public circles. As the

CDU and FDP had formed a coalition in the lower chamber, while the Social Democrats (SDP) dominated the upper chamber, what followed were years of negotiations and compromise between politicians and lobbies over who would pay for a new system. As the German system of government relies on cross-party collaboration, a working group was soon established between the CDU, SDP and civil servants from the Ministry of Social Affairs. This grand coalition, which was largely supportive of a social insurance model (although there was some reticence among the right wing of the CDU), had sufficient influence to engage the FDP in debates, even as the party remained committed to market solutions and an emphasis on individual responsibility.

Politicians had sufficient cover for this change because the public believed that something had to be done

Three years later, Germany enacted its long-term care insurance (LTCl) programme: a universal, needs-based system which largely ended the unpopular system of means testing. It was equally funded by employers and employees, with an initial contribution rate set at 1.7%.²⁵ An advisory federal committee was also established, with members representing federal, state and community government (as well as associations of insurers and providers) to support LTCl.²⁶

Although this was as additional pillar of Germany's existing social insurance system, it had some distinct features. Cost-containment was central to the system. There was a cap on benefits and the definition of need was narrow. By law, LTCl expenditure was tied to the revenue raised by contributions, and it required a demographic justification for the Government to raise it. Unlike health insurance, it was intended only to cover basic support, with an expectation that family care or individual contributions would make up the difference – although welfare assistance remained as a safety net. It included a number of market elements to make it palatable to conservatives. Most significantly – after a year of negotiations between the SDP and unions on the one hand, and the FDP and employers on the other – all but one state agreed that one day of holiday would be sacrificed in order to gain employer buy-in to the new system. This lost day of holiday, the equivalent of 75% of the employer contribution, was a necessary but unpopular compromise.²⁷

Through these adjustments, the German Government was able to introduce a new element of social security, even as it sought to limit spending and the state's responsibility elsewhere. Politicians had sufficient cover for this change because the public believed that something had to be done, and the red lines – like reducing dependence on welfare assistance – were clear.²⁸ The new insurance was also less burdensome for the public compared with the other insurance systems, which had a higher contribution level. Thus the initial LTCl system represented a compromise between different political philosophies, combining principles of universalism and family support, with the need for cost containment and individual responsibility.

Operation of LTCl

While its key principles remain unchanged, successive governments have had to adjust the LTCl to meet the demands of an ageing population. This is most obvious in the contribution level, which has risen across the board. The first big change came in 2005 when the rate for childless people was increased (reflecting expectations that families,

not the state, should take a leading role in care).²⁹ Contribution rates for LTCI are expected to continue growing, but have been offset by reductions in other contributions. After 2000, significant labour market reforms lowered unemployment insurance contributions. Most important was the move of the costs for long-term unemployment benefits from social insurance to general taxation. This “shift in the system... opened up a space for improvements” in LTCI.³⁰ These improvements have seen eligibility criteria expand. In 2013, an expert commission recommended that the definition of need should be revised to include non-physical needs, such as dementia. The Federal Parliament passed this reform in 2015.³¹

Increases in contribution rates have also been used to update benefit levels (which shrunk in real terms between 1994 and 2008), but only to keep pace with levels of inflation. A survey in 2006 found that a significant majority of the population endorsed insurance contributions and increasing these if necessary to maintain the level of benefits.³² Germany has now had two periods of benefits adjustment (in 2008 and 2015), and the Government has agreed to review the benefits level every three years.

Cost containment has also remained paramount in the system. At first the LTCI successfully reduced the burden for the state, but there are still concerns with spending levels due to demographic ageing. In 2017, based on an idea of the CDU, the CDU–SPD Coalition on the federal level introduced a reserve, as a safeguard for future needs. Another solution advocated by left-wing parties and associations is the creation of a ‘citizens’ insurance (combining existing social and private insurance to better pool risk and resources). However, this idea has been consistently opposed by the CDU, FDP and employers’ associations, preventing it from being adopted.

Pros: LTCI has managed to achieve many of its initial goals, such as relieving the financial pressures on local government, establishing a home care infrastructure, increasing consumer choice, introducing universal long-term care support and reducing the level of dependence on means-tested welfare assistance.

Cons: There are still gaps and inequalities within LTCI, and the Government’s desire to prevent cost increases means that the system is regarded as ungenerous.

Lessons: Financial pressures from across government and a strong sense of public dissatisfaction came together in Germany to provide its politicians with both the cover and incentive to act. This action also required a much wider look at the responsibility of the state for social security, with adjustments to accommodate new social care needs. However, there are limits to how applicable this example is to the British system. Cross-party collaboration – which was fundamental to the creation of the insurance – is far less typical in the UK than Germany. Similarly, insurance systems were well established in Germany, and while LTCI included a number of unique features, it was still regarded as culturally ‘German’, thus reducing the controversy of its introduction.

Annex C: Other case studies

The National Minimum Wage and the Low Pay Commission

In 2010 when the Institute for Government asked a group of political science academics to name 'the most successful policy of the past 30 years', the National Minimum Wage was the undisputed winner. Its creation was the work of the Low Pay Commission (LPC): a classic example of a Government using an independent body to solve a knotty problem.¹

Background

According to Chris Pond of the pressure group The Low Pay Unit, which had long advocated a minimum wage, back in the 1980s "the minimum wage wasn't controversial at all. Nobody thought it was a good idea". The trades unions were opposed, as was business. When Labour put a proposal for a minimum wage of half male median earnings in its 1992 manifesto, rising over time to two-thirds, it was an electoral albatross. The key concerns were that a minimum wage would lead to unemployment or wage inflation, or both.

Establishing the Low Pay Commission

By 1997, Labour had modified its proposal so that its manifesto promised not a 'rigid' figure but new machinery to create one, using the advice of an independent Low Pay Commission, which it duly established as an advisory non-departmental public body after the election. Its creation was decidedly controversial at the time. The Conservatives were opposed, as was the business community, and there were predictions that it would produce two million unemployed. It felt as though it was 'engaged in an embattled experiment', according to Sir George Bain, its first Chair, who on the 15th anniversary of the National Minimum Wage said 'I did not think it would survive this long'.²

Bain, however, as Chair, proved highly effective, as did the independent (mainly academic) members who, along with employer and employee organisations, made up its membership. It was also established with its own research capacity. It had some international evidence to draw on, with a very small number of US states having successfully introduced a minimum wage.

Moving very cautiously at first, its annual reports were accepted and saw the minimum wage rise, with differential rates for different age groups, with the research in general showing that it neither raised unemployment nor created a wage spiral. The existence of the minimum wage was crucial to underpinning the generous tax credits that the Labour Government introduced; reducing the risk of employers pushing wages ever downwards to take advantage of the taxpayer-funded in-work subsidy that tax credits provided.

National Living Wage

While undoubtedly a success, the minimum wage came to be seen by many as insufficiently generous, in part because the number of children defined as living in poverty started to rise in families who were in fact in work. In practice, as a policy for tackling child poverty, the minimum wage is poorly targeted, given that individuals on the minimum wage can be in quite high-earning families given the wage of the other partner. This was one factor that led to campaigns for 'a living wage' at a higher level than the minimum wage.

At the May 2015 election, Labour promised to increase the minimum wage to '£8 an hour before the end of the Parliament', while using incentives to promote the living wage. There was no mention of the role of the LPC or what Dan Corry, a former head of the No 10 strategy unit in Labour's time, dubbed this successful 'social partnership' for setting wages. Shortly after that election, George Osborne, the Chancellor, announced his own National Living Wage, saying it would reach £9 an hour by 2020, while starting at £7.20 in April 2016.

Within that, he did see a continued, if diminished, role for the LPC. It continues to set rates for those aged under 25, and it recommends 'future rises that achieve the Government's objective of reaching 60% of median earnings by 2020'. It also continues to conduct research on the impact of both the minimum and the living wage.

However, Osborne's decision does leave an uncertain future for the LPC. What happens in 2020? Does it revert to making its own judgements, which ministers then honour, over the level at which the National Living Wage should be pitched? Or will the chancellor of the day again announce his or her own target, in which case the LPC may not have a future?

Pros: One of the most successful independent bodies and indeed policies of the past 20 years. Its own research capacity, its independent chair and its independent members all help in reconciling the potentially conflicting views of employers and trades unions.

Cons: The LPC worked, and worked across both Labour and the Coalition Government, because ministers allowed it to. They honoured its recommendations. But both main political parties then sought to over-ride its work. That has left its long-term future uncertain, with that in turn creating the risk that minimum wage levels become a matter of significant cross-party dispute.

Lessons: Strong leadership and an early track record of success brought credibility and effective action in a hotly contested area. But, as with other independent bodies such as NICE, successive generations of officials and ministers have to remember why it was created in the first place if it is to remain effective.

The Pensions Commission

The Pensions Commission, led by Lord Turner, is widely regarded as a success and a potential model – indeed it has been used as the model – for subsequent inquiries into thorny issues.

Background

In the early 2000s, final salary pension schemes were closing in droves, first to new members and then to further contributions from existing members. The government of the day was also worried – as its predecessor had been – by the very large numbers (many millions, amounting to half the workforce) who had no private sector pension provision, or who might have some, but were saving too little for a comfortable old age. A fierce debate was underway, both inside and outside government, over whether the answer was to introduce compulsory contributions to private sector pensions by either employees or employers, or both. This was a debate that extended back to the 1980s and earlier.

Meanwhile, Labour's state pension policy was to concentrate additional resources on poorer pensioners through the means-tested pension credit, while leaving the basic state pension linked only to prices; a policy that, from 1980, had been steadily eroding its real value against earnings. The challenge to Labour's approach – targeting pension increases on the least well-off, while allowing the basic state pension to wither away – was that, over the decades, on some projections, up to 70% of the population would end up on means-tested state pensions. Put all that together and the prospect was for a deadly combination of costly provision but low standards of living in old age.

Establishing the Pensions Commission

In 2002, Tony Blair, the Prime Minister, in the face of considerable opposition from his Chancellor Gordon Brown, decided to set up the Pensions Commission.

Royal commissions being out of favour, this was led by a tightly drawn group of three that included two people with some real pension expertise – John Hills from the London School of Economics and Jeannie Drake from the Communication Workers Union, who, in 2005 became President of the Trades Union Congress. Adair Turner, the Chair and former Director General of the Confederation of British Industry, was not, at the time, a pension specialist. But he brought extensive powers of analysis to the problem.

The battle within the Government over the creation of the inquiry had been such that it ended up with clumsy terms of reference that were agreed at the last moment before its announcement. At the Chancellor's insistence, its terms of reference in December 2002 were limited to private pensions, and it was presented not as an inquiry, but as a standing body that 'will report regularly... on how effectively the current voluntarist approach [to pension saving] is developing'.³

After an initial analysis, however, Turner and his commissioners unilaterally re-wrote their terms of reference. Turner pointed out that one could not consider private provision without looking at its interaction with state pensions.

Interim and final reports

In 2004, ahead of the 2005 General Election, the inquiry produced a report laden with graphs and statistics that contained a very simple message, namely that if future pensioners were not to be poorer, one of three things had to happen: taxes would have to rise to pay for better state pensions; private pension saving would have to increase; or people would have to work longer. At a time when many people were proposing their own solutions to 'the pension problem', Turner declared that anyone who could not tell you how much of each of those was involved in their prescription was 'a charlatan'.⁴

The inquiry's answer came in 2005, just after that year's General Election. It essentially proposed restoring the earnings link for the basic state pension. In return, the state pension age should increase to take account of rising longevity: from 65 to 66 by 2030; and to 68 by 2050 – 'a more generous state pension at a later age'. It argued that a new national pensions saving scheme should be introduced, into which individuals would be automatically enrolled, but with the right to opt out, with employee and employer contributions gradually rising (tax relief included) to a combined 8% of pay. This last recommendation, in effect, finessed the argument about compulsion.

After some battles within government and some amendments down the years, this is, in essence, what got implemented. One of the reasons widely seen for that success is that the interim report clearly laid out the options, while, even at the time, containing a heavy hint that the solution was likely to include a mix of all three: a more generous state pension, provided at a later age; and more private saving for those without adequate private provision.

Furthermore, ahead of its final recommendations, the commission had a very active stakeholder engagement approach. This included a day-long meeting with 90 people from industry and pressure groups and tele-links to elsewhere. It held focus groups with smaller employers for whom it was harder to find a representative voice. It also held a number of 'Pension Days' around the country with up to 300 members of the public on each occasion. Polling at the start of these showed 80% of attendees were sceptical about the need to raise the state pension age, but minds were changed by the end of the day.⁵

It is a matter of judgement how large an impact these two different types of engagement had on the report's reception. But the stakeholder engagement with industry and pressure groups is widely seen to have been important, and the Pension Days – while reaching only a tiny fraction of the population – helped establish that the arguments in favour of the inquiry's approach could be won. The extensive media coverage that the interim report inevitably received was probably more important in terms of the general public, but the consultation with industry ensured the inquiry's findings had support ahead of the final recommendations.*

* Further accounts of the Pensions Commission can be read elsewhere. See, e.g., Timmins, N (2017) *The Five Giants: A biography of the welfare state*, William Collins, and Institute for Government, 'Pensions Commission Policy Reunion', 9 December 2010, retrieved 1 June 2018. www.instituteforgovernment.org.uk/sites/default/files/policy_seminar_report_pensions_commission.pdf.

Impact and legacy

Three things are particularly notable about the Pensions Commission:

First, the clarity of the analysis in the interim report allowed a cross-party consensus to be built, and the public to be informed about the likely solution, ahead of it being proposed. That meant that when it did land, the broad reaction of politicians and the public was that the proposals were sensible. This is not to say that the recommendations produced anything like unanimity. They did, however, command broad support.



The clarity of its analysis in the interim report allowed a cross-party consensus to be built



Second, despite the power of the report, it is now 12 years since the Commission reported. The recommendations, while all broadly in place, and with some of them enhanced and amended,* are still not fully implemented. Assuming the Government does not delay implementation, it will be 2019 before the full 8% of a limited band of pay is going into auto-enrolled pensions. So, while much has been achieved, progress has been slow.

Third, despite the slow progress, cross-party consensus has held across 12 years. The current state of play is the result of actions by key figures, first in a Labour Government, then in the Coalition Government, where the two key players were a Conservative chancellor and a Liberal Democrat minister. Assuming nothing goes amiss, it will be a Conservative administration that honours that consensus.

Pros: This was an inquiry that harnessed real expertise. It was commissioned before a General Election and reported just after. That gave a full Parliament for the legislation to be put in place. The legislation closely reflected the recommendations made by the Pensions Commission, which had successfully built broad support for their implementation.

Cons: It has not yet been fully implemented, 12 years after publication.

Lessons: Turner and his commissioners, a little like Beveridge, re-wrote – or at the very least hugely extended – their terms of reference. They addressed the real underlying issues, not just the ones they had been charged with. The interim report was crucial. It built a broad consensus ahead of its recommendations, helped by extensive media coverage and engagement with stakeholders and the public. The Pensions Commission proved to be politically astute, with a small 'p'.

* There is currently, for example, a 'triple lock' on the basic state pension, and the UK is now moving to a single state pension against the current mix of a basic state pension, state second pension and means-tested pension credits. And the increases in state pension age that Turner recommended have been brought forward.

Parliamentary Commission on Banking Standards

In 2012, there was widespread public unrest and pressure on the Government to act over the scandal surrounding the fixing of the London Interbank Offered Rate (LIBOR). The Government needed an approach that would be publicly acceptable, but one that would also protect the Conservative Party from the charges of City cronyism being levelled against it by the Labour Party,⁶ which had called for a judge-led inquiry. It eventually settled on an unusual approach: sponsoring an ad hoc joint committee with membership from both Houses of Parliament to undertake an inquiry. This became known as the Parliamentary Commission on Banking Standards (PCBS).

Why use a parliamentary inquiry?

The first reason was speed. Judge-led inquiries typically last at least two years, which the Government considered too long. A parliamentary inquiry was likely to be faster, and the emphasis on speed was demonstrated by the tight six-month deadline initially given to the Commission. A parliamentary commission was also likely to be cheaper, being able to use existing parliamentary infrastructure and staff, rather than setting the whole thing up from scratch.

The second was the subject matter, which was one that politicians were well placed to consider, given that it was a high-profile and policy-related issue, with strategic political and economic implications.

Third, it was hoped that politicians' knowledge of the legislative process would ensure that the recommendations would be implementable and acceptable to Parliament: "If you've got parliamentarians in it, they're going to want to get this to do something."⁷

The final consideration was the optics. The scale of public outrage required the Government's response to be seen as significant. An inquiry by a standing select committee or a normal independent inquiry might not have been high profile enough to assuage the public's demand for answers and accountability. The use of a uniquely named joint committee of the great and the good gave the PCBS gravitas and allowed the Government to be seen to be taking the investigation seriously.

Establishing the PCBS

The Chancellor, George Osborne, asked Andrew Tyrie – then Chair of the Treasury Select Committee (TSC) – to lead the PCBS. Tyrie was an economist with private sector experience, who had advised Nigel Lawson and John Major in their respective occupancies of No. 11, as well as serving as Shadow Chief Secretary to the Treasury. His credentials commanded respect on both sides of the House, while his conduct leading the Treasury Select Committee gave him a reputation for impartiality. In short, he could be trusted to deliver a thorough investigation with implementable recommendations.

Before accepting the role, Tyrie was keen to ensure that there was support from both sides of the House for the inquiry and its recommendations. He said in the Commons, "May I assure the House that I will not countenance a partisan inquiry and I would not be prepared to chair one either? I do believe that Parliament – both MPs and the other place – has something to contribute to clearing this mess up; they cannot do it all on their own."⁸

Tyrie helped choose the membership of the PCBS, alongside the Chancellor and Shadow Chancellor, arguing to keep the size down. Joint committees of the two Houses are usually large, often having over 20 members appointed by the whips, but Tyrie wanted a small group of six. His reasoning was that with a smaller group there would be fewer busy diaries and workloads to accommodate, and it would be easier to motivate, coalesce and retain cohesion than in an unwieldy committee of 20.⁹ The Chancellor compromised with a membership of 10.

The other contest was over the party representation of those 10 commissioners. The Commons' representatives were agreed, but the Opposition objected to the Lords' composition, which would normally have given the Coalition Government an overall majority (two Conservatives, one Labour, one Liberal Democrat and one cross-bencher).¹⁰ The solution came from the Lords Spiritual bench, and the soon-to-be Archbishop of Canterbury, Justin Welby, a former derivatives trader with experience in the City, who was recruited in lieu of the second Conservative peer. Its members included former Chancellor Lord Lawson and former Cabinet Secretary Lord Turnbull. One interviewee told us "that was a strong group of Commission members; they were going to be bold". There was some denigration of the Commission by TSC members not selected to sit on it, who suggested that the outcome would be a "whitewash".¹¹

Over the course of the inquiry, the Commission averaged 20 to 25 full-time staff from the House of Commons and specialists seconded from outside Parliament.* Those involved believe the calibre of this staff greatly facilitated the Commission's work: "It was clear that in order to make sure this was a success they got some very high-quality people."¹²

Remit and powers

The Commission was appointed to consider and report on 'professional standards and culture of the UK banking sector, taking account of regulatory and competition investigations into the LIBOR rate-setting process' and 'lessons to be learned about corporate governance, transparency and conflicts of interest, and their implications for regulation and for Government policy'.¹³ It was given the standard powers of evidence collecting, appointing advisers and reporting that other select and joint committees have, but also the ability and means to invite counsel to examine witnesses.

The Commission benefited enormously from knowing that its conclusions would likely be implemented by the Government. Part of the reason for the tight deadline was that Osborne hoped the banking bill going through Parliament could be amended to include the Commission's recommendations. This gave the inquiry profile and purpose: as one interviewee pointed out, "any resistance there might have been was pushed aside by the momentum behind it".¹⁴ It was also generously resourced. A specialist adviser told us: "Parliament [was] very generous with what we were given... nice offices, all the kit we wanted, all the support team were given access to the whole parliamentary estate."¹⁵

* Over the lifetime of the Commission, there were: one chief of staff, one deputy chief of staff, one Lords clerk, three second clerks, 16 specialist advisers (14 seconded from outside Parliament), one media officer and 10 administrative staff. White H (2015), *Select Committees under Scrutiny: Case studies from the 2010–2015 Parliament*, Institute for Government, June 2015. Accessed 7 February 2018.
[www.instituteforgovernment.org.uk/sites/default/files/publications/Under scrutiny case studies final_0.pdf](http://www.instituteforgovernment.org.uk/sites/default/files/publications/Under%20scrutiny%20case%20studies%20final_0.pdf)

Undertaking the inquiry

The initial six-month deadline might have been appropriate for the initial remit, but as the focus of the inquiry broadened to include all the compartmentalised interests of its members, so too did the delivery date; it took just under 12 months to complete, reporting in June 2013. Even with the extended deadline, the urgency brought about a strong work ethic from the commissioners and their staff.

Andrew Tyrie was determined that the Commission's output be credible, implementable recommendations. He brought together the staff and the commissioners in the first week of the inquiry to emphasise that he wanted only one report, and that universal endorsement was essential to the success of the recommendations; a minority report would dilute and undermine the message.¹⁶ Consensus was helped by the privacy of discussions, which allowed meaningful debate and constructive disagreement behind closed doors.



Andrew Tyrie's chairmanship has been widely credited with the success of the Commission



With the strong personalities he had on board, Tyrie was keen to keep everyone happy. He therefore introduced panels, a form of

subcommittee that allowed individual commissioners to pursue topics they thought were important. These panels gave the Commission flexibility, allowed it to cover much more ground and helped ensure that individual commissioners were more invested in the final recommendations.

With the inclusion of the panels, the Commission covered an enormous amount of ground. It heard from 252 witnesses and published 5,000 pages of evidence and reports.¹⁷ The use of a QC helped, as they came up with the questions, led hearings and set an example to the commissioners of how to examine witnesses. One interviewee told us that "the QC was really able to lay the groundwork for the Commission members, and they had the opportunity to see the skilful QC asking questions".¹⁸ Without the QC, it is unlikely the Commission could have gathered so much evidence.

Impact and legacy

Andrew Tyrie's chairmanship has been widely credited with the success of the Commission. He commanded the respect of both Houses, set the direction of the inquiry, cultivated the ethos of unanimity, managed the heavyweight parliamentarians involved, and got all of the recommendations implemented by the Government. He was successful in producing a forward-focused inquiry, rather than merely an investigation into why the LIBOR scandal happened. One interviewee told us that Tyrie "played a blinder over the whole thing".¹⁹

In seeing its recommendations implemented, the PCBS had the advantage of there already being a legislative vehicle – the 2012 Financial Services Bill – to which they could be attached. In addition, they were directed against a 'common enemy', rather than the Government or any government agencies or related bodies; targeting the regulators and the banking industry was politically unproblematic.²⁰

In terms of the long-term impact, members of the banking community still consider it to be early days; Tyrie himself suggested that restoring public faith in banking would take time.²¹ The most significant policy change may prove to be the introduction of the Senior Managers and Certification Regime, designed to bring accountability and responsibility to senior executives, but this is yet to be “used in anger”.²²

Pros: The PCBS proved to be an effective alternative to a judge-led inquiry. It worked quickly, making good use of parliamentary staff and seconded experts. The unanimity of its vastly experienced members carried weight with other parliamentarians, and helped ensure that the recommendations were implemented. As too did the eye for detail and political savviness of its chair, Andrew Tyrie.

Cons: The core issue – how to prevent the rigging of LIBOR – was important, but relatively narrow. There was no particular attempt at public engagement, and it “had very little impact on the public debate”, even if it did resonate within banking circles.²³

Lessons: The PCBS demonstrated Parliament’s capacity to circumvent partisanship to conduct a major inquiry and deliver consensual policy recommendations. Its success depended on a few critical factors. First, it received strong support from the Government, particularly the Chancellor, and there was an expectation that its recommendations would be implemented. The Government also reached out and consulted with the Opposition, helping to bind them into the process. Second, leadership was key; Tyrie was central to the credibility and independence of the Commission, the direction the investigation took, and the effectiveness of its unanimously agreed recommendations. The experience and influence of the respective commissioners were also important. Third, there was a sense of moment, with both the political class and public eager for change.

Tuition fees

Over the last 20 years, the politics and policies surrounding tuition fees have undergone significant change, with controversy each step of the way. To understand and answer the financial needs of the university sector, governments have used independent inquiries, without implementing their precise recommendations. Tuition fees have helped ensure that the UK retains a world-class university sector, and that universities have continued to grow. But while there have been periods of armed truce between the major political parties on the issue of fees, there has been no lasting political or public consensus. And the issue is now live again, with a new review scheduled to report in 2019.

The principle of free education

The Robbins Report of 1963, commissioned by Harold Macmillan’s Conservative Government in 1961, is widely remembered as the starting point for the first great post-war expansion of both universities and student numbers – although in practice, ahead of the report, the Government had already sanctioned the creation of seven new universities.

Robbins' panel of 12 received 400 submissions of evidence and made 178 recommendations, producing an unexpectedly progressive report.²⁴ Its key recommendation – the report dubs it its axiom – was that 'courses in higher education should be available to all those who are qualified by ability and attainment to pursue them and who wish to do so'. On the back of that, a 10-year programme to accommodate 50% more students by 1967, and 250,000 more by 1980, was launched.

The principle that higher education tuition should be free – and much of the maintenance for students that went with it – had already been established. Just ahead of the Robbins work, an earlier inquiry – the Anderson inquiry which looked at student financing – had reported. Anderson established that 90% of students were receiving some sort of help from a variety of sources: state, local authority or university scholarships, along with charitable and other grants. Anderson essentially standardised and universalised the grant, for both living costs and tuition fees, although he did so for the much smaller number of students, roughly 100,000, who were going to university when his inquiry was established in 1958. Both Anderson and Robbins considered loans rather than grants. Anderson rejected them outright. Robbins did so in more nuanced terms, noting that the arguments for and against were 'very evenly balanced' and that 'in time' some experiment with loans might be justified.

The Dearing Review

Over the next 30 years and more, and in the absence of any other external review, higher education expanded under the Robbins principles – although there were increases to the parental contribution to maintenance grants over the years, and debates within both the main political parties about loans rather than grants.²⁵ The student participation rate rose from 5% of the age group to 30% between the 1960s and 1990s, with a particularly rapid expansion in the 1990s. But that came at a price. From its peak, real funding per student had fallen by nearly 30% by 1996.²⁶ Universities were "genuinely on the edge", recalls David [Lord] Blunkett, the minister to whom the re-introduction of fees was to fall. "They were deteriorating to the point where the sector would no longer be world-class."²⁷

Public expenditure, however, was still under pressure in the wake of the 1990/91 recession. Universities were increasingly agitating for the introduction of student fees and there was widespread acceptance that the current funding system was unsustainable. Ahead of the 1997 election, however, neither Labour nor the Conservatives wanted to bite the bullet of changing it. So the Major Government announced a review into higher education funding, with the Education Secretary, Gillian Shephard, reaching out to David Blunkett, her opposite number, to agree the review's terms (inspired by the lessons of the Robbins Review). The inquiry was a cross-party agreement that was advantageous to both. As Lord Blunkett told us, "all parties like to park things which are potentially dynamite before an election".²⁸

The inquiry was headed by Lord Dearing, the 'Red Adair of educational oil fires', aided by 16 other committee members.²⁹ Over a year, the review looked in-depth at existing research, in particular the Australian experiences with income-contingent loans.³⁰ It also carried out a written consultation exercise, seven 'consultation conferences' and surveys of staff and students. Blunkett remembers Dearing as a good chair, who

“sought to gain trust and build consensus”, and could “present the logic in a way that made it very hard to argue with”.³¹

The review went beyond its original remit, providing a comprehensive look at higher education. However, the immense size of the final report meant the Government was able to pick and choose from its recommendations. When published in 1997, it was over 2,000 pages long, with 93 recommendations, five appendices, 14 working group reports and a separate report on Scottish higher education.³² Its central recommendation was that students, as the prime beneficiary of a degree, should contribute 25% of the cost of tuition, with government grants to support the rest of the tuition cost. Thus, an independent inquiry broke the principle of free tuition.

On the day the Dearing Report was published, however, the Government announced its own policy. It accepted the central tenet of the Dearing Review – to introduce fees – but made a number of amendments. Blunkett later said that the Government had to ‘bite the bullet of charging fees and we had to do it very quickly, because we knew that if we didn’t we wouldn’t get it through Parliament’.³³ An up-front fee of £1,000, or around 25% of the average cost, was announced. Students from families who were, broadly speaking, in the top third of the income distribution paid the full amount; those in the middle third £500; with the least well-off paying nothing. All maintenance grants, however, were replaced by loans. But the loans were income-contingent. Repayment did not start until graduates were earning £15,000 a year. The package resulted in student protests, Conservative opposition and backbench concern, but the Government’s huge majority meant that the 1998 bill passed easily.

Top-up fees

The package eased very marginally, but did not solve, the universities’ financial problems. They were soon lobbying for more, with a few threatening to introduce higher fees unilaterally. The scale of the protest against tuition fees had been such that Labour’s 2001 manifesto pledged not to introduce ‘top-up fees’. However, in 2003, in response to the continued pressure from universities, a white paper proposed allowing universities to charge variable fees of up to £3,000 a year. This time the fee was not payable up-front, but it was not adjusted for parental income. Instead it came with an income-contingent loan (closer to Dearing’s original model).

The higher fee and the manifesto commitment produced a huge backlash from Labour MPs, while the Conservatives not only opposed the package but also promised to abolish the existing £1,000 fee. A series of concessions resulted that included the re-introduction of maintenance grants for the poorest students, wiping out any remaining debt after 25 years, and the promise of a review three years after the higher fee took effect in 2006. Despite a 167-seat majority, the bill scraped through by only five votes, and only with the support of Scottish Labour MPs to whose students the bill did not apply. It was the narrowest victory of the Blair Government.

The Browne Review

By 2009, the promised review of fees was due, the public finances were under enormous pressure after the financial crash, and both the main political parties knew that if universities were to be protected from its consequences, higher education funding would have to change again.

Following the precedent of the Dearing Report and Shephard's offer to Blunkett, in late 2009 Lord Mandelson, the Secretary of State for Business, Innovation and Skills, agreed terms of reference for a new inquiry into tuition fees with his Conservative opposite number, David Willetts. Notably, both parties committed not to sign a National Union of Students (NUS) pledge which opposed any increase in fees; Lord Willetts has said that he and Mandelson had a sufficiently "trusting relationship" on the issue, with both ensuring party candidates did not sign up.³⁴ However, all 57 Liberal Democrats who were elected as MPs in 2010 signed it, while the party's manifesto promised to phase tuition fees out.

Lord Browne, the former Chief Executive of BP, was appointed to chair the review. The committee was a diverse group of members with different expertise, which they regarded as valuable for avoiding groupthink. The committee also benefited from its secretariat. A member of the review, Baroness Brown, commended the work of Emran Mian and his team, saying that all inquiries "need sharp, motivated officials who know how to make things happen".³⁵ The study was much less far-ranging than Dearing, and in a deliberate attempt at contrast it used a PR agency to create a 68-page, glossy, readable report. But it owed a lot to the previous inquiry; Lord Browne said that Dearing was the "thin end of the wedge, we just banged it through the door".³⁶

As with Dearing, the Government used the inquiry as cover to raise fees, but produced its own solution. As one member of the review, Sir David Eastwood, noted, "the politics into which reports land can only be at best imperfectly anticipated", and the review was presented to the Coalition Government.³⁷ Browne proposed abolishing the cap on fees but introducing a levy on those universities that charged more than £6,000, with the levy being used to cover the likely cost of un-repaid loans and to cover some of the costs to government of providing students with the upfront finance. The Government went for a different solution, increasing the cap to £9,000. This change was influenced by both coalition politics (with the Liberal Democrats opposed to the removal of the cap) and the belief – as with Blair's variable £3,000 fee – that some universities would charge less. Almost all charged the full £9,000.

The extensive package had other changes, including repayments not starting until graduate earnings reached £21,000 and the commitment that remaining debt would be written off after 30 years.

The beneficiary-contributory model allowed universities to continue growing throughout a period of austerity, while the number of students (particularly those from lower socioeconomic backgrounds) also rose.³⁸ The Treasury supported the changes as loans did not contribute to the deficit (although maintenance grants, which did, were later scrapped by George Osborne for being 'no longer financially viable').³⁹ Willetts has noted that 'we were able to deliver one of the biggest cuts in public spending... whilst at the same time increasing the total cash going to universities'.⁴⁰

Although the Government did make use of both an external PR company and a series of visits to schools and universities, there remained what some, such as Sir David Eastwood, have called the "toxic language" of loans.⁴¹ There were huge student demonstrations, some of which turned violent. The backlash, and subsequent student dissatisfaction, can be seen as a wider policy failing to effectively explain income

contingent loans. This was further complicated by speculation about the sustainability of the coalition: Lord Willetts told us that media coverage was “all about Liberal Democrat politics, not the substance”.⁴² Come the vote, the Liberal Democrat MPs split three ways: 28 voting for, 21 against, with eight abstaining. Labour opposed the increase. But the Government had a majority of 21. The vote did immense and lasting damage to the Liberal Democrats, given their manifesto pledge.

Student dissatisfaction was such that by the 2017 election, the Labour manifesto included a commitment to abolish tuition fees and restore maintenance grants. After the election, the Conservatives announced their own changes, including freezing the cap that had by now risen to £9,250, increasing the payment threshold to £25,000, and a new review – this time led by Philip Augar, a former non-executive director of the Department for Education – which will report in 2019. But unlike Dearing and Browne it does not have cross-party support from the Labour and Conservative front benches, and it will report to a government that, at present, requires co-operation from the Democratic Unionist Party to command a Commons majority.



The Dearing and the Browne Reviews demonstrate that an independent review can crack a political nut



Pros: Both the Dearing and the Browne Reviews demonstrate that an independent review can crack a political nut. Neither the Conservatives nor Labour wanted to address tuition fees ahead of the 1997 and 2010 elections. The twin reports, in somewhat different political circumstances, gave the winning parties permission so to do. Tuition fees did a huge amount to restore university finances to the point where universities were the one part of a major public service to float almost entirely unscathed through the austerity that followed the 2008 financial crash. They have helped maintain the sector as a world-class one and a key contributor to the UK economy.

Cons: Both reports provided permission to act. But the precise recommendations of neither – other than that fees should first be introduced and then rise – were adopted. In both cases, the government of the day chose its own solution. Tuition fees remain politically controversial.

Lessons: Tuition fees show the value of step-change reform. The 2012 fee levels could not have been introduced without the initial challenge to the principle of tuition being free in 1997, and then the 2006 increase.

The timing of both the Dearing and Browne Reports was crucial. Both were deliberately set up to avoid the two main political parties facing hard choices ahead of a General Election. But while they provided an independent voice and independent recommendations that allowed those choices to be made, neither report led to a political consensus around fees, and both ended too abruptly to hold government to account. In practice, the two main parties played politics with the policy. The Conservatives in 1998 voted against, despite having set up the Dearing Review, and despite the high likelihood they would have introduced some form of tuition fee once it had reported. They voted against again in 2004. After the 2010 election, it became Labour’s turn to vote against, despite having introduced fees in the first place, and

despite some of its leading figures recognising that action needed to be taken to protect university finances after the financial crash. And there is still no consensus about the future of fees.

Although the recommendations from neither Dearing nor Browne were adopted wholesale, they demonstrate how well-judged inquiries can shift the debate, although ultimately, it will always remain the Government's responsibility to act.

Office for Budget Responsibility

The creation of the Office for Budget Responsibility (OBR) was, in part, an act of party political opportunism. George Osborne was seeking to capitalise on public impressions of excessive Labour spending and reinforce the reputation of the Conservatives as the party of responsible economic management. Yet, despite its partisan birth, it has become an established and widely respected body, seen as an example to emulate across the political spectrum.

Background

There were good reasons to think that an independent and transparent body would be more likely to produce impartial and possibly more accurate forecasts than the Treasury, where the suspicion always existed that they were too subject to the influence of the chancellor of the day. There were numerous international examples of established fiscal watchdogs,* the oldest such body being the Dutch Bureau for Economic Policy Analysis (CPB), formed in 1945.

Osborne first made proposals to establish an independent fiscal forecasting body in 2008 when Shadow Chancellor, and in December 2009 announced that the OBR would be set up before the 2010 election, under the interim leadership of Sir Alan Budd. The plan was to use the OBR to publish forecasts ahead of the Budget that would be produced within 50 days if the Conservative Party won the election.

Establishing the OBR

The OBR was formally announced on 17 May 2010, five days after the coalition deal was finalised. Commentators at the time compared the OBR's creation to Gordon Brown's announcement of the decision to give the Bank of England operational independence over monetary policy in 1997.⁴³ It was established as a non-departmental public body in statute by the Budget Responsibility and National Audit Act 2011.

This Act obliged the Government to produce a Charter for Budget Responsibility, which sets out the remit and functions of the OBR, what should be included in its publications and when its forecasts should be released. The Government's fiscal targets are also included in the Charter, which is updated when appropriate as targets change. The Charter has been updated four times to date.

* Others include the Congressional Budget Office in the United States (founded in 1974), the Korean National Assembly Budget Office (2003), the Canadian Parliamentary Budget Officer (2006) and the Swedish Fiscal Policy Council (2007).

The OBR has five main roles:

1. Economic and fiscal forecasting – twice a year, to accompany the Budget Statement and the Spring Statement, the OBR produces five-year forecasts for the economy and public finances.
2. Evaluating performance against results – the OBR uses its public finance forecasts to determine how likely (whether there is a greater than 50% chance) the Government is to meet its own fiscal targets and its target for welfare spending.
3. Sustainability and balance sheet analysis – the OBR assesses the long-term sustainability of public finances, and reports long-term projections for different categories of spending, revenue and financial transactions. This allows for a judgement to be made over whether the path for public sector debt is sustainable, alongside an analysis of the public sector's balance sheet.
4. Evaluating fiscal risks – every two years the OBR produces a review of the risks from the economy and financial system to the forecasts and projections; this includes specific fiscal risks and contingent liabilities.
5. Scrutinising tax and welfare policy costing – for each Budget, the OBR provides scrutiny of the Government's costing of individual tax and welfare spending measures, and then provides an endorsement of those costings and states whether it has used them in its forecasting. Each costing is given an uncertainty rating, based on data, modelling complexity and behavioural impact.

The creation of the OBR was largely popular. John Cridland from the Confederation of British Industry (CBI) said that 'an independent authority will help inject additional credibility and transparency into the forecast', and the Institute for Fiscal Studies (IFS) welcomed it, commenting that 'it does not guarantee that the forecasts will be accurate, but it will reassure people that they reflect professional judgement rather than politically motivated wishful thinking'.⁴⁴

The Treasury Select Committee also supported the Government's decision to establish the OBR, but emphasised that its success depended on its independence – perceived, as much as actual – and the critical role that high-calibre leadership would play in ensuring this.⁴⁵ Moreover, according to a former senior Treasury official, the Treasury "actively supported this at all levels", as it freed up capacity to focus on what to do about forecasting, rather than undertaking the forecasting itself, and brought order to the whole process.⁴⁶ It also knew it was coming, and so was ready for the change when the coalition entered office.

The OBR's independence was questioned at the time by Lars Calmfors, Chair of Sweden's Fiscal Policy Council. He suggested that publishing forecasts and judgements at the same time as the Budget meant behind-the-scenes "negotiations" with Treasury officials about numbers were unavoidable.⁴⁷ In Sweden, by contrast, the Fiscal Policy Council has no contact whatsoever with government ministers. Calmfors also said that the haste with which it was set up compromised its legitimacy.

Operation of the OBR

Criticism of the OBR's independence has continued. One prominent incident of controversy came shortly before the first Budget Statement of the coalition. The OBR was criticised for releasing employment figures 10 minutes before the start of Prime Minister's Questions, although the Treasury had had them since the previous Friday. The Chair of the Treasury Select Committee, Andrew Tyrie, said this had "done quite a bit of damage to the early reputation of the OBR".⁴⁸ Sir Alan Budd replied that he regretted the mishap "enormously".

Similarly, some raised concerns about correspondence between Treasury and OBR officials, released in response to a Freedom of Information request, which suggested that the Government has successfully lobbied for changes to the OBR's December 2014 Economic and Fiscal Outlook (ahead of the 2014 Autumn Statement).⁴⁹ The Treasury Select Committee found that 'a number of Treasury requests for non-factual changes appear to have been taken on board by the OBR. This is unacceptable'. However, the Treasury Select Committee concluded that the 'changes the OBR made in response to Treasury requests made no material difference to the analysis contained in the final document'.⁵⁰ Nonetheless, the Government tightened up the Memorandum of Understanding and the process by which comments are submitted, with increased senior oversight over correspondence.⁵¹

Despite these incidents, the OBR has retained a good reputation, in large part due to the credibility and authority of its leadership. The chair and two other members of the Budget Responsibility Committee (BRC), which bears executive responsibility for the operations of the OBR, are appointed by the Chancellor, subject to the confirmation of the Treasury Select Committee. The BRC is currently made up of Chair Robert Chote, Professor Sir Charles Bean and Graham Parker CBE; all three are widely respected and experienced. Its dependence on departments for initial numbers for its forecasts means it is important that the OBR "knows when the wool is being pulled over [its] eyes", which Graham Parker's intricate experience of Treasury costing processes helps to avoid.⁵² The Treasury Select Committee has praised Robert Chote and fellow BRC members, stating that the 'success of the OBR in its first five years has been inextricably linked to its leadership'.⁵³ Robert Chote, as the figurehead for the OBR, is widely perceived as independent and therefore not too close to the Treasury or the civil service.⁵⁴

Questions have also been raised about the OBR's remit. There have been calls for it to cost party manifestos in the run-up to General Elections,⁵⁵ as other fiscal watchdogs do, for example the Dutch Bureau for Economic Policy Analysis.⁵⁶ This was rejected by George Osborne on the grounds that it would politicise the OBR. It would also create the secondary problem that departments, who do a lot of the number crunching for the OBR, would effectively be working for both the Government and the Opposition. An independent review of the OBR also 'recommended that caution be exercised in considering the expansion of the OBR's mandate' as the body was still in its infancy.^{57,*} Robert Chote, however, has remained open to the idea.⁵⁸ The call to expand its remit does imply that it is performing its current role relatively effectively.

* The Budget Responsibility and National Audit Act 2011 requires that the OBR be externally reviewed at least once every five years.

Questions about the OBR's remit have also focused on how it oversees some government spending. While it provides a thorough assessment of the Government's forecast for annually managed expenditure (AME) – which includes spending such as social security and debt interest, which are harder for the Treasury to plan in advance – it provides less scrutiny of the Government's departmental expenditure limit (DEL) figures, which includes most funding for key public services such as health, social care and schools.

The OBR forecasts DEL figures for years covered by spending reviews, but in order to forecast for those years not covered, it uses the Treasury's assumption on total spending.⁵⁹ These assumptions are not based on further assessments, and are therefore political assumptions.⁶⁰ Chote has rationalised this as at least giving an element of accountability, and as more beneficial than the alternative of guessing what the Government might do.⁶¹ Although it would be difficult to forecast for the years not covered, the obstacles can be overstated, and a simple model would improve the independence of the OBR relative to taking the word of the Chancellor.⁶² The OBR has also been criticised for certifying government figures without speaking to departmental officials to verify them.⁶³

Occasionally, the OBR has been picked up for forecasting errors.⁶⁴ Most recently, these criticisms have suggested that the OBR's Brexit forecasts are too pessimistic, with Iain Duncan Smith describing the OBR as an organisation 'that simply hasn't got anything right'.⁶⁵ However, as Simon Wren-Lewis has commented, 'forecasts are always wrong'.⁶⁶ Since being appointed, Robert Chote has been keen to emphasise the uncertainty that comes with all forecasting, and has stressed that it's easier for technocrats to be forthright about that uncertainty than for politicians. The important thing is that they are neither consistently optimistic nor pessimistic, and are not prone to "conviction forecasting".⁶⁷

Despite criticisms from some commentators, there have been no serious political accusations against the OBR's independence or credibility, and no chancellor has countenanced any suggestion that the OBR is biased or unfit for purpose. This support from the Government, alongside the credibility of its leadership, explains the continued authority of the OBR.

The Treasury/Ramsden review of the OBR found 'universal agreement among stakeholders' that it had succeeded in adding credibility to the UK's fiscal policy process, while broadly concluding that it could do more if it received greater resources^{68,*} – for example enhancing its analysis, being more resilient to the challenges of fiscal devolution and staff turnover, and making its publications more accessible to a wider audience.

Pros: The OBR became a respected, credible body in a short period of time, and its independence has not been seriously questioned, largely due to its respected leadership. It has succeeded in significantly improving the credibility of government fiscal forecasts.

* It should be noted that the TSC rejects the credibility of the Ramsden Review based on his duty as a Treasury official to report to the Chancellor and support the government policy of the day; see Treasury Select Committee (2016) *Reviewing the Office for Budget Responsibility*, 9 February 2016, retrieved 6 February 2018. <https://publications.parliament.uk/pa/cm201516/cmselect/cmtreasy/514/514.pdf>

Cons: There is little public understanding of its role, though this is not a formal part of its remit.

Lessons: The OBR demonstrates that even if a body is created partly for party political reasons, that does not prevent it from independently performing a vital policy role and quickly establishing its credibility as an independent body. Its remit is deep, but narrow enough to be manageable for a relatively small body. Creating a credible independent body quickly is more straightforward when it is a case of outsourcing a function already performed by a government department (in this case, the Treasury). Independent bodies must be properly resourced to fulfil their remit, and should resist moves to increase the scope of their functions without a commensurate increase in resources.

The Bank of England's Monetary Policy Committee

The Monetary Policy Committee (MPC) of the Bank of England is an unusual body in that it doesn't simply provide advice or oversight; it also has the power to make decisions that will affect the whole economy. Despite this unique position, and some criticisms made of it over the last two decades, it has stood the test of time and its position has not been seriously questioned.

Background

The creation of the MPC can be traced back to Black Wednesday in September 1992, when the UK crashed out of the European Exchange Rate Mechanism, prompting the Government to rethink monetary policy-making and adopt a new inflation-targeting framework. While the Chancellor retained ultimate responsibility for setting short-term interest rates, he began to meet monthly with the Governor of the Bank of

England to discuss monetary policy. The minutes were published, and, in effect, the Bank's views served as a check on the Chancellor.

 It has stood the test of time and its position has not been seriously questioned

 At the same time, the idea of central bank independence was beginning to gain traction in British political circles. The Treasury and Civil Service Committee published a report in 1993, which found

the British monetary policy system inadequate in terms of accountability.⁶⁹ In 1992, Ed Balls wrote a pamphlet for the Fabian Society advocating central bank independence as a way to transform the Labour Party's economic credibility, and he was soon hired by Shadow Chancellor Gordon Brown as an adviser. Then, in 1995, Brown laid out plans to reconfigure the Bank of England with a new Monetary Policy Committee, and suggested it being independent as an option to consider.⁷⁰

It was not a new idea: the Federal Open Market Committee of the United States' Federal Reserve, the Bank of Canada, the Bundesbank's Zentralbankrat and the Reserve Bank of New Zealand already carried responsibility for setting their respective national monetary policies. Even before Black Wednesday, the academic literature supporting central bank independence was well established. As Eddie George, former Governor of the Bank of England, argued when giving evidence to the Treasury Select

Committee in 2007, the Bank's independence was the culmination of a growing political consensus that monetary policy management was a technical job, and one that did not benefit from political interference.⁷¹

Establishing the Monetary Policy Committee

Four days after Labour's 1997 General Election victory, Gordon Brown wrote to Eddie George to announce the new monetary policy-making framework.* His letter declared price stability to be the priority, and assigned operational responsibility for setting short-term interest rates to the Bank. He did not use the word 'independence', as operational responsibility was deliberately derivative of the executive; but that has been the practical effect and it is widely understood that the Bank is independent.

The new Chancellor's Mansion House speech in June 1997 explained the decision. Brown stressed the need for long-termism and stability in monetary policy, and emphasised the political independence of the MPC's members: "my appointments... were made on economic expertise, not party-political persuasion".⁷² The optics of having independent experts was a key consideration. The Labour Party had traditionally been painted as fiscally irresponsible and monetarily incompetent.⁷³ Devolving responsibility for interest rates to the Bank was intended to make a statement to financial markets and the public that the Labour Party would be credible managers of the economy, and would not use monetary policy for political ends.⁷⁴

The decision did prompt some internal criticism. Diane Abbott, Labour MP and then a member of the Treasury Select Committee, argued that the Bank would be insufficiently accountable to Parliament. She asked in a House of Commons debate on the Bank of England Bill, "why do we not simply sub-contract the entire economy to Goldman Sachs?".⁷⁵

Kenneth Clarke MP, who served as Chancellor under John Major until the 1997 election and as Shadow Chancellor thereafter, voiced the Opposition's formal objections from the despatch box, although he personally supported the change. So too did Norman Lamont, another former Conservative Chancellor, who publicly praised Brown for giving the Bank its independence.⁷⁶ Former MPC member Charles Goodhart told us that: "Most of the Conservative chancellors had actually favoured central bank independence along this sort of line beforehand, but it had been turned down both by Mrs Thatcher and John Major."⁷⁷ The Conservatives formally reversed their position in February 2000, and few have argued against it since.

The remit of the MPC

The MPC carries executive power, albeit within a narrow remit and with one principal tool at its disposal: the official interest rate. The MPC also carries out quantitative easing to meet the inflation target, though its members consider the Government to have the final say on the policy.

* The decision to go ahead was made by the Shadow Chancellor three days before the election, explained to Tony Blair the day of the election, and introduced to the Treasury staff the next day. Balls E (2016) *Speaking Out: Lessons in life and politics*. Hutchinson, pp. 138–42.

While it has operational independence, it operates within the framework laid out by the Chancellor, setting interest rates to meet the Government's inflation target (currently 2%). Its remit is renewed annually, alongside the Budget.⁷⁸

The members of the MPC include the Governor, the three Deputy Governors for Monetary Policy, Financial Stability and Markets and Banking, the Bank's Chief Economist and four external members appointed by the Chancellor. All members serve fixed terms on the Committee, and at the end of these they may be replaced or re-appointed. There is a Treasury observer present at meetings – who provides any relevant information on what is happening in the economy, but does not take part in policy discussions and cannot vote – in order to ensure the Treasury is fully briefed after MPC discussions. The Committee meets eight times a year (formerly 12), and publishes its minutes and voting records with the Monetary Policy Summary immediately after the meeting's conclusion.

Operation of the MPC

Giving the Bank operational independence was possible because of its centuries-old position at the centre of British banking. Whereas giving executive power to a new standalone body might prove politically difficult, the pre-established credibility, experience and resources of the Bank smoothed its path to independence.

Nevertheless, in the first few months of the MPC's existence there were some teething problems. The most prominent was the unsatisfactory allocation of staff. The new external members did not have their own researchers, instead only having access to the Bank's pool of staff, whose competing priorities generally led to the requests of external MPC members being relegated below other matters. After several uncomfortable months, external members were afforded two Bank staff each to assist with their research and administration.

The first decade of the MPC's life was otherwise largely uneventful. In this it was helped by a relatively benign economic environment, which Mervyn King called the 'NICE decade' – Non-Inflationary Consistently Expansionary.⁷⁹ This period gave the MPC a track record of success that helped establish its role, and there have been no real challenges to the monetary policy system since its creation.

However, the 2008 financial crisis raised questions about the role and effectiveness of regulators and financial institutions. The Bank came under pressure, with some criticising it for failing to foresee the crisis, and for being too slow in its response.⁸⁰ Former MPC members generally reject that it was too slow to act, and point out that the crisis was not caused by a failure of monetary policy. Be that as it may, the case for reforming the Bank's role in financial stability gained traction.

In the event, the Government gave the Bank more responsibilities, with a new Financial Policy Committee (FPC) established to identify and address risks to the stability of the UK financial system. While not directly affecting the MPC, Ed Balls, one of the architects of the Bank's independence, has raised concerns about this broadening of the Bank's remit. In a 2016 paper,⁸¹ and subsequent comments,⁸² he has argued that the change could result in financial policy functions becoming "too concentrated in the central bank, leading to the possibility of groupthink, a lack of oversight and ultimately

risks to central bank independence". This, however, was rejected by Mark Carney (current Governor of the Bank of England), who maintained that the system 'is incredibly well designed', and that 'independence has not gone too far'.⁸³

After the financial crisis, there were also calls for greater transparency in the Bank's operations; it had been procedure to destroy tapes of meetings after minutes were formally published, which the Treasury Select Committee found unacceptable.⁸⁴ In 2014, the Bank commissioned Kevin Warsh of the Federal Reserve to undertake a review of the MPC's transparency.⁸⁵ All of his recommendations were implemented, including the suggestion that written transcripts of the second session of MPC meetings – where members indicate their individual policy preferences – should be published with an eight-year delay, and recordings published with a 20-year delay.⁸⁶

As part of its commitment to transparency, the Bank takes public interaction with MPC members very seriously. It has 12 regional agencies with extensive contact networks of local businesses, which facilitate communication between the regions and the centre. Each MPC member visits a selection of regions several times a year, giving local business representatives access and exposure to national monetary policy-makers. The agencies serve a vital role, not only in communicating and reiterating the MPC's agenda and priorities, but also in collecting economic and financial intelligence. For example, a former member of the MPC told us that it was through agency contacts that they learned of the importance of inward migration in relieving labour shortages, while Threadneedle Street, and the Treasury, considered migratory flows too small to be significant.

More broadly, the credibility of the MPC has been built on the calibre of its members, who are well respected and often high profile. The details of votes are published (decisions are based on majority, not unanimity), members appear before the Treasury Select Committee individually, and speak publicly in their own name. There is room for dissent, and the voting record demonstrates that disagreement between members is common. Rather than weakening the MPC's credibility, this diversity of opinion actually strengthens it, demonstrating that decisions are the result of vigorous debate between serious people.

Pros: The MPC has widely been hailed a successful instance of government delegating a technical operation to an independent body. It has effectively established its authority in the domain of monetary policy, and there are no serious calls to return to the previous politicised set-up for monetary policy. Despite scattered criticisms – most recently over the Bank's Brexit forecasts⁸⁷ – there is cross-party commitment to its independence and it has not been credibly challenged in its 20-year lifetime.

Cons: Despite extensive outreach by the Bank, there is relatively little public understanding about the MPC and monetary policy generally, and even less understanding of the FPC.

Lessons: The MPC demonstrates that making radical decisions can be easiest in the immediate period after an election, particularly if the Government has a large majority. Delegating is most effective when the remit given to an independent body is clearly defined, manageable and easily measurable.

In very specific circumstances, public disagreement between an organisation's leaders can be beneficial, but only where the debate is constructive and does not undermine that body's functions. Critical to this is the calibre of those leaders, whose credibility and expertise underpin that of the wider organisation.

Overall, the narrowness of the MPC's remit, the limited tools at its disposal and the fact it has executive power mean that this is an unusual model, which may not be easily replicated in other policy areas.

National Infrastructure Commission

The National Infrastructure Commission (NIC), like other similar institutions, began life as the recommendation of an independent inquiry. Unusually though, this inquiry was commissioned not by the Government, but by the Opposition.

The Armitt Review

Announced by Ed Balls, the Shadow Chancellor, in his 2012 autumn conference speech, the review led by Sir John Armitt was tasked with exploring how government could take a longer-term, evidence-based approach to infrastructure decision making. In addition to Armitt himself, a former Chief Executive of Network Rail and Chair of the Olympic Delivery Authority, the review had an advisory panel comprising experts from government and industry. It may not have been endorsed by the Government, but in every other way it exuded authority.

Reporting in September 2013, the Armitt Review identified the need for a 25–30-year national infrastructure strategy, 'underpinned by an evidence-based assessment of our needs and clear plans as to how these needs will be fulfilled'.⁸⁸ At the same time, it recognised the fundamentally political nature of major infrastructure projects and the short-term pressures of the electoral cycle.

It recommended the creation of a National Infrastructure Commission, based on the example of similar bodies in other countries, most notably Infrastructure Australia, as well UK institutions such as the Office for Budget Responsibility, Committee on Climate Change, Monetary Policy Committee and National Institute for Health and Care Excellence. The key job of the NIC would be to undertake a national infrastructure assessment once every 10 years. This would be advisory, with the final decision left to government. The NIC would though monitor and report on the Government's implementation.

There was widespread recognition at the time of the need for change, with the Institution of Civil Engineers,⁸⁹ EEF,⁹⁰ LSE Growth Commission⁹¹ and Sir George Cox⁹² all making similar calls for a new, independent body that would take a long-term view on the country's infrastructure needs. Yet, while the recommendations of the Armitt Review were well received by an industry that was coming to similar conclusions, they did not initially receive support from the Coalition Government. David Cameron and George Osborne acknowledged the importance of cross-party consensus for

* The former Director General and Managing Director of the Institute of Directors.

infrastructure planning, but the Prime Minister argued that the National Infrastructure Plan was the best mechanism for building this.⁹³

Establishing the NIC

The creation of the NIC was announced five months after the 2015 General Election, not by Labour, who had included it in their manifesto,⁹⁴ but by George Osborne,⁹⁵ who had remained Chancellor, this time of a Conservative majority government. Osborne said that the NIC would 'calmly and dispassionately assess the future infrastructure needs of the country and it will hold any government's feet to the fire if it fails to deliver'.⁹⁶

The move was highly political. Coming shortly after Jeremy Corbyn became Labour leader, the adoption of a Labour policy and appointment of Lord Adonis, a prominent former Blairite minister, as Chair, was seen as a brazen attempt by the Conservatives to claim the centre ground. Labour responded predictably, with a spokesperson for Jeremy Corbyn saying: 'We have heard it all before from Osborne and the Conservatives on infrastructure and their record is one of complete failure to deliver. There is still nothing to indicate that the Tories understand the desperate need for serious long-term investment in infrastructure.'⁹⁷

The decision, however, was widely welcomed by industry, with Nick Baveystock, the Director General of the Institution of Civil Engineers, calling it a 'bold and positive move'.⁹⁸

The NIC was established to perform three main roles. Once in every Parliament – rather than every 10 years as recommended by the Armitage Review – it will produce a National Infrastructure Assessment setting out the country's long-term infrastructure needs and making recommendations to government. It also undertakes studies and makes recommendations on specific issues, often in response to a request from the Government. It then monitors the Government's progress in implementing the NIC's recommendations.

Operation of the NIC

The NIC has got off to a strong start, helped in no small part by the strong personal and political backing it received from George Osborne. This has continued, albeit in a more low-key way, with his successor, Philip Hammond. This political support, and the sense that infrastructure has been somewhat of a priority for both the Cameron and May Governments, has given the NIC credibility.

This has been enforced by the high quality of its early work. From a standing start, it was asked by the Government to complete three projects in three months: connectivity of the Northern cities; priorities for investment in London's public transport infrastructure; and investment in efficient energy infrastructure. While not comprehensive, the reports were well received, "set the tone"⁹⁹ for future work and helped the NIC recruit staff.

Subsequent, more in-depth research has further strengthened the NIC's reputation for rigour. In particular, the Interim National Infrastructure Assessment and the strategic study of the Cambridge–Milton Keynes–Oxford corridor¹⁰⁰ both received favourable

reviews. The latter also demonstrated the NIC's ability to act as a convener, facilitating conversations and collaboration between various parts of government.

One reason for this success is that the NIC has spent significant time cultivating relationships with professional stakeholders, most of whom already see the NIC as a "natural ally".¹⁰¹ Previous Institute for Government research has found that 'government departments, the private sector, professional bodies and academics find the NIC accessible and open to expert advice. They were well informed about the NIC's work and understood the National Infrastructure Assessment process.'¹⁰²

More challenging has been engagement with the public. Partly, this is to do with the nature of the topic; while the public has strong views on certain topics within the NIC's remit – for example, mobile coverage – others will generate less interest; one interviewee told us that commissioners would "never expect anybody to pay any attention to the more boring infrastructure projects we're working on".¹⁰³ Nevertheless, the NIC takes public engagement very seriously. To its credit, it has undertaken public consultations and commissioned social research, but it hasn't to date employed more deliberative approaches to involving the public, although one interviewee told us that, if given greater capacity, they would like the NIC to take on a more informative, educational function for infrastructure policy.¹⁰⁴

What public profile the NIC does have can largely be put down to the approach taken by its first chair, Lord Adonis. A public figure already, he adopted a high-energy approach, publicly advocating for specific projects and robustly criticising the Government on a number of occasions. One commissioner highlighted the benefits of Adonis' experience as a politician, and told us "it's an advantage to have somebody in a key position with something of a public profile who can therefore communicate on issues". However, while a successful strategy for garnering column inches, it led some to question the NIC's fairness and impartiality.¹⁰⁵

Lord Adonis also strayed well beyond infrastructure in his public pronouncements, campaigning vigorously on Brexit. An ardent Remainer, he eventually resigned from his role as Chair of the NIC in December 2017. He was the second commissioner, following Lord Heseltine in March 2017, who had either resigned or been sacked due to their views on Brexit. One interviewee expressed concern about the implications of this: "If one of us said something that the Government didn't like then we could be out on our ear, even if it had nothing to do with our positions on infrastructure." This again raised questions about the NIC's independence, which had shadowed it since it was established.

The Armitage Review recommended, and initial government statements suggested, that the NIC would be placed on a statutory footing, most probably as a non-departmental public body. However, it was actually established as an executive agency of the Treasury, which left it more vulnerable to government intervention. Lord Adonis himself, while still Chair, stated to the Treasury Select Committee that the Government could not have removed Lord Heseltine as it did if the NIC had been set up as a statutory body.¹⁰⁶

Despite its independence not being enshrined in statute, in practice, as noted above, the NIC has, to date at least, been very independent. Its commissioners are all strong-minded: as one interviewee argued, the Government has “no leverage” over the commissioners, as they are all leaders in their fields.¹⁰⁷ The rolling terms of commissioners also reduce the space for government influence. Indeed, it is to George Osborne’s credit that he appointed high-calibre commissioners so that when Lord Adonis resigned, Sir John Armitt, previously Deputy Chair and another individual with cross-party appeal, was quickly able to take his place. The NIC is “incredibly conscious about trying to build a perception in the relevant constituencies that we are not an agency of the Treasury”,¹⁰⁸ deliberately moving offices to be separate from government, transferring its website off gov.uk and holding events outside of the Treasury.

The critical question, however, is whether it has performed its key function effectively: to encourage government to take a longer-term and more strategic approach to infrastructure decision making. The evidence so far is mixed. The NIC’s first annual report¹⁰⁹ found that while the Government had made progress on digital connectivity, regional planning and energy networks, its performance in other areas was, according to Sir John Armitt, ‘hugely disappointing’.¹¹⁰ The Government’s failure to act on the NIC’s recommendations on Northern Powerhouse Rail and Crossrail 2 came in for particular criticism.



Given how polarised politics currently is, forging common ground between the two main parties will be no mean feat



However, it is still far too early to make an informed judgement on the NIC. The first really big test will be the publication of the first National Infrastructure Assessment in summer 2018 and the response from both the Government and the Opposition. Given how polarised politics currently is, forging common ground between the two main parties will be no mean feat.

The NIC may also need to adapt to changing circumstances and priorities. A number of key stakeholders,¹¹¹ for example, have suggested that the remit of the National Infrastructure Assessment should be expanded to fully incorporate housing, given how enmeshed housing decisions are with other infrastructure planning, particularly transport.

Pros: The NIC has made a positive start, gaining plaudits for the quality of its work to date. It has credible and widely respected leaders, and has operated independently, even though it is an executive agency of the Treasury. The NIC is not too concerned about its independence; so long as it “conducts itself independently, it will be perceived to be independent”.¹¹²

Cons: Questions remain about its long-term independence due to its institutional set-up, particularly given the loss of both Lord Adonis and Lord Heseltine as commissioners due to their views on Brexit. It is also too early to judge whether it has succeeded in developing greater cross-party consensus on the country’s infrastructure needs and supporting government to take a more strategic, long-term approach to infrastructure decision making.

Lessons: An inquiry, even one commissioned by the Opposition, can successfully make the argument for change. However, a sense of political moment can be critical, as is strong support from the Treasury and No. 10. The NIC also shows that the perception of independence can be just as important, if not more so, than institutional set-up, and that credible leadership is crucial for building this. But without statutory protection, bodies such as the NIC will always be at greater risk of being buffeted by political winds.

Committee on Climate Change

In 2008, the UK was the first country in the world to enshrine targets for reducing greenhouse gas emissions in legislation, creating the Committee on Climate Change (CCC) to advise and monitor its progress. A decade on and the UK is no longer alone, with nearly 200 countries signed up to the Paris Agreement. The UK has made considerable strides in this time, reducing greenhouse gas emissions by over 40%; however, there remain significant challenges to closing future gaps between legislated carbon budgets and the CCC's projections on current policies and measures.

Background

Climate change was not a prominent political issue in the early 2000s. Following the 1997 Kyoto Protocol, that year's Labour manifesto had committed to a 20% reduction in greenhouse gas emissions by 2010. The Climate Change Programme (CCP) was initiated in 2000 to oversee this reduction. A 2003 white paper extended the commitment to a 60% reduction by 2050 (based on a recommendation by the longstanding Royal Commission on Environmental Pollution). However, the CCP failed to deliver results, with only a 10.6% reduction projected by 2010.¹¹³

Climate change was to gain public and political prominence shortly after the 2005 election. This was largely driven by the 'Big Ask' campaign launched in May 2005 by Friends of the Earth and nearly a hundred other non-governmental organisations. This called for a legislative commitment to a 3% annual reduction in carbon dioxide emissions. An Early Day Motion (EDM) was put down in Parliament calling on the Government to commit to this target, and by November 2006 it had gained 412 MP signatures (the fifth highest number of signatures on an EDM since 1939).¹¹⁴

Another important factor was David Cameron's election as Conservative Party leader in late 2005. He sought to decontaminate the party brand by championing the issue of climate change, changing the party logo, sharing a platform with the Friends of the Earth and famously 'hugging a husky' on a trip to the Arctic. In May 2006, David Miliband, 'one of Labour's rising stars', was made Secretary of State of the Department for Environment, Food and Rural Affairs (Defra; which had previously been seen as a 'low profile department').¹¹⁵ The result was the start of what Tony Grayling, one of David Miliband's former special advisers, called a period of "healthy disagreement" between parties seeking to "outdo each other on environmental issues".¹¹⁶

Then in October 2006, a Treasury-commissioned review by Nicholas Stern into the economics of climate change was published. Stern wrote that climate change was the greatest market failure, which could contribute to the loss of between 5% and 20% of global GDP a year.¹¹⁷ The reframing of climate change as an economic, and not solely

environmental, issue 'was important in bringing the Treasury on board' – even as it remained concerned that the UK would suffer if it acted unilaterally.¹¹⁸

Climate Change Act

In 2006, the Government brought Bryony Worthington, a leading 'Big Ask' campaigner, into government to assist with the drafting of a new climate change bill. The bill proposed introducing five-year carbon budgets (which were more flexible than annual commitments) to restrict the level of UK emissions, aimed at achieving a 60% reduction by 2050. As a compliance mechanism, an independent, expert body – the Committee on Climate Change – would advise the Government on the appropriate level for these budgets, and report annually on their progress.¹¹⁹ There was some debate about whether the CCC should have executive power to set the budgets – with Cameron publicly describing the need to have a "Bank of England moment" on climate change.¹²⁰ However, this was rejected early on; the argument being that the range of policies and economic decisions involved would be 'too political to delegate to a technical committee'.¹²¹ Instead the CCC was to have an advisory and monitoring role – similar to the Stern Review but 'operating on a continuing basis'.¹²²

The bill, when it was brought to Parliament, was not contentious. Despite some minor criticisms from Liberal Democrats and Conservatives, there was a clear political consensus on the need to act. The biggest amendment was an increase in the reduction goal to 80%, based on the targets which other countries were adopting, the latest scientific research and the advice of the independent CCC (which had begun operating in 'shadow' form). At its third reading, 483 MPs voted in favour of the bill – and only three against.

The Climate Change Act received Royal Assent in November 2008.¹²³ It enshrined the legal duty of governments to reduce greenhouse gas emissions by 80% from 1990 levels by 2050 (with an interim target of a 26% reduction by 2020). The Act officially created the Committee on Climate Change as a non-departmental public body which would advise the Government on carbon budgets and report to Parliament on progress made on reducing emissions. The CCC would also include an Adaption Sub-Committee (ASC), which would focus on preparing for the impact of climate change and judging the sufficiency of the Government's National Adaption Plan. The first three carbon budgets were then set in May 2009 and implemented via the Carbon Budgets Order 2009.¹²⁴

Operation of the CCC

The CCC is composed of between five and eight independent members, and a chair. A chief executive and a staff of around 30 provide analytical support for the Committee to scrutinise and advise government. To date there have been no minority reports, either on appropriate levels or how the Government is performing to meet them. Adrian Gault, Chief Economist of the CCC, told us that due to the strength of the analysis, "members have never felt like they could not agree a position".¹²⁵

Its sponsoring department is the Department for Business, Energy and Industrial Strategy (BEIS), and the relationship is largely effective, with a Memorandum of Understanding facilitating the flow of information. A former Chief Executive of the CCC, Matthew Bell, told us ministers were "willing to engage and debate" rather than intervene in the functioning of the Committee.¹²⁶ Baroness Brown, the current Deputy

Chair of the CCC, added that the 2016 amalgamation of the Department for Business, Innovation and Skills (BIS) and Department of Energy and Climate Change (DECC) into BEIS has been helpful, as separating business from reducing carbon emissions created “two camps opposed to each other”.¹²⁷

Within the CCC, the ASC provides similar scrutiny on Government’s progress in adapting to climate change, through statutory reports to Parliament to which the Government must respond. Unlike the rest of the CCC, it is sponsored by Defra. Baroness Brown, who also chairs the ASC, told us that “what department you are reporting to is very important”: while Defra has been supportive, it has less influence over the other departments than BEIS.¹²⁸

The CCC faced its first significant test in 2011, when the new Coalition Government had to set the fourth carbon budget. The Business Secretary, Vince Cable, believed the CCC’s proposed level was not ‘cost-effective’ and risked damaging the UK’s industrial competitiveness.¹²⁹ His concerns were supported by both the Chancellor and the Transport Secretary. With the Cabinet divided over the proposed budget, the Chair of the CCC, Adair Turner, and David Cameron met with ministers to broker consensus.¹³⁰ The end result was that the Government accepted the CCC’s recommendations in May 2011, although with a commitment to review the budgets subsequently.¹³¹ When the review took place, the CCC re-affirmed its advice, which the Government accepted. Comparatively, the debate over the fifth carbon budget appears to have been less controversial, with the overall emissions target accepted (although the Government did not include international shipping emissions as the CCC advised).¹³²

While the Government has not significantly diverged with the CCC’s carbon budget recommendations, there is a gap between the agreed targets and the projections of the UK’s emissions levels. Although the UK has met the first budget and is on track for the second and third budgets, it is currently on course to miss the fourth and fifth budgets. In its 2017 annual report, the CCC wrote that the Government ‘urgently needs new policies’ to reduce emissions. It also noted the ‘continued delay’ in the publication of the Government’s strategy to meet the fifth budget, which conflicted with the 2008 Act’s requirement to publish plans ‘as soon as is reasonably practicable’.¹³³

After a delay of nearly a year (partly explained by the EU referendum and the 2017 General Election), the Government launched its Clean Growth Strategy, which celebrated that emissions were down by 42%, while the economy had grown by 67%. However, the strategy acknowledged that the UK was expected to meet only 94% and 93% of its fourth and fifth budgets. While signalling its intention to meet the budgets through domestic measures, it also (under section 17 of the Climate Change Act) proposed retaining the option of borrowing from one budgetary period to another.¹³⁴ Under the Act, that required consultation with the CCC, which in January 2018 announced that it would not currently support the use of these flexibilities, and that while the strategy made ‘strong commitments... many of the proposals and intentions in the Clean Growth Strategy lack detail’.¹³⁵ The Government has also endorsed the ASC’s report about the risks from climate change, with only very minor disagreements. The ASC report will feed into the development of a new National Adaption Programme in 2018.

What next?

In December 2015, 196 countries (including the UK) adopted the Paris Agreement, a commitment to hold the increase in global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit it to 1.5°C. It also agreed the need to achieve net zero global emissions at some point in the second half of the century.¹³⁶

In October 2016, the CCC advised that it was not necessary for the UK to immediately set new long-term emissions targets to reflect the Paris Agreement. It argued that the Government's 'most important contribution' would be publishing a robust plan to meet the existing budgets. It added that the 2008 Act specified 'at least' an 80% reduction, and that there would be future opportunities for the Secretary of State to increase that level, if scientific or international understanding had changed and after a consultation with the CCC. While it saw the merit of a net zero target, the CCC concluded 'it is too early to do so'.¹³⁷ In April 2018, the Government announced that it would ask the CCC to provide new advice on the implications of the Paris Agreement, after the Intergovernmental Panel on Climate Change publishes its report assessing the impact of 1.5°C of global warming.¹³⁸

The CCC has faced criticism from environmental campaigners for its advice. One interviewee told us that in 2008 "the UK was a world leader taking an ambitious stance on climate change" – but now it was "in the middle of the pack" as the conversation moved "from low-hanging fruit and high-minded ideas... [to] difficult decisions".¹³⁹ However, it is significant that governments of different political parties have enacted the carbon budgets and the commitments they entail – even though the fourth and fifth carbon budgets were accepted during the financial crash and Brexit, respectively. Adrian Gault said this demonstrates the CCC's value: "Government needs to be making decisions even in the face of immediate pressures... Without the Act and without the committee, and given the current concerns... [the issue] could have been put off."¹⁴⁰ Interviewees praised both the former and present chairs of the CCC for leadership. Tony Grayling has said that leadership by Turner, as a former Director-General of the CBI, "built bridges with the business community" and helped establish a reputation for high-quality analysis. Meanwhile, his successor, Lord Deben, as a former cabinet minister, has helped "build a bridge to the parties", with the political savviness to know how to get things approved and bring ministers on side, at a time when implementation has proved more challenging.¹⁴¹

Pros: Despite immediate pressures, the CCC's recommendations have been consistently enacted by different governments and the ASC has encouraged a focus on adaption. The CCC's advice is regarded as credible and has been an effective tool to pressure government into action, producing tangible and impressive results.

Cons: The influence of the CCC will be increasingly tested due to the impact of new, international targets, and by the challenges of implementing the fourth and fifth carbon budgets.

Lessons: The CCC is a fine example of how a standing commission can help ensure that longer-term and difficult issues are repeatedly addressed by government, and not just when the issue in question has a political moment in the sun. Although the subject was

too political to have executive decision making, the CCC has used its soft power to hold successive governments to account over the promises that have been made (including by predecessor administrations), highlighted divergence, and made recommendations to help get things back on track.

The CCC's technical ability, which has given its recommendations credibility, and the skills of its chairs, have been important and have helped ensure that the cross-party consensus that was needed for its creation has been maintained.

This case study is also an important reminder of the importance of sustaining relationships with departments, in order to have influence, gain buy-in and manage dissent. It also demonstrates the role external groups can play in raising the prominence of an issue, creating the ground for political action and agreement.

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