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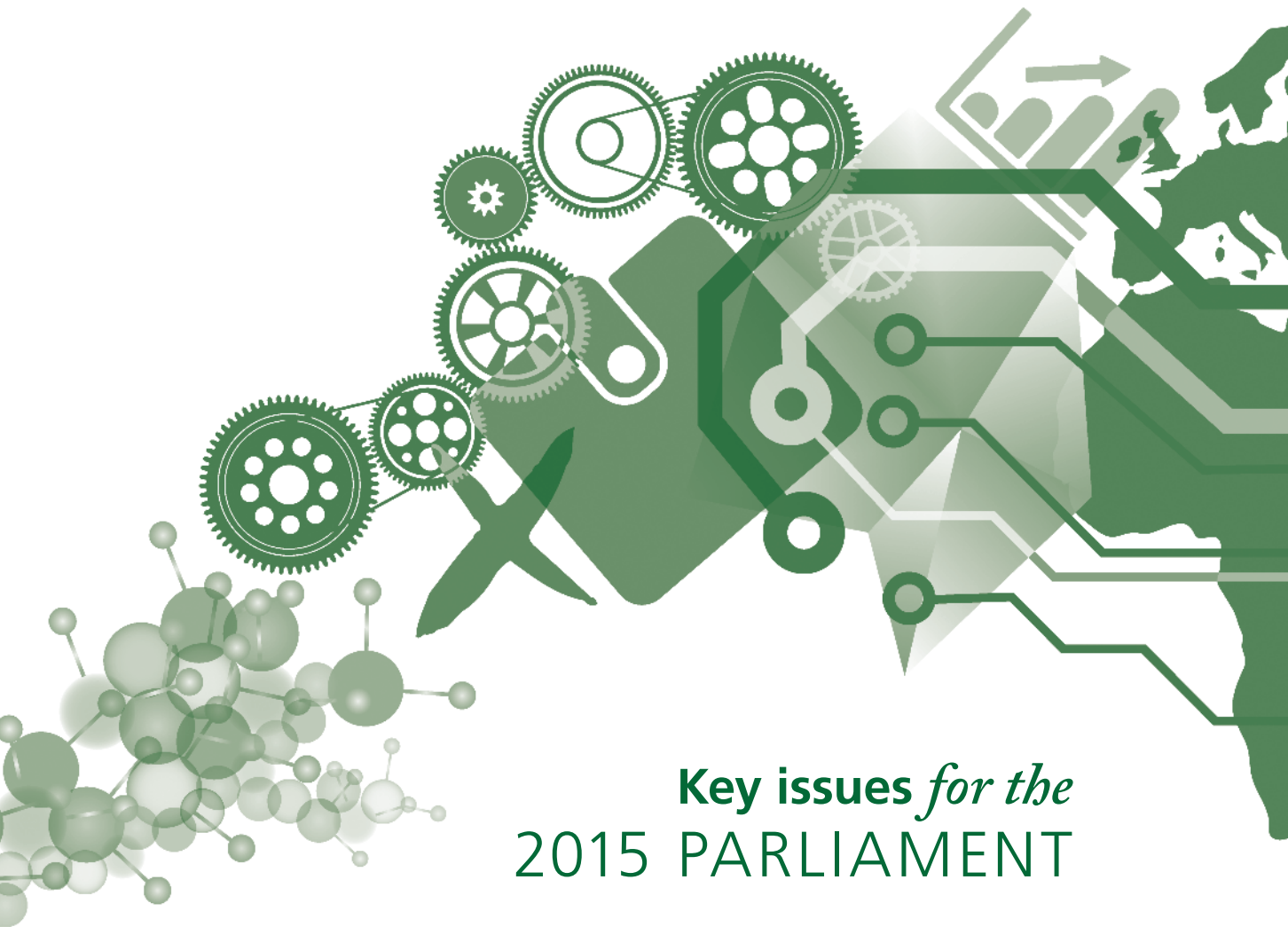
PARLIAMENT 2015



Key issues for the
2015 PARLIAMENT



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2015 PARLIAMENT

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Foreword

We live in a world where information is ever more abundant and accessible. This is a good thing: democracy and political debate can have no life or meaning if it is not well-informed.

But such availability and abundance may not be making your lives as Members of Parliament any easier! Increasingly, you are expected to be in command of detail and accurate in presentation: mistakes and misunderstandings can be identified and publicised in a matter of minutes. And the task of sorting through the profusion of data, news, views and research, assessing its provenance and veracity, and reaching informed conclusions, can be difficult.

The House of Commons Library offers Members extensive resources not only to access information, but to help them understand and act on it. In addition to its vast range of books, press and parliamentary material, it provides a dedicated research service consisting of 60 experts, experienced in providing impartial and authoritative briefing for Members from all sides of the House. They are able to separate fact from fiction; to bring expert knowledge and judgement to bear on today's policy issues; in short, to help navigate and understand the wealth of information and data at our fingertips.

In the last Parliament, the research service provided substantive responses to 110,000 questions asked of them by Members and their staff. The range of work undertaken varies enormously: from a statistic needed within minutes for use in the Chamber, to a detailed analysis of a policy issue; from advice on a constituency matter, to a country briefing for a visit overseas. But whatever your question, you can be confident that all responses will have certain qualities in common.

- They will be reliable. We understand the importance of accuracy, and the consequences of mistakes, in public debate.
- They will be tailored to the question you have asked, to the deadline you have set, and to the context in which it will be used.
- They will be confidential and not shared beyond your office.
- They will be impartial. We are asked so many questions because our customers are confident that they will get a balanced and non-partisan response. It is a reputational asset that we prize very highly.

The research service also publishes pre-prepared briefings on topical issues and in-depth analysis of every major piece of primary legislation. Though they are available publicly on the Parliament website, they are written with the needs of MPs and their staff in mind, and are underpinned by the same principles of impartiality and accuracy.

In this book, you will find examples of the kind of work at which the Library excels. I hope it proves a useful and topical guide to the issues of interest to the new Parliament, and an insight into the quality of work you can expect from our research service.

Penny Young
 Librarian and Director General,
 Information Services

May 2015

Contents

Enquiry and research service	12
Chapter 1: POLITICS & PARLIAMENT	
General Election 2015: results	16
General Election polling: a matter of opinion?	18
Constituency boundaries and the number of MPs	20
Loosening the grip? The changing relationship between parties, the public and parliament	22
Party Funding: Buoyant, Broken or Bust?	24
MPs and second jobs	26
Votes at 16 for the general election in 2020?	28
Further reading and data sources	30
Chapter 2: DECENTRALISATION	
Devolution: what next for Scotland, Wales and Northern Ireland?	34
Fiscal devolution to Scotland	36
The English Question	38
Further reading and data sources	40
Chapter 3: SOCIAL CHANGE	
Controlling immigration: is the number up for the target?	44
Personal relationships	46
Mental health stigma	48
The ageing population	50
The right to die	52
Funerals and space for burials	54
Further reading and data sources	56
Chapter 4: SOCIAL PROTECTION	
Universal Credit: work in progress?	60
Child poverty: 2020 vision?	62
Childcare for the 21st century	64
Housing supply — where will we live?	66
Gambling: fixed odds betting terminals	68
Further reading and data sources	70

Chapter 5: EDUCATION

A good school place for every child?	74
The future of academies and free schools	76
The expansion of private higher education	78
Further reading and data sources	80

CHAPTER 6: HEALTH

NHS England funding and productivity	84
Integrating health and social care	86
The challenge of antimicrobial resistance	88
A minimum price for alcohol	90
Further reading and data sources	92

Chapter 7: JUSTICE

The prison population	96
Human rights and the vexed question of prisoner voting	98
Legal aid	100
Anonymity for defendants in rape cases	102
Police reform in England and Wales	104
Further reading and data sources	106

Chapter 8: DEFENCE & SECURITY

The intelligence services and the Snowden revelations	110
To intervene or not to intervene? Military operations overseas	112
Can the UK afford to defend itself?	114
Does the UK have enough soldiers to defend itself?	116
Replacing Trident	118
Risky business: cyber crime and cyber security	120
Further reading and data sources	122

Chapter 9: FOREIGN AFFAIRS

Russia	126
Israeli-Palestinian conflict: what hope of a solution?	128
Rough neighbourhoods: rising tensions in East and Southeast Asia	130
The post-2015 development goals	132
Reform and renegotiation: the UK's membership of the EU	134
The European Parliament 2014–19 — a Eurosceptic turn?	136
Further reading and data sources	138

Chapter 10: ECONOMY & PUBLIC FINANCES

Interest rates and inflation — the only way is up?	142
Regulating banks — have we learned the lessons of 2008?	144
Productivity and living standards: scarred for life?	146
The budget deficit — the best laid plans...	148
The other deficit — the UK's current account	150
Reducing public spending	152
The end of local government as we know it?	154
Is there a future for corporation tax?	156
Further reading and data sources	158

Chapter 11: INDUSTRY & INFRASTRUCTURE

Manufacturing success	162
Infrastructure	164
Transport 2015: in the slow lane?	166
What next for UK agriculture? Seeking some security	168
Further reading and data sources	170

CHAPTER 12: WORK

The National Minimum Wage	174
Zero-hours contracts	176
The self-employment boom	178
Employment tribunal fees	180
Young people in the labour market	182
Further reading and data sources	184

Chapter 13: CONSUMERS & PERSONAL FINANCE

Drawing an income in retirement	188
Saving for an income in retirement	190
Changes to the consumer landscape	192
Retail financial services and the treatment of consumers	194
Further reading and data sources	196

Chapter 14: ENERGY & CLIMATE CHANGE

2015: The year we make or break the climate?	200
Keeping the lights on	202
Air quality in urban areas	204
Further reading and data sources	206

Chapter 15: MEDIA

Renewing the BBC Charter	210
What next for press regulation?	212
Further reading and data sources	214

Chapter 16: TECHNOLOGY

Big Data — a new asset for the 21st century?	218
The 'Darknet'	220
The Internet of Things	222
Further reading and data sources	224

Directory of subject specialists	225
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Enquiry and research service

Training

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Please contact 020 7219 2937 or LibraryTraining@parliament.uk

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- Speeches in the House and elsewhere
- Constituency issues and casework
- Media appearances
- Policy development
- Work on committees

The more information and background you can give to help us pitch the reply, the better. You may want a written briefing, or prefer to chat over the phone or in person.

We deal with approaching 30,000 questions a year so specific and realistic deadlines help us prioritise your most urgent needs. We will always seek to reply as soon as we can even to undeadlined enquiries.

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You can also speak directly to the relevant subject specialist. A directory of specialists is available in hard copy or on the intranet.

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- These cover all major pieces of legislation, other major policy areas, topical issues and FAQs
- Regular statistical papers include 'Unemployment by constituency', 'Economic indicators' (inflation, GDP, productivity) and 'Social indicators' (education, housing)

The following are available for intranet users only:

- Debate packs collate press and parliamentary material, including any available Library briefings, for non-legislative debates in the Chamber and Westminster Hall

You can find all our briefings online by searching 'research briefings' on the website and intranet. They are also available in hard copy at various points around the Estate.

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The Members' Library suite is located close to the Commons chamber. Members can work away from their offices in this private, quiet space.

Hard copy media and periodicals, a book loans service, reading spaces, wi-fi, chargers and printers as well as staff who can explain our extensive online databases including media and legal sources are on hand from 9am until the rise of the House.

Similar facilities for MPs' staff are available in the Derby Gate Library.

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- News from the Library is a weekly round-up email
- 'Current awareness' emails cover particular subject areas. Most are produced daily, some weekly
- The House of Commons Library blog includes regular analysis from our specialists www.commonslibraryblog.com
- [@commonslibrary](https://twitter.com/commonslibrary) flags up our new papers and events
- Visit the Constituency Explorer website or download the Myconstituency app on your tablet or smart phone for current statistics in your area.

Online services

The House of Commons subscribes to a range of online resources which we ourselves use. They include our online subscription press service, periodicals, and specialist legal and reference databases.

The House also generates its own databases, notably Parliamentary Search, which is the best place to find Parliamentary Questions, Ministerial Statements, and other Parliamentary and European material.

[http://search.parliament.uk/search\(intranet only\)](http://search.parliament.uk/search(intranet%20only))

We also have a 'Library catalogue' showing the 100,000 books, pamphlets and official publications we hold, so you can see what we have and ask if it is available for loan or referring to in the Libraries.

Hard copy newspapers and key periodicals are available in the Members' Library, and also in the Derby Gate Library, for Members' staff to consult.



Key Issues *for the* 2015 PARLIAMENT – CHAPTER 1

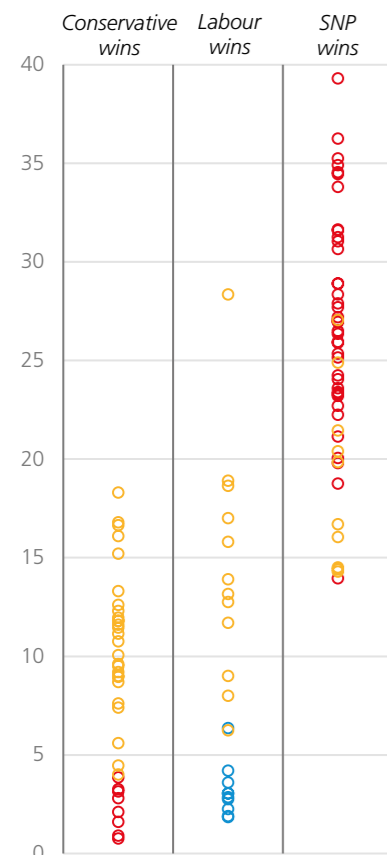
POLITICS & PARLIAMENT



General Election 2015: results

Chart 1:
The Conservatives and Labour traded marginal seats on small swings; the Liberal Democrats saw large swings against them and heavy losses; the SNP swept Scotland with record-breaking swings in their favour

Percentage swing in seats changing hands in General Election 2015. Colour of circle indicates losing party



In a result few had expected, the Conservative Party secured a slim majority in the 2015 General Election. Both Labour and the Conservatives benefited from the collapse in support for the Liberal Democrats; but with Labour losing all but one of its 40 seats in Scotland, and failing to make headway against the Conservatives in England, the hung parliament predicted by the pollsters and pundits did not materialise.

Small changes, big differences

The Conservatives won 36.9% of the vote, up by 0.8 percentage points (630,000 votes) from the previous election. They lost vote share and seats to Labour in many London constituencies, but the change in their support in other parts of England and Wales was smaller. They gained 35 seats: 8 from Labour and 27 from the Liberal Democrats.

Labour won 30.4% of the vote, up by 1.5 percentage points (740,000 votes) from the previous election. A gain of 22 seats in England and Wales (12 of which were taken from the Liberal Democrats) was more than offset by a collapse of support in Scotland, where the party lost 40 out of its 41 seats to the SNP, who attracted three times as many votes, and won more than nine times as many seats, as they did in 2010.

The Liberal Democrats, meanwhile saw a collapse in support across Great Britain, losing 86% of their seats and gaining just a third of the votes they achieved in 2010 election.

At 66.1%, turnout was higher than at any election since 1997, but only a percentage point higher than in 2010. Turnout was highest in Scotland (71.7%) and lowest in Northern Ireland (58.1%).

Concentrations of power

The decline of a third parliamentary force in England has left the proportion of seats held by the two main parties there (98.5%) higher than at any time since 1979. At the same time, the proportion of votes for other parties in England (besides the Conservatives, Labour and Liberal Democrats) was the highest in modern political history. That five million votes for UKIP and the Green Party translated into just two Commons seats may heighten pressure for electoral reform.

In Scotland too, the election left political representation more concentrated, albeit in the hands of the SNP. Their 50% vote share translated into a 95% share of Scottish seats. In Wales, the nationalist success was less dramatic: Plaid Cymru increased its vote share slightly, but not its number of seats. The Conservatives in Wales took two seats from the Liberal Democrats and one from Labour.

The election has transformed the UK's political landscape, leaving a country that many perceive to be more divided. Debate over how the union should be governed and its people represented will be a critical question for the 2015 Parliament.

Chart 2:
Seats changing hands by seat winner.
Constituencies are all shown equally sized.

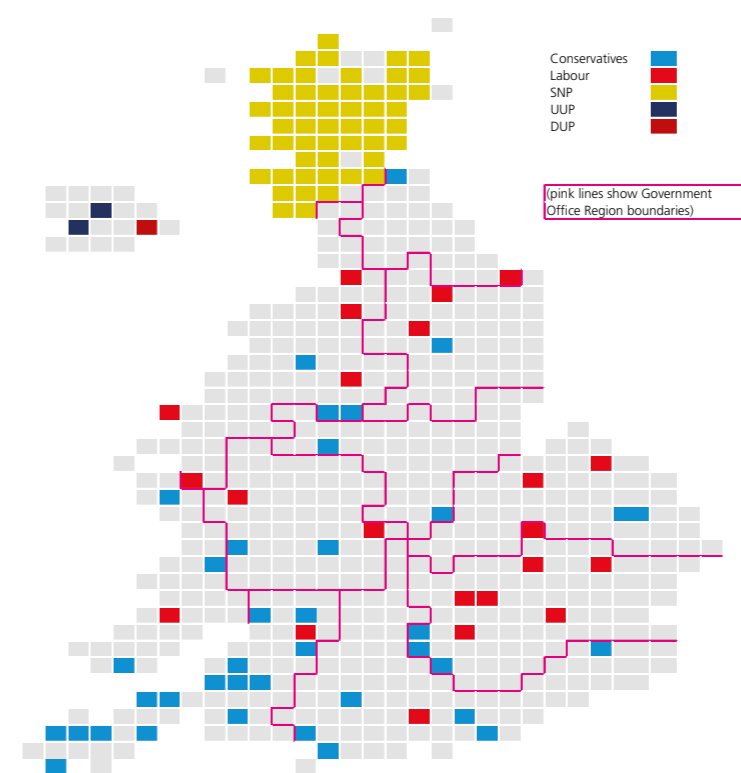
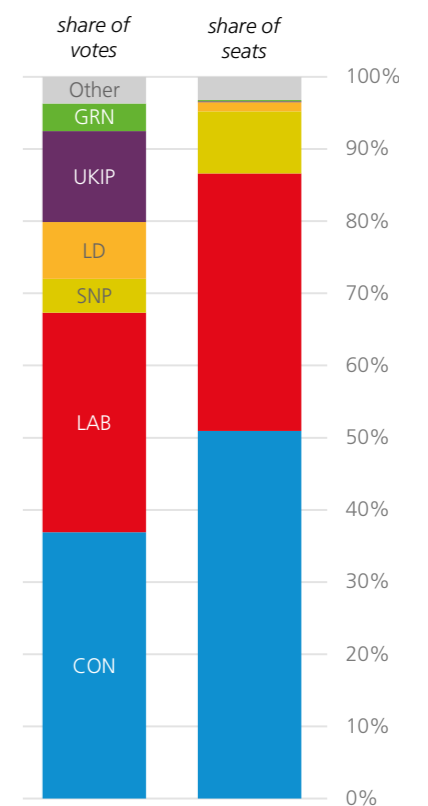


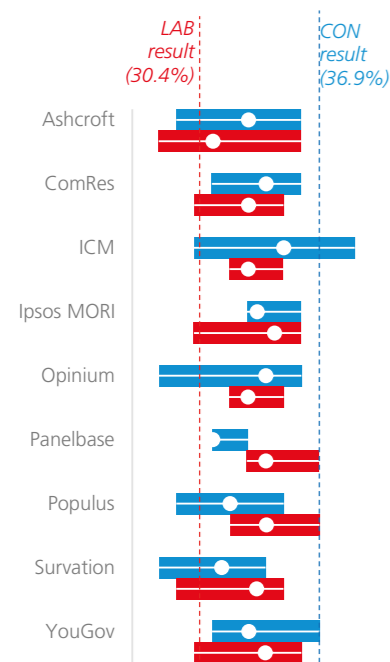
Chart 3:
Keeping things in proportion
share of votes vs share of seats,
General Election 2015



General Election polling: a matter of opinion?

Chart 2:
Neck-and-neck?

the bars represent the range of vote shares (in percent) for Labour and the Conservatives predicted by each polling company during the campaign period, with the average (median) represented as the white point within this bar



According to the polling industry, the 2015 General Election was supposed to be the closest in years, making a hung parliament a virtual certainty. The average of polls consistently gave the Conservatives and Labour a roughly even vote share of 33% to 35%; but in the end, the Conservatives emerged with a lead of 6.5 percentage points and an overall majority in the Commons. How did the pollsters get it so wrong and what lessons might be learned for next time?

How did the polls fare?

Since General Election polling started in 1945 there have been a number of upsets, most notably in 1992, when the Conservatives' lead over Labour was underestimated by nearly 9 percentage points: the worst performance in UK polling history.

The polls were not quite as far off the mark this time. For the smaller parties, including the Liberal Democrats, UKIP, Greens and 'Others', they performed reasonably well. However, it in predicting the crucial Conservative and Labour vote shares that the polls were largely mistaken. The chart in the margin summarises the results of nine of the major polling companies, who between them published over 200 polls in the campaign period. While there is evidently variation between the different companies, they were consistent in overestimating Labour's share and underestimating that of the Conservatives.

In Scotland, most pollsters had the SNP winning almost all seats, which turned out to be entirely accurate. The clearer trends in Scotland since the independence referendum in 2014 may help to explain why the same companies using the same methods had far greater success north of the border.

Where did it go wrong?

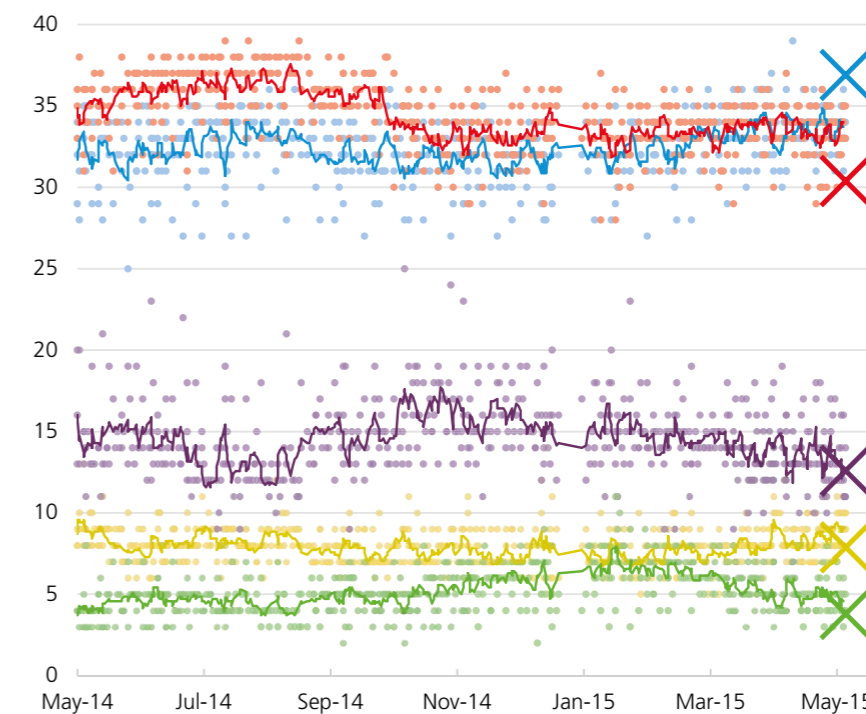
The purpose of an opinion poll is to offer a snapshot of what the population thinks at any given time. It aims to do this through a sample (typically around 1,000 people) that, by design, should be representative of the entire population. Consequently, there could be two broad sources of error for the 2015 polls:

- Voters changed their minds in large numbers on election day
- There was systematic bias in sampling and/or weighting of the data to ensure representativeness, and account for likelihood of voting and honesty of respondents

A poll by Lord Ashcroft suggested that only 11% of voters made up their mind on election day, pointing towards sampling bias as a more likely cause of error. But drilling down to the exact source of this bias is likely to take some time. The British Polling Council, the association that counts most major pollsters as its members, has announced an independent inquiry into the possible causes of this "apparent bias".

The errors of 1992 resulted in a substantial rethink of how to conduct polls of peoples' voting intentions: it seems likely that those of 2015 will have a similar impact on the industry.

Chart 1:
The polls predicted the UKIP, SNP and Green Party shares fairly accurately, but they were largely wrong about the balance of support between the Conservatives and Labour
vote share predicted by polls in the year leading up to the 2015 General Election



Constituency boundaries and the number of MPs

£12.2 million

The expected annual savings resulting from reducing the number of MPs from 650 to 600

After the expenses scandal there were calls to cut the cost of politics and one of the proposals was to reduce the size of the House of Commons. In 2011 legislation was passed to reduce the number of MPs from 650 to 600, but the review of constituency boundaries that would have made the recommendations necessary to implement these changes was halted because of disagreements within the previous Government over constitutional reform. Under the law as it still stands, a new review by the Boundary Commissions must be completed by October 2018. It must again divide the UK into 600 constituencies.

Divide and rules

The Parliamentary Constituencies Act 1986, as amended, requires the four Boundary Commissions – one for each country of the UK – to keep the boundaries of Parliamentary constituencies under continuous review, and conduct periodic reviews of all constituencies. In proposing new boundaries, the Commissions do not have free rein: they must operate under the Rules for Redistribution in the Act, which set out, among other conditions, the number of constituencies that there should be, and the extent to which the size of the electorate in each constituency can differ from the electoral quota (average size of a constituency).

The previous Government gave effect to its pledge to create “fewer and more equal sized constituencies” by changing the Rules for Redistribution through the Parliamentary Voting System and Constituencies Act 2011. The Rules now require that there should be a prescribed number of 600 seats for the whole of the UK following the next general review of Parliamentary constituencies. The legislation resulted in other changes to the Rules, (see table below), which broadly reduced the discretion available to the Commissions in drawing up constituency boundaries.

Selected changes made by the Parliamentary Voting System and Constituencies Act 2011

	Before	After
Number of constituencies in UK	not “substantially greater or less than 613”	600 exactly
Constituencies in Scotland, Wales and N Ireland	no less than 71 for Scotland (before 1998)*; no less than 35 for Wales; and no less than 16 and no greater than 18 constituencies for N Ireland.	no special provision
Size of constituency	“as near the electoral quota [average size] as practicable”	all constituencies within 5% of average**
Exceptions	can depart from rules on size on grounds of special geographical considerations	cannot depart from rules on size***
Boundary reviews	every 8-12 years	every 5 years

* The Rule which required a minimum of 71 seats was removed by the Scotland Act 1998. Scotland has had 59 seats since the implementation of the Fifth Periodical Review at the 2005 General Election

** except the Isle of Wight (two constituencies), Orkney and Shetland and Na h-Eileanan an Iar

*** limited discretion in Northern Ireland

Conservatives: implement the boundary reviews automatically once the commission reports in 2018

Liberal democrats: cancel the boundary review

UKIP: ensure constituencies across the country are of equal size

What happened to the Sixth Review?

The Sixth Review came to a halt because of disagreements within the previous Government over constitutional reform. The Deputy Prime Minister announced on 6 August 2012 that plans to reform the House of Lords were to be dropped and that consequently the Liberal Democrats would not vote to approve the Order implementing the recommendations of the Boundary Commissions. The Commissions continued their work until early 2013, when the law was changed to allow the review to be delayed by an electoral cycle. The Commissions must now conduct a review after the 2015 general election and submit reports by October 2018, in time for their recommendations to take effect by the next scheduled general election in 2020.

The 2018 Review

Had it been implemented, the 2013 Review would have made dramatic changes to many constituency boundaries. Some argued that these would have been disruptive and administratively clumsy because constituency and local government would no longer have aligned in many areas. Since the 2018 Review must be conducted under the same Rules, it is unlikely that these concerns can be addressed fully unless primary legislation is passed to change the Rules.

A particularly restrictive element of the existing Rules highlighted in a March 2015 Report of the Political and Constitutional Reform Committee was the requirement that the size of the electorate in all constituencies (with four exceptions) be within 5% of the electoral quota. The Committee recommended that this constraint be relaxed to 10%. It also reiterated its previous conclusion that the case for reducing the number of MPs from 650 to 600 had not been made.

Given the time required to complete boundary reviews, any changes to the Rules would have to be a priority for the new Government if the October 2018 deadline is to be met.

Chart 1:

A reduction in the number of MPs to 600 would leave the House of Commons smaller than at any time since 1800, and the population per MP higher than ever

Number of MPs (lighter shade, left-hand axis) and population per MP (darker shade, right-hand axis)

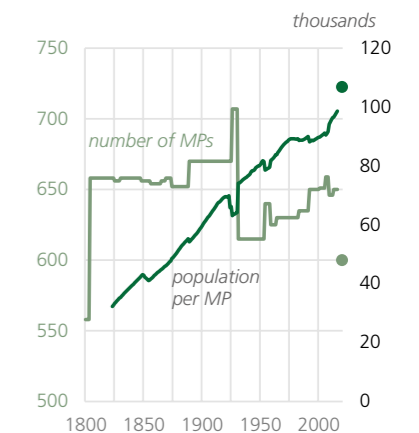
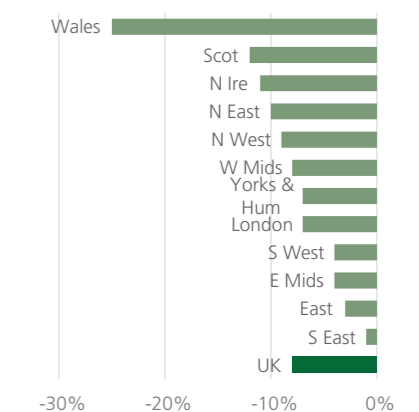


Chart 2:

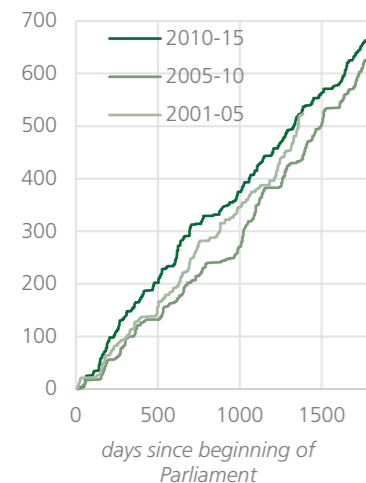
Under the Boundary Commissions' recommendations, some areas would have seen much larger reductions in MPs than others

percentage change in seats following Sixth Periodic Review



Loosening the grip? The changing relationship between parties, the public and parliament

Chart 1:
The number of rebellions in the last Parliament was higher than in 2005-10 (and there were roughly the same number of total votes...)
cumulative number of "rebellions"* through last three Parliaments



The last Parliament saw what some would characterise as the "rise of the backbencher", driven in part by reforms that gave them more say over the business of the House of Commons. Will the 2015 Parliament see backbench Members having even an even greater impact, or will political parties seek to restrict their influence over the House's agenda? And how will Parliament and Government respond to calls for the public to have a greater say in proceedings?

Backbench access to the agenda

Since the start of the 2010 Parliament, the Backbench Business Committee has been allocated 35 days per session for debates in the Commons Chamber and Westminster Hall, and hears applications from Members for the use of that time. The increased role of backbenchers in determining the House's business has arguably led to debates on subjects that previous Governments would have been able to avoid. As the Committee has favoured applications where there has been cross-party support, Members from all sides of the House have been encouraged to work together in making requests for a debate. Influential debates held in the last Parliament have included those on prisoner voting, fuel duty, circus animals, and the Hillsborough disaster.

It is perhaps too early to tell whether the Backbench Business Committee and its current procedures are part of the established parliamentary furniture. A future Government may wish to reconsider the access that backbenchers have to parliamentary time. And backbenchers themselves may wish to experiment with the new access they have to the House's agenda.

Opening up the "Usual Channels"

Although the Backbench Business Committee has given Members greater access to the House's agenda, the Government still decides how most of the time on the floor of the House of Commons is spent. It does so primarily through meetings and discussions between the whips and leaderships of the main parties, a process known as the "Usual Channels".

The process has been criticised in some quarters for its secrecy. In its 2009 report, the Committee on Reform of the House of Commons recommended that more of the management of House business should be conducted in public, through a "House Business Committee". A weekly agenda would then be put to the House for its agreement. Although it was in the Coalition Agreement, the previous Government did not implement this recommendation; but the issue may resurface in the new Parliament, especially if there is a greater number of smaller parties vying for influence over parliamentary time. The operation of the "Usual Channels" might itself be put under pressure if there are a larger number of players hoping to influence the business of the House.

Resurgent Select Committees

Most Select Committee chairs are now elected by the whole House, with Committee members elected within parties. A number of commentators have argued that these elections have reinvigorated Select Committees by giving them a stronger mandate. Certainly, media coverage of both the evidence sessions and reports of some Committees has increased: inquiries into phone hacking and banking standards, and evidence sessions on tax avoidance, have attracted a particularly high profile.

Greater resources have been made available to Committees, with more support for chairs to be made available in the new Parliament. In their Legacy Report outlining their developments in the work of Select Committees during the 2010 Parliament, the Liaison Committee argued that any attempt to move away from the election of chairs would be a "retrograde step".

Backbench influence and rebellions

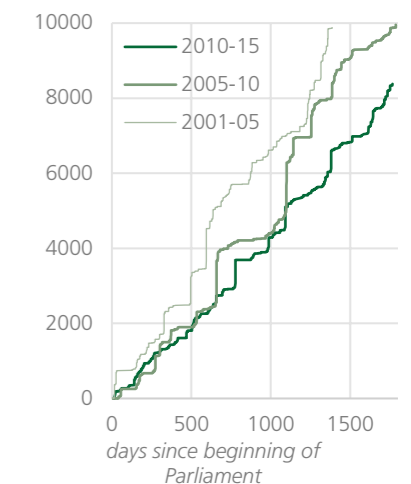
In voting terms, the evidence for the 2010 Parliament being more rebellious than previous ones is mixed. There was a slight increase in the number and proportion of votes with a rebellion, but the average "size" of each rebellion was smaller (see charts).

However, a focus on how backbenchers choose to vote may paint a deceptive picture of their full influence. If parliamentary arithmetic is tight, the Government may not proceed to a vote at all: for example, despite overwhelming support at Second Reading, the House of Lords Reform Bill 2012-13 did not make further progress because the Government was not convinced that enough of its backbenchers would vote for a programme ("timetabling") motion that the Labour Party would not support. In such cases, the influence of backbenchers can be decisive, even though their "rebellion" is not formally reflected in a vote.

Opening up: public access to the agenda

While the 2010 Parliament may be considered, rightly or wrongly, to have witnessed the rise of the backbencher, the new Parliament could see a focus on opening up the business of the Commons to the public. There may be calls for more time to be put aside for debates initiated by public demand, through e-petitions. Public access to the agenda of the House might also be broadened through the "public reading" of legislation, or greater use of social media to gather views. It has even been suggested that Prime Minister's Questions could be supplemented, or perhaps even replaced, by a public question time for the Prime Minister.

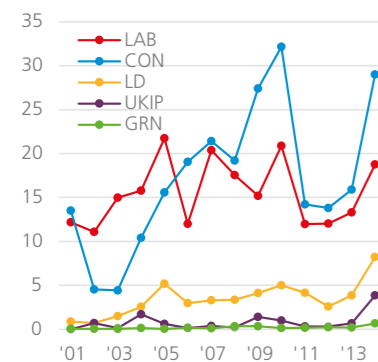
Chart 2:
...but the average size of rebellion was smaller, leading to a fewer overall number of "rebels"
cumulative number of "rebel"* votes through last three Parliaments



* includes all rebellions identified by publicwhip.org.uk; namely those divisions where at least one Member votes against the majority vote of their party. Owing to the absence of reliable data on how strongly each party has whipped each vote, this data does not discount instances of "rebellions" in a free vote

Party Funding: Buoyant, Broken or Bust?

Chart 1:
The value of donations received by political parties is driven by the electoral cycle
total annual value of donations received, selected political parties, 2001-14, £ million



The funding of political parties in the UK has been a source of controversy for decades, and during the 2010 Parliament the issue continued to defy resolution. Press allegations of improper behaviour, a rising dependence on large donations from fewer sources, declining party membership and a widespread public concern about the influence of big money in politics, all provide an impetus for change. But achieving cross-party agreement on reform of party funding could continue to be challenging in this Parliament.

How is party funding regulated?

Until the passage of the Political Parties, Elections and Referendums Act 2000, party funding in the UK was largely unregulated. The Act, which created the Electoral Commission, remains the principal legal framework governing party funding. It introduced a ban on donations from those not on the UK electoral roll; set limits on the amount that could be spent on parliamentary election campaigns; and required all donations above £500 to be declared, and all those above £7,500 to be entered onto a public register. Loans to parties became regulated from 2006 onwards.

Influence and integrity

The public therefore know, to an extent, where parties' money comes from, and how dependent they are on large donations from individuals and organisations. However, transparency as to the identity of large donors has not dispelled widespread suspicion that money can buy influence. In a poll conducted for an inquiry into party finance by the Committee on Standards in Public Life, 81% of the public thought that donations over £100,000 were given in either in the hope of receiving special favours in return, or to gain access to those taking decisions. Nor, according to the Committee's report, published in 2011, were the public's concerns necessarily ill-founded: it argued that the current arrangements "lack integrity, in that if not corrupt they are plainly corruptible".

Efforts to reform

The previous Government committed to "pursue a detailed agreement on limiting donations and reforming party funding in order to remove big money from politics". This led to an inquiry and the 2011 report from the Committee on Standards in Public Life. The report recommended a cap on individual donations (including those from trades unions whose members had not specifically opted in to paying an affiliation fee) of £10,000 per year; reductions in campaign expenditure limits; but a £23 million per year increase in the public subsidy to parties during a Parliament, based partly on the votes they received at a General Election.

Unsurprisingly, an increase in public funding was immediately rejected by the Government at a time of budget cuts. In 2013 the Deputy Prime Minister told the House that, despite seven meetings between the three largest parties, an agreement on party funding would not be possible in that Parliament. Some change has happened since; the regulation of third-party campaigners (people and organisations who are not standing for election,

but try to influence voters' choice) was changed in 2014, while Labour decided to require trade union members to opt in to paying affiliation fees to the party. But the main parties all acknowledge in their 2015 manifestos that the party funding system remains in need of reform.

What next?

Any major change to party funding arrangements is likely to require cross-party consensus. The chief political difficulty in this context is devising an arrangement that does not leave one party disadvantaged relative to another: as Nick Clegg put it in 2013, "fairness between parties with different types of funding is crucial." The growing influence of smaller parties in the House of Commons may have made the achievement of consensus still more complicated.

The next Parliament might consider again whether to cap donations, although agreeing a level that dispels public concern about the "big donor culture", while respecting the freedom of individuals to support causes they believe in, could be challenging.

If parties were not to be left substantially worse off, a reduction in the cap on donations would also require additional public subsidy, or, less likely still, a reversal of the decline in smaller donations and membership fees. The argument for greater public funding, common in many other European democracies, is that it supports the public function political parties meet. However, others argue that the behaviour of politicians can change through public funding, and links with party members and the public can become weaker. Whether the case for increasing the public subsidy to political parties has more traction in the new Parliament than it did in 2011 remains to be seen.

"It is difficult to avoid the conclusion that a cap inevitably implies increased support from public funds. If the political parties, and the public, genuinely want to see an end to a big donor culture – as we believe they do – they will have to face this consequence, however unpalatable it may appear."

Committee on Standards in Public Life, Report on Political Party Finance, 2011

Where do political parties get their money from?

Political parties receive money from three main sources: donations, membership fees and public funding. Donations make up around 80-90% of this income and come from a variety of sources. The Labour party receives income from both trade unions (such as UNITE and Unison) and private donors, while the other parties receive the majority of their income from private donations alone. Many donations can be substantial: there were several instances of donations over £1 million in 2014.

Public funds come from Policy Development Grants and, for opposition parties with more than two Commons seats, or more than one seat and at least 150,000 votes, Short Money (intended to assist with cost of opposition parties' duties). In 2014/15, Labour received £6.7m in Short Money. A consequence of the Liberal Democrats joining the Coalition was that for the first time in many years they stopped receiving this.

In addition, membership fees contribute to the income of political parties: around £5m a year for Labour and between £500k and £1m a year for the Conservatives, Liberal Democrats and UKIP. Membership of the main parties has long been in decline, although smaller parties such as UKIP, the Greens and SNP are seeing a rise.

Conservatives:

will seek agreement on a comprehensive package of party funding reform

Greens:

introduce a system of state funding

Labour:

committed to reform party funding and would cap donations

Liberal Democrats:

wide reforms to party funding and would cap donation at £10,000 per person per year

MPs and second jobs

In 1995 the Committee on Standards in Public Life (CSPL), chaired by Lord Nolan, affirmed:

“A Parliament composed entirely of full-time professional politicians would not serve the best interests of democracy. The House needs if possible to contain Members with a wide range of current experience which can contribute to its expertise”.

This view may not hold such sway today. Following the media sting that led the former Cabinet ministers Jack Straw and Sir Malcolm Rifkind to resign their party whips, the current chair of the CSPL, Lord Bew, argued that public opinion had hardened against second jobs. He said that “all candidates at the election should provide information about their current working lives and their intentions with regard to second jobs.”

Labour has positioned itself for some time as the party that would restrict the outside interests and earnings of MPs. Its manifesto proposes that all members of the Parliamentary Labour Party elected in 2015 should agree not to hold paid directorships or consultancies. It also thinks that any outside income earned by MPs should be capped at 10 or 15 per cent of salary.

What has changed?

Only a generation ago, most MPs expected to have another job at least part of the time. Until the reform of sitting hours in the 1990s, the Commons began work each day at 2.30pm, a schedule enabling many to continue with their profession at the Bar, or as a solicitor or journalist or doctor. From the 1980s, another employment opportunity became widespread: acting as a consultant to a lobbying company or PR firm, in explaining parliamentary procedure and investigating the likelihood of legislation being passed. Following the “cash for questions” scandals during the John Major Government, parliamentary rules were tightened, to ban direct lobbying or advocacy for reward.

At the same time, the role of an MP was changing, arguably making it less compatible with the additional responsibilities of a second job. There was more emphasis on providing a fast, responsive constituency service. Further reforms of the parliamentary working week meant that MPs could still meet their scrutiny and legislative commitments by arriving on a Monday evening and leaving Westminster on a Thursday afternoon.

Greens:

ensure lobbying of elected politicians and civil servants are fully disclosed

Labour:

will ban MPs from holding paid directorships and consultancies

Liberal Democrats:

prohibit MPs from accepting paid lobbying work

SNP:

support strict rules on lobbying but believe that campaigning charities should be allowed straightforward access and restrictions on their activities as ‘non-party campaigners’ should be removed

The advent of email raised expectations of instant and detailed responses from MPs and their staff. Each cohort of new MPs has a higher activity rate than the more experienced representatives they replace.

The past 20-30 years have also seen changes in the professional background of MPs, with increasing numbers having worked as MPs’ staff, ministerial special advisers or think-tank policymakers before running for elected office. The result, according to some, has been a decline in the professional diversity of the Commons, and in this context it could be argued that taking a second job is an important way for Members to gain experience of working life outside politics.

The 2009 Members’ expenses crisis brought the question of MPs’ remuneration into sharp relief. This was the point at which Labour developed a policy hostile to second jobs. The then Leader of the House, Harriet Harman, pushed through requirements on MPs to register in detail income earned, including the hours spent on external paid activities. These were rolled back under the previous Government as unworkable, but a reprise seems certain in the 2015 Parliament.

How would a ban affect MPs?

A Guardian analysis of the Register of Members’ Interests found that only 26 MPs declared more earnings from directorships, paid employment or shareholdings than they did from their parliamentary salary. Of these, 20 declared more than £100,000 in outside earnings. A Telegraph analysis of the remunerated earnings part of the Register during 2014 concluded that of the 281 MPs who registered extra earnings, around 180 could be classed as having at least a second job. Conservative MPs earned much more than Labour counterparts from these external interests. Of those 180 MPs with additional jobs, 112 — or nearly two thirds — were Conservatives. Forty-three were Labour MPs and 15 Liberal Democrats. Similar party differences are likely in the 2015 Parliament. SNP MPs are not allowed to be company directors or to hold second jobs.

Second jobs – what are the rules?

Revised guidance on registration of interests was agreed in the dying days of the previous Parliament, producing just one category for remunerated employment:

Category 1: Employment and Earnings

Threshold for registration

6. Members must register, subject to the paragraphs below, individual payments of more than £100 which they receive for any employment outside the House. They must also register individual payments of £100 or less once they have received a total of over £300 in payments of whatever size from the same source in a calendar year.

Requirements for registration

7. Under this category Members must register:

Any of the following received as a director or employee or earned in any other capacity:

- a) Salaries, fees and payments in kind; gifts received in recognition of services performed;
- b) Taxable expenses, allowances and benefits such as company cars;
- c) Redundancy and ex gratia payments;
- d) Income as a member of Lloyd’s; and
- e) Payments for opinion surveys (unless they fall below the registration threshold).

Votes at 16 for the general election in 2020?

Population aged 16 and 17 mid-2013 estimates, thousands

	16	17	16 & 17
England	648	649	1,297
Wales	38	37	75
Scotland	62	62	124
N Ireland	25	25	50
UK	773	773	1,546

In 2014, 16 and 17-year-olds were able to vote in the Scottish independence referendum. The change to the franchise was only temporary but it re-ignited the debate about lowering the voting age in UK elections.

Who supports it?

The Labour Party, the Liberal Democrats and the Green Party all support reducing the voting age to 16. The Liberal Democrats have had a commitment to lower the voting age in their general election manifestos since 2001 but there was no such commitment in the Coalition Agreement published by the previous Government in May 2010, and historically the Conservative Party has generally opposed lowering the voting age.

The Political and Constitutional Reform Committee's report on voter engagement, published in November 2014, called on the Government to lead a national discussion on reducing the voting age and to allow the House of Commons a free vote on the issue.

Will it need legislation?

The franchise for elections in the United Kingdom is set out in the Representation of the People Act 1983, as amended, and to vote in any election a person must be aged 18 or over.

Section 1 of the Act sets out the franchise for Parliamentary elections and Section 2 for local elections; the age requirement is the same in both cases. The requirement is therefore set out in primary legislation and it would require primary legislation to change this.

The Scottish Parliament was able to legislate to reduce the voting age for the referendum on independence because the Section 30 Order, the Scotland Act 1998 (Modification of Schedule 5) Order 2013, enabled it to legislate for the referendum, and that legislation set out the specific franchise for the referendum. The change in the franchise was therefore only applicable to that referendum. However, Scotland has now been given the power to legislate to include 16 and 17-year-olds in the franchise for the next Scottish Parliament elections in 2016.

What are the arguments?

Those who are not convinced of the need to reduce the voting age argue that 16 and 17-year-olds are not politically aware, mature or independent enough to make an informed electoral choice. Some also point to the potential for low turnout among 16 and 17-year-olds, and argue that increasing turnout and registration among 18-24 year-olds is a more important priority. Those who support the extension of the franchise contend that citizenship education has made 16 and 17-year-olds more politically aware; that voting at a younger age can create a basis for political engagement later in life; and that there is an inconsistency between denying 16 and 17-year-olds a vote, but legally allowing them to take on other responsible social roles and duties.

Greens:
lower the voting age to 16

Labour:
give 16 and 17-year olds the vote by May 2016

Liberal Democrats:
introduce votes at 16 across the UK for elections and referendums

How many 16 and 17-year-olds are there in the UK?

There are over 1.5 million 16 and 17-year-olds in the United Kingdom, representing around 2.4% of the total population (see Table in margin). If the voting age were reduced to 16, the voting-age population would rise by around 3%. Across the UK, the figure varies by constituency: in Birmingham, Hodge Hill, the voting-age population would increase by around 5%; in the Cities of London and Westminster, it would increase by just 1.3%.

What would be the impact on turnout?

Turnout tends to increase with age, with the lowest turnout among younger age groups. In the 2010 General Election, 18 to 21-year olds had a turnout rate of around 40%, around half that of those aged over 65. Similarly, those aged 18-25 were less likely than other age groups to say that they planned to vote in the 2015 General Election. Assuming turnout among 16 and 17-year-olds was similar to that of 18 to 21-year-olds, lowering the voting age would marginally reduce the rate of turnout among the whole electorate.

Chart 1:
The turnout rate in the General Election among 18-21 year-olds was around half that of over 65s...

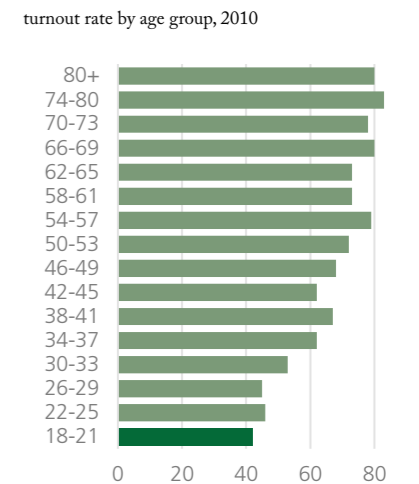
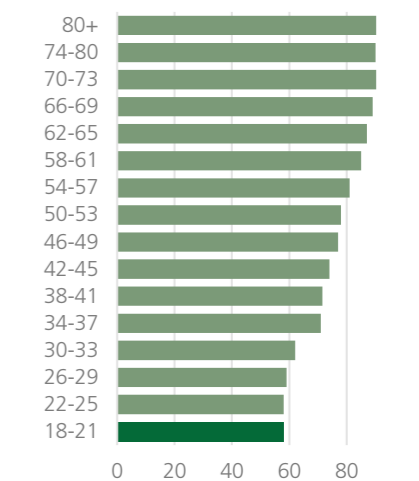


Chart 2:
...and a similar pattern was expected at the 2015 General Election

percentage of survey respondents reporting that they are 'highly likely' to vote at the 2015 General Election, percent



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Key Issues for the 2015 PARLIAMENT – CHAPTER 2

DECENTRALISATION

Devolution: what next for Scotland, Wales and Northern Ireland?

The UK has asymmetrical devolution arrangements. There are legislatures in Scotland, Wales and Northern Ireland, all with power to pass laws, but on differing sets of subjects. There is no devolved legislature in England.

Never-ending journey?

There have been important changes since the three 1998 devolution Acts: the oft-used term “devolution settlement” masks a reality of tension and adjustment.

The Scotland Act 2012 devolved important tax-raising powers which will become ‘live’ in 2015 and 2016. In Wales three distinct models of devolution have been used, two under the Government of Wales Act 2006, including a shift to full primary law-making powers over specified matters after a referendum in 2011. Fiscal devolution is provided for in the Wales Act 2014. Northern Ireland has had several alterations including in particular the Northern Ireland (St Andrews Agreement) Act 2006 and the Justice and Security (Northern Ireland) Act 2007.

The 2015 Parliament convenes at a time of ongoing change, some foreseeable, some in the form of less predictable interactions and consequences.

Scotland

Before the Scottish independence referendum in September 2014, as opinion polls narrowed, the three main UK parties made a “Vow” to devolve significant new powers to Scotland. They committed themselves publicly to a timetable for further devolution, and set up a Commission under Lord Smith of Kelvin to broker an Agreement. This led to a set of draft clauses put forward by the Government as the bones of a Scotland Bill that might be introduced in the new Parliament.

The clauses included statements that the Scottish Parliament is recognised as permanent, and that the Sewel Convention, whereby the UK Parliament seeks consent before legislating on devolved matters, is recognised in statute. They included new fiscal powers, including to create new bands and rates of income tax, some devolution of welfare, the licensing of fracking, and the running of the Crown Estate in Scotland.

None of this binds the incoming Parliament. However, there is a strong political commitment to further devolution for Scotland. While the draft Clauses might be rewritten, legislation reflecting the Smith Commission Agreement will be needed if Unionists are to avoid accusations of seeking to influence voters in the referendum with promises they failed to deliver.

Wales

Devolution in Wales has been modified several times. Most recently, there is provision for tax raising powers in the Wales Act 2014, which would come into effect if supported in a referendum. The previous Government sought to achieve cross-party consensus on new arrangements, which would form a baseline for taking devolution forward after the general election. This

was published in February 2015 as Powers for a Purpose, also known as the St David’s Day Agreement. Among other things, this would change the devolution model in Wales to the reserved powers model used for Scotland, a move made attractive by a recent Supreme Court judgement and favoured by the Welsh Government. This tends to be a more permissive approach, as only those powers which are explicitly reserved in the Act are kept at the UK level: everything else is presumed to be devolved.

In addition, the current Welsh Government has argued that progress should be made towards an eventual separate legal jurisdiction. At present, England and Wales form a single jurisdiction, but as the Welsh Assembly passes its own laws, the law effective in the two countries becomes dissimilar. There are reports that this already creates difficulties for solicitors representing clients based in England who are involved in legal processes in Wales. To the extent that practical differences become pronounced and widespread, pressure may grow for formal separation.

Northern Ireland

The arrangements in Northern Ireland have also changed over time, though for different reasons. The UK and Irish Governments held talks with Northern Irish political parties in December 2014 to deal with outstanding issues concerning flags, parades and the past, and a desire by Sinn Fein to soften the impact of UK welfare changes in a way that put pressure on the budgetary arrangements. These led to the Stormont House Agreement, which included a package of financial support from the UK, devolution of corporation tax, and new processes for dealing with flags, parades and the past. That Agreement will play out over the coming months and years, and its interpretation and effectiveness will weigh on the success of Northern Ireland’s devolution in the next period.

Are we nearly there yet?

The changes in Scotland will create anomalies elsewhere in the UK unless there is additional legislation for Wales and Northern Ireland. For instance, it would seem odd to put the Sewel Convention on a statutory footing for Scotland but not for Wales and Northern Ireland. To the extent that Scotland has provided a vanguard for devolution, increased autonomy there creates a new limit case. Just as Wales is on the verge of moving to a Scottish-style model, further developments in Scotland could leave Wales behind again. Advocates of asymmetry might argue that there is no inevitable link between the arrangements in Scotland and Wales, but in practice some influence is felt. The situation in Northern Ireland is affected by a range of complex considerations, but it may not be entirely cocooned from developments elsewhere.

Attention has also turned to the situation in England, something that is examined in the article *The English Question* on page 34.

Conservatives:

will continue devolution settlements for Scotland and Wales, and implement the Stormont House Agreement in Northern Ireland

Greens:

will consider further devolution to Scotland, Northern Ireland and Wales

Labour:

meet promises to devolve further powers to Scotland and Wales

Liberal Democrats:

implement home rule powers as proposed by the Smith Commission in Scotland and will complete comprehensive devolution to Wales and Northern Ireland

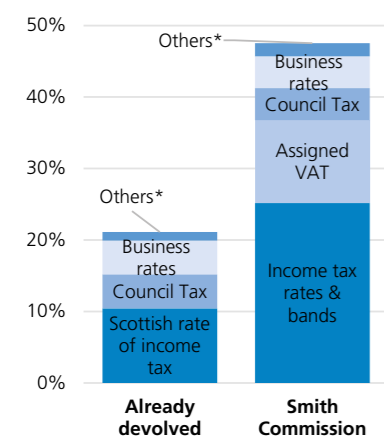
SNP:

welcome the proposals set out in the Smith Commission but argue that “the package, as it stands, does not enable us to deliver fully either the greater social justice or the powerhouse economy that our country demands

Chart 1:

After the implementation of the Smith Commission proposals, the 'fiscal gap' between what the Scottish Parliament has responsibility for spending, and what it raises in tax revenue, will become much smaller

devolved tax revenues as a proportion of expenditure



* includes stamp duties, air passenger duty, landfill tax and aggregates levy

Conservatives:

implement Smith Commission proposals and agree rules with the Scottish Government for how the block grant will be adjusted. Ensure that where responsibility for taxation has been devolved, tax changes only affect public spending in that part of the country

Labour:

implement Smith Commission proposals in full and give extra powers over tax, welfare and jobs

Liberal Democrats:

implement the Smith Commission proposals in full

SNP:

support more extensive devolution of welfare, wages, taxation and the economy in Scotland

UKIP:

introduce a new system for funding devolved administrations

Fiscal devolution to Scotland

As the vote on Scotland's independence approached, and with the polls indicating growing support for the 'Yes' campaign, Labour, the Conservatives and the Liberal Democrats made a "vow" that new powers would be given to the Scottish Parliament. Their promises were taken forward through a process of public engagement and talks between the five parties represented at Holyrood, overseen by Lord Smith of Kelvin.

The Smith Commission was broadly seen as a success: it made wide-ranging proposals for further devolution, including extensive tax-raising powers that were agreed by all parties. However, the completion of its work in November 2014 marked the end of the beginning: there remain details to be agreed and ambiguities to clarify before the Commission's proposals can be put fully into effect. That could mean serious negotiations during this Parliament, especially on how tax-raising and spending powers are to be devolved.

Closing the fiscal gap

The Commission detailed, among other things, £15 billion of taxes and £2.5 billion of welfare spending to be devolved to Scotland. Devolution of income tax rates and bands on earnings have grabbed the biggest headlines (unsurprisingly, given that £11 billion is raised from this tax in Scotland); but the Commission also agreed that the aggregates levy, air passenger duty and a proportion of the UK's VAT receipts should be devolved.

Once implemented, the proposals, which were put into draft legislation published in January 2015, will make Scotland one of the most fiscally decentralised sub-central governments in the world, just behind the Canadian provinces and Swiss cantons. In the process, they will close the 'fiscal gap' between the Scottish Parliament's spending responsibilities and its tax-raising powers (see chart).

Although the Commission's report was specific about which taxes should be devolved to Scotland, it was less precise about how the new powers should fit in with the current funding regime, the type and level of risks that should be taken on by each Government, and the borrowing powers required by Scotland to manage tax volatility.

Adjusting Scotland's block grant

A key element of fiscal devolution still to be agreed is how Scotland's main source of revenue, the 'block grant' from the UK Government, is to be adjusted to reflect its new revenue-raising and spending responsibilities.

For the Commission, effective block grant adjustment meant neither Government being left worse off simply from the initial transfer of power. In the first year of devolution, an adjustment along these lines should be straightforward: a new tax power would see a decrease in Scotland's block grant equivalent to the revenue forgone by the UK Government, whilst a new spending power would see an increase equivalent to the UK Government's spending on the area in Scotland.

But in the years that follow, making these adjustments in a way that is fair and acceptable to both Governments, and leaves neither worse off, could be difficult. The adjustment made for the first year cannot generally be applied in subsequent years because economic growth and inflation typically lead tax revenues and spending to grow over time: future adjustments will have to adjust each year to reflect this.

Recent experience illustrates the difficulties and potential pitfalls of block grant adjustment: the Institute for Fiscal Studies calculated that the adjustment made to reflect the devolution of business rates that took place under the Scotland Act 1998 was "flawed", and left Scotland receiving £1 billion more in 2015-16 than it would have had a "correct" adjustment been made. Meanwhile, a long-term agreement between the Scottish and UK Governments has still not been reached on how the block grant should be adjusted to reflect the devolution of stamp duty land tax under the Scotland Act 2012.

New borrowing powers

Replacing the block grant – a relatively predictable source of revenue – with less predictable tax revenues will impart volatility to the Scottish public finances. Just how much volatility will depend on how the block grant is adjusted, but it is likely that under any arrangement, the Scottish Government will require further borrowing powers to manage the fiscal risks resulting from tax devolution.

Negotiations on borrowing powers could be contentious. The UK Government is likely to underwrite any Scottish debt, so it may seek to limit not only the maximum amount of borrowing the Scottish Government can undertake, but also the circumstances in which it can take place. It may also want to see rules and mechanisms to guarantee fiscal responsibility and accountability. On the other side, strict limitations on Scottish borrowing, and requirements for its Government or Parliament to account to others for its decisions, may be perceived as undermining the spirit and purpose of fiscal devolution.

The road ahead

With the ink barely dry on the Smith Commission report and associated draft legislation, the landslide victory for the SNP in Scotland in the 2015 General Election has led to second thoughts about whether its proposals are sufficient. Some have called for "full fiscal autonomy" for Scotland: even under a more wide-ranging arrangement, however, there would likely remain shared areas of expenditure, such as defence and debt interest payments; and similar questions over block grant adjustment and borrowing powers. Moreover, any proposals for further fiscal devolution may not attract the same cross-party consensus as those of the Smith Commission. There is still some way to go to achieve what the Commission's report describes as a "responsive, durable and stable" devolution settlement.

How much welfare spending devolution?

The Smith Commission proposed to devolve several areas of benefits policy, such as the housing element of universal credit, administrative areas of universal credit, most disability benefits, and the social fund.

The Commission also said that the Scottish Parliament should "have new powers to make discretionary payments in any area of welfare without the need to obtain prior permission from DWP". With no definition of discretionary payments offered, this sentence has been interpreted by some as amounting to near-total devolution of welfare spending, provided any changes are in a more 'generous' direction. Others, including George Osborne, have suggested that the powers proposed are much narrower, and would only enable greater welfare generosity in "particular circumstances when particular groups of people are affected" by rules set for the rest of Great Britain.

The English Question

How do changes to public spending in England affect the devolved regions?

The Barnett formula describes how changes to expenditure on government services in England affect the block grant received by the devolved administrations from the Treasury. More specifically, the formula gives the devolved administrations a population-based proportion of changes in planned spending on comparable government services in England.

Were a Government, for instance, to pass legislation setting a fee for GP consultations in England, the Barnett formula would reduce the grant to Scotland, Wales and Northern Ireland to reflect reduced expenditure on health services in England. In this way, legislation that extends only to England can affect the budgets of the devolved administrations.

MPs representing seats in England do not normally legislate on subjects devolved to the Scottish Parliament, National Assembly for Wales or the Northern Ireland Assembly. However, MPs representing seats in Scotland, Wales and Northern Ireland can debate and vote on legislation affecting England. This asymmetry leads to concerns, known as the English Question. Efforts to address these concerns could include changing how legislation affecting England is made and/or greater devolution in England.

What is England-only legislation?

Bills usually include a clause stating their 'territorial extent': that is, the legal jurisdiction to which they apply. England and Wales form a single jurisdiction, so no legislation is described as extending to England only.

The territorial extent clause is not a statement of the territory in which the effects of the bill will be felt. Extent and impact often overlap, but they are not the same, and there are occasions when they diverge. For example, legislation affecting public spending that extends only to England can alter the budgets of the devolved regions through the Barnett formula (see margin).

How do the parties propose to address the English Question?

The day after the Scottish independence referendum, the Prime Minister said that "The question of English votes for English laws ... requires a definitive answer" and announced that a Cabinet Committee on devolution, chaired by William Hague, would consider this question.

The Committee did not come to a single view on how to answer the English Question. In December 2014, the Government issued a Command Paper outlining three Conservative options and a Liberal Democrat proposal that would allow English MPs to consent to legislation that affected England only. Labour declined an invitation to participate in the Committee.

A constitutional convention

Labour suggested that a much wider review of the implications of devolution should be undertaken by a constitutional convention. The convention would consider Labour's proposal for an elected Senate of the Nations and Regions. The Liberal Democrats also proposed that legislation be passed to establish and determine the remit of a constitutional convention to examine devolution in the UK.

English votes in the House of Commons

On 3 February 2015, William Hague announced the Conservative Party's preferred option for implementing English votes for English laws in the House of Commons. Second Reading would proceed as it does now. Afterwards, bills, or parts of bills containing England-only provisions, would be considered by a committee composed of Members from England-only, in proportion to their party representation in the House. Report stage would proceed as now, with all Members able to participate. Before third reading,

an English Grand Committee would vote on a legislative consent motion, either granting consent or vetoing a bill, or relevant parts of it. This proposal has been included in the Conservative manifesto.

The Liberal Democrats also argued that a Grand Committee of English MPs should consider legislation affecting England only. Its composition, however, would reflect the votes of the electorate in England, not the number of seats held by the parties at Westminster. The Liberal Democrats envisaged a "double lock" whereby legislation would need the approval of UK MPs and England MPs representing a majority of English voters at the last general election. They also argued that any new stage in the legislative process would need to be agreed on a cross-party basis.

The Scottish National Party has a longstanding position of not voting on matters that purely affect England. However, the party leader, Nicola Sturgeon, has said that "issues which may superficially appear to be 'England-only' can often have very serious knock-on consequences for Scotland in terms of our public finances via the Barnett Formula", and she has pledged that SNP MPs will vote on issues that affect Scotland.

Is the answer an English Parliament?

The main parties have all rejected the idea of a separate English Parliament. However, there are proposals for greater devolution within England. The previous Government has supported combined authorities and directly elected mayors. The Labour Party proposes greater devolution of funding to English regions and the Liberal Democrats have promised an "English Devolution enabling Bill".

The impact of MPs from Scottish constituencies on Commons votes

What would be the impact in practice of proposals to restrict the ability of MPs representing constituencies in the devolved regions to vote on England-only matters? An insight into this question can be gained by considering how often MPs from Scottish constituencies might have affected the result of past Commons votes.

Analysis of nearly 5,000 votes since 1997 has shown that 21 would have produced a different outcome had MPs representing Scottish constituencies been excluded. Of course, this does not mean that the outcome would have been different, since the exclusion of MPs in Scottish constituencies might have influenced the judgement of other MPs.

Of the 21 votes, two of the most significant were on the setting up of NHS foundation trusts and the raising of university tuition fees from £1,250 to £3,000 per year: both votes directly affected England only and would have produced a different outcome had the votes of MPs representing Scottish constituencies been excluded.

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Devolution: what next for Scotland, Wales and Northern Ireland?

Paul Bowers

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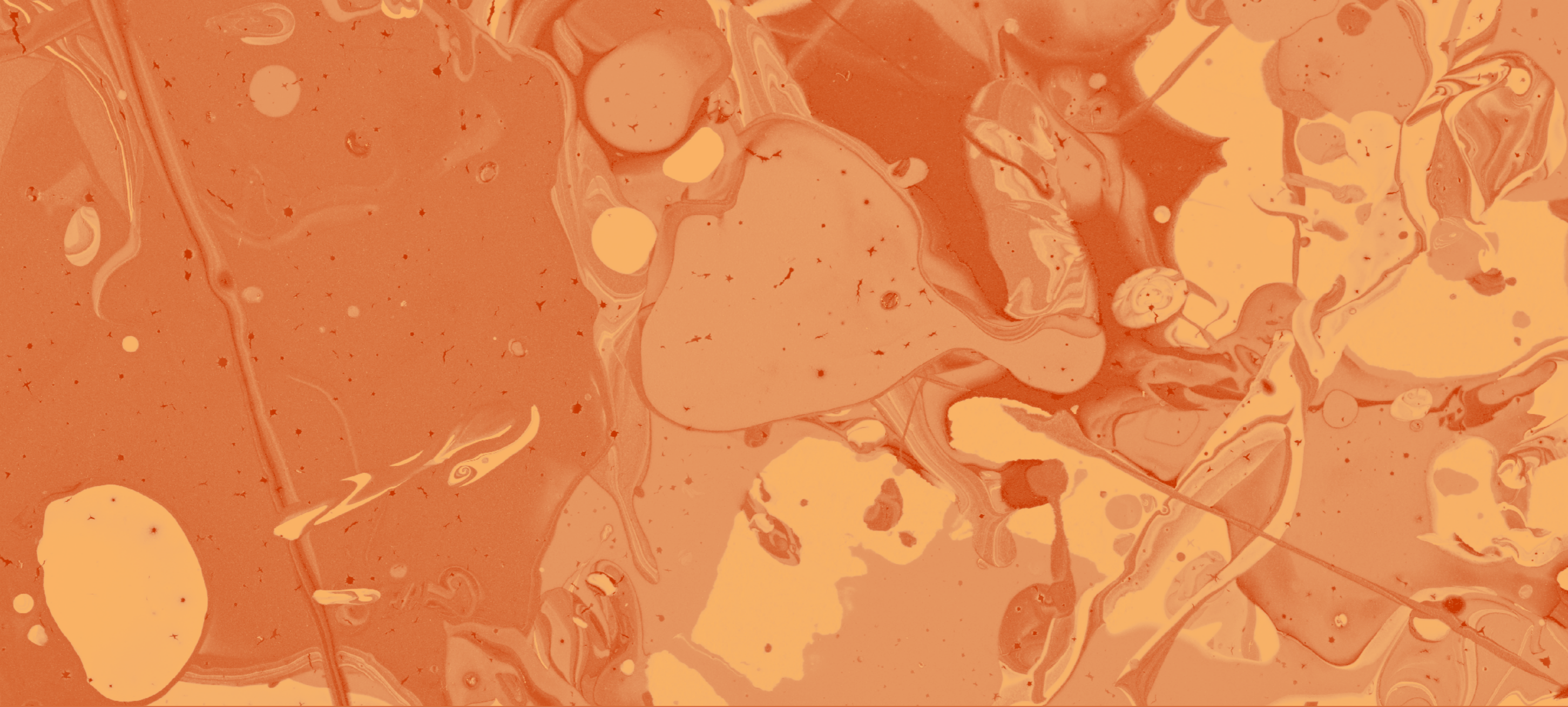
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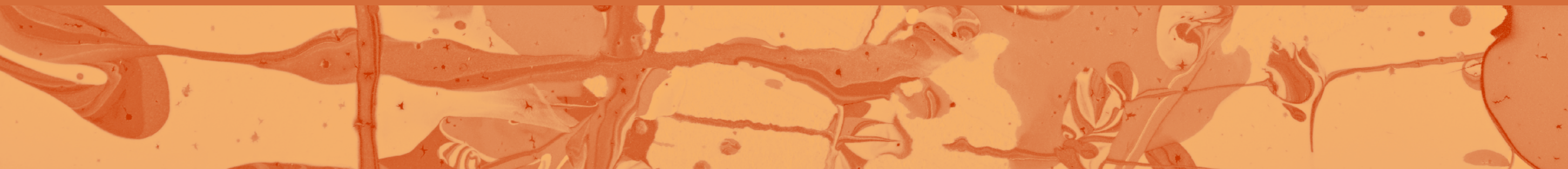
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Key Issues *for the* 2015 PARLIAMENT – CHAPTER 3

SOCIAL CHANGE



Controlling immigration: is the number up for the target?

An inherently flawed target?

Using net migration as an indicator of progress in reducing immigration has some disadvantages:

- **Uncontrollable.** Flows of EEA migrants, asylum seekers and British nationals cannot be directly controlled by the Government.
- **Uncertain.** Migration statistics are based primarily on a survey of fewer than 5,000 migrants at UK ports of entry/exit, and are therefore subject to a considerable margin of error.
- **Uninformative.** Net migration can give a misleading impression of the size of population turnover and hence the true impact of immigration. For instance, simultaneously high levels of both immigration and emigration would result in low net migration, but potentially significant social change.

Labour:

keep cap on workers from outside the EU

Conservatives:

annual net migration in the tens of thousands not hundreds of thousands

Greens:

reject a numerical cap on net migration

Liberal democrats:

restoration of full entry and exit checks at the borders

SNP:

will support sensible immigration policies that meet our economic needs and, as a priority, we will seek the reintroduction of the post study work visa

UKIP:

introduction of an Australian style points based system

For as long as opinion has been canvassed about immigration, the overwhelming majority of people in Britain have believed it to be “too high”; and over the past fifteen years, it has assumed a status alongside the economy and the NHS as one of the public’s most important issues (Chart 1). The previous Government wanted to reduce net migration (that is, immigration minus emigration) to the “tens of thousands” over the course of the last Parliament, something that it failed to do.

The next Government has limited options for restricting EU and non-EU immigration, and it may be more cautious about committing to a single numerical target for something not directly within its control. It is questionable whether the target was an effective response to public concerns about immigration, because while polls consistently show that most people want lower immigration, they also indicate that most people do not consider some groups that are included in official migration statistics as migrants (such as students and British citizens). There is evidence to suggest that adopting a more nuanced approach to controlling immigration would not necessarily alienate public opinion.

Open for business? Immigration from outside the EU

As part of its efforts to meet the net migration target, the previous Government took a range of actions to control immigration to the UK from outside the EU (this being the only aspect of migration directly within their control). For instance, numerical limits were placed on certain categories of visa, including for skilled workers with a job offer; visas for highly skilled workers without a job offer were abolished; and the options available for overseas students to work after graduation were greatly curtailed. The result was a sharp fall in migration from non-EU countries between 2011 and 2013. However, the trend reversed in the last years of the Parliament, leaving net migration of non-EU nationals at the same level as it had been at the start (Chart 2).

In seeking to control non-EU immigration, the new Government could be even more selective about who can enter the UK, how long they can stay, and other conditions. However, as the last Government discovered, there are trade-offs involved in such an approach. Since most immigration from outside the EU consists of students and skilled workers, further restrictions conflict directly with other policy aims, such as addressing skills shortages, including those in public services, and attracting international students to UK universities. Further restrictions would thus require the increasing prioritisation of immigration control over other objectives.

EU immigration: out of control?

‘Free movement of people’ is one of the fundamental principles of the EU, enshrined in various EU Treaties, directives and caselaw. EU nationals do not require a visa to enter another Member State and, provided they are in employment or looking for work, studying, or self-sufficient, no time limit may be placed on their stay. The result is that, as long as the UK remains a Member State, the Government can only exercise indirect influence on EU immigration by addressing some of the “pull factors” that draw migrants to the UK.

Each of the three main parties has set out ideas for new restrictions on EU citizens’ rights to live, work and access benefits in other Member States. Public opinion is quite strongly against EU migrants coming to the UK and receiving assistance, without first having lived here and/or contributed to the system for a while. Having said that, evidence of benefits tourism is weak. The proportion of working age EU migrants claiming DWP benefits (6%) is less than half the proportion of non-migrants in this age group claiming these benefits (15%). Furthermore, the scope for ‘benefits tourism’ by those with no intention of working is already limited, as underlined by a recent judgment from the Court of Justice of the European Union. The new Government’s success in securing further restrictions, particularly on the payment of in-work benefits, will depend crucially on whether it is able to secure support for legislative changes from other Member States.

Moving away from a focus on numbers

The limitations of a blunt target that doesn’t distinguish between different types of immigration had certainly been recognised by the end of the last Parliament, for example by the cross-party Home Affairs Select Committee. The next Government will probably want to leave itself more room for manoeuvre when defining its ambitions for controlling immigration than its predecessor.

Would moving away from a single numerical target alienate public opinion? Not necessarily. We know, for example, that the public is more concerned about certain categories of migrant (such as undocumented migrants and overstayers) than others (international students). Also, public concerns about immigration are not just about the numbers. Issues such as the extent to which local communities and services are supported in managing the impacts of immigration, the contribution that migrants make to the UK economy and society, and the overall credibility and competence of the immigration system, also matter to people. Even in the absence of a target, the new Parliament may be able to demonstrate its responsiveness to public concerns about immigration by looking at some of these wider issues.

Chart 1:

Concern about immigration being too high has remained at similar levels over the past 25 years, but the proportion of the public identifying it as an important issue has increased

proportion of survey respondents believing immigration to be “too high”, IPSOS Mori surveys

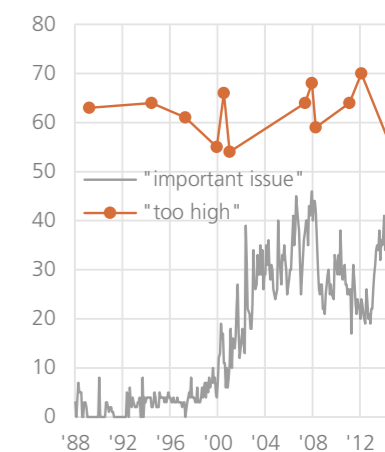
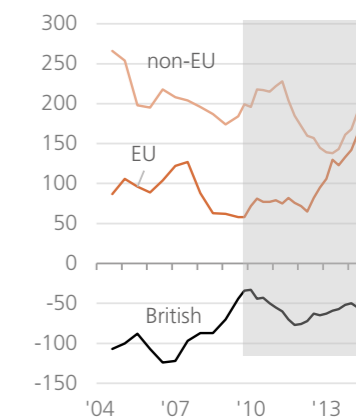


Chart 2:

efforts to limit migration from non-EU countries were successful in the early years of the last Parliament, but the trend was reversed in later years

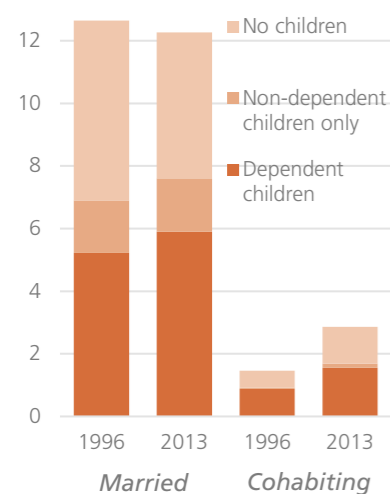
Net migration by citizenship Years ending each quarter, Jun-04 to Sep-14, thousands



Personal relationships

Chart 1:
The number of cohabiting families has doubled since 1996, while the number of married families has declined

opposite sex couple families, 1996 and 2013, millions



The new Government may seek to reform aspects of family law to reflect social change, including trends in cohabitation and divorce. This article looks at some areas where there have already been calls for reform.

Rights for cohabitants

Increasingly couples are choosing to cohabit rather than to marry, with more children than ever being born to couples who are not married. Between 1996 and 2014, the number of opposite sex cohabiting couple families increased from 1.5 million to 3.0 million, while the number of married couple families fell from 12.6 to 12.5 million. In 1996, 10% of opposite sex couples living together in the UK were cohabiting rather than married; by 2014, 19% of opposite sex couples living together were cohabiting.

Many cohabiting couples will be unaware that there is no specific legal status for what is often referred to as a “common law marriage”. This can lead to unforeseen and unintended consequences when their relationship ends, either through separation or when one partner dies.

Although cohabitants do have some legal protection, the law is still largely based on providing rights and responsibilities for married people and civil partners. For example:

- When a marriage or civil partnership ends, the court has a wide discretion to override strict legal ownership and divide property, taking into account all the relevant circumstances (giving first consideration to the needs of the parties’ children while they are minors). There is no corresponding power when cohabiting couples separate (although in some circumstances, the court can make an order for financial support for children).
- When a couple live together without getting married or forming a civil partnership, and one of them dies without leaving a valid will, the survivor has no automatic right to inherit their partner’s estate: this is the case no matter how long they lived together and even if they had children together. In the same circumstances, a surviving spouse or civil partner would automatically inherit a large part, if not all, of the deceased’s estate.

In 2007, the Law Commission recommended introducing a statutory scheme for cohabitants who had children together or who had lived together for a specified length of time, to claim financial relief on separation. In 2011, the Law Commission further recommended that rights be given to some cohabitants to inherit where there is no will. To date these recommendations have not been implemented. Will the new Government legislate to bolster the rights of people who choose not to marry or enter a civil partnership? Would this undermine the institutions of marriage and civil partnership and, if so, should this be an influential consideration?

The future of civil partnerships

Only same sex couples have the option of entering into a civil partnership. Since the introduction of marriage for same sex couples in March 2014, the future of civil partnerships has been questioned. The Government consulted on various options:

- abolishing the legal relationship of civil partnership and converting existing civil partnerships into marriages;
- stopping new civil partnerships being registered but retaining existing ones; and
- opening up civil partnership to opposite sex couples.

There was no united call for reform in responses to the consultation. Some felt that it was too soon to change civil partnerships, before the impact of extending marriage to same sex couples could be assessed. The previous Government decided not to do anything for now, but there could be pressure to look at the issue again in this Parliament.

Divorce

At present a person seeking a divorce must cite one of five reasons why their marriage has permanently broken down: adultery; unreasonable behaviour; desertion for two or more years; two years’ separation with consent; or five years’ separation without consent. “Unreasonable behaviour” is the most commonly cited reason.

As long ago as 1996, the Conservative Government passed legislation which was intended to revolutionise the divorce process and to introduce “no fault divorces” (Family Law Act 1996, Part II). These provisions were never brought into force and have now been repealed. Calls continue to be made for a new approach to divorce that is simpler and less adversarial. For example, in April 2014, Sir James Munby, the President of the High Court’s Family Division, argued that it may now be time to remove all concept of fault as a basis of divorce and to introduce a more administrative process (in appropriate cases).

Enforcing pre-nups

Division of property on divorce or dissolution of a civil partnership can provoke acrimonious and costly disagreement. Even where this is not the case, there can still be uncertainty about how property should be divided.

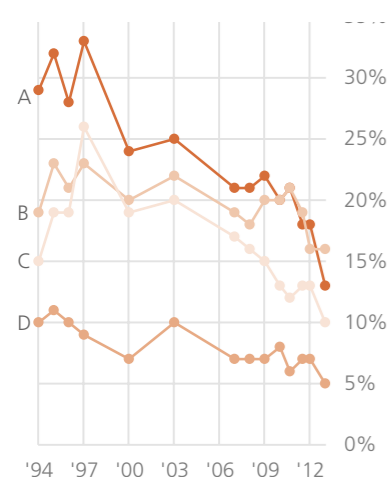
Some couples try to decide in advance how they would wish their property and income to be divided in the event of divorce or dissolution, and enter into a pre-nuptial or post-nuptial agreement. Such agreements are not automatically enforceable in courts in England and Wales, even after a landmark Supreme Court ruling in 2010 that in certain circumstances, some pre-nups should now have effect in the absence of anything which would make this unfair.

In 2014, the Law Commission recommended that couples should be able to enter into a legally binding agreement dealing with the financial consequences of divorce or dissolution. These agreements would have to meet certain requirements, and couples would not be able to contract out of meeting the financial needs of each other and of any children. A new Government could implement the recommendation by introducing legislation to provide for enforceable pre-nups.

Mental health stigma

Chart 1:
Public attitudes to those with mental illness have changed over time, particularly in recent years

percentage of survey respondents agreeing with selected statements (given below and identified as 'A' to 'D' on left of chart), 1994-2013



Statement A:
“Anyone with a history of mental problems should be excluded from taking public office”

Statement B:
“As soon as a person shows signs of mental disturbance, he should be hospitalized”

Statement C:
“It is frightening to think of people with mental problems living in residential neighbourhoods”

Statement D:
“People with mental illness are a burden on society”

“Most people are coming to regard mental illness and disability in much the same way as physical illness and disability”

Report of the Royal Commission on the law relating to mental illness and mental deficiency, 1957

Anti-stigma campaigns and the growing profile of mental health issues in recent years appear to have gone some way to changing views and dispelling misconceptions about mental illness. But with nine in ten people with mental health problems still experiencing stigma and discrimination, nearly sixty years after the Royal Commission’s optimistic assessment, there may still be some way to go in changing public attitudes.

What is mental health stigma and what are its implications?

Mental health stigma is summarised by the anti-stigma campaign group Time to Change as the set of negative attitudes, pre-judgements, prejudices and behaviour that can make it harder for individuals with mental health problems to live a normal life. It includes, among other things, misconceptions about the risks posed to the public by those affected by mental health problems, and the use of pejorative or flippant language in describing mental illness and those affected by it. It may be exacerbated or perpetuated by the negative portrayal of mental illness in the media.

Mental health stigma may manifest itself in discrimination, making it harder for people to make friends, to obtain and hold down jobs, and to access housing and other services. It may also lead to loss of self-esteem, thereby aggravating existing mental and physical health problems, and make those affected feel unable to seek the help they need to manage their condition or make a recovery.

The previous Government’s commitment to reduce stigma

The previous Government made a number of commitments to reduce stigma and discrimination in relation to mental illness. Its mental health strategy, No Health Without Mental Health, had as one of its six long-term objectives that “fewer people will experience stigma and discrimination”. Meanwhile, the Deputy Prime Minister’s 2014 strategy, Closing the gap: Essential priorities for mental health, contained 25 objectives, one of which was to “stamp out discrimination around mental health”.

These commitments came in the context of the Government’s pledge in the NHS Constitution and the NHS Mandate for 2014-15 to achieve “parity of esteem” between mental and physical health. This follows from a recognition that those with mental illnesses are sometimes poorly served by the NHS, not least because many have co-existing physical conditions, and there is insufficient integration of mental and physical health services.

What has Parliament done?

In recent years, MPs from across political parties have pledged their support for reducing mental health stigma. A backbench business debate in June 2012 was considered a watershed moment in tackling stigma when, for the first time, MPs spoke about their personal experience of mental health problems, and received cross-party support for doing so.

After that debate, Gavin Barwell MP announced the introduction of the Mental Health (Discrimination) Bill in the Commons, to “remove the last significant form of discrimination in law in our society”. The Private Member’s Bill repealed discriminatory legislation that prevented people with mental health problems from sitting on a jury, being a company director or being an MP. The Bill passed through the Commons and Lords with Government and Opposition support, and received Royal Assent on 28 February 2013.

Anti-stigma campaigns and changing attitudes

The principal means of tackling negative attitudes and dispelling misconceptions about mental health has been through public awareness campaigns. The largest of these is the Time to Change campaign, run by two charities – Mind and Rethink Mental Illness – and funded by the Department of Health, Comic Relief and the Big Lottery Fund (its funding was recently extended until March 2016). The campaign uses various media, including blogs, TV advertisements and promotional events, to raise awareness of stigma and its effects. It has also encouraged employers to sign a pledge to support employees with mental health problems, raise awareness and reduce stigma in the workplace.

Since the campaign began in 2007, there are signs that public attitudes to mental health are becoming more favourable (see chart), with a lower proportion of survey respondents expressing fear of those with mental health problems; higher support for integrating people with mental illness into the community; and higher levels of tolerance and sympathy for those with mental health problems. However, a fifth of respondents said that they would be uncomfortable talking about their own mental health with friends and family; and almost a half said they would feel uncomfortable talking to their employer about their mental health.

Strategies that seek to provide information to improve public understanding of mental health may not on their own be sufficient. Stigmatising views can be entrenched, and prevalent even among those who are knowledgeable about mental health problems. Some campaigns, including Time to Change, have sought to provide more opportunities for the public to meet and interact with people with mental illness, an approach that research shows to be particularly effective in changing attitudes.

As Time to Change acknowledges, there is still work to be done before the stigma surrounding mental health is eradicated.

Isn’t discrimination illegal?

If a mental health condition meets the definition of ‘disability’ under the Equality Act 2010 – namely, if it has a substantial, adverse and long-term effect on the sufferer’s day-to-day activities – then it is unlawful to discriminate against them on the grounds of that condition.

However, the legal situation may not be well-understood, particularly in the workplace. In a 2009 survey, Time to Change found that 92% of people believed that admitting to a mental health condition would damage someone’s career, and 56% would not employ someone experiencing depression, even if they were the best candidate for the job.

On average, those with severe mental illness die **15 to 25 years earlier** than the rest of the population, largely from preventable illnesses such as diabetes and heart disease.

The ageing population

Vastly improved life expectancy, one of the great triumphs of the last century, looks set to be one of great challenges of this one. Between 2015 and 2020, over a period when the general population is expected to rise 3%, the numbers aged over 65 are expected to increase by 12% (1.1 million); the numbers aged over 85 by 18% (300,000); and the number of centenarians by 40% (7,000) (Chart 1).

A rise in the elderly population, particularly if not matched by health improvements, will place ever-greater pressure on the public finances, as a relatively smaller working-age population supports growing spending on health, social care and pensions.

More spending

Around 55% of welfare spending (£114bn in 2014/15) is currently paid to pensioners, with the state pension by far the largest element of this. This expenditure is forecast to increase by an average of £2.8 billion a year over the next five years, resulting in spending of £128 billion by 2019/20.

Growing numbers of elderly people will also have an impact on the NHS and social care expenditure. The prevalence of long-term health conditions increases with age; and according to a 2010 estimate made by the Department of Health, such conditions account for 70% of total health and social care spending in England. The Department of Health also estimates that the average cost of providing hospital and community health services for a person aged 85 years or more is around three times greater than for a person aged 65 to 74 years.

Less revenue

Further fiscal pressure is also likely to result from a decline in the working population relative to the number of pensioners (the 'dependency ratio'). A lower proportion of people in work means lower tax revenues and, in all likelihood, higher public expenditure. Despite the recent increases in state pension age, it is expected that the pensioner population will continue to rise. In 2014 there were 3.2 people of working age for every person of pensionable age. This ratio is projected to fall to 2.7 by 2037 (Chart 2).

Challenges for future Governments

The Office for Budget Responsibility points out that without offsetting tax rises or spending cuts, the ageing population will cause a widening of budget deficits over time, eventually putting public sector debt on an unsustainable upward trajectory. Dealing with the twofold pressures of increased demand and requirements for enhanced services is therefore likely to require both improvements in public sector productivity and increased taxation on the working population. The burden could also be mitigated through a number of other measures:-

Reducing welfare payments. Public spending on the elderly could potentially be reduced, without impact on service quality, by a radical change to the means-testing approach to certain benefits and social care services. If one were to take a view that age, on its own, is not a good indicator of need or ability to pay, it would seem sensible to review whether that should be the sole determinant of access to services and benefits. However, the 'political economy' of an ageing population could hinder moves in this direction. In particular, older people are more likely to vote; and if they are growing in number, this could make changes that reduce welfare and care entitlements politically difficult.

Improving health. Much of the costs of old age have arisen because growth in total life expectancy has outpaced growth in healthy life expectancy (i.e. the number of years we can expect to live in good health). Policies that improve preventative healthcare, and help people to remain active and healthy in later life, could help increase the proportion of life spent in good health and reduce costs. There are also large inequalities in healthy life expectancy, which for women ranges from 71 in Wokingham to 56 in Manchester, and for men ranges from 70 in Richmond upon Thames to 53 in Tower Hamlets.

Increasing employment. A healthier old-age population would also allow greater numbers to remain in the labour market for longer, thereby mitigating the impact of an ageing population on the dependency ratio. This in turn could increase tax receipts and limit public expenditure growth. The dependency ratio could also be reduced by encouraging immigration of working-age individuals, although this is unlikely to be seen as a politically attractive option.

Increased numbers of older people in work need not disadvantage the young. Indeed, previous attempts, both in the UK and abroad, to create jobs for young people by encouraging older people to withdraw from the labour market have failed. The assumption that there is a "fixed supply" of jobs is not borne out by theory or experience: a larger workforce, with more people in work and earning, is likely to create its own demand.

Chart 1:
The changing shape of the UK population
age structure of the UK population in 2015,
2020 and 2030, by single year of age to 89 and
bands thereafter, ONS 2012-based principal
projections, thousands

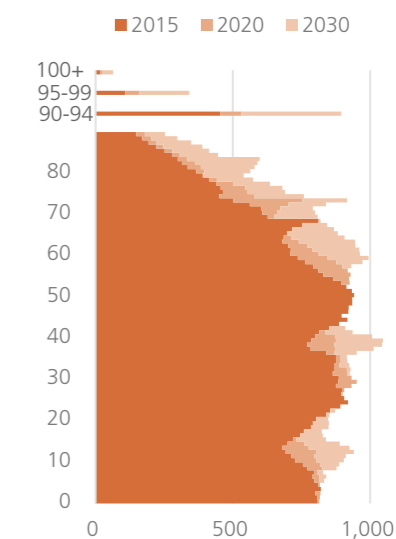
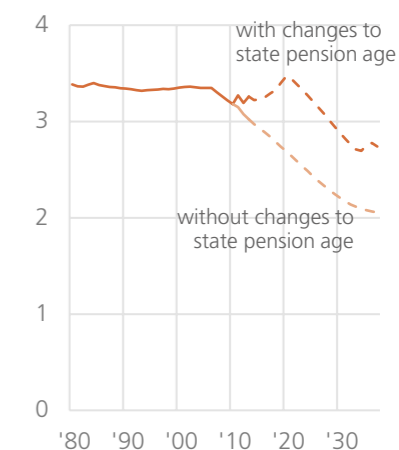


Chart 2:
Even after planned increases to the state pension
age, the number of working age people per
pensioner is expected to fall
number of working-age people per pensioner,
1980-2012 and projections to 2037



The right to die

Lord Neuberger in Nicklinson

“Parliament now has the opportunity to address the issue of whether section 2 should be relaxed or modified, and if so how, in the knowledge that, if it is not satisfactorily addressed, there is a real prospect that a further, and successful, application for a declaration of incompatibility may be made. (...) one would expect to see the issue whether there should be any and if so what legislation covering those in the situation of Applicants explicitly debated in the near future, either along with, or in addition to, the question whether there should be legislation along the lines of Lord Falconer’s proposals.”

Although suicide itself is no longer a criminal act, under section 2 of the Suicide Act 1961 it remains a criminal offence for a third party to assist or encourage another to commit suicide. Prosecutions for this offence can only be brought with the consent of the Director of Public Prosecutions.

In recent years there has been something of a shift in public and medical opinion as to whether assisted suicide should remain completely criminal, although the debate remains highly polarised.

There have been several attempts to liberalise the law, largely by way of Private Members’ Bills. The most recent of these was the Assisted Dying Bill [HL] 2014-15, introduced by Lord Falconer of Thoroton. The Bill would have enabled competent adults who are terminally ill to request assistance with ending their lives. Requests would have been subject to oversight by both medical professionals and (following amendments moved by Lord Pannick at Committee stage) the Family Division of the High Court. The Bill did not progress beyond Committee stage in the Lords.

Previous Governments have taken the view that any relaxation of the law on assisted suicide would be a matter for Parliament to determine as an issue of individual conscience, rather than a matter of Government policy.

Pressure on the vulnerable, or personal autonomy?

The key argument made by many of those opposed to a change in the law is that ill and disabled people may feel under pressure to end their lives, perhaps because of the cost of the medical treatment needed to keep them alive, or because they do not want to be a “burden” on friends and family.

Some are also concerned that any initial legal change, however tightly drafted, could be a “slippery slope”: if Parliament legalises assisted suicide for terminally ill people, how long before it extends further liberalisation of the legislation to those without any such illness?

The key argument made by those who support liberalisation of the law is based on personal autonomy. Religious views on the sanctity of life should not be imposed on everyone; patient choice is more important. Dignity in death is as important as dignity in life, and people should therefore have the right to decide the timing and circumstances of their own deaths.

Supporters of a change in the law argue that concerns about pressure on vulnerable people could be dealt with by legislating for adequate procedural safeguards, for example the consent of one or more medical practitioners, or the involvement of the family court.

What do the courts think?

In recent years, several people have brought court proceedings to challenge whether the offence of assisted suicide is compatible with human rights legislation, particularly the right to respect for private and family life under Article 8 of the European Convention on Human Rights.

In July 2009, the House of Lords, considering the case of Debbie Purdy, who suffered from multiple sclerosis, ruled that the prohibition on assisted suicide engaged Article 8 rights.

Most recently, in June 2014, nine Justices of the Supreme Court considered the case of Tony Nicklinson, who was seeking a declaration that the current law on assisted suicide was incompatible with his right to a private life under Article 8.

The Supreme Court ultimately decided by a majority of seven to two against making a declaration of incompatibility in Mr Nicklinson’s case. The minority of two considered that the courts had the constitutional authority to make a declaration and should do so in this case. Three of the majority considered that the courts had the constitutional authority to make a declaration, but should not do so in this particular case, and that in any event Parliament should be given the opportunity to consider the issue first. The remaining four Justices considered that the compatibility of the law on assisted suicide with Article 8 was an “inherently legislative issue” that should be left to Parliament, and that the courts lacked the constitutional authority to make a declaration on this issue.

The judgment has been described by some as a shot across Parliament’s bows, despite the fact that Mr Nicklinson’s application was unsuccessful. This is because several of the Justices used their judgments to comment on the need for Parliament to properly address the issue of assisted suicide, whether or not it ultimately decides to change the law.

What next for Parliament?

Following Nicklinson, the ball is back in Parliament’s court. Without a full debate on the issue, there remains the prospect of further court applications for declarations that the law is incompatible with human rights.

Funerals and space for burials

680,000

projected number of burials during 2015-20 (based on ONS projections and cremation rates staying at current levels of 75%)

The costs of a basic funeral have nearly doubled over the past ten years. Meanwhile, space for burials is becoming increasingly scarce. Can people afford the cost of dying, and even if they can, will there be space for a burial if this is what they choose?

The cost of dying

Sun Life's annual report on the cost of dying calculated that the average cost of a funeral in 2014 was £3,950, nearly twice what it was in 2004. This cost covered only the basic elements of a funeral: the funeral director's costs, doctor's fees, the costs of a religious or secular service, and burial or cremation fees. Many pay considerably more than this on extras such as flowers, order sheets and a wake. 14% of those surveyed struggled to pay for funeral costs, of whom half used credit cards, or loans from banks and family members, to meet the shortfall.

Government assistance

Payments from the Social Fund can be made to claimants of means-tested benefits and tax credits to help meet funeral costs. There are complex eligibility criteria including whether the person has accepted responsibility for meeting the funeral costs, their relationship to the deceased, and whether there are others equally or more closely related who are not on benefits.

The Funeral Payment covers in full certain funeral expenses, including burial or cremation. Other expenses – such as funeral directors' fees, the cost of a coffin, church fees and flowers – may be covered, but only up to a maximum of £700, a figure unchanged since 2003.

Successive Governments have maintained that the scheme provides a "contribution towards the cost of a simple, low cost respectful funeral," but the adequacy of payments in relation to actual funeral costs has long been a source of complaint. The average total award in 2013-14 was £1,347, around a third of the average cost of a basic funeral, although a (repayable) Budgeting Loan may also help with upfront costs.

The Funeral Payments scheme has also been criticised for creating confusion, frustration and further emotional distress. There were 59,000 applications in 2013-14, of which just 58% were successful; but with DWP requiring an invoice to process a claim, applicants must commit to meeting funeral costs without knowing how much, if anything, they will receive.

Public health funerals

Where no-one else is able or willing to arrange and pay for a funeral, the local authority (or sometimes the NHS) must arrange a basic "public health funeral" (once known as a "pauper's funeral"). Around one in two-hundred deaths are paid for by the state in this way. A report published by the University of Bath in 2014 found a small but notable increase in demand for this type of funeral. It commented that, in the light of ongoing issues with the Funeral Payments scheme, there is concern that local authorities may be required to provide more public health funerals as the number of deaths per year rises.

Space for burials

Apart from the issue of cost, there is also concern that space for burial is becoming increasingly scarce, particularly in urban areas. Although rates of cremation are rising, and cremation now accounts for three-quarters of funerals, many people, including some faith groups for whom burial is a religious requirement, do not wish to consider this option.

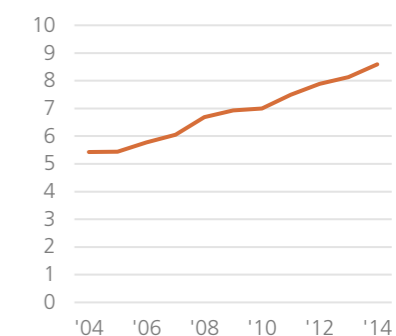
The reuse of graves has been under consideration for some time as a means of addressing the shortage of space for burials. The method suggested ("lift and deepen") involves the exhumation of remains in an existing grave, digging the grave to a greater depth, re-interring the remains and using the rest of the grave for fresh burials. At present, London burial authorities have limited powers to reuse graves in this way.

In 2007, the Labour Government said that it would introduce measures allowing local authorities to reuse graves in their cemeteries; but these were not, in the end, taken forward across England and Wales, and the situation has since been kept "under review". There have been mixed public reactions to the idea of reusing graves. Will the shortage of space for burial force this onto the agenda for the new Government?

Chart 1:

The average cost of a basic funeral has risen from five weeks' wages in 2004, to nearly nine weeks' in 2014

average cost of a basic funeral as a multiple of the median gross weekly wage, 2004-14



Further reading and data sources

Social change

Controlling immigration: is the number up for the target?

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Key Issues for the 2015 PARLIAMENT – CHAPTER 4

SOCIAL PROTECTION

Universal Credit: work in progress?

Universal Credit at a glance

- Replaces means-tested benefits and tax credits for working age people and families, in or out of work
- Awards reduced at a rate of 65p for each pound of net earnings in excess of a monthly “work allowance”
- Amount payable adjusted automatically in response to changes in earnings
- New “conditionality” regime setting out claimants’ responsibilities, and sanctions for not meeting them
- Claims made and managed via an online account
- Single household payments, paid monthly in arrears

By any measure, the Universal Credit (UC) programme is a hugely ambitious and complex undertaking. When it is fully introduced, nearly 8 million individuals and families are expected to claim UC. Significant economic benefits – up to £7 billion a year – are expected as a result of UC encouraging more people into work, higher incomes for low-income families, lower administration costs, and reduced fraud and error.

Progress to date

The idea behind Universal Credit – a single means-tested benefit for people of working age, payable in or out of work, and withdrawn at a constant rate as earnings increase to ensure work always pays – has widespread support. Implementation of UC has not been without problems, however and following serious concerns voiced by the Major Projects Authority, the UC programme was “reset” in early 2013. The Department for Work and Pensions is now pursuing a twin-track approach: continuing the roll-out of UC to simpler claimant types using the IT systems already developed, while developing a new, more capable digital service to deliver UC in the long term. Limited testing of the digital service is underway, but it is already behind schedule. A detailed timetable for the full introduction of UC is yet to be announced, but even under the most optimistic scenario, some people will still be in receipt of “legacy benefits” that UC is to replace as late as 2020.

IT is not the only source of uncertainty. In September 2014 the Treasury agreed a “strategic outline business case” for Universal Credit, but this was only the first step towards securing final approval for the programme. The new Government, should it decide to proceed with UC, will have to submit an outline business case, setting out a detailed final blueprint for UC, and more precise estimates of costs and benefits. Only when this is agreed can a full business case for UC be presented for Treasury approval. Final sign-off for the programme could still be some way off.

Decisions for the incoming Government

As expansion of Universal Credit to more areas and new groups continues, detailed plans for certain key elements of the system still remain to be finalised. Around 1 million claimants in work but with low earnings could be expected to increase their hours or look for better paid work as a condition of receiving UC. “In-work conditionality” is a new feature in the benefits system, but piloting of different interventions to encourage people to increase their earnings from work is only just starting. Trials are also underway looking at different ways of providing support to people needing help with certain aspects of UC, such as monthly budgeting or accessing the internet; but there are concerns that this too has been left to a relatively late stage in the programme.

The incoming Government might also come under pressure to revisit some of the more controversial aspects of Universal Credit, including whether the rules treat self-employed people fairly and do not impose an undue burden on them; whether Council Tax support should remain outside UC; and the

vexed question – never fully answered – of how to determine entitlement to “passport benefits” such as free school meals under UC without undermining work incentives. Concerns about the impact of single, monthly payments and the payment of the UC housing element direct to tenants (rather than their landlords) may also bring pressure for change, especially if Scotland and Northern Ireland are given powers to vary the rules. The more stringent work-related requirements under UC could also be controversial, as could the rules on access to “hardship payments” for those who, as a result of a sanction reducing their UC payments, are unable to meet their basic needs.

Work incentives

Financial incentives to work are key to Universal Credit. UC is expected to encourage more people into work, but for those already in work, the incentive to work and earn more may be little different from how it is under the current system, or even weaker. There is concern that under UC, people without children, single parents with housing costs, and second earners in households in particular, could be incentivised to work for only a few hours a week, reduce their hours, or even stop working completely. In-work conditionality is intended to counter this, but it is not yet clear how this will operate.

The new Government is likely to face calls to reform UC to improve work incentives – for instance, by introducing new work allowances and/or reducing the rate at which rate at which UC is withdrawn for certain groups – but such changes would add complexity to a reform intended to bring greater simplicity to the benefits system. They may also be deemed unaffordable, particularly if further cuts to the welfare bill are planned.

£7 billion

Expected gross economic benefits from UC in a “steady state”

7.7 million

Recipients when UC is fully rolled out

1.7 million

March 2013 assumption of number of UC recipients by Spring 2015

0.1 million

October 2014 assumption of number of recipients at May 2015

46,920

Actual number of UC recipients at 12 March 2015

93%

Claimants expected to have transferred to UC by December 2019

6

Number of individuals with overall responsibility for the UC programme (“Senior Responsible Owners”) since 2011

Conservatives:

will continue rolling out UC

Labour:

support principle behind UC but will pause and review the programme

Liberal Democrats:

complete introduction of UC

SNP:

(...) would halt the roll out of UC

What has happened to 'working poverty'?

In 2003, most children in relative poverty were in workless families, but by 2012/13, almost two-thirds of poor children were in families with at least one adult in work, of whom three-quarters were in households where at least one adult was in full-time work. The increase in the proportion of poor children in working households has occurred not because working poverty has gone up, but because workless poverty has fallen (and so the importance of working poverty in the overall picture has increased). As the SMCPCC puts it, success in one area of public policy – reducing worklessness and protecting children's living standards – has exposed policy failure in another: not ensuring working families have sufficient income to escape poverty.

However, the SMCPCC also points out that, looking at measures of poverty after housing costs are taken into account, working poverty has increased; indeed, the 600,000 rise between 2009/10 and 2012/13 in the number of children in absolute poverty after housing costs has been almost entirely driven by an increase in working poverty. The SMCPCC puts this trend down to "the shift of families with dependent children from owner occupation to the – more expensive – private rented sector".

Conservatives:

work to eliminate child poverty and introduce better measures to drive change

Labour:

will keep child poverty targets and will ask the OBR to monitor and report on progress

SNP:

will vote to increase benefits at least in line with CPI inflation, to ensure that the incomes of the poorest in society do not fall even further behind the cost of living

Child poverty: 2020 vision?

Hitting the 2020 targets for child poverty (see margin) was always going to be a huge challenge, but a combination of economic downturn and stagnation following the financial crisis, changing labour markets, and the state of the public finances has put them almost totally out of reach. It also means that some conventional policy responses to child poverty are likely to be less effective, or simply off the agenda.

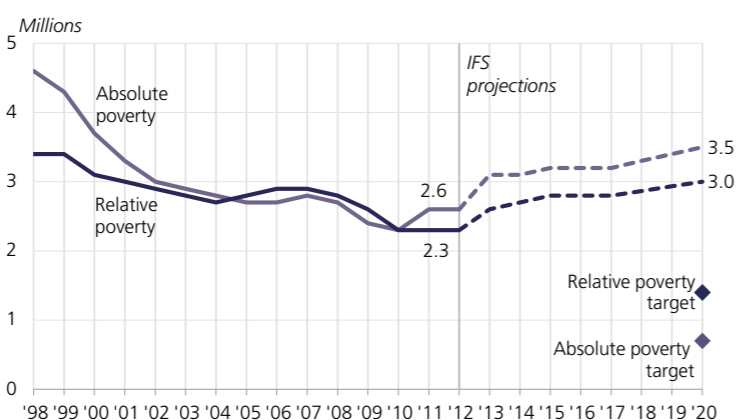
Past trends

Child poverty levels fell sharply in the early years of the Labour Government, driven partly by substantial increases in government expenditure on tax credits, and growth in employment rates among lone parents. Progress stalled somewhat after 2004/05, and resumed in 2009/10 and 2010/11 as benefit and tax credit income for households with children grew by more than median income.

Since then, weak economic growth and fiscal consolidation, including real-terms cuts to working-age social security benefits, have meant there has been little progress towards the target. The most recent figures – for 2012/13 – show 2.3 million children in relative poverty and 2.6 million in absolute poverty.

Prospects

Projections by the Institute for Fiscal Studies (IFS) of relative and absolute child poverty – taking into account the latest economic forecasts, tax and benefit changes and population estimates – indicate that, under any plausible scenario, the 2020 targets will be missed. Indeed, the IFS expects relative poverty to rise, reaching more than twice its target rate by 2020/21. Absolute poverty, meanwhile, is expected to rise to five times the 2020 target.



The IFS expects that the child poverty targets will be missed by a wide margin

children in poverty (before housing costs), UK, financial years 1998/99 to 2012/13; IFS projections to 2020/21

Current circumstances give further grounds for pessimism about the likelihood of the 2020 targets being met.

First, the rapid fall in child poverty was only achieved by significant redistribution through the tax and benefit system. With all three main parties committed to further fiscal consolidation, the scope for further redistribution through this channel seems extremely limited.

Secondly, the increasing importance of working poverty means that policies aimed at getting households to "work more" will not, on their own, achieve the child poverty targets. With nearly two-thirds of poor children in families with at least one adult in work, efforts must instead be focussed on the trickier business of raising wages for those at the bottom of the distribution. But research for the Social Mobility and Child Poverty Commission (SMCPCC) found that even under the most optimistic scenarios for parental employment and earnings, around one in five children would still be in relative and absolute poverty by 2020.

Options for the new Government

The new Government could reaffirm the commitment to the existing child poverty targets, but it seems inevitable they would be missed regardless of the policies pursued. For this reason, the SMCPCC accused the main parties in October 2014 of being unwilling to speak the "uncomfortable truth" about the prospects for child poverty, and urged the new Government to "come clean."

If the new Government were to accept that the existing targets are not going to be met, it could amend the Child Poverty Act to introduce new, more realistic targets. Proposals by the previous Government for a "multidimensional" measure of poverty, capturing a broader range of factors such as worklessness, debt, addiction, housing quality and family environment, were not taken forward.

The SMCPCC favours a third approach, namely, to supplement the existing targets with new measures to give a more "rounded" approach to poverty, and to amend the Child Poverty Act to set new timescales for achieving them. It believes any Government serious about tackling child poverty needs to acknowledge the resources this would require, and commit to an ambitious programme to, among other things, recouple earnings to economic growth, prioritise children in fiscal policy, close gaps in educational attainment, improve labour market opportunities for young people, and tackle the UK's dysfunctional housing market

Failure to meet the targets, or to amend them, could seriously undermine the administration's credibility. Some might also question the point of having a Child Poverty Act that will end when there is no political commitment to the means.

The 2020 child poverty targets

The Child Poverty Act received Royal Assent twelve days before the announcement of the 2010 General Election. The Act – which received cross-party support – sets out four legally-binding child poverty targets to be met by 2020:-

Relative poverty – less than 10% of children in families below 60% of median income* before housing costs

Absolute poverty – less than 5% of children in families below 60% median income in 2010/11, adjusted for RPI inflation

Combined low income and material deprivation – less than 5% of children in families below 70% median income and unable to afford key goods and services

Persistent poverty – less than 7% of children in relative poverty for at least 3 out of the last 4 years

The Act also requires governments to publish child poverty strategies, and established a Child Poverty Commission to provide advice and monitor progress. As part of the Welfare Reform Act 2012, the previous Government expanded the Commission's remit to cover social mobility.

*The mid-point of the income distribution – half the population will be in households above median income, and half below it.

Childcare for the 21st century

Chart 1:
Rising female labour-force participation has prompted rising demand for childcare since the early 1990s

percentage of women economically inactive because looking after family or home, Mar-'93 to Dec-'14



Greens:
free but voluntary universal early education and childcare services for all children of working parents from birth to the start of compulsory education which would rise to 7

Labour:
expand free childcare to 25 hours a week for the working parents of 3 and 4 year olds

Liberal democrats:
20 hours free childcare a week for all parents with children aged 2 to 4

SNP:
support an increase in free childcare to 30 hours per week by 2020.

UKIP:
initiate a full review of childcare provision and continue to fund 15 hours free childcare a week for 3 and 4 year olds

There has never been a national 'system' of childcare provision; nor, until the mid-1990s was there a national childcare policy. Previous Governments have responded to the growing demand for childcare, driven in large part by rising female labour force participation, with increasingly generous tax breaks and entitlements (chart 1). Despite the late start, the UK's public expenditure on childcare and early childhood education is now higher, as a proportion of economic output, than that of most other OECD countries (chart 2). However, there are concerns that this spending is not distributed as effectively and equitably as it might be.

A mix of tax breaks and entitlements

The last national childcare strategy, published by the Labour Government in 2004, was guided by three broad objectives: increasing parental employment, reducing inequality and improving child development. The objectives implied that childcare must be both affordable enough to make it worthwhile for parents to return to work, and of sufficient quality to offer developmental benefits to children. The resultant framework of government support created a 'mixed market', involving demand-side subsidies via tax credits for parents and tax breaks for employers, and supply-side funding to guarantee a limited entitlement to free early years education.

The aims of the 2004 strategy continued to influence the previous Government, which extended free entitlement and retained childcare tax credits. It also proposed replacing employer-supported childcare vouchers (effectively, a childcare tax break for those working for participating employers) with tax-free childcare accounts that would see the Government contributing 20% of childcare costs up to £10,000 (in effect, a childcare tax break at the basic rate of income tax). These changes are planned to take effect in Autumn 2015 and in the longer term enhanced childcare support is included in Universal Credit.

Costs are rising...

Any sort of childcare will help get parents back to work. But if it is to generate developmental benefits for children, it must also be of high quality. The regulation and professionalisation of an inherently labour-intensive service have driven up its cost, reducing the amount that can be purchased for a given parental subsidy or tax break (chart 3). The widespread opposition to the previous Government's proposals, eventually dropped, to reduce minimum staff-to-child ratios from 1:3 to 1:4 indicates that parents are unwilling to compromise on quality of provision.

It is also argued that policies that subsidise parents' purchase of childcare, rather than providing it directly, have in themselves driven rising costs. For this reason, the Family and Childcare Trust is critical of the previous Government's proposals for tax-free childcare. It warned that the value of this extra help for parents could be reflected in higher prices, leaving parents no better off.

These rising costs help to explain why, even though Government spending on childcare provision is comparatively high in the UK, parents themselves spend a quarter of their income on childcare, more than in any other European country except Switzerland.

...and there remain gaps in provision

Access to affordable childcare is not only a key element in reconciling work and family life, but it is also important in promoting equal opportunities and combating social exclusion. Investment in early years education in particular can narrow the development gap between disadvantaged children and their more affluent peers, and help to protect young children from further social and educational disadvantages later in life.

But despite spending more than most nations on childcare, the UK ranks amongst the lowest in terms of support for disadvantaged families. An OECD analysis published in 2012 suggested that early education and childcare expenditure does not make a significant difference to the poorest families in the UK. The UK had the fifth-lowest ranking out of 27 OECD nations in terms of the percentage of early education and childcare expenditure directed at families living in poverty: around 5% of UK expenditure was directed to such families, compared with around 20% in the highest ranking countries.

Direct provision?

The inflation of childcare costs, and the fact that public expenditure on childcare does not appear to have been directed to areas of greatest impact, have led some to conclude that government spending is likely to achieve more equitable and effective results when it is put towards direct provision, rather than paid to parents through the tax and benefit system. The Institute for Public Policy Research, for instance, has proposed that the current provision should be overhauled and replaced with a supply-led model of universal childcare for all pre-school children.

The main parties agree that government support for childcare should be expanded, but are divided over whether this should be achieved through subsidising provision and increasing the universal entitlement to free childcare, or by extending tax breaks for parents to purchase it. The debate over how best to direct government support for childcare is likely to continue in the new Parliament.

Chart 2:
Public expenditure in the UK on childcare and early years is close to Nordic proportions
government spending on pre-primary education (darker shade) and childcare (lighter shade), % GDP, 2010, OECD member states

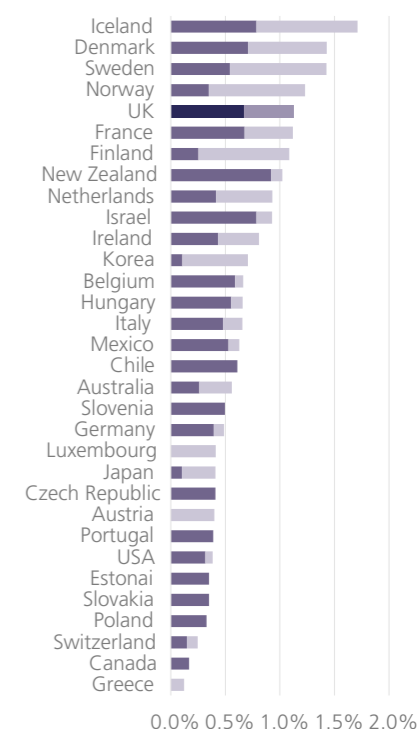


Chart 3:
The cost of most formal childcare, and particularly nursery provision, rose substantially over the course of the last Parliament

average cost per year of selected forms of childcare, 2010 and 2014; 30 hours per week unless indicated; dotted line indicates range across UK regions

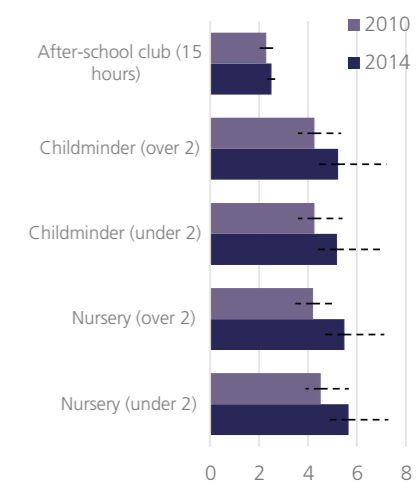
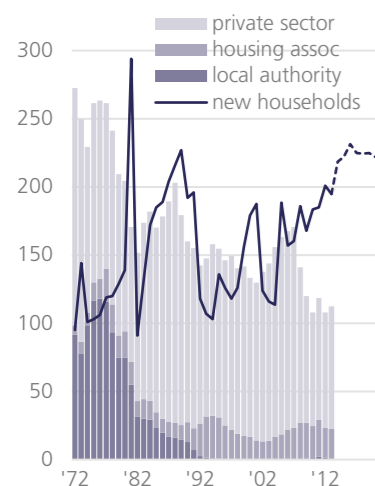


Chart 1:
The number of new households each year has exceeded the number of homes built in every year since 2008, and the gap has grown in recent years

New dwellings (bars) by tenure, and new households (line), 1972-2013 (projections of new households to 2020)



Housing supply – where will we live?

Successive Governments have failed to ensure housing supply matches demand

After a long period under the radar, the shortage of housing supply has been thrown into the spotlight thanks to the combination of a recent price boom and stagnant real wages. Though it may only recently have captured widespread political attention, it has been clear for some time that housing supply is not keeping up with the additional demand generated by rising life expectancy, immigration and the growing number of one-person households. Estimates put the need for additional housing in England at between 232,000 to 300,000 new units per year, a level not reached since the late 1970s and two to three times current supply (Chart 1).

The resultant house price inflation in areas of high demand has led commentators to suggest that by 2020 home ownership will be an ‘impossible dream’ for those not already on the ladder. Declining affordability would suggest that, for many, that dream is already impossible (Chart 2). One consequence of the difficulties households face in accessing home ownership (and social housing) has been the growth of the private rented sector: there are now more households renting privately in England than there are in social housing (Chart 3).

Social housing: Affordable v social rents

Since local authorities stopped building homes in large numbers, non-profit making housing associations are mainly responsible for building new social housing. They do so principally using central government subsidies together with private finance.

The October 2010 Spending Review reduced the capital subsidy available up to 2014-15 for the development of new affordable housing to £4.5 billion (down from £8.4 billion over the period of the previous Spending Review). But housing associations were encouraged to build properties with rent levels at up to 80% of market rents instead of social rents (which are typically half the market rate). This additional revenue can be reinvested in new-build; therefore, reduced capital subsidy has been partly counterbalanced by this new rental model. Bidding for the 2011-15 round was well subscribed, but looks to be less enthusiastic for the £3.3 billion allocated for 2015-18. This may be partly down to uncertainty about the impact of welfare reform: since nearly three-quarters of affordable rent tenants receive housing benefit to help them pay, ongoing welfare reform is viewed by the lenders to the sector as high risk, given its potential to disrupt rental streams.

The new Government may look again at the level of social housing subsidy, and consider how much should come directly from capital funding, and indirectly in the form of housing benefit. Fiscal constraints could limit the Government’s room for manoeuvre, however; and if it is to significantly reduce the social housing shortage, it may need to look to the private sector for new sources of investment and for more creative means of delivery.

Conservatives:

extend the right to buy to housing associations and build 200,000 new starter homes

Greens:

provide 500,000 social rented homes

Labour:

build at least 200,000 new homes a year by 2020

Liberal Democrats:

build 300,000 homes a year and publish a long-term plan to set out how this will be achieved in the first year of the parliament

SNP:

We will back investment a house-building target across the UK of 100,000 affordable homes per year

UKIP:

build 1 million homes on brownfield sites by 2015

Planning reform

Constraints in the planning system are often cited as reasons why it has proved so difficult to build enough houses.

To help boost housing supply, the previous Government made widespread changes to planning policy in the 2012 National Planning Policy Framework (NPPF). The NPPF introduced the “presumption in favour of sustainable development”, which can make refusing planning consent more difficult for local planning authorities without up-to-date local plan housing policies.

To restart stalled developments the Growth and Infrastructure Act 2013 provided developers with a mechanism to renegotiate affordable housing requirements where they were no longer economically viable. New permitted development rights were added to allow the conversion of a variety of buildings, such as offices, former agricultural and industrial buildings, into homes without the need for planning permission.

It is difficult to assess the impact of these reforms in isolation from other factors affecting housing supply. It has been reported that planning approvals increased 20% since the introduction of the NPPF, with fewer applications refused or withdrawn. Concerns remain, however, that there has been no noticeable rise in planning approvals for the most needed types of housing.

The greenbelt debate

Another reason commonly cited for inadequate housing supply is a shortage of available land, blocked in some areas by policies designed to protect green spaces. Although greenbelt policy has been effective in preventing urban sprawl, and maintaining a clear physical distinction between town and country, it is argued that it has prevented houses from being built where they are most needed, contributing to unaffordable house prices for first time buyers. There are calls on all sides for greenbelt principles to be re-evaluated: some want stronger protections to help meet the challenges of climate change and food security; others question how areas of the greenbelt without public access and/or high environmental value can continue to justify protection.

Chart 2:
Across the income distribution, home ownership has become increasingly hard to afford

house price to income ratio, median and 90th percentile incomes, Great Britain, 1993-2014

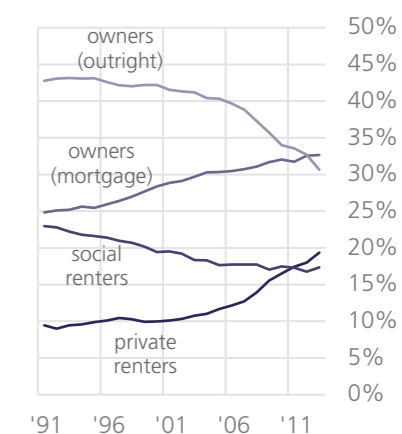
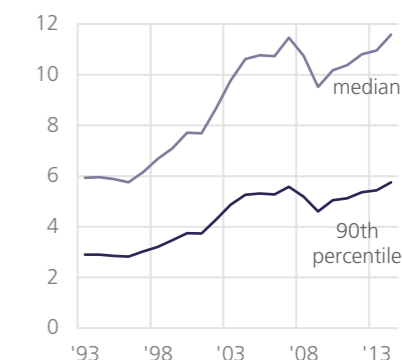


Chart 3:
The private rental sector has grown substantially over the past decade

households by tenure, share of total, 1991-2013/14



Gambling: fixed odds betting terminals

FOBTs - Key Statistics

- Approximately **8.2 billion** bets were placed on FOBTs in the five major bookmakers in the 12 months to June 2014.
- Around **22%** were placed on machines in London.
- **70%-80%** proportion of FOBT sessions result in a net loss for the player
- The average (median) loss per session is **£5**, but 10% of sessions result in a loss of more than **£60**.
- The average (median) time of a session is **3 minutes 54 seconds**, but 10% of sessions last longer than **22 minutes**.

What are they?

Fixed odds betting terminals (FOBTs) are electronic machines that play a variety of games, including roulette. Each machine accepts bets for amounts up to a pre-set maximum and pays out according to fixed odds on the simulated outcomes of games.

Where are they?

FOBTs first appeared in betting shops in 1999, and their numbers increased dramatically after October 2001, as a result of changes to the taxation of gambling that made lower margin games, such as roulette, profitable for machine owners. Initially, FOBTs were not classed as “gaming machines”, meaning they were largely unregulated, and there were no limits on where they could be placed and in what numbers. Since the Gambling Act 2005 came into force in September 2007, they have been classified as “B2 gaming machines”, and restricted to betting shops, tracks and casinos. The vast majority are located in betting shops, which are allowed no more than four in each premises. The maximum stake on a single bet on a B2 machine is currently £100; the maximum prize is £500.

Why are they controversial?

The introduction of FOBTs to betting shops was initially criticised for bringing “casino-style” betting into a bookmaking environment, the crucial distinction being that the outcome of FOBT games is governed by the laws of probability (“fixed odds”), rather than the outcome of a real-world event. Now that the presence of FOBTs in betting shops is legally sanctioned under the Gambling Act, this distinction has become blurred, and criticism has focused on the addictive potential of FOBTs, and their role in “problem gambling”.

What is the evidence?

The evidence on the exact role of FOBTs in problem gambling is inconclusive. On the one hand, there are anecdotal reports from charities and campaign groups about the destructive consequences of FOBTs. On the other, empirical studies have not yet clearly identified features of FOBTs that could cause some players to develop problems with their gambling, and what steps could be taken to help those potentially at risk.

Pleas for further research into the social impacts of gambling are not new: the 1933 Royal Commission bemoaned the absence of “public statistics dealing with the causes of the types of social evil of which gambling is said to be a frequent cause”. More recently, the Responsible Gambling Strategy Board (a body advising the Gambling Commission) has said that there is a complex relationship between gaming machines, gambling and problem gambling and that the “correlations and associations” between gaming machines and gambling-related harm are “poorly understood”.

Labour:

allow communities to review betting shop licences and reduce FOBT in existing shops or ban them completely

Liberal democrats:

provide LA's with the powers to reduce the maximum stakes for FOBT

UKIP:

limit the maximum stake to £2

The available survey evidence indicates that the prevalence of “problem gambling” among users of FOBTs is relatively high (chart 2). But this result should be interpreted with caution: the Gambling Commission points out that “while rates of problem gambling may be higher amongst gamblers who participate in certain activities, this does not necessarily mean that the type of gambling in question causes people to develop problems to a greater extent than other forms of gambling.” Its interpretation highlights a key problem with establishing an evidence base on the impact of FOBTs; namely, the difficulties of reliably establishing whether their use is a cause or merely a symptom of problem gambling.

What are the policy options?

The policy options range from lighter touch measures, such as providing gamblers with more information about their session, including accumulated losses, through to reducing the maximum stake on FOBTs, or the maximum number of FOBTs in betting shops, or even banning them completely. There are also proposals to give local authorities more power to reject applications for new betting shops.

More generally, the controversy over FOBTs exemplifies the “regulatory dilemma” over how far the state should intervene to prevent people from harming themselves, particularly when doing so may impinge on the enjoyment of others and their right to spend their money as they see fit. It is a question that has been addressed very differently by Governments over time (see quotes in box).

Changing times: how far should the state intervene to prevent harm from gambling?

“Roulette, craps, black jack, chemin de fer and the rest, are not provided as an innocent flutter. This is gaming of a serious kind which will always be potentially dangerous. The choice here is between outright suppression and a most rigorous control.”

James Callaghan, then Home Secretary, Second Reading, Gaming Bill, 13 February 1968

“Neither this debate nor the British people are served by the kind of patronising attitude that doubts people’s ability to make choices about how to spend their marginal income or leisure time.”

Tessa Jowell, then Secretary of State for Culture, Media and Sport, Second Reading, Gambling Bill, 1 November 2004

Chart 1: Number of Fixed Odds Betting Terminals, thousands, 2005-13 (average across financial years from 2008)

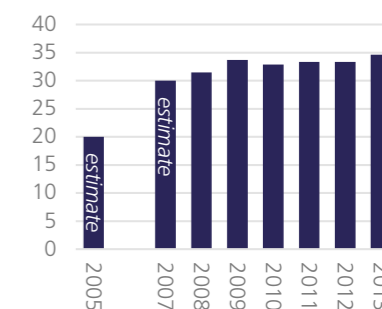
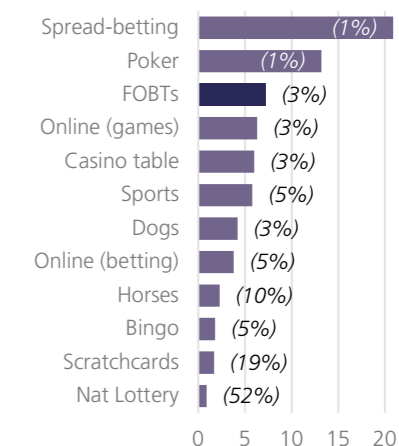


Chart 2: The prevalence of “problem gambling” among FOBT users is comparatively high

Prevalence of problem gambling by activity (percent); percentage figures in brackets represent the proportion of the general population taking part in each activity



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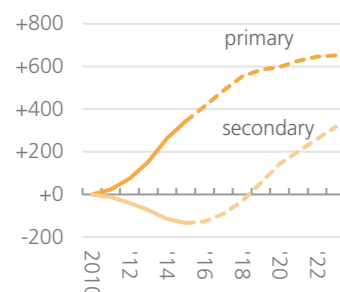
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A good school place for every child?

Chart 1:
The growth in primary pupil numbers in the last Parliament will feed through to growth in secondary numbers in the next

change in pupil numbers relative to 2010, thousands; dotted lines indicate projections to 2023



The years 2001 to 2011 saw the largest ten-year increase in the birth rate since the 1950s. Primary pupil numbers consequently surged by over 400,000 during the last Parliament. During this Parliament, the demand for primary places will begin to feed through to secondary schools. The mechanisms for creating school places changed significantly during the last Parliament. Are there going to be enough school places where they are needed?

Pressures are localised

Currently, there are many more places than pupils at both primary and secondary levels, but the balance between the two varies greatly across the country, within local areas and particularly school-by-school. Shortages of places at popular schools exist alongside surplus places at others. And over the next five years, the expected growth in pupil numbers varies widely: in some places, numbers are expected to fall; in others, particularly urban areas, there are expected to be large increases.

Local authorities face statutory constraints

Ensuring that the supply of school places meets demand remains a statutory duty of local authorities; they also have to promote parental choice, diversity and fair access. In terms of meeting demand, local authorities are also subject to constraints under the Education Act 2011. The 2011 Act requires that, where a need for a new school is identified, the local authority invites proposals to establish an academy or free school, with the decision over whether to go ahead ultimately taken by the Department for Education (DfE). For schools that are already open – maintained or academy – expansion has become easier. However, local authorities cannot require academies or free schools to expand.

The result is that, other things being equal, demand for school places is likely to be met through the building of new free schools and academies, and the expansion of existing schools.

And funding pressures

The Department for Education is responsible for providing most of the capital funding to create new school places. The previous Government ended the Building Schools for the Future scheme of new school building and renovation and, in effect, shifted some of the funding to meet the capital costs of further places in areas of 'basic need', and the construction of new free schools. Local authorities contend that they face unsustainable funding pressures: in a 2014 survey, three out of four responding authorities claimed that capital funding for new places has been insufficient; 38% had borrowed to finance the cost of new places; and half reported that costs had been met by drawing on other sources of funding, including that provided by DfE for maintenance of the existing schools estate.

Has Government policy helped to match places with pupils?

The previous Government argued that its reforms provided good school places where they were needed and wanted, with 70% of mainstream free school places in areas of basic need (where existing and planned school capacity exceeds forecast pupil numbers by less than 5%). More than 90% of primary free school places are in such areas, but less than a quarter of secondary places are. However, meeting expected local basic need is not the sole objective of the free schools programme; in approving applications, the DfE considers the extent of 'demand' not only for additional places, but also for better or distinctive provision.

The National Union of Teachers has argued that there is a 'school places crisis', brought on by the curtailment of local authorities' powers and the centralisation of decisions over where to build new schools. The Local Government Association, meanwhile, has called for local authorities to be given "a greater role in judging and approving free school proposals to ensure that new free schools are established where they are needed".

A new way of ensuring supply meets demand?

There has been much debate about whether a reinvented 'middle' tier of oversight is needed to ensure accountability and coherent school place provision. In 2014, the previous Government seemed to be moving toward this, with the appointment of eight new Regional Schools Commissioners to oversee academies and free schools in their local areas.

Over the course of the next Parliament, the focus of the debate about places is likely to shift from primary to secondary schools. Will the predominance of free schools and academies at secondary level make it harder for local authorities to ensure that supply meets demand, since they cannot currently require such schools to expand? Or are fears about a lack of co-ordination overblown?

£170 million

The capital costs of the 43 schools for which information has so far been published by the DfE

Conservatives:

open 500 new free schools with 270,000 places and invest £7bn to provide school places

Greens:

integrate academies and free schools in the LA system and cap class sizes at 20

Labour:

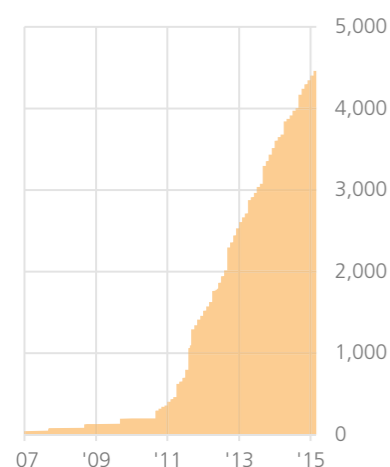
cap class sizes for 5, 6 and 7 year olds

Liberal democrats:

protect education budget in real terms and increase early year's pupil premium

The future of academies and free schools

Chart 1:
the number of academies grew rapidly under the previous Government
cumulative number of academies in England, Jan-07 to Mar-15



Originally introduced under the Labour Government to replace poorly-performing secondary schools, academies became a defining feature of schools policy during the 2010 Parliament. The previous Government argued that academies raised attainment and had a positive impact on other schools in their local area, but there remain concerns that the freedoms afforded to academies, and their rapid expansion, have the potential to result in financial problems and lapses in standards.

The rise and rise of academies

Under the previous Government, the number of academies increased from 200 in May 2010 to over 4,500 in March 2015 (Chart 1). Almost 60% of state-funded secondary schools are academies, up from 6% at the start of 2010 (Chart 2). The previous Government also extended the academies programme to primary schools, and 13% were academies or free schools in September 2014.

The growth of academies under the previous Government was driven by inviting all schools to convert to academies if they wished to do so; a legal presumption under the Education Act 2011 that all new schools will be academies; and the compulsion of underperforming schools to convert to academy status. The creation of free schools also boosted academy numbers, although they still only account for a relatively small proportion (around 6%) of the total. The first 23 free schools opened in September 2011 and their number reached 241 by September 2014.

The burden of freedom

Academies have a number of freedoms not available to maintained schools, including independence from local authorities (see margin). While the previous Government argued that freedom from bureaucratic control has brought opportunities for innovation, better leadership and higher attainment, others have questioned whether greater autonomy has raised the potential for abuses and lapses in standards. These concerns have been given weight by findings of financial mismanagement at a small number of academies, and the 'Trojan Horse' allegations of Islamic extremist teaching in Birmingham schools (several of which were academies).

Areas of concern include:-

Teaching standards. As academies do not need to follow the National Curriculum, what children are taught is less prescribed. This, together with the freedom to hire unqualified teachers, has raised concerns about the potential for weak standards.

Conflicts of interest. Many academies are sponsored by other organisations or businesses, who are responsible for, among other things, appointing the school's leadership team and governing body. Critics have suggested the relationship between schools and their sponsors can prompt conflicts of interest, particularly in the appointment of senior personnel and the procurement of services.

Conservatives:

expand academies and free schools

Labour:

end the free schools programme

Liberal Democrats:

repeal the rule that all new state funded schools must be free schools or academies

Greens:

integrate academies and free schools into the local authority system

UKIP:

support and fund free schools, if they are open to the whole community

Meeting need for places. Free schools are established outside of local authority planning, and meeting local need is not a formal objective of the free schools programme. This has prompted concerns that free schools may not constitute value for money, particularly if they are smaller or established in areas with high existing provision. The process of establishing new academies may also make it more difficult for local authorities to ensure there are enough school places to meet demand, an issue discussed further in the previous article.

Centralisation. As academies operate under a funding agreement made directly with the Department for Education, it has been questioned whether their regulation has not in fact become more centralised. Equally, because the freedoms available to academies are granted to the trusts that manage them, individual schools that are part of large chains may have less autonomy than they did under local authority control, depending on how much power the trust decides to delegate.

The previous Government responded to criticism of the academies programme by arguing that academies are more intensely scrutinised than local authority schools; that 72% of free schools have been opened in areas of need for places; that the programme has contributed to a narrowing in the attainment gap between advantaged and disadvantaged children; and that the innovative approaches and competitive stimulus academies provide have raised standards across the sector. The Government's last annual report on academy performance stated that sponsored academies were improving more quickly than maintained schools, and that converter academies performed better against the Ofsted framework.

A report by the Commons Education Committee, published in January 2015, said that the evidence currently available did not allow it to draw "firm conclusions on whether academies are a positive force for change", and that it was "too early to judge whether academies raise standards overall or for disadvantaged children".

The future

Will the academies programme be extended or curtailed? In the build-up to the General Election, David Cameron announced plans for schools rated by Ofsted as 'requiring improvement' to be compulsorily converted to academy status, a process currently only used for schools judged to be 'inadequate'. This could lead to a further large expansion of the programme.

Labour have indicated that certain academy freedoms, particularly relating to the curriculum and hiring unqualified teachers, could be restricted or reversed, a position shared by the Liberal Democrats. The Conservatives and Labour have both indicated that regulatory reform for state-funded schools can be expected in the new Parliament.

What are academies and free schools?

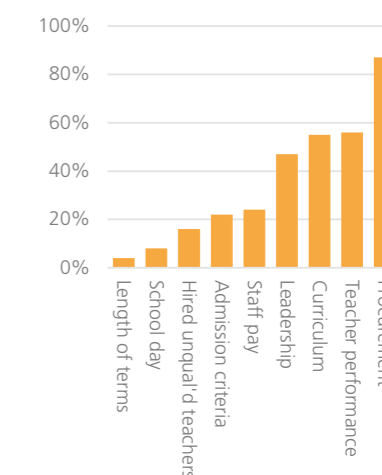
Academies are state schools, independent of local authority control and funded directly by central government. They can be contrasted with 'maintained' schools, which are funded by local authorities. Academies are either 'sponsored', which usually means they are previously underperforming maintained schools that have been compelled to become academies; or they are 'converters', which means they are previously outstanding or good maintained schools that have voluntarily become academies.

Free schools are academies in law, and have the same range of freedoms, but rather than being the product of a conversion or takeover of a maintained school, they are 'new' to the state sector (i.e. they are newly established or formerly independent schools), having been established on the basis of proposals from groups of educators, parents, charities or others.

Academies have a number of freedoms not available to maintained schools, but not all used in practice. The 'uptake' of certain freedoms is shown in the chart below.

Chart 2:
some freedoms available to academies are used more than others

proportion of schools making selected changes since becoming academies (survey of 720 academies, Feb-Mar 2014)



The expansion of private higher education

One of the key aims of the previous Government's higher education policy has been to increase choice and competition in the HE market. A controversial aspect of this policy has been the Government's rapid expansion of the private higher education sector.

For many years there have been private providers (also referred to as alternative learning providers) in the higher education sector. Private higher education institutions receive no direct public funding from the Higher Education Funding Council for England (HEFCE) but some receive fees for certain courses through the student loans system. Alternative providers are generally small: two thirds are specialist institutions that offer courses in areas such as business, IT, theology and alternative medicine. In the past private providers offered mostly sub-degree courses to overseas students. However the number of home students applying for their courses is increasing.

How big is the private higher education sector?

A study by the Department for Business, Innovation and Skills (BIS) identified 674 private providers in the UK in 2011-12 and estimated that 160,000 students were undertaking higher education courses at these institutions. This compares to around 2.5 million students registered to study at the UK's 163 publicly funded higher education institutions in that period.

Expansion of the private higher education sector since 2010

In July 2010, just three months after coming to power, the previous Government created the first new private university in over 30 years when it conferred university college status on BPP. The next year, the Government published the 2011 Higher Education White Paper - Students at the Heart of the System: in this, the Government committed to opening up the higher education market, and as part of this process it increased the maximum tuition fee loan available to full-time students studying eligible courses at alternative providers from £3,375 to £6,000 per year. Following this, in June 2012, the criteria for the granting of university status was changed to allow smaller institutions to qualify.

There are now eight private higher education institutions with degree-awarding powers in England (up from four in 2009), four of which have university status (up from one in 2009). Some, such as BPP University, are for-profit, while others, such as the University of Law, have charitable status. Only one, the University of Buckingham, offers a similar range of courses to public universities.

How does public money fund private higher education?

Students on courses at private providers that have been designated by the Secretary of State as eligible for student support may receive fee loans, maintenance loans and grants in the same way as students at public higher education institutions. Figures from the National Audit Office (NAO) based on Student Loans Company data, showed that there were 52,745 publicly-funded students at alternative providers in the 2013-14 academic year. This

is a significant increase from 2008-09, when only 3,818 students received public support. Currently around 140 private providers receive income from student loans.

As a result of the increased number of students accessing student funding the costs have risen sharply. In 2011-12 the cost of providing public support to students at private providers was £100 million; by 2013-14, it had increased to around £675 million.

Dangers of rapidly expanding the private sector

The increase in private provision has not been without problems. The biggest expansion of designated courses has been in sub-degree courses. The rapid increase in the number of Higher National Certificate (HNC) and Higher National Diploma (HND) students at private institutions and the rising cost of support led the then Minister of State for Universities and Science David Willetts to announce a curb on the number of students at 23 providers in 2013 and to impose student numbers controls on private providers from 2014-15. Also in 2013 fraudulent payment of student maintenance support resulted in the suspension of student support payments to EU students at private providers until entitlement could be proved.

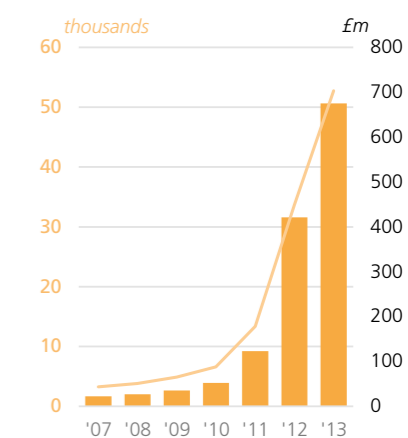
Some commentators, such as the University and College Union, have questioned the wisdom of allocating public funding to institutions that might be below standard and could damage the reputation of the UK higher education sector. Reports by the NAO and the Public Accounts Committee (PAC) also questioned why the sector was allowed to expand without more regulatory oversight and highlighted poor attendance by students, high dropout rates and cases of student support fraud at some private providers.

The future – improving confidence in the sector

The regulatory regime for private providers has been tightened and institutions applying for designated course status in 2013-14 had to meet stricter standards on financial sustainability, management, governance procedures and external quality controls. In January 2015, further controls on private providers were announced in response to the NAO and PAC reports. These included annual re-designation of some providers for student support purposes and strengthened quality control processes.

Whether the private sector develops into a viable complement to the public sector, filling gaps in provision and offering low-cost flexible courses, remains to be seen. Much could depend on whether the new Government tackles the issue of reviewing the entire higher education regulatory framework – this step could improve confidence in the sector and ensure that students are well served by all alternative providers.

Chart 1: Numbers of students receiving financial support studying at alternative providers (line, left-hand axis) and total student support paid (bars, right-hand axis), academic years 2007/08 to 2013/4



Further reading and data sources

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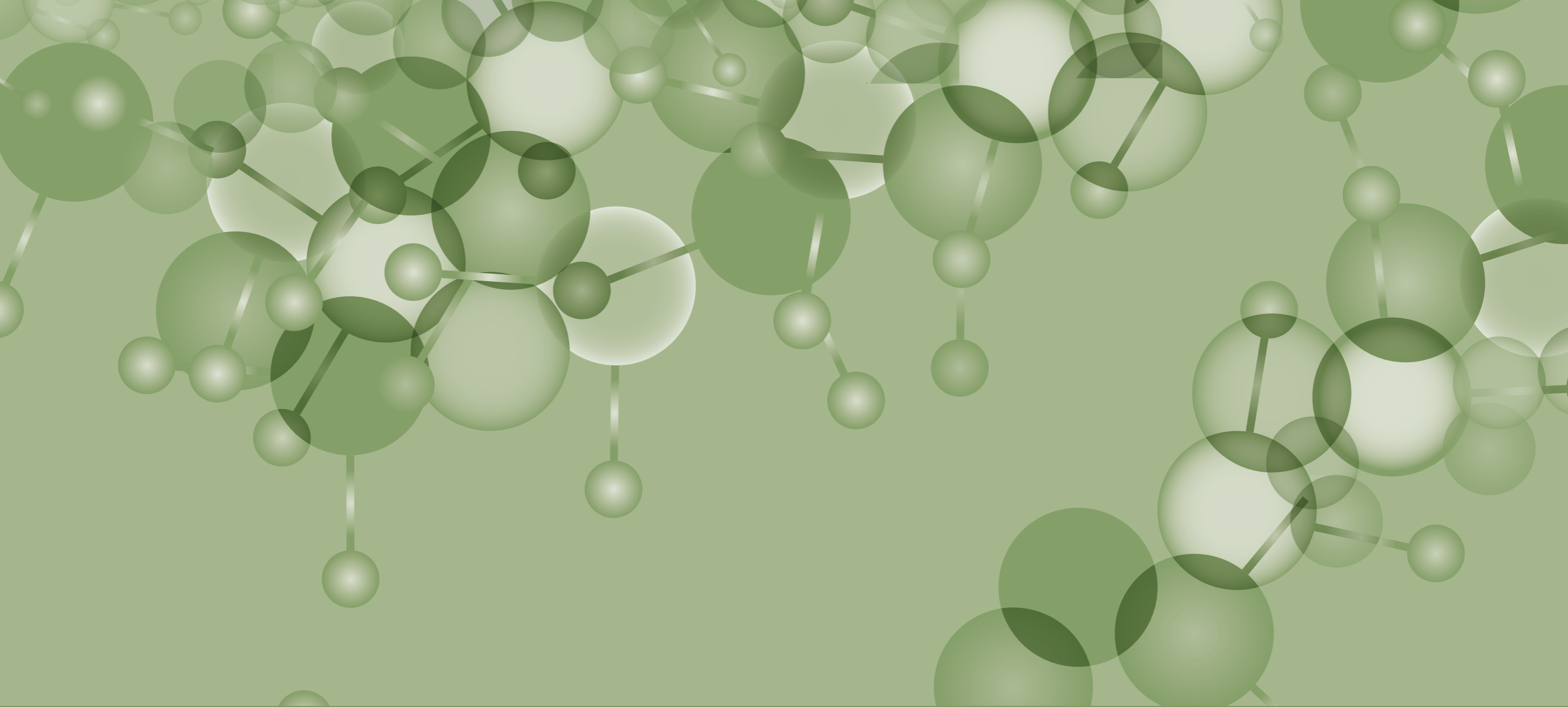
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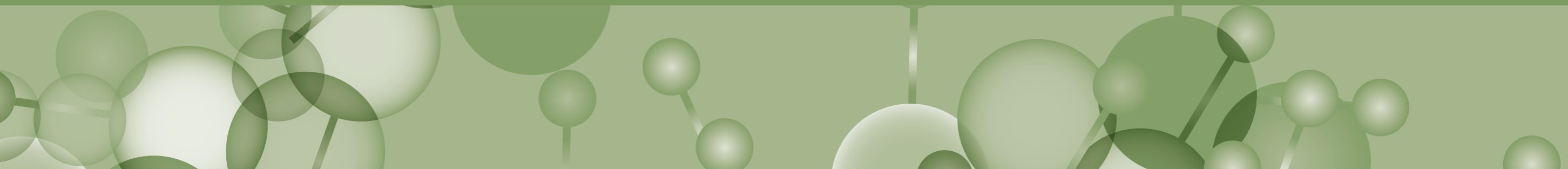
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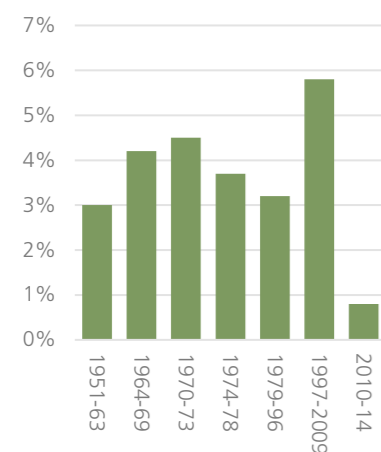
Key Issues *for the* 2015 PARLIAMENT – CHAPTER 6

HEALTH



NHS England funding and productivity

Chart 1:
The NHS funding settlement during the last Parliament was the most austere in its history average annual real-terms growth in NHS expenditure, by periods of Government, financial years 1951-2014



Conservatives:
minimum real terms increase of £8bn a year by 2020

Greens:
immediately increase funding by £12bn year rising to £20bn a year by 2020

Liberal democrats:
funding £8bn a year higher in real terms by 2020 with budget protected until 2017/18

Labour:
annual £2.5bn time to care fund for health and social care

UKIP:
increase frontline funding by £3bn a year by 2020

At the start of the 2010 Parliament, the NHS was faced with the most austere funding settlement in its history. Although the small real-terms increases in its budget were generous in comparison to other Government departments, the prospect of rising demands and costs meant that it faced a 'funding gap' (a potential mismatch between resources and patient needs) of £20 billion by 2014/15.

By most accounts, the NHS did reasonably well in meeting this challenge, at least in the first years of the last Parliament. But even with a relatively generous settlement in the next, another funding gap looms on the horizon and many of the easy savings have already been made.

Plugging the gap

Most of the savings made over the last parliament were made by freezing staff salaries, squeezing the prices paid to hospitals for the treatment they provide, and cutting back on management costs, rather than through changes to the way services are delivered.

These savings were made even as the quantity of care provided by the NHS increased: by most measures, it was doing significantly more with each pound spent on it in 2014 than it was in 2010 (Chart 2). Quality, too, held up on many measures, at least in the initial years of the funding freeze: waiting times for inpatient and outpatient care remained low, rates of hospital acquired infections continued to fall, public satisfaction was historically high, and most patients continued to report a positive experience of care. In 2014 the Commonwealth Fund ranked the NHS first among comparable countries for quality, access and efficiency.

At the limit?

However, by the end of the last Parliament, there were signs that funding constraints were beginning to affect performance. The sharp rise in patients waiting more than four hours to be seen at A&E during the winter of 2014-15 was characterised in some quarters as a "crisis" (Chart 3). Waiting times for planned hospital admissions, too, have been trending upwards; bed availability, particularly in mental health units, is increasingly limited and the financial position of NHS providers is also worsening, indicating that some were struggling to cope with the reduced prices paid for services.

These developments call into question the ability of the NHS to manage a further five-year funding freeze. NHS England estimates that, with a similar funding settlement to that of the last Parliament, another £30 billion in savings would be required by 2020/21. Of that, the NHS Five-year Forward View suggests that £22 billion could be achieved through productivity improvements, leaving a £8 billion to be made up through additional government spending by 2020/21. Some parties have committed to provide this (see left-hand margin).

The King's Fund, however, describes £22 billion in efficiency savings as a "very tall order" and the £8 billion as "the bare minimum in additional funds that will be required". This is partly because many of the opportunities for short-term productivity gains may have been exhausted: for instance, staff pay cannot be frozen and management costs cut indefinitely. And the high levels of public expectation and regulatory scrutiny of NHS providers, bolstered by NICE guidance on safe staffing levels, mean there is now less tolerance of attempts to make savings by cutting or rationing services.

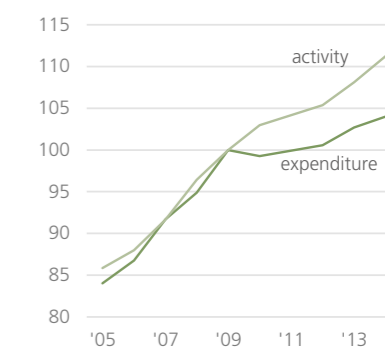
Sustainable saving

The NHS is certainly not perfectly efficient, and it is likely that additional savings could be made by further reducing the length of stay in hospitals, reducing reliance on agency staff, using lower cost drugs, and improving clinical practice and procurement. However, it is unlikely that the traditional cost reduction efforts, including those used in the previous Parliament, will be sustainable or sufficient in this one.

In the pursuit of sustainable savings, much hope has been pinned on 'transformational change', and in particular the reduction in expensive hospital admissions that could be achieved through the closer integration of care services. The £3.8 billion Better Care Fund, a pooled health and social care budget (the majority of which is coming directly from the NHS budget, resulting in what the King's Fund describe as "a sharp and sudden reduction in hospital revenues in 2015/16) is intended to advance this aim. However, further cuts to local authority social care budgets may limit the opportunities for community-based alternatives to hospital; and more generally, making such sweeping changes successful is particularly difficult in straitened times. Prospects for further integration of care services are discussed in the next article.

Chart 2:
Doing more with the same: during the last Parliament, NHS expenditure stopped growing in line with hospital activity

NHS (England) expenditure and Finished Consultant Episodes*, 2005/06 to 2014/15, indexed, 2009/10=100



* spell of hospital inpatient treatment under the care of one consultant. Figures for 2014/15 are a projection based on data to Jan-15 and 2013/14 figures

Chart 3:
Performance against the A&E target slipped towards the end of the last Parliament

percentage of patients waiting over 4 hours in A&E departments, weekly, Jan-11 to Mar-15



Integrating health and social care

“[...] across the NHS we detect no appetite for a wholesale structural reorganisation. In particular, the tendency over many decades for government repeatedly to tinker with the number and functions of the health authority / primary care trust / clinical commissioning group tier of the NHS needs to stop. There is no ‘right’ answer as to how these functions are arranged – but there is a wrong answer, and that is to keep changing your mind”

The NHS Five-Year Forward View, October 2014

15 million

people estimated to be living with one or more chronic long-term health condition in 2012. This is projected to rise by 20% to 18 million by 2025.

Labour:

repeal Health and Social Care Act and integrate services for physical health, mental health and social care

Conservatives:

integrate health and social care through the Better Care Fund

Greens:

repeal Health and Social Care Act and provide free social and health care for all older people

Liberal democrats:

integrate health and social care budget by 2018

UKIP:

integrate health and social care under the control of the NHS

The unprecedented funding constraints that the NHS faced during the last Parliament look set to continue in this one. Meanwhile, the population is growing and ageing, and more people are living with multiple and chronic health problems that require a range of health and social care services in a variety of settings. One proposed way of improving quality while keeping costs down is to more closely integrate care services, and particularly the provision of health and social care.

Split roots

Ever since the creation of the National Health Service in 1948, there has been a formal distinction between healthcare, provided free at the point of use by the NHS, and social care, provided on a means-tested basis by local authorities. Historical separations also exist between general and specialist practice, and hence between primary and hospital care, within the NHS itself.

There is a broad consensus that the growing numbers of individuals with long-standing conditions and complex care needs are poorly served by the fragmentation of services that has resulted from this structure. But the pace of change has been slow: in 1997, then Health Secretary Frank Dobson declared that he wanted to break down the “Berlin Wall” between health and social services; fourteen years later, the report of the NHS Future Forum stated that “we need to move beyond arguing for integration to making it happen”. More recently still, the King’s Fund stated that service transformation, including providing more care out of hospitals, “seems very distant”.

Change from within

The last Government introduced some statutory duties to promote integrated care (see Box) and established a £3.8 billion pooled budget for health and social care services (most of which came from within the existing NHS budget). Some areas have gone far beyond what is required under the law: Torbay, for instance, has pooled budgets for health and social care, and integrated teams of staff, and has been successful in reducing hospital bed occupancy, and in increasing the number of individuals cared for in their own homes. Elsewhere, achieving greater integration of care services remains a work in progress, and any Government seeking to force the issue may be discouraged by the likely unpopularity of another centrally-directed structural reorganisation of the NHS.

Integration could instead be achieved by change from within. In October 2014, NHS England made its own plans for “breaking down the barriers between family doctors and hospitals, physical and mental health, and health and social care” in its Five Year Forward View. The plans further address the political and organisational risks of wholesale reorganisation by offering several models through which such integration might be achieved

and a degree of local flexibility over which to implement. These models range from having hospitals run GP surgeries, to having “GP” surgeries employing, for instance, hospital specialists, social workers and mental health practitioners to provide a full range of out-of-hospital care. In March 2015, it was announced that 29 areas would pilot four different types of care model described in the Forward View.

Leave it to the experts

NHS England was explicit about the proper role for Parliament and Government in its Forward View (see quote): in short, they should be providing the resources to support new models of care, without interfering in the details, or attempting to promote a particular approach above others.

Nonetheless, there may be structural and policy barriers to the integration of care services that are amenable to change from the centre. Some of the most widely cited are:

- The mechanism by which healthcare providers are paid for each patient seen or treated (“Payment by Results”) encourages hospitals to increase the number of admissions, even when care might be better provided in a different setting: the King’s Fund recently described progress in changing the incentives in this mechanism as “painfully slow”.
- The inspection and performance framework, which focusses on the quality of care provided by individual organisations, rather than the patient’s experience of the system as a whole.
- The objective of increasing choice and competition in the NHS calls for a greater range of providers, operating in competition with each other. This may be at odds with the collaborative approach required to provide well-integrated care.

Money

It is widely acknowledged that integration of care services would improve the quality of care provided to those with chronic conditions. The Department of Health also believes that better management of such conditions could generate £4 billion in savings, largely by reducing the number of costly emergency hospital admissions. However, the evidence that integration saves money is, according to the Nuffield Trust, “ambivalent”, and may in any case initially require extra spending on primary and community services. The unpalatable prospect of upfront investment for uncertain future savings may limit the scale and pace of transformation.

Statutory duties to promote integrated care

Health and Social Care Act 2012:

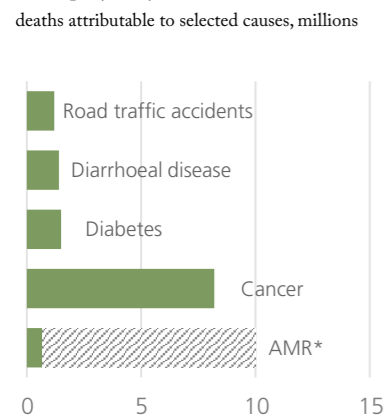
- Established Health and Wellbeing Boards in each local authority, with a “duty to encourage integrated working”
- Requires the NHS Commissioning Board and individual Clinical Commissioning Groups to promote integration of health services where this would improve quality or reduce inequalities

Care Act 2014:

- Requires local authorities to promote the integration of health and care provision where this would promote wellbeing, improve quality, or prevent the development of care needs

The challenge of antimicrobial resistance

Chart 1: 700,000 deaths per year are currently attributable to antimicrobial resistance; but left unchecked, it is projected to lead to 10 million deaths per year by 2050



* shaded bar indicates 2050 projections

“A post-antibiotic era—in which common infections and minor injuries can kill—far from being an apocalyptic fantasy, is instead a very real possibility for the 21st century.”

World Health Organisation 2014

The development and use of antimicrobial drugs in the 20th century revolutionised medicine. Previously life-threatening conditions can now be treated effectively and quickly, and surgery that was once high-risk is now safe and routine.

However, these advances are now being threatened by the evolution of micro-organisms (bacteria, viruses, fungi and parasites) that are resistant to the treatments that were once effective. This natural process has been accelerated by the inappropriate use of antimicrobials (especially antibiotics) fuelled by poor infection control and prescribing practices, and a dearth of new alternative treatment options.

The impact of antimicrobial resistance

The UK Chief Medical Officer, Professor Dame Sally Davies, has described antimicrobial resistance as a “catastrophic threat”. She warned that the lack of effective antibiotic provision could, within 20 years, lead to routine operations such as hip replacements and organ transplants becoming deadly due to infection risk.

Such concerns led to antimicrobial resistance being added to the Cabinet Office’s National Risk Register of Civil Emergencies for the first time in 2015. The register warns that a widespread outbreak of a resistant bacterial blood infection could affect 200,000 people in the UK and lead to 80,000 deaths.

Globally, the ongoing public health effects of antimicrobial resistance are already in evidence and, without action, they are set to worsen: a review launched under the previous Government estimated that, left unchecked, antimicrobial resistance could cause 10 million deaths annually, more than cancer and diabetes currently cause combined (Chart 1), and a related 2.0 to 3.5% drop in global economic output by 2050.

Beyond the human health effects, the loss of effective agents for use in farming has the potential to severely affect the agricultural industry, food security and the wider economy.

Tackling antimicrobial resistance

The previous Government’s Antimicrobial Resistance Strategy 2013-18 focuses on seven key areas and calls for the involvement of those working in both human and animal health. The consensus is that any approach to this threat will require a number of actions, some of which are explored below.

Improved prescribing practices. Antibiotics are ineffective against viruses and other diseases not caused by bacteria. However, despite guidance, an analysis of UK GP prescribing published in 2014 showed that antibiotic prescribing rates for coughs and colds in 2011 had increased since 1997.

The need for improved and consistent education for medical students and ongoing guidance for clinicians has been recognised. Public Health England issued an updated antimicrobial stewardship toolkit, Start Smart-Then Focus, for hospitals in March 2015, which seeks to ensure antimicrobials are used appropriately. The National Institute for Health and Care Excellence (NICE) has included advice on antimicrobial prescribing in its guidance, and it is due to publish new guidelines on antimicrobial stewardship in summer 2015.

Public awareness is crucial and can be improved. Nearly half of Europeans surveyed in 2013 (including 41% of people in the UK) did not know that antibiotics are not effective against viruses. European Antibiotic Awareness Day has provided a good opportunity for raising awareness but the previous Government acknowledged that more work is needed to change expectations.

New treatment alternatives. Compared with drugs for more chronic conditions, antimicrobial drugs are not seen as an attractive, profitable prospect for development by pharmaceutical companies. In 2014, the Commons Science and Technology Select Committee highlighted the “failing antibiotic pipeline”: only 22 new antibiotics have launched since 2000, and only four major pharmaceutical companies are still working in this field.

An Independent Review of Antimicrobial Resistance was announced by the Prime Minister in July 2014 to look at ways to encourage and accelerate the development of new drugs. Preliminary recommendations of the review have included the establishment of a global innovation fund to boost early research ideas for new treatments and diagnostics, and a review of existing treatment options. The final recommendations are due to be published in 2016.

Faster diagnosis. Rapid diagnosis of bacterial infections would improve healthcare professionals’ ability to make informed choices about the need for antibiotics and the most appropriate type to prescribe. The need for better diagnosis was recognised when the public chose the issue to be the subject of the Longitude prize: £10 million will be awarded to the winning entry to develop a quick, accurate, cost effective and easy-to-use diagnostic test for bacterial infections.

Global co-operation. Micro-organisms do not respect borders, and there is a growing consensus that antimicrobial resistance is a global threat that requires a coordinated response. The World Health Organisation (WHO) recently published its first report on antimicrobial resistance surveillance, which shows the need for an improved global effort on information collection. A WHO draft global action plan is due for consideration at the 68th World Health Assembly in May 2015.

What is the difference between antibiotic and antimicrobial resistance?

Antibiotic resistance refers specifically to the resistance to antibiotics that occurs in common bacteria that cause infections. Antimicrobial resistance is a broader term, encompassing resistance to drugs to treat infections caused by other microbes as well, such as parasites (e.g. malaria), viruses (e.g. HIV) and fungi (e.g. Candida).

Source: WHO

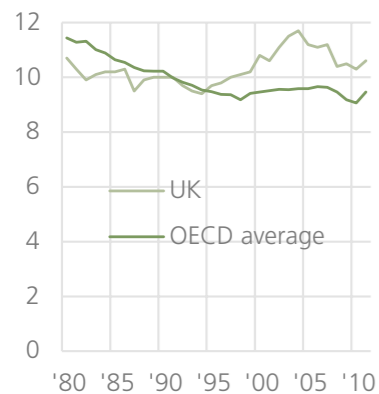
The Antimicrobial Resistance Strategy

The previous Government’s Antimicrobial Resistance Strategy 2013-18 was developed jointly by the Department of Health and the Department of Environment, Food and Rural Affairs. It aimed to slow the growth of antimicrobial resistance by focussing on seven key areas:

- Improving infection prevention and control practices (in human and animal health)
- Optimising prescribing practice
- Improving professional education, training and public engagement
- Developing new drugs, treatments and diagnostics
- Better access to and use of surveillance data
- Better identification and prioritisation of antimicrobial resistance research needs
- Strengthened international collaboration

A minimum price for alcohol

Chart 1: Alcohol consumption in the UK has been higher than the average of OECD countries since 1995 litres per capita of alcohol consumed per year, 1980-2011



1 million Number of alcohol-related hospital admissions in 2012/13 (6.6% of the total) Of these, 297,000 were wholly attributable to alcohol and 713,000 were partly attributable

Greens: put a minimum price on alcohol of 50p per unit.

Labour: (...) take targeted action on low cost alcohol products

Liberal Democrats: introduce Minimum Unit Pricing for alcohol, subject to the outcome of the legal challenge in Scotland

UKIP: oppose minimum pricing of alcohol

There is continuing concern about high levels of drinking and its effects on health and public order, and a widespread belief that much of the alcohol that contributes to these social problems is irresponsibly priced and sold. One widely-proposed means of reducing excessive alcohol consumption and associated harm is through minimum pricing.

What is minimum pricing?

“Minimum pricing” refers to a baseline price below which alcohol cannot be sold. A form of minimum pricing – a ban on the sale of alcohol below ‘cost’ price (in effect, the cost of duty plus VAT) – has been in force in England and Wales since May 2014. A separate minimum pricing policy – a minimum price per unit of alcohol – has been legislated for in Scotland, but has not yet been implemented (see below).

What are the arguments?

Those in favour of minimum pricing argue that there is a clear relationship between price and the consumption of alcohol. As might be expected, when the price of alcohol increases, consumption decreases; but importantly, drinkers’ sensitivity to changes in price varies. In particular, heavier drinkers tend to be more price-sensitive and choose cheaper drinks, meaning a minimum price would tend to reduce their consumption by a greater proportion than it would moderate drinkers’ consumption.

Critics of minimum pricing claim that it unfairly punishes those who drink responsibly, particularly if they are on low incomes, while doing little to help those with serious drink problems, whose dependency is such that they would simply cut back on other purchases to maintain their alcohol consumption. It is also pointed out that minimum pricing could generate a windfall for the alcohol industry, whereas higher taxes could have a similar impact on problem drinking while raising Government revenue (see margin).

Minimum unit pricing in Scotland

Alcohol licensing is devolved to Scotland, and in May 2012 the Scottish Government passed legislation that would enable it to introduce a minimum unit price for alcohol. The intended price is 50p per unit but it has not yet been implemented due to a legal challenge being led by the Scotch Whisky Association. One of the main grounds of the challenge is that imposing a minimum price is contrary to EU law because of its adverse impact on trade and free movement of goods. The case was referred to the Court of Justice of the European Union in April 2014. A ruling, which could have relevance for policymaking in the rest of the UK and other EU Member States, is not expected until summer 2015 at the earliest.

Changing policy in England and Wales

The previous Government committed to introducing a minimum unit price in its March 2012 alcohol strategy. A subsequent consultation document sought views on a minimum price of 45p per unit, with an associated Impact Assessment stating that there was “consistent evidence that limiting the availability of alcohol through an increase in price leads to a reduction in consumption, and in turn, reductions in alcohol related harm”. The Impact Assessment also argued that consumers who drink alcohol at harmful and hazardous levels would be most affected by a minimum unit price and that there would be a limited impact on responsible consumers.

But the previous Government did not, in the end, introduce a minimum unit price. In July 2013, it announced that the consultation had “not provided evidence that conclusively demonstrates that minimum unit pricing will actually do what it is meant to: reduce problem drinking without penalising all those who drink responsibly.” It said minimum unit pricing would be delayed, pending “conclusive evidence”, and announced that it would instead introduce a ban on the sale of alcohol below cost price. This came into force on 28 May 2014.

Continuing calls for a minimum unit price

Many argue that the ban on below-cost sales in England and Wales is having only a limited impact on alcohol consumption and associated harm: a study published in the British Medical Journal found that 0.7% of all units of alcohol sold prior to the ban fell below the cost threshold, whereas nearly a quarter fell below a 45p minimum unit price. The All Party Parliamentary Group on Alcohol Misuse, meanwhile, has described the impact of the ban as “negligible”.

For this reason, alcohol charities and public health groups, as well as some academics and parliamentarians, continue to argue for the introduction of a minimum unit price. Alcohol Concern is campaigning for a minimum unit price of at least 50p, a policy supported by 20 senior health professionals in a January 2015 letter to the Telegraph. Whether the Government decides to heed these calls in the new Parliament may depend in part on the outcome of the legal challenge to minimum unit pricing in Scotland.

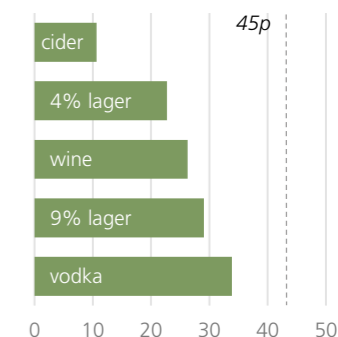
Why not change the taxation of alcohol?

Currently the tax paid on alcoholic beverages can depend not only on their strength but also on the type of drink. For beer, lager, spirits and alcopops, tax is levied directly on alcohol content; but for cider and wine, tax is levied per litre, within broad strength bands.

Many economists, and the Institute for Fiscal Studies (IFS), argue that the social ill-effects of alcohol consumption would be best addressed through changes to the taxation of alcohol, so that the tax paid on all drinks was directly linked to their potential for harm (i.e. to their alcohol content). In particular, the IFS has called for a tax regime under which the tax paid per unit of alcohol is higher on stronger alcoholic drinks, such as spirits, which are disproportionately consumed by heavier drinkers. This, they argue, would target problem drinking and result in significantly more revenue for the Government than a minimum pricing regime.

In making changes to alcohol taxation, however, the UK Government is constrained by EU law, which requires the tax base for wine and cider to be the volume of liquid, rather than the alcohol content.

Chart 2: The ban on selling alcohol below cost price resulted in a significantly lower minimum price per unit than the 45p originally proposed effective minimum price per unit under the May 2014 ban on the sale of alcohol below cost price, pence



Further reading and data sources

Health

NHS England funding and productivity, Tom Powell

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NHS England, *Five year forward view*, October 2014

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A minimum price for alcohol, John Woodhouse

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Home Office, *Guidance on banning the sale of alcohol below the cost of duty plus VAT*, May 2014

Institute for Fiscal Studies, *Price-based measures to reduce alcohol consumption* (Briefing Note BN138), March 2013

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Home Office, *Next steps following the consultation on delivering the Government's alcohol strategy*, July 2013

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Key Issues for the 2015 PARLIAMENT – CHAPTER 7

JUSTICE



The prison population

What is the outlook for the prison population and what is driving the changes? What are the implications of the rising prison population, and what is being proposed - from new prisons to community sentences - to deal with it? Are we beyond a “necessary and sustainable” prison population (especially given crime is falling), and what factors determine this?

Explaining the trends

The prison population has long been on an upward trend (Chart 1) and rose sharply, from around 85,000 to 88,000, at the end of 2011 due to the remanding and sentencing of people alleged to have been involved in the riots in England in August 2011.

Debate continues about what has driven the long-term rise in the prison population, which largely predates the 2011 riots. The Ministry of Justice has attributed the rise to a change in the case mix, including more sex offenders being sentenced to custody.

Some argue that increased crime levels in the 1980s and high profile cases, such as James Bulger’s murder in 1993, fuelled political competition over sentencing. In 1993, Tony Blair promised the Labour party conference that he would be “tough on crime and tough on the causes of crime”, while Michael Howard told the Conservative party conference in the same year that “prison works”. Certainly, by historical standards, there has been a large amount of criminal justice legislation since 1994. Some also suggest that the criminal justice system – in the parole process, for example – has become more risk-averse. Another factor underlying the growth in the prison population has been the increase in the number of prisoners serving indeterminate sentences for public protection, which government predictions had underestimated.

Previous policy

The Labour Government undertook various initiatives to expand the capacity of the prison estate, to ensure it kept pace with the rising prison population. Its two major prison building programmes were the Core Capacity Programme, which was to provide 12,500 places by 2012, and the New Prisons Programme, which was to provide a further 7,500 places alongside the closure of 5,500 inefficient places. Originally, three “Titan” prisons were to provide those 7,500 places. This proposal, however, attracted a great deal of criticism. It was suggested that Titan prisons would be difficult to manage, would not help to tackle reoffending, and would not address the more fundamental problem of the UK’s over-reliance on imprisonment. The plan for Titan prisons was subsequently abandoned.

In its Breaking the Cycle proposals, the previous Government set out what it described as an intelligent sentencing framework that, with more effective rehabilitation, would break the cycle of crime. In its Transforming

Conservatives:

close old prisons and replace them with larger, modern and fit-for-purpose ones and expanding payment-by-results

Greens:

operate a smaller prison system

Labour:

(...) increase the amount of time prisoners spend working and learning and measure the success of prisons by how successful they are in reforming prisoners and reducing re-offending

Liberal Democrats:

(...) reduce the prison population by using more effective alternative punishments and correcting offending behaviour

UKIP:

(...) free up prison space by removing foreign criminals

Rehabilitation proposals, it promised a revolution in the management of offenders that would both drive down reoffending and offer better value for the taxpayer. In particular, more would be done to supervise and rehabilitate prisoners serving less than twelve months and management of all but the most dangerous offenders would be passed to community rehabilitation companies in the private and voluntary sector, who would be paid (in part) according to results.

More prisons, bigger prisons or less imprisonment?

For some, the key issue is how to keep pace effectively with the rising population: overcrowding can make rehabilitation more difficult as prisoners have reduced access to purposeful activity and are moved around more frequently. Others see the fundamental problem as over-reliance on imprisonment, drawing resources away from preventive and rehabilitative work.

The previous Government announced its intention to build a 2,000-place prison in Wrexham and to replace the Feltham young offender institution with a large new adult prison and adjoining youth facility. This revived concerns that the ‘average’ prison is becoming bigger, as smaller, older prisons close, to be replaced by larger ones. Some argue that larger prisons function less well and are less likely to help prisoners to quit offending as they are held farther from their homes. Others argue that they are the most cost-effective option and that a prison’s size does not, in itself, determine its decency, safety or effectiveness.

Several substantial reports have recently examined these issues: for example, work by the Justice Committee on the Transforming Rehabilitation programme and prison planning and policies, the Public Accounts Committee, the Welsh Affairs Committee, the National Audit Office, the British Academy for the Humanities and Social Sciences and Policy Exchange.

Questions raised include:

- Should we have smaller local prisons, which may work better by rehabilitating offenders closer to home, or larger prisons providing economies of scale?
- Will the changes to the management and delivery of probation supervision deliver the hoped-for improvements? What are the risks (both of the changes and not making the changes)?
- How can we make justice more responsive locally?
- Could restorative justice reduce the need for imprisonment?

Chart 1:
The prison population has been rising since the mid 1990s

prison population, England and Wales, Jun-85 to Dec-14 and projections to Jun-20 (annual intervals to Jun-10; monthly intervals thereafter), thousands

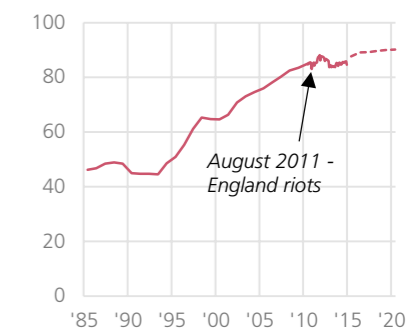
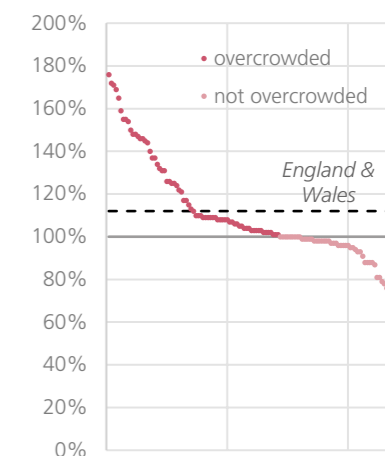


Chart 2:
As of February 2015, 71 prisons (60% of the estate) were overcrowded

prison population as a proportion of certified normal accommodation, England and Wales, February 2015 (each dot represents an individual establishment)



Human rights and the vexed question of prisoner voting

The Human Rights Act was introduced by the Labour Government in 1998 in order to “bring rights home” and initially enjoyed cross-party support. Essentially, it allows individuals to rely on rights contained in the European Convention on Human Rights (“the Convention”) before the domestic courts, as opposed to having to take a case to the European Court of Human Rights (“the Court”).

The Act has proved controversial; and while it is still backed by the Labour Party and the Liberal Democrats, the Conservative Party has long been committed to replacing it with alternative legislation (and potentially renegotiating the United Kingdom’s position on the Convention). In October 2014, the Conservatives spelt out their plans in a paper entitled Protecting Human Rights in the UK. Labour’s Shadow Justice Secretary, Sadiq Khan, has also talked about asserting “the role of British courts vis-à-vis Strasbourg.”

The UK Government’s approach to human rights

Disquiet about both the Human Rights Act, and latterly the jurisdiction of the European Court of Human Rights itself, has a number of causes. The principal concerns of critics focus on two discrete issues: the impact of human rights laws on parliamentary sovereignty; coupled with their belief that these laws have been abused by various litigants. The accuracy of these fears is often contested, but they include: foreign prisoners who cannot be deported (although it is worth noting that this is sometimes due to EU law obligations, rather than the Convention, and the two are frequently conflated by the media); the contentious and seemingly intractable issue of prisoner voting; and various tensions when suspected terrorists rely on Convention rights. Council of Europe figures show that of the large number of applications to the Court, only a tiny proportion result in a judgment against the UK.

The Government sought to deal with some of these issues in domestic law in the 2010 Parliament (e.g. the Immigration Act 2014, which introduced new rules relating to foreign prisoners). It took a twin-track approach to wider concerns, establishing a Commission on a Bill of Rights, which reported inconclusively in 2012. During the UK’s Presidency of the Council of Europe, there were moves to reform the Convention system itself, culminating in the Brighton Declaration, which included an agreement to amend the Convention to include the principles of ‘subsidiarity’ and the ‘margin of appreciation’ (which would support national authorities reaching conclusions based on their own particular circumstances).

Some critics of the Convention system remain unsatisfied, arguing that underlying issues relating to parliamentary sovereignty remain unresolved. Under Article 46(1) of the Convention, the UK is obliged to implement judgments of the Court in any case to which it is a party.

Conservatives:

scrap the Human Rights Bill and introduce a British Bill of Rights

Greens:

retain and protect the Human Rights Act

Labour:

protect the Human Rights Act and reform the ECHR

Liberal democrats:

retain and protect the Human Rights Act

SNP:

oppose scrapping the Human Rights Act or withdrawal from the ECHR

UKIP:

repeal the Human Rights Act, leave the ECHR and introduce a UK Bill of Rights

The Question of Prisoner Voting

One area where the operation of Article 46 has proved difficult is in relation to the question of prisoner voting. The United Kingdom is under an international law obligation, under Article 46, to implement the judgment of the Court in the case of *Hirst v United Kingdom (No.2)*, which was delivered in 2005.

The failure of the Government to repeal what the Court described as a “blanket ban” on prisoner voting has resulted in more than 2,000 claims from disenfranchised prisoners. The Court has found against the Government in a series of further cases (although it has declined to award any prisoners financial compensation). The issue has also been considered by the domestic courts, most notably by the Supreme Court in 2013.

David Cameron and Sadiq Khan have spoken against giving prisoners the right to vote. In February 2011, in a Backbench Business Committee debate, many MPs expressed their strong opposition to the *Hirst* judgment. The resolution, agreed by a majority of 234 votes to 22, stated “that legislative decisions of this nature should be a matter for democratically elected lawmakers”.

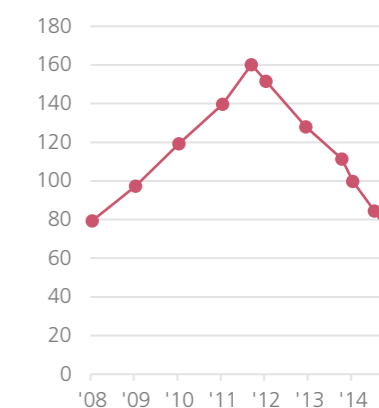
A draft Bill was considered by a Joint Committee in the 2010-15 Parliament. The Committee reported in December 2013. It concluded that a refusal to implement the Court’s judgment would not only undermine the standing of the UK; it would also give succour to those states in the Council of Europe who have a poor record of protecting human rights and who could regard the UK’s action as setting a precedent for them to follow. Accordingly, it recommended a Bill should be introduced to allow the vote to prisoners serving sentences of 12 months or less; and moreover that prisoners should be entitled to apply, 6 months before their scheduled release date, to be registered to vote in the constituency into which they are due to be released.

No legislation was forthcoming: in a paper in December 2014, the Government said that it was “considering the report but will not be able to legislate for prisoner voting in this Parliament”. The Committee of Ministers has decided to defer further discussion of the issue until September 2015; and thus the new Government will find the question of prisoner voting remains to be resolved.

Chart 1:

Following the Brighton Declaration the European Court of Human Rights has been successful in reducing the previous backlog of pending applications

applications pending before a judicial formation, selected dates between Jan-08 and Dec-14, thousands



Legal aid

The impact of the previous Government's changes to legal aid eligibility

Civil legal aid, cases are in scope only where they are specified in Schedule 1 to the Legal Aid, Sentencing and Punishment of Offenders Act 2012. So clinical negligence, education, employment, welfare benefits, debt (except where the client's home is at risk), housing (except where there is an immediate risk of homelessness) and private law children and family cases where domestic violence is not present are all generally excluded. If in scope, legal aid is also subject to means and merits tests, which have also been tightened.

Criminal legal aid restrictions have included no legal aid for prison law cases; introducing a financial eligibility threshold of £37,500 (disposable household income) in the Crown Court; and refusing to fund cases with borderline prospects of success. A new contract and fees regime for legal aid work has also been applied.

Legal profession the previous Government's proposed 10% reduction in fees for civil and family legal aid providers was expected to yield £72 million in annual savings.

The implications of the major changes to eligibility for both civil and criminal legal aid in the last Parliament are not yet fully apparent. Critics claim that unintended consequences of the changes include a rise in the number of litigants in person, and threats to the safety of those suffering domestic violence, as well as a reduction in the number of legal aid specialists. A series of legal challenges to aspects of the reforms have not succeeded in reversing the main thrust of the changes.

In response to these concerns, the previous Government argued that the legal aid bill was unsustainable, and pointed out that the cost per person in England and Wales was well above comparable states, even those with common law systems, such as New Zealand. It also argued that the changes to eligibility would lead to a growth in the use of mediation services, a less costly form of resolving family law cases. The report of the Justice Select Committee inquiry into civil legal aid, published in March 2015, concluded that, while the previous Government had indeed yielded cost savings through its changes, access to justice had been harmed for some, and overall value for money may have been affected by knock-on costs. The report also noted that the Ministry of Justice had not achieved its objective of ensuring legal aid expenditure was focused on the most serious cases and the most vulnerable individuals.

Unforeseen consequences?

The changes to legal aid were predicted by some to lead to knock-on costs amounting to £139 million per year, arising from reduced social cohesion, increased criminality, reduced business and economic efficiency, and increased resource costs to other Departments. The previous Government maintained that there was insufficient evidence of this happening in practice. Legal aid can only be accessed at the most urgent point, such as threatened eviction, when earlier intervention might have led to a more long term solution. Advice services report heavy demand and diminished resources. 86% of respondent MPs indicated a big increase in demand for advice since 1 April 2013, corresponding with the areas of law where civil legal aid had been removed, according to a survey for the Low Commission on advice services.

Contrary to the previous Government's expectations, the use of the available evidence suggests that many potential clients are not aware of the services available due to lack of contact with sources of legal advice.

Senior judges told the Justice Select Committee that courts have faced an "unprecedented increase" in numbers of litigants in person (LiPs), with the major impact being in private family law cases. Since April 2013 there has been an increase in the proportions of self-representing cases for domestic violence (from around 85% to around 90%) and for private law cases (from around 50% to around 75%). This, the judges argued, has led to an adverse impact upon courts' administration and efficiency, as LiPs have sought advice from judges and court staff.

Critics of the changes also argue that the domestic violence "gateway" for legal aid is too narrow, preventing victims of domestic violence from obtaining the help that they need. Research provided by Women's Aid to the Justice Select Committee demonstrated that in the first 4 months of the domestic violence evidence gateway, 50% of women experiencing violence did not have the prescribed forms of evidence to access family law legal aid. Following some reforms in April 2014 the figure is now around 43%. The Children's Commissioner has published research showing 70% of children's cases lack representation. Access to the exceptional funding scheme, offering access to vulnerable applicants, appears unduly restrictive, with few applications being accepted.

It is unlikely that the legal aid budget will be restored to the levels it attained before the previous Government's changes. However, in the wake of critical reports at the end of the last Parliament, the effects of the changes to legal aid eligibility will continue to be closely scrutinised, and pressure for government action to improve access to justice for the most vulnerable is likely to continue.

Chart 1: Public expenditure on legal aid was on a downward trajectory even before the previous Government's changes to eligibility

expenditure on legal aid, financial years 2007/08 to 2013/14, £ billion

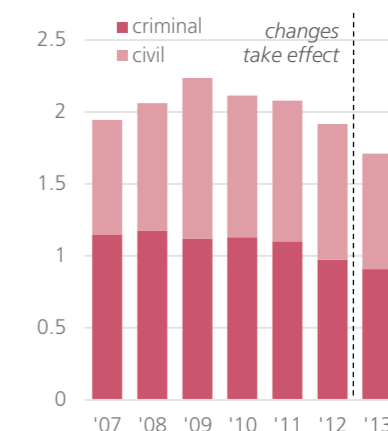
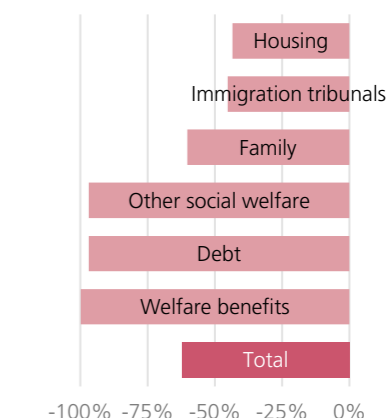


Chart 2: The previous Government's changes virtually eliminated legal aid in certain categories of civil case

change to number of cases granted legal aid, selected categories, 2013/14 vs 2012/13



Anonymity for defendants in rape cases

Since the Sexual Offences (Amendment) Act 1976, people who allege they are victims of rape have been automatically entitled to lifelong anonymity once their complaint has been made. This has since been extended to certain other sexual offences.

The 1976 Act also provided defendants in rape cases with anonymity, but this was repealed by the Criminal Justice Act 1988.

Currently, people accused of rape can be named and cases involving public figures often attract significant media attention. Parliament has considered the idea of anonymity for those accused of rape on a number of occasions. In the 1970s, it legislated to introduce anonymity for rape complainants and defendants, though the anonymity for rape defendants was later repealed.

The previous Government said in the Coalition Agreement that it would extend anonymity in rape cases to defendants. However, having undertaken an assessment of the evidence, it concluded in 2010 that there was insufficient reliable evidence to justify a change in the law. Despite this, calls for anonymity for those accused of rape have continued.

Inequality?

People who allege they are victims of certain sexual offences receive lifelong anonymity. It is a criminal offence to publish the complainant's identity or any information that might lead to the complainant being identified. Some argue that it is unfair that potentially innocent defendants do not receive similar protection in the absence of any finding of their guilt. It was partly on this basis that anonymity was provided to defendants as well as complainants in rape cases in 1976. Parliament repealed anonymity for defendants in rape cases in 1988. This followed a Criminal Law Revision Committee report in 1984 which said that the argument about equality between rape defendants and complainants was not valid "despite its superficial attractiveness".

It is argued that comparison should be made not between a rape defendant and alleged victim, but between a rape defendant and a defendant charged with another serious crime. If defendant anonymity is to be provided for defendants in cases of rape, why would this not also be appropriate in respect of other, non-sexual, offences? Why, if the particular nature of rape and sexual offences are a reason for providing special protection to complainants (as opposed to complainants of other, non-sexual crimes), should this particular nature not also be a reason for special protection for those accused of these crimes?

"Mud sticks"?

Those in favour of reform argue that there is a particular stigma attached to allegations of sexual offences, as compared to allegations of other serious crimes, which result in harm to the defendant. Individuals who have been acquitted of rape have told of the devastating effect on their lives of being named as a defendant in a rape case. Those who oppose change counter that the public will understand the principle of 'innocent until proven guilty' and the distinction between being accused and being convicted. But even if the public do recognise this distinction, advocates of reform argue, acquittals tend not to receive as much public attention as the details of the allegations and the trial.

False allegations?

Opponents of reform have questioned whether the call for defendant anonymity in rape cases is linked to what they say is a mistaken belief in high numbers of false accusations of rape. They have said that for defendants to be treated differently in rape cases could imply that rape complainants are less reliable than complainants in other offences. The Labour Government, during the passage of the Sexual Offences Act 2003, gave as one reason for not changing the law that it avoided giving the impression that there is a presumption of doubt about the credibility of the complainant in sex offence cases.

Open justice?

Some who say that the law should not be changed highlight the importance of open justice. It is said that the current position promotes victim confidence in the criminal justice system and allows justice to be seen to be done. Some worry that anonymity would lead to 'secret charges'. There are already some protections in place for defendants, such as the rules on crime reporting that restrict what can be reported during a trial.

Naming defendants can also enable, or in some cases encourage, other potential victims and witnesses to come forward to report offences. One suggested compromise would involve providing generally for the anonymity of defendants in sexual offence cases, with a judge being able to make an exception and name the defendant if this were in the interests of justice, for example to help identify other potential victims.

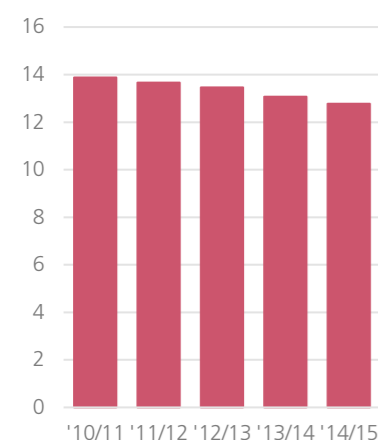
Debate set to continue

With defendant anonymity in rape cases having been introduced and then repealed, and the previous Government initially planning to change the law and then concluding there was insufficient evidence on which to base a decision, it seems likely that debate will continue.

Police reform in England and Wales

Chart 1:
Police forces have faced funding constraints over the past five years

gross revenue expenditure police forces, England and Wales 2010/11-2014/15 (£ billion)



How should the police be held accountable politically to the communities they serve? What kind of redress should citizens have when things go wrong? And how should the service be organised, particularly when money is tight?

Under Labour, the service in England and Wales saw the introduction of:

- Statutory local partnership working
- New civilian Police Community Support Officers and a national model of neighbourhood policing
- New national bodies, such as the National Policing Improvement Agency (NPIA) the Serious Organised Crime Agency (SOCA) and the Independent Police Complaints Commission (IPCC)

Reforms under the previous Government emphasised localism. The Government replaced national targets with a “single mission” to cut crime. It also made huge changes to the “policing landscape”, the main one being replacing police authorities with directly elected Police and Crime Commissioners.

Other reforms included:

- New national organisations, such as the National Crime Agency and the College of Policing
- Reformed pay and conditions following the Winsor review
- Replacing the Association of Chief Police Officers with a new coordinating body, the National Police Chiefs’ Council

The challenge of austerity

Policing in a time of austerity has also been a huge challenge for the service. In October 2010, the Government announced a 20% real terms cut in the central government funding grant up to 2014/15. Police forces receive funding from other sources too: Chart 1 shows total funding expenditure in cash terms over the period. This has fallen by 8%, equivalent to about 14% in inflation-adjusted terms.

Police officer numbers decreased by over 16,500 between March 2010 and September 2014: a reduction of around 11%. PCSO numbers decreased by just over 4,000 over the same period: a reduction of nearly 25%.

Her Majesty’s Inspectorate of Constabulary found that overall the police’s response to the financial challenge had been good; however it did have concerns, in particular that neighbourhood policing risked being eroded in some places.

A period of consolidation?

The Home Affairs Committee, reviewing the Government’s changes to the policing landscape in February 2015, recommended that it was “now time to allow these pieces of the policing puzzle to settle into the new landscape, so that they might achieve the aim of making policing more effective.”

Conservatives:

finish off the job of police reform, develop the role of PCCs and extend the use of police-led prosecutions

Greens:

abolish PCCs

Labour:

abolish PCCs, overhaul the police complaints system and introduce a statutory commitment to neighbourhood policing

Liberal Democrats:

abolish PCCs and focus on evidence-based policing

UKIP:

reduce the number of PCCs

It seems unlikely that the service will escape further reform. Even if the basic architecture remains unchanged, other reforms are likely. For example, the Liberal Democrats and the Green Party have pledged to reform stop and search, and the Tories would also legislate for this if the police failed to make changes.

Issues for the new Parliament

Local political accountability?

The Conservatives want to develop the role of Police and Crime Commissioners (PCCs). They accuse Labour of “micromanaging” the police when they were in Government.

In Opposition, Labour commissioned an Independent Commission on Policing. The report called PCCs a “failed experiment”, not least because of the average 15% turnout at the first election in 2012. Labour has pledged to scrap Police and Crime Commissioners, putting the cost of elections into front line policing. Plaid Cymru and the Green Party also want to abolish PCCs, and the Liberal Democrats want to replace them with local police boards.

The police complaints system

There is widespread dissatisfaction with the police complaints system. The Home Office has been consulting on reforms, including more involvement of PCCs in the complaints system. Labour would abolish the IPCC and replace it with a “stronger” Police Standards Authority. Legislation on this is very likely.

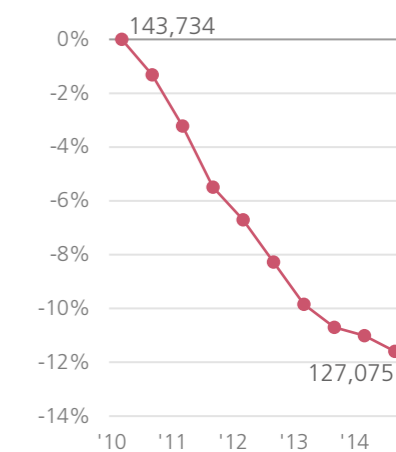
Force structure

Many argue that the current model of 43 geographic police forces of varying sizes in England and Wales is no longer viable. UKIP’s manifesto questions the structure, although it says it won’t impose “top down” changes. The Independent Commission on Policing found “broad agreement” that the present structure “is no longer cost effective or equipped to deal with organised and cross border crime.”

Concerns like these led the Labour Government to introduce proposals for mergers in 2006. But they abandoned them in the face of strong opposition. Theresa May and David Cameron both rejected arguments for compulsory top-down mergers, urging greater collaboration instead. But, as spending restraints continue to bite in the new Parliament, will voices urging reform get louder?

Chart 2:
Police force numbers were cut by around 11% during the last Parliament

percentage change in full-time equivalent police force strength, Mar-10 to Sep-14



Further reading and data sources

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Graham Cookson, *Unintended consequences: the cost of the Government's Legal Aid Reforms – a Report for The Law Society of England and Wales*, November 2011

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Key Issues *for the* 2015 PARLIAMENT – CHAPTER 8

DEFENCE & SECURITY

The intelligence services and the Snowden revelations

Information leaked by Edward Snowden highlighted the UK's Government Communications Headquarters' ability to collect and process internet communications. This has led to considerable debate about the proper limits of the intelligence services' intrusive capabilities; the effectiveness of current oversight mechanisms; and the adequacy of the existing legislative framework. Further legislation in this area is very likely in the new Parliament.

What Snowden "revealed"

In June 2013, the Guardian and the Washington Post ran stories based on information leaked by Edward Snowden. These revealed the existence (since publicly confirmed) of two vast data-gathering projects in the US:

- Prism, which collects information from technology companies
- "Upstream collection" programmes, which intercept telephone and internet traffic from major internet cables and switches

The stories also alleged the existence of a programme, Tempora, under which GCHQ had reportedly been intercepting fibre-optic cables carrying internet traffic in and out of the UK.

Spotlight on oversight

The UK Government (in accordance with long-standing policy) neither confirms nor denies Tempora's existence. But this has not stopped some intensive scrutiny by statutory oversight bodies and others.

Shortly after the Snowden revelations, the Intelligence and Security Committee issued an early statement concluding that allegations that GCHQ had acted illegally by accessing the content of private communications via the Prism programme were "unfounded". It also conducted an inquiry into the intelligence agencies' intrusive capabilities which reported in March 2015. This concluded that the existing legal framework governing these capabilities was unnecessarily complicated, and recommended that it be replaced with a new Act of Parliament.

Court judgments

Two judgments from the Investigatory Powers Tribunal (IPT), issued in December 2014 and February 2015, examined the extent to which "assumed activities" by the intelligence services were compatible with Articles 8 and 10 of the European Convention on Human Rights (the rights to private and family life, and to freedom of expression). The first judgment found that they were, at least since the authorities made information public during the litigation about certain safeguards in the system. However, it left open the question of whether the regime was compatible with the Convention before those disclosures.

This question was addressed in the second judgment. The IPT declared that up until December 2014, the regime had been incompatible with the Convention because there was not sufficient information about the

safeguards in the public domain. This was hailed as a victory by the organisations that had brought the case. Those organisations have filed an appeal with the European Court of Human Rights against the earlier judgment. GCHQ acknowledged that the IPT had found against it "in one small respect", but stressed that the safeguards themselves were "fully adequate".

Needles and haystacks

The essential problem is that by the time the intelligence services have suspicions about an individual, much of the online plotting may have already taken place. The usual metaphor is that they may need to gather a "haystack" of communications data (the "who, when and where" of a communication - see margin) in advance, so that when necessary they can undertake targeted searches to search for a "needle" of information they need (the content of communications between suspects, for example).

As evidence to the Intelligence and Security Committee has shown, there is a fundamental clash between those who believe that the bulk collection of communications data represents an unacceptable intrusion, and those who are content for this to happen so long as there are suitable safeguards on how it can be searched and the content of communications accessed. The previous Government stated that communications data have been used in every major security service counter-terrorism investigation over the last decade.

Who gathers the haystack, and what should it include?

Whilst the Snowden revelations concerned the intelligence services' own data-gathering activities, there has also been controversy about the data that private companies, particularly communications firms, are expected to keep about their customers.

Regulations under the 2006 EC Data Retention Directive required public communications providers to keep communications data on internet access, internet telephony, email, and fixed-line and mobile telephony data. In April 2014, the European Court of Justice declared the Directive invalid on the grounds that it entailed "a wide-ranging and particularly serious interference with the fundamental rights to respect for private life and to the protection of personal data".

Three months later, the previous Government introduced emergency legislation that, among other things, sought to re-enact some of the mandatory data retention provisions, while addressing the ECJ judgement "where possible". The resulting Data Retention and Investigatory Powers Act 2014 (DRIPA) has a sunset clause, which means it will expire at the end of 2016.

Another piece of emergency legislation, the Counter-Terrorism and Security Act 2015, will require communications service providers to keep data that would allow authorities to track the individual or device that was using a particular internet protocol (IP) address at any given time.

More controversial was the draft Communications Data Bill or "snoopers' charter", which the Liberal Democrats opposed. The Bill would have required communications companies to keep records for at least a year of every website visited by a subscriber.

The New Parliament

In addition to the recommendations of the March 2015 ISC report, at least two reviews (by David Anderson QC, the independent reviewer of terrorism legislation, who reported to the Prime Minister on 6 May 2015, and by a panel convened by the Royal United Services Institute) will feed into the debate in the new Parliament on the extent and oversight of the intelligence services' intrusive capabilities. The Conservative manifesto said they will introduce new communications data legislation but will "continue to strengthen safeguards".

Conservatives:
introduce new communications data legislation

Labour:
strengthen oversight of intelligence agencies

Liberal Democrats:
introduce legislation that the police and intelligence agencies do not obtain data on UK residents of foreign Governments that would not be legal to obtain in the UK under UK law

UKIP:
create a new over-arching role of Director of National Intelligence

To intervene or not to intervene? Military operations overseas

House of Commons votes on military action in the 2010 Parliament

9 September 2010

Continued deployment of UK Armed Forces in Afghanistan. (Agreed 310 to 14)

21 March 2011

(Retrospective) Approval for enforcement of no-fly-zone in Libya. (Agreed 557 to 13)

29 August 2013

Military action to alleviate humanitarian suffering in Syria. (Defeated 272 to 285)

26 September 2014

Use of UK air strikes to support Iraqi security forces' efforts against ISIL in Iraq. (Agreed 524 to 43)

Throughout the Western world, and particularly in the UK, public and political opinion has become more sceptical over time about the practical value and moral legitimacy of military action overseas, whether on grounds of humanitarian protection or national interest. The sensitivity of public opinion to military casualties, together with constraints on public spending and the unconvincing outcomes of previous actions, means the threshold for future interventions may be high.

The rejection by the House of Commons of intervention in Syria in 2013 arguably strengthened its role in approving military action abroad. A rise in the frequency of jihadi violence, turmoil in the Middle East and revanchism in Russia all promise to raise questions and possible votes in the new Parliament about whether and how to intervene.

Humanitarian intervention

The Cold War had provided a rigid framework within which international conflict tended to take place. With the collapse of the Soviet Union, the US and the West in general felt more able to intervene directly in conflict situations. They were partly supported in doing so by the emergence of the 'Responsibility to Protect' doctrine, which gave grounds for humanitarian intervention in countries where the state was failing to prevent atrocities.

However, doctrines establishing grounds for humanitarian intervention have been difficult to put on a firm, objective footing. Firstly, it has proved difficult to disentangle humanitarian objectives from national strategic interests. Secondly, interventionist doctrines clash with a principle of the international system established at least since the 17th century: namely, that states are sovereign. After the abuse of customary international law justifications of humanitarian intervention in the first half of the twentieth century, the UN Charter of 1949 makes no allowance for humanitarian military intervention that is not sanctioned by a suitable Security Council resolution.

But perhaps most importantly, doctrines have proved a poor guide to decision-making: while they may articulate noble intentions, they say nothing of the likely consequences of intervention, which have in practice depended on specific events and circumstances. Interventions by the UK in Bosnia, Kosovo, Afghanistan, Sierra Leone, Iraq and Libya all took place under very different circumstances and had varying, and often unpredictable, outcomes. Success has depended not only on circumstance but also on subsequent commitment. A particular lesson from Libya is that it may be unwise to bring down autocratic regimes without dedicating enough resources and persistence to the job of rebuilding. Dictators tend to rule using fear and division, and by hollowing out civic institutions; after they fall, the score-settling can be grisly.

Intervention in the new Parliament

The role of the House of Commons in approving overseas military operations is arguably stronger than ever (see Box). The shadows of Iraq and Afghanistan mean that support for military intervention in the new Parliament is likely to be restrained, particularly when such action is not clearly backed by international law.

Some may consider that, in light of recent history, this cautious, case-by-case approach to intervention is a very good thing. However, in an international scene that looks increasingly disordered, others could be concerned that it leaves Britain hamstrung. With a deadlocked UN Security Council, an overstretched military, and the absence of Parliamentary support for action in support of anything other than the most limited aims, the UK may be condemned to military intervention that does just enough to provoke a hostile reaction, but not enough to achieve any solid objectives.

How to win a Commons vote on military intervention

The conflict in Syria and Iraq embodies many of the usual features of the debate over intervention: weapons of mass destruction, gross human rights violations, Security Council deadlock, and the competing strategic interests of blocs and nations. Having lost a vote on taking military action in Syria in 2013, the Government recalled Parliament for an emergency session in September 2014, and this time the Commons voted strongly in favour of participating in military action against ISIS in Iraq.

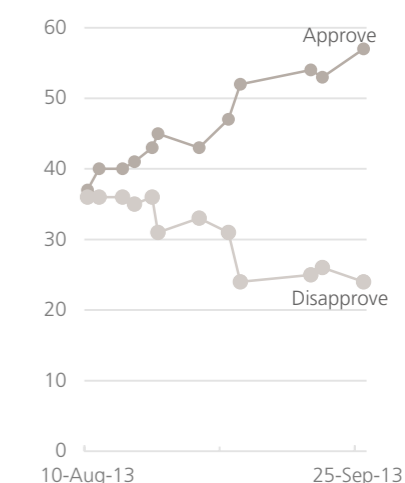
Three factors are likely to have played a role in the outcome of the ISIS vote:-

- The legality of action was broadly accepted. The Iraqi government had requested it, and the scope of the action was clearly defined in a long Government motion as being limited to Iraq.
- The motion specified that no UK ground troops would be used, assuaging concerns about mission creep.
- Following the emergence of videos depicting the beheadings of Western captives, public opinion swung substantially in favour of the airstrikes against ISIS during September 2014 (see Chart 1).
- This suggests that ingredients of success in a vote on military intervention are, perhaps unsurprisingly, public consent, undisputed legality and clear limits on the scope of operations.

Chart 1:

Following the emergence of videos depicting the beheadings of Western captives, UK public opinion swung substantially in favour of airstrikes against ISIS

percentage of public approving/disapproving of RAF air strike operations against ISIS, YouGov surveys, 10-Aug to 26-Sep 2013

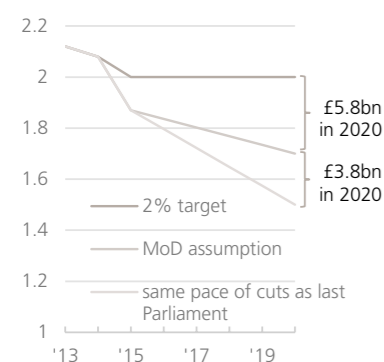


Can the UK afford to defend itself?

Chart 1:

On current trends, defence spending is likely to fall below the NATO 2% target in the next Parliament

projected defence spending to 2020 under selected assumptions, % GDP



Conservatives:

will hold a National Security Strategy review and a SDSR in 2015

Greens:

implement a policy of defensive defence which threatens no one but makes clear that attacks will be resisted

Labour:

conduct a SDSR in first year of government including a debate on security and defence challenges

Liberal democrats:

SDSR straight after the election

SNP:

(...) support greater transparency in UK defence spending, with a full breakdown of spending by nation and region in the UK

UKIP:

increase defence spending to 2% of GDP

The Ministry of Defence is as vulnerable to further cuts to its budget as any other department. Less money, combined with an ambitious equipment plan, equals hard questions about what the Armed Forces need to fulfil their allotted tasks.

Commitments and realities

One clear indication of the Government's spending plans for the Armed Forces is whether they meet the NATO target of spending 2% of GDP on defence. While it is a non-binding target, the UK pushed hard for the Declaration at the 2014 NATO Wales Summit to include a pledge for all allies to move towards spending 2% of GDP on defence within a decade. The Declaration specifically said those who already spend a minimum of 2% will "aim to continue to do so."

Spending 2% of GDP on defence has not troubled the UK in the past. However, current projections suggest the UK will fall narrowly short of the 2% threshold in 2015/16. To meet the target, the UK would have to increase the defence budget by more than £2bn in 2015/16, and find further increases of nearly £1bn per year thereafter.

There have been calls by some to make the 2% commitment binding in law, akin to the commitment to spend 0.7% of gross national income on international aid. A Bill was introduced in the House of Commons in the 2014/15 session to mandate that the UK Government meets the NATO target, but this did not make progress. In March 2015, the Commons agreed a motion that defence spending should be set to a minimum of 2% of GDP.

The capability gap

That 2% is an arbitrary figure is acknowledged: it does not represent any type of critical threshold or 'tipping point' in terms of defence capabilities. But further cuts to the defence budget, on top of those already made in the last Parliament, will have a significant impact on the Armed Forces and will reinvigorate the debate about the gap between the UK's military capability and its strategic ambitions. Former senior Generals at home and current senior Generals abroad have warned of a growing 'capability gap' if the NATO target is missed (see quotes in margin). Even if cuts were to continue at the same pace as in the 2010 Parliament, it is likely that the UK would still maintain its position among the world's largest defence spenders.

The next Strategic Defence and Security Review (SDSR)

The next SDSR, due to be conducted early in the new Parliament, will determine the future shape of the Armed Forces. It sets out the Defence Planning Assumptions and the Military Tasks: essentially, what the Government may ask the Armed Forces to undertake.

Theoretically an SDSR should provide a Government with the opportunity to undertake a deep and profound study of what the Armed Forces need to meet the challenges assessed to face the UK. However it is widely accepted

that the last SDSR, in 2010, was driven by budget considerations and became what Sir Nick Harvey, a Defence Minister at the time of the SDSR, recently described as a "quick and dirty review."

The previous Government made a commitment that the defence equipment budget would rise by 1% year on year in real terms for the period of the spending review following the election. On the basis of such a rise, the Ministry of Defence has laid out a £163 billion ten-year equipment plan to 2024. However, there was no equivalent commitment to real-terms increases in the rest of the defence budget. A study by defence economist Malcolm Chalmers for RUSI into the MOD's possible budget in the new Parliament laid out an optimistic scenario and a pessimistic scenario. He concluded that in either scenario "the result will be a remarkably sharp reduction in the footprint of defence in UK society over a decade."

Questions for the new Parliament

What will the new Government decide to spend on defence over the course of the next Parliament? Will that radically alter the Future Force 2020 structure unveiled in the 2010 SDSR? How will NATO allies react if a member which has so forcefully pushed others to commit to the 2% target fails itself to do so? And will the UK have to take a more ruthless assessment of how, where and when it uses its Armed Forces?

The new Parliament will also have the opportunity to assess, in 2017, reforms made to the Ministry of Defence's defence equipment procurement arm, Defence, Equipment and Support (DE&S). The previous Government's attempts to reform DE&S into a Government-owned, Contractor-operated (GoCo) entity collapsed in late 2013. DE&S was instead converted into a bespoke trading entity, with freedoms from and flexibilities over civil service pay rules. A three-year transformation programme will end in 2017. If the new Government and industry have the appetite to once again to attempt to convert DE&S into a GoCo, the legislation exists in the Defence Reform Act 2014.

General consensus?

"[further cuts] will really affect our capabilities to an irresponsible extent"

General Sir Peter Wall, former head of the Army, 8 September 2014

"As far as I am concerned, looking forward, the size of the British Army is adequate for what the Government currently require of it."

General Sir Nicholas Carter, current head of the Army, 5 November 2014

"I would be lying to you if I did not say that I am very concerned about the [proportion of] GDP investment in [the military] in the UK."

General Raymond Odierno, Chief of Staff, US Army, 2 March 2015

"If we continue to make cuts in our defence budget of the kind that are being contemplated, we shall find that we are making a profound and irreversible change not just to our defence capability, but the ability of the United Kingdom to conduct a global foreign policy with authority, conviction and credibility. That, in essence, is the fundamental choice that we are being asked to contemplate."

Sir Malcolm Rifkind, 12 March 2015:

Does the UK have enough soldiers to defend itself?

The Reserves

Found to be neglected, under-exploited and in decline by an Independent Commission, the Reserves will in the future form an integral element of the Armed Forces.

Reservists will be mobilised and deployed on a far wider range of operations than now and will be more closely aligned with Regulars. Restrictions on the deployment of Reserves were lifted in the Defence Reform Act 2014, while a 2013 White Paper promised a new relationship with Reservists, their families, employers and society.

The 2010 Strategic Defence and Security Review set a target of a trained Reserve strength of 35,000 by 2019: 30,000 Army; 3,100 Maritime Reserve and 1,800 Royal Auxiliary Air Force.

Conservatives:

(...) will maintain the size of the regular Armed Forces and not reduce the army to below 82,000

Labour:

(...) ensure the UK has a responsive, high-tech Armed Forces, capable of responding to changing interconnected threats

Liberal Democrats:

maintain a strong and effective Armed Forces and the capability to deploy rapid expeditionary forces

SNP:

(...) will support greater transparency in UK defence spending, with a full breakdown of spending by nation and region in the UK

Will the new Government continue with the ambitious plans to increase the number of trained Army Reserves to 30,000 by 2019? Can the radical restructuring planned by the Army work if the recruitment of Reserves falls short of expectations?

Reserves of strength

The 2010 Strategic Defence and Security Review, and a subsequent internal study, proposed cutting the Army's regular force by 19%. At the same time, an Independent Commission prompted the Ministry of Defence to completely rethink how it utilises the Reserve forces.

To offset the loss of nearly 20,000 regular soldiers the Army has opted to undergo a radical restructure. The plan, known as Army 2020, will integrate the Reserves and Regulars into a single Army. Achieving a total Army of 112,000 will require increasing the number of trained Reserves from 19,000 to 30,000 by April 2019, alongside a regular force of 82,000.

The planned cuts would leave the size of the regular force smaller than at any point since 1850. These reductions, combined with such a significant increase in trained Reservists, has raised concerns about the feasibility of the plans, and the impact were they to fail or fall short at a time of regional and global insecurity.

In particular, many are yet to be convinced that the Army and the Ministry of Defence will recruit and train 11,000 Reservists in the time given. Even the Chief of the Defence Staff has admitted that achieving a Reserve strength of 30,000 by 2018 "was always going to be a tall order."

Successive reports from the Defence and Public Accounts Committees and the National Audit Office have raised serious doubts about the robustness of the plan. The National Audit Office found the Ministry of Defence did not assess whether it was feasible to recruit and train the required number of Reserves within the necessary timetable. Nor did it find evidence of robust planning data to underpin the Department's recruitment targets for Reserves.

The Defence and Public Accounts Committees found little evidence during their inquiries of the Army or Ministry having a fully developed contingency plan in the event recruitment targets are not met and gaps emerge in the Army's structure.

Cuts to the Royal Navy and Royal Air Force of 5,000 personnel each have attracted less attention but have been no less significant. The Chief of the Defence Staff warned in 2013 that the Navy is "perilously close to its critical mass in manpower terms." Referring to what the Americans call a hollow force, the CDS described the danger of a "strategically incoherent force structure: exquisite equipment, but insufficient resources to man that equipment or train on it."

More to come?

Could the size of the Army be reduced further? Media speculation of potential further cuts to 60,000 regular soldiers prompted denials from David Cameron, who promised no further reductions in the Army's regular force. The Chief of the Defence Staff publicly pledged to "fix my bayonet and fight to the last" to prevent such reductions. The Conservative election manifesto explicitly pledged not to reduce the army below 82,000.

However, the Ministry of Defence only has a commitment from the Treasury to increase the equipment budget from 2015, not the overall budget. Defence economist Malcolm Chalmers has observed that "planned increases in pension and National Insurance contributions, together with growing salary costs, will increase the pressure on personnel numbers." He sketches out two scenarios for the defence budget over the next Parliament, both of which entail a reduction in the size of the Armed Forces. His optimistic scenario sees a fall in Armed Forces personnel from the current 145,000 to 130,000, while his pessimistic scenario sees a much harsher reduction to 115,000 in total.

Capability concerns

Why does this matter? If the Armed Forces do not have enough personnel they may not be able to fulfil all the tasks the Government wishes them to, above and beyond their standing commitments and operational deployments.

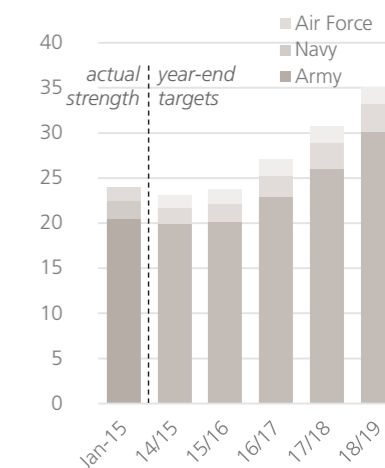
The UK's allies are beginning to air publicly their concern about the operational impact further defence cuts might have. The US Army Chief, General Odierno, outlined the direct impact further cuts might have: "in the past we would have a British army division working alongside an American division. Now it might be a British brigade inside an American division, or even a British battalion inside an American brigade."

Will the Armed Forces be cut further and how small can the Army become? What happens if the Army cannot recruit the number of Reservists in the timeframe required? Will the new Government have to think again about the threshold for military intervention overseas? And will the next Strategic Defence and Security Review reassess the Defence Planning Assumptions as to what the Armed Forces are expected to be able to do? These are all questions the next Parliament will have to address.

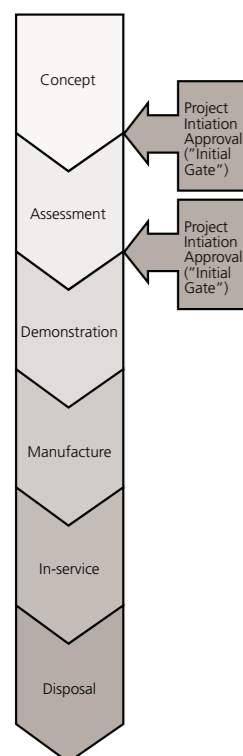
Chart 1:

The Armed Forces in general, and the Army in particular, have ambitious targets to increase the number of Reservists over the next five years

trained strength of Reserves in January 2015 and targets for end-financial years 2014/15 to 2018/19 (thousands)



The procurement of defence equipment in the UK is generally conducted according to the CADMID cycle



Conservatives: will retain the Trident Continuous At-Sea nuclear deterrent... and build the new fleet of four Successor Ballistic Missile Submarines

Greens: decommission the Trident nuclear deterrent system

Labour: committed to a minimum, credible, independent nuclear capability, delivered through a Continuous At-Sea Deterrent

Liberal Democrats: procure fewer Vanguard successor submarines; move from CASD to a contingency posture of regular patrols

SNP: will oppose plans for a new generation of Trident nuclear weapons and will seek to build an alliance in the House of Commons against Trident renewal

UKIP: support Trident renewal

Replacing Trident

Although it has reduced its nuclear stockpile since the end of the Cold War, the UK maintains a continuous at-sea nuclear deterrent, now based solely on the submarine-launched Trident system, which consists of four Vanguard-class submarines, Trident II D5 missiles and associated warhead.

The Labour Government committed in 2006 to renewing the UK's nuclear deterrent, and this position was endorsed by the next Government's Strategic Defence and Security Review in 2010. In 2016 decisions will be made on taking the programme forward, including the size of the deterrent fleet, which is expected to enter service from 2028. A decision on any replacement warhead is expected to be made around 2019. In the context of changing strategic threats and constraints on the overall defence budget, questions will continue to be asked about the rationality and cost-effectiveness of the programme. Calls for greater Parliamentary scrutiny, including a vote on the Main Gate decision in 2016, are likely to dominate this issue going forward. However, it will be for the new Government to decide on how Parliament gets to scrutinise Main Gate and whether there will be a Parliamentary vote.

Policy Background

In 2006 the Labour Government published *The Future of the United Kingdom's Nuclear Deterrent*, which set out proposals for replacing the UK's nuclear deterrent beyond the 2020s by building a new class of nuclear-powered submarines, carrying the current Trident missile system. The House of Commons voted in March 2007 to support the Government's decisions to "take the steps necessary to maintain the UK's minimum strategic nuclear deterrent beyond the life of the existing system".

The October 2010 Strategic Defence and Security Review endorsed the Labour Government's plans, labelled the 'Successor' programme, whilst also making several changes. The service life of the Vanguard class has been extended, with a view to the first successor submarine entering service in 2028. Continuous at-sea-deterrence will be maintained and a final decision on the size of the submarine fleet will be made at "Main Gate" (see margin) in 2016. The existing warhead will remain viable until the late 2030s and a decision on any replacement warhead will thus be deferred until 2019.

In July 2013 the Liberal Democrats published a review of alternatives for the Successor programme. While the review acknowledged that there are no real alternatives to the current proposals within the timeframe suggested, it argued that the deterrent could be reduced to a contingency posture. This would involve ending continuous nuclear patrols at sea, but maintaining a nuclear capability and exercising it regularly to maintain relevant skills. This proposition is also advocated by many commentators. Others have argued that an air-launched, as opposed to submarine-launched, capability would still provide a credible minimum nuclear deterrent, at less cost. Advocates of unilateral disarmament continue to call for the abandonment of the UK's nuclear deterrent in its entirety.

Progress and costs to date

The submarine is being developed jointly by the Ministry of Defence (MOD), BAE Systems, Rolls-Royce and Babcock International. Approximately 2,200 people are working on the programme. Jobs are expected to peak at 6,000 during the manufacture phase, with approximately 850 British companies involved in the supply chain.

Concept work on the design of the new submarine concluded in May 2011, when the programme's Initial Gate was approved. The project is now in its assessment phase, which seeks to further develop the submarine design and associated costings ahead of the Main Gate decision.

The programme is funded from the MOD's core budget. Forecast costs remain within the estimates set down in the 2006 White Paper: £15-20 billion, including £11-14 billion for the submarine (2006/07 prices). In-service costs are expected to remain at 5-6% of the annual defence budget (i.e. £2bn to £2.5bn based on the budget's current size).

Approved assessment phase spending is £3.3 billion. By the end of 2013-14, just over £2 billion had been spent (£854 million on the concept phase and £1.2 billion on the assessment phase). A number of long-lead items for the submarines, including the steel, have already been ordered. The years of peak expenditure will be between 2016/17 and the late 2020s.

Opponents of the nuclear deterrent have suggested that the lifetime costs of the deterrent, including its in-service and decommissioning costs, will amount to more than £100 billion.

Questions have been asked about the rationality and value for money of such spending at a time of austerity and further expected cuts in the defence budget. Advocates of the Successor programme argue that the price is comparatively small when compared with the strategic risks involved in renouncing the nuclear deterrent.

Parliamentary Scrutiny

Ahead of the Initial Gate decision, various calls were made for Parliament to have a further vote before the programme proceeded into its assessment phase. Approval of Initial Gate was announced in May 2011, and without a vote in Parliament. At the time an MOD Minister stated that "Parliament does not routinely review internal Ministry of Defence business cases and I have not yet heard a convincing argument that suggests that this programme should be any different". The MOD did, however, commit to publishing an annual report of progress on the programme.

Calls are likely to continue for greater Parliamentary scrutiny, including a vote on the Main Gate decision in 2016. However, the MOD has been consistent in its view that "It will be for the [new] Government to make decisions about scrutinising the Main Gate decision". While it is broadly accepted that the Main Gate decision will be presented to Parliament, there is no obligation on the Government to give Parliament a vote on whether to take the Successor programme forward.

The UK's disarmament obligations and the legality of replacing Trident

The legality of replacing Trident is hotly contested. Critics argue that by replacing their nuclear forces, the recognised nuclear powers, including the UK, are failing to meet their disarmament obligations under Article VI of the Nuclear Non-Proliferation Treaty (NPT).

Successive Governments have insisted, however, that replacing Trident is compatible with the NPT, arguing that the treaty contains no prohibition on updating existing weapons systems and gives no explicit timeframe for disarmament. They have also highlighted the steps taken by the UK in support of the NPT, in particular the significant reductions in the British nuclear arsenal since the end of the Cold War (see below). Furthermore they have insisted that sustainable nuclear disarmament can only be achieved through a multilateral process.

- At its Cold War peak the UK nuclear stockpile consisted of approximately 520 nuclear warheads.
- By 1998 the deterrent had been reduced to one single system: Trident.
- The 1998 SDR announced a reduction to fewer than 200 operationally available warheads. Total stockpile estimated at 280.
- The 2006 White Paper planned to reduce the stockpile to fewer than 160 operationally available warheads.
- In 2010 information on the size of the UK's overall nuclear stockpile (225 warheads) was published for the first time.
- The 2010 SDSR announced a reduction to 120 operationally available warheads; while the overall stockpile would be no more than 180 by the mid-2020s. Once that reduction has been achieved, the UK nuclear stockpile will have been reduced by 65% since the end of the Cold War.

Risky business: cyber crime and cyber security

3.6–3.8 million

Estimated incidents of card and bank fraud in England and Wales in 2013. The figures are not included in survey-based measures of crime, but if they were, they could account for a third of all crimes

As our reliance on the internet has increased, so too has the potential impact of cyber-attacks, ranging from online fraud on individuals to disruption of critical public infrastructure. What are the major risks and from where do they originate? What can be done to stay one step ahead of the hackers?

A new crimewave

For the past twenty years or so, crime in the UK has been falling, thanks partly to technological developments that have made certain types of offence harder both to commit and to get away with. But just as technology has closed down some criminal opportunities, it has opened up others. Our increasing reliance on internet-connected devices has been accompanied by the development of a new set of cyber threats. 12% of European internet users have had their social media or email account hacked and 7% have been the victim of credit card or banking fraud online.

Much cyber crime can be prevented by individuals taking basic precautions, including using more secure passwords and installing anti-virus software to thwart the 'malware' that enables login details to be stolen: the Government's Be Cyberstreetwise campaign is intended to raise awareness of these preventative measures. But there is little the individual can do to save their data from direct attacks on businesses, which in turn are often reluctant to admit security breaches for fear of litigation and reputational damage. The so-called 'Heartbleed' bug, discovered in April 2014, exposed vulnerabilities in many major websites, allowing hackers to steal passwords, credit card details, encryption keys and other sensitive data, without leaving any trace. And staying offline does not guarantee protection; hackers attacking the US retailer, Target, were able to steal the credit and debit card details of 40 million customers thanks to malware installed in the company's point-of-sale system.

A new battlefield

While the vast majority of cyber crime involves the theft of data and, ultimately, money, similar means can be used by terrorist groups, governments and other actors for political ends. Cyber-attacks of this nature can range from vandalism of government websites, causing disruption and uncertainty (e.g. the hacking of US Central Command's Twitter by individuals thought to be affiliated to ISIS), to attacks on critical national infrastructure, such as payment systems or power networks, with the potential to cause chaos.

The capacity for any group or state to wage truly calamitous cyber-attacks on the UK, or any other advanced economy, is as yet unproven. However, the experience of other countries suggests it is at least a possibility: in what is thought to have been a joint US-Israeli operation, malicious code was used to attack the systems controlling the centrifuges in an Iranian nuclear facility in 2010, causing them to spin out of control and ultimately setting back Iran's nuclear programme.

More commonly, groups at varying degrees of remove from the state engage in espionage, stealing intellectual property and state secrets. And the internet also presents opportunities for governments to monitor more intrusively the activity of their own citizens, an issue that is discussed in more detail in "The intelligence services and the Snowden revelations".

Government response

The previous Government's National Security Strategy, published in 2010, classed cyber security as a top priority, alongside international terrorism, international military crises and natural disasters. This led to the first Cyber Security Strategy, published in 2011, setting out how the UK would tackle cyber threats to promote economic growth and protect national security. As part of the strategy, the Government allocated £650 million over four years to strengthen the UK's cyber security. This included the establishment of a National Cyber Crime Unit within the National Crime Agency; a cybersecurity information-sharing partnership between government and the private sector; and a new organisation for national cyber-incident management (CERT-UK).

A future filled with fear?

The perils of connectivity seem only to be growing as the 'internet of things' brings more devices online. Already, it has been shown that hackers can assume control of car steering wheels, insulin pumps, baby monitors, toilets and central heating systems, raising the prospect of all sorts of cyber malfeasance.

The Cyber Security Strategy acknowledges that it is not possible to eliminate cyber crime. But just as car thefts have been dramatically cut by preventative technologies such as immobilisers and alarms, cyber crime may be reduced by eliminating some of the opportunities available to prospective cyber criminals. As well as more advanced security and anti-virus software, further onus could be put on companies to release products and programmes with fewer security flaws in the first place, rather than reacting to vulnerabilities as they emerge with software updates.

Nor can we be guaranteed immunity from more serious attacks. For those companies operating critical infrastructure, especially payments systems and power and communications networks, the costs of security lapses to society may be far greater than to the individual firm. Co-operation between firms may help to reduce these costs, while information-sharing arrangements with government, including the security services, to improve understanding of the nature and source of threats, may help scarce resources to be better directed.

Finally, government action may be required to address the shortage of cyber skills at all levels, from awareness of cyber risks among ordinary users, to the expertise necessary to detect and defend companies and governments against sophisticated threats.

Chart 1:
Internet sales as a proportion of all retailing
Aug 2011 - Jun 2014 (Great Britain), percent

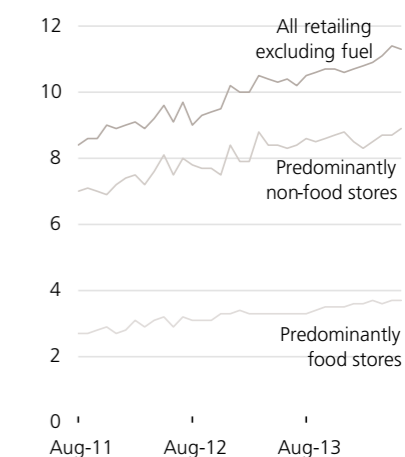
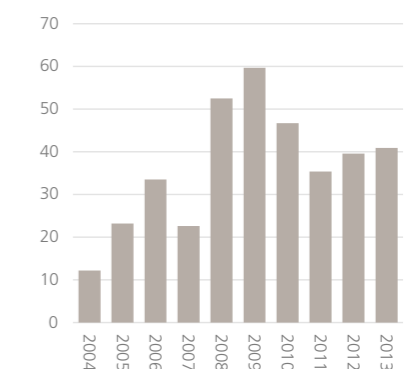


Chart 2:
UK online banking fraud losses 2004-13,
£ millions



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Key Issues *for the* 2015 PARLIAMENT – CHAPTER 9

FOREIGN AFFAIRS



Russia

From its outset in 2000, Vladimir Putin's rule has been built on rising living standards and a restoration of Russian national pride severely dented by the fall of the Soviet Union.

Recently, the promise of rising living standards has come under threat from a weakening economy, exacerbated by the impact of sanctions imposed by the West following the annexation of Crimea, the fall in the price of oil, and the fall in the value of the rouble. Whether the Kremlin seeks to compensate for that loss of legitimacy by stoking up nationalist feelings and pursuing conflicts in other countries will be a key foreign policy question in this Parliament.

Traditional warfare

Russia's war in Georgia in 2008 served as a re-launch of the Russian military, which has been undergoing a modernisation programme, and as a demonstration to both neighbours and Western countries that Russia, unlike the West, was prepared to act with force in its 'privileged sphere of interest'; that is, former Soviet states.

Similarly, Russia's annexation of Crimea was widely interpreted as a move to prevent the West from keeping Ukraine in its geopolitical orbit, stopping the encroachment of NATO and the EU towards the Russian border. Harsher critics of the Russian administration have argued that a democratic and economically successful Ukraine, led by a pro-Western administration pursuing EU integration, would have presented an unacceptable rival model to a "kleptocratic regime" in Moscow.

Hybrid warfare

Russia's approach to pushing back the frontiers of western influence and restoring national pride extends beyond direct military action. It has used information campaigns, special forces, economic pressure and cyber-attacks, among other tools, in a strategy dubbed "hybrid warfare".

In order to project its message abroad and bolster support at home, a big propaganda effort has been a key part of Russia's hybrid strategy. The Kremlin has characterised the Ukraine conflict as an example of the West trying to encircle and emasculate the 'Russian Bear', while supporting 'fascists' in the Ukrainian Government who allegedly threaten ethnic Russians in the east of Ukraine. Opinion polls indicate that this account has gone down well with the Russian public, whose support for Vladimir Putin has increased since the annexation of Crimea (Chart 1). In some ways, it is unsurprising that it is the Kremlin's account that tends to prevail within Russia. The Government has increased its control over the media; neither is the opposition, cowed further by the assassination of opposition politician Boris Nemtsov in February 2015, in a strong position to provide the public with alternative narratives.

As well as information campaigns, Russia has allegedly overseen cyber-attacks in Estonia and Georgia, and its security services amend internet content to promote perceived Russian interests. It has used the dominant position of the state gas supplier Gazprom as a political tool. In Ukraine, it deployed military forces with no Russian insignia; and in various neighbouring states, it has provided support to separatists while forming links with anti-EU parties in Europe.

Outlook

The outlook for the Russian economy is weak: after contracting in 2015 and 2016, the IMF expects Russia to grow at an annual average rate of less than 1.5% for the rest of the decade (Chart 2). Inflation is expected to run at 18% in 2015 and 10% in 2016 and Government revenues are expected to fall by 14% in real terms by 2016, owing to a combination of weak growth and low oil prices. This will affect ordinary Russians, who have already seen their purchasing power hit by the fall in the rouble. Although the rouble has recovered slightly during 2015, a further prolonged depreciation, combined with sanctions that lock Russia out of international capital markets, could trigger a financial crisis as banks and businesses struggle to finance their foreign debt.

There have been limited signs of unrest in Russia already, as public services have been cut and some public sector workers have not been paid. If political instability increases, how will the Kremlin react?

It will be difficult for Vladimir Putin to back down in Ukraine, having invested so much in his image as a defender of Russia and ethnic Russians. This leads many to think that, in the context of a worsening economic situation, there is a danger of the Kremlin raising the stakes still further by pursuing conflicts in other countries on Russia's borders: Moldova and the Baltic States are often mentioned. The Baltic States have already seen increased Russian activity, while NATO has increased its presence in Eastern Europe.

UK relations

Among the EU Member States, the UK has some of the most difficult relations with Russia. The inquiry into the death of Alexandr Litvinenko, launched by the Home Secretary in July 2014 and expected to conclude at the end of 2015, will continue to cast a shadow over the relationship.

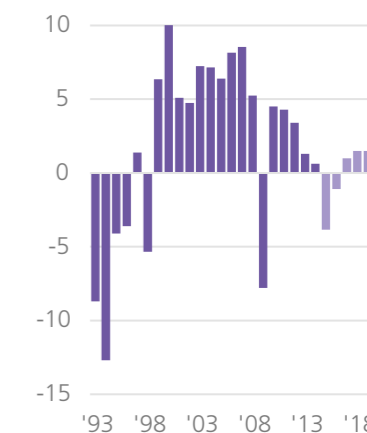
As one country, Britain's role in relation to Russia is limited. It is in international forum – the UN, the EU and NATO – that its contribution will be more significant. The previous Government took a relatively tough line in discussions with EU partners on sanctions over Ukraine, and in formulating the NATO response to increasing tension. The most immediate question may be over the endurance of the present coalition of EU Member States in favour of tough sanctions over Ukraine. If more conflict does break out, the security threat posed by Russia is likely to be a significant factor in discussions about the UK's defence expenditure and policy, and the UK's membership of the EU.

Chart 1:
Vladimir Putin's approval ratings in Russia jumped sharply during and after the annexation of Crimea

percentage of respondents to Levada Center poll approving of Vladimir Putin



Chart 2:
The outlook for the Russian economy is weak
annual GDP growth 1993-2014 and IMF April 2015 forecasts 2015-20, percent



Israeli-Palestinian conflict: what hope of a solution?

Background

The West Bank and Gaza were invaded by Israel in 1967, and are collectively known as the Occupied Palestinian Territories (OPT). Prior to the Israeli invasion, the West Bank was part of Jordan, whilst Gaza was part of Egypt. Both areas remained under full Israeli control until the mid-1990s, when the Palestinian Authority (PA) was created. The PA controls some areas of the OPTs, but other areas remain under Israeli control. Many in the international community, including the Foreign & Commonwealth Office, still regard the territories as “occupied” in their entirety because Israel retains control of their borders. Many Israeli citizens have moved into the OPTs, living in purpose-built Israeli settlements. The Fourth Geneva Convention prohibits this practice, though Israel argues that it is not applicable in the OPTs.

The “two-state solution”

It is widely accepted that the most likely solution to the conflict is a “two-state solution”: in other words, the creation of a Palestinian state in the West Bank and Gaza. (Egypt never claimed permanent sovereignty over Gaza, seeing its administration as temporary pending the creation of a Palestinian state, whilst Jordan renounced its claim to the West Bank in 1988.) Fatah, one of the two leading factions in Palestinian politics, supports this initiative. Hamas, its rival, takes a more radical line. Under the Hamas vision, the entire area presently covered by the State of Israel would – along with the OPTs – form part of a future Palestinian state. Hamas also has a long history of terrorist attacks against Israeli civilians.

Conflict and negotiation

With a view to achieving a two-state solution, there have in recent years been various sets of talks between the Israeli and Palestinian administrations. The most recent set of talks, mediated by US Secretary of State John Kerry, began in August 2013, but collapsed in April 2014 following the decision by Mahmoud Abbas, President of the Palestinian Authority and leader of Fatah, to sign a reconciliation agreement with Hamas. Israel was opposed to such an agreement and withdrew from the talks in protest.

Following the collapse of the talks, the remainder of 2014 saw Israeli-Palestinian relations continue on a downward spiral. On 7 July, in response to rocket attacks by Hamas, Israel launched a full-blown military operation in Gaza. The hostilities ended on 26 August, when a ceasefire came into effect. During the conflict, 65 Israeli soldiers plus four Israeli civilians (and one foreign national in Israel) were killed. Casualties amongst Palestinians were far higher. According to UN figures, 2,104 Palestinians were killed, including 1,462 civilians.

As part of the ceasefire agreement, Israel agreed to lift some of its restrictions on Gaza that had been imposed for security reasons in 2007, when Hamas seized Gaza by force. Hamas retained full control of the

Conservatives:

support a two-state solution and defend the right of Israel to protect its security while condemning illegal settlement building

Greens:

seek a peaceful resolution to the conflict based on a two-state solution

Labour:

committed to a two-state solution and will press for an immediate return to negotiations that would lead to a diplomatic solution

Liberal Democrats:

committed to a peace settlement that includes a two-state solution

UKIP:

committed to a two-state solution

territory until the signing of its reconciliation agreement with Fatah. Whilst some restrictions have been lifted, many remain in place: for example, ordinary Gazans are not generally allowed to leave the territory.

The ceasefire agreement also provided for indirect talks between Israel, Hamas and the PA, mediated by Egypt. Whilst they are far less ambitious in scope than the direct negotiations that collapsed in April 2014, at present they represent the only available opportunity to achieve meaningful progress.

Implications for the UK

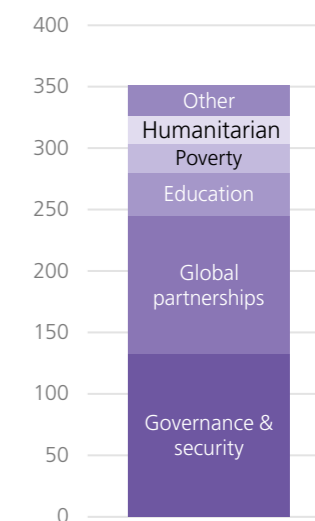
The Israeli-Palestinian conflict has a number of implications for the UK. Many are calling on the UK Government to recognise the Palestinian Authority as a “state”. Under international law, the criteria for statehood include a defined territory and effective government. The Palestinian Authority clearly does not meet these criteria at present, and will not do so unless agreement is reached on a two-state solution; but individual countries can nevertheless choose to recognise Palestinian statehood if they wish. Such a move would be an important symbol of support for the Palestinian cause.

Whilst pro-Palestinian activists call on the UK to recognise Palestinian statehood, pro-Israeli activists have raised concerns about the UK’s aid programme in the OPTs. The aid programme has two main components: provision of funding to UNRWA (the UN agency that supports poor Palestinians), and the provision of funding to the Palestinian Authority. It is the latter that is controversial: some argue that the Palestinian Authority has been too tolerant of Palestinian militant groups, and that UK funding should therefore be stopped. Others, however, argue that such funding is justified because a viable Palestinian Authority is a necessary precursor to a two-state solution.

£422 million

Aid provided to the Occupied Palestinian Territories by the UK Department for International Development over the five years of its 2011-16 Operational Plan. Spending to 2014/15 can be broken down as follows:-

Chart 1:
DFID aid to the Occupied Palestinian Territories, 2011/12 to 2014/15, £ million



Rough neighbourhoods: rising tensions in East and Southeast Asia

Dates to look out for

November 2015

Association of Southeast Asian Nations (ASEAN) Summit

November 2015

Asia-Pacific Economic Cooperation (APEC) Leaders' Meeting

January 2016

Taiwan elections

East and Southeast Asia are riven with half-frozen conflicts and a host of territorial and maritime disputes. Experts have identified tensions between China and its neighbours in the East and South China Seas as one of the top risks to global security and economic growth in 2015.

Equally intractable are two conflicts in East Asia that originated in the Cold War. China views Taiwan as an indissoluble part of its territory. Then there is North Korea, an isolated and unpredictable nuclear weapons state.

East Asia today has been compared with Europe in 1914, with North Korea viewed as the most likely potential trigger for an outbreak of major armed conflict.

The South China Sea

In the South China Sea, there are five countries at loggerheads over their maritime borders: China, Brunei, Malaysia, the Philippines and Vietnam. Also at stake is control over fisheries and oil and gas fields.

The Paracel Islands are disputed by China, Taiwan and Vietnam. The Spratly Islands are disputed by China, Taiwan, Malaysia, the Philippines, Vietnam, and Brunei.

China is reportedly building artificial islands in the region, which some fear could be used for military purposes. China and its Southeast Asian neighbours have agreed a code of conduct to try and avoid flashpoints, but observers worry that it is not up to the task.



The East China Sea

Eight uninhabited islands and rocks in the East China Sea have been the subject of long-standing rival claims to sovereignty on the part of China, Japan and Taiwan. They are called the Senkaku Islands in Japan, the Diaoyu Islands in China and the Tiaoyutai Islands in Taiwan.

Japan and China have also been unable to agree a maritime boundary in the East China Sea. As in the South China Sea, competition over oil and gas resources is a big factor.

In late 2014, both parties agreed to establish a 'maritime crisis mechanism' to help defuse rising tensions. But this mechanism is fragile and untested.

China-Taiwan relations

There is a risk of escalating tension between China and Taiwan over the next few years. An opposition party sympathetic to the idea of an independent Taiwan could win presidential elections scheduled for January 2016 in Taiwan.

North Korea

With just under two million soldiers on the ground, the Korean peninsula has the greatest concentration of armed forces anywhere in the world. North Korea has nuclear warheads but (according to most experts) not yet the missiles to deliver them reliably. South Korea is rapidly modernising its armed forces and becoming less reliant on American support.

The US role

The US has undertaken a 'pivot to Asia' since 2011. By 2020 it plans to base 60% of its navy and air force in the Asia-Pacific region. It has treaty obligations to come to the aid of Taiwan, Japan and South Korea if any of them is attacked. China opposes the US pivot but does not want open conflict. Many other countries in the region strongly favour the pivot.

Although it has criticised China for acting aggressively, the US takes no position on the territorial and maritime disputes in the South and East China Seas. It calls on all sides to seek a resolution of issues through peaceful dialogue and consistent with international law.

UK interests

While the UK, like the US, does not take a position on the sovereignty disputes in the South and East China Seas, in early 2015 the previous Government indicated that the UK has "an important stake in Asian security" and that, under the 1971 Five Powers Defence Arrangements, a series of bilateral agreements whose

signatories are the UK, Australia, New Zealand, Malaysia and Singapore, it is "ready and able to mobilise in support of Asia Pacific allies, friends and partners".

Major shipping lanes vital to the regional and world economy are located in the East and South China Seas. It is estimated that every year the South China Sea facilitates the movement of over half of the world's oil tanker traffic and over half of its merchant vessels by tonnage. The Malacca Strait between Singapore and Indonesia is a particularly vulnerable 'chokepoint' for sea-borne trade.

Over the last decade, the UK has sought to boost trade in goods and services with East and Southeast Asia. Since 2010, UK trade has risen most rapidly with China and South Korea. In 2013, China, Japan and South Korea accounted for 6.6% of total UK imports and 9.1% of total exports.

The post-2015 development goals

“There are too many to communicate effectively. There’s a real danger they will end up sitting on a bookshelf, gathering dust”

David Cameron at the UN in September 2014 on the 17 proposed SDGs

In 2000, the world signed up to the Millennium Development Goals (MDGs), a set of eight goals and 18 associated targets for human development, to be achieved by the end of 2015. As the deadline for meeting these goals approaches, attention has turned to what should replace them.

The next generation of development goals

In July 2014, a UN General Assembly ‘Open Working Group’ published proposals for a “set of goals that consider economic, social and environmental dimensions to improve people’s lives and protect the planet for future generations”. The Working Group proposed 17 ‘Sustainable Development Goals’ (SDGs) to be attained by 2030, each with a number of associated targets (169 in total).

What’s new?

What else, apart the obvious increase in the number of goals and associated targets, is likely to be new about the SDGs? We can be confident that they will involve a greater integration of developmental and environmental objectives, although there are bound to be criticisms that this has not gone far enough. Several issues which were felt to be marginalised by the MDGs, such as reducing inequality and promoting peaceful and inclusive societies, will also feature more prominently. And there will be a renewed focus on encouraging new sources of finance: while remaining important, aid is likely to become a smaller part of the overall pot, and private sector investment and philanthropy is expected to play a more significant role. There are also hopes that the SDG process will reflect greater developing-country ownership and promote a more ‘bottom-up’ approach to international development.

Criticisms

The proposed SDGs have been criticised for their number and complexity. It is argued that this could undermine efforts to monitor and communicate progress against them, and hinder efforts to identify and prioritise the most important objectives. There are also concerns that some goals, particularly the one to end poverty in all its forms everywhere, are unrealistically ambitious. It is also pointed out that further development, particularly in middle- and high-income countries, will involve complex trade-offs between growth, equality and sustainability that cannot properly be addressed through quantitative measures. These and other concerns have led some to conclude that the SDGs could play a more marginal role than their predecessors.

Next steps

The UN General Assembly agreed in September 2014 that the SDG proposals should be the “main basis” for the inter-governmental negotiation process, which has been underway since then. Two summits during 2015 are likely to be of critical importance to the process.

All the main British political parties support the objective of agreeing a new generation of goals and they can be expected to strongly shape the development policies of the next UK Government. However, the previous UK government expressed concern that it is too ambitious.

Conservatives: aid budget will meet OECD rules

Greens: increase aid budget to 1.0% of GDP

Labour: will protect the international development budget

Liberal democrats: continue to spend 0.7% of GDP on aid

UKIP: will abolish DfID

- July 2015. Addis Ababa. International conference on financing for development. Commitments on funding for implementation of SDGs.
- September 2015. UN General Assembly (New York). Summit to adopt the post-2015 development agenda. Final goals likely to be formally agreed.

Running parallel to the post-2015 SDG process, it is hoped that an effective global agreement to tackle climate change for the post-2020 period can be reached at the UN Framework Convention on Climate Change meeting in Paris in December 2015. More details on this can be found in “2015: The year we make or break the climate?”.

Proposed sustainable development goals:

End poverty in all its forms everywhere	Reduce inequality within and among countries
End hunger , achieve food security and improved nutrition, and promote sustainable agriculture	Make cities and human settlements inclusive, safe, resilient and sustainable
Ensure healthy lives and promote well-being for all at all ages	Ensure sustainable consumption and production patterns
Ensure inclusive and equitable quality education and promote life-long learning opportunities for all	Take urgent action to combat climate change and its impacts
Achieve gender equality and empower all women and girls	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Ensure availability and sustainable management of water and sanitation for all	Ensure access to affordable, reliable, sustainable, and modern energy for all
Protect, restore and promote sustainable use of terrestrial ecosystems , sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Promote sustained, inclusive and sustainable economic growth , full and productive employment and decent work for all	Strengthen the means of implementation and revitalize the global partnership for sustainable development
Build resilient infrastructure , promote inclusive and sustainable industrialization and foster innovation	

How successful have efforts been to meet the Millennium Development Goals (MDGs)?

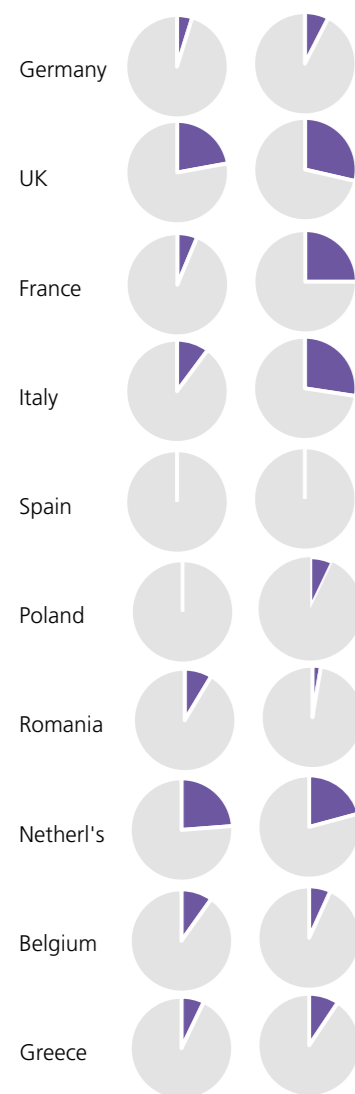
The answer might be crudely summarised as: most of the world, and most of its regions, will meet some of the goals. There is also significant variation by country and region. Only around half of countries are expected to achieve all the MDGs, and Sub-Saharan Africa will not meet most of them.

In terms of the 18 associated targets, good progress has been made in some areas: estimates indicate that the targets for extreme poverty reduction, gender equality in primary education, access to safe drinking water, and improving the lives of at least 100 million slum dwellers have been reached ahead of the 2015 deadline. However, progress on others, particularly those covering health- and education-related MDGs, have fallen behind.

Where success has been achieved in meeting the targets, it is open to debate whether the MDGs were necessary to achieve these outcomes. For instance, the halving of extreme poverty five years ahead of schedule was largely down to progress in two countries – China and India – that arguably paid little heed to the MDGs.

The European Parliament 2014–19 — a Eurosceptic turn?

Chart 1: Eurosceptic parties in many EU countries saw large gains in the 2014 European Parliament elections (represented by red wedge); ten largest Member States, 2009 and 2014



In May 2014, the European Parliament elections revealed a rising tide of Euroscepticism across the EU. Here in the UK, this was most obviously manifested by the success of UKIP, which became the first party other than Labour or the Conservatives to win a national election since 1906.

Despite their success, the Eurosceptic parties are unlikely to be cohesive or sizeable enough to effect any material change to policymaking in the European Parliament on their own. However, other parties in the Parliament, other EU institutions, and national Governments may still wish to respond to the expression of discontent with the EU project among such a significant proportion of the electorate.

Eurosceptic union?

Aside from UKIP, the 2014 elections saw significant gains for France's Front National, which won 24 of 74 seats, becoming the largest French party in the European Parliament. Further still to the Right, Golden Dawn, whose leader denies the Holocaust, won three of Greece's 21 seats. Germany, meanwhile, got its first neo-Nazi MEP.

While the Eurosceptic turn predominantly benefited parties on the Right, there were gains for other parties too: the Finns Party, which won two of Finland's 13 seats, is heavily nationalist, yet espouses left-wing economic policies. In Italy, meanwhile, the anti-establishment Five Star Movement won 17 of the country's 73 seats.

The results illustrate that Euroscepticism comes in many flavours and strengths across the continent.

The nature of parties' scepticism differs too. Some, like UKIP, seek complete withdrawal from the EU; others merely wish to ensure that the EU's powers are prevented from expanding further.

Common concerns

Just as no Eurosceptic party is alike, there is no single factor which can explain their electoral success. The countries where Eurosceptic parties made gains in 2014 range from crisis-stricken Eurozone members (such as Greece), to those outside the Eurozone and doing rather better (Denmark and the UK). To confound matters further, Spain, a Eurozone member under an austerity programme with an unemployment rate over 20%, did not elect any Eurosceptic MEPs.

In general terms, the rise of Euroscepticism is likely to reflect dissatisfaction or loss of faith in the EU project. This is supported by polling data showing a rise in distrust of the EU (Chart 2). In the Eurozone, this may have been exacerbated by the response to the euro crisis, which in the view of some has seen the EU cross lines of national sovereignty. In creditor countries like Germany, many fear they will have to accept higher inflation and taxes as a price for saving the euro. In debtor countries like Greece, the European Commission and ECB have demanded wide-ranging changes to economic

and social policy as a condition of assistance. Another consequence of the euro crisis is that the interests of the Eurozone periphery and its core have appeared increasingly opposed: in such an environment, the nationalist message may appear more relevant.

European politics – business as usual?

The effect of the result depends partly on whether the common ground of Euroscepticism is sufficient for the disparate parties to coalesce into an organised force in the European Parliament. The voting records of the 2009 European Parliament suggest that Eurosceptic parties do not have a great deal in common on other issues.

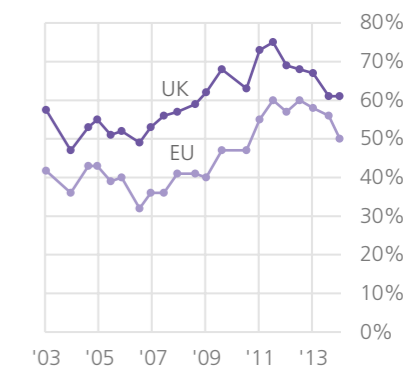
However, even on the occasions when Eurosceptic parties do compromise and coalesce, they will remain heavily outnumbered by pro-EU groups, which control 70% of the seats in the European Parliament. The other parties can, at least in a numerical sense, afford to ignore the Eurosceptics.

National politics – implicit influence

The extent to which the shift towards Euroscepticism will be replicated in domestic politics is difficult to gauge. European elections have traditionally seen a larger "protest vote" than national elections. Their success in national legislatures may also be diluted by non-proportional voting systems: in France, for instance, the runoff system for Presidential elections means that even though the Front National is the largest French party in the European Parliament, no candidate from that party is likely to be a serious contender for the Presidency in the near future.

The real influence of the Eurosceptic parties may instead come indirectly, by spurring national governments to take a more sceptical stance than they otherwise would. After the strong performance of the Eurosceptic parties in the European Parliament elections, national leaders may well be more wary of lending support to integrationist EU policies for fear that electoral success is replicated at home.

Chart 2: Distrust of the EU rose in the aftermath of the euro crisis (percentage of survey respondents who "tend not to trust" the EU)



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Key Issues *for the* 2015 PARLIAMENT – **CHAPTER 10**

ECONOMY & PUBLIC FINANCES



Interest rates and inflation — the only way is up?

Following the worst financial crisis in a century and the longest downturn on record, the Bank of England cut its official interest rate (known as the Bank Rate) to 0.5% in March 2009, the lowest level in its 320-year history. The rate has remained unchanged ever since. None of the nine members of the Bank's interest rate-setting body, the Monetary Policy Committee (MPC), were on the MPC the last time interest rates were changed.

It is broadly accepted that the Bank Rate will eventually rise: this in turn will influence interest rates throughout the economy, including rates on new and variable-rate mortgages (Chart 1). But after such a prolonged period without change, the consequences of this “unwinding” of loose monetary policy are unpredictable. Equally, should the economic situation worsen and low inflation persist, there is far less scope than there was before the financial crisis to reduce the Bank rate in response.

Price stability

In deciding when to raise rates, the MPC will be guided by its remit, provided by the Chancellor, which currently specifies that the Committee should target an inflation rate of 2%, as measured by the Consumer Prices Index. In judging the extent of inflationary pressure, the MPC gives much consideration to the amount of spare capacity in the economy: that is, the difference between the existing size of the economy and its potential size. The more spare capacity, the more scope there is for the economy to grow, without putting pressure on prices. However, estimating the level of spare capacity, and how fast it is being used up over time, is extremely difficult, making the exact timing of a rate rise uncertain. Market expectations at the start of May 2015 were that the Bank Rate would not rise until July 2016.

Financial stability

In addition to ensuring price stability, the Bank of England also has an objective to protect and enhance financial stability. System-wide risks to the financial system are monitored and dealt with by the Bank's Financial Policy Committee.

In normal times, the Bank's two objectives of price stability and financial stability are broadly complementary. However, a prolonged period of low interest rates has driven down the return on many investments, and prompted some investors to turn to riskier assets, in a “search for yield”. Financial markets may have become very sensitive to signs of a rise in interest rates. As such, the “normalisation” of monetary policy will have to be managed carefully if it is not to cause volatility; and there may be a tension between price and financial stability if inflationary pressures mean interest rates have to rise more quickly than markets expect.

Households too have grown accustomed to very low interest rates. Those with high levels of debt relative to their incomes, particularly mortgage debt linked to the Bank Rate, could face difficulty keeping up with repayments were interest rates to rise sharply. This in turn could have a damaging impact on banking stability. Total household debt was just under one and

a half times household disposable income in 2014 (the vast majority being mortgage-related debt): this ratio has fallen in recent years from its pre-recession peak, but remains well above the level seen in the late 1990s. The Office for Budget Responsibility forecasts an increase in the debt-to-income ratio over the coming Parliament (Chart 2).

To mitigate the risks, in June 2014, the Financial Policy Committee recommended that limits be placed on the proportion of mortgage lending that can take place at loan-to-income ratios above 4.5. It also recommended that mortgage lenders be required to assess whether borrowers could still afford their repayments were Bank Rate to rise by 3 percentage points at any point during the first five years of the loan.

Slow and steady?

The economic impact of a rising Bank Rate depends in large part on how far and how fast it is increased, and the extent to which these increases deviate from what is expected. In order to clarify its intentions and thinking, the MPC has provided “guidance” that, when the Bank Rate does rise, it will do so gradually, and even once the economy is “back to normal”, the rate is likely to be “materially below the 5% level set on average by the Committee prior to the financial crisis”. These commitments are conditional on the state of the economy, however: unexpected economic news could lead to equally unexpected interest rate changes.

Distributional effects

A rise in interest rates will also have distributional effects. An increase in interest rates means higher costs for borrowers but also higher income for savers. According to a survey by the Bank of England, higher interest rates distribute income away from younger households towards older households, and away from households with higher incomes towards those with lower incomes. Changes in interest rates will also affect the economy as a whole. The same Bank of England survey found that borrowers cut their consumption in response to a rate rise by more than savers increase consumption, so demand in the economy as a whole falls.

Chart 1: Where Bank Rate goes... changes to the ‘official’ Bank Rate influence interest rates throughout the economy

Bank Rate and average (effective) interest rates on selected new bank lending, Jan-04 to Apr-15

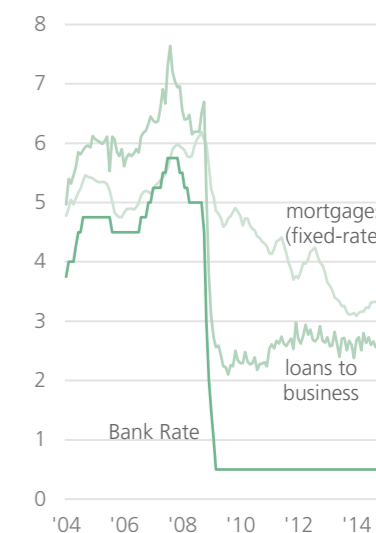
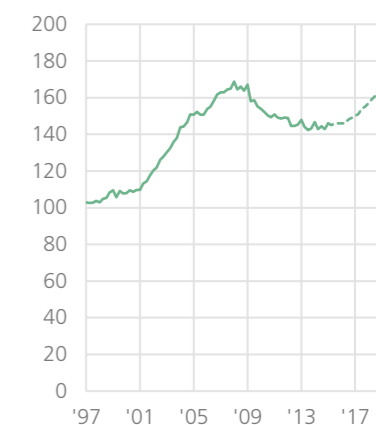


Chart 2: The household debt-to-income ratio is expected to rise above its pre-crisis peak by 2020

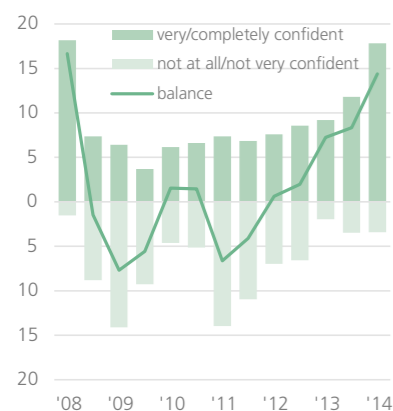
household debt as a percentage of annual disposable income, Q1-1997 to Q4-2014 and OBR forecasts to Q1-2020



Regulating banks — have we learned the lessons of 2008?

Chart 1:
Confidence or complacency? Market participants' confidence in UK financial stability is near pre-crisis levels

balance of opinion on stability of UK financial system over the next three years (those expressing a 'fairly confident' view are exclude



"On a wet Tuesday morning, on October 11, 2008 [...] I took a call from Sir Tom McKillop, chairman of RBS," wrote Alistair Darling in his memoir of his time as Chancellor of the Exchequer. "He told me his bank would collapse within hours. What was I going to do about it?"

The decision by US regulators a month before to allow Lehman Brothers to fail had brought the financial world to its knees. RBS's balance sheet was about six times larger than Lehman's. Mr Darling decided that the least worst option was to commit public funds to a rescue that, once other banks had requested assistance too, led to £1.2 trillion of taxpayers' money being pledged in support of UK banks.

Since then, at all levels of political, geographical and economic decision-making, vast effort has been expended to make the financial system more resilient, and to ensure that governments are never faced with such a choice again. It will still be some years before these changes are fully implemented, and it may only be when another crisis strikes that we will know whether they have worked.

Work done

In the UK, a new regulatory framework has been created for banks. In April 2013, the Financial Services Authority was abolished and responsibility for ensuring individual banks are resilient was passed to the newly-created Prudential Regulation Authority, an arm of the Bank of England. In line with EU rules, the PRA is also responsible for ensuring banks have plans in place ('living wills') to allow regulators to wind them down quickly and predictably in the event of failure. Meanwhile, the new Financial Policy Committee of the Bank has responsibility and powers for ensuring system-wide financial stability; it recently used its powers in response to fears of an emerging house price bubble in October 2014. The Financial Conduct Authority, another new regulatory body, is responsible for supervising the conduct of banks and individuals within them.

New regimes are being drawn up that seek to improve individual accountability, particularly of banks' senior managers, and to reform remuneration to discourage excessive risk-taking and short-termism. The UK will be imposing a leverage ratio (see margin) that goes somewhat beyond proposed minimum international requirements. And banks will be required to 'ringfence' – in effect, structurally separate – their retail and investment banking activities, so that ordinary depositors are protected from risks elsewhere in the banking system.

At a global level, capital standards (see margin) have been toughened to ensure that banks are resilient enough to withstand modest changes in the value of their assets, of the sort that occur during an economic downturn, with additional requirements placed on large banks.

Conservatives:
complete ring fencing by 2019

Greens:
separate retail and investment banking

Liberal democrats:
complete separation of retail and investment banks

Work still to do

Seven years after the crisis, there remains uncertainty and work still to do in several areas.

- The detail of many of the reforms, including the ring-fencing of banks' retail operations, is still being worked out. There remain opportunities for banks, having agreed the high-level principles of regulatory reform, to water down some of the details.
- While certain international standards have been agreed in some areas, different approaches have been pursued by national regulators in others. For instance, where the UK has a ringfence, the US has the Volcker Rule that prevents banks engaging in speculative trading that is not at the behest of their clients. This matters because large banks typically operate in multiple jurisdictions, and are thus subject to different regulatory requirements. It is not yet fully clear what irreconcilable demands exist.
- Linked to this, although the probability of a large international bank failing will be significantly reduced, there remain uncertainties about what exactly will happen when it does. The complexity of such institutions, combined with differences in legal regimes, corporate structures and banking practice in different countries, make the business of winding down a cross-border bank in an orderly fashion enormously challenging.
- The financial crisis was evidently not a sufficiently salutary experience to restrain individuals in banks from engaging in Libor and foreign exchange manipulation. It remains to be seen whether the new frameworks for remuneration and accountability will be sufficient to prevent such misconduct in future, and to hold individuals to account when it happens.
- Finally, the growth of the "shadow banking system" may indicate that some of the risks to stability addressed by the regulation of banks may have simply moved outside regulatory purview.

How will we know we're safe?

The measure of success will not be whether future bank failures have been prevented, but whether taxpayers are on the hook when they do happen. That means not only reducing the likelihood of failure by ensuring banks are not run in a risky manner, but also ensuring that, when they fail, the contagion to other parts of the financial system is limited, and resultant losses are borne only by investors, just as they would be for any other company. Whether the authorities have succeeded in this effort will only be known when the next crisis strikes, and the new regime is tested in practice.

Capital confusion – understanding capital and leverage requirements

In highly simplified terms, banks' assets consist of loans they have made. Their liabilities consist of deposits, including those of ordinary retail customers, and other sorts of debt (e.g. bonds, short-term debt to other banks etc.). The difference between a bank's assets and its liabilities is equivalent to its capital. A bank's capital represents its 'own funds': essentially, funds that (unlike deposits and bonds) it does not have a contractual commitment to repay. The most important sources of capital are share capital and retained earnings, but there are many definitions of what 'counts' as capital.

Because it doesn't have to be paid back, capital can be used to absorb losses. Large amounts of debt with a thin capital base means that if a large number of loans go bad, the bank's capital may not be sufficient to absorb the losses. In this case, its assets fall short of its liabilities: in other words, it is insolvent. Capital and leverage requirements seek to reduce the likelihood of this eventuality.

Capital requirements mandate a minimum ratio of capital to total assets, with assets weighted according to their riskiness (for example, loans secured on property typically have a lower risk weighting than unsecured loans). For instance, under the international Basel III framework, among many other requirements, banks' common equity (i.e. share capital) must be at least 4.5% of their risk-weighted assets.

Leverage requirements similarly mandate a minimum ratio of capital to assets, but in this case the assets are not weighted according to their riskiness. For instance, following a Bank of England review, major UK banks must meet a minimum 3% leverage ratio (£3 of capital for every £100 of assets), with tougher requirements for globally important banks.

Productivity and living standards: scarred for life?

How productivity affects the economy and public finances

To illustrate the importance of productivity to the economy, the Office for Budget Responsibility (OBR), the independent fiscal watchdog, in December 2014 produced some forecasts in December 2014 based on three differing assumptions of productivity growth.

These were:

- (i) a weak productivity scenario – essentially a continuation of recent weakness – with productivity growth of 0.5% per year;
- (ii) the OBR's central scenario, where productivity growth gradually rises back to its historic rate of 2%; and
- (iii) a strong productivity scenario where productivity growth of 4% is recorded (similar to a few years in the early 1970s and early 1980s).

The charts in the right-hand margin show how faster productivity growth leads to stronger GDP growth. This, in turn, leads to higher tax revenues, which results in a lower government budget deficit and a reduced debt-to-GDP ratio. The differences are stark: the weak productivity scenario results in GDP growth of just 0.7% by 2019/20, compared with growth of 2.3% in the OBR's central scenario and of 3.7% under the strong productivity scenario.

"Productivity isn't everything, but in the long run it is almost everything."

Few economists would disagree with Paul Krugman on this point. Productivity growth – commonly defined as rising output per worker, or output per hour worked – is essential for sustained and sustainable increases in living standards.

Historically, productivity in the UK has grown at around 2% per year, but in the seven years since the recession began, it has stagnated. The Office for National Statistics says this is "unprecedented in the post-war period". Most economists expect productivity growth will eventually return to its historic trend; but if it doesn't, the implications for the economy, the public finances and future living standards could be severe.

Why is productivity important?

"Productivity" refers to how much output is produced for a given input (such as an hour of work). The more productive the economy is, the more that can be sustainably produced with a given amount of input. Over time, higher productivity growth leads to a higher long-term growth rate in the economy. Labour productivity – the value of output per hour worked – also determines wages: the more productive an employee is, the more they are likely to be paid. Productivity growth is therefore necessary for sustainable improvements in living standards and wages.

What has happened since the 2008 crisis?

The economic recovery following the 2008-2009 recession was the weakest of the post-war era. Since mid-2013, however, the economy has been growing at a faster pace: the estimated rate of growth in 2014 of 2.8% was the fastest of the G7 countries.

However, this extra output has been "bought" predominantly through extra work, rather than an increase in productivity. Although this has resulted in strong employment growth, it means we are working slightly harder to produce each pound's worth of goods and services than we were in 2007, and considerably harder than if productivity growth had continued on its pre-crisis trend (see chart below). This weakness in productivity has translated into a stagnation in wages and living standards.

Temporary or permanent?

The recent period of productivity stagnation raises important questions, including: is this just a temporary diversion from historical trends resulting from the financial crisis and recession? Or is it a sign of things to come: permanently weaker productivity growth, and therefore smaller rises in living standards over the long term?

The Office for Budget Responsibility's (OBR's) central forecast anticipates a return to normality: "Growth is ... supported by our assumption that productivity growth picks up towards its historical average rate". The Bank of England, while warning of the considerable uncertainty, shares the OBR's expectations of "...a gradual pickup in productivity growth to around its

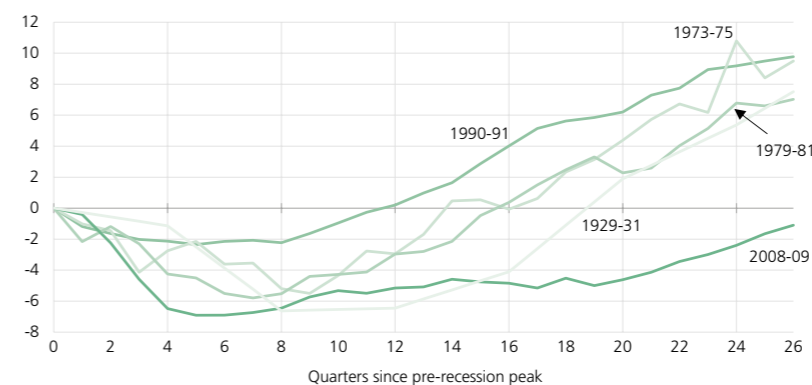
historical average rate." However, forecasts predicting an imminent return to normal pre-recession rates of productivity growth have been made for at least two years, and have consistently proven to be overoptimistic.

The persistent weakness in productivity has puzzled economists and there are many alternative theories to explain it: falling productivity in the oil and gas and financial sectors; weakness in investment that has reduced the quality of equipment employees are working with; the banking crisis leading to a lack of lending to more productive firms; employees within firms being moved to less productive roles; slowing rates of innovation and discovery; an ageing population; even inaccuracies in the data. None are sufficient on their own to explain entirely what has happened and this makes it difficult to predict when and if the weakness in productivity growth will come to an end.

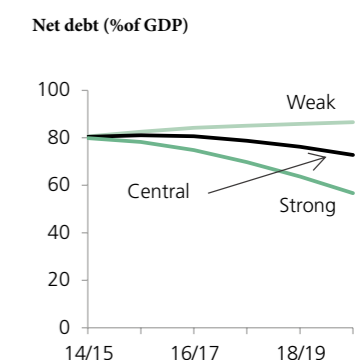
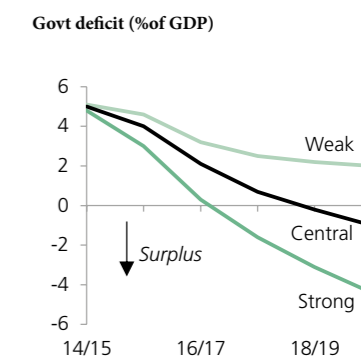
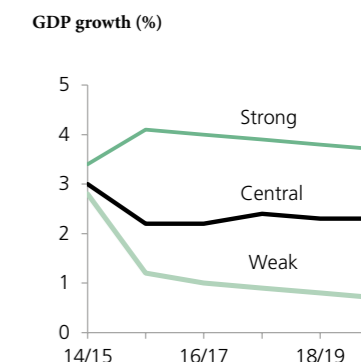
Running out of road

What can be predicted is that, with the proportion of people in work at historic highs, there is only limited room for growth in the economy to be driven by hiring more people. For growth to continue for much longer at its current pace of 2.5-3.0% a year, the productivity of existing employees will need to improve. If this does not happen, then we can expect growth to slow and the public finances to deteriorate compared with current expectations (see margin). And if productivity weakness is with us for the long haul, then we had better get used to living standards rising more slowly, even in the good times.

The weak recovery in living standards since the crisis is historically unusual, and due in large part to exceptionally weak productivity growth
% change in GDP per capita compared to pre-recession peak



OBR forecasts for economic growth, the deficit and debt under three productivity scenarios



The budget deficit — the best laid plans...

Deficits and debts – what’s the difference?

The government’s deficit is the difference between its revenues and its expenditure: a “large deficit” implies that expenditure substantially exceeds revenues. The deficit must be measured between two particular periods in time (e.g. at the beginning and end of a financial year).

The government’s debt is the total amount it owes. Deficits add to the total stock of debt over time. Debt must be measured at a particular point in time (e.g. the end of a financial year). Both debt and deficit are often expressed as a proportion of the country’s annual economic output (GDP). Provided the economy is growing quickly enough, it is possible for the debt or deficit to be rising in cash terms, but falling as a proportion of GDP.

Conservatives:

eliminate the entire budget deficit and ensure debt keeps falling as a share of GDP

Greens:

(...) closing the deficit not a main objective of economic policy but would “borrow on good terms” to fund investment

Labour:

get national debt falling and a surplus on the current budget as soon as possible in the Parliament

Liberal Democrats:

eradicate the structural current budget deficit by 2017/18 and have debt falling as a percentage of GDP

SNP:

(...) enshrine in law key principles of future financial management, including elimination of the deficit and balanced current account spending

UKIP:

(...) committed to reducing the deficit

The major parties fought the 2015 General Election with fiscal policies more different than at any other election since 1992. But they have all pledged to return the public finances to balance, albeit with different targets for deficit and debt reduction.

Experience from the last Parliament suggests that balancing the books requires more than just steely determination and a strong stomach for spending cuts: control over the budget deficit is not as firmly in the Government’s control as the public may believe. As events unfold we may see the Government’s ambitions for the public finances held hostage to or blessed by economic fortune.

Expectation and reality

In June 2010, the previous Government made plans that were expected to bring the deficit –the difference between public revenues and expenditure – down to just under £40 billion by the last financial year of the Parliament. As it turned out, a deficit of around £90 billion was left. Why, in spite of the Government’s firm plans for the public finances, did the deficit exceed initial expectations?

Look after the spending...

The larger than expected deficit cannot be blamed on profligacy: the previous Government broadly kept to its public spending plans. Unsurprisingly, spending was controlled most effectively in areas where the Government exercised the most control: departmental spending, controlled by the Treasury, was largely managed to plan, although there was some shifting between day-to-day and capital spending.

By contrast, spending deviated from plans in areas where the Government holds less direct power, or where expenditure was partly dictated by economic conditions, such as welfare. Fortuitously, these deviations largely balanced out: for instance there were lower than expected debt interest payments but slightly higher than expected social security spending.

...but will the taxes look after themselves?

Although public spending broadly turned out as planned, revenue fell short of expectations: after allowing for policy changes, public sector tax receipts were over £50 billion lower in 2013/14 than forecast in 2010, with the weaker-than-expected performance of the economy accounting for the vast majority of this shortfall.

The previous Government’s experience illustrates how much harder it is to control tax receipts than it is spending: once levels and rates of tax are set, the revenues that roll in are strongly influenced by the economy’s performance. Take employment taxes for example: income tax receipts and National Insurance Contributions (NICs) were around £25 billion lower in 2013/14 than expected in 2010. Although employment has increased faster than predicted, earnings growth has been weaker. Coupled with increases to the personal allowance, this has meant that income tax and NICs have not performed as well as originally expected.

Blown by the economic winds

If economic conditions deteriorate over this Parliament, the Government’s determination to meet its deficit target may be tested. Would it tighten fiscal policy still further if the economy underperformed, in a way that the previous Government did not? Or would it simply let budget balance wait for another Parliament?

By contrast, if the economy performs better than expected it may be much easier for the Government to meet its deficit targets. The amount of spare capacity in the economy – that is, the difference between the existing size of the economy and its potential size – plays an important role in determining how easily the deficit can be reduced. The further the economy is operating below its limits, the more scope there is for it to grow sustainably, and hence the more scope there is for the deficit to disappear ‘naturally’, as opposed to being tackled directly through fiscal consolidation.

If measuring the size of the economy is difficult, estimating its potential size is even more so. It is therefore unsurprising that estimates vary widely amongst forecasters, ranging from an economy with plenty of spare capacity to one even now running beyond its potential.

Spare capacity may be empirically elusive, but it will be important for the Government’s plans. If the economy is significantly under capacity, the Institute for Fiscal Studies’ 2015 Green Budget estimated that a fiscal tightening of only 1.2% of GDP could potentially eliminate the deficit in this Parliament. The Office for Budget Responsibility’s estimate of the output gap implies that a significantly larger fiscal tightening of 3.8% of GDP would be required to reach the same point.

When the Government’s fiscal performance is assessed in five years’ time, it will be the strength of the economy over the period that will ultimately determine whether it gets a positive review.

Chart 1:

Public spending has been cut slightly more than originally planned, but receipts have undershot forecasts

% difference between June 2010 forecasts and eventual outturns, excluding policy changes

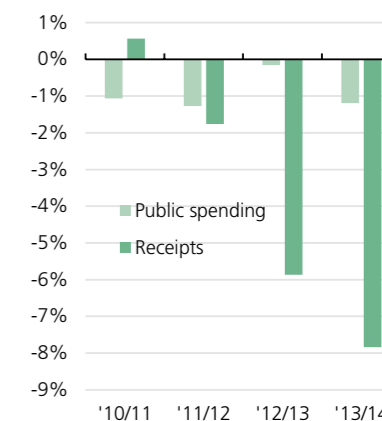
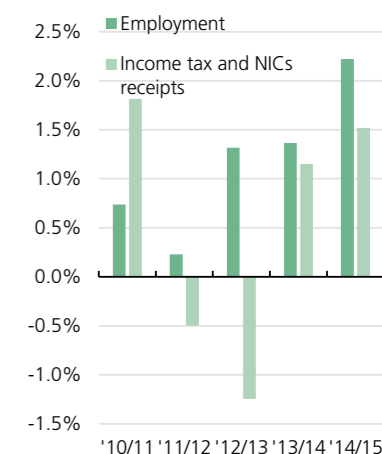


Chart 2:

Employment growth has not led to equivalent increases in labour taxes

% change in employment and real terms labour taxes



The other deficit — the UK's current account

Chart 1:
The short view - the recent deterioration in the current account position has been driven by a worsening primary income balance

current account and component parts: balance in 2010 and 2014, £ billion

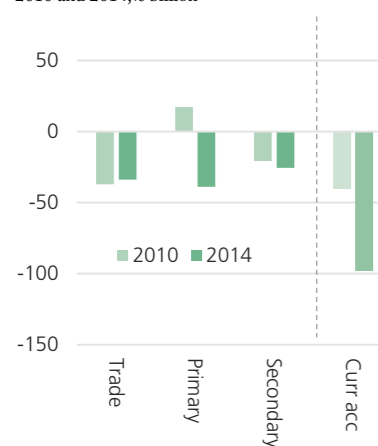
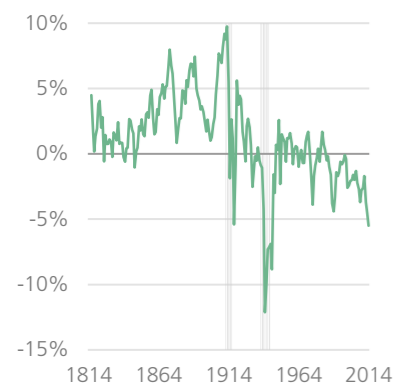


Chart 2:
The long view - the UK's current account deficit in 2014 reached its highest level in peacetime history

annual current account balance, % GDP, 1814-2014 (shaded grey areas indicate WWI and WWII)



During the last Parliament, the budget deficit captured much political and media attention. But recently another deficit – the current account deficit – has competed for the spotlight.

While the budget deficit fell from £142 billion in 2010 to £95 billion in 2014, the current account deficit more than doubled in cash terms from £41 billion to £98 billion over the same period. The deficit must be financed; and were it to persist or grow, there could be implications for economic and financial stability.

What is it?

The 'current account' records how much money flows into the UK from countries overseas, and how much money flows out of the UK to foreign countries. A current account deficit indicates that more money flowed out over a given period than came in. Such deficits must be financed by selling overseas assets or borrowing from abroad.

The current account can be broken down into three broad components, all of which were in deficit 2014. The first is the balance of trade: the difference between exports and imports, which was £34bn in deficit in 2014. The second, known as primary income, is the balance between the income (i.e. profits, dividends and interest payments) received on the UK's foreign investments, and the income paid to overseas investors on their UK investments (£29bn deficit in 2014). The final component, known as secondary income, consists of 'something for nothing' transfers, among the largest elements of which is the UK's expenditure on international aid (the secondary income deficit was £25bn in 2014).

What has happened?

In the past, worsening trade balances have been the major cause of deteriorating current account positions in the UK. But this has not been the case in recent years: at £34bn, the trade deficit in 2014 was £3bn lower than in 2010. The main factor behind the worsening current account position has been a growing primary income deficit, which moved from a £19bn surplus in 2011 to a £39bn deficit in 2014 (Chart 1).

The deterioration in the primary account was driven by UK residents receiving lower income on their overseas foreign direct investments (FDI). This in turn was a result of both lower returns on those investments (thanks in part to economic weakness in the Eurozone), and a reduction in the total stock of UK overseas FDI. In contrast, foreign residents have continued to expand their holdings of UK assets (something that may be linked to the relative strength of the UK's recovery and its status as a 'safe haven'), and have shifted the composition of their assets from low-yielding debt to riskier, higher-yielding equity, thereby increasing the rate of return on their holdings.

Does it matter?

The UK has had a current account deficit in every year since 1984, although its recent size, both in monetary terms and in relation to the size of the economy, is unprecedented in peacetime (Chart 2).

A current account deficit means that a country is dependent on inflows of capital from abroad and is therefore running up debts overseas or reducing its stock of overseas assets. The UK has been doing both in recent years. Dependence on overseas borrowing may not raise any immediate problems while overseas investors are willing to provide finance, but it leaves the economy vulnerable should sentiments change: a "sudden stop" in overseas funding could force a sharp depreciation of sterling and a contraction in domestic spending, thereby jeopardising economic and financial stability.

It was this vulnerability to the changing views of creditors that led Sushil Wadhvani, then a member of the Bank of England Monetary Policy Committee to say in 1999 that current account deficits "appear not to matter until, well, they suddenly do." Some economists believe that the UK's record of monetary stability, its floating currency and its reasonably healthy net international investment position (see margin) offer reasons to be confident that investors will keep the faith, at least for now.

Will it get worse?

The risks from the current account deficit will become greater the longer that it remains at its current high level. Many forecasters see the outlook for the current account position as very uncertain, particularly for the primary income balance, which has been driving the changes in recent years. The OBR forecasts that the primary income balance will gradually return to more normal levels, leading to a fall in the current account deficit overall. Whether and how fast this happens depends in large part on developments in the global economy, and particularly the Eurozone: an upturn could boost the return on the UK's overseas investments and increase demand for exports.

It is unlikely that the current account will gain as much attention as the budget deficit in the new Parliament. However, a reduction in the current account deficit from its current record levels will be important for any government wishing to claim that the UK is making a balanced and sustainable economic recovery.

The net international investment position

The UK has run a current account deficit for the past thirty years. If financing such deficits requires borrowing from abroad, should we not be very worried that the UK has built up an unsustainably large amount of foreign debt?

The amount of debt accumulated as a result of current account deficits can be measured by the UK's net international investment position (NIIP), which is the difference between the UK's stock of foreign assets and its liabilities to foreigners. The NIIP is equal to sum of all past current account deficits and surpluses, adjusted for changes to the value of the underlying investments.

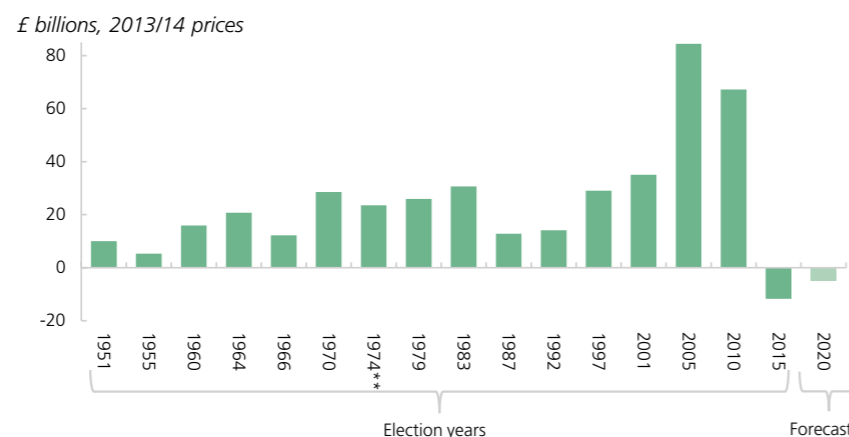
Measured as a proportion of economic output (GDP), ONS figures indicate that the NIIP has been negative (i.e. liabilities exceed assets) since the early 1990s, but remained relatively stable during the 2000s at around -10% GDP. Over time, the UK's NIIP has been kept in check by the growth of GDP (in cash terms), and by rises in the value of the UK's overseas assets, relative to the value of foreigners' investments in the UK. After 2013 the NIIP fell sharply, to below -20% of GDP. However, this is not particularly high by international standards: 12 of the 28 EU Member States have NIIPs exceeding 50% GDP.

The NIIP is a small difference between two very large numbers (both the UK's stock of foreign assets and its liabilities to foreigners stand at more than 500% GDP). It is thus very sensitive to changes to the value of the underlying investments. For instance, the ONS largely uses purchase prices for valuing foreign direct investment; but using current market values instead, the Bank of England estimates that the UK's NIIP is in fact positive, standing at +20% GDP.

Reducing public spending

For the first time since at least the 1950s, day-to-day government spending fell over the course of a Parliament between 2010 and 2015. Forecasts by the Office for Budget Responsibility, based on spending assumptions provided by the previous Government, suggest that it will continue to fall over the next five years as well (Chart 1). Each of the parties has its own plans that imply considerably different reductions in day-to-day spending; but they all require at least some cuts that, if followed through, could make the 2010s the most austere decade, in terms of public expenditure growth, of the post-war era. How to apportion these spending reductions between different departments, functions and priorities is one of the most fundamental decisions that the new Government will take.

Chart 1:
Change in current government spending* over Parliaments
£ billions, 2013/14 prices



* Spending on government activities including welfare, interest payments and other government departmental spending, but excluding spending on capital assets.

** February to October 1974 Parliament not included

Conservatives:
(...) reduce Government spending by 1% each year in real terms for the first 2 full financial years of the Parliament

Greens:
increase public spending to almost half of national income

Labour:
(...) outside of protected areas there will be cuts in spending

Liberal Democrats:
increase public spending in line with the economy once the budget is balanced

SNP:
oppose further spending cuts and propose modest spending increases - of 0.5 per cent above inflation - in each year of the next Parliament.

Protecting some departments will lead to larger spending reductions elsewhere

There was consensus among the major parties before the election that, as in the last Parliament, expenditure on health and education should be protected, albeit in slightly different ways. They also committed to raising the state pension by at least 2.5% per year and increasing overseas aid in line with gross national income. This implies that any spending reductions will be concentrated in the remaining, 'unprotected' areas of public spending, such as benefits payments, defence and local government. As a consequence, expenditure on 'protected' areas, which currently comprises 44% of government spending on services, will come to account for an ever-larger proportion of the total during this Parliament.

How will these be achieved?

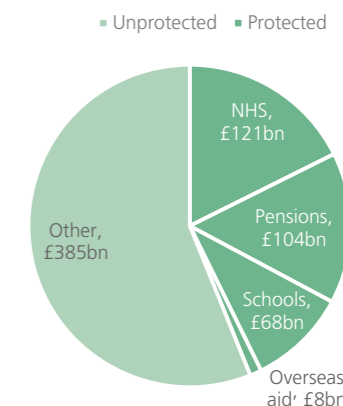
The Government could achieve spending reductions by cutting planned expenditure on 'unprotected' departments. This is a 'reliable' approach in the sense that what the Government plans, in terms of cuts, it tends to get: after all, departmental spending limits are directly within the control of the Treasury. However, unprotected departments have already seen substantial budget reductions since 2010: to achieve these, administration spending was cut and the number of public sector employees was reduced by half a million. In the next five years, it is not clear that 'more of the same' – efficiency savings and staffing reductions – will generate the scale of spending reduction required. Changes to the way that services are provided could be necessary, along with a general re-prioritisation of the functions of government.

Alternatively, the Government could seek to reduce the welfare bill: excluding the state pension, this amounts to around £147bn. In the run-up to the election, cuts to the welfare bill were targeted by the Conservatives, who committed to reducing welfare spending by a total of £12 billion by 2017/18. Like departmental spending, welfare expenditure was cut in the previous Parliament, so any reductions will come on top of those already implemented. But unlike departmental spending, welfare expenditure is not directly and precisely within government control: it depends partly on economic developments, particularly in the labour and housing markets. The previous Government expected its welfare reforms to save £19bn by 2014-15, but in the end spending was just £2.5 billion lower.

Finally, the Government could mitigate some of the planned spending cuts through tax measures. In this context, there has been less focus on outright increases in tax rates than on clamping down on tax avoidance, evasion and aggressive tax planning. Again, anti-avoidance measures were implemented in the last Parliament and there may be limits to how much more revenue can be squeezed from further schemes. Moreover, the revenues available from such measures tend to be highly uncertain: for instance, the UK-Swiss tax agreement, signed in the last Parliament, was originally expected to yield £5 billion by March 2016; HMRC now expects it to yield just £1.7 billion.

Chart 2:
The major parties have committed to protecting large areas of public spending in the next Parliament

public sector expenditure on services, selected categories, 2013-14



The end of local government as we know it?

Local authorities saw substantial reductions in their funding in the last Parliament; and it seems unlikely that budgetary pressures will ease in this one. The degree of change has led to numerous proposals for reform to the system of local government funding. It has also triggered debates about the sustainability and purpose of local government, its powers and structures, and its methods of service delivery.

What happened in the last Parliament?

Reductions in central funding for local government during the 2010 Parliament were substantial. The Department for Communities and Local Government's grant to local authorities in England fell considerably. Some other sources of funding, such as public health funding, the Better Care Fund, and City Deals, became available to local authorities. Taking these into account, the overall funds available to local authorities have fallen less starkly (see 'revenue spending power' in Chart 1).

Local government funding is devolved to Scotland, Wales and Northern Ireland, but local authorities in those territories too have been unable to escape pressure on their budgets.

A funding crisis?

Some commentators have raised concerns that, if the current trajectory of funding continues, it could cause some local authorities to fail in their statutory duties, or get into serious financial crisis, a view backed up by a poll of council leaders and chief executives conducted by PwC (Chart 2). The Local Government Association (LGA), the representative body for local government in England, has estimated that if the current trends of central funding reductions were to continue, there would be a £12.4 billion gap between funding available to authorities and projected expenditure in 2019-20.

Councils are actively seeking additional funding, including through enhanced trading activities and commercial activity. There have been calls for greater freedom over the two local taxes, council tax and business rates. The Local Government Association has called for an end to the Government's requirement for a binding referendum for any council tax rise over a fixed percentage (2% in 2015-16). Councils have also kept a proportion of the growth in their business rates revenue since 2013: there have been demands to allow them to keep all of it.

Even if councils had greater control over both of these taxes, it might be hard to use them to raise a significant amount of extra funding. Both of them have a high local profile, and local politicians might be sensitive to any increase. Thus some authorities – particularly in areas with less capacity for economic growth – are still likely to struggle for funds.

Councils have also begun to change radically the way services are provided in response to fiscal pressure. This has included initiatives to bring together the provision of health (by local NHS providers) and social care (by local authorities), including the pooling of funding via the Better Care Fund; and, through the Troubled Families programme, taking a multi-agency approach to families with complex needs. Some areas have also benefited from city deals, giving one-off powers and funds to deliver agreed outcomes. But pressure remains for further change to local powers and funding.

More powers for local councils?

Some political parties' manifestos proposed to devolve various powers, and the attached budgets, from central to local government. This could boost councils' financial capacity as well as making them more important actors locally. Retaining business rates revenue has led many councils to focus on economic growth, skills, business support and infrastructure, alongside their traditional role in public services. Five areas have formed combined authorities – joint bodies to take on shared functions – to help them exercise such powers effectively, and there are plans for combined authorities in a number of other localities. But as combined authorities have no direct elections, any devolution of substantial powers to them could prompt concerns over accountability.

The previous Government proposed to devolve powers over skills, housing, transport, business support and integration of health and social care to Greater Manchester. The powers will be transferred to the Greater Manchester Combined Authority in 2015 and 2016. They are to be accompanied by a directly-elected mayor for Greater Manchester, with the first elections expected in 2017. More limited 'devolution deals' have also been agreed with the combined authorities in Sheffield and West Yorkshire. Such deals could increase local authorities' capacity and status: but much depends upon the outcomes from the 'first movers', and on their ongoing relationship with the new Government.

These deals have spawned a number of demands for devolution of power from other local authorities across England. The government elected in 2015 will need to decide how to respond to demands for local devolution. Whatever changes are made, it seems inevitable that, without a more generous settlement from central government, councils will be left with difficult decisions about the provision of local services.

Chart 1: Local authorities' grants and spending power fell by substantially more than budgets for central government departments

real-terms change from 2010/11 in departmental expenditure limits, local authority spending power and local authority grant

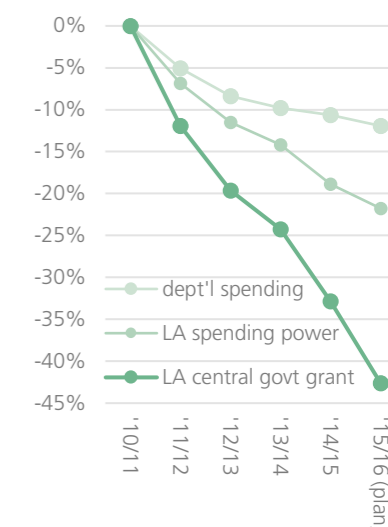
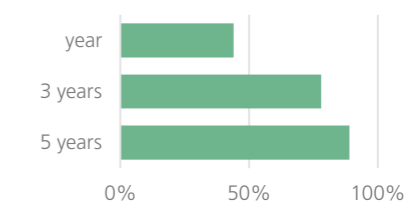
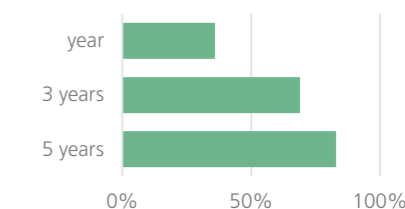


Chart 2: Proportion of council chief execs and leaders believing that...

some local authorities will get into serious financial crisis in the next:-



some local authorities will fail to deliver the essential services residents require in the next...



Is there a future for corporation tax?

The previous Government's reforms to corporation tax were among the most significant of the tax changes that it made in the last Parliament. However, public concerns over avoidance and the threat of tax competition from other countries pose serious questions about the future of corporation tax.

The UK's fourth biggest tax... Taken together, income tax, National Insurance Contributions and VAT account for around 60% of all tax revenues. Corporation tax remains the fourth biggest tax, although the financial crisis saw its receipts fall significantly, from £46.3 billion in 2007/08 to £39.3bn in 2013/14.

... most of which is paid by the largest companies ... Corporation tax payments are highly concentrated in a small number of large firms. 1% of all companies account for 81% of all receipts, Oxford University's Centre for Business Taxation has estimated, drawing on data from HM Revenue & Customs (HMRC).

... that shows strong volatility in receipts... There is a strong correlation between receipts from this tax and the business cycle, so that over the last thirty years corporation tax revenues have accounted for anywhere between 4% and 10% of total tax receipts.

... although revenues have been robust over the last 20 years. Over the 1980s & 1990s globalisation had been accompanied by successive cuts in corporation tax rates across OECD countries, according to analysis published by the IMF in 2012. Contrary to what might have been expected, there had been no long-term decline in revenues. The authors found that for the US and all regions, excepting Sub-Saharan Africa, revenues had risen over the previous thirty years.

The previous Government's changes to corporation tax, while domestically important ... In the 2010 Coalition Agreement, the previous Government set out its aim to "create the most competitive corporate tax system in the G20," by simplifying reliefs, tackling avoidance and cutting rates. It made four main policy changes (see margin).

The Institute for Fiscal Studies estimates that, taken altogether, the annual cost of these changes will be around £7.9bn by 2015/16. This is almost as much as the current annual cost of the previous Government's cumulative increases in the personal tax allowance, which stood at £8bn per year in 2014/15.

... have not solved the difficulties in taxing international business...

Though there are important differences between them, all industrial countries operate source-based corporation taxes, which aim to tax profits created in that particular country. The challenge for national tax authorities in a globalised economy is to ascertain where profits are created. This poses practical difficulties, as multinationals often seek to minimise their total tax

- Cutting the main rate of corporation tax from 28% to 20% (from April 2015)
- Introducing a preferential tax regime for patent income
- Making capital allowances (whereby the cost of purchasing certain assets can be deducted from taxable profits) less generous
- Modifying the taxation of the foreign income of overseas subsidiaries and branches of UK-resident companies

bill by exploiting the interplay between national tax systems. It also raises conceptual problems, since it requires the authorities to assign profits that relate to activities that a single company carries out across several countries.

Many transactions within companies – for instance royalty payments, loans and the purchase of intermediate goods – need to be priced, to allow a calculation of the profit made by each national subsidiary. To do this, international practice relies on the 'arm's length principle' that companies need to account for these transactions as if they were taking place between two unrelated parties. However, for transactions that take place within companies, there is no observable market price. For companies where intellectual property is key to profit creation, such as Google, this problem is particularly acute: it is often very difficult to identify geographically where a company has created new ideas. Moreover, it can be difficult to price new technologies that are not traded on the market.

From an international point of view, tax may resemble a zero sum game: the greater the share of profits claimed by one country, the smaller the share that can be claimed by another. Every location, be it Amsterdam, Barbados, or the City of London, is always offshore to somewhere else. The incentives one government offers to encourage inward investment can, whatever the motives behind them, simply be regarded as the bribes of an unrepentant tax haven to its neighbours.

... accentuated in recent years by the actions of multinationals to avoid tax.

Nevertheless, there has been growing international concern over the scale of 'base erosion and profit shifting' (BEPS): that is, the artificial reduction of taxable profits and/or detachment of tax location from the location of business activity. In 2013 the OECD started work on a project, underwritten by the G8 and G20 and due for completion at the end of 2015, to consider multilateral initiatives that could effectively reduce the scale of this activity. Many commentators are doubtful about how easy it will be to achieve international consensus on translating these recommendations into law.

These trends pose serious questions about the future of corporation tax.

Will UK receipts from corporation tax recover in the near future? Will the Government's strategy of making the UK 'competitive' be successful in attracting long-term investments in the UK economy? Whatever its present attractions, will the UK's system remain competitive? Is international agreement on BEPS likely, particularly if other countries seek to make their own national tax systems more competitive? And even if it is, will agreement on BEPS be enough to deliver a stable international system that wins public support?

Chart 1: Corporation tax rates and receipts, 1978/79 to 2013/14

bars: receipts from corporation tax (real terms, £ billion)
line: main corporation tax rate (percent)

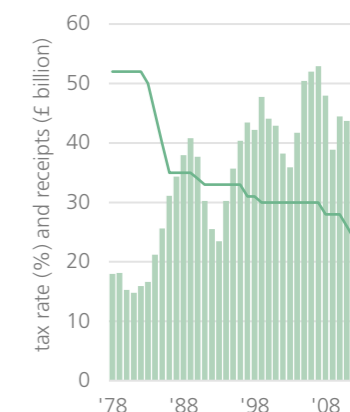
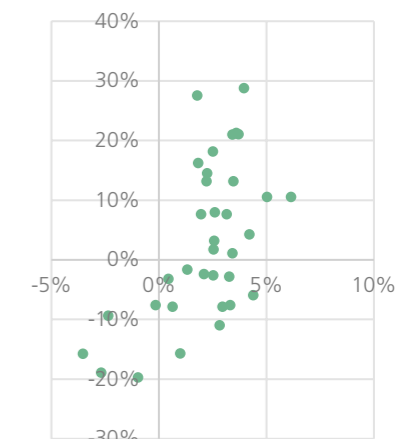


Chart 2: There is a strong relationship between corporation tax receipts and the state of the economy

annual change in corporation tax receipts (vertical axis) vs annual change in economic output (horizontal axis), 1979/80-2013/14



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Key Issues *for the* 2015 PARLIAMENT – CHAPTER 11

INDUSTRY &
INFRASTRUCTURE

Manufacturing success

In common with many other advanced economies, the UK has seen an absolute decline in manufacturing employment and a relative decline in manufacturing output in recent decades. The impact of globalisation, which has resulted in the fragmentation and relocation of production overseas, has been felt very acutely in this sector.

The UK's deindustrial revolution has been particularly dramatic: from close to 9 million (more than a quarter of the workforce) in 1966, the manufacturing sector now employs fewer than 3 million (8% of the workforce). Today, the sector's R&D expenditure, levels of investment and share of global exports are low in comparison with other advanced economies.

Since the recession

The previous Government saw a revival in manufacturing as central to its efforts to rebalance the UK's economy, both geographically and sectorally. The recovery in manufacturing has been more tentative than in the rest of the economy, however, and output remains well below its previous peak (Chart 1).

All bad news?

The apparently poor performance of the manufacturing sector in the UK may be at least partly explained by the claim that our principal means of understanding and measuring its economic importance – looking at the value of output and the numbers employed in the production of physical goods – is out-of-date. In particular, it fails to reflect the value that many manufacturing firms now derive from selling services allied to their products, and licensing the fruits of their innovation. For instance, Rolls-Royce now derives more than half of its revenue from selling services, up from 35% in 2000, while the electronics company ARM designs microprocessors used in smartphones that are manufactured by companies overseas. In both cases, the product is a kernel for other revenue-generating activities that are “counted” as services, rather than manufacturing output.

Stuff and nonsense

A recent report from the Government Office for Science argued that this failure to understand how modern manufacturing creates economic value may be hindering efforts to revive the sector. The future of UK manufacturing arguably lies not in mass production of consumer goods – after all, to compete with emerging economies to supply the world with smartphones would require a dramatic cut to wages – but in capitalising on the knowledge and services associated with innovative products. In order to do so, the next Government may have to tackle a number of inter-related issues in the UK's manufacturing sector:

Skills shortages. The nature of advanced manufacturing means that, even if it grows quickly, it is unlikely to generate significantly more employment in the production process specifically. However, the sector will increasingly require more highly qualified employees. By 2020, it is estimated that the number of people employed in the industry with higher qualifications will have risen by 35% compared with 2012. The Government will have to ensure there is an adequate supply of skills to meet this demand.

The innovation gap. whereby important products and processes are invented in the UK, but their development and commercialisation occurs abroad. Graphene is a widely quoted example of this problem: it was invented at Manchester University in 2004, but of the 3,500 graphene-related patent applications in 2012, the UK contributed just 50. Turning innovations to economic advantage requires connecting academic expertise to industry, but it also requires tackling...

...the funding gap. It can be difficult for firms to access funding necessary to take a product from development to commercialisation. Funding for R&D expenditure in the UK is low in comparison to other advanced economies, it is concentrated in a few industries, and a very high proportion comes from abroad.

Access to patient capital. More generally, an emphasis on short-term returns in UK capital markets, and a distant relationship between providers and users of finance, have meant the sector has sometimes struggled to access the “patient capital” necessary for long-term investment in equipment, R&D and skills.

A sustained pick-up in manufacturing growth could help to address what are currently seen as two weaknesses in the UK economy: low rates of exports and productivity growth. No Government of recent decades can credibly claim to have revived the UK manufacturing sector, or even arrested its relative decline. There may be considerable economic and political benefits to any administration that can do so.

Chart 1:

The economy as a whole is larger than it was before the crisis, but manufacturing output remains well below its pre-crisis peak

output relative to previous peak, Q1-2007 to Q4-2014

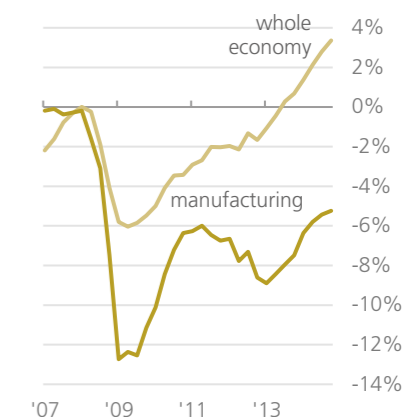
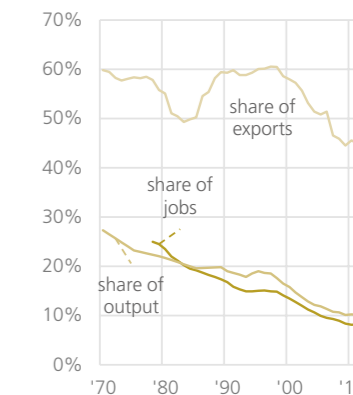


Chart 2:

Despite the long-term decline of manufacturing, the sector still makes an important contribution to UK exports

share of manufacturing in selected aggregates, 1970-2013/2014, annual



Infrastructure

Throughout the last Parliament, the major parties competed to demonstrate their commitment to the UK's infrastructure. And with good reason: well-functioning telecommunication, electricity, water and transport networks are vital to social and economic development.

The Organisation for Economic Co-operation and Development (OECD) has stated that without investment in infrastructure of around 3.5% of GDP per year, competitiveness will be blunted and there will be detrimental implications for the quality of life of the UK's growing population. Can this level of investment be achieved and sustained during the 2015 Parliament?

Government investment is falling...

Currently, public sector infrastructure investment totals around 1.5% of GDP, and OBR forecasts made at the time of the March 2015 Budget suggest that this will fall to 1.4% of GDP by 2019/20 (Chart 1). This implies that, if the OECD target is to be met, around £45 billion per year will have to be found, either from additional government investment, or from the private sector, or a combination of both.

Raising the level of government investment through borrowing might seem the most straightforward option: UK government bonds are historically (and by international standards) very cheap, meaning that the government's cost of borrowing is low. Moreover, public spending on infrastructure can lead to higher economy-wide returns than other types of government expenditure.

While Conservative plans in the run-up to the election involved eradicating the deficit before borrowing more to invest, Labour and the Liberal Democrats excluded investment from their fiscal targets. In theory, this gives scope to increase investment by borrowing more. However, neither of these parties is contemplating adding £45 billion a year to the deficit: much more modest increases to investment spending are proposed. In fact, since all three of these parties want to see total government debt falling by the end of the Parliament, there would be constraints on the amount of public borrowing, whatever its purpose.

...but the private sector is yet to fill the gap

As a result, if the 3.5% target is to be attained, much more investment will have to come from the private sector. This would be nothing new: currently, 64% of planned infrastructure finance will come from the private sector (78% if projects funded by a mix of public and private finance are included).

But the financial crisis has changed the way the private financing market operates: recent years have seen a decline in private sector investment and some previously big players have scaled back their activities. This is partly due to a drop-off in demand for long-term finance from governments still implementing austerity programmes, partly due to uncertainty and risk aversion about the economic outlook, and partly as a result of regulatory requirements that oblige banks to reduce the amount of long-term debt on their balance sheets. For instance, Royal Bank of Scotland, previously one of the world's biggest financiers of large scale, long-term projects, has placed

Conservatives:

plan to invest over £100 billion in infrastructure over the course of the Parliament

Labour:

will set up an independent National Infrastructure Commission to assess how to meet infrastructure needs

Liberal Democrats:

investment in infrastructure will continue to rise in absolute terms and as a share of the economy

SNP:

propose additional expenditure in the next Parliament which will include substantial investment in infrastructure

its entire project financing portfolio in its "non-core" arm, implying that it views this kind of investment with much less enthusiasm. There is concern that the private sector can no longer be relied on to provide the investment required.

The Government can help to encourage private sector investment...

The previous Government introduced a number of measures to encourage private sector investment. The UK Guarantee Scheme provides government backing to schemes, meaning that they will go ahead even if a funding shortfall emerges in the future. So far, projects worth up to £34 billion have been guaranteed, although whether or not these schemes would have found funding without the guarantees is not clear.

Pension funds typically seek long-term, reliable returns for their investors, but UK pension funds only invest around 1% of their assets in infrastructure, compared to up to 15% among Canadian and Australian funds. The previous Government sought to encourage investment from pension funds with the Pensions Infrastructure Platform, but three years after its launch, only £330 million has been raised, and most of that has been invested in the maintenance of existing infrastructure.

The long-running public-private partnership model used in the UK since the early 1990s has also been less successful at attracting investment in recent years. The revamped version of the Private Finance Initiative (known as PF2) has been criticised for its complexity, and has attracted limited take-up.

...but overcoming investors' worries about political short-termism will be a challenge

The challenge for policymakers in the next Parliament is not to devise a new scheme with which to lure private finance, but rather to convince the market that the Government is committed to projects for the long run. This was the motivation behind the previous Government's Infrastructure Pipeline, which brings together detailed plans for private and publicly-funded investment up to the 2030s. The Labour Party's proposed infrastructure commission would perform a similar role, but would also seek to take major infrastructure decisions out of the hands of politicians.

The political cycle, with its horizon rarely extending beyond five years, is a potent enemy to infrastructure investment. Cross-party consensus could demonstrate commitment beyond the normal cycle and bolster confidence among investors.

Chart 1: Without additional investment, either from the private sector or the government, there could be an infrastructure 'funding gap' of £45bn per year by 2019/20

public sector infrastructure investment 2010/11 to 2013/14 and forecasts to 2019/20, £ billion

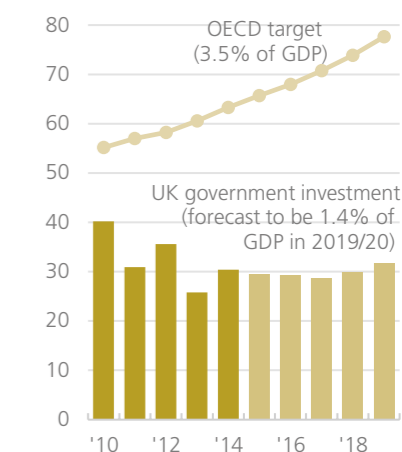
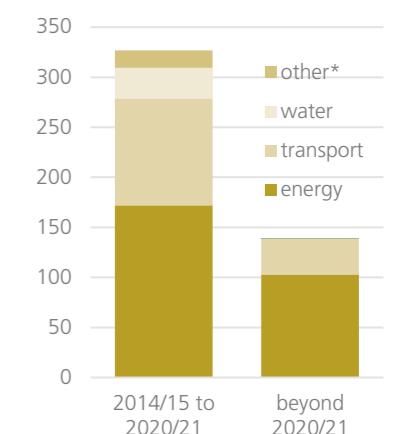


Chart 2: Planned infrastructure investment beyond 2020/21 is limited to the transport and energy sectors

planned infrastructure investment from public and private sources (based on national infrastructure pipeline in December 2014), £ billion, 2013/14 prices



* Communications; science and research; and waste

Transport 2015: in the slow lane?

Two big infrastructure decisions faced the previous Government when it came to office in 2010: whether to approve airport expansion somewhere in the South East, and whether to build a high speed rail line between London and the north of England. For different reasons the incoming Government will face the same questions.

While these big infrastructure decisions may consume the lion's share of political debate, on the ground there is a burgeoning movement to improve infrastructure and facilities for cyclists and pedestrians, particularly in cities, and to make roads and vehicles safer for all.

Then there is the often-overlooked local bus, the most popular form of public transport. The next Government is likely to face calls to devolve further transport powers to local areas, making it easier for them to raise money and make plans for transport provision beyond the next Parliament.

The fated sky

The Coalition Government set up the independent Airports Commission, chaired by Sir Howard Davies, to report in summer 2015 on whether extra airport capacity is needed and if so, where that should be. No party has committed itself to implementing Sir Howard's final recommendations, though there will inevitably be pressure to do so. A new hub airport in the Thames Estuary, promoted by the Mayor of London, Boris Johnson, was rejected in September 2014. This leaves three likely alternatives: building a new third runway at Heathrow, extending an existing runway at Heathrow, or building a second runway at Gatwick.

Whatever Sir Howard recommends, it will be up to the airport owners to put forward planning proposals for new infrastructure, with the final decision to approve any scheme resting with the Secretary of State: no legislation will be required. The proposals for both airports are likely to need new or improved ground transportation links to accommodate increased demand.

High speed: wisely and slow?

Plans for Phase 1 of High Speed 2 (HS2), between London and Birmingham, have the support of the Conservative, Labour and Liberal Democrat parties, but it is likely to be some years before construction starts. This is because each phase of HS2 requires a 'hybrid Bill', which follows a special Parliamentary procedure that can take years to complete. The consideration of petitions against the hybrid bill for Phase 1 by a specially appointed Select Committee will resume in the new Parliament. Once this process is complete, the Bill will proceed to Committee stage, Report Stage and Third Reading, before being sent to the Lords, where there will be a further opportunity for objectors to petition and to appear before a select committee. There will be no 'spades in the ground' until the legislation receives Royal Assent.

Conservatives:

devolve transport, build HS2 and Crossrail 2, consider the Airports Commission report; increase rail fares only by RPI, build more roads, curb unfair parking, encourage cycling and protect bus passes

Greens:

free public transport for young people, protect bus passes, lower speed limits, nationalise the railway, scrap HS2, support walking & cycling, re-regulate the buses and stop airport expansion

Labour:

build HS2, review rail franchising, increase rail fares only by RPI, invest in roads, promote cycling, make a swift decision on airport capacity, protect bus passes, and devolve transport powers including buses

Liberal Democrats:

devolve transport, invest in the regions, build HS2, increase rail fares only by RPI, no new runway in the South East, support trams, protect bus passes, pass a Green Transport Act, and more money for cycling

UKIP:

scrap HS2, free hospital and local parking, re-open Manston Airport, cut speed cameras and scrap road tolls, abolish eCall and the drivers Certificate of Professional competence, and exempt 25 year old vehicles from car tax

Firm proposals for Phase 2, between Birmingham and Manchester and Leeds, have been delayed, and it will be for the new Government to finalise and publish these plans before the relevant legislation comes before the House in the 2015 Parliament.

Phase 1 of HS2 has already been beset by increases in its projected cost, which now stands at £50 billion (for the whole scheme plus trains), with around £1 billion spent so far. Despite the cross-party support, further cost increases might yet tempt the Government into writing-off spending to date and cancelling HS2. There are no end of suggestions for how else the money might be spent.

What is the city but the people?

While big infrastructure projects tend to absorb the bulk of media coverage and political interest, the 2010 Parliament saw the continuing rise of the 'slow travel' movement, as cyclists and pedestrians fought for better provision and improved safety. High profile campaigns by cycling groups and The Times led to more funding, better facilities and efforts to improve vehicle safety, particularly that of lorries and buses. Local authorities are also increasingly enthusiastic about cutting speed limits in towns and cities to 20 mph.

The 2015 Government will be faced with continuing calls to make the streets safer for these groups, and to improve land use planning for new developments to properly accommodate more sustainable forms of travel. There is also likely to be a push for more devolution of power to local areas, so that towns and cities, villages and parishes can plan and fund their transport networks to cater to local circumstances.

A key challenge for the new Government will be to balance the calls on the one hand to take big infrastructure decisions centrally and to see them through, and on the other to devolve power to local areas so that they can plan and provide their own transport services.

What next for UK agriculture? Seeking some security

Farming in the UK - selected statistics (2013)

Area, output and employment

Agricultural area (hectares)	18,449
% total land area	71
Number of farms (000s)	221
Gross output (£m)	25,715
gross output per farm (£)	117,000
Total farming income (£m)	5,464
income per farm (£)	25,000
Employment (thousand)	464
Share of total employment	1.44%

Crop area (hectares)

Cereals	3,028
Oilseeds	752
Potatoes	139
Other crops	745

Livestock numbers (million)

beef cows	1.8
dairy cows	1.6
sheep and lambs	32.9
pigs	4.9
poultry	162.6

Conservatives:

will set out a long-term vision of British farming working with industry to develop a 25 year plan to grow more and push for reform of CAP

Greens:

support reform of the CAP

Labour:

support reform of the CAP

Liberal Democrats:

implement programmes to help farmers and push for reform of the CAP

UKIP:

Introduce a modified UK Single Farm Payment (SFP) scheme

UK farmers are looking to the new Government to help them manage uncertainty and bolster their resilience in an unpredictable world.

Recent years have seen increasing volatility in commodity markets, prompted by natural and political events such as US droughts and Russian sanctions. Farmers are grappling with the latest rules for Common Agricultural Policy (CAP) payments schemes and assessing the impact of the loss of EU milk quotas (March 2015), whilst also trying to negotiate competitive contracts in a complex food supply chain, headed by the supermarkets. However, the overall, long-term economic outlook for UK farming is positive.

In the 2015 Parliament, the new Government will immediately have to continue to implement the complex CAP reforms, develop its priorities for the next round of reforms, and consider a range of other farming challenges on the horizon.

CAP reforms 2014-20

The UK was allocated €25.1bn (£18.5bn) under the CAP for the period 2014-20 agreed in 2013. Member States and their devolved administrations have been allowed far more flexibility than ever before to tailor the measures according to their priorities. As a result, CAP implementation varies widely across the UK.

These latest reforms include a new Basic Payment Scheme (direct subsidies). Wales and Northern Ireland kept the original 15 May 2015 farmers' application deadline whilst England and Scotland opted for an EU-approved extension (15 June 2015). In England, glitches in the Rural Payments Agency's new IT system caused it to switch from online applications to paper forms, whilst the Welsh Assembly Government had to revise its payment regions after judicial review. Imperfect application of CAP rules brings EU disallowance fines, something the new Government will be keen to avoid.

CAP funding also supports Rural Development Programmes (RDPs) for 2014-20 across the UK. These offer further payments to farmers in return for additional environmental protection and enhancement, as well as funds to support the wider rural economy (e.g. through broadband schemes, renewable energy and tourism development). The previous Government planned to review the agreed level of CAP funding (12.5%) that can be moved ('modulated') from direct subsidies to the English RDP in 2016, with a view to increasing it to the maximum 15% allowed. Labour has pledged to move to 15%, without a review, to boost funding for environmental protection.

Further CAP reforms

The latest EU Agriculture Commissioner, Phil Hogan, has made CAP simplification an immediate priority. The previous Government flagged concerns with the unpopular "three crop rule" - one of the "greening" requirements farmers must meet to receive their direct payments in full. The rule seeks to promote diversification by specifying how many crops have to be grown per hectare of area farmed. However, farming and environmental stakeholders agree that these complicated requirements offer limited environmental benefit.

The new Government will immediately have to look ahead to CAP 2021-2027 as negotiations will start 3-4 years ahead. The previous Government wanted further value for money for the taxpayer with more emphasis on improving productivity and competitiveness and protecting and enhancing the environment.

Horizon scanning

CAP reform and implementation are not the only farming policy challenges which lie ahead.

Dairy farming. The previous Government committed to a range of measures to help the dairy industry, which has been facing volatile milk prices. These included new tax rules and support for EU country of origin labelling to help customers buy British. The new Government may want to continue to look at how best to help dairy farmers, and the industry generally, to better absorb market shocks and manage uncertainty.

Supermarkets. Select Committees, all-party groups and stakeholders have called for the Groceries Code Adjudicator's (GCA) role to be strengthened so that the Adjudicator can actively seek and deal with breaches of the Groceries Code (which promotes fair conduct between direct suppliers and supermarkets). They have also called for the GCA's remit to incorporate indirect suppliers like farmers.

Productivity and food security. In the last Parliament, the Commons Environment, Food and Rural Affairs Committee called for the "sustainable intensification" of farming, including better use of technology, to improve productivity and food security. However, new precision farming techniques, including GPS and mapping, are still not seen by many farmers as cost-effective.

In the UK, 68% of food consumed is produced domestically but the National Farmers Union has warned that this proportion could drop to 53% in the next 25 years without strategic action. There is no agreed optimum level of self-sufficiency but the UK has to be resilient to potential changes in climate and global markets. Currently no GM crops are grown commercially in the UK and new EU rules allow Member States more discretion to restrict the use of EU-authorized GM crops. However, if a wider range of such crops (more suitable to the UK) become available there may be more pressure to use them to boost productivity.

Bovine TB. The new Government will have to decide the next steps on Bovine TB. All parties have different views on badger culling but all agree that the disease must be eradicated. The previous Government set out a strategy to do this by 2038.

Pesticides. The EU Commission will be reviewing its (UK-opposed) ban during 2015 on certain neonicotinoid pesticides thought to harm bees. Meanwhile, Labour has supported calls by the Sheep Dip Survivors Group for an inquiry into the health impacts of organophosphate sheep dip on those who were historically required to use it.

Plenty of food for thought for a new Parliament.

The previous Government's strategy for food and farming

The previous Government launched an economic plan for food and farming (February 2015), prioritising new markets and simpler regulation, along with a £160m UK Strategy for Agricultural Technologies (July 2013) co-funded with industry. It also planned 17 Food Enterprise Zones, allowing businesses to access streamlined planning procedures.

Further reading and data sources

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Infrastructure, Chris Rhodes

OECD, *Infrastructure to 2030: volume 2*

– *mapping policy for electricity, water and transport*, July 2006

OECD, *Pension funds investment in infrastructure – a survey*, 2011

Treasury Committee, *Private Finance 2*,

Tenth Report of Session 2013-14, March 2014

Office for Budget Responsibility, *Economic and Fiscal Outlook – March 2015*

HM Treasury, *National Infrastructure Pipeline*, December 2014

Transport 2015: in the slow lane? Louise Butcher

This article draws on House of Commons Library briefing paper Transport in 2015, where the issues raised are discussed in greater depth

What next for UK agriculture? Seeking some security, Emma Downing

Environment, Food and Rural Affairs Committee, *Food Security*,
Second Report of Session 2014-15, June 2014

DEFRA, *The strategy for achieving Officially Bovine Tuberculosis Free status for England*, April 2014

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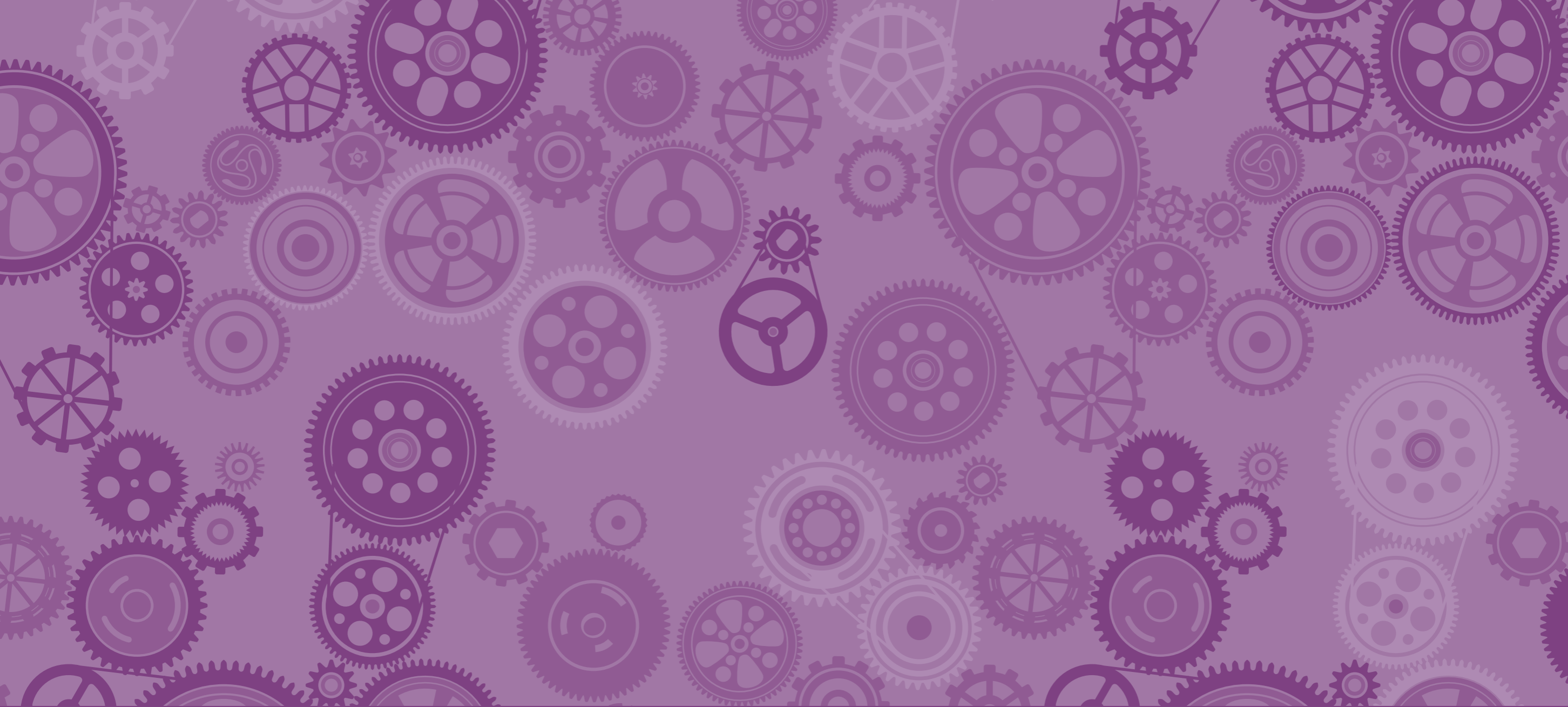
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Key Issues *for the* 2015 PARLIAMENT – **CHAPTER 12**

WORK



The Living Wage

Concerns that the minimum wage has become too low to provide a decent standard of living, and the continuing prevalence of in-work poverty, have led to growing interest in the idea of a “living wage”.

The living wage is an unofficial rate that, as well as being higher than the current NMW, is determined rather differently: while the NMW rate is “employer-focused”, based on what the labour market can bear without a significant effect on employment, the Living Wage is “employee-focused”, based on the income necessary for employees to afford an acceptable standard of living.

Enforcing the living wage rate as the national minimum wage would require a change to the LPC’s remit, or a disregard by the Government for its recommendations, that none of the major parties is proposing. Instead, the focus has been on promoting the living wage and encouraging employers to pay it voluntarily.

Conservative:

support the NMW rising to above £8 by 2020, will encourage businesses to pay the Living Wage whenever they can afford it

Greens:

target a NMW of £10 per hour by 2020

Labour:

increase the NMW to more than £8 an hour by October 2019 and introduce Make Work Pay contracts to provide tax rebates to firms becoming Living Wage employers

Liberal Democrats:

ask the LPC to look at ways of increasing the NMW without damaging employment

SNP:

will vote to increase the minimum wage to £8.70 by 2020

UKIP:

will enforce the NMW

The National Minimum Wage

When it was first introduced in 1999, the National Minimum Wage (NMW) was controversial. The legislation creating it was debated in Commons Committee for nearly 70 hours (including a record 26½-hour sitting), and Report and Third Reading were concluded only after an all-night sitting of the House. Since then, the focus of debate has shifted from the merits of having a NMW at all, to the level at which it should be set and the rate at which it should be increased over time.

Over the course of the previous Parliament, the real (inflation-adjusted) value of the NMW fell, reflecting a series of recommendations by the Low Pay Commission (LPC – see margin) that sought to avoid pricing workers out of jobs at a time when inflation had been running above average wage growth.

The October 2014 increase in the NMW was the first real terms rise in five years and the LPC has said that in future it expects “a new phase – of bigger increases than in recent years.” The major parties too have committed to increasing the NMW in the 2015 Parliament; but how far they can make up ground lost over the past five years, without adversely affecting employment, will depend on the state of the wider economy, and in particular on productivity and wage growth.

The effect of increasing the NMW

Employment. There is a broad academic consensus, backed up by the Low Pay Commission, that the NMW to date has not had an adverse effect on employment. However, this does not mean that it can rise indefinitely without having an impact.

While the effect of modest rises in the NMW on employment in aggregate are likely to be small, localised impacts may be felt in certain areas, certain sectors (see Chart 2) and among certain age groups (especially the young). If the Government wished to ensure, as it has in the past, that the NMW should not harm employment in any part of the economy, it would therefore have to proceed with caution.

Concerns about the effect of the NMW on employment highlight its bluntness as an instrument to improve living standards: it establishes a firm floor for wages in the “naturally” lowest-paid sectors of the labour market, but it does not prevent employers in other sectors from paying workers less than they could. As a 2013 report by the Resolution Foundation put it: “a single, national minimum wage will always be held back from achieving its full potential in some parts of the economy because of valid concern for employment effects in more vulnerable parts of the jobs market.”

Public finances. Raising the NMW could also affect the public finances: other things being equal, a rise in employee earnings leads to more revenue, in the form of additional income tax and national insurance contributions, and less spending on means-tested benefits and tax credits. The saving would be partly offset by an increase in the public sector pay bill.

In practice, the impact on the public finances would also depend on how a higher NMW affected employment and the wider economy. Research conducted by the Treasury in the last Parliament, which considered these effects in addition to changes in tax revenue and benefit expenditure, concluded that there were unlikely to be any large fiscal gains from increasing the NMW.

In-work poverty. Although a rise in the NMW would not be ineffective in tackling in-work poverty, neither would it be a panacea. This is partly because low incomes can be supplemented by tax credits, and as pay rises, these decrease. Moreover, household incomes depend not only on the hourly rate of pay but on the number of hours worked per week: a significant proportion of households in poverty, particularly those containing part-time workers who are paid above the minimum wage, would directly not benefit from a higher NMW.

Paths for the NMW over this Parliament

There is consensus among the main parties that, after a period of below-inflation growth, the NMW should increase over the course of this Parliament. Just how fast it increases, and whether it makes up the ground “lost” by below-inflation rises in the past, is uncertain. In making its recommendations, which past Governments have chosen to accept, the Low Pay Commission is likely to consider the strength of the economy, the state of the labour market and the rate of productivity and wage growth.

Chart 1:

The minimum wage is well below what it would have been had it continued growing at its 1998-2007 rate; but it is closer to the average (median) wage than it has ever been

left-hand axis: inflation-adjusted minimum wage, £ per hour
right-hand axis: Minimum wage as a percentage of average (median) wage

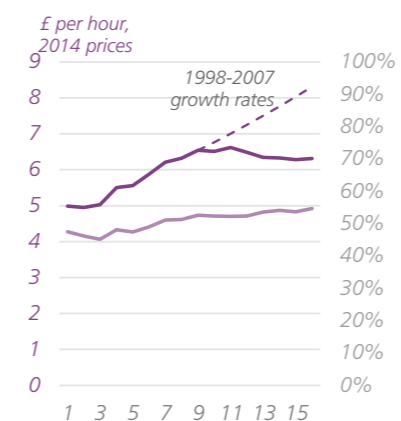


Chart 2:

The minimum wage is most commonly paid in the retail and hospitality sectors

proportion of workers paid NMW, by sector, 2014



The Low Pay Commission (LPC)

Under the National Minimum Wage Act 1998, the LPC is required to offer recommendations to the Government on what the national minimum wage rates should be. Further detail on its responsibilities are contained in a remit given to it by the Government. The precise wording of this has varied from year to year, but it has generally required the LPC to base its recommendations for the NMW on what it believes the economy can bear without a significant adverse impact on employment.

The LPC announces its recommendations on the NMW six months before they would come into force. The Government must then accept or reject these. The previous Government twice increased the apprentice rates above the recommended rate of increase set by the LPC, but to date no Government has rejected the LPC’s main recommendation for the main NMW rate.

If the Government wished to chart its own path for the NMW, it could ignore the LPC’s recommendations or change its terms of reference. However, this could risk undermining the credibility of a well-respected framework and the broad acceptance of the merits of the NMW.

Zero-hours contracts

The Small Business, Enterprise and Employment Act 2015 defines zero hours contracts as “a contract of employment or other worker’s contract under which–

- a. the undertaking to do or perform work or services is an undertaking to do so conditionally on the employer making work or services available to the worker, and
- b. there is no certainty that any such work or services will be made available to the worker”

After much debate in the last Parliament, opinions on zero-hours contracts (ZHCs) remain polarized. Employee organisations argue that they can leave workers and their families in a state of financial insecurity and uncertainty. Many employers, meanwhile, stress that without the flexibility afforded by arrangements like ZHCs, employment would have fallen faster during the recession and recovered more slowly since.

The statistics on ZHCs are not reliable enough to prove that they have become more prevalent in recent years. Currently, fewer than one in forty workers is thought to be employed under a ZHC. However, for many, their existence and possible growth, at a time when job opportunities are scarce, and penalties for not taking up work are more severe, exemplifies a general trend towards more precarious and exploitative forms of employment.

The debate over zero-hours contracts highlights the competing demands that any Government faces in deciding how the labour market should be regulated: on the one hand, the need to protect workers from exploitation; and on the other, the requirement among businesses for a degree of flexibility to respond to fluctuating demand and changing economic conditions. In the case of ZHCs, the quandary may be worsened by difficulties in enforcing restrictions on their form and use.

How prevalent are zero-hours contracts?

Based on survey data, the ONS estimates that there were between 1.4 and 2.2 million zero-hours contracts (more precisely, employee contracts not providing a guaranteed number of hours) as of August 2014, and that they were used by around 11% of businesses in Great Britain. This estimate covers only those contracts which actually provided work within the survey reference period; it omits any zero-hours contracts which did not provide employees with work. Using a different survey, the ONS estimates around one in forty workers were on such contracts during the last quarter of 2014. The prevalence of zero-hours contracts varies by industry. They are particularly prevalent in sectors subject to seasonal fluctuations in demand: for instance, more than half of businesses in the accommodation and food (i.e. hospitality) sector use zero-hours contracts.

Conservatives:

eradicate exclusivity in ZHC’s

Greens:

ban ZHC’s

Labour:

ban ZHC’s, those who work regular hours for more than 12 weeks will have a right for a regular contract

Liberal democrats:

create a formal right to request a fixed contract and consult on the right to make regular patterns of work contractual after a period of time

UKIP:

no exclusivity, right to a secure contract after a year if worker requests one

SNP:

will support efforts in the next parliament to end unfair and exploitative zero-hour contract

Towards a consensus?

Although some organisations continue to call for an outright ban on ZHCs, a broader consensus has emerged that they are best regulated by preventing unfair and exploitative practices associated with their use. Views differ about exactly which practices fall within this category, but among those commonly cited are:

- ZHCs being used to avoid obligations such as sick and maternity pay
- Penalising workers on a ZHC for not being available when requested
- Cancelling pre-arranged work at short notice
- On-call requirements
- Exclusivity clauses, which prohibit individuals under a ZHC from taking any work from another employer

Following a consultation, the previous Government concluded that exclusivity clauses represented a particularly concerning feature of some zero-hours work, and enacted legislation to ban them in one of the final Acts of the previous Parliament (the Small Business, Enterprise and Employment Act 2015). In addition, the previous Government committed to work with business representatives and unions to develop a zero-hours contracts code of practice.

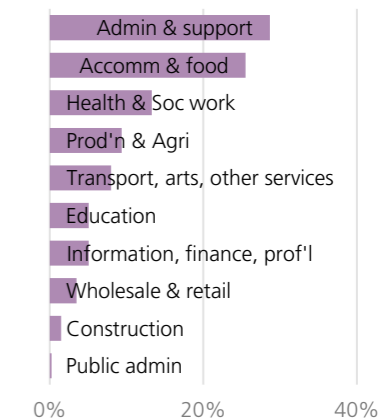
The passage of the legislation banning exclusivity clauses highlighted some of the difficulties of enforcing restrictions on particular practices associated with ZHCs. First, it may be easy for an employer to circumvent any restriction that relies on a legal definition of zero-hours contracts by providing a very limited amount (e.g. one hour) of ‘certain’ work. The legislation banning exclusivity clauses attempted to close this loophole by allowing the Secretary of State to use secondary legislation to broaden the definition of ZHCs (see margin for the current statutory definition). Secondly, even if a particular practice is banned by law, employers may be able to achieve a similar practical effect by subjecting workers to detriment (e.g. employers could provide fewer hours to individuals not working exclusively for them).

As well as implementing the exclusivity ban, the next Government will have to determine which other practices associated with the use of ZHCs require a response, and whether to tackle them through legislation or codes of practice.

Chart 1:

The administration & support and hospitality sectors together account for more than half of all zero-hours contracts

proportion of zero-hours contracts by industry, Q4-2014



25 hours per week.

Average number of hours worked by individuals on a zero-hours contract

125,000.

The number of workers thought to be operating under zero-hours contracts with exclusivity clauses, which the previous Government passed legislation at the end of the last Parliament to ban.

The self-employment boom

Characteristics of the self-employed

	Self-employed	Employees
Avg age	47	40
Avg hours worked	40	38
% working <8hrs pw	4.5%	1.8%
% working >45hrs pw	35%	23%
% men	68%	51%
% women	32%	49%

During the 2008-09 recession, the number of people in employment in the UK remained relatively stable, and it has since reached a level well above its pre-crisis peak. This strong performance is partly due to the growth in self-employment, which reached a record high of 4.5 million in 2014. The growth is likely to reflect both temporary and permanent changes to the economy, together with government policy, particularly on tax and welfare.

Most people who are self-employed have chosen to be so voluntarily and many value the freedom it provides. But the flexibility cuts both ways, and the growth in the numbers of self-employed, particularly at the lower end of the income distribution, raises questions about job security. Given that self-employed workers earn less, on average, than other workers, the growth in their numbers may also have implications for tax revenues and the welfare bill.

The current self-employment situation

Currently around one in seven people in employment are self-employed in their main job. The prevalence of self-employment varies across the country: it is higher in the south than the north, and London has the highest proportion of people who are self-employed, while the north east has the lowest.

Those in self-employment earn less, on average, than other workers. Data from the Family Resources Survey shows that in 2012/13, the average (median) income for all people with income from self-employment sources was around £11,000. Incomes for the self-employed have also fallen faster in recent years than for other sorts of worker: adjusting for inflation, average income from self-employment fell by 22% between 2008/09 and 2012/13.

Why has self-employment grown?

Whilst the number of people becoming self-employed has increased modestly since 1994, it is the dramatic drop in the numbers leaving self-employment that has been the main driver of growth over the last five years (Chart 1). And while the growth in self-employment may have been accentuated by the 2008-09 recession, it is a trend that predates the downturn (Chart 2).

There are a number of potential underlying causes:

The economic cycle. Following the economic downturn in 2008, the number of vacancies was relatively subdued until 2013. A lack of vacancies in the economy may have forced workers to become self-employed to maintain their skill sets, and encouraged those who were already self-employed to remain so.

Technological change. The cost of starting many types of business or becoming 'freelance' is becoming cheaper thanks to the growth of internet commerce and the development of software (e.g. Uber, eBay and AirBnB) that matches self-employed workers with consumers demanding their services.

Incentives. In response to the lack of opportunities in the labour market, the previous Government introduced a number of schemes that encouraged people to start their own businesses. Schemes such as the New Enterprise Allowance were designed to "encourage more people to consider becoming self-employed as a way to get back into work."

Welfare policy. The Office for Budget Responsibility has suggested that individuals may have been encouraged to declare themselves self-employed (or remain in self-employment) on low income, rather than unemployed, in order to claim tax credits following the introduction of tougher Jobseeker's Allowance sanctions introduced in 2012.

Rising life expectancy and pension changes. Rising life expectancies, the weakness in the economy and a fall in annuity rates may have encouraged some older workers to continue in self-employment for longer than they may have done 10 years ago, while others may have moved into "small scale" self-employment after retiring. There is also a suggestion that many workers may have delayed their retirement in the hope that there would be a recovery in annuity rates. Over the coming years, the changes made to annuities, which remove the requirement to buy one, came into effect in April 2015 may also affect the number of older self-employed workers in the labour market.

The 'grey economy'. The growth of the 'grey economy' – involving transactions that are legal, but not reported to the authorities in order to evade taxes – may also have an effect on the numbers of people declaring themselves self-employed. Over the course of the last Parliament, the rise in VAT and higher excise taxes, coupled with changes to the benefit system and fewer job vacancies, may have encouraged more people to participate in the grey economy, something that is easier for self-employed people than for employees.

What are the implications?

If self-employment continues to grow during this Parliament, and the growth continues to be concentrated at the lower end of the income distribution, then this could have fiscal implications. In particular, the tax credit caseload could increase as more people become eligible for the working element of tax credits, while the additional tax revenues that come with rising employment will be smaller.

Though most people in self-employment say they favour this way of working, the continued growth of this type of work raises questions about the changing structure of the UK's labour market, and the implications of growing numbers of individuals with less predictable income and weaker job security. There could be growing pressure for the Government to reduce administrative burdens facing the self-employed, and to insulate them against the risks to their income.

Chart 1:
The growth in total employment in recent years has been driven in part by rising levels of self-employment

Change in the number of employees and self-employed people since Q1 2008, UK (thousands)

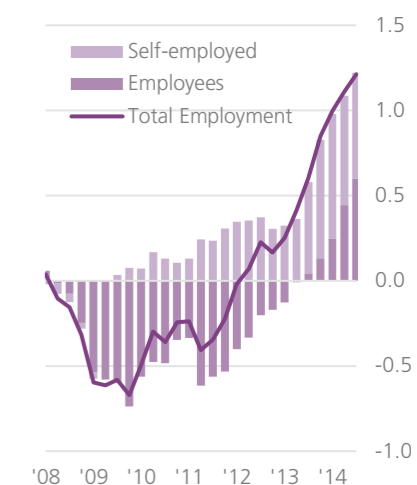
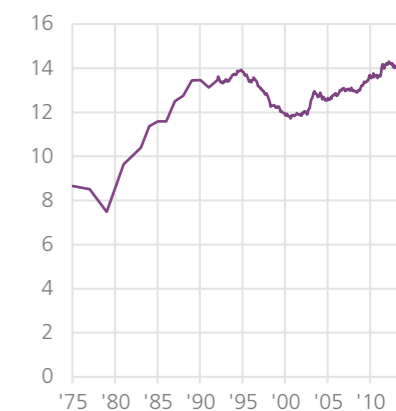


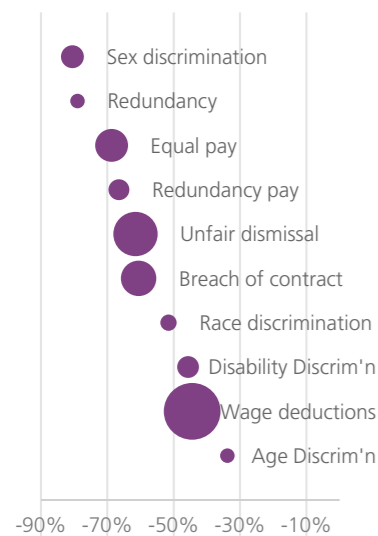
Chart 2:
The growth in self-employment is a trend that predates the 2008-09 recession

percentage of total workforce that are self-employed, Spring 1975 to Q4-2014



Employment tribunal fees

Chart 1:
The number of employment tribunal claims has declined across all major types of case percentage change in number of employment tribunal claims in 2014, compared with 2013, by type of complaint; top ten complaint types size of circle indicates number



The employment tribunal system was created in 1964, and until July 2013, individuals were not required to pay any fees to take their claims to a tribunal. Since then, claimants have had to pay separate fees to issue their claim and have it heard, unless they qualify for a reduction or waiver on the grounds of having limited wealth and low income.

The introduction of fees coincided with a steep decline in the number of tribunal cases (Chart 1). Many employers argue that the introduction of fees will reduce the costs they incur in defending vexatious claims. Others, including organisations representing employees, are concerned that affordability may now be a barrier to those seeking justice.

Background

Fees were introduced by The Employment Tribunals and the Employment Appeal Tribunal Fees Order 2013 under powers conferred by the Tribunals, Courts and Enforcement Act 2007. Proceeding to a full hearing for a simple case (e.g. refusal to allow time off) now attracts fees of £390. For a more complex matter (e.g. unfair dismissal), fees amount to £1,200.

The changes were made against a background of fiscal consolidation and a tough spending settlement that required the Ministry of Justice to reduce its annual expenditure by £2 billion over the course of the last Parliament, affecting the annual employment tribunal budget of approximately £80 million. In this context, the Government argued that it was right to ask claimants to contribute towards the cost of operating the tribunals.

Reaction

Employers had long argued that the tribunal system failed to discourage vexatious and weak claims. For the employee, the low costs involved, and the fact that self-representation was the norm, meant there was little to be lost, in financial terms, from making a claim. Employers, by contrast, typically incurred legal fees. Yet, unsuccessful tribunal claimants are generally not required to pay defendants' legal costs, meaning that employers were left out-of-pocket whatever the outcome. For this reason, many employers and their representatives welcomed the introduction of fees.

Organisations representing employees have opposed the introduction of fees. Their concerns are, on the whole, not with the charging of fees per se, but with the level at which they have been set, which they argue has diminished access to justice. They also argue that the size of the fees typically has little relation to the value of the claims pursued, and that the system for waiving or reducing them for those with limited wealth and low income is strict and unduly complex. Moreover, while the introduction of fees has coincided with a decline in claims (see charts), there has not been a marked change in rates of success, indicating that some claims that would have been successful are now not being pursued. Of particular concern to many has been the decline in the number of sex discrimination claims, which fell by 83% in the year following the introduction of tribunal fees.

Greens:
reduce fees so that tribunals are accessible to workers

Labour:
abolish the fee system

Liberal Democrats:
(...) review Employment Tribunal fees

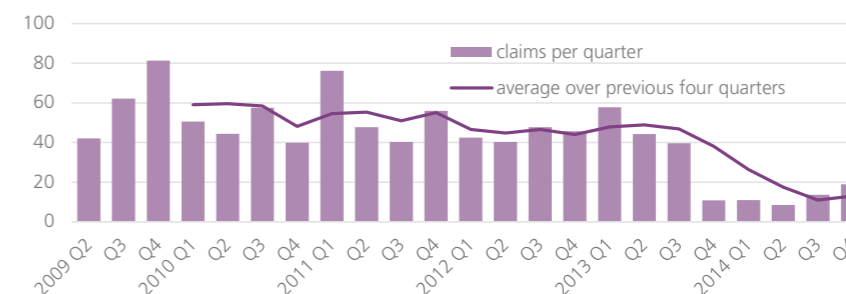
Challenges and review

This decline in sex discrimination claims has, in large part, formed the basis of several legal challenges to the fees regime. Tribunal fees have been the subject of repeated judicial review proceedings, both in England and Wales, and in Scotland. To date none of these challenges has been successful. Notably, the trades union Unison applied for judicial review of fees, with the Equality and Human Rights Commission intervening as an interested party. The High Court dismissed the application, largely on evidential grounds, although hinted at the possibility of further, more convincing challenges. Unison has been granted permission to appeal.

The previous Government committed to a comprehensive review of the impact of tribunal fees, although this did not occur in the last Parliament. A key issue for the new Parliament will be the outcome of this review, should it proceed, and any legal challenges. The new Government, meanwhile, will continue to face a delicate balancing act between employees' access to justice and employers' concerns, against a backdrop of fiscal restraint.

Chart 2:
The introduction of employment tribunal fees in July 2013 coincided with a marked decline in claims

claims received by employment tribunals quarterly, Q2-2009 to Q4-2014, thousands



Young people in the labour market

The unemployment rate among young people is almost three times that of the rest of the population; youth employment rates are well below levels seen before the financial crisis; and under-30s experienced the weakest wage growth of any group since 2008. At the same time, participation in education and training among young people is up, record numbers of young people are doing apprenticeships, and they are increasingly well-qualified from an academic perspective. Why is there such a mismatch between the skills and qualifications of the younger workforce and their employment prospects?

Fewer young people are in employment or looking for employment

Although youth unemployment fell rapidly in the last years of the previous Parliament, from a peak of over 20% in late 2011, employment rates have recovered more slowly. The discrepancy is the result of increased economic inactivity among young people. This can be explained in part by new requirements for all those under 18 to stay in education or training. However, inactivity has also risen amongst the over-18s, a possible indicator of young people choosing to “sit out” of the labour market during turbulent times by undertaking additional education (Chart 1).

Youth unemployment remains a problem

Attempts to tackle unemployment among young people generally involve a combination of improving their skills, increasing their work experience and in some cases offering them job guarantees. Apprenticeships are often seen as a way of combining skills training with work experience, and there was a large increase in apprenticeships in the last Parliament, albeit driven by apprenticeships for those aged 25 and over. Although the UK government did not sign up to the EU’s Youth Guarantee, to offer a place in training or employment to all people aged under 25, the Scottish Government introduced a similar guarantee for 16 to 19-year-olds. Cities have been given more powers to tackle youth unemployment, with Government funded Youth Contract programmes in the Leeds City Region, Liverpool and Newcastle, which could be extended to other cities.

Apprenticeships reached record numbers in the last Parliament, but what next?

In this Parliament, it is likely that a balance will need to be struck between raising apprenticeship quality and increasing participation. More rigorous apprenticeships may increase quality but reduce the number able to take part. Conversely, further growth in lower-level apprenticeships may weaken the “brand”: there has been some debate as to whether such apprenticeships should retain the name.

To make apprenticeships more responsive to employer needs there has been a push to increase employer input and investment in the programme in recent years. However, there is a risk that small employers in particular could be put off by the greater administrative burden associated with such

Conservatives:

create 3 million new apprenticeships and roll out more Degree Apprenticeships

Greens:

(...) provide an apprenticeship to all qualified young people aged 16–25

Labour:

guarantee an apprenticeship for every school leaver who attains the grades and require any firm that gets a large government contract to offer apprenticeships and introduce a Compulsory Jobs Guarantee

Liberal Democrats:

increase the number of apprenticeships, extend the Apprenticeship Grant for Employers

involvement. It is also possible that requiring employers to make a direct contribution towards training costs may stop apprenticeships being offered altogether.

Increasing apprenticeships funding and boosting participation could threaten other vocational qualifications, including traditional college courses and other forms of in-work training, particularly if resources are diverted away from them.

Do skills make a difference?

Individuals with higher qualifications tend to have better employment prospects. For example, the employment rate of people with a degree is above that of people whose highest qualifications are A-Levels, who in turn have a higher employment rate than people with GCSEs only. However, it is less clear what happens to employment when all young people become more qualified together. Over the last decade the qualification levels of 16–24 year olds have increased across the board, but employment rates have fallen (though this is in part due to increased participation in education).

Moreover, not all the jobs young people are taking on actually require these higher qualifications. There has been an upward trend in the proportion of graduates working in non-graduate roles, with a pronounced jump following the 2008–09 recession. There is a risk that this trend will become self-perpetuating, as university leavers increasingly have to compete for “graduate level” jobs with the rising numbers of graduates with experience in non-graduate roles.

Finally, despite the general rise in qualifications, there are indications that part-time work and more precarious forms of employment, always more common among young people, are becoming increasingly prevalent (Chart 2). Perhaps reflecting this, and the rise in graduates doing non-graduate jobs, young people have also seen weaker wage growth since the 2008 crisis than the rest of the population.

Can young people be protected from recessions?

In employment terms, young people were disproportionately affected by the last economic downturn. Can they be better protected from the next one?

There may be limits to what can be done. Inevitably, the regular flow of young people into the workforce will at times be inconsistent with firms’ desire to employ them, which fluctuates with the state of the economy. In uncertain economic times, businesses may also be less willing to invest in training younger employees when experienced workers have become available from other firms making redundancies.

However, spells of unemployment at a young age can have long-term damaging effects on individuals and the wider economy and society. Pressure on the Government to ensure young people have stable work opportunities and are better insulated from the ill-effects of economic downturns will continue.

Chart 1: Since 2008, more young people have stayed in full-time education, and correspondingly fewer have started employment

educational status of 16–24 year-olds, 2002–14

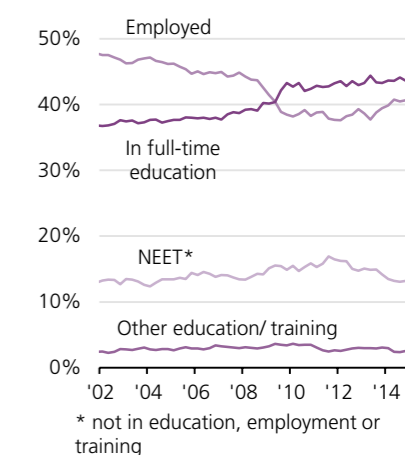
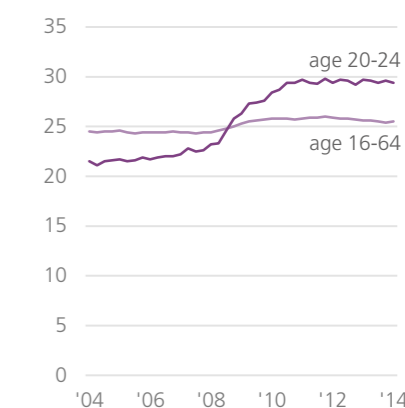


Chart 2: During the 2008–09 recession, the rate of part-time employment among young people increased. It has remained at around 30% ever since

percentage of employees in part-time work, 2004–14



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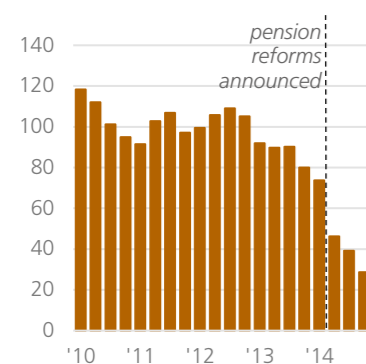


Key Issues *for the* 2015 PARLIAMENT – **CHAPTER 13**

CONSUMERS & PERSONAL FINANCE

Drawing an income in retirement

Chart 1:
The announcement of the pension reforms saw a decline in annuity sales
number of annuities sold by quarter, Q1-2010 to Q4-2014, thousands



Conservative:
allow flexibility about when and how to access pension savings

Labour:
allow pension flexibility but ensure proper guidance to prevent savers being ripped off or hit by scams and mis-selling

Liberal Democrat:
press ahead with pension freedoms and allow existing pensioners to sell their annuity

SNP:
(...) back, in principle, proposals to give pensioners more flexibility over their pension pots. However, we must ensure adequate levels of advice and support

UKIP:
allow pension flexibility but fund a higher standard of independent advice to support decision-making; action to prevent mis-selling

As well as introducing measures to encourage pension saving, the previous Government introduced radical changes to the choices individuals have over their defined contribution (DC) pension savings at retirement. These will have important implications for future pensioners, the pensions market, and the Exchequer, although the nature of these implications may not become clear for some time.

Freedom to choose

Before the changes were announced in Budget 2014, three-quarters of people with DC pension savings used them to purchase an annuity, with an average-sized pension pot of £35,600. This was strongly encouraged by pension tax legislation, which applied a 55% tax charge on lump sum withdrawals except in limited circumstances. The advantage of annuities is that they provide a guaranteed income throughout retirement, reducing the likelihood that individuals exhaust their savings prematurely and have to fall back on the state. However, the popularity of annuities has declined in recent years, in part due to falling annuity rates, but also because of emerging evidence that parts of the market did not work well for consumers.

In Budget 2014, the Government announced that from 6 April 2015 it would allow people aged 55 and over more flexibility about when and how to draw their DC pension savings, and face their marginal rate of income tax, rather than the 55% rate. Announcing the policy, the Chancellor said that people “should be trusted with their own finances”. The Government also argued that the introduction in 2016 of a new state pension set above the ‘basic means test’ meant that the state could be much less prescriptive about how people used their pension pots.

With choice comes responsibility

Although many have welcomed the increase in flexibility, there are concerns that it will place a significant burden of responsibility on individuals, requiring them to make complex decisions, taking account of longevity, inflation and investment risk, and the implications of withdrawals for tax, entitlement to means-tested benefits and help with social care. They will also have a wider range of options to choose from, including products that may be complex and difficult to compare in terms of value for money. There are also concerns about the potential for mis-selling, particularly of riskier investments and ‘too good to be true’ scams.

To help people make informed decisions, the Government introduced a new guidance service, Pension Wise. This would inform retirees of the different options, rather than recommend a particular product or provider. The service was welcomed as essential to the success of the reforms. However, its effectiveness will need to be monitored, given the very tight timetable to get it up and running.

Concerns have also been raised about what happens when people come to choose a particular provider or product. This led the Financial Conduct Authority (FCA) to announce a ‘second line of defence’ for consumers: when a customer contacts their pension provider about their pension, as well as recommending guidance, providers are required to ask consumers about circumstances related to the decision they are making, such as health, lifestyle choices and marital status.

Impacts

The impact of the reforms, particularly on incomes in later retirement, will not become fully clear for many years. It will also take time to see how the market responds, and whether people will be able to buy products, besides annuities, that provide a secure income at an appropriate price.

Annuities market. The announcement of the reforms saw a significant drop in demand for annuities (Chart 1), though this may in part reflect people delaying a decision until the reforms were introduced. The longer term effect is still difficult to predict and will depend on how consumers and the market respond. Products allowing greater flexibility seem likely to form a larger share of the market in future. It is also possible that annuity rates may fall further if those opting to buy them tend to have higher life expectancies.

Savers. The FCA found that consumers showed a tendency to move away from annuities, preferring some form of flexible drawdown option (although for those with an average pension pot the right annuity could represent relatively good value for money and be a good option for those with a low appetite for investment risk). Some may decide to opt for other financial products, assets such as housing, or to finance immediate spending. On the other hand, pension saving could increase, since individuals will have more flexible access to these tax-efficient savings.

Tax receipts. Because the behavioural response to the changes is uncertain, so is the impact on the Exchequer. The Government expects increased income tax receipts in each year until 2030, based on the assumption that 30% of people will draw down their savings at a faster rate. The Office for Budget Responsibility certified the Government’s calculations of the tax impact, but said the effects were “subject to very considerable uncertainty”.

Types of pension arrangement

Defined benefit (DB) schemes promise to pay pension benefits based on fixed factors, typically salary and length of service. Defined contribution (DC) schemes pay out a sum based on the value of a member’s fund on retirement. The level of pension depends on factors including the contributions invested, the returns on that investment (minus any charges applied) and the rate at which the fund is converted to a retirement income.

Changes for existing annuity holders?

In its final Budget, the previous Government announced plans to allow the five million individuals already in receipt of an annuity to sell the income they receive from it in return for a more flexible arrangement or a lump sum. The intention was to extend the option of flexible withdrawals to people who had already bought an annuity. It remains to be seen whether the new Government will take forward the proposals, and if it does, whether a functioning market in “second-hand” annuities will emerge.

Saving for an income in retirement

Ten years ago, the Pensions Commission concluded that the ageing population left society and individuals with four options: pensioners could become relatively poorer; public spending on pensions could rise; people would need to save more; or people would need to work longer. Its analysis led to reforms to the state pension, increases in the state pension age and the introduction of auto-enrolment. Monitoring the implementation of these reforms and deciding whether more is needed will be an issue for the current Parliament.

Auto-enrolment

As recommended by the Commission, the Labour Government legislated in 2008 to require employers to automatically enrol workers into a workplace pension saving scheme and, unless workers opt out, make minimum contributions to it (8% of qualifying earnings from October 2018 - 3% from the employer, 4% from the employee and 1% in tax relief). The main target was those people on low to moderate incomes, particularly those working for small and medium-sized employers, who were not saving enough for their retirement.

A simplified state pension

The previous Government continued with the policy of automatic enrolment: it was introduced in October 2012 and will be fully phased-in by October 2018. However, it thought further changes would be needed to make auto-enrolment a success. In particular, it believed the complexity of the state pension made it difficult for people to plan for retirement. It legislated to combine the existing two tiers of the state pension into a single tier for future pensioners from 6 April 2016. Current pensioners will continue to get a state pension under existing rules. The new state pension is to be set above the basic level of means-tested support (i.e. at least £151.25 per week in 2015/16).

The new state pension may encourage individuals to save for retirement. This is because, although communicating its effects will be a challenge in the transition, in the longer term it should be clearer to individuals how much state pension they can expect, which should help simplify decisions about saving. However, the reform will also increase the responsibility on individuals to save privately if they are to achieve an adequate income in retirement. This is because, according to the Institute for Fiscal Studies, in the longer term the new state pension will be less generous than the current system for most people.

Improving defined contribution schemes

The reforms have focused attention on measures to improve the outcomes and value for money afforded by private pensions.

Defined benefit (DB) pension schemes are in decline in the private sector, with employers unwilling to bear the volatile costs involved. So, the vast majority of those auto-enrolled will go into defined contribution (DC) schemes. The eventual income from such schemes is uncertain, depending

Conservative:

keep triple lock for uprating state pension; introduce single-tier state pension; reduce tax relief on contributions for people earning over £150,000

Green:

citizens' pension of £180 pw for single person; reductions in tax relief; a new state earnings related scheme; uprating for pensioners in the UK and overseas

Labour:

keep triple lock; ensure time to plan for state pension age (SPA) increases; reduce tax relief for highest earners; duty on pension providers to put savers first

Liberal Democrat:

legislate for triple lock; continue with auto-enrolment and encourage people to save more; a single rate of tax relief; action on charges

UKIP:

flexible SPA; support for the triple lock and a simpler, single-tier state pension

SNP:

(...) will continue to support the roll out of auto enrolment for occupational pensions

on factors including future investment returns, any charges applied and decisions made at retirement. Recognising that many individuals would not be comfortable with the risks involved, the previous Government legislated to enable the development of schemes able to provide greater certainty of outcome for individuals without cost volatility for employers. However, it is not yet clear whether such schemes, dubbed 'defined ambition', will become a significant feature of the pensions landscape.

A further concern has been whether more needs to be done to improve DC scheme quality and value for money. This is important because auto-enrolment entails workers, many on low incomes and with little experience of investment and savings products, being placed in a pension scheme without making an active choice. A 2013 market study by the body then responsible for protecting consumer interests, the Office of Fair Trading, found that in these circumstances, competition between providers could not be relied upon to guarantee value for money. The previous Government introduced a cap on charges in auto-enrolment schemes and changes to governance arrangements. The market will need to be closely monitored to ensure that it is working well for savers.

Is more needed?

For some, the combination of the new state pension and a private pension built up through auto-enrolment will provide an adequate income in retirement. The level at which the new state pension is set and how it is uprated will be important factors in determining what more is needed.

Although auto-enrolment has started to increase the number of pension savers, one potential downside is that people assume that contributing at the minimum rate is enough, only for some to find out too late that their savings are inadequate. Some commentators have therefore suggested a policy of 'auto-escalation', whereby minimum contribution rates increase in line with earnings increases. However, it will be important to get the balance right, so that those who would otherwise benefit from saving are not prompted to opt out entirely. Another proposal has been to reconfigure tax relief to provide better and clearer incentives to lower earners. A further issue of concern has been the position of those earning below the 'earnings trigger' for auto-enrolment (currently £10,000).

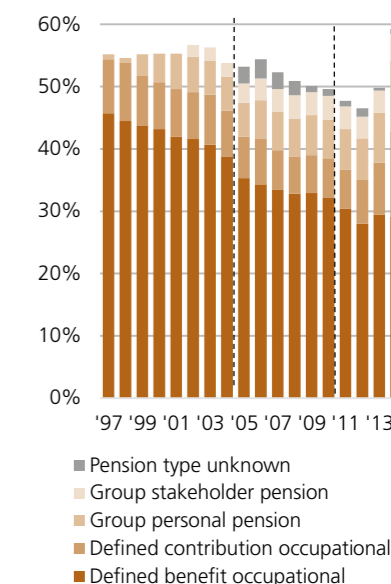
How to ensure adequate retirement incomes without placing an undue strain on the public purse is likely to continue to be a challenge.

Increasing the state pension age (SPA)

From the 1940s until April 2010, the SPA was 60 for women and 65 for men. From that date, the SPA for women started to rise and was due to reach 65 by April 2020. Under 2007 legislation, the SPA was set to rise from 65 in stages, reaching 68 by 2044. However, the previous Government brought forward the increases to 65, 66 and 67. It also established a framework for future increases, intended to ensure the costs of increasing longevity are shared fairly between the generations. Periodic reviews will consider the SPA in the light of life expectancy and other factors and will seek to give at least ten years' notice of any change.

Chart 1: Membership of workplace pensions has risen with introduction of auto-enrolment

Active memberships of workplace pensions, as percentage of all employee jobs, UK



Changes to the consumer landscape

Chart 1: One of the markers of more empowered consumers is whether they switch providers. This is currently far more common for some types of service than others
percentage of consumers considering or actually switching in previous 12 months, 2014

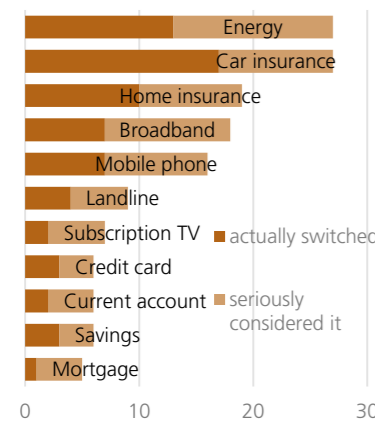
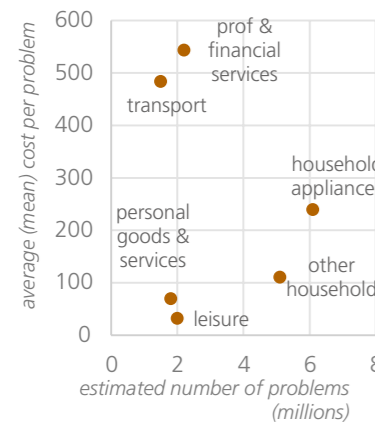


Chart 2: Problems in some sectors cause a greater financial loss to consumers than others
average cost of problem (vertical axis, £s) vs estimated number of problems (horizontal axis, millions), 2014



With impressive speed, the consumer protection regime has been reviewed, dismantled and completely rebuilt. The aim is to empower consumers by creating a simplified and enhanced legal regime that affords greater rights when buying goods and services. Legislative reforms have been made against a backdrop of structural changes to consumer law enforcement bodies, creating a new consumer landscape. The success of this new regime will ultimately depend on how well consumers and traders understand their rights and responsibilities.

The biggest legislative overhaul for decades

There have been two drivers of change. First, the adoption in October 2011 of the EU Consumer Rights Directive. A central requirement of the Directive is that consumers be comprehensively informed before any contract is entered into. Most of the requirements of the Directive have now been implemented in the UK through the 'Consumer Contracts (Information, Cancellation and Additional Payments) Regulations 2013'.

The second driver was the findings of a series of consultations on consumer laws held in the UK between March and November 2012. Responses highlighted not only areas of duplication, inconsistency and uncertainty in law and enforcement, but also evidence of consumer detriment. This led to the Consumer Rights Act (the 'CRA'), expected to come into force on 1 October 2015. The Act, which represents the biggest overhaul of consumer law for decades, sets out in one place key consumer rights covering contracts for goods, services, digital content and the law relating to unfair terms in consumer contracts. It introduces important new protections for consumers alongside measures designed to lower regulatory burdens for business. The Government estimates that reform of consumer law will bring quantifiable net benefits of £4 billion to the UK economy over 10 years.

Core consumer rights under the new regime:

- **Right to get what you pay for** - all information about the main characteristics of the goods, including statements made in advertising or on labels, to form part of the contract.
- **Right to have faults in what you buy put right** - clearer tiered remedies in the event that a consumer's rights are breached, including a mandatory 30-day period in which to reject faulty goods. Traders limited to one opportunity to repair/replace faulty goods (if possible), following which the consumer can demand a discount or return the goods and demand a refund.
- **Right that digital content is fit for purpose** - digital content to have its own separate regime of rights and remedies to be applied both to paid-for content (including where paid for with 'virtual' currencies) and content that is provided free with paid goods, services or other digital content (e.g. apps and in-app purchases and open source software). Provisions have been drafted to accommodate future developments (for example, content provided in return for consumer data).

- **Right that traders perform services with reasonable care and skill**, within a reasonable time, with the consumer obliged to pay a reasonable price. The consumer has the right to ask for a repeat performance of services not performed properly or, if that is not possible or done within a reasonable time, a right to a price reduction.
- **Drawing on the recommendations of the Law Commission**, the Consumer Rights Act replaces and expands on the current rules regarding unfair terms in consumer contracts.

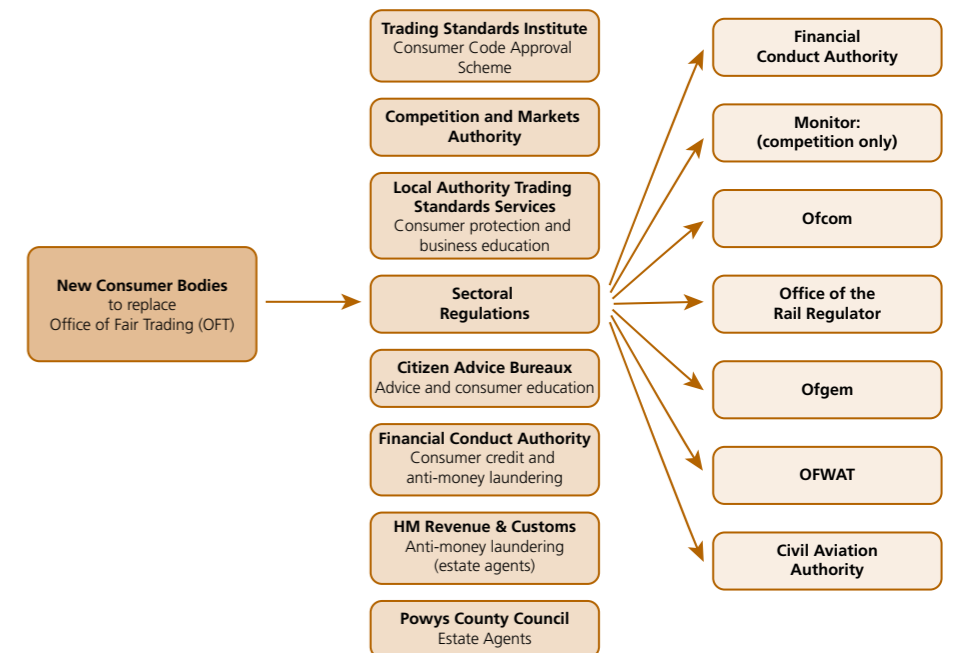
The Consumer Rights Act creates a simple, modern framework of consumer law across all sectors. If the Act is to achieve its full impact, consumers and traders will need to become adept at using the new regime.

Alongside significant organisational changes

The Office of Fair Trading (OFT) closed its doors on 31 March 2014. As illustrated in the diagram, consumer law enforcement has been split between the new Competition Markets Authority (CMA) and Trading Standards. The CMA is responsible for unfair terms enforcement (for instance, unfair ticket terms and conditions), while Trading Standards is responsible for preventing unfair trading practice (for instance, in advertising, promotion and selling practices).

And if things still go wrong?

The hard-done-by consumer can always try Alternative Dispute Resolution (ADR). A new ADR Directive, adopted in June 2013, aims to provide in every EU Member State a fast, cheap and informal way for consumers to settle disputes with traders out of court, through the intervention of an approved ADR entity (such as an arbitrator, conciliator, mediator, or ombudsman). The Directive must be transposed into UK law by 9 July 2015.



Retail financial services and the treatment of consumers

From PPI to interest rate swap mis-selling, from irresponsible payday lending to excessive overdraft fees, and with packaged bank accounts the next predicted 'scandal', a defining feature of the retail financial services sector has been its capacity to cause detriment to consumers. The structure of the market and the nature of the products it sells have played a role in these problems; but so too have low levels of financial capability among consumers themselves. The new freedoms available to those with pension savings will make it all the more important that consumers are capable of making well-informed choices in an increasingly complex financial world.

The scale of the problem

Many of the complaints about retail financial services end up with the Financial Ombudsman Service (FOS), which settles disputes in this sector that cannot be resolved by firms' own complaints procedures. In 2013/14 the FOS had nearly 2.4 million enquiries, of which 20% turned into a formal dispute. Nor were these complaints, on the whole, vexatious: more than half were resolved in favour of the consumer (see charts for further details).

The sums involved in providing consumers with redress can be colossal. The previous Government pledged £1.5 billion to compensate Equitable Life policyholders, and campaign groups want considerably more. But even this is dwarfed by the £17.7bn in payment protection insurance (PPI) compensation paid out by November 2014.

What is it about financial services?

Consumer detriment occurs in other sectors too; but problems involving such large numbers of individuals and enormous sums of compensation are rare by comparison. What makes financial services in general, and banks in particular, so prone to scandal?

Part of the problem lies in the nature of the product and the difficulty consumers face in making informed choices, and changing their mind when things go wrong. A poorly chosen car can be sold; a poorly chosen toothbrush can be discarded in favour of a different brand. However, if someone takes out a particular mortgage, business loan or pension and it turns out to be unsuitable, the deal cannot easily be undone. Indeed, the damage is often not apparent until years after the bargain is struck.

Another reason why the financial services sector has seen such problems at its retail face is that it is dominated by a few huge players which are seen by most consumers as being very similar, or more pejoratively as being 'as bad as each other'. Each of the 'big five' banks has been implicated to varying degrees in mis-selling and misconduct. The formidable barriers to entry in retail banking mean that the scope for bad banks to be 'punished' by new 'challengers' is limited.

Putting it right

The principal sanction available to regulators in respect of misconduct by banks is fines. Since the financial crisis, these have got bigger. But there are limits and trade-offs: in particular, fines that are too large could damage the stability of an institution and thereby prove counterproductive.

An alternative to fining institutions is to identify individuals responsible for misconduct and fine them. Changes are being made to the regulation of banks to make it easier to see where individual accountability lies when problems occur. It remains to be seen whether this will result in more individuals being sanctioned by the regulators, and if so, whether this will change the behaviour of others.

New entrants into the banking market have been encouraged. Several new banks are now on the high street with more applications to come. The operation of the payments system is also under official review to reduce this particular barrier to entry. The Competition and Markets Authority is conducting an investigation into retail banking, which will report in April 2016. It remains to be seen how far these developments will weaken the dominance of the largest banks.

Caveat emptor

Is regulatory intervention the only response? Looking at recent scandals from the consumer's perspective – from the self-employed people who bought PPI policies that could never pay out, to the individuals taking out payday loans they had no prospect of repaying – there is evidence not only of mis-selling and sharp practice, but also of a lack of financial capability on the part of the public.

Various policies to improve financial capability and to end financial exclusion have been promoted by successive Governments. There is the new, free, impartial Money Advice Service established by the Financial Services Act 2010, which provides basic financial guidance. The Retail Distribution Review set up under the now replaced Financial Services Authority has aimed to improve the structure and professionalism of independent financial advisers. Is this enough?

Financial capability has become still more important now that people aged 55 and over have greater freedom about when and how to draw their defined contribution pension savings. They have the choice not only to purchase Lamborghinis and world cruises, but also an array of potentially complex financial products, many of which may be unsuitable for their needs. The options for newly-retired individuals with inappropriate pension arrangements are neither obvious nor pain-free.

Will we get this enormous transfer of responsibility wrong or right? Will regulation in the consumer credit market and retail banking improve consumer outcomes over the next five years? Or will the Financial Ombudsman Service still be the busiest office in town?

Chart 1: PPI cases have dominated the work of the Financial Ombudsman Service in recent years... number of new cases, thousands, financial years 2005/06 to 2013/14

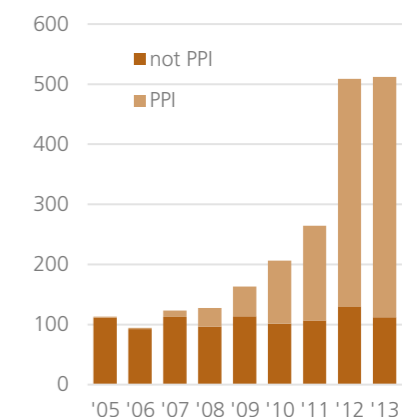
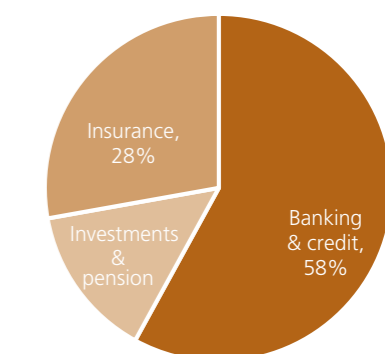


Chart 2: ...of the non-PPI cases, the majority relate to banking and credit services (current accounts, mortgages, credit cards etc.)

non-PPI cases by area of complaint, 2013/14 4



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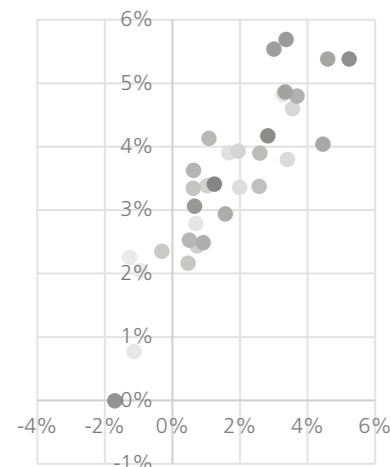


Key Issues *for the* 2015 PARLIAMENT – **CHAPTER 14**

**ENERGY &
CLIMATE CHANGE**

2015: The year we make or break the climate?

Chart 1:
Decoupling? Economic growth has been associated with growth in carbon emissions
Global GDP growth (horizontal axis) vs global growth in CO₂ emissions from the energy sector (vertical axis); 1980-2012; darker points indicate later years



Greens:
(...) work to ensure that the UK will be running a zero carbon economy by 2050

Conservatives:
will meet climate change commitments and cut carbon emissions

Labour:
will push for an ambitious target in Paris to get to goal of net zero global emissions in the second half of this century.

Liberal Democrats:
will introduce a new legally-binding target for Zero Carbon Britain by 2050

SNP:
will ensure that the UK matches, and supports, Scotland's commitments to carbon reduction and plays a constructive role at the UN Climate Change Conference

UKIP:
(...) repeal the climate change act

In December 2015 all eyes will be on Paris. This is where representatives of 196 countries will attempt to reach an agreement to reduce greenhouse gas emissions with the aim of limiting a global temperature increase to below 2°C. If this Conference of the Parties (COP 21) is successful it will be the first time, from 2020, that both developed and developing countries will commit to tackling greenhouse gas emissions.

Individual commitments

Paris will also be the first time that individual countries will set their own commitments using a bottom up approach, based on Intended National Designated Contributions (INDCs). This is in contrast to the 5.2% global greenhouse gas emissions reduction target for 2012, compared to 1990 levels, which was agreed in Kyoto in 1997 and only applied to developed countries.

Countries had an informal deadline of 31 March 2015 to submit their INDCs. The EU, the US, Switzerland, Norway, Mexico, Russia and Gabon did so. These countries currently represent 29% of global emissions. The aggregated effect on global emissions of all INDCs submitted by October will be analysed by the UNFCCC and published before the Paris conference.

Preparation and progress

World leaders visibly failed to reach a satisfactory agreement on a successor to the Kyoto Protocol at the Copenhagen COP in 2009. The lessons learned from this failure have resulted in a great deal of preparatory work in advance of the 2015 Paris COP. The last two conferences, in Lima and Warsaw, very much focused on necessary steps for ensuring agreement is reached in Paris. If there is no clear prospect of this, many world leaders may be reluctant to attend.

The landscape has changed significantly since Copenhagen. The US and China, the world's two biggest emitters, have made a joint commitment to reduce their emissions. Away from the negotiations, there are already signs that efforts to reduce emissions are having an effect. Coal use in China may have peaked. There is increased evidence that renewables, such as wind and solar, may be economically competitive in many parts of the world by around 2020. Energy storage, including battery technology, is also seeing progress. The International Energy Agency provisional figures show that in 2014, for the first time, there was global economic growth (of 3%) without any associated growth in emissions from energy use. Over the same period, the UK saw 2.8% growth and an 8.4% reduction in emissions. There is also an ongoing international fossil fuel divestment campaign, aimed at institutional investors, which is gaining momentum in the run up to Paris.

UN Negotiators have so far agreed a draft text that is 86 pages long, which includes many proposed options and variations, and a lot of duplication. This is generally seen as good progress. The text will be discussed further in Bonn in June, with the aim of trimming it down to something that can be agreed to by all parties in Paris. The text refers several times to achieving net

zero global emissions by the end of the 21st century at the latest. There are also references to limiting any temperature increase to a maximum of 1.5°C, instead of 2°C.

Agreement not only needs to be reached on how much each country will aim to limit emissions: there also needs to be progress on providing the \$100bn of funding for adaptation and mitigation for poorer countries; and on the more recent and controversial issue of compensation to these countries for loss and damage caused by climate change. Some form of agreement on how emissions reductions are to be monitored and verified effectively is also seen as important.

Government views

The previous Government was committed to the process, stating that the most cost-effective and reliable way to achieve a safe limit on temperature increases was through an international, legally binding agreement with mitigation commitments for all. This position was broadly reflected in the main parties' manifestos (see left-hand margin).

There is a near-universal acceptance by governments of the need to act and to be seen to act. As a result, the expectation is that some form of agreement will be reached in Paris. However, as countries will be putting forward their own INDCs it is unlikely that any agreement will set the necessarily stringent targets that reflect scientific advice, as set out by the Intergovernmental Panel on Climate Change (IPCC). Even if it did, this would only ensure that it is likely that global temperature increases will be limited to 2°C.

Because of this, the previous Government called for countries to make commitments to pre-2020 mitigation actions, together with more ambitious long-term commitments. There are also calls for a flexible agreement that is reviewed periodically and can be ramped up if necessary. Unless they fail spectacularly in Paris, the big annual climate negotiations are here to stay for the foreseeable future.

Climate change: the IPCC's assessment

The IPCC 5th Assessment Synthesis Report (2014) concluded:

- Warming of the climate is unequivocal
- Human influence on the climate system is clear
- Increased greenhouse gas concentrations have led to uptake of energy by the global climate system.
- Continued emissions of greenhouse gases will cause further warming and changes in all components of the climate system
- Limiting climate change will require substantial and sustained reductions of greenhouse gas emissions

The IPCC estimated that having a likely or 66% chance of limiting global temperature increases to 2°C would require total emissions from human sources to be limited to 1000Gt CO₂ from 2011. In 2013 global emissions were 39.3Gt CO₂. This means that this 1000Gt budget would be used up in 21 years if emissions continued at current levels.

Keeping the lights on

The energy sector currently faces a 'trilemma' of conflicting pressures:

- First, consumers want affordable energy. Despite recent falls in wholesale prices, some households have still struggled with energy costs: 10% of households in England were in fuel poverty in 2012 (the latest figures available), and the proportion is not expected to have fallen in 2013 or 2014.
- Secondly, there is the imperative to 'keep the lights on' in the face of a 30% to 100% increase in demand for electricity over the next 35 years.
- Thirdly, under the Climate Change Act 2008, the Government is committed to reducing its greenhouse gas emissions by at least 80% by 2050.

In the new Parliament, policymakers therefore face the challenge of ensuring affordable energy, sufficient investment in new generation, and an increase in the proportion of supply from low carbon sources.

Affordability and competition

Competition between energy providers, overseen by the regulator Ofgem and endorsed by successive Governments, is seen as the main mechanism for keeping consumer prices in check. However, there are widespread public concerns about the profitability of large energy firms and the prices they charge, and all the main parties are committed to improving energy affordability.

Ofgem has referred the operation of the energy sector to the Competition and Markets Authority, which is due to report by the end of 2015. Its review will need to consider whether the market is operating in a way that prevents consumers from accessing the most competitive energy sources, whether indeed the main energy companies (the 'Big Six') have been making excess profits, and whether any further measures are needed to control prices.

The 'capacity squeeze'

The capacity margin is the difference between expected electricity demand in the winter peak and the supply available from power stations to meet that demand. The lower the percentage margin, the less flexibility there is to meet unexpected events, such as a power station suddenly becoming unavailable, or a sudden loss of fuel supply due to some unforeseen event. In essence, it is a measure of how close the lights are to 'going off'.

This margin has tended to fluctuate in the past but it is expected by Ofgem to become lower than it has been. This is mainly due to closures of coal-fired power stations to meet environmental requirements, and the slow response of the industry in the form of investment in new capacity. There is significant uncertainty and a wide range of expectations about the capacity margin over the next five years; but it is broadly envisaged that it will reach a low point in 2015/16 as further plants are closed, before rising gradually, thanks to new supply and a continuing fall in demand.

In the longer term, capacity will depend on the speed with which the industry responds through new investment, e.g. in nuclear capacity,

renewables or gas-fired generation. It will also depend on the degree to which demand responds to programmes and policies to increase energy efficiency in both households and industry.

The previous Government's solution to the 'capacity squeeze' was its Energy Market Reform (EMR) which aimed to provide incentives for investment in low carbon energy infrastructure through two mechanisms:-

- Financial support, to encourage investment in low-carbon electricity generation by providing companies with a guaranteed fixed price for the power they generate through what are known as Contracts for Difference (CfDs).
- A Capacity Market, to financially support more reliable forms of power to be available when demand for power is high using an auction mechanism. This includes novel measures to pay users to reduce electricity demand at peak times.

The success of the EMR will be determined by the sector's ability to meet future electricity demand, and the amount of public money it requires to do so.

Investment in renewables – meeting targets or meeting demand?

The UK is currently committed to an EU target for 15% of its final energy use to come from renewable sources. Half of this target is expected to be met through increasing the proportion of electricity generated from renewable sources, mainly offshore and onshore wind and biomass. The previous Government also supported the more demanding EU-wide renewable energy targets for 2030.

Offshore wind is seen as a very significant energy resource for the UK going forward. Though expensive to build now, it is predicted that costs will fall. At the same time, constraints on onshore wind could increase customers' bills as investment shifts to offshore and other more expensive technologies.

The previous Government set up the Levy Control Framework, which caps total Government funding to support renewable electricity up to 2021. Contracts for Difference are already resulting in significantly reduced costs as previous subsidy mechanisms such as Feed in Tariffs and the Renewables Obligation are replaced. There are also policy measures that will indirectly encourage investment in renewables. The regulation of carbon dioxide emissions from power stations, known as an Emissions Performance Standard, means that it will not be possible to build coal-fired power stations without carbon capture and storage. Meanwhile, the introduction of the Carbon Price Floor has made low-carbon power generation more competitive with fossil fuel power stations.

Failure to invest sufficiently in renewables could affect security of energy supply and jeopardise the UK's ability to meet domestic and EU targets. The new Government will face a delicate balancing act between ensuring adequate investment and keeping consumer bills in check.

Chart 1: electricity generation from renewables is projected to increase by two-thirds during the new Parliament

electricity generation by source, terawatt hours (projections for 2015 and 2020)

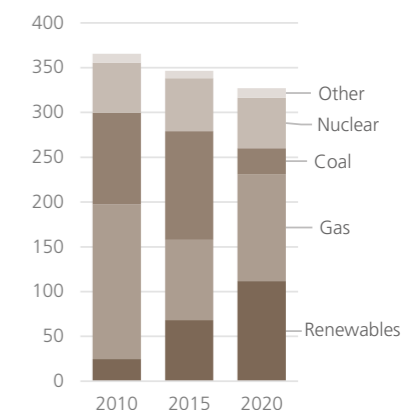
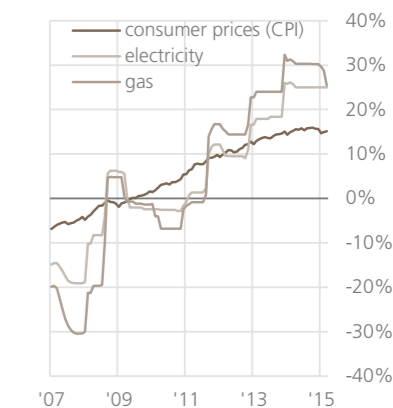


Chart 2: consumer gas and electricity prices rose faster than prices generally during the last Parliament

consumer prices index, and gas and electricity prices relative to 2009 levels, Jan-07 to Mar-15



Conservative: promote competition in the energy market

Greens: invest up to £35 billion over the Parliament in renewables

Labour: freeze energy prices until 2017, reform the energy market and create an Energy Security Board to plan and deliver the energy mix needed

Liberal Democrats: back new entrants to the energy market and expansion of renewables

UKIP: support a diverse energy market that can be delivered at competitive prices

Air quality in urban areas

Whilst there may be a perception that the UK has successfully tackled air pollution, this is still an area of concern. As understanding of pollutants has improved the ongoing impact on public health, particularly in urban areas, has become increasingly apparent. DEFRA has estimated that particulate air pollution alone reduces life expectancy of people in the UK by six months on average, imposing an estimated cost of around £16 billion per year.

Pollutants of concern

Pollution from road traffic, and especially diesel engines, is the most significant cause of poor air quality, responsible for up to 70% of air pollution. Emissions from power stations are also important, particularly sulphur dioxide. The pollutants of most concern in urban areas are:

- Microscopic airborne particles of varying sizes and composition, known as particulate matter (PM), suspended in the air.
- Various nitrogen oxides (NOx) emitted by road vehicle engines and other combustion processes, which are converted to nitrogen dioxide (NO2).
- Ozone formed through the reaction of NOx with sunlight.

Deprived areas in cities typically experience heavier than average traffic. As a result, the detrimental effects of air pollution tend to have a greater impact on people living in deprived urban areas, who already suffer disproportionately from health inequalities.

Short and Long-Term Exposure

Both short-term and long-term exposure to air pollution have adverse health effects. The previous Government recognised the impact of short-term exposure to high levels of pollutants when it included poor air quality events in the 2015 Risk Register. The register states that these events can lead to additional deaths and a reduction in life expectancy for people affected.

In 2009 the Government Advisory Committee on the Medical Effects of Air Pollutants (COMEAP) concluded that concentration of PM2.5 (particles that are between 2.5 thousandths of a millimetre in diameter or less) was the best measure for quantifying the mortality effects of long-term exposure to particulate air pollution. The International Agency for Research on Cancer, a WHO organisation, concluded in 2012 that diesel exhaust is a cause of lung cancer. A Review of evidence on health aspects of air pollution by the WHO in 2013 confirmed a link with effects on respiratory and cardiovascular systems. It also noted emerging evidence of other effects, including on the endocrine system and the nervous system. In 2015 COMEAP examined studies linking long-term exposure to NO2 to increased respiratory and cardiovascular mortality, and children's respiratory symptoms. It concluded that it would be sensible to regard NO2 as causing some of the health impacts associated with air pollution in epidemiological studies.

Conservatives:
will continue tackling air pollution

Greens:
introduce Ultra Low Emission Zones to ensure air pollution reduces to comply with EU limits

Labour:
will tackle air pollution by giving local authorities the powers they need, backed up by a national framework

Liberal Democrats:
will pass a Green Transport Act, including a National Plan to improve dramatically Britain's air quality by 2020

Policy

Local authorities are responsible for managing air quality at a local level. However, some decisions made to reduce carbon dioxide emissions at a national level, in particular the comparatively favourable tax treatment of vehicles with diesel engines, have proved detrimental to urban air quality. Diesel vehicles produce around 22 times more particulate matter and four times more nitrogen oxides than petrol vehicles. Reversing these trends will take time, and there have been calls, including from the Mayor of London and the Environmental Audit Committee, for financial incentives to accelerate this. These include extending low emissions zones, amending fuel duty or providing grants for scrapping older diesel cars.

Court and EU infraction proceedings

The need to improve air quality is recognised in EU legislation, which sets limits for a range of pollutants. As part of this member states were required to prepare adequate plans to reduce NO2 to acceptable levels by 2010, or 2015 at the latest. The UK failed to do so. Currently legal limits for NO2 will not be met in 16 of the UK's 40 air quality zones until after 2020, including Greater Manchester and Leeds. In London, the limits will not be met until after 2025.

The Government's failure to meet NO2 targets led to ClientEarth, a UK charity, taking the Government to court. They argued against the UK's position that enforcement of air quality measures lay at EU level. The Supreme Court agreed with them, and after referral to the Court of Justice of the EU in 2013 for clarification set out its ruling on 29 April 2015. The Court unanimously ordered that the Government must submit new air quality plans to the European Commission no later than 31 December 2015.

Separately, in February 2014 the EU Commission began infraction proceedings against the UK. These could take several years and could result in the UK Government being fined. Should this occur, it would be the first time the UK Government has been fined by the EU for breaching legislation. However, since 2011, under the Localism Act, the Government has discretionary powers to pass all or part of any fines on to local authorities deemed responsible for breaches of EU legislation. The previous Government wrote to all local authorities in March 2014 to inform them of the infraction proceedings and remind them of these powers.

Health Impacts of air pollution

According to Public Health England (PHE) short-term exposure to high levels of various air pollutants can:

- exacerbate asthma
- affect lung function
- increase hospital admissions for respiratory and cardiovascular conditions
- increase mortality.

PHE also states that evidence shows that long-term exposure to air pollution is linked to increased mortality risk.

Mortality from air pollution

PHE estimates that around 300,000 life-years were lost in 2010 in the UK as a result of particulate air pollution. This is sometimes described as an "effect on mortality equivalent to 29,000 deaths". This does not mean that 29,000 people died due to polluted air. Rather, air pollution contributes in a small amount to a larger number of deaths, by reducing life expectancy, and the total effect is equivalent to 29,000 deaths.

PHE also estimates that the equivalent of 5.3% of mortality is attributable to air pollution. This figure varies across the country, from 7.2% in London to 3.8% in Northern Ireland.

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Renewing the BBC Charter

When asked which national institutions they most trust, British people continue to place the BBC at or near the top of their list. Despite the criticism it attracts and the crises that periodically engulf it, the BBC remains widely respected at home and around the world. Many would say that this prestige is due to its unique structure, the fact it is largely independent of the state and funded by those who watch television, the licence fee-payers.

The BBC's constitution is set out in a Royal Charter, while the rules under which it operates, including its editorial independence and the details of its public obligations, are described in an Agreement between the BBC and the Culture Secretary. The current Royal Charter and Agreement came into force in 2006 and are due to expire in December 2016.

The renewal of the Charter and Agreement provide a rare opportunity for Government, Parliament and the public to influence how the BBC is financed and operated. The previous Government put the consultation process on hold until the General Election, but they will be a priority for the next administration.

The process

The process for renewal is not tightly prescribed, but we may expect it to follow a similar pattern to that seen ten years ago, albeit on a shorter timescale. On the last occasion, the Secretary of State started the process by announcing a lengthy public consultation process. In comparison with earlier renewal rounds, there was greater emphasis on public involvement and "transparency": perhaps a reflection of the fact that the BBC's position as a "public service" broadcaster was under scrutiny as never before. The Government next issued a Green, followed by a White Paper; the BBC responded with a number of consultation documents of its own, seeking both to engage with Government and with the public at large. There were inquiries by the Culture, Media and Sport Committee in the Commons and a dedicated Committee in the Lords.

The final settlement was a matter for negotiation between the BBC and the Government of the day. Drafts of the new Charter and Agreement were published. The Agreement between the Culture Secretary and the BBC, published as a Command paper, was subject to an approval motion in the Commons. The motion was passed after a long debate in July 2006. It is not a statutory requirement for the Agreement to be approved by both Houses of Parliament, but it is convention for both the Commons and Lords to debate it.

Otherwise, Parliament's only formal involvement with the BBC's affairs is through the regulations needed to implement the licence fee settlement. Normally, these go through without debate. The current fee, which was agreed in 2010, is fixed until 2017.

Conservatives:

freeze the licence fee and deliver a comprehensive review of the royal charter to ensure it provides value for money

Greens:

funding of the BBC guaranteed in real terms and enshrined in statute

Labour:

ensure the BBC provide value for money

Liberal democrats:

ensure the fee will not rise faster than inflation

SNP:

the licence fee should be retained with any replacement system, which should be based primarily on the ability to pay, in place by the end of the next BBC Charter period

The issues

Governance. Last time, Charter renewal was used to reform the BBC's governance: the Board of Governors, widely seen as discredited, was replaced with the present BBC Trust. The Trust in turn has since been criticised for its dual role as both "cheerleader" and "regulator" and is likely to come under the spotlight during the renewal process. Some think that Ofcom, which already regulates commercial broadcasting, should regulate the BBC as well. Others argue that the BBC could be made more accountable through "mutualisation" – giving "membership" and voting rights to everyone who pays the licence fee.

Changing viewing habits. Most of the BBC's television (and that of the other major broadcasters) is still watched at the time that it is broadcast, on a TV screen. But younger audiences in particular are increasingly watching content on other devices, using the BBC's iPlayer service. Although keeping pace with technology is expensive, it could also present cost-saving opportunities. For instance, the controversial decision to stop broadcasting BBC Three as a terrestrial channel is expected to yield £50 million per year in savings; and it was defended on the grounds that the channel's young target audience were "the most mobile and ready to move to an online world". But changing viewing habits also pose challenges for the collection of...

...the licence fee. Predictably, opinion polls show that the licence fee is far less loved than the BBC as an institution; but the alternative funding models (see Table A) command still less public support. It is difficult to see, moreover, how they could be made compatible with the BBC's cherished independence and universality of access. This helps to explain why the licence fee has long been seen as the 'least worst' means of funding the BBC. But technological change, together with long-standing complaints that the fee is regressive, and an unfair charge on those who do not wish to enjoy BBC's output, may place this model under increasing scrutiny, though it is likely that it will remain at the core of the BBC's funding settlement during the next Charter period.

The six-year freeze on the licence fee is due to end in April 2017, and discussion over the right level of funding for the BBC, and hence the appropriate scale and scope of the Corporation, is likely to form part of the Charter negotiations. The last settlement in 2010 saw the licence fee used to fund Government objectives, such as broadband roll-out and local television, leading to questions over the appropriateness of 'top-slicing' the licence fee for other purposes.

We can expect vigorous debate on the future of a much-cherished institution.

Chart 1:

After a six-year freeze, by 2016 the licence fee will be at its lowest level, in inflation-adjusted terms, for 25 years

annual licence fee, inflation-adjusted (RPI), £, 1946–2016



Table A:

BBC funding – the options

Licence fee

Difficult to collect in the Internet age

General taxation

Dependence on Government

Advertising

Competition for a limited pot

Subscription

Loss of universality

Household levy

Those not watching and listening to BBC still pay

What next for press regulation?

How do we ensure that the press is both free and responsible?

In 2011, following the discovery of widespread “phone-hacking” by journalists at the News of the World and other newspapers, David Cameron set up a public inquiry under the chairmanship of Lord Justice Leveson. The Inquiry is in two parts. The first part, which examined the “culture, practices and ethics of the media”, produced a sizeable report in November 2012. Part 2 of the Inquiry, looking at the historic role of the police and News International, has yet to begin. The first part, which took over a year, is estimated to have cost £5.4 million.

Leveson

Leveson found that the existing Press Complaints Commission (PCC) – the main industry regulator of the press in the UK since 1990 – was not fit for purpose. His report recommended creating a new independent body and said that it should take an active role in promoting high standards, including having the power to investigate serious breaches and sanction newspapers. It should be backed by legislation designed to assess whether it was doing its job properly. The legislation would enshrine, for the first time, a legal duty on the Government to protect the freedom of the press. An arbitration system should be created through which people who say they have been victims of the press could seek redress without having to go through the courts. Membership of the body would be voluntary, but newspapers would be encouraged to join by allowing exemplary damages (i.e. in excess of the value of the loss sustained) to be awarded in cases brought against non-participants in the scheme. Leveson rejected the suggestion that his proposals amounted to “statutory regulation” of the press.

In response, the Prime Minister said that, while he accepted the bulk of the report’s recommendations, he did not recognise the need for statutory underpinning of a press regulator. The Labour Party and Liberal Democrats called for legislative reform, and the parties engaged in cross-party discussions on the issue.

A “politicians’ charter”?

The Opposition put continued pressure on the Government to legislate. Matters came to a head in March 2013. Faced with a threat to other Bills in the Government’s programme, the Prime Minister withdrew from the cross-party talks. Intense activity over one weekend resulted in a compromise acceptable to all three main parties. The compromise allowed for one or more independent self-regulatory bodies for the press to be established. Any such body would be recognised and overseen by a “Recognition Panel”. The Panel would be established under a Royal Charter and the Charter would be protected by statute from amendment.

Reaction to the settlement was mixed. Groups such as Hacked Off, which campaigns for victims of press intrusion, welcomed the development. Major newspaper publishers rejected what they saw as a “politicians’ charter”. They responded by presenting an alternative Royal Charter, which was

considered by the Privy Council ahead of the Government’s own proposal, but rejected in favour of the Government version.

IPSO

The press then went ahead with establishing a new regulator of their own. The Independent Press Standards Organisation (IPSO) was established in September 2014 following the winding up of the PCC. IPSO handles complaints, and conducts its own investigations into editorial standards and compliance. It also undertakes monitoring work, including by requiring publications to submit annual compliance reports. IPSO has the power, where necessary, to require the publication of prominent corrections and critical adjudications, and may ultimately fine publications in cases where failings are particularly serious and systemic.

IPSO sees itself as a “regulator”, in contrast to the PCC, which was merely a “complaints-handling body”. Critics complain that it is not Leveson-compliant and that, like its predecessor, it is too close to its industry financial backers.

Over 1,400 print titles are now regulated by IPSO, including major national newspapers with the exception of the Financial Times, Guardian and Independent. It has received and investigated over 1,000 substantive complaints to date, although not all are pursued to adjudication.

IPSO is not expected to seek recognition under the Charter.

An alternative regulator?

So far, one other contender has entered the lists: the ‘Impress Project’, launched in December 2013. Impress, billing itself as Leveson-compliant, says that there are three main differences between this proposed body and IPSO: it will function as an independent non-profit company receiving grants and donations from trusts, foundations and individuals; it will arbitrate civil disputes between all parties at an affordable cost; and it will involve the public closely in its work through a consultation panel.

Impress sees itself as complementing IPSO, rather than in competition with it. So far, there has been interest in Impress from the regional and “hyperlocal” press, but the new body has yet to establish a joining mechanism.

Impress has not yet decided whether to apply for recognition under the Charter.

What next?

In November 2015 the provision will come into force allowing a court to award exemplary damages against a publication which is not a member of a recognised regulator. Will this threat persuade the press to sign up to a system many of them see as tainted? Will there even be a recognised regulator by then?

Conservatives:

will protect the role of journalists via the British Bill of Rights and ban the police from accessing journalists’ phone records to identify sources without prior judicial approval.

Greens:

support the recommendations of the Leveson Inquiry and the Royal Charter but will support the implementation of legislation if this is not supported by major newspapers

Labour:

will implement the recommendations of the Leveson Inquiry.

Liberal Democrats:

pass a “first Amendment” law to emphasise the importance of a free media

Further reading and data sources

Media

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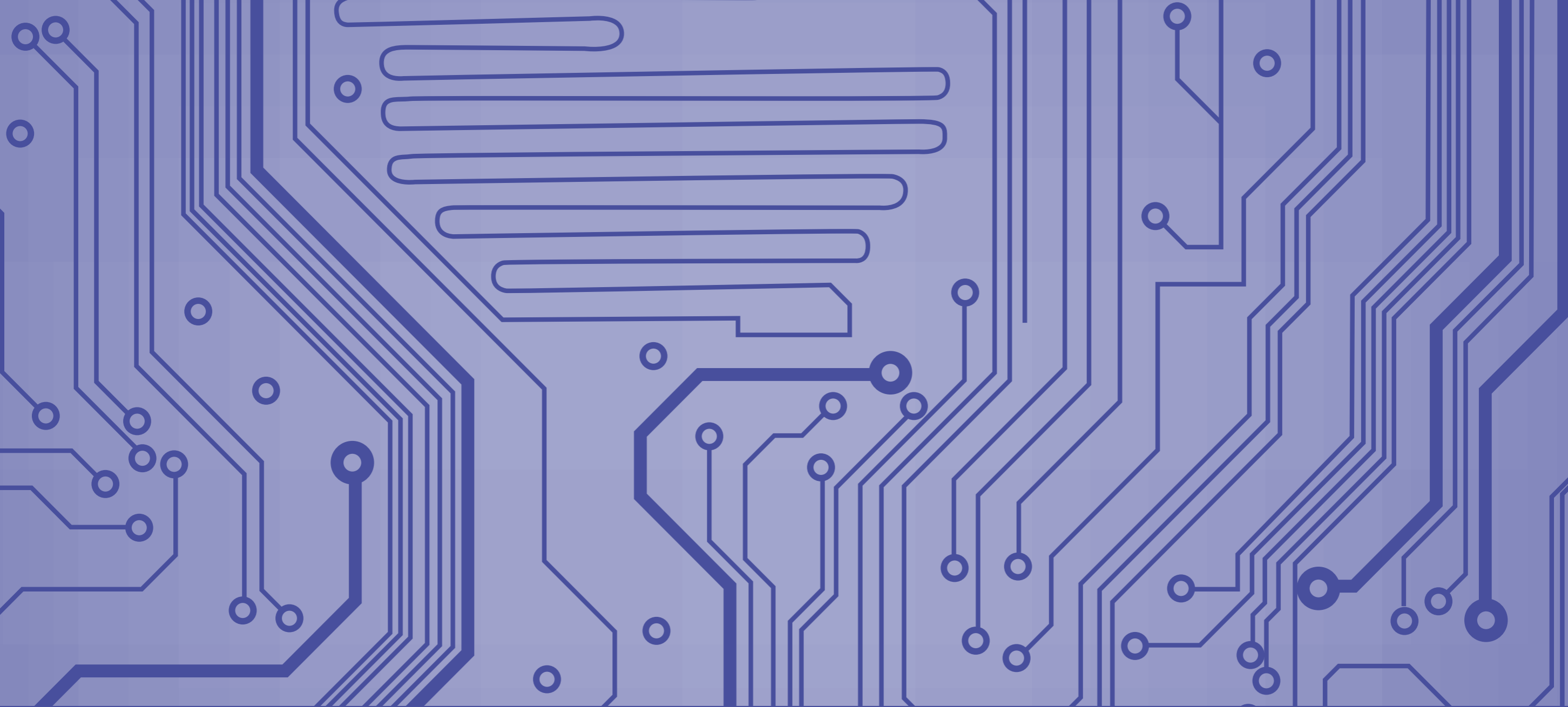
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Key Issues *for the* 2015 PARLIAMENT – **CHAPTER 16**

TECHNOLOGY

- articles contributed by the Parliamentary Office of Science and Technology



Big Data – a new asset for the 21st century?

Data has been described as “the new oil... a fuel for innovation, powering and energising our economy”. It has the potential to provide insights into the behaviour of individuals, populations, markets and other systems. Governments, businesses and others are increasingly asking how information derived from data can be used to inform decision-making and help to develop and deliver better products and services, improve the efficiency with which resources are managed, and personalise relationships with customers (see margin).

Unlike oil, the amount and complexity of data being created is increasing dramatically: predictions suggest that the total amount of global data could grow by about 40% year on year for the next decade. This increase has been attributed to a number of factors, including the creation of new data sources such as smartphones, increased technical capacity to store and analyse data, and rapid adoption of new forms of communication such as social media. It has led to the concept of ‘big data’: that is, data on a scale or of a complexity that makes it challenging to use. Such data often requires innovative techniques to extract insights from it (‘big data analytics’). Estimates suggest that use of big data could contribute £216 billion to the UK economy between 2012 and 2017, and generate 58,000 new jobs. However, the extent to which the opportunities presented by big data will be realised remains unclear.

Policy challenges

Storing, analysing and interpreting these unprecedented quantities of data has a number of policy implications.

Skills. It can be difficult to find individuals with the unusual combination of skills and knowledge required to manage and make sense of big data. This typically includes specialist methodological expertise, computer programming, and field-specific knowledge and communication skills. A 2014 survey of UK companies implementing big data analytics found that 77% had difficulty recruiting big data staff, and forecasts suggest that demand for big data staff will grow by an average of 23% per annum from 2013-20.

Privacy. Big data may have the potential to make infringements of privacy more likely for several reasons. The widespread adoption of devices such as GPS-enabled smartphones, which collect and transmit information about their location, is leading to data being acquired from previously private areas of life. In addition, big data projects often involve re-using data, which may increase the likelihood of original data-usage permissions being lost or overlooked. Projects may also link together different sets of data, which could make it possible to re-identify individuals from data that originally had identifying details removed to protect privacy.

Security. A range of tools and procedures can be used to reduce the risk of data being accessed and used without permission, including data encryption and implementation of good data governance. This includes making individuals accountable for data security, minimising the number of people with access, and deleting data when appropriate. However it is impossible to guarantee that data will be completely secure.

Discrimination. There are a number of cases of big data leading to unintended discrimination. For example, it may be used to facilitate differential pricing, where individuals are offered different prices for online products depending on how affluent they appear to be.

Recent developments in data legislation

Use of data in the UK is governed by multiple pieces of legislation, depending on the type of data and the context in which it is being used. The collection, storage and processing of personal information is regulated by the Data Protection Act 1998, which implements the EU Directive 95/46/EC. This Directive is widely recognised as being outdated. Draft proposals to reform it were put forward in 2012, and they are still under discussion by the European Parliament and the Council of the EU.

Interception of communications data in the UK is governed by the Regulation of Investigatory Powers Act 2000. A 2006 European Commission Directive was incorporated into UK law in 2009, requiring communication service providers to retain communications data for up to two years. This was struck down by the European Court of Justice in 2014, leading to emergency legislation that the UK Government stated was necessary to retain existing powers. The Data Retention and Investigatory Powers Act was passed by Parliament in July 2014. It contains a sunset clause, meaning that the laws will lapse at the end of 2016.

Examples of big data applications

- **Electioneering** – Barack Obama’s 2012 presidential election campaign used data from social media and the party’s database to look for correlations in past voter characteristics and behaviour, enabling them to build up profiles of potential supporters and target resources more efficiently.
- **Product design** – Bentley Motors has used high performance computing to model components before manufacture, enabling faster product development times, decreasing the number of prototypes required and reducing costs.
- **Marketing** – An individual’s specific internet browsing history and social media profile can be compared with aggregated data about other customers’ purchases to see what similar customers have bought and to tailor advertising accordingly.
- **Asset management** – Rolls-Royce collects and analyses data from sensors on its fleet of jet engines to determine when they require servicing.

The 'Darknet'

Recent operations to crack down on illegal online marketplaces such as the billion dollar 'Silk Road' market in 2013, and its successor 'Silk Road 2.0' in 2014, have put the 'darknet' firmly in the media spotlight. But what is the darknet? Who uses it, and what for? And how can criminality on the darknet be prevented without compromising its other uses?

What is the darknet?

The vast majority of web pages are invisible to most casual internet users. This part of the web is known as the 'deep web'. In contrast to the open web, it consists of web pages that cannot be found by popular search engines like Google. They are mainly standard personal or corporate web pages such as photo collections or intranet pages. However a very small part of the deep web consists of websites which allow their operators to conceal their identity if they wish to, using sophisticated anonymity systems. This is what is commonly referred to as the 'darknet'.

How can website operators conceal their identity?

Most internet users who wish to hide their identity take simple measures, such as using pseudonyms on social media sites. Only a small proportion use sophisticated anonymity systems that offer stronger protection. The most popular of these is called 'Tor', with an estimated 2.5 million users daily worldwide. Most Tor users simply use it to browse the open web without revealing who they are. It is used for a variety of reasons, such as to circumvent censorship, to carry out under cover undercover online surveillance, or for peer-to-peer file sharing. However, Tor also enables users to publish anonymous web services via 'Tor Hidden Services' or THS. Most of the current debate on the 'darknet' is concentrated around THS.

How does Tor work and who uses it?

A global network of approximately 6,000 computers provided by volunteers forms the 'Tor Network'. Users can download free software onto their computer to access the Tor Network. The Tor network uses a multi-layered system of encryption, and relays information in such a way that it is difficult for any one part of the system to link communication partners. Thus no single entity (including Internet Service Providers and Tor Project Inc., which maintains the Tor Network) knows about a Tor user's online behaviour, such as which websites they have visited. Tor Project Inc. states that about 1.5% of traffic on the Tor Network is from users accessing the THS; the bulk of traffic is users accessing the open web.

What is Tor Hidden Services used for?

It is difficult to give an accurate overview of what THS are used for, as there is no central record and many addresses only exist for a short time. THS is most well-known for criminal markets. Until it was closed down by the FBI in September 2013, Silk Road was the most prominent of these. It allowed users to sell and buy illegal drugs and other commodities in a format similar to that of eBay. Several other illegal markets rapidly took its place after its shutdown.

THS is also used for the online viewing and distribution of indecent images of children, although it should be noted that in 2013, the Internet Watch Foundation took action on only 36 THS domains for containing such material, compared to 1,624 domains on the open web. THS also allows whistle-blowers to share information with the media and advocacy groups. For example, the New Yorker Strongbox is a THS that allows informants to share messages and files anonymously with reporters of the American magazine The New Yorker.

What challenges does THS present to law enforcement agencies (LEAs)?

There are situations where LEAs wish to find out about the online behaviour of a Tor user, or identify users of specific THS sites. It is not publicly known what the extent of LEAs capability is or what methods they employ. Tor has some technical limitations which may make it possible to de-anonymise Tor users. However, this requires significant resources and a high level of expertise. Alternatively, sometimes users make simple oversights, allowing them to be identified by non-technical means. For example in the 2013 Silk Road crackdown, the suspect was identified as the Silk Road operator based on his activities on the open web, including posts about Silk Road on discussion forums, where he registered using his real name and email address.

What is the future of the darknet?

Tor Project Inc. plans to make Tor faster, easier to use and to increase its capacity. In response to public concerns about privacy, more people may start to use strong anonymity protection systems like Tor. Also, organisations involved in providing browser and operating system software are increasing the level of privacy and anonymity they offer to their users. For example, the non-profit organisation Mozilla Foundation, which offers the popular Firefox internet browser, has recently announced its collaboration with Tor Project Inc. on a project evaluating the use of Tor with Firefox on a larger scale.

While some Governments (such as the Chinese) have attempted to block access to Tor altogether, this has proved technically challenging: in the case of China, Tor Project Inc. developed ways of circumventing the block. Some have argued for a Tor without THS. However, computer experts argue that any legislative attempt to preclude THS from being available in the UK over Tor would be technologically infeasible.

The Internet of Things

From clothes to cars, fridges to farm animals, we now live in a world where almost anything – everyday objects, animals or people - can be connected to the internet. This “Internet of Things”, where billions of devices can talk directly to each other without needing to interact with human beings, could potentially transform the world around us. Connected smoke alarms could set lights flashing and automatically open doors. Traffic lights could monitor and react to traffic flow. And as the technology develops, new applications will emerge that we can’t even predict.

The Internet of Things (IoT) is still at a very early stage. However, some applications are already proving useful. For example, in the Netherlands, 25 local authorities use ‘smart bins’ to optimise waste collection by sending a warning when they are getting full. This means refuse collectors can avoid unnecessary journeys. In one local authority the bins have saved around £72,000 and cut emissions by 18% in the course of a year. In Toronto, smart traffic lights that process local traffic information have reduced delays by up to 40 percent and travel times by 26 percent.

There are around 14 billion objects connected to the internet today. By 2020 this figure could increase to anything from 20 billion to 100 billion. Industry predicts revenues ranging from hundreds of billions to trillions of pounds, over the next 5-10 years. The UK Government Chief Scientific Adviser (CSA) has said that the IoT has the potential to have a greater impact on society than the first digital revolution. However, he also pointed out that emerging technologies are subject to hype: technology analysts Gartner suggest that the Internet of Things is currently at the ‘peak of inflated expectations’.

Several questions need to be addressed for the IoT to reach its full potential:

How will the ‘things’ talk to each other?

In most cases this will be via wireless network. There are various technologies available, such as wi-fi, Bluetooth, 3G and 4G. However, they all use different communications protocols: a system that uses wi-fi will not necessarily be able to talk to one that uses Bluetooth. Unless industry agrees common standards, the full potential of the Internet of Things may never be realised. There are many initiatives underway to find a solution, but no consensus has been reached. What’s more, in choosing any one network, manufacturers risk committing themselves to a technology that may become redundant.

Wireless networks use electromagnetic spectrum to exchange data, a valuable resource used for navigation, broadcasting and communications services. The Internet of Things will increase the demand for spectrum. In a recent stakeholder consultation, the communications regulator Ofcom said that in the short to medium term this demand could probably be accommodated. In the longer term, however, more flexible approaches to spectrum usage will need to be found.

Who can see the data?

The devices making up the Internet of Things will harvest vast quantities of data. Who does it belong to? And how should it be protected against unauthorised access? For example, the UK aims to install smart electricity and gas meters in every home and small business by 2020. Consumers will be able to monitor their energy usage and suppliers will be able to manage energy demands better. But concerns have been raised about whether these meters could be used to monitor consumers’ lifestyles and pass information on to third parties. While measures have been put in place to give consumers control over what data they share, there are still concerns that the data could be used in ways that infringe privacy.

How secure is the Internet of Things?

The IoT will give rise to large numbers of devices. This means that traditional approaches to security (such as running software upgrades) may not be practical to implement. There have already been examples of hackers gaining access to data from webcams, baby monitors, CCTV cameras and even fridges (which were used to send spam e-mails). Security researchers have even shown that it is possible to breach some medical devices and cars, although this would require specialist expertise and equipment. The communications networks over which devices will talk to each other need to be robust and the data kept secure.

Who is responsible?

If a system malfunctions, who is to blame? Is it the user, the manufacturer, or the person who installs the system? This is just one example of an area where the Internet of Things is likely to create new regulatory challenges.

From 2004 to 2013, there were nearly 22,000 new patents published relating to the IoT. The number of applications has increased by almost 40% each year, compared to only 6% across all technologies. In 2014 the Government announced extra funding of £45 million on IoT technology. The Chief Scientific Adviser believes that the UK is well placed to be among the emerging world leaders in reaping the benefits from Internet of Things technologies and services.

Further reading and data sources

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Antony Seely	3625	Taxation, competition
Djuna Thurley	0324	Pensions

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Aliyah Dar	6920	Welfare to work, employment schemes
Daniel Harari	2464	UK and international economies
Matthew Keep	4324	Public finances, taxation statistics, EU budget
Feargal McGuinness	4904	Incomes and poverty
James Mirza-Davies	6962	Skills and training, unemployment statistics
Chris Rhodes	2454	Industries, public spending, business statistics
Dominic Webb	2042	Economic policy, inflation, finance statistics, trade

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Jacqueline Beard	0251	Criminal law, sentencing, criminal records, terrorism
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Philip Ward	3461	Media, data protection, copyright, press, broadcasting
John Woodhouse	5036	Sports, voluntary organisations, arts, gambling, licensing

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Vaughne Miller	4327	European Union, Latin America, Israel, Palestine
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Mark Sandford	1136	Local government
Isobel White	2219	Elections

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Sarah Hartwell-Naguib	1665	Flooding, waste management, water industry, health and safety
David Hirst	2263	Information technology, internet, telecommunications, fisheries, forestry
Louise Smith	3624	Planning
Ed White	2882	Energy, utilities, fuel poverty

Social & General Statistics

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Richard Cracknell	4632	Crime, civil law, housing, sports, voluntary organisations, gambling, advertising
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Oliver Hawkins	2324	Immigration, religion, population, arts
Neil Johnston	6789	Transport, local government
Rod McInnes	3793	Social security, pensions, wills and intestacy
Tom Rutherford	4313	Energy, defence, population

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Wendy Wilson	5615	Housing, conveyancing and land law
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David Foster	1182	Section generalist