

2020 C

2020 VISION:

AN AGENDA FOR TRANSFORMATION

ESSAYS BY MEMBERS OF THE
2020 GROUP OF CONSERVATIVE MPs

THE LEGATUM INSTITUTE

Based in London, the Legatum Institute (LI) is an independent non-partisan public policy organisation whose research, publications, and programmes advance ideas and policies in support of free and prosperous societies around the world.

LI's signature annual publication is the *Legatum Prosperity Index*[™], a unique global assessment of national prosperity based on both wealth and wellbeing. LI is the co-publisher of *Democracy Lab*, a journalistic joint-venture with *Foreign Policy Magazine* dedicated to covering political and economic transitions around the world.

BUILDING A MORE PROSPEROUS WORLD THROUGH LIBERTY AND RESPONSIBILITY

INTRODUCTION

In the last decade of the twentieth century, democratic institutions and free markets enjoyed an increasingly global renown. Personal liberty and economic prosperity seemed to be spreading across the continents in an ineluctable manner during the years after the collapse of the Berlin Wall. This was the post-totalitarian epoch, and its defining themes gave new hope to humanity; freedom was shown to be indivisible and the politics of the age demonstrated that democratic capitalism was the only possible guarantor of human dignity and material progress. A generation later these values retain both their universality and their relevance. But they have also been tested in ways that could not have been predicted in the 1990s. International terrorism has spread fear and employed violence to attack democratic legitimacy, and the global economic downturn has sent shockwaves through the world financial markets.

The Legatum Institute (LI) is the natural home for those wishing to secure the success of societies that are free, creative and enterprising. Fresh approaches and new voices are now needed in order to understand the current turbulence as well as to shape the democratic future in a resolute and independent manner. LI is not allied to any political organization, however, many of its distinctive values are reflected in the essays brought together in this publication.

Our perspective as a policy unit is an international one, and the *Prosperity Index*, which we publish annually, is a unique global survey that takes seriously the notion of individual 'wellbeing' as well as the more conventional indices relating to material wealth and economic performance. 'Social capital' shows that the ripple effect of freedom is discernible right across a society: an outward-looking economy tends to be associated with political energy, cultural liveliness and intellectual curiosity. LI's political studies programme examines and promotes the means by which democracies establish themselves in countries that are emerging from a recent authoritarian past. And its cultural programme, which ranges widely across the arts, sciences and humanities, invites scholars, writers, and public figures to discuss the issues that are fundamental to a multifaceted human prosperity.

Jeffrey Gedmin
President and CEO

Hywel Williams
Senior Adviser

FOREWORD

Change, hope and optimism; these words were the clarion call of David Cameron's audacious bid for the leadership of the Conservative Party in 2005 and the essence of the modernising message that defined his early years as Party leader. We need more!

The global financial crash and the catastrophic economic legacy bequeathed by Gordon Brown to the Coalition, changed British politics profoundly. Previous assumptions about growth and public finances have had to be torn up. Successfully riding the economic storm requires a lot more than a sunny outlook but, as history will judge, the Prime Minister has shown himself more than equal to the task.

The 2020 Group applauds the strong leadership shown and the tough decisions that have been taken by George Osborne to rescue the public finances. We know that huge challenges remain and that turning around the economy after 13 years of Labour will be a harder and longer task than we thought in Opposition.

However, although stringency is today's imperative, we still need to prepare answers for the big questions about the Britain of tomorrow. The public understand the contemporary problem and they do not expect the economy to be fixed over night. Nonetheless, as time passes, they increasingly seek assurance that these financial sacrifices will have been worthwhile.

People want a glimpse of the future, a portrayal of longer term purposes and objectives. People want reassurances

that progressive Conservative values will equip our country for the challenges ahead. They need to feel certain that the kind of society Conservatives wish to build, is one in which they can feel at home and that modern Conservatives remain the inclusive, authentic champions of One Nation politics.

The 2020 Group draws on a broad base of progressive Conservative MP's all of whom are optimistic about Britain's future and wish to provide answers to a question of central importance. What could Britain look like in 2020 after a successful Conservative majority government? Many of the answers involve instilling the modernising values embodied in the original Cameron agenda of 2005, into a new set of radical and forward looking policies that are right for our time and which meet the challenges of a fiercely competitive global economy.

The ideas in this pamphlet are not a manifesto (but they will be fleshed out in more detail in the coming year) and the individual essays reflect the views of the authors rather than those of the 2020 Group collectively. However, the following pages do try to show how the Conservatives can win in 2015 by regaining a sense of fearless optimism, by spelling out more boldly what it means to be a Party of aspiration and doubling up on opportunity.

I hope you enjoy the read!

Rt. Hon. Greg Barker MP

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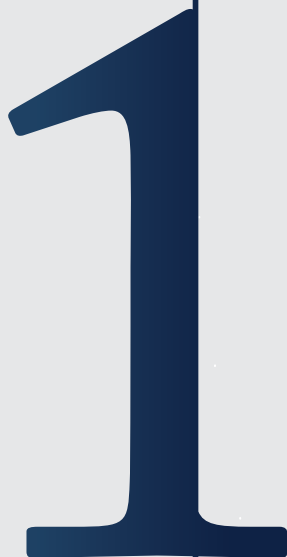
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POLITICAL COMMISSION
FOR BETTER GOVERNMENT

In the words of the Prime Minister, Britain is in a global race. If we're going to compete on a global economic stage we need a government machine which can deliver structural reform in a smarter more cost-effective manner. Yet only around a third of major government projects are delivered on time and on budget, it's become a commonplace that governments of whatever political stripe can't do anything involving complex IT, and as a country we've resigned ourselves to the idea that decisions on large infrastructure projects should take decades rather than years.

The taxpayer deserves better than this, our public finances demand it. So how can Britain do government better? That's the question we in the 2020 Group have set for ourselves. Our inquiry isn't about the rights and wrongs of particular policies but about how well policy gets translated into practice, and it's not about bashing civil servants but how we make it harder for politicians to blame 'Whitehall' when they fail to live up to their manifesto commitments. Above all, it's about how we ensure that governments deliver on more of their promises, with a minimum of fuss and maximum value for taxpayers' money.

Our investigation will deal with three interlocking themes:

- » The Role of Ministers
- » Project Delivery
- » Civil Service Reform

This paper sets out our initial thoughts on these themes and charts the scope of our inquiry.

THE ROLE OF MINISTERS

Nadhim Zahawi

It's symptomatic of the problem we're investigating that Michael Gove, widely recognised as one of the most effective ministers in this Government, has made a point of circumventing the usual processes of Whitehall. Famously, for example, he hired a team of lawyers to write his Education Bill while still in Opposition. If the modern test of a good minister is being able to work outside the system then there is clearly something wrong with the system.

Westminster is rooted in the convention of Ministerial Responsibility, where ministers are held personally responsible for the actions of their officials. When a policy is successful ministers take all the credit, where passport queues are too long, or MRSA breaks out a hospital, ministers take all the blame. There's some debate over the practicality of this convention in the context of modern government and we want to look at this. For instance, it's been argued that a rigid application of Ministerial Responsibility results in over-centralisation, that far too many issues are referred to the top, not because they actually require a ministerial decision, but because they could form the basis of a political attack in Parliament and the minister must be seen to be across all the details. Since the minister's attention is so frequently drawn away from the bigger picture, he or she must rely heavily on his permanent secretary for policy advice. This is reflected by the fact that the vast majority



of permanent secretaries—65 percent—come from a policy background rather than a delivery background.

But there are alternative ways of structuring a Westminster-style system. New Zealand and Australia operate a clearer division of responsibilities between ministers and heads of departments. Ministers stay out of the day-to-day running of departments and concentrate instead on the strategic direction of policy. Heads of departments—who are chief executives on fixed-term contracts, rather than permanent secretaries—are responsible for managing a set of departmental outcomes which they have agreed with the minister and are answerable for in Parliament in their own right.

An attractive alternative to reformulating the doctrine of Ministerial Responsibility would be to give ministers more power over appointments. Britain's Civil Service is one of the most autonomous in the world. With the exception of SpAds, ministers do not choose their own advisers and they have no formally recognized control over promotions, rewards or sanctions—of the most basic tools of management in other words. This leaves ministers in the position of being accountable to Parliament for the success or failure of a given project, but with no say over who heads the team brought in to deliver that project.

Of course any move towards strengthening the executive's powers of appointment would have to be balanced with a stronger role for Parliamentary select committees. Indeed, such a move would result in more credible select committee hearings. The minister would no longer be able to scapegoat 'bungling officials' as these same officials would also be government appointees.

Historically, it's been difficult to move the debate on in this area because of concerns about 'politicising' the Civil Service. Much of the problem lies with the fact that most people identify political appointees with Thick-of-It-style spin-doctors. This perception led the current government to reduce the number of Special Advisors from 78 to 66 upon coming into office, as part of its efforts to 'reduce the cost of politics'. But as has widely been acknowledged this was counterproductive, and the numbers have since risen back up

again to 81. The reality is that SpAds play a vital role in co-ordinating government policy across departments and performing duties which Civil Servants cannot. We need to look at the arguments for making the roles of political advisors more explicit, defining their accountability more sharply and for expanding their numbers. There is a precedent for this elsewhere: the Canadian government currently employs around 600 political advisors serving 27 ministers and 5 secretaries of state.

MAKE MINISTERS ACCOUNTABLE TO PARLIAMENT, NOT JUDGES

Charlie Elphicke

In a fast moving, increasingly competitive globalised World we need a Government that can make decisions at speed. Yet in Britain Government operates with a lower sense of urgency than the average garden snail. A key reason for this is that the Courts second guess Government decisions so frequently that Ministers fear to make a decision at all lest they find themselves on the receiving end of a Judicial Review.

Ministers are appointed to make decisions. Ministers are accountable to Parliament for these decisions. This is the way our democracy is supposed to work. Ministers' decisions are not supposed to be second guessed outside the Parliamentary system. Yet they are. Increasingly by judges who have developed judicial review to a point where they are free to meddle more or less on a discretionary—some would say arbitrary—basis. Judges have developed judicial review to the point where their behaviour causes huge uncertainty and delay as Ministers and officials labour ever harder to make decisions "watertight" while judges labour ever harder to be able to second guess any Government decision making on such basis as they may see fit.

It's not hard to see why there has been increasing concern in the past decade. In 1997, the number of applications for judicial review was 3,848. By 2011 the number had risen to 11,200. An increase of 191 percent. The largest increase in judicial review applications was immigration cases. In 1997, the number of immigration cases stood at 1,929; by 2011 this had risen to 8,649. An increase of 348 percent. By contrast, the number of cases

categorised as “criminal” increased from 284 in 1997 to 338 in 2011, an increase of 19 percent, and the number of cases categorised as “other” increased from 1,635 in 1997 to 2,213 in 2011, an increase of 35 percent.

The graph below sets out how judicial review applications have changed over time:

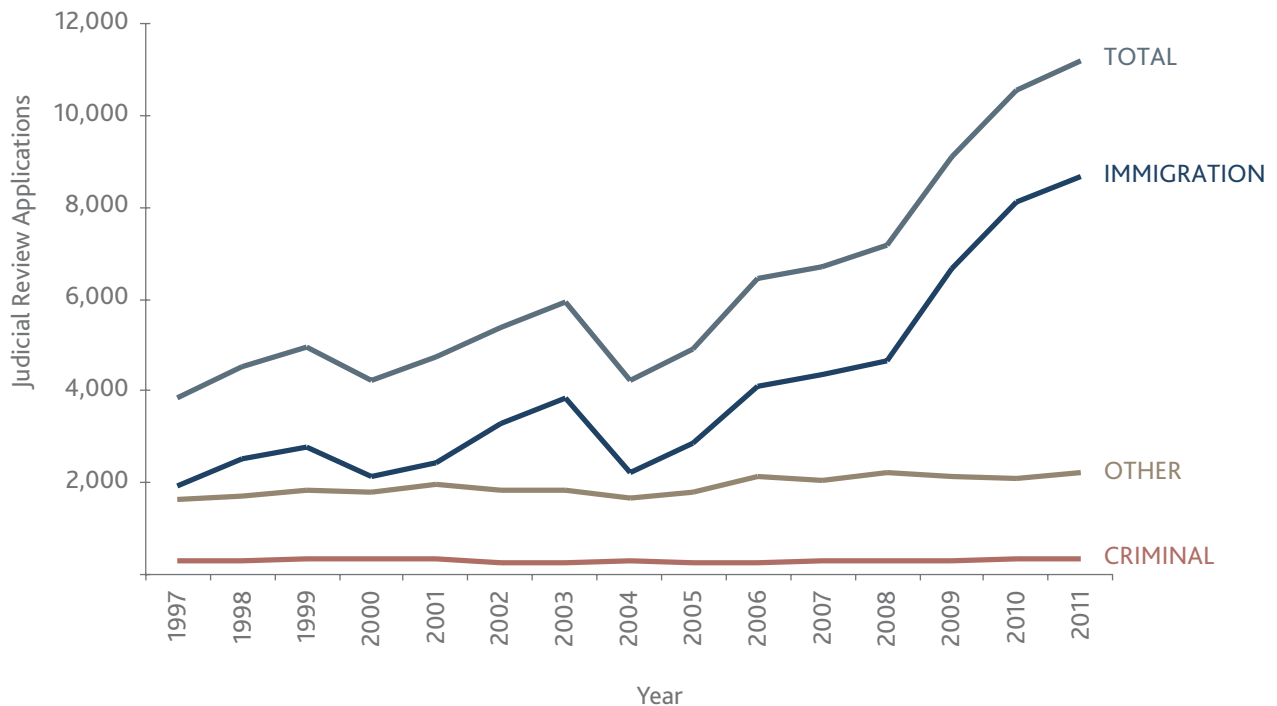


CHART 1: JUDICIAL REVIEW APPLICATIONS 1997–2011

The Department most affected by judicial second guessing is the Home Office. The Home Office is responsible for law, order, national and border security. This department is key to our safety and security as well as the security of the state. Yet this department is hobbled by persistent interference by the judiciary with a massive rise in criminal and immigration cases. Small wonder that the Home Affairs Select Committee has pointed to a massive backlog of asylum cases. The level of judicial review of immigration cases seems to have made it far harder and slower to make decisions. It is not simply a question of delay. It is also a question of cost. Each case takes up enormous amounts of time and money to prepare for. Small wonder then that there are less resources available for the day job of simply processing immigration cases.

The Home Office is worst affected. Yet the spectre of paralysis haunts every Government Department. Every official and Minister fears being reviewed. The result being that all decision making in every department is slowed to a snail's pace.

What then should be done? The Prime Minister argued at a recent CBI conference that action was needed. He said that the cost of an application for leave should be increased and the time to apply to the Courts should be reduced. Such changes may well restrict the number of cases. Yet further action could be taken to attack the mischief itself:

1. The scope of judicial review that enables judges to second guess decisions should be cut down. Only a decision that is so unreasonable that no sensible decision maker could have made it should be subject to review.
2. Ministers should not be treated as judges—or even as quasi judges—in making a decision. They should be free openly to discuss upcoming decisions in order to inform themselves as fully as possible of the facts and issues they feel are germane to a decision they are making.
3. Legal aid should only be available for cases that involve a novel point of law of significant public importance. The taxpayer should not be called on to fund delay, which is what has been happening too often with the abuse of legal aid in judicial review cases.

PUBLIC SERVICE REFORM

George Freeman

The scale of the economic challenge of competitiveness we face demands radical reforms—across the board in the way Government does its business. To unleash the renaissance of enterprise and innovation we need (see Chapter 2: *2020 Economic Commission*, p16) we don't just need a Government for business, we need a more businesslike Government—and a more innovative and entrepreneurial approach across the public sector and public service reform.

Reform of the public sector is essential to recovery for several reasons:

- » Even after appropriate 'rebalancing', with Government spending likely to remain at circa 40 percent of the economy public spending will remain a major part of our economy.
- » Reform is essential to tackling the key drivers of the structural deficit. The NHS. Welfare. And public sector pensions.
- » Tackling public service reform to make public services more modern and innovative will require people with the necessary skills to drive and deliver change across complex organisations. Experience which is surely lacking today. Conservatives need to be much more discerning in our criticisms of poor public sector performance and focus rather less on low paid employees at the bottom and rather more on the often very poor level of management expertise in senior public sector managers. How many NHS hospital trust experience and training of management best practice in the private sector, whose best practices they are intended to replicate? How many NHS trust board members have had proper training in the basics of company law and governance?

I have some experience of this challenge from my role as Government Advisor on Life Sciences, co-ordinating the development and implementation of a radical long term policy to turn the NHS dominated healthcare landscape into a much more innovation friendly ecosystem in which

the NHS is much more open to working with industry on medicines research and diagnostic and device development. ('Every patient a research patient'. The PM, Dec 2011).

Driving this sort of bold reform package to create an 'integrated healthcare economy' has required a different model of delivery from the usual departmental administrative work carried out by the majority of civil servants:

- » Close working with industry—especially the newest entrants and new companies at the cutting edge (who Government traditionally finds very hard to reach but modern comms makes much easier to 'consult').
- » Cross-departmental change leadership (in this case the NHS and BIS).

In my experience it is time to ask whether we need to recognise more formally a distinction between two very different types of Whitehall official required in modern Government:

- » Administration: the day to day running of departments
- » Reform: the instigation and delivery of the bold public sector reforms we need if we are to rise to the competitiveness challenge set by the Prime Minister.

Either way, we need to change the tone of the Conservative narrative on the public sector and stop referring lazily to all those who work in the public sector as 'faceless bureaucrats'. It's an unhelpful and damaging stereotype which holds back the very reforms we want to see. What

well run company motivates its workforce by attacking and undermining them?

Rather, we need to be creating a narrative in which we can be much bolder in driving reform without sounding like the nasty party again. We need to celebrating the calling of public service, congratulating and reinforcing the spirit of public spiritedness (which apart from anything else has traditionally been responsible for wage restraint in the public sector) and promoting the importance of great management and admin as a key requirement of the modern and enterprising public sector we want to see.

CASE STUDY:

The Book Trust, the School Sport Partnership and transition funding.

Penny Mordaunt

It was quite right and necessary to examine the return on investment the taxpayer receives from these enterprises, especially in the case of the Book Trust. However, in addition to getting value for the money supplied by government these bodies should set about making that money generate other income. That considerable sums of money could be levered from corporate partnership funding does not seem to have been understood.

The Book Trust grant did not represent a good ROI for the Department for Education. When I met them it was

apparent that they laboured under the delusion that good value for money was achieved simply by bulk-ordering books. It was striking how little grasp they had of how to maximise their government funding. Yet, despite their failure to recognise the significance or the possibilities of their one corporate partnership and small volunteering programme they did have the seeds of an operation that could have delivered many government and local government objectives. From reading support for families in deprived areas, to action to enable hard pushed libraries to continue to operate, the potential to deliver valuable services plainly exists.

We in Portsmouth not only know what the Big Society looks like, we've set about building it and have found many local solutions to fill the gap between what we want for our communities and what the state can deliver. In the last six months in my patch we have, via partnerships with pharmaceutical companies, raised enough funds and gifts-in-kind to enable the local hospital to transform some services. In addition, community goodwill provided the labour and materials to rebuild a community centre.

However, there are some things that government is best placed to organise even when it has rightly decided it cannot continue to pay for them. For example, any attempt to capitalise on the interest in sport generated by the 2012 Olympics would need to be co-ordinated at a national level owing to the complexities of the Games' existing corporate partnerships. Equally, the considerable number of companies

which have distributed reading books to school children over the last 12 months have all done so on a national basis. Even if such schemes are administered locally, setting in place a national framework and publicising how MPs or other community leaders can access it would be helpful.

I appreciate the understandable pace at which statutory funds are being reviewed and grant funding withdrawn, and that cooperative partnerships require leadtime and are best linked to the planning cycle of charities and businesses. But these are not insurmountable obstacles. I therefore ask that we consider the following:

- » Any national projects or programmes from which funding will be withdrawn, but whose functions we would like to see continue, develop or move to a more balanced funding portfolio, should be flagged and the options for national non-statutory partnerships discussed. These projects should then be pitched to the relevant industries and charities for that autumn's planning round.
- » Departments should consult with a small team with corporate and third sector fundraising expertise, perhaps based in the Cabinet Office. These people could be drawn from the coalition or from an external organisation such as the Institute of Fundraising.
- » Before changes to funding are announced government departments should be given a summary of the potential for additional funds to be leveraged.

- » In time, this process could become an established method of facilitation for uniting charities and corporate partners.

I have a background in charity fundraising, including setting up businesses to deliver services on a sustainable footing, corporate partnerships, and community fundraising. I believe in the Big Society agenda not just philosophically, but because I know that through methods such as those that I have described, it is achievable. The Big Society, and the general public's understanding of it, would be dramatically boosted by central government's adoption of this approach, especially as these Big Society partnerships bear fruit through the development of organizations' corporate social responsibility and community giving programmes.

How much easier would it have been to reduce the Book Trust's £13 million grant had successful corporate partnerships been arranged so that publishers provided all the books free of charge. This would mean that every pound that the government did provide could be used to allow an army of volunteer readers to breathe life into unused community libraries, and to supplement local authorities' reduced summer activity programmes with reading camps.

If we are to achieve the cultural shift which is our objective, then we must adopt new and radical ways to provide more for less, and to do it better. The approach I have outlined would demonstrate what the Big Society means not only to the public, but to civil servants and local authorities too; it demonstrate that we do not need a fatalistic attitude to the economic climate, but that our goals can be achieved.

MOVING TOWARDS A PROJECT BASED GOVERNMENT

James Morris

A recent report from the National Audit Office—*Managing Budgeting in Government*—revealed that only 0.2 percent of government expenditure allocated in the 2010 Spending Review came from joint submissions from government departments. This demonstrates the stark nature of the still hierarchical and department focussed nature of government. Government departments continue to be focussed on defending their own budgets and departmental defined priorities.

Many war stories from within the government indicate the difficulty of getting the government machine to promote effective cross departmental working. The government policy of promoting community budgets, for example, which attempts to pool budgets to tackle complex issues like family intervention, has met with internal resistance.

This resistance to talking issues on a cross-departmental basis and often in cooperation with local government on a decentralised basis is one of the key reasons why governments have been historically very poor at driving delivery of broader policy objectives. Delivering on the government's policy objectives is hampered by the still rigidly hierarchical nature of department structures. While the civil service has acknowledged this as an organisational problem for many years (the issue was the subject of countless studies

by the Strategy Unit under the Blair government) it has seemed incapable of taking the necessary steps to change the entrenched culture in Whitehall.

Large private companies realised some time ago that organising the businesses in separate silos (sales, marketing, operations, product development) and within a hierarchical organisational structure was hampering their ability to compete and innovate. Businesses subsequently underwent an organisational revolution in which project based structures, focussed on cross business delivery, became the norm. Businesses became increasingly focussed on customer delivery through mixed project teams.

While not everything that has been forged in the crucible of private business can be directly translated into policy implementation in government we should be able to learn from the success of project based organisations. This is an urgent imperative for government. The current government machine is simply failing to deliver effectively on policy objectives.

We need the machinery of government to change to a cross-departmental, project based structure ruthlessly focussed on the delivery of government's policy priorities. Four areas need to be explored:

1. The role of Ministers needs to change. Rather than Ministers focusing on departmental priorities we need Ministers to be assigned project roles which focus on the delivery of government priorities which require work across government.



2. Cross department collaboration should become the norm with boundaries between departments becoming more porous.
3. Whitehall civil servants should be incentivised—as part of their performance appraisals—to collaborate. Effective cross departmental working should be the route to the top.
4. Departments should be mandated to identify joint budgetary submissions tied to specific areas of government policy priorities with the objective of joint submissions becoming a normal and accepted part of the budgeting process.

ADMINISTRATION v GOVERNMENT

Laura Sandys

Government has become progressively activist—it has become all powerful and omnipresent. Whatever your ills—it is either government's fault or government can solve it. This mission creep has resulted in a true migration from what used to be called an Administration to what is now called and acts as a Government.

There is a fundamental difference in philosophy, action and purpose between administering and governing. Administering is a strongly conservative based function—providing the environment for others to succeed, delivering the legislative frameworks for others to deliver the common

good. The conservative commitment to administering is too often forgotten in contemporary debate, but it ought to be remembered that we are the party of small government, and not of 'no government'.

This is a type of government that needs less legislation, providing space in which others can innovate. Free schools are an excellent example of 'administration' legislation—with OFSTED as the arbiter of standards and parents the consumers of the service.

This is in marked difference to 'governing' the British people which involves actions being prescribed, and legislation assuming more of a continental personality as typified in the Napoleonic Code.

Key features of an administration could include: perimeter government; new 'political' reward structures; barriers to new legislation; increased focus on the skill of management in the appointment of ministers; and greater powers and responsibility to the deliverers of services rather than the architects of policies.

The fundamental guiding principle around government for the 2020s will be Do Less Better, but why wait until then?

CONCLUSION

In the coming year our commission will be hearing evidence from ministers past and present, as well as retired permanent secretaries and other civil servants. We will be publishing our findings and policy recommendations in a series of essays and research papers.

Few people outside think tank land take an avid interest in the internal mechanics of Whitehall, but what does matter to the public is having a government which delivers. That's what our commission is all about: delivery.

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Supporting MPs:

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ECONOMIC COMMISSION

STRUCTURE:

- A 2020 Economy—What It Might Feel Like
- The State We're In: Why We Need An Innovation Economy
- Key Themes
 - » Global Competitiveness
 - » UK Entrepreneurship
 - » Knowledge Economy
 - » Participatory Economy
 - » Public Sector Enterprise
 - » Digital and Data Revolution
- 2020 Plan/Workstreams Output Over Coming Months/Year

THE INNOVATION ECONOMY

It is the morning of the 7th May 2020. Over breakfast, Mr and Mrs Jones, happily married for 50 years with three children, are reflecting on the past and their hopes for the future. Reflecting on the difficult years of 2010-2015, they now know Britain is on the right track. Britain is topping the world economic tables for competitiveness and unemployment is low. The most striking development is that it seems the whole world wants to invest in the UK.

Mr and Mrs Jones have a large proportion of their savings in bonds. Not Government bonds—which are no longer issued—but in interest-bearing bonds from mutuals, cooperatives, social enterprises and private businesses. Their oldest child, John, is a successful 'Life Science' entrepreneur. He is hiring 20 top class science graduates and another 20 apprentices from the local technical college. He happily invests his profits in research and development. His business benefits enormously now that the Government only accepts electronic invoices. The UK online services industry has cornered the market for electronic invoicing standards. Electronic invoicing alone has added about 0.5 percent to GDP. Their daughter, Mary, is a successful maths teacher on the road to promotion. Her husband is an orderly at the local hospital trust. Nobody can remember if it is private or public; it is just a good hospital and they both hold a stake in its future. Their youngest, David, is a perpetual student and high-tech entrepreneur. Like so many others, he is also registering his own IP with the Online Intellectual Property Office.

Mr and Mrs Jones seldom see politicians on TV. The only political stories appear to be about tax reductions, high-tech exports and the massive trade surplus. Britain is confident, dynamic and at ease with itself. The only criticism Mrs Jones has is that “the Conservative Government failed to raise the tax-free threshold to £25,000. It’s such a disincentive for lower earners.” However, Mr Jones reminds her of the days of “those awful tax credits, national insurance contributions and year-end tax returns.” Mrs Jones reflects on this, adding, “at least we know where we stand with a 20 percent flat tax.” “But,” Mr Jones says, “never trust a politician, I very much doubt they will get the flat rate down to 15 percent by 2025 as they promised.” “True,” adds Mrs Jones, “but we can’t expect too much, now that Parliament only sits 16 weeks a year.”

Fantasy? Not necessarily. The scale of the economic crisis engulfing ageing western European economies, and the pace of economic, social and technological change are demanding and driving radical thinking. The structural pressures on public finances and the explosive effect of technology in empowering a new generation of consumer citizens marks the end of a post-war phase of ‘Big Government’ ‘top-down’ solutions. As the UK confronts the realities of its debt legacy, structural deficits in public finances, and the need to trade its way out in an increasingly globalised enterprise economy, it’s increasingly clear that we need to embrace innovation at every level: in the economy, in the way we do government, in public services, and in the way we think about our society.

Each generation has to deal with the world as it finds it. The 2020 Conservatives have come together as a group to embrace this generational challenge. Set up by a broadly based group of MPs as a forum to share perspectives on the challenges we face, we are drawn from all traditions of the Conservative movement, united by a deep commitment to fresh thinking in the progressive centre ground. The 2020 Economic Commission is a forum to think boldly about the real nature of the crisis we face, the underlying causes of it, and set out a framework for making sense of it as well as specific policy proposals for our 2015 manifesto.

Working in tandem with the 2020 Social Commission (theme: the opportunity society) and Political Commission (theme: reconnecting politics) we have identified innovation as the central theme of our work. Innovation as the central driver of the increased productivity and competitiveness that we will need to compete with the emerging tiger economies. Not least in the public sector which is the cause of the structural deficit at the heart of our public finances. Innovation in terms of unlocking our global USP as a knowledge economy, trading on the things we know and do best. Innovation in terms of adopting and harnessing the disruptive/insurgent potential of technology to open up new markets. Innovation in terms of radically new thinking in government about how we can support a more entrepreneurial economy and empowered society.

Over the coming months we aim to look more closely at a number of key themes driving this innovation revolution,

explore their implications for Government and public policy, and set out policy ideas for the 2015 Conservative Manifesto so that the 2020 vision in the opening paragraphs becomes a reality. We are profoundly optimistic about the economic prospects of the UK, and about the political prospects for the Conservative Party, provided we can embrace bold thinking in the progressive centre ground.

GLOBAL COMPETITIVENESS:

Restoring Britain's position as a global economic power.

The world economic order is changing fast. The economic crisis is symptomatic of a deep power shift to the emerging tiger economies of the BRIC and emerging world.

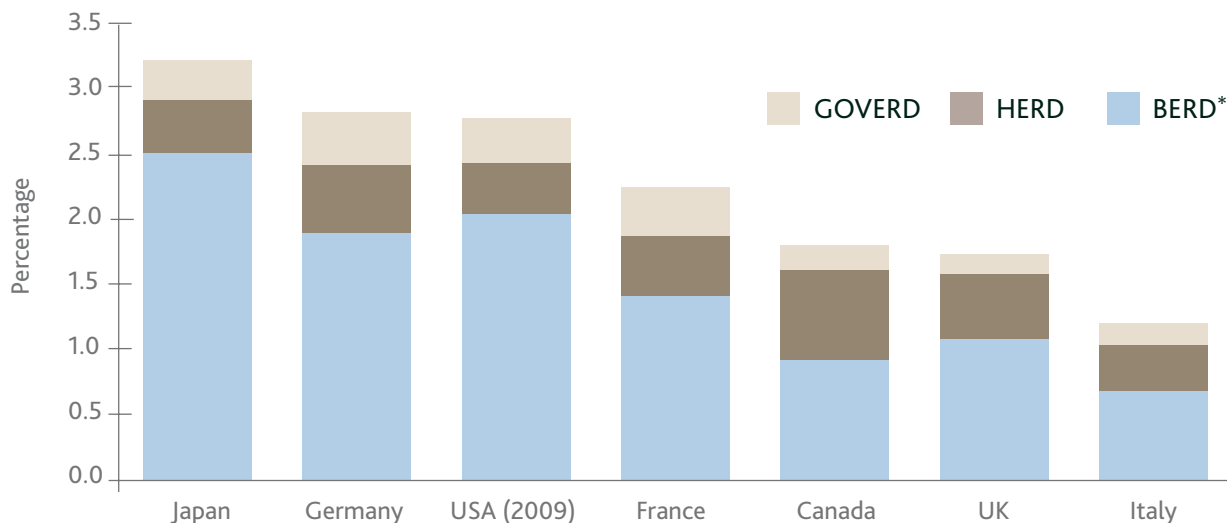


CHART 2: SECTOR CONTRIBUTIONS OF GROSS DOMESTIC EXPENDITURE ON R&D TO GDP (PERCENT, 2012)

Government Expenditure on R&D (GOVERD). Higher Education Expenditure on R&D (HERD). Business Enterprise Expenditure on R&D (BERD).

Source: Organisation for Economic Co-operation and Development (OECD) Main Science & Technology Indicators.

UK ENTREPRENEURSHIP:

Making Britain one of the best places in the world to start and build a business.

To do this we will need not just the well established companies of today, such as GlaxoSmithKline, BAE Systems, PwC, and Marks and Spencers, but we will need a vibrant start-up and mid-cap sector eager to open up and exploit new markets. Tomorrow's entrepreneurs will need to be more global and entrepreneurial than ever before. So will our school leavers and students. To attract global entrepreneurs to the UK we will need to make this one of the best places in the world to start a business. That will mean bold supply side reforms to support the risk takers who build new ventures (tax and regulation). But it will also mean government actively looking at organising its affairs in a way which supports rather than hinders small business. And it will mean a profoundly more entrepreneurial culture in our education system. Britain needs to feel like—and be—a place which values and rewards the risk takers who have a go.

KNOWLEDGE ECONOMY:

Unlocking a smart and creative innovation economy in which the UK leads the world in the ideas, technologies and businesses of tomorrow.

To unlock our competitive advantage in the new global economy means focusing on the things we do best. That

won't be low cost manufacturing, mass production and assembly of consumer goods. The emerging economies with low-cost labour forces can outcompete us; we need them to in order to kick start their development. We will need to focus on exploiting our 'knowledge economy': our science and research base, our universities and education system, our creative arts and media sectors, our professional services, and our information technology, data and digital sectors.

New technology and innovation is key to an innovative economy for two key reasons. Firstly, the rate of adoption of innovation is key to tackling the productivity and competitiveness challenge we face from emerging economies. Across all sectors it's becoming clear that companies and sectors which adapt and invest in new methods and technologies perform better. Secondly, new technologies can be disruptive and create whole new product classes and markets. By establishing intellectual and early stage ownership of new technologies we can position the UK as a leadership hub for the markets of tomorrow.

Some technologies are more disruptive than others. Two particularly powerful platform technologies with the potential to reinvent enormous existing models and markets are computing and genetics. Both are sectors in which the breakthrough discoveries were made here in the UK. Both are developing at exponential pace (10 years ago it took £1 million and 10 years to map the human genome. Now you can have your own genetic blueprint screened in an hour for £1000.) In the cutting edge fields of tomorrow—

superfast computing and genetic diagnostics—the UK has the potential to lead some of the most profound market-creating new technologies in the world with the potential to shape our economy for the next 50 years.

At the heart of this theme we will be continuing to examine the question posed to us by the Chancellor in our pre-budget ‘growth month’ earlier this year: What is the appropriate level of intervention in business for progressive Conservatives? Does the scale of the economic challenge facing us and the logic of the response identified in this section demand a more strategic set of interventions than the laissez faire conservatism of the 1980s deemed appropriate? Is it time for a modern Conservative industrial policy for innovation and the knowledge economy? If so, what should it look like? And is it possible to shape such a policy without falling back into the failed corporatism of the 1970s with all that went with failed past attempts to pick winners.

PARTICIPATORY ECONOMY:

Unleashing a new spirit of enterprise.

An innovation economy demands an opportunity society and high levels of social mobility. We won’t restore social mobility and opportunity to Britain without a more entrepreneurial economy. The two can fuel and support each other. We need to explore how we can use entrepreneurial economics to help create opportunities

for those most excluded from mainstream economy and big business. There is a growing canon of evidence that shows that many of those most often excluded from the mainstream economy have the most to give: women, BMEs (Black Minority Ethnic), and non-academic ‘NEETs’ (Not in Education, Employment or Training). Women entrepreneurs have better outcomes than men. BME and immigrant communities use enterprise and extended familial networks to drive opportunity, and work their way out of the inner city ghetto, as the Ugandan Asians did in the UK in the 1970s. We have tested to destruction the idea that we can eradicate ghettos with government programmes. We need to unleash a new spirit of enterprise to let the wasted talent languishing in our inner cities loose to build a better future for themselves and better cities for their children.

We also need to re-legitimise wealth creation, by showing that we are only ‘profoundly relaxed about people getting filthy rich’ provided they put something back. Privilege in whatever form carries responsibilities, and we need to think through ways to help those who have risen to the top, to help those at the bottom. As part of that we need to unleash a new wave of philanthropy and bursaries to help drive social mobility, and promote a wider share ownership and mutual models of ownership in both the private and public sector.

PUBLIC SECTOR ENTERPRISE:

New spirit of enterprise—modernising public services.

No serious programme for the economic renewal of the UK can ignore the public sector. At 40 percent of our GDP it is a major economic force. Its systemic and structural lack of innovation is a major driver of the structural deficit bankrupting our public finances. Falling quality of public service risks breaking the covenant with the taxpayer which cements our model of public services funded by universal contributions and central taxation. The public sector is particularly influential in some of the most exciting emerging global markets in which Britain has so much to offer the emerging world: biomedical research, education and infrastructure. Public sector procurement can—as in the USA—be a major driver of enterprise and innovation to the benefit of UK innovation economy and public sector, but too often procurement works against SMEs.

So we don't just need to change the relationship between the public and private sector, but the culture within the public sector. We need to open up a much wider mix of models of not-for-profit, mutual and PPP models of delivery. We need to breakdown the stale and overstated divide between the public and private sectors, which too often holds both back. And we need to encourage a culture within public sector and public sector accounting which rewards innovators, removes barriers and creates new incentives for innovation e.g. the NHS and Life Science sector.

DIGITAL AND DATA REVOLUTION:

Empowering citizens and consumers to make the UK a global hub of digital innovation.

The explosion of information technology, digital and web media is changing the whole way we do business, across all sectors. The digital revolution is creating new products and markets, and disrupting old ways of business. It fundamentally challenges old models of big government and big business. Harnessed and appropriately regulated, it has the potential to drive a revolution of empowerment for a new generation of citizens and consumers. Openness of data and access to data sets is fundamental to this revolution. Government opening up data sets can itself create new markets and opportunities—for example for new apps. Opening up data sets like the anonymised NHS disease and treatment records and health outcomes data shines has the potential to make the UK a global leader in the new field of 'personalised' and 'targeted' therapeutics.

All of this requires some deep thinking about the appropriate ownership, confidentiality and regulation of data within these new markets to prevent market domination by private monopolies.

2020 PLAN/WORKSTREAMS OUTPUT OVER COMING MONTHS/YEAR

Over the coming year we intend to develop these themes through a series of 2020 Conservatives policy discussions and workstreams led by pairs of 2020 members, by publications, including meeting and research notes on our website, pamphlets and ultimately a collection of essays together with a series of recommendations for the 2015 manifesto.

We believe that the scale of the economic challenge facing ageing western European democracies demands a radical response. The Eurozone nations appear set on using the crisis as an opportunity to drive ever closer union to entrench the federal structure of statist economics. That is unlikely to be right for Britain, where in any case our structural deficit, creaking infrastructure and chronically uncompetitive public services need a profound injection of innovation and new technology. We see an opportunity to unleash a renaissance of innovation powered by the two cylinders of enterprise and technology, and which will enable the citizen consumer to drive the modern economy. We share the compelling vision of an open, aspirational and dynamic British economy in which the 'little platoons'—equipped with new technologies and inspired by a new public culture of innovation and enterprise—drive the modernisation we so badly need.

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MAKING THE GREEN ECONOMY
THE MAINSTREAM ECONOMY

In 2020 a new industrial revolution will be underway, accepted as the new paradigm for modern business practice. By reducing companies' exposure to dangerously priced volatile inputs, such as imported fuel and excesses of water, this model will allow businesses to be resilient and successful. And for those enterprises which have not been able to re-engineer their business model around low-input high-margin models, their competitiveness will be significantly threatened and their future unsure.

Business model terminology will have changed significantly by 2020. No longer will people describe companies as "green" or "ethical"—quite the reverse. Companies will be specifically described as fossil fuel companies and will be regarded as having archaic business models, greater insecurity in financial returns due to exposure to a widely fluctuating global market, and unethical in terms values and philosophy.

We will drop the word "renewable" because renewable will be the norm. Ultimately, sustainable energy sources will be as much about economic efficiencies, resilience, and a modern economic model as it is about reducing our carbon emissions in the face of climate change.

The economic arguments will have reversed, with companies' reliance on fossil fuels being deemed the really expensive risky option. So how do we get to a structural and institutional understanding for the need and desirability for an economy to be 'fuelled' by domestically produced low-carbon energy?

A FRAMEWORK FOR PROGRESS

Never before has an economic re-alignment been supported by so many less than usual bedfellows. Organizations ranging from the CBI to the largest corporations such as Unilever, BAT, Siemens, Alstom and Greenpeace, Friends of the Earth, and Church Groups have all been supporting the need for very clear messages from Government on decarbonisation.

The need to adopt this new economic model is evident. Globally there will be a race for resources—energy, water, and food. Energy consumption will grow by 33 percent over the next 20 years with 50 percent of that growth coming from China and India. Globally, water will be fully costed and charged, adding cost to international products, particularly food. And with a doubling of global calorific intake over the next 20 years, commodity prices will increase significantly.

While every good company looks at their input costs, the next decade will look particularly favourably at those who have really re-engineered their businesses dramatically enough to reduce the impacts of significant inflation in core resources. Sir David King, former Chief Scientific Advisor between 2000–2007, said: "Sustainable economic growth is achievable. Those industries that can combine efficiencies with growth will be the winners in the low-carbon economy. And given the rise in global oil prices, those that find alternatives to fossil fuels will be



well placed.” Even the Governor of the Bank of England is acknowledging that corporate or national exposure to fossil fuels could be considered a risk to financial security.

The green economy, however, will not be achieved through one set of regulations or one Act of Parliament. It will not be delivered through one technology or the clustering of similar companies on a business park. Nor is it a ‘hair shirt’ and sandals economy or a Luddite nostalgia for the pre-Industrial Revolution as proposed by the Green Party.

It is a commercial culture change. Any country that is serious about future economic competitiveness will ensure that they limit their reliance on fluctuating, politicized energy imports. Greening the economy is not ‘nice to have’ but a total necessity.

GREENING THE ECONOMY

For the green economy to really flourish it requires three core elements—smart consumers, smarter businesses and governments with real foresight.

Consumers can help to drive much of the innovation in this sector—from energy demand reduction through to adopting new ways of looking at consumer goods or purchasing products. Financial constraints are encouraging the consumer to be much more discerning about energy consumption, cost of products and also more inquiring about cost of operation and maintenance of products. There also needs to be a strong focus on sectors that

deliver the consumer savings through ‘smart’ white goods and electronics, offering the consumer the ability to regulate their energy consumption. With energy costs rising we will find that energy-lite products will become more and more the products of choice for the consumer.

A vibrant, innovative private sector working with universities to develop the most energy efficient products, processes and services will be critical to support the migration from business as usual to a lite-carbon economy by designing out risky price fluctuating inputs.

The third most challenging element is a Government backed energy renewal programme building non-fossil fuel domestic production to secure domestic energy supplies and hedge international price volatility.

PRIVATE SECTOR INNOVATION SUPPORTED BY GOVERNMENT POLICY AND LEADERSHIP

1. Back Renewables, Substitutes and Re-engineering

We have to focus research on the widest range of renewable resources—not just energy. Similar to the support delivered to graphene, we should be supporting synthetic rare earth development, renewable replacements for minerals and of course support the re-engineering of some key industrial processes away from high-intensive energy consumption.

However, it is not only replacement products that support a greening of the economy but also processes, design and management. We must recognize that the softer business engineers and managers are key to reducing dependency on natural resources—from carbon through to minerals and water.

2. Government Leading from the Front

Government cannot choose winners and losers, but it can showcase some of the most effective technologies. What better test bed than using government procurement to assess some of the more innovative products and processes that could build greater resilience to cost.

3. The Energy Sector

Ultimately, however, it is our energy sector—the renewal and decarbonisation of our electricity generation—that will determine whether we have a resilient economy designed for the future and hedged from the volatile costs of imported fossil fuel. If we are to deliver long-term green economic benefits, Government needs to get this right and it is not easy.

Electricity Market Reform constitutes the biggest reshaping of our energy sector since privatization. I am not sure that any department has to grapple with such a complex series of competing pressures as the Department for Energy and Climate Change. There are few parts of Government that needs to: develop a coherent 30-year policy with all the uncertainties that time horizon presents; attract £200

billion investment; create a 3D energy generation model that pays as much attention to demand reduction as it does to decarbonisation, energy security and affordability.

The UK is already driving forward an innovative system of energy reform—smarter grids, more informed customers, renewable energy from next generation nuclear to wind, wave and tidal, through to challenging demand reduction mechanisms and energy efficiency measures like the Green Deal. In total, £200 billion is needed to renew our energy infrastructure after years of underinvestment. Not only will this ensure UK energy security and help keep the lights on, it also offers a huge opportunity to build significant industrial expertise in a range of sectors.

But while we are ambitious in our investment, are we radical enough in our policy to make the case to the public and deliver them best value for money to the UK?

- » **Consumerizing Energy:** Energy consumption is not understood by anyone and this creates a 'victim consumer' who has no mechanism to reduce consumption. The energy sector, both in terms of personal and product consumption, needs to be overhauled to place the consumer at the heart of the policy.
- » **Democratize energy:** Localized energy generation needs to take much more of a centre stage as an important and highly responsive capacity builder for our energy system. With greater financial or benefit in kind participation, the desire for renewable energy could be unleashed.

- » **Building a focused industrial strategy:** Government should play a leadership role in assisting our companies to re-engineer their sectors to a more competitive, low-input model, which can be done by targeting skills sectors and industry representatives.
- » **Being truthful with the consumer:** In aiming to achieve behavioural change and a reduction in the consumption of energy across companies and consumers, politicians must be more truthful. The unit of energy will significantly increase in price—but that does not mean to say that either a household or a small business's bill needs to increase. We have spent too much time working out how to use energy and not enough on how to save it.

In the future, energy should look very different. A more engaged consumer that is being provided energy by a much more customer-centric company that has transparent tariffs and smart technologies that support the consumer to take those energy efficiency measures. This consumer will have benefited from the Green Deal and be making consumer choices on a range of products dependent on their energy consumption and the cost of maintenance.

UK business should be at the forefront of processes that require the least amount of fluctuating input costs and whose production waste is reduced to minimal levels. Cost-efficient products and services are crucial, with stable prices offering us a competitive edge in export markets.

And Government will have gone a long way to decarbonise energy generation that will deliver energy at a stable price offering the nation a predictable, affordable energy supply.

CONCLUSION

While Government cannot be responsible for establishing a green economic model, it does need to be the chief cheerleader in greening the UK's economy. To achieve this 2020, low-carbon, low-input, more competitive model, ministers across Whitehall will have to encourage industries relevant to their portfolio to adopt a low-carbon, low-input business model. For economic benefits to reach the taxpayer and to set an example to wider industry, Government itself has a duty of responsibility to transition to and showcase this new economic model.

But ultimately, the barometer of success will be when we no longer discuss the 'green economy'. We will drop the word 'renewable' because renewable will be the norm. Instead, the term 'fossil' will be used explicitly. There will be widespread recognition that this is as much about economic efficiencies, resilience and a modern economic model as it is about the importance of decarbonisation in the face of climate change.

There is a total convergence on what is good for business and what is good for the environment. Transitioning to a low-carbon economy is not just a viable strategy for economic growth; it is a necessity for economic survival.

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THE OPPORTUNITY SOCIETY

The social challenges for the next generation have never been greater, and now is the time to think about how we deal with those challenges. We must be proactive in outlining a vision for a strong and healthy future society—reacting to social issues only as they arise, and pouring money into fixing our broken society is simply to repeat the mistakes of the past.

We have a growing and ageing population: it's predicted that our population will reach 70 million by 2030; by 2023 the population over 65 will outnumber the population under 16; only about half the population growth to 2031 will be due to immigration, the rest from a growing birth rate. We are already facing the need for an extra 232,000 new homes every year. By 2050 the UK will still be in the top tier of the world's largest economies but we will be facing stiff competition, particularly from countries like China, India, Brazil and Mexico.

The Opportunity Society branch of the 2020 Group aims to "help every individual in our society to build the capacity to fulfil their potential". Our aim is for the State to provide a hand up, not a hand out—a person's destination in life should be dictated not by where they started but where they aspire to go. Our ultimate goal is to see ever increasing levels of emotional wellbeing in our society via improving the capacity of individuals to achieve independence and self-reliance.

We recognize that not all have the capacity to be completely independent and it is vital to recognize that

the support needed varies enormously between people, but the aim for our society should be the opposite of our current culture of dependency. The Opportunity Society would like to abolish the politics of envy and the poverty of ambition.

We have identified five areas where we can promote these aims and values:

1. Jobs, opportunity and mobility: We need to look at school subjects, teachers, students, special needs, after-school care, skills, apprenticeships, further and higher education, and how to nurture outstanding talent.
2. Support for families: We need to discuss work, incentives, childcare, early years development, personal finances and debt, housing, disabilities.
3. A safety net with bounce: Including the care system, long-term joblessness, prevention, justice and rehabilitation, mental health, welfare.
4. A fulfilling and affordable old age: We need to look at work after the age of 70, pensions, carers and the cared-for.
5. Leveraging the power of society and communities: We should look at town centres, BME communities; rural challenges, community ownership, social action, neighbourliness, and the future of the 'Big Society'.

Under each of these headings there is a wealth of ideas and challenges to explore and we have begun discussing many varied proposals. A few of them are outlined below:

- » We need to work harder at facilitating adults with disabilities into the workplace. Currently, there are only one in four adults with autism in work. We need to do far more to help those with disabilities achieve their potential, including looking creatively at the sort of roles that lend themselves to particular disabilities.
- » We must get the academic–vocational balance right in our education system. As both parents are working more hours, schools should facilitate work, at the same time as improving the educational standards. The length of the school day may need to change. In Hollywood, schools are open from 8am to 6pm, 360 days a year. And if exams are failed, students come back in the holidays to catch up.
- » Modern languages are increasingly important in a global world and as the global environment changes so should the focus of the languages we teach. We should broaden the teaching of Mandarin and other foreign languages in our schools and improve the opportunities for students to study overseas, experience different cultures and take advantage of foreign learning opportunities.
- » Further and higher education is vitally important but Labour was wrong to seek to send 50 percent of young people to university. It was narrow minded and short sighted. They forgot the other 50 percent and condemned them to feel like failures. They created a culture of university being seen as the be all and end all of everything. We need to get back to encouraging self-employment, business formation, skill learning and an entrepreneurial attitude.
- » We must continue to develop incentives to work. Never again should it pay to stay on benefits. We should consider the difference benefits can make between regions. Benefits in Croydon might not stretch very far but in Middlesbrough the same amount could be a favourable alternative to work.
- » We are in the middle of a housing crisis and need to consider how we build houses and get people onto the housing ladder: smaller flats for first time buyers? Longer-term repayment mortgages?
- » It is important that we have a safety net for those who cannot take care of themselves, however, the goal should always be to help those that fall to bounce back. We talk a lot about happiness when we should perhaps focus more on wellbeing. Mental health is becoming a bigger and bigger issue in our society. Our jobs are less dangerous but they tend to involve greater stress. More talking therapies and greater focus on improving the mental health of the nation is key.
- » Giving babies the best start in life is critical. We should consider re-focussing children's centres into supporting the 'earliest relationship'. The lifelong emotional capacity of the infant will be profoundly affected by his/her earliest experiences, so early years prevention has enormous potential to create social change.

- » Finally, our ageing population is an increasing challenge that no Government has successfully resolved. We should consider abolishing the retirement age. If you want to work and can work, you should be allowed to continue to do so. We should dismiss the notion that at a certain age we should stand aside. Saving for retirement should receive greater encouragement, perhaps through the concept of SARA (a savings and retirement account) an ISA and pension combined.

The Opportunity Society group is at the very beginning of defining its ideas for social change. Many people write to us with their own frustrations with what's 'gone wrong' in Britain today. We hope to harness the ideas of MPs and constituents to develop new policies that can help build the capacity of individuals to be the best that they can be.

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