

Millions of middle-aged workers are to be forced to wait an extra year before collecting their state pension under Conservative plans announced yesterday. George Osborne, the Shadow Chancellor, has warned that a planned rise in the pension age from 65 to 66 must be brought forward by up to ten years, although it risks alienating voters in their 50s.

# Pensions delay is the price we pay for the party that lasted a decade



**Jonathan Davis**

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IF you believe the opinion polls, voters do not necessarily love the Conservatives under David "call me Dave" Cameron but they do dislike Gordon Brown and Labour. The public blame Labour and Mr "I've abolished boom and bust" Brown for the absolute mess the country is now in economically.

I don't disagree with the notion that Mr Brown was the worst Chancellor in 100 years, although when I said so on Sky News last year Kay Burley looked rather shocked.

Look at the chart which shows, using Treasury forecasts (likely to be underplaying reality), that the amount the Government owes will rise inexorably for years. The Government is borrowing this amount to bail out the reckless bankers (and reckless borrowers) and to get the economy moving again. At least that's what they want you to believe.

I believe it is simply a cynical move to try to win the next election by pretending they have sorted the problem. Obviously, when you pump so much money into the system you're going to have short-term positive outcomes – fewer home repossessions, more new cars sold, a slower increase in unemployment and a general boost to the economy. The problem is that at some point the piper needs to be paid. Who is the piper? In this case it's the global lenders who have handed the Government more money than we've ever borrowed in peacetime. More even than when Denis Healey in 1976 practically bankrupted us and we had to borrow from the International Monetary Fund to tide us over.

So, how do we pay for it? How will we get our borrowings down?

There are essentially three ways: ■ You default on it as countries like Argentina did

■ Bring back inflation to wipe out the real value of the debt

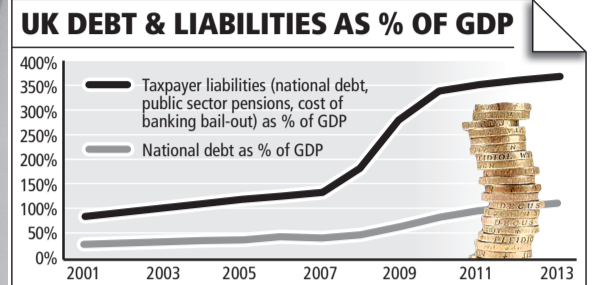
■ Raise taxes and cut Government spending.

And given the size of the deficit, over time, that's going to be a painful political choice to make.

I do not see any painless solution



**DAY OF RECKONING:** Raising the age of retirement could make an annual saving of £13bn on the pension bill.



borrowings were announced to bail out reckless bankers and buy-to-let lenders – or about the VAT reduction, the "cash for bangers" scrappage scheme, the record interest rate cuts, the rise and rise in public sector pay, the rise in public sector jobs or even the rise in household debt which fuelled the biggest house price bubble of all time and over-the-top household spending.

You see, we have had, as a society, the biggest party in history for the 10 years up to last year. Now comes the biggest hangover in history. It will continue, if you again consider the chart carefully, for many years.

More than 50 per cent of people say they couldn't survive financially if their bills rose by £100 per month, according to the life insurer Bright Grey. Look at unemployment, the debts of Government, households and banks, business investment levels (down more than a fifth in the last year), the Government stimulus, the high deposits needed for mortgages, the real (actually achieved) loan rates, Government spending cuts (Government is 30 per cent of the economy).

Just watch after the next election and into 2011/12. We expect taxes to go up and Government spending to fall, a resumption of the house price crash, a commercial property crash, a stocks crash, a rise in home repossessions and corporate and personal bankruptcy, a currency collapse and rising loan rates.

The piper is being paid and that piper is your lifestyle.

in there. Something has to give, be it higher taxes, lower council services, fewer teachers, lower (or later) pensions, less support for the unemployed. To do nothing would be even worse. In that circumstance, our currency would plummet and interest rates would go through the roof. The result of that would be further decimation of house prices, household spending and an even steeper and more sustained rise in unemployment.

So what's this got to do with state pensions? Everything. The cost of the state pension is huge. To save some costs both the Labour and Conservative parties have proposed raising the age that we start getting our pension.

It is estimated that £13bn would come off the pensions bill annually if we deferred for just one year, which would mean men getting theirs at 66 instead of 65. The retirement age for women is rising and will

eventually catch up with that of men.

Labour has proposed to start doing this in 2026. The Conservatives have now proposed to do it from 2016. Starting this at the earlier date will save the country some £130bn – not far short of what the Government will borrow just next year.

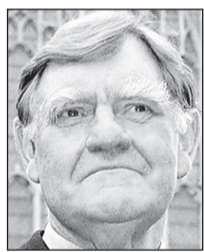
If we take Labour's view then we will have £130bn of extra debt on our books by 2026 – unless something else is cut or taxes rise.

What would you do? Remember if we do nothing then we risk (a very high probability) that our currency will plummet and our interest rates will be forced to soar by global markets.

This is where we see that the UK is a relatively small cog in a big global wheel.

People will complain that they should get their pensions at the age previously promised. The problem is I did not hear many complain when huge Government

# Cameron needs backbone to stand tall in Downing Street



**Bernard Ingham**

EVERY WEDNESDAY

THIS week we are seeing a new Government trying itself for size on the telly. Barring accidents – or Harold Macmillan's "events, dear boy" – David Cameron will be installed in No 10 within nine months.

There is not much point in asking what he will make of it. Nobody knows any more than they knew 30 years ago how Margaret Thatcher would perform in office.

In fact, I found one person in the 1970s gifted with foresight. The late Eric Varley, then Labour Energy Secretary, told me Thatcher would do very well in government soon after she became Tory leader in 1975. Would that Eric and his insight were with us at this hour.

Since, sadly, they aren't, you will have to make do with me. All I can do is sift the evidence and come up with pointers.

Let's start first with the state of

Britain. In 1979, many people doubted whether the country was governable. They reposed no great hope in Thatcher's ability to rescue us from industrial anarchy and economic decline. Many felt she could make things worse – as indeed she did before they got better, much better.

Now, Britain is not merely financially bankrupt – or as close as nations ever come to Carey Street – but socially and morally broken. What is more, we are fighting an under-funded hot, as distinct from cold, war without popular enthusiasm, though with much sympathy for the troops. A nation, not just an economy, needs remaking. Viewed objectively, Cameron's

is by far the greater challenge. Thatcher could still count on some social discipline and Parliament and politicians were not yet held in contempt by the populace after a decade of spin and expenses. Human rights had not yet strangled common sense nor technology eliminated service from everyday life.

Spare a thought for all those elderly technological illiterates like me who have just had to get their gardener to return their television set.

Thatcher was surrounded by a healthy scepticism. Cameron has to cope with a weary cynicism

**CHALLENGE:** Margaret Thatcher.



born of an increasing feeling that, whatever the failings and abuses that afflict us, nobody will do anything about them.

Ironically, expectations are also higher. When Thatcher came to power, we had grown used to a diet of decline. Now the voters have had a brief glimpse of the prosperity that sound economic management can bring. They know it can be done. There are no excuses now, least of all for Labour, having dissipated its economic inheritance.

Thatcher, however, had far more proven political experience at her disposal and a party behind her in the country, even if in Westminster it was split over her economic policies. In 1979, the Tory Party still had 1,350,000 members. Now the figure is said to be below 200,000. There isn't much of an army left for any political boss to lead in Britain today – or to rely on when the

going gets rough and elections come around.

Moreover, that depleted army is split over one really serious issue of the age – namely, our relationship with Europe. The Irish were clearly sent to try Cameron. While technically he may still wait upon Czech and Polish ratification of the Lisbon Treaty, common sense tells us that only a referendum can lance the boil.

In short, after 30 years the festering sore called Europe is unfinished Conservative (and probably Labour) business. We are not at peace with ourselves in Europe as it stands and intends to develop. It needs sorting out, though not by Tony Blair.

By contrast with Thatcher, Cameron dominates the dispatch box. Jim Callaghan did not find her as formidable. Cameron may well exercise greater party discipline and at

this stage has probably demonstrated greater leadership qualities in bringing the Tories back from the nasty dead.

He is the greater all-rounder in the sense that he is media savvy – as indeed he needs to be. She had a certain disdain for press, radio and television that somehow I had to manage.

But what we do not know – and won't until he steps into No 10 – is whether he has her backbone to go with a guiding philosophy – her singular courage and grinding determination to overcome a defeated Establishment and restore Britain's standing in the world.

That, as people constantly remind me, is what we now need. Few politicians have faced such a daunting task or had such an opportunity to brand their name on history. Is Cameron the man? I suspect Eric Varley would say he could surprise us.

# We must learn how to cut costs in schools



**Ben Farrugia**

Ben Farrugia is deputy research director of The TaxPayers' Alliance

FEW things are as complex as the organisational structure of the Ministry of Defence. A true organogram of the department would probably need to use a fourth dimension, and the continued problems in getting the right equipment – at the right time – to Britain's troops in Afghanistan may well reflect the fact that lines of authority of responsibility are so blurred.

A close rival in complexity to the MoD though, must be the mechanisms designed for funding the state schools system.

The Department for Children, Schools and Families sits on the top of the pile, jealously guarding access to the credit card. More than 150 local authorities are then squashed beneath that department, responsible for distributing central funds to the schools in their areas but entirely neutered in terms of meaningful decision making.

Buzzing about this heap are the various "semi-autonomous" bodies, responsible for everything from rebuilding classrooms and updating school computers, to curriculum content, teaching standards and pay.

Somewhere inside it all, schools struggle with a bizarre mix of spending autonomy and centralised

direction. Headteachers are informed that money is available to rebuild the French block, but to access it the school must work as the junior partner in a public-private partnership, dominated by a giant quango, the local authority and a contractor.

The inner city school desperate to retain its struggling staff is promised help, but when that comes it is not in terms of extra funding or headteacher empowerment, but a (centrally drafted) golden handcuffs contract for new teachers.

It should be of no surprise then that few schools have particular financial expertise. Why should they? Most important spending decisions are made elsewhere.

This lack of financial nous was certainly the main observation of

Richard Handover's report for the Department for Children, Schools and Families. Leaked to the BBC, the report concludes in no uncertain terms that civil servants and headteachers have no idea what value for money means.

"Financial efficiency... is not seen as a core responsibility of management at any level."

Away from the headline grabbing examples ("£50,000 spent installing three toilets in a primary school" and "£35,000 on a £1,000 photocopier") the thrust of the inquiry was that the department – and schools themselves – are just bad at spending money.

Many millions are lost because civil servants and school administrators rarely have to think about the actual cost implications; even if the new French block ends up costing £12m when it was only supposed to cost £1m, teachers will still get paid exactly the same, the food served in the canteen will not change and kids will still have access to sports every day, in spite of countless Ministerial promises to the contrary.

Ed Balls, the Schools Secretary and Normanton MP, is a very clever man, which makes his wilful refusal to accept the need for spending cuts all the more distasteful.

Now that he has relented, and begun

to talk seriously about what needs to be done, a proper debate can start about how education is funded in this country.

Savings will have to be made in the short term. Richard Handover recommends cutting the number of teaching assistants, a growth industry that appears to have had no beneficial impact for children and has even been harmful in some cases.

Balls has suggested cutting back bureaucrats and senior school staff in order to help his department save £2bn.

People are rightly cautious at the notion of reducing the number of school leaders, but Balls has had some considerable success with the Federation programme he initiated – where one super-head is properly empowered to manage a number of struggling schools – so it may be a sensible move.

Such measures though, while important, are just the first step in what must be much more wholesale reform, which would return power (in this case financial responsibility) back to schools themselves.

Financial nous would follow. Parents, teachers and children would start to make decisions themselves about their school.

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