



STRATEGIC PRIORITIES FOR THE UK: THE POLICY REVIEW

This paper was prepared by the Prime Minister's Strategy Unit. It does not reflect government policy.

23 November 2006

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Progress since 1997

Trends and challenges in the next decade

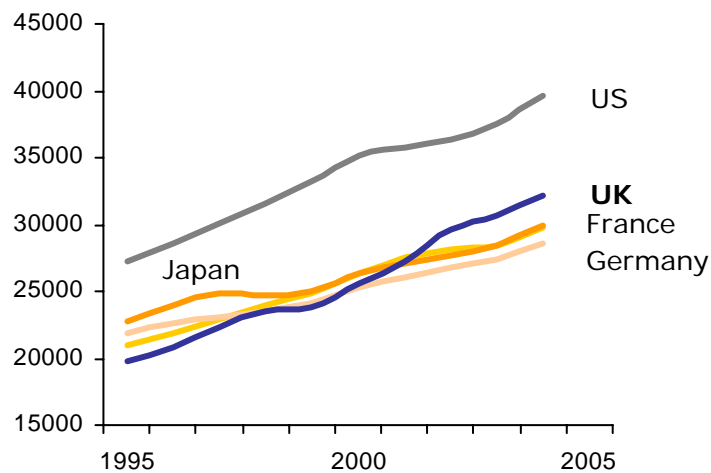
Issues and choices for the UK

Initial work commissioned

Over the last decade considerable progress has been made towards the UK's economic goals

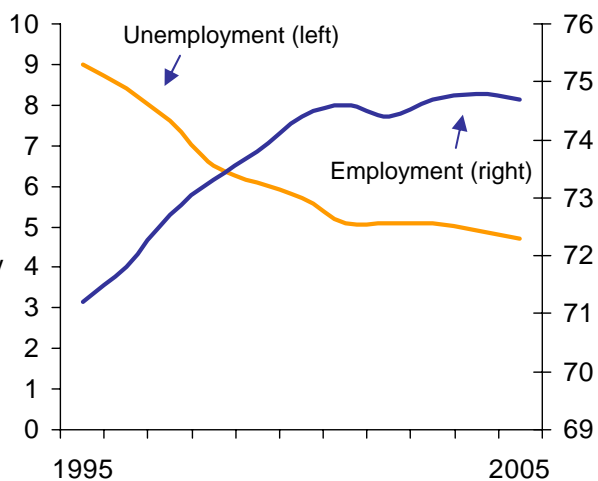
The UK has enjoyed strong and stable growth in living standards

US dollars, GDP per capita, current prices and PPP, 2004



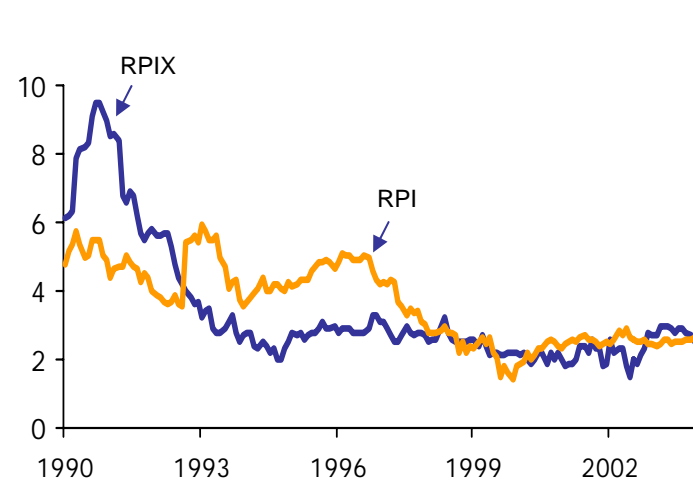
Employment is high and stable, unemployment low

per cent aged 16+



Inflation is low and more stable than it has been for decades

Per cent since 1990

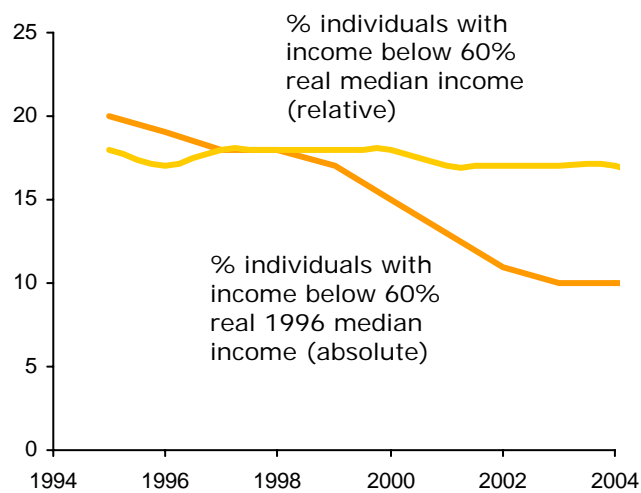


- The UK has a favourable business environment:
 - labour market remains very flexible
 - nominal interest rates have been at their lowest levels for 40 years
- Government debt levels have remained the lowest in the G7

Social progress has also been made

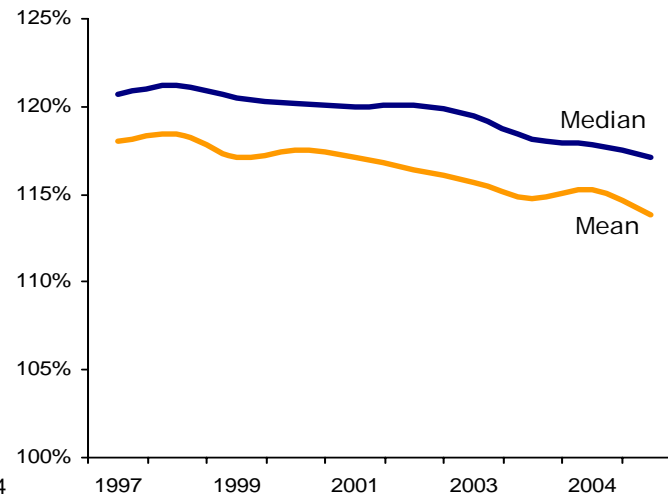
Absolute poverty has fallen

Relative and absolute poverty, per cent below 60% median income



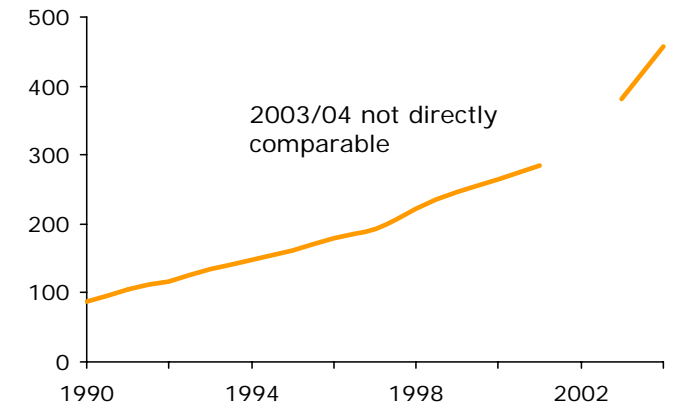
The gender pay gap has steadily narrowed since 1997

Male earning relative to female (hourly)



Increased availability of childcare has enabled more women to return to work

Total number of day nursery places for under 8s

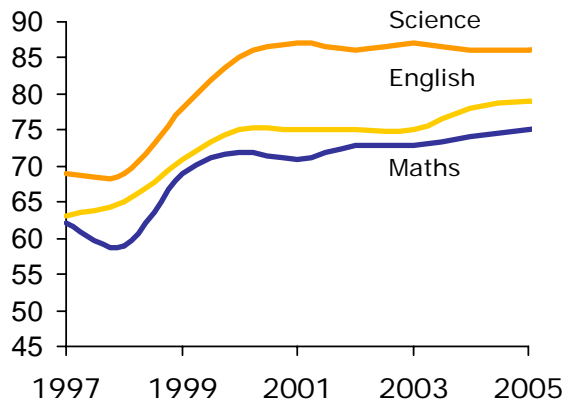


- Relative child poverty has fallen 800,000 since 1997; relative pensioner poverty by one million
- The employment rate of disabled persons has risen from below 40% in 1998 to 45% today
- The introduction of key pieces of legislation such as the Civil Partnership Act and the Gender Recognition Act have given basic rights to minorities who had previously been denied them

We have made progress in education

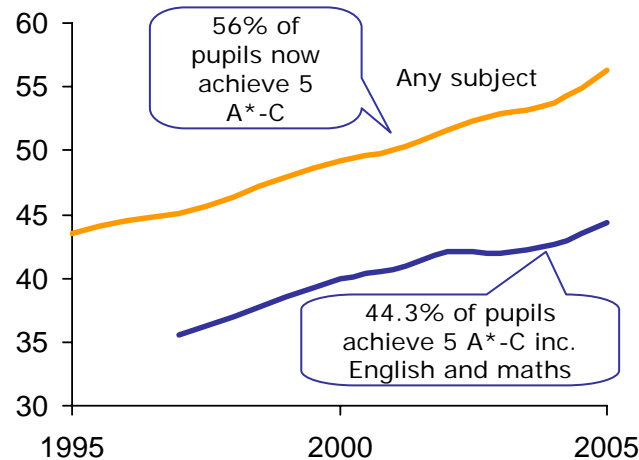
Primary attainment has risen

Per cent of 11 year-olds with reaching level 4 or above



Secondary school attainment has steadily improved

Per cent of 16 year-olds reaching 5 GCSEs A*-C or equivalent



UK universities remain at the top of world rankings

UK Rank	World Rank	Institution
1	2	Cambridge
2	10	Oxford
3	23	Imperial College
4	26	UCL
5	47	Edinburgh

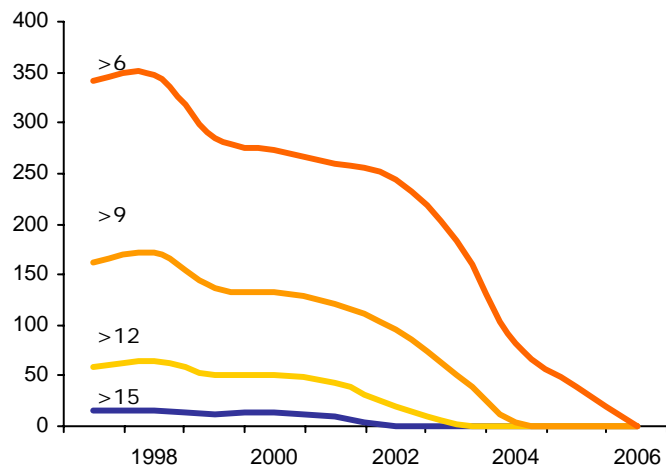
Shanghai Jiatong ranking

- In 2006 around 100,000 more pupils reached the expected level in English and Maths on leaving primary school than in 1997
- The proportion of 18-30 year olds in higher education has risen to 42%—four times the number 25 years ago
- The proportion of adults in the workforce with at least a Level 2 qualification has risen from 65% in 1997 to 73% in 2005
- In 2005 pupils in specialist schools were 10 percentage points more likely to gain 5A*-C at GCSE than others

There have been continuing improvements in the quality of healthcare

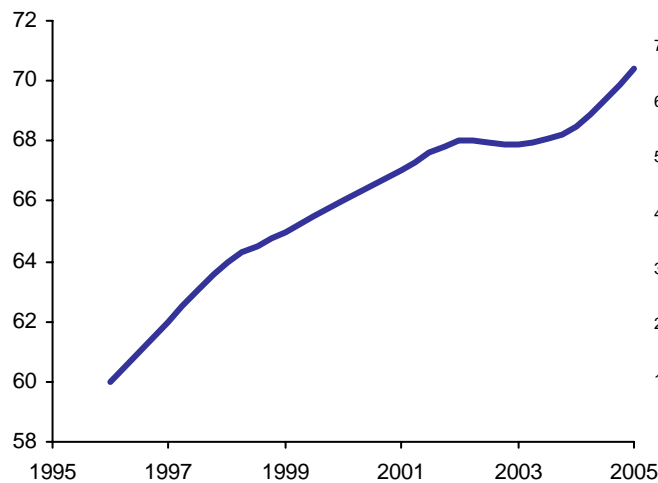
Hospital waiting times have fallen

Thousands of people waiting a number of months



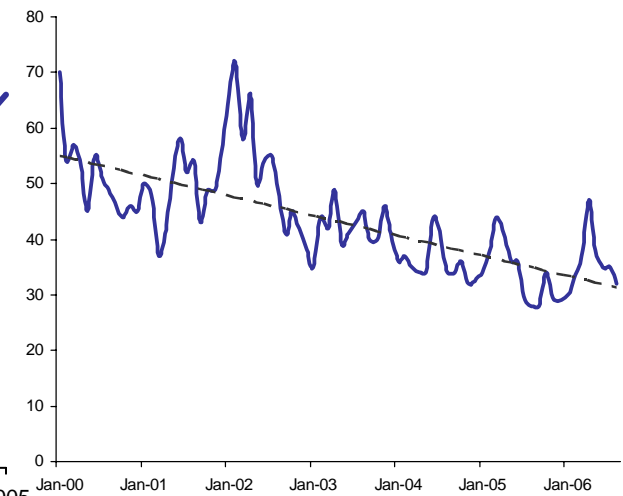
The number of people being treated in a day by hospitals has increased

Percentage of elective general and acute operations performed as a day case



The NHS's importance to the public has declined

Issues of importance to the public

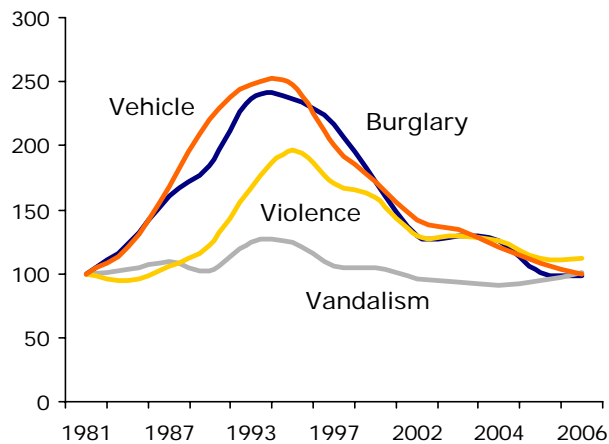


- Life expectancy is increasing at a rate of around 10 weeks per year
- Deaths from major diseases such as heart disease are falling

Measures have been taken to make Britain more secure at home

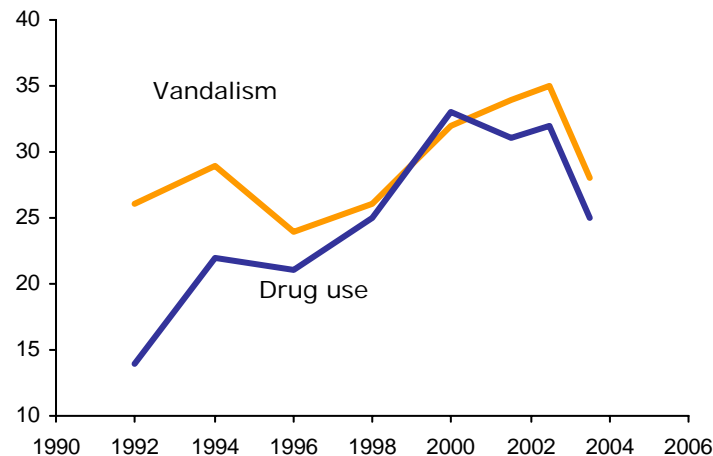
Crime has fallen significantly

Index of incidents 1981=100



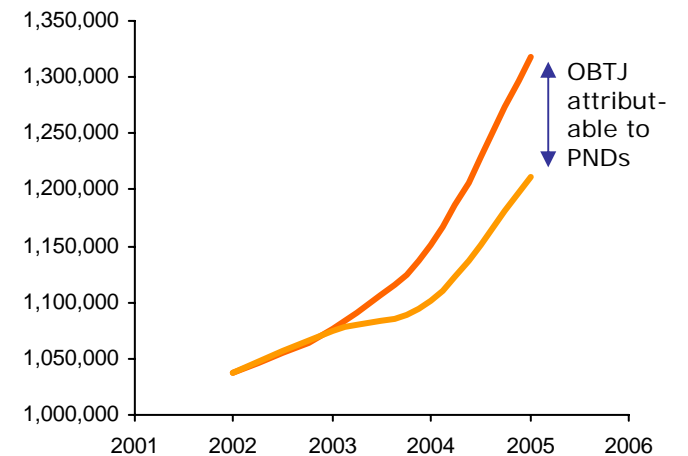
Anti-social behaviour has fallen but remains a concern

% saying very or fairly big problem



Offences brought to justice (OBTJ) have increased, partly due to new summary powers (PNDs)

Offences brought to justice

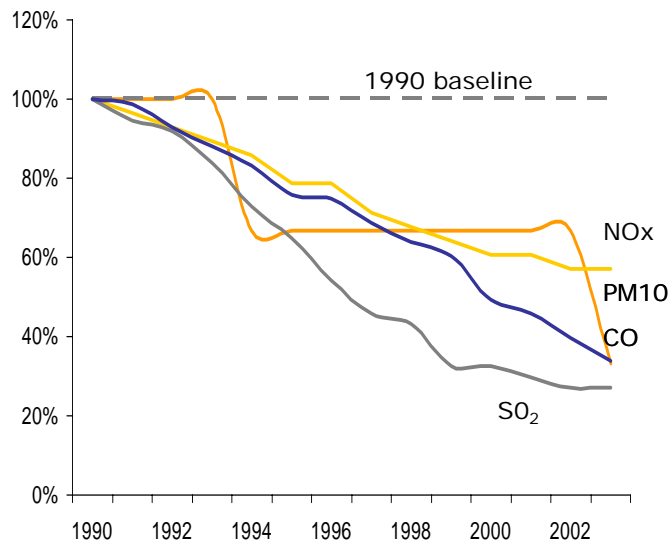


- Crime fell 44% between 1995 and 2005, reversing a trend of rising crime until the mid-90s
- All major crime groups have seen a decline, although lower harm crimes have fallen slightly more than violent crime. Mugging and stranger violence have only edged down and gun crime has emerged as a problem. Worry about crime has followed a downward trend, tracking falls in actual crime
- Contrary to common assertions fear of crime has fallen with the crime rate: there has been a 36% fall since 1998 in those highly worried about violent crime
- However, 70% of the population think that crime is rising nationally and in their local area, despite crime going down

Progress has been made on environmental issues

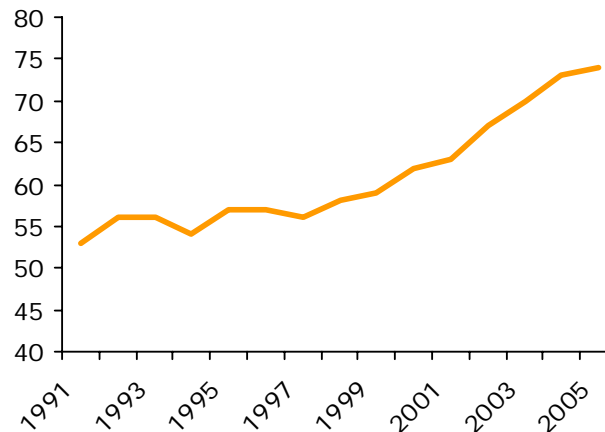
Local air quality has improved benefiting respiratory problems

Emissions index: 1990 = 100



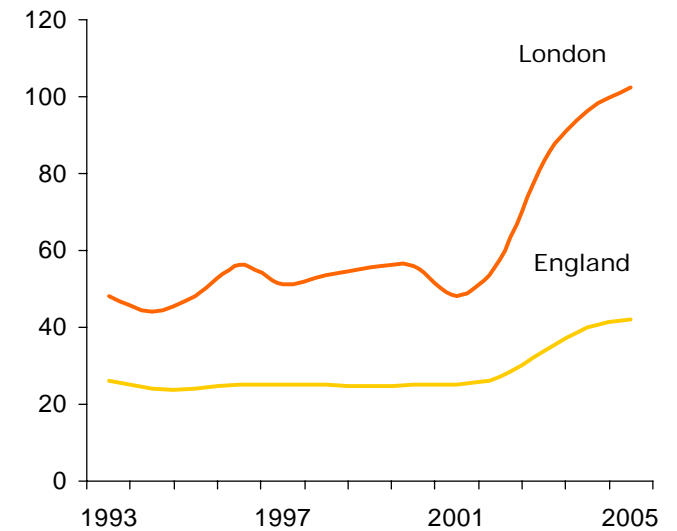
Land recycling has increased from 54% to 73% in 2005

Per cent of new dwellings built on recycled land



The density of housing has increased, particularly in London

Dwellings per hectare

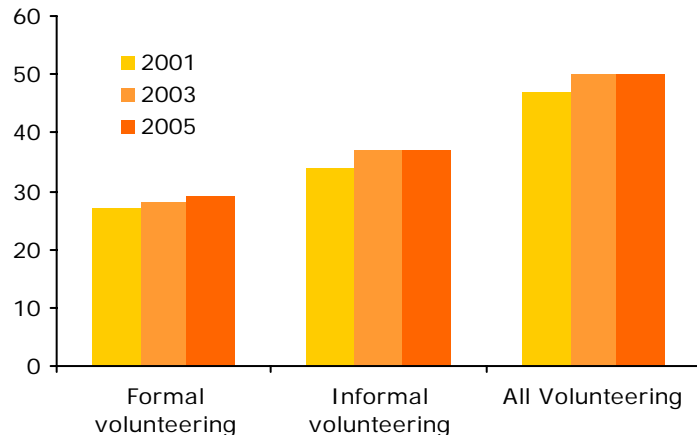


- The proportion of energy from renewable sources more than doubled, from 1.8% in 1990 to 4.2% in 2005
- Between 1990 and 2004 the percentage of rivers in England which had water of good biological quality rose from 60 to 70%
- Household recycling rates have increased from 7% of all household waste in 1997 to 22% in 2005

The UK has also made progress in less well-known areas

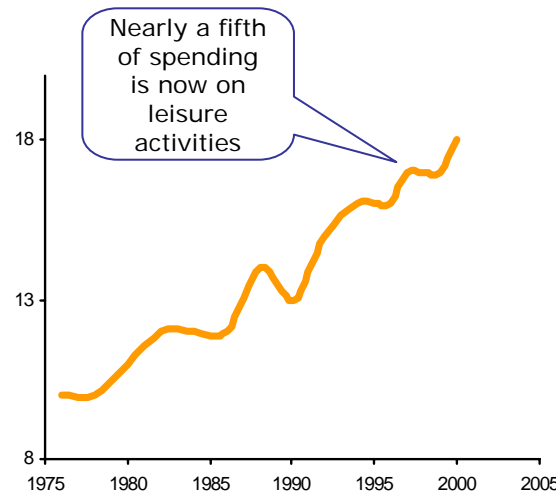
Half of the people in England and Wales now do voluntary work at least once a month

Per cent of people who have volunteered, on a formal or informal basis, at least once a month in the last 12 months



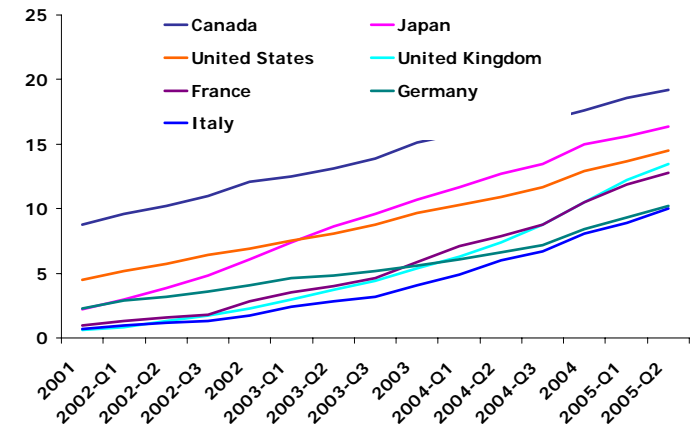
British families can now afford to spend a historically high proportion of their income on leisure

Per cent of household expenditure on leisure



UK broadband take-up has been rapid

Broadband subscribers per 100 inhabitants



- If current trends prevail, by 2016 parents' time spent with their children will have doubled

The UK has led the way in Europe and the world to address the challenges of the future

The UK has led the drive for reform and enlargement in Europe

- Ten countries have joined the EU since 1997, two more will join on 1 January 2007
- British/French leadership has built up European defence and security policy since the St Malo summit in 1998 with 14 missions now launched
- The Hampton Court agenda to better prepare Europe to meet the globalisation challenge is now at the centre of EU policy
- The budget review of 2008/9 will deliver a reformed budget to support these new priorities

Globally, the UK has led the way on

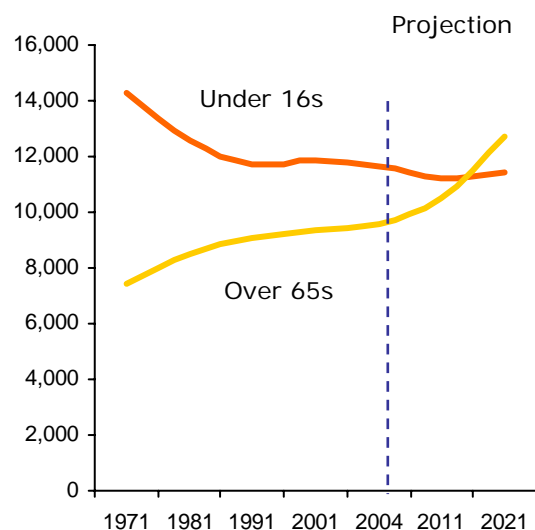
- Responding to the threat from international terrorism after 9/11; supporting Governments of Iraq and Afghanistan under UN mandate
- Promoting the need for reformed international institutions and the negotiated settlement of conflicts such as Israel/Palestine
- Tackling poverty and conflict in Africa including a doubling of overseas aid, cancellation of over \$70bn of debt and free basic health and education
- Addressing the challenges of climate change including exceeding our Kyoto commitments and establishing G8 +5 Gleneagles dialogue to develop post 2012 international framework
- Putting the protection and promotion of human rights and democracy at the heart of foreign policy:
 - pushed for a ban on anti-personnel mines and recognition of the responsibility to protect
 - intervened militarily to defend human rights and rule of law in Bosnia, Kosovo, East Timor and Sierra Leone

In the next decade we will see significant demographic change—with potential implications for the level and profile of demand for public services

Demographic and socio-economic change

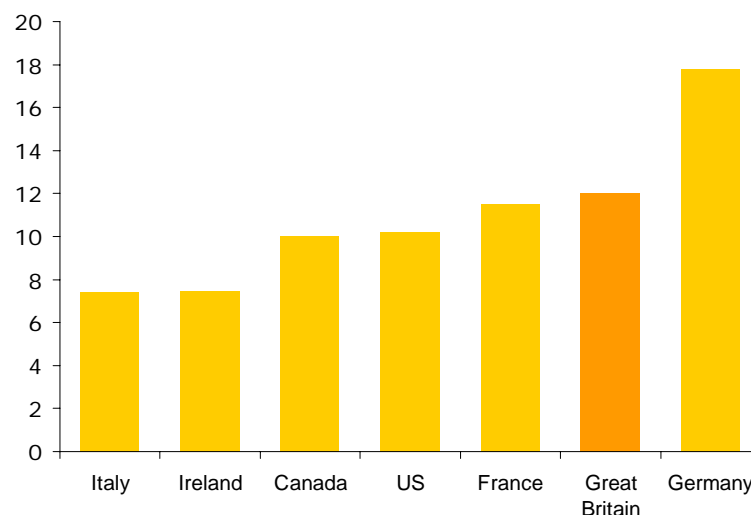
There will be 2.4m more people over 65 in 2017 than in 2007

Thousands of people



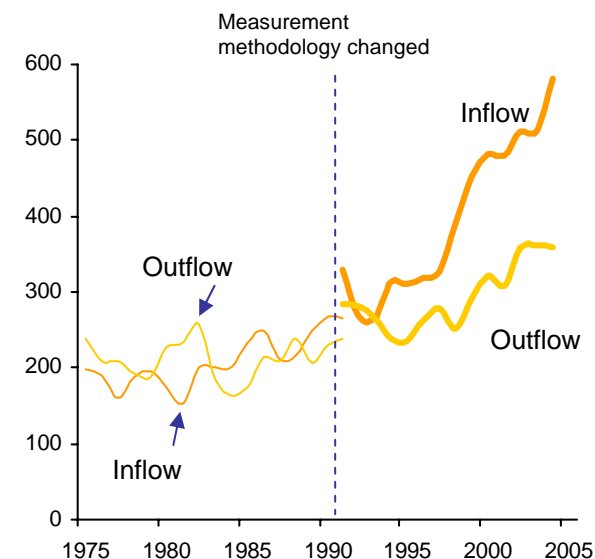
A relatively high proportion of people are living alone

% living alone, 2000



UK net migration is historically high: this may have both economic and social impacts

Thousands per annum

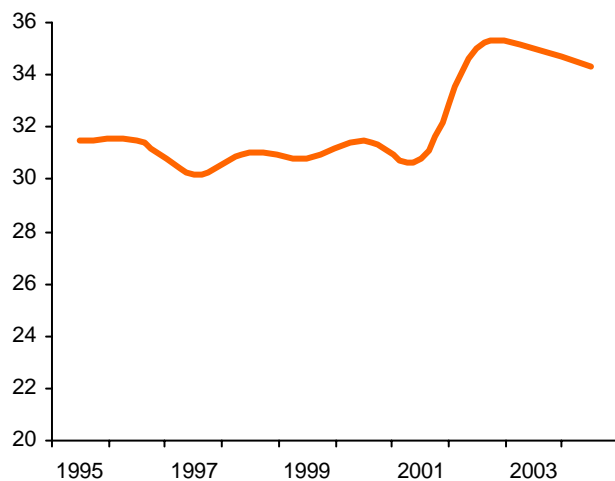


- The UK continues to have high rates of teenage pregnancy and lone parenthood
- Population growth rate is increasing from 2.4% between 1987-97 to 4.6% growth from 2007 to 2017
- Fertility is currently below replacement rate; more women are working and having children later
- Global migration levels are higher today than any time since World War II

Growth has disproportionately benefited the poor but a challenge remains to reach the very poorest

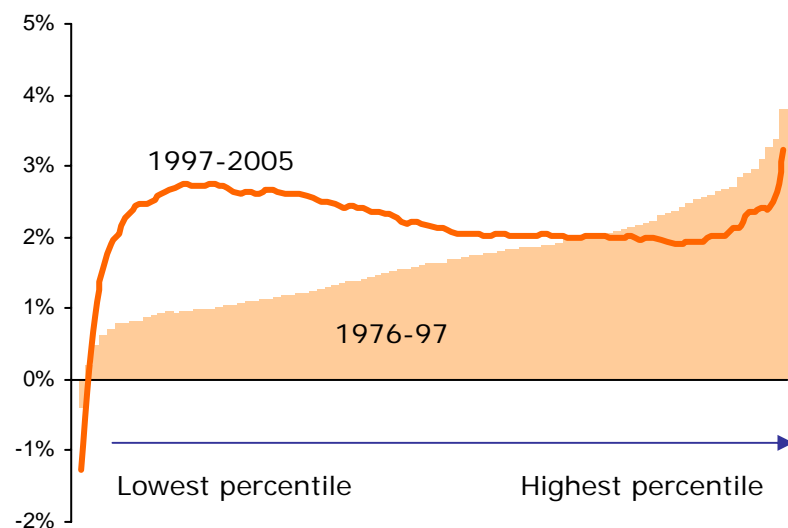
Inequality is now falling but from a high level

Gini coefficient (100 = most unequal)



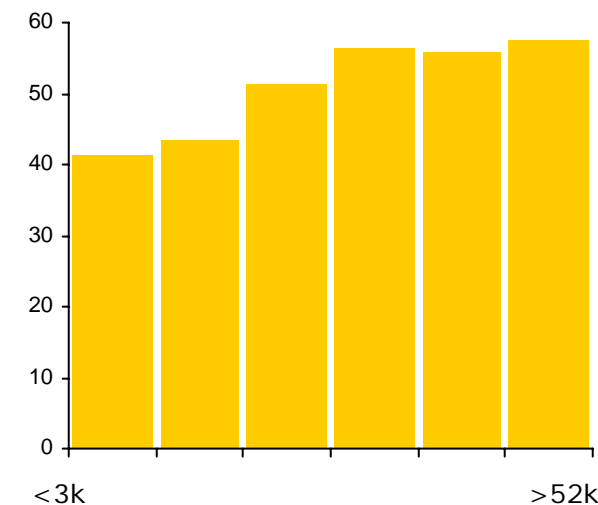
The very poorest have not shared in recent growth

Income growth, per cent by percentile



The poorest sometimes get less access to public services

Per cent of households visited by health visitor, by household income

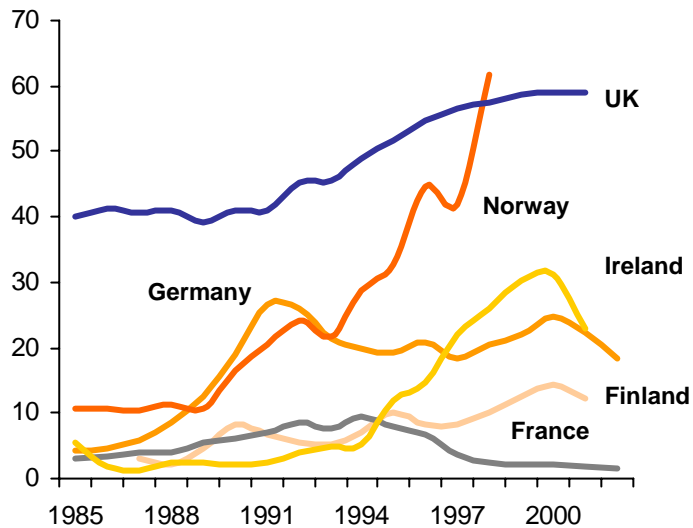


- Although inequality is now falling, the UK remains amongst the most unequal societies in the EU
- Upward social mobility increased in the 20th century but those at the lower end of the income distribution remain less likely to move to a higher bracket
- Around a quarter of young people do not participate in post-16 education
- Pupils' GCSE attainment is still strongly related to their parents' socioeconomic background

Lifestyle changes have contributed to the emergence of new social problems

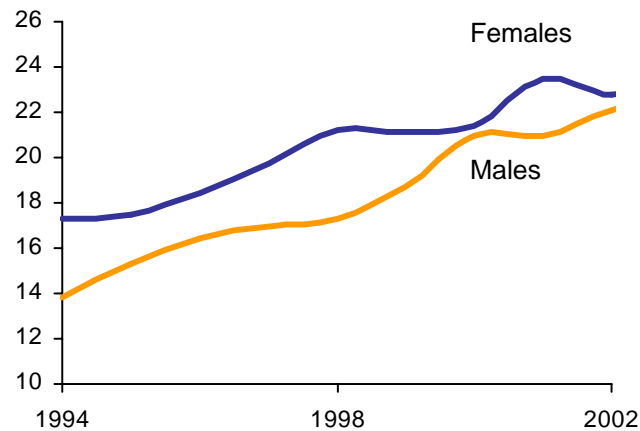
The UK death rate from illegal drugs is relatively high and rising

Acute drug deaths per million persons



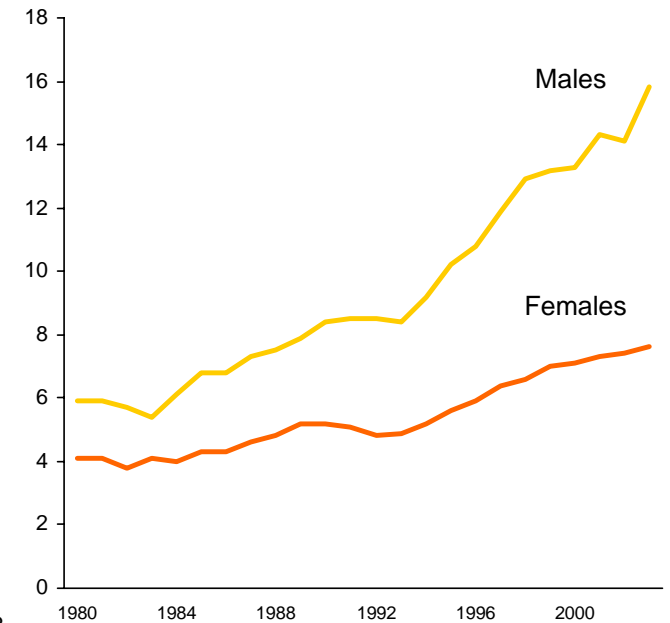
Life style diseases such as obesity require changes in public behaviour

Per cent of population aged over 16 that is obese



Alcohol-related deaths are on the increase

England & Wales, Rates per 100,000 population



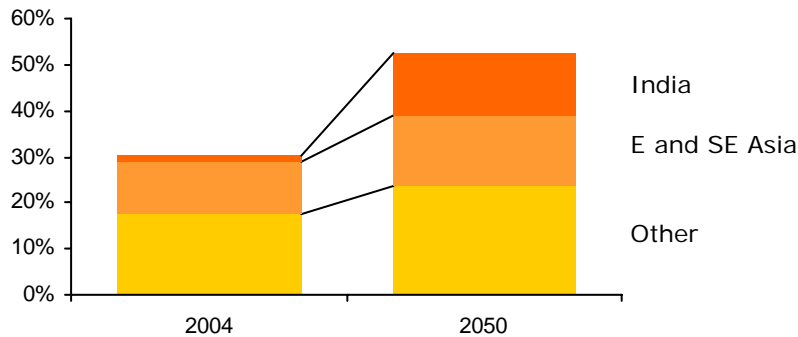
- 14% of all people convicted committed drug-related crimes
- On average people walk 22% less distance per year than 15 years ago
- The most deprived will live on average six years less than the least deprived
- Most of the population is now "overweight". Obesity is increasing rapidly among adults and children. 50% more children are overweight than in 1996

Unprecedented global economic change presents opportunities for growth and therefore the need for high levels of skills and innovation

Global economic change

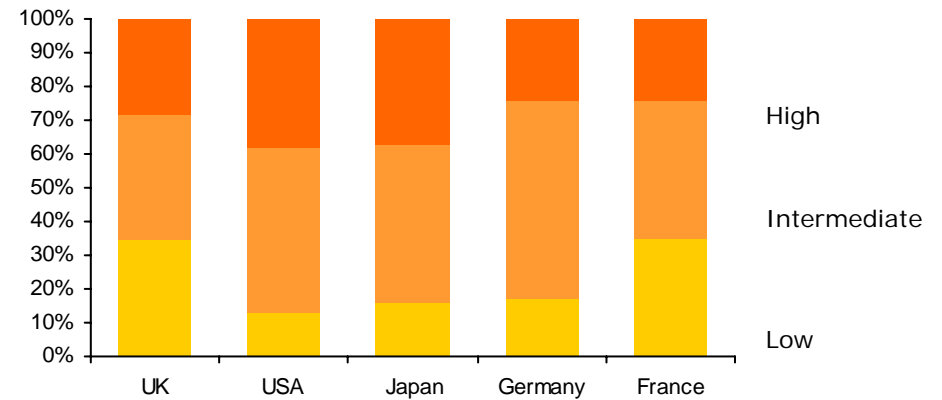
Projected relative GDP: China and India will join EU and US as economic giants

% of world total



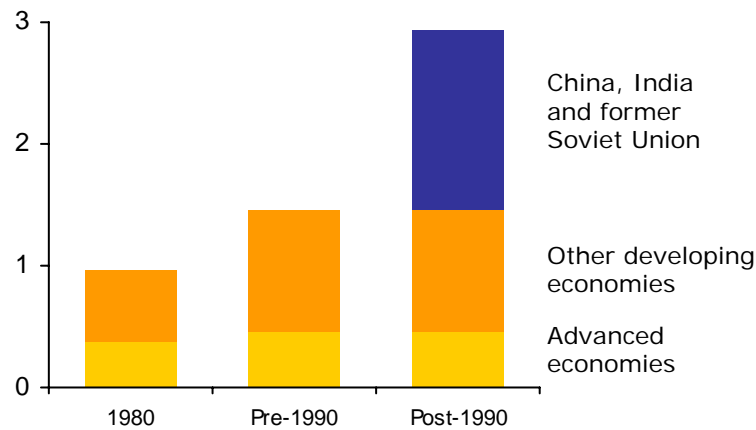
The UK's skills level is poor in relation to key comparator nations

Proportion of adults with skills



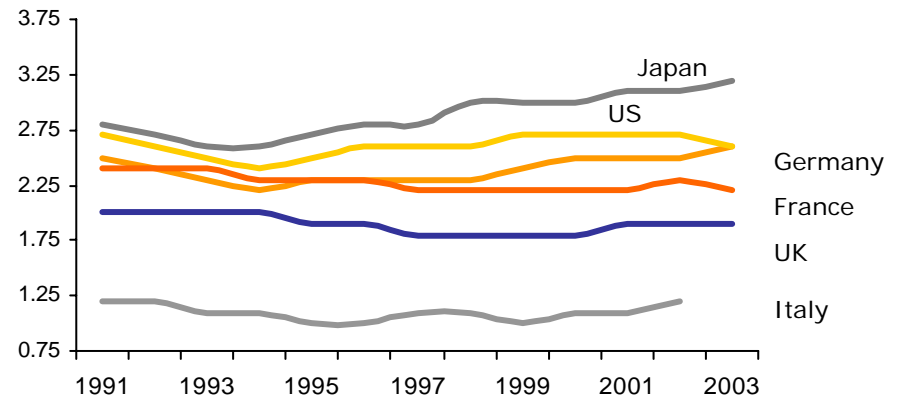
Wage competition is a reality

Augmented global labour force (bn)



R&D spend in the UK is low in relation to other countries

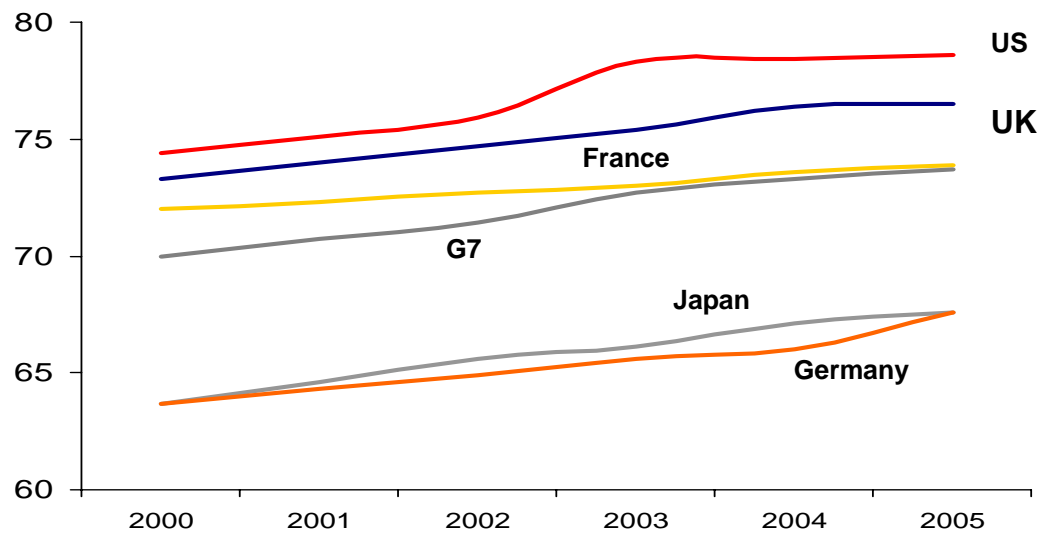
R&D spend as proportion of GDP



Value, job and export growth are being driven by services and high-tech manufacturing

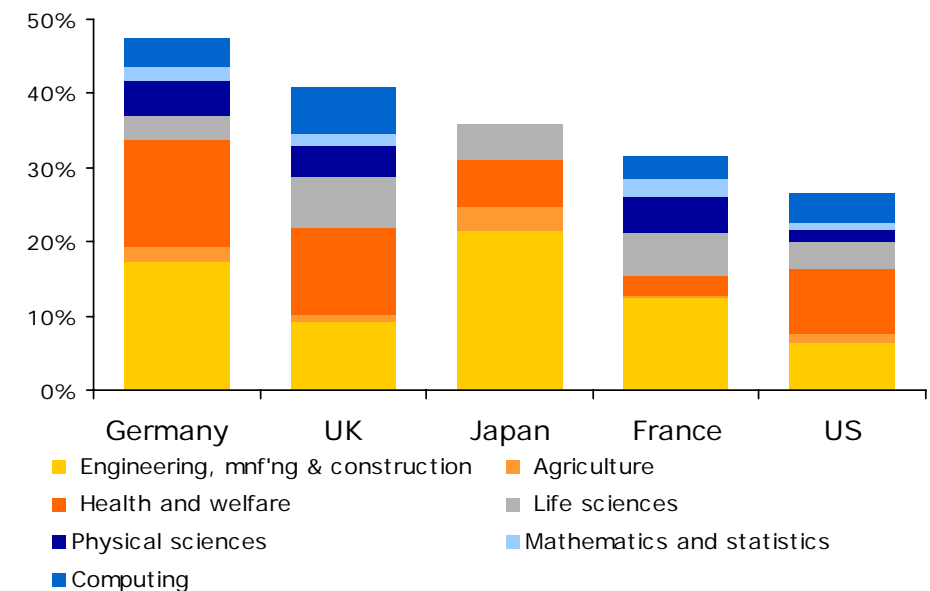
Services now account for 77% of jobs in the UK, lower only than the US

Employment in services



By OECD standards the UK has healthy stocks of science, engineering and technology graduates

Science, engineering & technology graduates as a share of all graduates

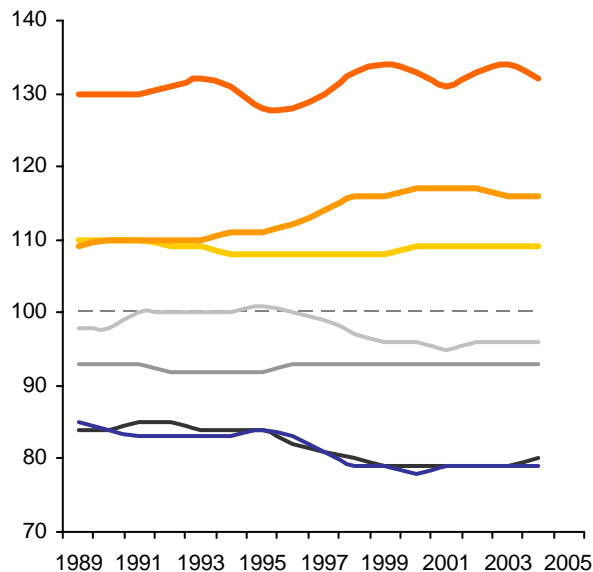


- Manufacturing generates just 15% of UK value-added and 13% of jobs, more than in the US and France but less than Germany and Japan; UK manufacturing growth is concentrated in high-tech sectors
- The UK's stock of science, engineering and technology graduates has increased from 1.35m in 1997 to 2.1m. Most are employed in service industries
- Undergraduate intake to the physical sciences, engineering and technology has been falling, as has participation in maths and physical science A-level; performance in science GCSE remains lacklustre

Further growth is likely to increase the strain on regional disparities, transport infrastructure and housing

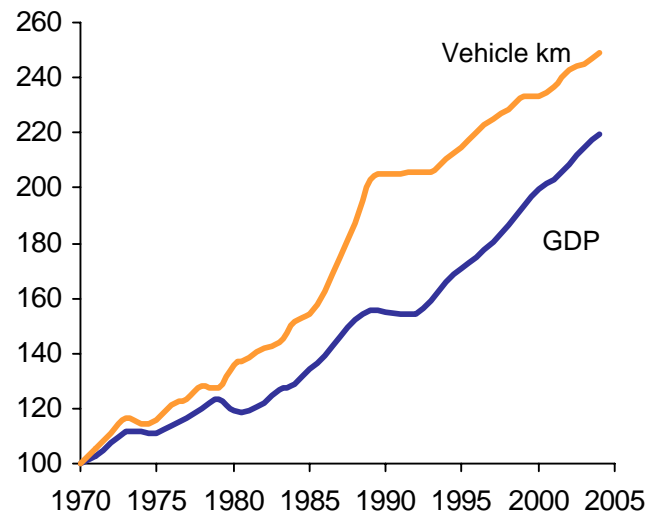
London and the South East continue to be richer than other regions

Gross value added per capita, index UK = 100



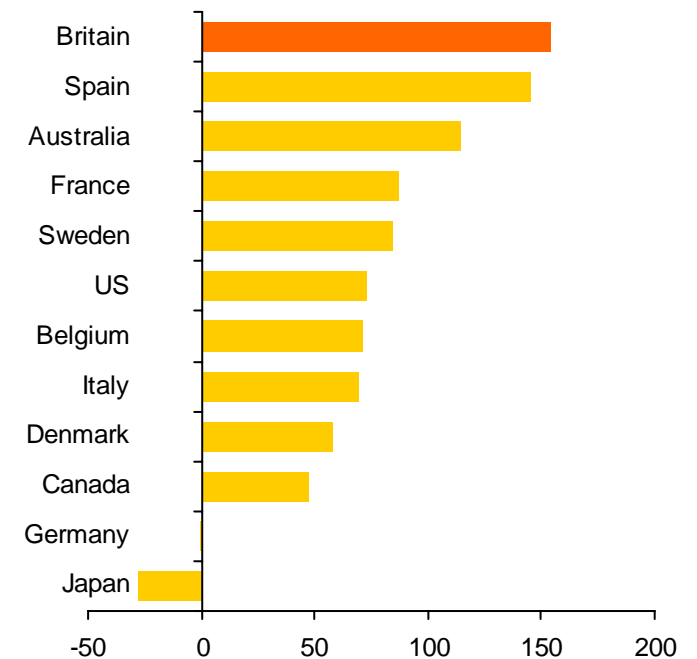
Traffic volumes are rising with economic growth—avoiding gridlock will require investment in infrastructure as well as demand management

Index GDP and bn vehicle kilometres, 1970=100



Britain has had some of the most rapid house price increases in the world

Index of increase 1997-2005

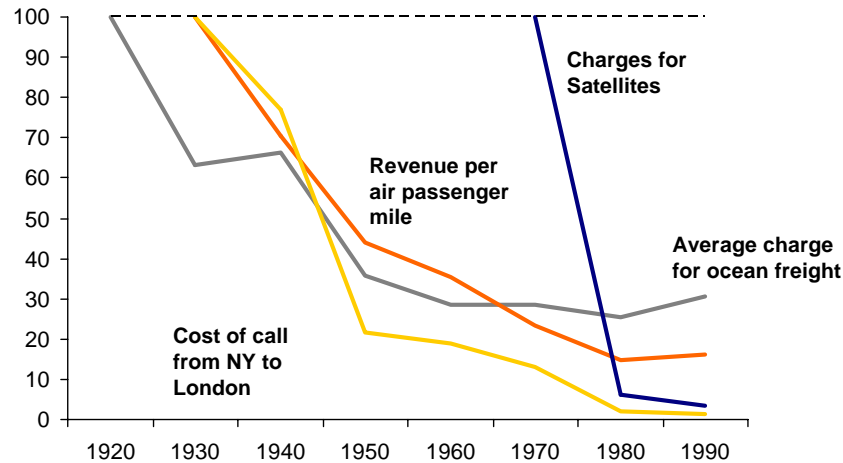


- On average house prices have risen 112% since 1995. London was above average, at 130%; the North East below at 100%
- Pressures on the housing market are likely to increase: the number of dwellings completed per year has fallen 48% since 1970

Continued rapid technological change is likely to continue. Specific developments are difficult or impossible to predict

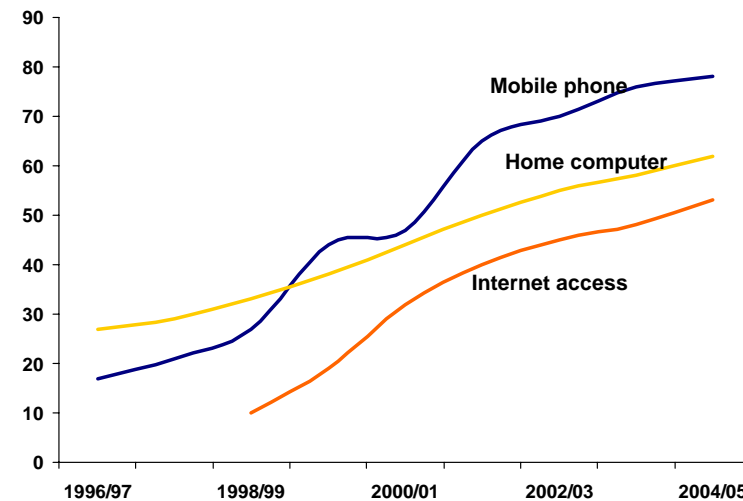
The cost of communicating globally has fallen dramatically

Index of costs



The ability to communicate has spread rapidly

Uptake of various technologies, proportion of households

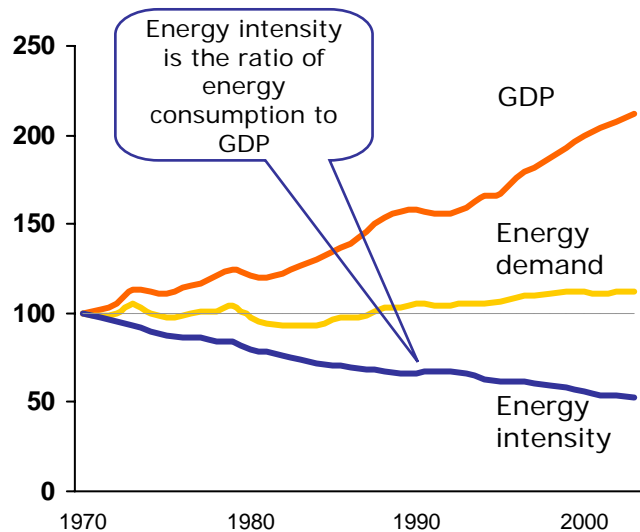


- Technological innovation and diffusion is a key driver of global economic change
- It will also create opportunities for improving quality, efficiency, user-interface—but business and cultural change is key
- Office of Science and Innovation highlights 8 broad clusters of technologies where developments are expected in decade ahead: information handling and knowledge management; network interactions; sensors and tracking; security; advanced materials and robotics; nanotechnologies; body and mind sciences; and energy

Economic growth is also causing rising demand for energy, posing severe threats to the sustainability of the planet

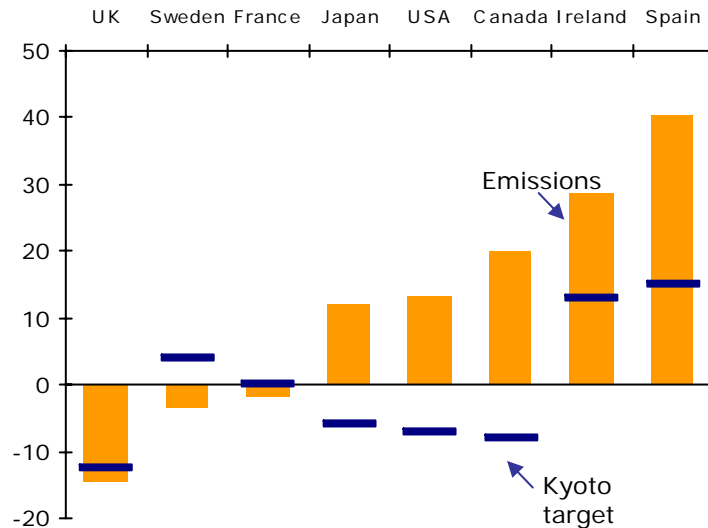
UK energy consumption continues to rise gradually despite efficiency gains

Index 1970=100, 1970-2004



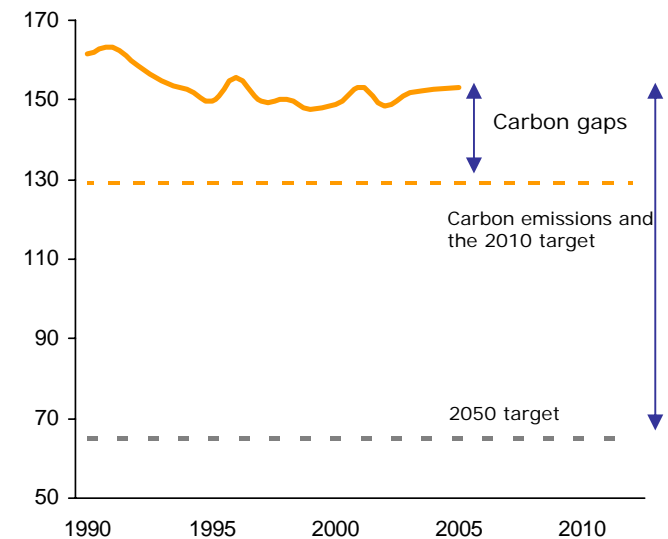
The UK is ahead of many countries in meeting its Kyoto commitments

Index 1970=100, 2003



But on current trends the UK will still miss its domestic carbon target

Million Tonnes of Carbon (MtC)



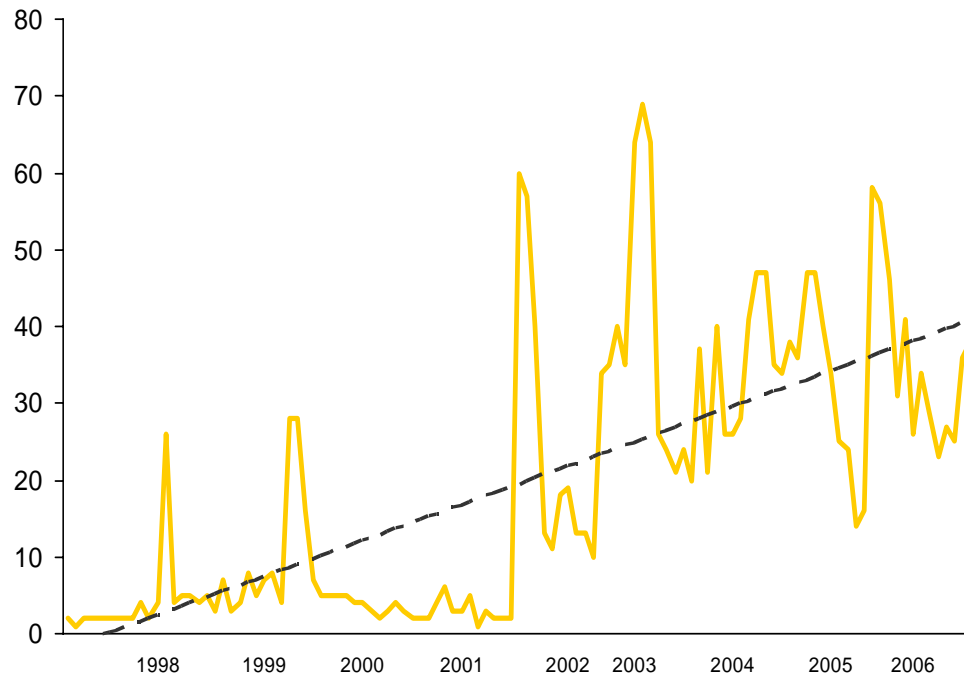
- Evidence is now very strong that if unchecked, climate change will threaten access to water, production of food, health, land use and the environment—we are locked into a 1-2 degree rise in global temperatures by the end of the century
- Global action is needed urgently to avoid most serious impacts; the UK accounts for 2% of global CO2 emissions
- Oil prices have risen dramatically mainly driven by rising demand; gas prices are also very high
- The UK is set to become much more reliant on imported fuels. For example, by 2020 the UK will only be able to meet around 10% of its gas demand from domestic sources compared to over 90% today

Terrorism and civil war are increasingly important drivers of instability

Global uncertainty

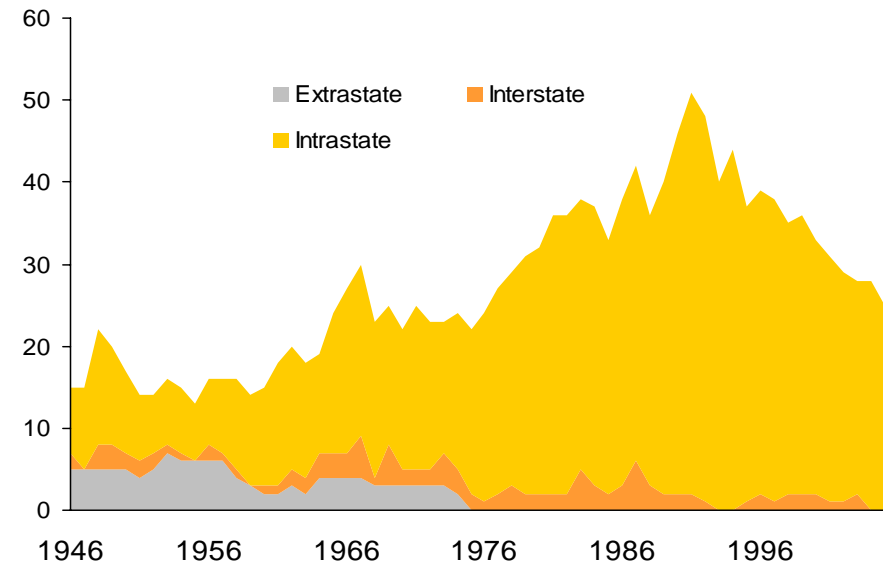
Concern about defence and terrorism has risen

Issues chosen as important to the public



The vast majority of conflicts are civil wars—and growing as a proportion

Number of conflicts



The UK faces global challenges

“Unless we re-appraise our strategy, unless we revitalise the broader global agenda on poverty, climate change, trade, and in respect of the Middle East, bend every sinew of our will to making peace between Israel and Palestine, we will not win. And this is a battle we must win.”

– Prime Minister’s LA Speech, 1 August, 2006

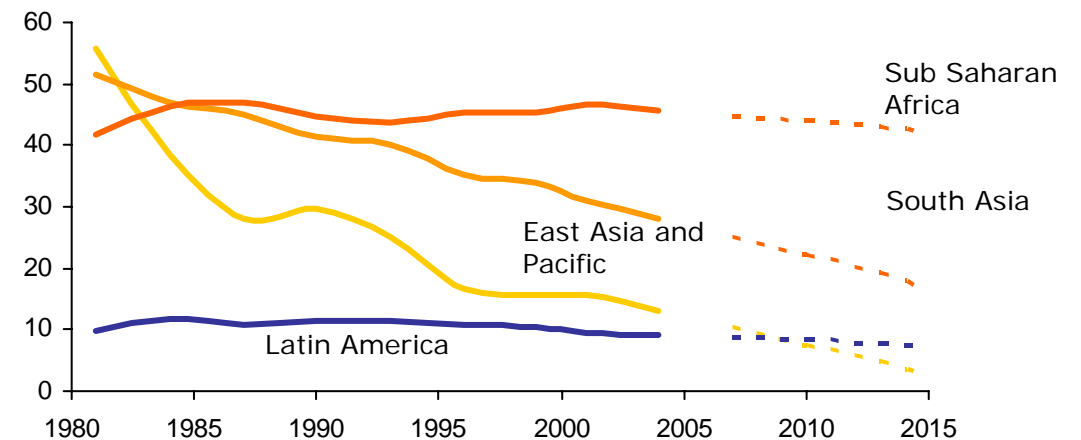
Challenges include:

- Challenge of extremist terrorism: Iraq, Afghanistan
- Threat of climate change, pressure on natural resources and killer diseases
- Risk of nuclear proliferation: Iran, DPRK
- Rise of protectionism, in the face of the globalisation challenge
- Moral imperative of addressing poverty and conflict in Africa

It is clear that we require a global response from the UK and its allies, working within reformed, effective multilateral organisations

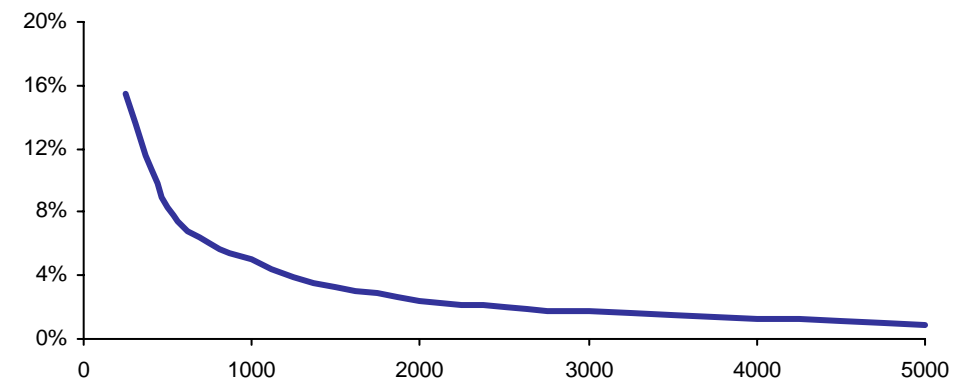
Poverty is falling, but progress is uneven

Share of people living below \$1 a day



Conflict has a inter-relationship with poverty

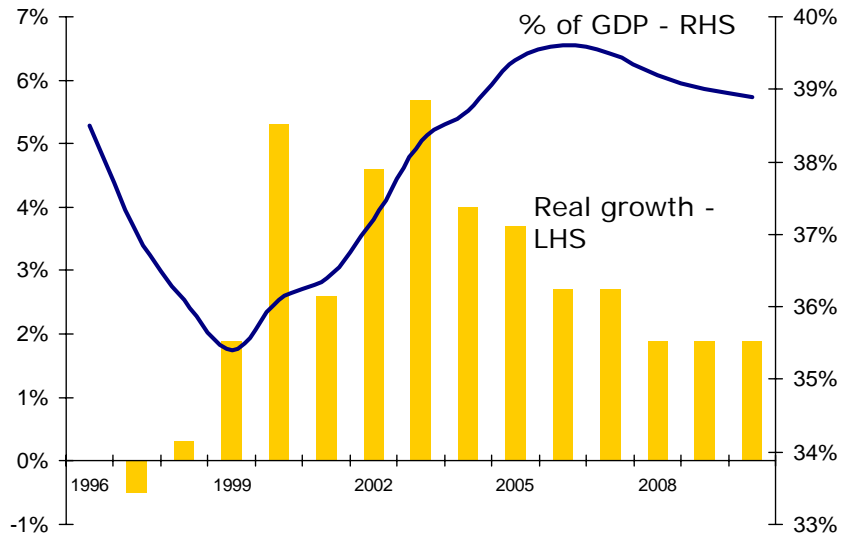
Probability of conflict in the next 5 years by \$ GDP per capita



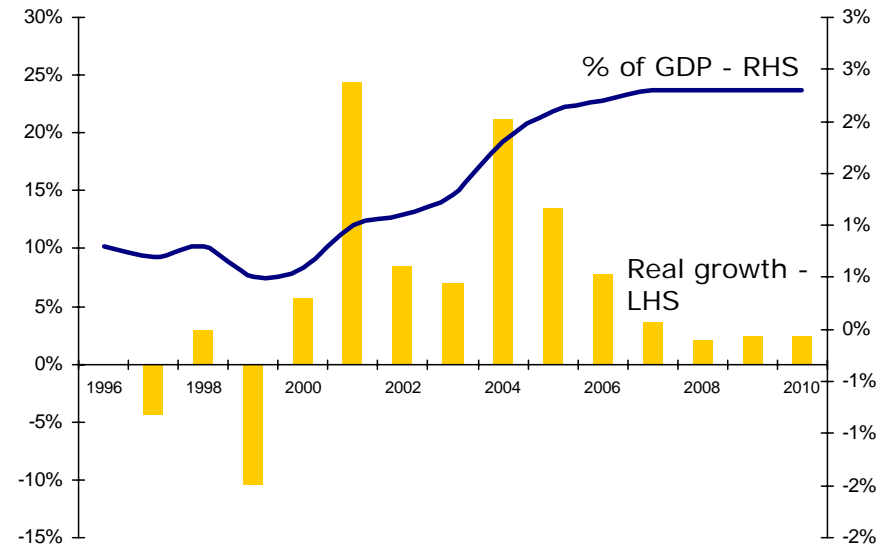
Public finances will be more constrained over the medium term than the recent past

Cross-cutting challenges

Current spending is projected to grow at an average of 1.9% in each year of the next CSR
Current spending, budget 2006 projections



Capital spending is projected to grow at an average of 2.1% in each year of the CSR
Capital spending, budget 06 projections

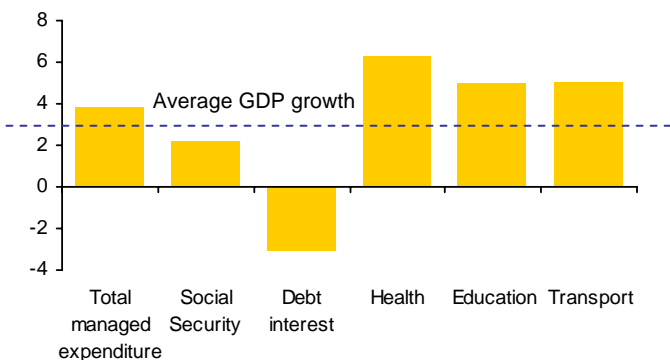


The UK remains a middle ranking country in terms of public spending overall, but with some clear differences in priorities

Cross-cutting challenges

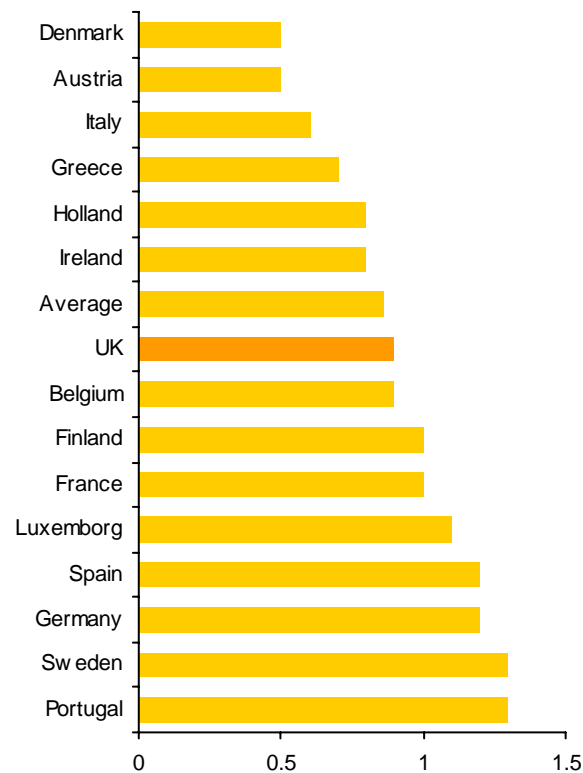
Public spending on key public services have been above social security and debt interest

Real annual average growth rates 1997/8 to 2007/8



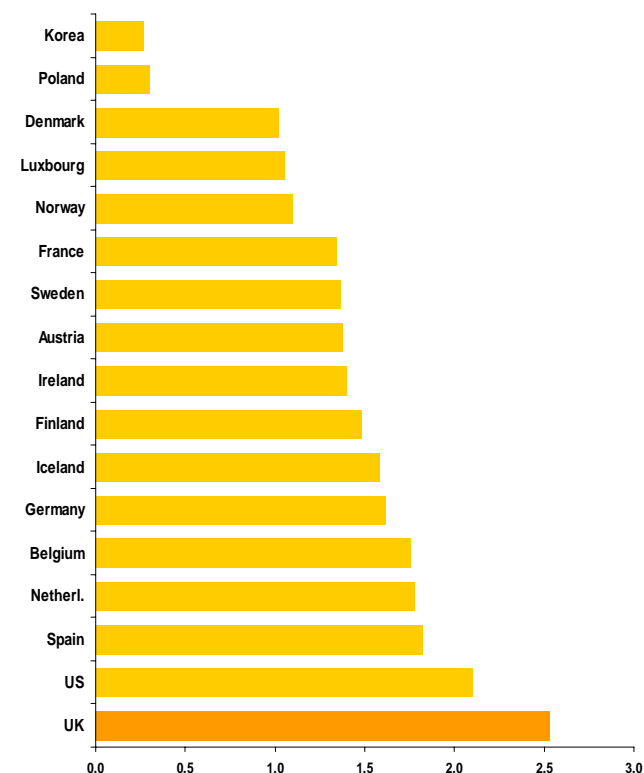
Transport spending is much closer to the average in Europe

Per cent of GDP, 2002



The UK spends more on public order & safety than the rest of the OECD

Per cent of GDP, 2004

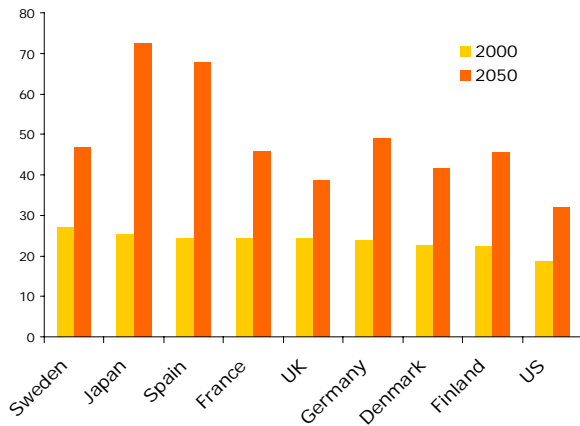


Demographics and rising expectations will increase demands on public services particularly in choice and personalisation

Cross-cutting challenges

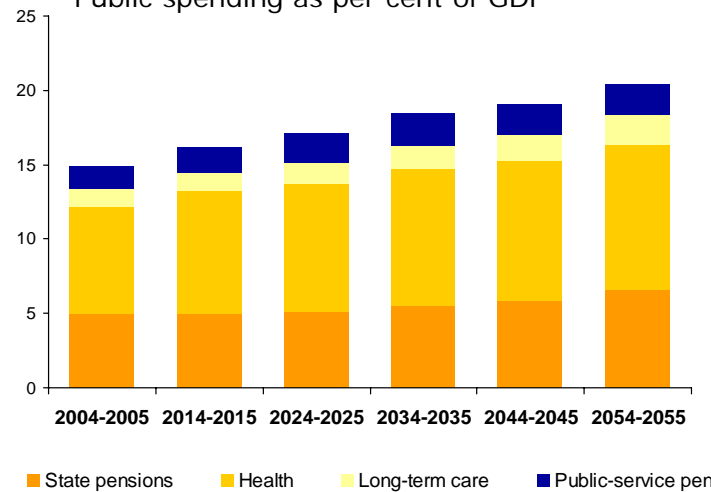
The UK's future dependency ratio is not atypical, and not as high as many countries

Pop aged > 64 relative to those 15-64



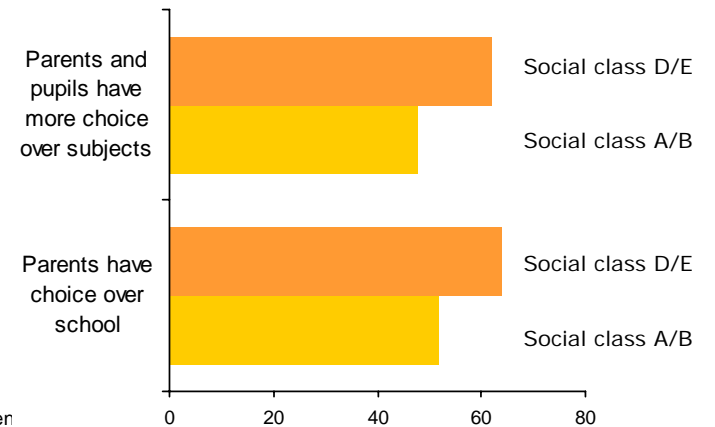
Without policy change demographics alone will lead to long-term pressures in health and social care

Public spending as per cent of GDP



Those from the lowest socio-economic groups desire choice in services the most

Per cent answering 'Important' to question: "Regardless of whether you use the service, how important do you think it is that..."




- It is not clear if public sector productivity has improved from increased spending on public services has brought a commensurate improvements in outputs and outcomes: difficulties in measurement remain

In the first stage of the policy review each working group will consider issues in six areas

These trends and challenges lead to issues and choices for government across the full range of policy areas:

1. Economic Dynamism
2. Environment and Energy
3. Public Services
4. Security, Crime and Justice
5. The Role of the State
6. Britain and the World



In each area the government has substantial successes and clear strategies on which to build.

In response to the analysis of the long term challenges, the working groups will consider:

- Our future priorities and objectives; and
- Key policy choices and challenges.
- The initial meetings of the working groups on public services and security have commissioned a number of reports, a selection of which are outlined overleaf.
- Subsequent stages of this process will see further reports published and consultations undertaken.

Public services commissions

Self-improving services

- How close are we to a comprehensive model of a self-improving public service? Which parts of our model are most in need of further development and which areas of public service should be the priorities for the application of this model. What are the kinds of new public policy challenges thrown up by this model:
 - balancing local diversity with national standards
 - balancing direct provision of services with commissioning from other providers
 - new types of central targets and accountability
 - other incentives for improvement
 - directing resources to prevention

Step change in customer care

- How can we achieve a step change in customer care? What do people really want and how realistic are these expectations? What are the relevant lessons from the most successfully parts of the private sector and internationally both in shaping and meeting expectations? What sort of relationships do we need public services and public servants to form with individuals and communities for maximum benefit? How do we develop a model of customer engagement that both meets high standards of universal provision and greater personalisation?

Public services commissions

Contract between citizen and state

- How can we develop a new account of the contract between state and citizen based on rights and responsibilities? How is this contract expressed at present in a variety of public services both here and elsewhere? Should we be aiming for a more explicit statement of the contract that covers both the service offered by the public sector (what is in and what is not) and what is expected from citizens (beyond paying taxes and obeying the law). Could we move from an implicit one-way contract based on outputs to one based on explicit mutually agreed outcomes – how might this work in key areas like healthcare, schooling, policing and family support? Could more explicit and binding contracts work not just for individuals but for communities

Culture change

- How can action by the state facilitate culture change; for example tackling dysfunctional (but not illegal) behaviour and low aspirations? What are the major shapers of culture and expectations and what the main fault lines (class, religion, education, location?) What models of service provision might prove to be (have proven to be) most successful in tackling cultural blocks and empowering citizens?

Public services commissions

Public service reform & economic competitiveness

- How can we best understand the linkages between public service reform and economic competitiveness? How could reform boost competitiveness; productivity, public sector R & D and procurement, workforce development, more effectively addressing different regional and local priorities. Should we aim explicitly to boost the contribution of public services to exports (e.g. health, education), and if so how?

Security and cohesion commissions

Theory & practice of crime prevention

- What is current thinking on the theory and practice of crime prevention. Can we develop a conceptual framework distinguishing general initiatives that may have a preventive impact (Sure Start, New Deal) from more targeted interventions focussing on identified potential offenders. The key questions posed are; what is the current pattern of intervention and crime prevention, what do we know about what works? And how could system reform strengthen incentives for effective intervention and prevention?

Future possibilities of technology

- What are the future possibilities in technology and technique in crime reduction, offender detection. What is the scope here for major advances to be made? What are the barriers to reaping these benefits? In particular, what is the right balance between individual and civil liberties, and how might the current framework and assumptions of these liberties need to be modernised in order to ensure that we are using the best tools to reduce crime and catch criminals?

Security and cohesion commissions

Making courts more efficient while protecting due process

- How the courts can be made more efficient and effective while protecting appropriate due process. What are the aims of the court system and how good is at achieving those aims? What progress has been made on reform and what is current best-practice. How could we learn from and apply innovation like the Liverpool community court? What major criminal justice reforms could allow a step change in performance? Who are the court's 'customers' and how could we apply the principles of public service reform to the court system.

Cohesion and absence of cohesion in modern Britain

- What do we mean by cohesion and an absence of cohesion in modern Britain? What is the public interest in cohesion and what is the mix of tools at the state's disposal in seeking to promote it? Are there differences in the cohesion of apparently similar communities and if so do we know why and what can we learn about what works? How different and specific are the challenges of cohesion with Muslim communities and what are the key challenges and priorities for engaging those communities?