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PARLIAMENT 2017

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Foreword



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Penny Young
Librarian, House of Commons

June 2017

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Key Issues: Chapter 1

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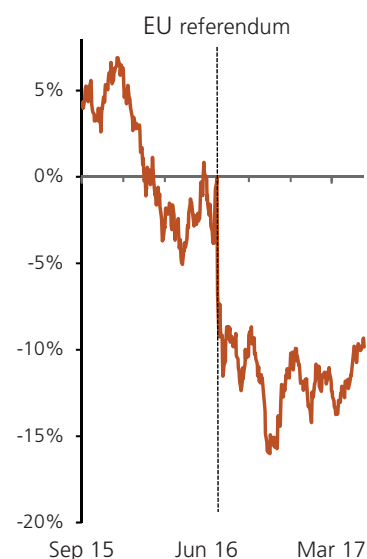
Governing the UK

Brexit and the economy: the short and long-term of it

How greater openness to trade and investment can benefit an economy

- **More investment** – increases amount of capital in the economy (machinery, computers, etc.) leading to higher labour productivity growth
- **New technologies** – foreign investment is often associated with technological innovation and better work practices, which may then be adopted by domestic firms
- **Competition** – more foreign companies in domestic market can lead to increased innovation and efficiency
- **Specialisation** – easier access to large trading markets allows domestic firms to specialise and expand, improving productivity

Chart 1:
UK £ value against main trading partners
% change compared to 23 June 2016



The UK's decision to leave the European Union will affect the UK economy for decades to come. In the short term, it led to the pound falling sharply, but didn't affect the immediate growth performance of the economy. In the longer term, the country's new trade arrangements with the EU and the rest of the world will be crucial in determining Brexit's economic impact.

Short-term effects of Leave vote

If a Martian economist compared the performance of the UK economy before and after 23 June 2016, they would not really notice any difference. Contrary to most economists' expectations, growth continued in line with the trend of previous years, supported by strong growth in consumer spending. But that is not to say the vote had no effect. The pound fell sharply and remains around 10% below its pre-vote value.

A weaker pound may boost UK exports (at least in the short-term) but it has also pushed up inflation via higher import prices, squeezing household incomes. In addition, the pound's decline means UK assets – its wealth – are worth less now than they used to be, compared with other countries. This matters because we buy a lot of things from abroad: imports are equivalent to 30% of UK GDP. If our incomes don't rise to compensate for the lower value of the pound, we become poorer.

Exchange rates can and do fluctuate for all sorts of reasons. In this case the fall in the pound is clearly a result of the referendum outcome, presumably due to the belief that Brexit will harm the UK economy. If this view changes, say if the UK agrees many advantageous trade deals, the pound may recover lost ground.

Long-term effects of Brexit

Brexit won't be the only factor to affect the economy by any means. There is, for instance, the critical question of whether the economy breaks out of its decade-long productivity stagnation. Nevertheless, when all is said and done, how will Brexit have affected the UK economy?

Both sides of the referendum debate broadly agree that it's in the UK's best interests to have an economy open to trade and investment. Economists agree. Theory and literature show a link between the degree of openness to foreign trade and investment and long-term growth rates (see margin). In other words, more barriers to trade and investment lead to lower growth.

New trade arrangements

We obviously don't know the scale and scope of the UK's new trade and investment relationships in a post-Brexit world but we can make some broad observations.

The EU is currently the UK's largest trading and investment partner by far: 44% of all UK goods and services exports go to the EU; 53% of UK imports come from the EU; and 45% of the foreign direct investment stock in the UK is from the EU.

It is likely that following Brexit it will be more difficult for UK companies to trade with the EU and for EU companies to trade with the UK. The degree to which this is the case will depend on the type of trade relationship that is negotiated.

The UK's future trading arrangements with non-EU countries will also be important in determining Brexit's long-term economic impact. After leaving the EU, the UK will be able to negotiate its own trade agreements with non-EU countries (if it leaves the EU Customs Union, which seems very likely). The UK will also likely have to renegotiate the trade deals the EU currently has in place with other countries (11% of UK exports go to these countries).

What does it all mean?

A large majority of economists think it unlikely that possible new trade deals with non-EU countries will be able to make up for higher trade barriers with the EU given its importance to the UK.

As a result, they believe the final post-Brexit settlement will leave the UK economy less open, lowering the UK's long-term growth rates compared to a scenario in which the UK had stayed in the EU.

Other factors will also play a role in determining Brexit's impact. The UK, if outside the Single Market, will have more control of its regulations (potentially making them more business-friendly) and immigration policy as well.

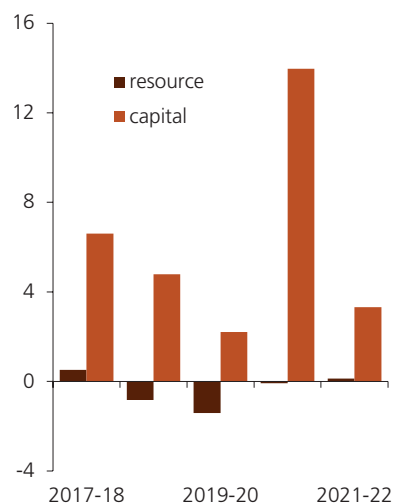
Much is still uncertain about the UK's post-Brexit trading arrangements. How these new relationships shape and change the future of UK trade and investment will be crucial in determining its long-term economic impact.

The public finances

The government's deficit is the difference between its spending and income from taxes and other revenues. A "large deficit" implies that spending substantially exceeds revenues.

The government's debt is the total amount it owes. Broadly speaking it is the stock of borrowing arising from past deficits. Both debt and deficit are often expressed as a proportion of the country's national income (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 national income.

Chart 1:
Departments' resource and capital budgets face quite different annual changes
% year-on-year change, real terms



The deficit has come down significantly since it peaked at 10% of national income in 2009-10. In 2016-17 it was 2.5% of national income, similar to the level it was prior to the 2007-2008 financial crisis. But this is still higher than the historical average.

Since the crisis, large deficits have led to a significant increase in government debt. At the end of March 2017 government debt was 87% of national income, high by recent historical and international standards.

The incoming Government inherits spending and tax plans designed to achieve deficit and debt targets. Although the plans may change, they highlight the choices and challenges facing the new administration.

Key deficit and debt targets

The inherited overarching objective is to eliminate the overall deficit 'at the earliest possible date in the next parliament'. One might expect the early election to bring this deadline forward from 2025 to 2022. To meet it the Government would need to find an extra £15 billion of tax rises and spending cuts in 2021-22. However, the Conservative Manifesto interprets the target as still focusing on a 2025 deadline.

To support the overarching objective, there is a short term target for the deficit. This focuses on the structural deficit, which is the deficit remaining once elements related to the ups and downs of the economy are removed. According to the latest forecasts, the target – a structural deficit of less than 2% of national income in 2020-21 – will be comfortably met by sticking to the inherited tax and spending plans.

The target for debt is that it should fall, as a share of national income, between 2019-20 and 2020-21.

Under inherited plans public spending is forecast to increase by around 5%, in real terms, over the next five years...

This is a fairly modest increase by historical standards, but more than was seen under the Coalition Government. There are differences between areas of public spending, and not all areas will increase.

...demand-led spending is forecast to increase by around 7%...

Demand-led areas, making up just over half of public spending, are difficult to control. An obvious, and financially significant, example of this is welfare. The Government can set policies for welfare but the amount spent is largely dictated by economic conditions.

... and departments' budgets are set to increase by 3%, with differences between resource and capital

Government departments' budgets for delivering and administering public services make up just under half of public spending. In the current plans, departments' capital budgets – spending on assets that last for a number of years – are set to increase by over 30% in the next five years. At the same

time resource budgets – spending that is used up each year, such as wages – will fall by just under 2%. In 2018-19 and 2019-20 resource budgets are expected to decrease by around 1% in real terms.

Uneven distribution across departments

Some departments’ budgets were protected by the previous Government. Such political choices mean resource budgets do not change evenly across departments. (see Chart 2)

Plans for 2016-17 to 2019-20 see small real terms increases in the resource budgets for defence, education and health and a larger increase for international development. At the same time, grants to local government are set to decrease by 40%. Most of those departments facing reduced budgets have already experienced decreases since 2010.

Tax revenues are forecast to increase by around 10%, in real terms, over the next five years

In 2019-20, taxes as a share of national income are forecast to increase to a level last seen in the early 1980s. Economic conditions play a significant role in determining the amount of tax raised. For instance, if workers’ earnings increase by 1% we would expect income tax revenues to increase by over £2 billion.

With tax revenues forecast to increase faster than public spending, the deficit is forecast to fall. By 2021-22 inherited spending and tax plans see the deficit decrease to 0.7% of national income, according to the latest forecasts. Smaller deficits and economic growth are expected to bring debt below 80% of national income.

The new Government will have its own priorities and policies.....

None of these targets and plans are set in stone. They will change as the incoming Government implements its manifesto commitments and approach to managing the deficit and the debt.

....but may need to be flexible

The performance of the economy is essential to the public finances. Economic growth influences the size of tax receipts and areas of public spending, such as welfare.

The future of the economy is always difficult to predict. With ongoing negotiations over Brexit, the outlook for this Parliament is particularly uncertain. So that it can adapt to changing economic circumstances, the incoming Government may need to adopt a flexible approach for managing the public finances.

Chart 2:
Reductions in departments’ resource budgets are not evenly shared
2016/17 – 2019/20, % change (real terms)

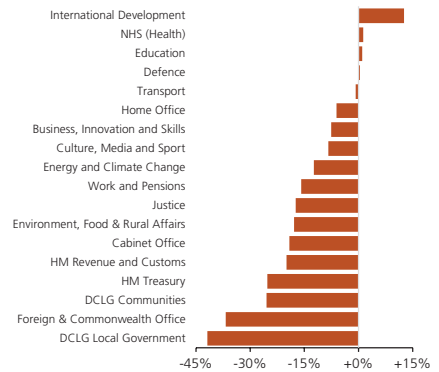
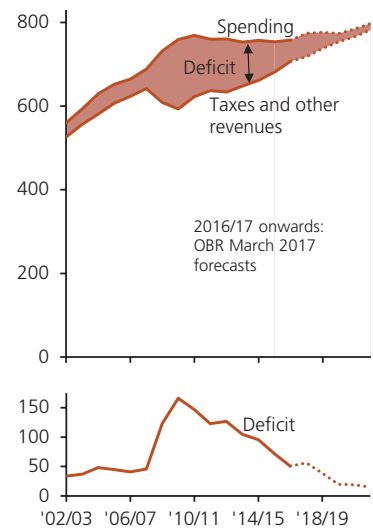
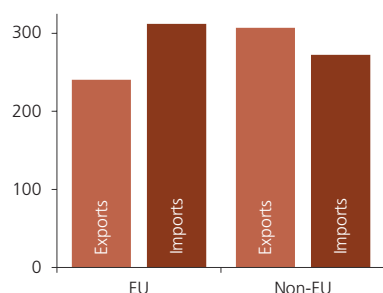


Chart 3:
Government spending, taxes and deficit
(£ billion, real terms)



Brexit and trade

Chart 1:
UK trade in 2016, Goods and services
(£ billions)



After Brexit the UK will be able to determine its own trade policy, which is currently the responsibility of the EU. International trade will therefore be a key theme in the new Parliament. This article examines the UK's future trade relationship with the EU, but trade relations with non-EU countries will be important too.

Trade policy as a member of the EU

As a member of the EU, UK trade policy is determined by the European Commission and Council. The EU Single Market means there is free trade between EU members. There are no quotas or tariffs on UK-EU trade. There is also a harmonised regulatory regime. This aims to facilitate trade by reducing non-tariff barriers, such as different technical or labelling requirements. These non-tariff barriers can be at least as important as tariffs as a barrier to trade.

The Single Market is based on the "four freedoms": free movement of goods, services, people and capital. The EU also governs trade arrangements with non-EU countries. The EU is a customs union: all EU Member States impose the same set of tariffs on imports from outside the EU.

UK-EU trade post-Brexit

The EU is the UK's largest trading partner, accounting for 44% of UK exports of goods and services in 2016 and 53% of imports.

The previous Government's policy was not to seek membership of the Single Market and to leave the main elements of the EU customs union. This amounted to rejecting membership of the European Economic Area (EEA – EU States, Iceland, Liechtenstein and Norway). Continued Single Market membership was rejected because it would mean accepting the four freedoms and a continuing role for the Court of Justice of the EU. The UK would still have access to the Single Market (i.e. be able to export to it), but the terms of this access would depend on negotiations with the EU.

Free and frictionless trade

In place of Single Market and customs union membership, the May Government said it was seeking the "freest and most frictionless trade possible in goods and services between the UK and EU" and an "ambitious and comprehensive free trade agreement".

This raises a number of questions. For example, will the Brexit trade negotiations have to wait until the divorce settlement has been agreed, or will they be negotiated in parallel?

How would a trade agreement deal with non-tariff barriers and trade in services?

Is it feasible to negotiate an “ambitious and comprehensive” free trade agreement within two years, especially if this is to cover services as well as goods? 40% of the UK’s exports to the EU are services. The UK has a surplus with the EU in services trade.

Trade agreements often take several years to negotiate, although the particular circumstances of the Brexit negotiations, where the parties are already closely integrated, may speed things up.

What if there is no trade agreement?

If no trade agreement is reached, trade between the UK and the EU will revert to World Trade Organization (WTO) rules. While many countries trade with the EU on this basis at the moment, it would mark a significant change from EU membership. Trading under WTO rules is likely to be disruptive to trade, as it would involve both tariff and non-tariff barriers.

UK exports to the EU would be subject to the EU’s tariffs. Imports from the EU would face UK tariffs set at a level determined by the UK Government. WTO rules require a country to impose the same set of tariffs on all trading partners (with exceptions for free trade agreements and schemes to help developing countries). This means the UK and EU would not be able to set punitive tariffs on each other’s imports.

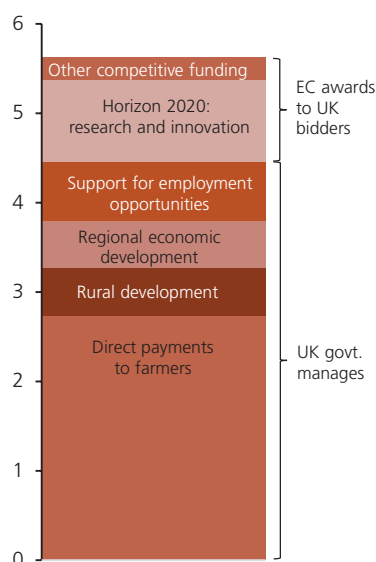
EU tariffs are, on average, relatively low. In many sectors the effect of the tariff on exports may be offset to some extent by the fall in sterling. However, tariffs are high on some products, especially agricultural ones, and the EU tariff on cars is 10%.

A transitional agreement?

Many have argued that a transitional agreement will be needed if no trade agreement is in force by the time the UK leaves the EU, in order to avoid the WTO ‘cliff edge’ scenario. This too raises issues. How long might such an agreement last? What rights and obligations would it impose on the UK and how would it be enforced?

Brexit and replacement for EU funding

Chart 1:
EU funding allocated to the UK
(£ billions)



Once the UK leaves the EU, it will no longer get most, if not all, of the EU funding it currently receives. The funding is only small in the grand scheme of things – it was less than 1% of government spending in 2016 – but there is likely to be significant scrutiny of the choices the UK Government makes about replicating, replacing or ending the financial support provided to different sectors.

What funding does the UK receive from the EU?

The UK receives around £6 billion of funding from the EU each year, £4.5 billion of which is allocated to the UK Government to manage within the EU's rules. The majority of this funding is for agriculture. Many UK farmers rely on the £3 billion of direct payments – often referred to as subsidies – and the £0.5 billion of support for rural development to keep their businesses viable. The direct payments aim to stabilise farmers' incomes, and the support makes up around 50-60% of farm incomes in the UK.

Much of the rest of the funding managed by the UK is for developing regional economies and improving employment opportunities. Known collectively as structural funds, they support job creation, business competitiveness, economic growth and sustainable development. Famous beneficiaries include the Eden Project in Cornwall and the Lowry Centre in Salford.

The European Commission also provides around £1 billion to £1.5 billion of funding directly to UK organisations, often following a competitive bidding process. The UK's main source of competitive funding is Horizon 2020, which is the Commission's programme for research and innovation. Horizon 2020 aims to coordinate and pool research efforts across the EU, and the UK's universities are amongst the biggest recipients.

Of course, none of this money is free: as most readers will be aware, the UK pays more into the EU budget than it receives in funding from it.

What will happen before Brexit?

In theory, little should change. The UK will continue to receive funding while it remains a member of the EU, and its people and organisations can apply for more. The May Government provided further assurances by guaranteeing funding at least up to the point of Brexit.

Could the UK take part in some EU funding programmes after Brexit?

The previous Government said that the UK may want to participate in some of the Commission's competitive funding programmes after Brexit, and would pay to do so. Non-EU members already participate in some of these programmes. Turkey participates in Horizon 2020, for instance. Negotiations over the UK's future relationship with the EU will determine the UK's participation in the Commission's programmes.

**What will the Government do about the other funds?
What issues do they face?**

Participation in agricultural support and structural funds is unlikely to be possible (or wanted, by some at least). These EU funds will therefore end, and ministers will need to design policies that suit the UK's situation and needs. There are some common complaints across the funds – such as administrative burden, bureaucracy and complexity – but each fund is different and brings its own unique set of challenges to be tackled and questions to be addressed. There are big questions like:

- Should farmers continue to receive direct payments? They provide stability for farmers' incomes, but it has been suggested that they also stifle innovation and keep unproductive farmers in business.
- Should funding for economic development focus on regions? The EU allocates this funding to regions. The UK Government has, since 2010, moved away from delivering regional economic development.

But the issues quickly grow more complex, for example:

- What should the objectives be for financial support to farmers?
- What role does devolution have in the new policies? Agriculture and economic development are devolved. In agriculture, some commentators argue for the greatest possible flexibility to address local needs and priorities, while others warn against divergence and the complications of trade.
- How do international rules on trade impact on the design of support for farmers?
- Should economic development focus on the least developed areas such as Cornwall and the Isles of Scilly?
- Should match funding be required? EU funds, except farmers' direct payments, require co-financing.
- What should happen to funding for other areas, such as fisheries, coast communities and rural economies?

That seems like a lot to think about. Is there anything else?

Yes. This article gives a broad overview of the issues facing the larger funds, but there will be plenty more devil in the detail.

In addition to the funding provided from the EU budget, the UK receives repayable loans from the European Investment Bank (EIB) and is a shareholder in the Bank. The EIB has played a role in various high-profile infrastructure projects including the Channel Tunnel and the second Severn crossing. The UK may not have the same access to EIB loans in future, depending on the outcome of the Brexit negotiations.

The financial implications of Brexit are not all about what the EU costs the UK, because we receive funding from the EU Budget too. As this article highlights, the choices for how the Government decides to replace this funding (or not) are complex, but will be something this Parliament has to consider.

Figure 1:
EU funding isn't evenly distributed across the UK. For instance, this map shows EU structural funds by region...

2014 – 2020, € per person, per year

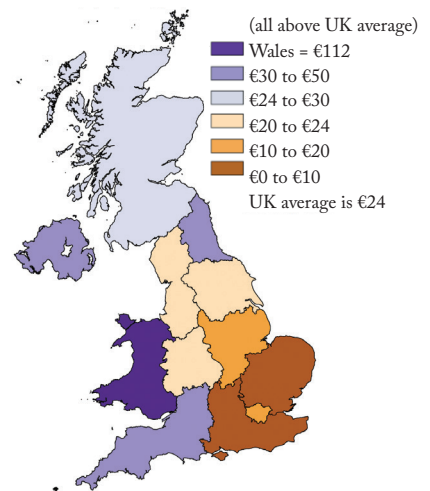
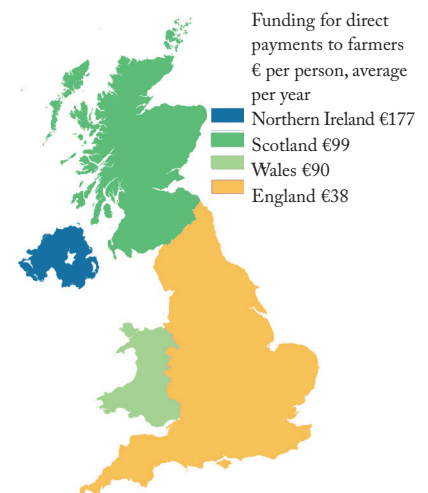


Figure 2:
...and this shows funds for direct payment to farmers, by country.

2014 – 2020, € per person, per year



Taxes after the tax lock

The 'tax lock' expired with the end of the 2015-17 Parliament ...

During the 2015 General Election campaign both main parties made commitments not to increase the headline rates of the three taxes that are the three largest sources of government revenues: income tax, National Insurance contributions (NICs), and VAT.

The Conservative Party's manifesto ruled out increases in the rates of all three taxes, and the then Prime Minister, David Cameron, made clear that this 'tax lock' also meant that there would not be any extension to the scope of VAT, or an increase in the ceiling set for the main rate of NICs by employees – the 'Upper Earnings Limit' (UEL). In its manifesto the Labour Party stated that it would not raise VAT, increase NIC rates, or put up the basic and higher rates of income tax, though it confirmed that it would reverse the Coalition Government's decision to cut the additional rate of income tax from 50p to 45p.

The tax lock for income tax and VAT was put on a statutory footing by the Finance Act introduced after the Conservative Government's first Budget in July 2015. A separate National Insurance Act set a ceiling to the main class of NICs, paid by employers and employees (Class 1), and capped the Upper Earnings Limit at the income tax higher rate threshold. In both cases the legislation set the tax lock to apply for the duration of the Parliament.

... a period during which a number of tax increases and tax cuts were made ...

Over the last two years the Conservative Government has introduced a number of tax increases, as well as tax cuts. The former included hikes in higher rates of stamp duty land tax and insurance premium tax, and an increase in the effective rates of income tax charged on dividend income. In addition, some new charges were introduced – the apprenticeship levy and the soft drinks levy. Tax cuts included increases to the income tax personal allowance and higher rate threshold, a freeze in road fuel duties, and a cut in the rate of corporation tax.

... and one proposed tax rate rise was abandoned.

In his 2017 Budget on 8 March the Chancellor, Philip Hammond, announced that the rate of NICs paid by the self-employed – Class 4 – would be increased by one percentage point in April 2018 and in April 2019. Mr Hammond reversed this decision a few days later. Although the legislation setting the tax lock for NIC rates made no mention of Class 4 NICs, the Chancellor acknowledged that this measure would have breached the tax lock pledge.

Income tax, NICs and VAT remain the ‘big three’ national taxes ...

Taken together, income tax, NICs and VAT account for around two thirds of total tax receipts. Since 2010 the share of receipts coming from VAT has risen, while the share from income tax has fallen. This reflects the Coalition Government’s decision to increase the standard rate of VAT from 17.5% to 20% from January 2011, and to increase the personal tax allowance in a series of steps from £6,475 in 2010/11 to £10,600 by 2015/16. Nonetheless the dominance of these three taxes remains.

... and putting up the rates of any of these raises much more than other potential rate rises.

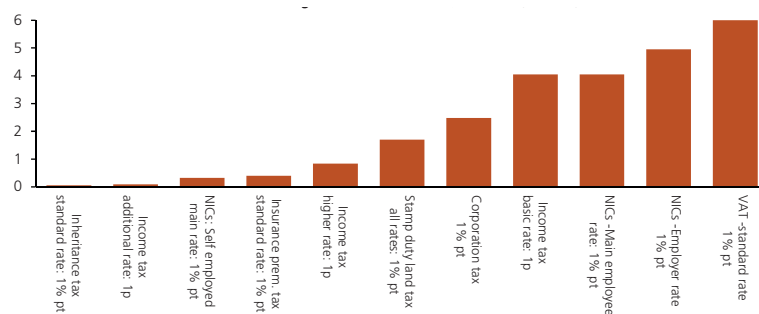


Figure 1: Additional revenue raised from increasing a selection of taxes, 2018/19 (£ billion)

Source: HM Revenue & Customs, Tax ready reckoner statistics, January 2017

Beyond the tax lock, what questions might be on the Chancellor’s desk come June 9th as to the future of the ‘big three’ ...

- The Conservative Government made a commitment to continue to raise the personal allowance and higher rate threshold to 2020. Is this a policy that should be continued, given the rising numbers of people who pay little or no income tax?
- Unlike with other taxes, the scope of VAT is determined by EU VAT law. Post Brexit, the Government would have much more discretion in designing the tax. How might it exercise this?
- In the 2017 Budget the Chancellor’s case for reforming NICs was that the tax base was being eroded by the rising numbers of people working as self-employed or through their own company. Is tax reform really feasible given the public opposition to the Chancellor’s initial plans? And if not, what other taxes might have to be increased to counter the Exchequer costs from these trends in the workforce?

Paying for the State Pension

Chart 1:
DWP social security expenditure directed at pensioners, GB

£ millions (2017/18 prices) Forecasts from 2016-17

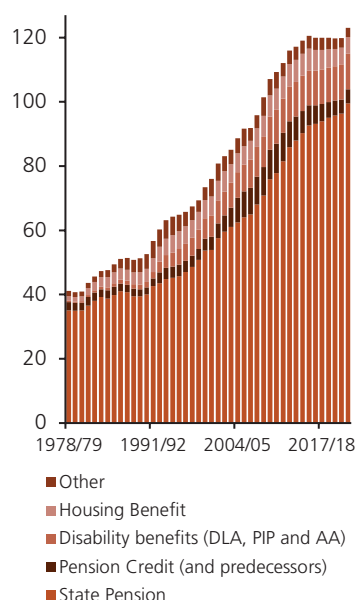
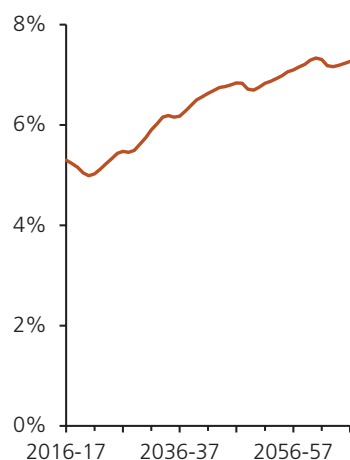


Chart 2:
State Pension spending % of GDP



In 2016/17 the State Pension accounted for around £93 billion of Government spending – around 43% of total spending on social security and tax credits in Great Britain. Total social security expenditure directed at pensioners, of which the State Pension made up the vast majority (78%), was around £119 billion. This made up over half (56%) of total social security and tax credits spending.

Due to an increasing number of people reaching State Pension Age (SPA) and because life expectancy is longer, current projections are for spending on pensions as a proportion of GDP to rise from 5.2% now, to 6.2% in 2036/37, 6.3% in 2046/47 (when the SPA will be 68) and 7.1% in 2066/67 (when the SPA would be 69).

Faced with an ageing population, society has choices: e.g. the share of taxes devoted to pensions must rise; or, as widely debated in the last Parliament, the SPA must rise or the uprating arrangements be less generous.

How should the State Pension Age change in future?

From the 1940s until 2010, the SPA was static: 60 for women and 65 for men. Legislation to increase it was gradual, with the Pensions Act 1995 providing for women's SPA to rise from 60 to 65 between 2010 and 2020, and the Pensions Act 2007 increasing the equalised SPA in two-year stages, one year each decade, reaching 68 by 2046.

The Coalition Government accelerated the increase to 66, arguing that life expectancy had increased. This was controversial – particularly among women born in the 1950s – because it meant short notice (in some cases as little as five years) of increases of up to 18 months, on top of increases in the 1995 Act of which many women said they had not been adequately notified. This led to the WASPI campaign, calling for 'fair transitional arrangements'.

The Government then brought forward to 2026-28 the increase to 67 and, to aid transparency in future, provided for SPA reviews every five years. The aim was for people to spend up to a third of adult life in retirement and get at least ten years' notice of any change.

An independent report by John Cridland recommended an increase to 68 between April 2037 and 2039, with no further change for ten years unless there were exceptional changes to data. Alongside this, the Government Actuary estimated the timetable needed to maintain the proportion of adult life in retirement at 32% (see chart 3).

Because some people (e.g. carers and people with disabilities) were disproportionately affected by SPA increases, Cridland recommended allowing access to the means-tested Pension Credit one year before SPA (when it rose to 68) and adjusting the conditionality in working age benefits for those approaching retirement.

Criticisms of the review were that:

- The case for an increase to 68 in the late 2030s was not strong enough, particularly given that the UK would already have a higher pension age than many other countries.
- It would affect people now in their late 30s and 40s, many of whom did not have final salary pensions and had limited opportunity to build up auto-enrolment pensions.
- The proposed mitigation was inadequate.

The May Government would have announced the outcome of its own review by 7 May 2017 had the General Election not intervened.

The end of the triple lock?

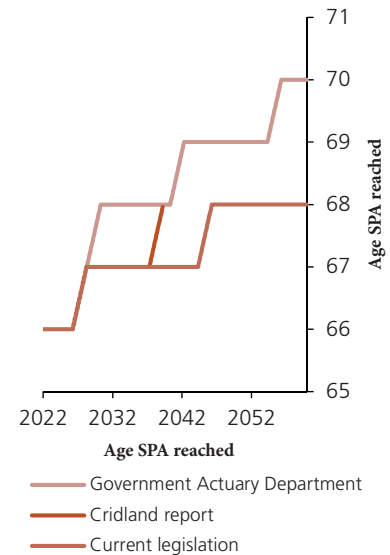
Cridland said his SPA proposals were close to the limit of what could be saved in that way and that further savings to ensure sustainability should be made by ending the triple lock in future. The Conservative manifesto pledged to replace it with a double lock from 2020; the other main parties committed to retain it for this Parliament.

House of Commons Library calculations show that, unless forecasts change, replacing the triple lock with a double lock (the highest of earnings or prices) would not reduce State Pension spending over the 2017 Parliament: in both cases, it would cost an estimated £85.6 billion in 2021/22. Scrapping both the triple lock and the earnings link and instead uprating by the Consumer Prices Index might, according to current forecasts, save £2.3 billion a year by 2021/22.

In the longer term, retaining the triple lock would add to expenditure, accounting for 0.9% of GDP by 2066/67 according to Cridland.

While some say that its withdrawal would be fairer to younger people, others say the triple lock would protect the value of the State Pension in future, reducing the extent of private pension saving they need to make and providing a degree of inflation protection which many will not get from their private pension. An incoming government is likely to want to look again at the impact of both policies over time.

Chart 3:
State Pension Age once equalised



The triple lock...

... is a government commitment to uprate by the highest of earnings, prices or 2.5%. It applies to the basic State Pensions for people reaching SPA before 6 April 2016, and the new State Pensions for people reaching SPA after that date.

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Future of the City of London

Have banks already begun to move staff?

Various banks have said they plan to move staff in the event of Brexit:

Deutsche Bank – 4,000

UBS – 1,500

Morgan Stanley – 1,000

Goldman Sachs – 1,000

HSBC – 1,000

JP Morgan – 300

Barclays – 200

What are derivatives?

A derivative is a financial instrument that derives its value from the performance of an underlying asset, such as a stock, bond, commodity, currency or market index.

Since the vote to leave the EU there has been speculation about the future of the City of London's status as Europe's financial centre, and the UK losing one of the jewels in the crown of its economy.

Size of workforce and tax take

The banking sector contributed £24.4 billion in PAYE and corporate taxes in 2015-16. A recent report published by the City of London Corporation estimated the total tax contribution of the financial sector at £71.4 billion, and 1.1 million jobs.

Not all of that contribution is at risk from Brexit. A different study commissioned by TheCityUK (which promotes the financial services industry) estimated that, in a 'worst case scenario' under which the UK and EU failed to reach any agreement on financial services market access, 31-35,000 jobs could be at risk along with £3-5 billion of tax revenue per year.

What is passporting?

EU legislation gives UK banks, insurers and investment firms what are commonly known as 'passporting' rights to provide a broad range of financial services to clients across the EU – either cross-border or through local branches – while remaining regulated solely by their 'home' state.

If the UK were to leave the EU without a Free Trade Agreement covering financial services, UK firms would no longer be allowed to sell their financial products into the EU using their regulatory authorisation provided by UK regulators. UK firms would either have to seek authorisation in each country in which they wished to sell products, or set up European subsidiaries through which they could continue to sell, but be regulated by EU authorities.

How many firms in the UK use passports to sell financial services to the EU?

According to the Financial Conduct Authority, there are currently around 5,500 UK firms holding between them around 336,000 passports. The largest number of firms with passports are found in the UK's insurance and investment sectors. However, the number of passports alone does not necessarily indicate the scale of activity of UK firms in the Single Market. A firm can have a passport without using it. It is generally agreed that investment banking activities – including rights to trade over-the-counter products, and providing advisory services – are particularly reliant on passporting arrangements.

“Euro clearing” and the EU

Clearing is the process by which an intermediary (known as a central counter party, CCP) stands between the buyer and a seller in a transaction. If either the buyer or the seller defaults, the CCP fulfils the obligations of the defaulter.

The importance of clearing has greatly increased since the financial crisis, as a result of a G20 commitment to move more derivatives trading away from bilateral, over-the-counter transactions, to CCPs. London is currently the world's largest centre for derivatives clearing in euros, handling three-quarters of all transactions, with an average daily value of €504bn.

Brexit clearly raises the possibility that UK CCPs might lose the right to serve EU clients or to clear euro-denominated contracts. The European Commission is already preparing legislative proposals, to be published in June, which could force UK CCPs to relocate. Counting in the UK's favour is that the Commission has already reached an 'equivalence' decision in respect of CCPs located in the USA allowing them to serve EU clients and clear in euros.

While the volume of daily transactions by UK CCPs is considerable, the number of jobs and profits directly related to clearing is not. In 2016, LCH Clearnet Ltd, the largest of the four UK based CCPs – and the only UK-owned – made profits of €63 million, employing 687 full time equivalent staff. However, there are concerns that, if CCPs are forced to relocate, their UK-based clients will be obliged to follow. A report by EY last year estimated that there could be 83,000 related job losses in London over the next seven years if euro clearing was forced out.

Is there more to the City than finance?

Despite Brexit, and the potential loss of financial passporting, there are intrinsic reasons why the City of London may continue to prosper:

- The UK's time zone allows it to act as a bridge between the trading hours of the US and Asia.
- The English legal system is globally respected for being stable, impartial, and independent from Government. Many of the world's international commercial contracts covering banking and financing, maritime and shipping, and mergers and acquisitions are written using English law.
- The use of English as an international language
- The presence in the City of ancillary industries necessary for financial services, such as law and accounting.

Policy options

No other non-EEA country at present has negotiated full access to financial services markets. In a 'no-deal' scenario, UK firms would lose much of their access. The Government may wish to pursue a negotiation that prioritises access to specific markets, such as euro-clearing and investment banking services, in order to mitigate the loss of passporting rights.

Employment rights in the gig economy

Chart 1:
Self-employment has increased since 2008
(millions of workers)

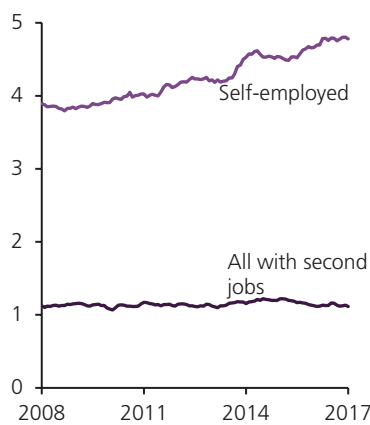
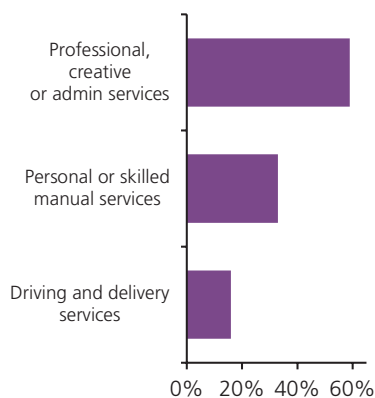


Chart 2:
Most gig economy workers work in professional, creative or administrative services RSA estimates, % of all workers in gig economy



Concerns about whether workers in the ‘gig economy’ are adequately protected by employment law have risen up the political agenda recently, driven by high-profile tribunal claims against Uber and CitySprint.

In the Commons, two Select Committees launched separate inquiries into the gig economy and workers’ rights, while Theresa May commissioned an independent review of employment practices led by Matthew Taylor, Chief Executive of the Royal Society for the Arts (RSA).

With the Taylor Review expected to report in the summer, and party manifestos promising to take action, these concerns are set to occupy policy-makers well into the new Parliament. Central to this will be the question of whether the law’s approach to ‘employment status’ is fit to cope with new forms of work associated with digital platforms.

What is the gig economy and how many people work in it?

There is no single definition of the ‘gig economy’, but the term usually refers to businesses that operate digital platforms – typically apps – which allow individuals to undertake discrete jobs, or ‘gigs’, for end-users. Well-known companies providing access to these platforms include Uber, Deliveroo, TaskRabbit, Hermes and CitySprint.

National statistics do not record the number of workers in the sector, but recent research by the RSA and Ipsos MORI estimated that 1.1 million people work in Britain’s gig economy.

The challenge for employment law

There is growing concern that gig workers are often wrongly classified as self-employed and thus unlawfully denied employment rights.

The legal tests for distinguishing between employees, who have employment rights, and the self-employed, who have none, are found in case law. The tests look at the type of contract between the working individual and their ‘employer’. Employees are those who work under contracts of service submitting to their employers’ control, while self-employed contractors work under contracts for services, and are in business on their own account. ‘Worker’ status, a hybrid category in-between employee and self-employed, is similar to employee status. Workers have greater autonomy than employees but are nonetheless dependent on their employers for work and are not in business for themselves.

Working practices in the gig economy cast doubt on whether these tests can afford employment rights to gig workers in a predictable manner. Platform operators rarely exert enough control over gig workers to confer ‘employee’ status, as gig work is characterised by flexibility over when and where one works. The thornier issue is whether these individuals are workers in the legal sense, or self-employed.

Platform operators, such as Uber, often categorise gig workers as self-employed, arguing that they serve their own clients. On this analysis, Uber drivers run their own micro-businesses, and lack employment rights. When that argument was presented to the employment tribunal in 2016, in *Aslam, Farrar and Others v Uber*, the judge described the “notion that Uber in London is a mosaic of 30,000 small businesses linked by a common ‘platform’” as “faintly ridiculous” and found the claimants to be workers. Similar arguments were presented to the employment tribunal in *Dewhurst v CitySprint*, and again failed.

The problem is that gig work operates at the border between worker and self-employed status, and the legal tests policing that border are difficult to predict. This lack of certainty, coupled with the tax advantages of engaging self-employed contractors and with the freedom from employer obligations, incentivises platform operators to classify their gig workers as self-employed. Gig workers, who may or may not be workers in the legal sense, can only determine their status – and thus their access to rights – via the tribunals.

The way forward?

There is growing agreement with the Work and Pensions Committee’s conclusion that the “current ways of categorising workers are creaking under the weight of the changing economy”. Various solutions have been proposed to address this. The committee recommended that worker status should be the default, with the employer shouldering the burden of disproving it, and Labour’s 2017 manifesto echoed this.

The RSA recommended something similar, combined with a dedicated advice service and a free expedited tribunal procedure for establishing employment status. Submissions to the BEIS Committee’s inquiry, cut short by the election, made a range of recommendations, from preserving the status quo to lowering the threshold for worker status. The Taylor Review is likely to provide additional recommendations in the summer, with the potential for legislative change to follow.

Employment status

A working individual’s employment rights are determined by their employment status. Broadly speaking, there are three categories:

- employee
- worker
- self-employed

Employment status is in turn determined by the contractual relationship with the ‘employer’ and its reality in practice.

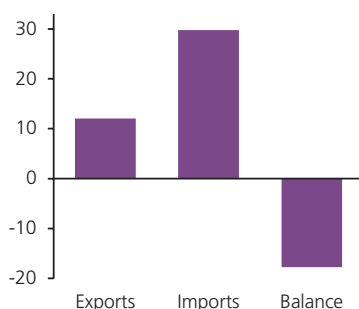
Employees have the full complement of rights, including protection against unfair dismissal and redundancy and parental leave rights.

Workers have fewer rights but retain some of the most basic ones, including working time, annual leave and minimum wage rights.

The self-employed fall outside employment law, although may be entitled to related rights (e.g. under discrimination and health and safety law).

Fishing, farming and UK consumers after Brexit

Chart 1:
UK agricultural trade with the EU in 2016
(£ billion)



What we eat, not what we catch

Haddock is one of the most popular fish eaten in the UK. However, the UK is heavily reliant on imports of haddock to meet consumer demand. Imports accounted for 59% of the total supply in 2015, around a fifth of which came from the EU and just over half from members of wider EU free-trade agreements (mainly Iceland and Norway). The same is true of other fish, including cod, prawns and tuna.

For the first time in over 40 years, the next Parliament will be able to create UK-specific agriculture and fisheries policies separately from the EU. The final Brexit arrangements, and free trade deals negotiated with Europe and other countries, could therefore have long-lasting implications for British fishing and farming.

While policies need to be determined on subsidy levels and fishing rights, a key concern for fishers and farmers is what trade access the UK will have to the EU, or the access non-EU countries will get to UK consumers. This article examines some of these key issues.

Regulating fishing and farming

Both the fishing industry and farming sector are regulated from Europe; the Common Fisheries Policy (CFP) determines what and how much fishermen can catch, while the Common Agricultural Policy (CAP) provides direct subsidies to farms and support for rural development. Moreover, Europe is a key tariff-free market and the source of much of what we grow, catch and eat.

Overall the UK has a large trade deficit with the EU in food and drink (UK exports to the EU in 2016 were £12.1 billion and imports £29.8 billion, giving a deficit of £17.7 billion). This overall balance masks differences between sectors.

Fish: the EU is an important trading partner

The UK is a net importer of fish and fish products, and is dependent on imports from the EU and other countries (such as Norway and Iceland) to meet demand. And while the UK has a small trade surplus with the EU in fish, this masks different patterns of trade across species. Much of the fish caught by the UK fleet is directly sold to export because the species landed do not meet UK tastes. Despite high-profile campaigns to get the British consumer to eat a more diverse fish diet, they have remained wedded to the same few popular species.

What about food? Don't we produce our own here?

UK consumers demand a constant supply of fresh fruit and vegetables, and yet the UK climate means produce is mostly seasonal. We import more food than we export.

In some areas, such as cereals, the UK produces as much as it consumes, whereas it only produces around 55% of the vegetables and 14% of the fruit it consumes.

Around 40% of our vegetables come from the EU. Fruit is different: 36% comes from the EU, but more than 50% from the rest of the world.

The UK runs significant trade deficits with the EU for meat, fruit and vegetables and beverages. However, UK trade policy is likely to continue to encourage food producers to develop high-value products that can be exported. Processing food and drink adds value, compared with the raw product. An example of this is the UK's biggest food and drink export to the rest of the world – Scotch Whisky.

So what might Brexit mean for the UK's farms, fishermen and consumers?

Leaving the CAP and CFP will mean new fisheries and agricultural policies for the next Parliament to consider. Trading arrangements outside the Single Market will be a key consideration in making these policies.

It could mean British consumers get their food from different countries, as different trading relationships are developed.

It could also mean that prices change – some argue we could see lower food prices, which would be good news for consumers, but would lead to lower incomes for farmers. Equally, our reliance on food from the EU could see some prices rise if tariff-free trade isn't on offer. For example, WTO tariffs on fish products range from 0% to 25%; the EU has high tariffs on agricultural products.

More imports from outside the EU could have a negative impact on the UK market. For example, the UK has always demanded more poultry than it produces, and such non-EU imports could come with different safety and welfare standards. Maintaining geographical protections will be important for food producers who create high-value products, such as Stilton cheese.

Agriculture and fishing will be part of much broader negotiations on trade, with associated risks. For example, there are concerns that the fishing industry could be a makeweight in any free trade deal, and the next Government will have to manage competing priorities, such as calls to restrict access to UK waters against market access demands.

The resulting impact will be felt by UK farmers, fishers and consumers alike.

Competition in the energy market

Energy efficiency: the most effective way to cut bills?

Improving energy efficiency can reduce energy bills but also has high up-front costs. Policies promoting household energy efficiency measures, together with the improved standards for appliances, lights and boilers also reduce consumption and climate change impacts.

The smart meter rollout – due for completion by 2020 – is expected to increase awareness among home owners about their energy usage, and encourage the take-up of efficiency measures. This, combined with a more efficient grid, should result in cost reductions in the longer term.

Could fixing prices help the energy market work for consumers?

Energy bills generate newspaper headlines and are something every household in the UK has to grapple with. Manifesto commitments to fix energy prices were featured by different parties in the 2015 and 2017 election campaigns, and in the meantime the Competition and Markets Authority (CMA) completed a major inquiry on how the market works.

Prices are rising...

Energy bills have several component parts – a supplier pulls these parts together and this is hidden from the end customer. For example, the actual generating cost of the energy supplied is normally less than half of the bill (43% of a typical dual fuel bill in 2015). Next up is the cost of getting the energy to consumers' homes, via pipes and power cables (around 24% in 2015).

Environmental policies made up 7% of costs, while supplier operating costs (metering, IT, service) made up 16%. Supplier retail profits were around 4% of the bill – although some think this should be lower (profits for some big suppliers also come from other sources).

The profits of suppliers have been under increasing scrutiny for some years. All but one of the 'big six' have raised prices in recent months, giving rise to debate over whether the rise was justified.

Ofgem data shows that suppliers are facing cost pressures, mainly due to rising wholesale energy costs, but also higher costs from government renewable and low-carbon electricity generation schemes. But costs are complex; Ofgem recently told a Commons committee that the need to pass cost increases on to customers depends on the company's cost base, and overall energy costs are similar to three years ago.

Is competition working?

When energy markets were liberalised, customers remained with their 'regional' company for electricity and national company for gas, but consumers were supposed to switch to save money and a competitive market would be established. As predicted, the number of major suppliers (now known as the 'big six') consolidated. Most consumers don't switch suppliers regularly and therefore don't get the best deals.

Concerns over the level of competition in the market led to a major CMA investigation from 2014 to 2016. It found that around two-thirds of the big six's domestic customers were still on an expensive 'default' standard variable tariff (SVT), and said consumers could be £1.4 billion a year better off overall. The investigation proposed reforms to support competition – for example, a database of consumers who hadn't switched and changes to price comparison websites.

But there are signs that the market may be getting more competitive – the number of active suppliers is rising rapidly, from 27 at the end of 2015 to 52 at the end of 2016.

The problem of standard variable tariffs

Consumers who haven't changed supplier at all, or at least not recently, are likely to be on SVTs. The chart shows the significant gaps in annual cost between a 'big six' SVT and the lowest price in the market. At the end of March 2016 the average 'big six' dual fuel customer could save £150 by switching to the cheapest 'big six' tariff on offer; or £250 by switching to the cheapest tariff on the marketplace.

So if prices are fixed, what might happen?

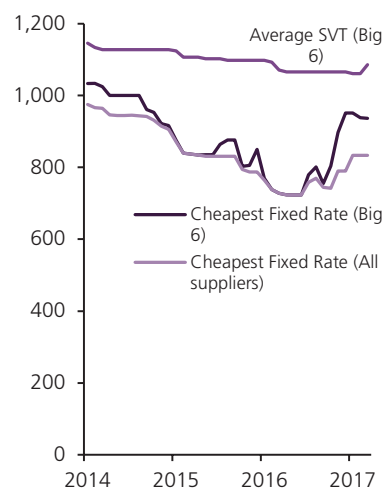
In the 2017 election the Conservatives pledged to introduce a "safeguard tariff cap" that would cap high SVTs, but would support initiatives around switching at the same time. It was suggested the cap may save consumers on these tariffs £100 a year. Labour proposed to implement an 'emergency price cap' to keep average dual fuel bills below £1,000 before other reforms took place.

Fixing prices is not unheard of – Ofgem set a three-year cap for pre-payment meters in 2017 following the CMA investigation. However, capping standard prices could be seen as admitting the market may not be able to operate efficiently.

Intervening in the energy market is not popular with energy companies or with those who think competition should be left to work without intervention. One criticism of price controls is that it encourages people not to seek a better deal; another is that consumers who do switch will see higher rates, as suppliers seek to protect their overall profits by putting other prices up.

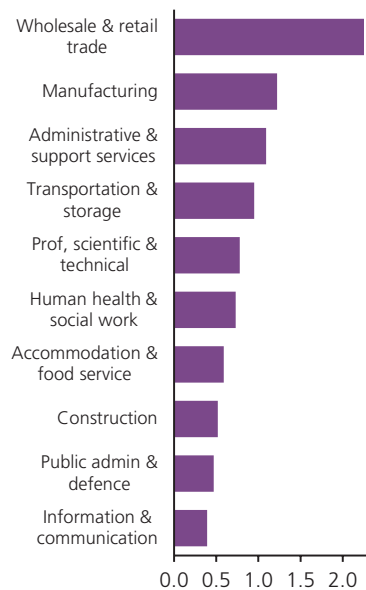
A key question for the next Parliament will be how to make consumer markets such as energy work effectively – can consumers be encouraged to find the best deal or does Government need to be more active?

Chart 1:
Typical annual dual-fuel energy bills, GB (£)



Automation and the Workforce

Chart 1:
Current UK jobs particularly likely to be affected by automation
 (Millions of jobs by early 2030s, top 10 sectors)



Source: PWC, 2017

Press reports suggest that jobs could be at risk as automation technologies are deployed. What might be automated, how might it affect the UK and when?

Developments in robotics and autonomous systems (RAS) are making it possible to automate activities that previously could only be done by humans, and to assist workers with tasks that cannot be automated. This may bring sizeable economic benefits. The May Government stated that RAS has the potential to increase economic output by 15% (£218 billion), and invested approximately £170 million in RAS between 2012 and 2016.

What work is being automated?

RAS are physical and software systems that can perceive their environment, control their actions, reason and adapt. They have the potential to cut costs and increase productivity, and are used across the UK economy to automate both physical and knowledge-based work.

For example:

- **Autonomous vehicles** – Nissan began testing a driverless car on roads in London in 2017.
- **Automated warehouses** – online supermarket Ocado is trialling warehouses where robots pack and move goods autonomously.
- **Robotic process automation software** – Enfield Council is training “Amelia” to handle basic customer service queries.
- **E-discovery software** – some law firms use software to automate the task of searching through documents that may be relevant to a case.

The pace of adoption will depend on factors such as technology and labour costs, awareness of the technology, public perception, and regulation. The UK lags behind in the adoption of some RAS. In 2015, the UK had 33 robots installed per 10,000 employees (across all industries, excluding automotive), compared to 170 for Germany and 93 for the US. The Resolution Foundation think-tank has suggested that while the impact of Brexit will take time to unfold, a scenario in which migration restrictions lead to increased labour costs may increase employers’ incentives to invest in RAS.

How will automation affect jobs?

Historically, technology has displaced human workers in specific tasks. Although this has not led to mass unemployment in the long-term, it has altered the type of jobs available. It is unclear whether RAS will affect jobs differently. The available evidence is limited. Predictions range from 10% to 35% of current UK jobs having a high chance of automation in the coming decades (see box). None of these consider any new jobs that might be created. In addition, predicting the impact of automation is difficult because of uncertainties in the rates of technological development and adoption, as well as other factors that may affect employment, such as changes to the wider economy.

Studies have predicted:

- 35% of UK jobs in 2013 had a greater than 66% chance of being automated over the next 10 to 20 years (Frey and Osborne, 2014).
- For 10% of UK jobs, it would be technically possible to automate over 70% of their component tasks within the next decade (Arntz et al., 2016).
- Up to 30% of UK jobs have a 70% or greater chance of being automated by the early 2030s, compared to the US (38%), Germany (35%) and Japan (21%). This may be due in part to differences between jobs in different countries. For example, 60% of tasks in construction sector jobs in Germany are manual or routine, compared to 48% in the UK, where more time is spent planning and consulting (PWC, 2017).

These studies used different methodologies to look at the technical (not economic) feasibility of automation. There are differences, for example, in the level of detail at which individual job tasks were reviewed.

Research suggests that the UK sectors particularly likely to be affected by automation are wholesale and retail trade, manufacturing, administration, transport and storage (see chart 1). While views vary on which skills will be most difficult to automate, those commonly highlighted include social skills, creativity, digital skills and moving and working in unpredictable environments. Jobs requiring a greater level of education may also be less likely to be automated. The Commons Science and Technology Committee has said that Government should “ensure that our education and training systems ... can adapt ... and are geared up for lifelong learning.”

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The NHS at 70

As we approach the 70th anniversary of the founding of the NHS on July 5 2018, how is the health service adapting to meet growing demands?

Concerns continue to be raised about the future of the NHS. With improvements in medicine, increasing survival rates, and health care costs rising sharply as we age, the NHS is a victim of its own success. The increasing costs of medicines, rising expectations and standards, and a period of relatively flat funding have led to demand outpacing resources. Recent funding increases have focused on tackling hospital deficits (£2.6 billion in 2015-16) rather than making services more sustainable. Over half of the British public (52%) now see the NHS as one of the biggest issues facing Britain, the highest level of concern since June 2002. In its 8th decade the NHS will also face the added uncertainty of Brexit, and what this might mean for a health and social care system reliant on overseas staff.

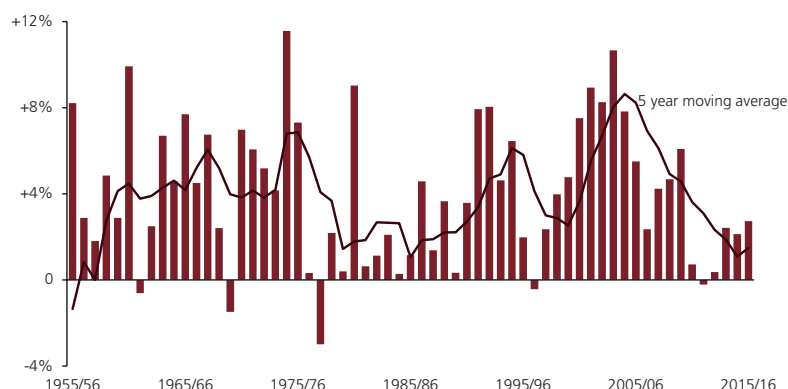
The key challenges are well rehearsed. They include:

- Does the funding settlement for health and social care need to be revisited, and is fundamental change to the funding model required?
- What do funding pressures mean for access to services and quality of care, and for the NHS workforce?
- Can the redesign of health services, and plans to integrate health and social care, improve outcomes and ease pressure on hospital services?

Funding challenges

Since 2010 real-terms health spending has increased by an average of 1.4% a year, well below the average annual growth rate of 4% over the past 60 years. It is not keeping pace with growing demand and increased costs. The whole will only increase by £4.5 billion in real terms over the five years to 2020-21, due to real-terms cuts in other areas of spending (including public health and education and training).

Chart 1:
Real-terms percentage change in UK health expenditure (2015/16 prices)



The squeeze on social care funding is also adding to NHS pressures: unnecessary A&E attendances, emergency hospital admissions and delayed hospital discharge.

A new settlement?

In the last Parliament, Select Committees, health think tanks, and organisations representing NHS staff, providers and patients called on the Government to revisit the financial settlement for health and social care. The House of Lords’ inquiry on the Long-Term Sustainability of the NHS recommended the establishment of an Office for Health and Care Sustainability to assess future demand and advise on funding allocations. A variety of different funding structures for the NHS have been proposed, but appetite for major changes to the current model (funding through central taxation) seems to be limited. More changes to the way social care and public health services are funded are likely, though.

Waiting times and access

While most health services have maintained good quality care, A&E and other waiting times have worsened across a large majority of hospital trusts in England. With on-going financial pressures, concerns continue to be raised about the rationing of services, longer waits, higher eligibility thresholds, or decisions not to fund certain treatments, like fertility services.

NHS England has said the demand for planned treatment like hip and knee replacements is likely to continue to outstrip capacity, and suggests this may cause further increases in average waiting times. It is expected that hospitals will not meet the English NHS Constitution standard of 92% of patients waiting no longer than 18 weeks. The King’s Fund investigated the impact of financial pressures on specific services. It found that in genito-urinary medicine and district nursing, access to services and quality of patient care have been negatively affected.

As an alternative to local rationing decisions, calls have also been made for more systematic scrutiny of treatments that are not cost-effective. There is likely to be public and political opposition to stopping services, even when they are not supported by evidence.

Patient outcomes

The quality of NHS care is improving and outcomes for most major conditions are dramatically better than in the past, but stroke, heart disease and cancer survival rates still lag behind the best performing countries in Europe, and within the NHS there is evidence of variation in care. A number of recent reports and reviews have exposed serious failures, and it is widely acknowledged that children’s mental health services need substantial improvement.

NHS in England: pressure on demand and performance.

Chart 2:
A&E waits over 4 hours (major departments)

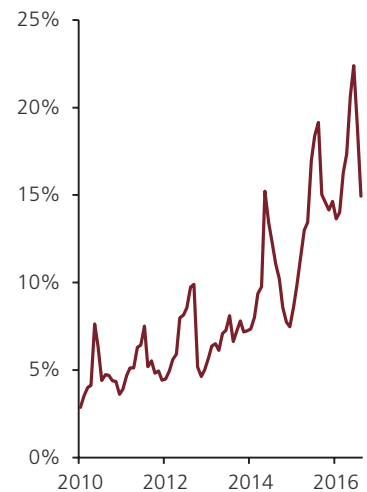


Chart 3:
Waiting list for routine treatment (millions)

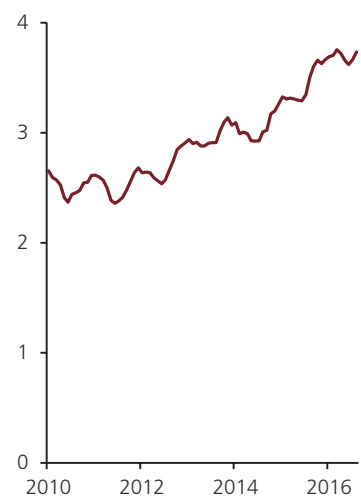
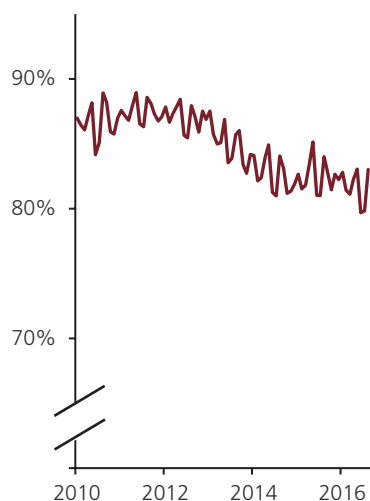


Chart 4:
2-month wait for cancer treatment (GP referral)



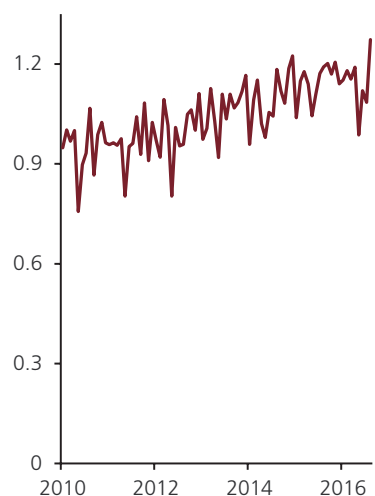
Workforce pressures

Although staff numbers have increased, in many areas there are problems recruiting enough nurses and GPs. Health and social care staff report increasing pressure and lower morale after a prolonged period of pay restraint. There are also fears that Brexit will make it harder to retain and recruit EU staff. There is a growing consensus that one of the biggest challenges facing the NHS is finding and keeping the right number of people with the right skills needed to deliver high quality care.

Integration

Successive Governments, across the UK, have sought to integrate health and social care better by focusing on care outside the hospital – at the patient’s home or in their community. In England, the NHS Five Year Forward View (FYFV) called for better integration of GP, community health, mental health and hospital services, as well as more joined-up working with home care and care homes. Early results from parts of the country that have started doing this – ‘vanguard’ areas – have seen slower growth in emergency hospitalisations and less time spent in hospital compared to the rest of the country, particularly for over-75s.

Chart 5:
GP referrals to hospital (millions)



Sustainability and Transformation Plans (STPs)

STPs are intended to accelerate the implementation of the FYFV. The 44 STPs across England are expected to show how local services will improve quality of care, promote population health, and become more financially sustainable. There is likely to be a good deal of variation in the speed and scale of change across different STP areas, with Greater Manchester (Devo-Manc) providing the most advanced test-bed for devolution and integration. The chief executive of NHS England, Simon Stevens, has commented that several STP areas may, over time, become “accountable care systems”, fully integrating their services and funding for the population in their area. However, with concerns about possible cuts to local hospitals and lack of additional capital to set up new services, patient groups have called for the public to have more say.

Efficiency

NHS England has set out plans to use technology to deliver better care and meet rising demand. Three recent reviews have looked at potential to improve efficiency:

The Carter review (February 2016) considered unwarranted variation in productivity and concluded that NHS hospitals could save £5 billion each year by 2020-21 through measures such as better procurement and shared back office support.

The potential of digital technology to improve efficiency, and the challenges of implementing new IT systems in healthcare, were addressed in the Wachter review (September 2016).

The Naylor review (March 2017) highlighted how better management of the NHS estate could generate up to £5 billion (and land for 26,000 new homes). It also estimated that £10 billion of capital investment is needed to address the backlog of maintenance in the NHS, and to deliver STPs.

Conclusion

As the NHS approaches its 70th birthday, its founding principles of equal treatment for equal need, free at the point of use, still command huge public support. However, the NHS was originally designed to treat short-term episodes of ill health and is now caring for an ageing population with increasingly complex needs. A series of reorganisations have attempted to address problems that partly relate to this, including the split between NHS and local government services, particularly social care; the dominance of the hospital sector at the expense of community and mental health services; and the lack of investment in primary care and prevention.

Current calls for a political consensus on funding, a long-term approach to planning, greater public say in changes to services, and more investment in public health, have a familiar ring. But there is a sense that the current crisis is different from those in the past. Recent efforts to devolve responsibilities for health and to integrate health and social care are just the latest in the long line of reforms, and will face similar challenges. Devolution of health and social care in Greater Manchester may provide one model for the future of health and social care services, in England at least, but engaging with the public about what they want from the NHS is more important than ever.

Devo-Manc

Since 1 April 2016, health and social care budgets worth £6 billion have been pooled across the Greater Manchester combined authority area, and funding decisions are made by a Joint Commissioning Board formed of all the regions' CCGs and local authorities.

The NHS in 2030

The House of Lords' inquiry on the Long-Term Sustainability of the NHS asked what the healthcare system of 2030 should look like. A number of consistent themes emerged:

- (1) The need to shift more care away from the acute sector into primary and community settings;
- (2) Widespread support for closer integration of health and social care services; and
- (3) The need to resolve the current fragmentation of the health system and a move toward place-based systems of care.

Paying for Adult Social Care

Chart 1:
Publicly funded older social care users
(millions) in England

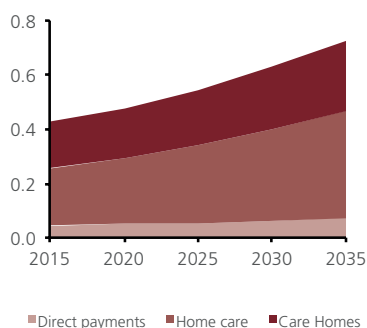
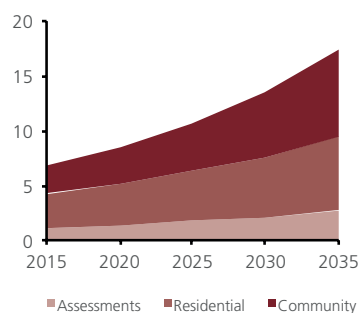


Chart 2:
Public expenditure (£ billions) on older
people's social care in England



Adult social care services in England are facing unprecedented funding pressures. This has led many commentators – including local government, health bodies and the voluntary sector – to claim that social care is in crisis.

Despite additional funding announced in the last Parliament, it is widely acknowledged that social care funding needs to be put on a more secure and sustainable long-term basis.

What is adult social care?

Adult social care provides personal and practical support to enable adults of all ages to retain their independence and quality of life. People receive care in their own homes, in the community or in residential settings.

Unlike medical care through the NHS, adult social care is not free for everyone. Local authorities typically only pay for care for adults assessed as having high needs and limited means. Many people finance their own social care, or receive unpaid care from family, friends or voluntary sector organisations.

More people, less money

The pressures on publicly funded adult social care have become increasingly acute:

- Demographic pressures – the population is growing and more adults with long-term and multiple health conditions and disabilities are living longer. The number of adults aged 85 or over, the age group most likely to need care, is rising faster than the population as a whole. The Personal Social Services Research Unit estimates that the number of older people needing publicly funded social care could increase by around 300,000 (69%) by 2035.
- Reductions in overall funding – funding for local government has been falling. As a result, net adult social care expenditure has fallen by 9% in real terms, from £15.7 billion in 2010/11 to £14.4 billion (planned) in 2016/17.
- Increases in care costs – cost pressures have arisen from inflation, the National Minimum Wage, and the introduction of the National Living Wage.

As the scope for further efficiency savings diminishes, local authorities have sought to manage funding pressures by reducing or restricting care services. Commentators are concerned that more people are not having their care needs met.

There is evidence that the care provider market is becoming increasingly precarious. In the six months to July 2016, 48 councils in England (32%) experienced at least one provider ceasing trading in the homecare market, and 77 councils (51%) experienced at least one provider of residential/nursing care ceasing trading.

The squeeze on social care funding is also adding to NHS pressures through unnecessary A&E attendance, emergency hospital admission and delayed hospital discharge.

Capping individual care costs

Individual care needs, and thus costs, can vary substantially and are difficult to predict. The July 2011 report of the Commission on Funding of Care and Support, chaired by Sir Andrew Dilnot, proposed an increase in the means-test threshold, above which people are liable for their full care costs, from £23,250 to £100,000, and a £35,000 cap on lifetime contributions to costs.

The Coalition Government accepted Dilnot's proposals, but set the contribution cap at £72,000. The initial implementation date was April 2016 but, notwithstanding a manifesto commitment, the Cameron Government announced a delay in implementation to April 2020.

A short-term respite

In the last Parliament the Government committed to increase social care funding for local authorities through:

- A new Social Care Precept, under which local authorities have discretion to increase council tax levels by up to 2% for each year between 2016/17 and 2019/20, or up to 3% in 2017/18 and 2018/19.
- An improved Better Care Fund (see margin), to include additional social care funds of around £4.4 billion between 2017/18 and 2019/20.
- A new Adult Social Care Support Grant, providing £240 million in 2017/18.

A long-term solution?

While this additional funding was welcomed, it fell short of the sums some believe is needed to bridge a predicted funding gap by 2019/20.

With an ageing population, the pressures on social care funding will increase further as time goes on.

The Personal Social Services Research Unit estimates that net expenditure on social care for older people is set to rise by 155% (from £6.9 billion in 2015 to £17.5 billion by 2035). This means the percentage of UK GDP represented by social care for older people in England would increase from 0.38% in 2015 to 0.75% in 2035 (based on Office for Budget Responsibility March 2017 forecasts for GDP).

Many have suggested that a cross-party consensus is needed on this, but nobody can agree on what it should be. Meanwhile, the party election manifestos, and extensive media commentary, highlight the range of views on this issue, including deep-seated ideological differences on the roles of the individual, family, and state in funding social care, as well as different views on what the state can afford to pay for.

The Care Quality Commission concluded in 2016 that “the sustainability of the adult social care market is approaching a tipping point”.

The Better Care Fund is a pooled budget, shared by local authorities and the NHS, intended to incentivise and transform the integration of health and social care services.

Testing times for Universal Credit

In 2010 the Coalition Government set out plans for a Universal Credit (UC) to replace existing means-tested benefits and tax credits for people of working age. UC would, it claimed, cut through the complexity of the existing benefit system; ensure that work always paid; make it easier for people to get the help they need, when they need it; reduce administration costs; and bear down on fraud and error.

Seven years later, a number of issues have emerged for claimants. Although some of them may be teething problems, there is some concern that others may reflect more fundamental aspects of UC policy.

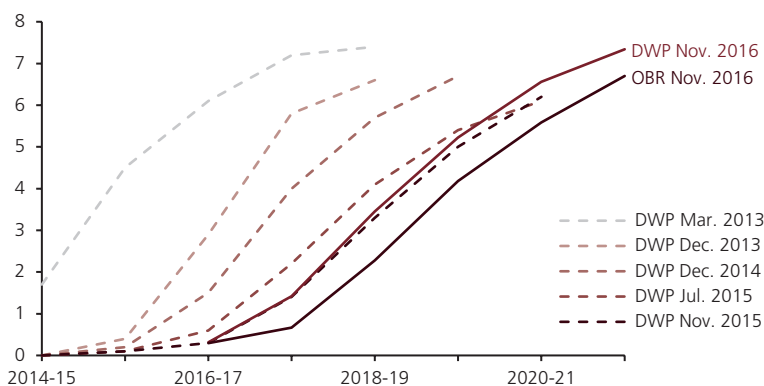
A shaky start

The entire programme was “reset” in early 2013, and the roll-out timetable has been pushed back several times. In 2016, DWP began rolling out the “Full Service” – the final digital version of UC, available for all claimant groups – using a “test and learn” approach where feedback informs the ongoing development. Roll-out is currently limited to five jobcentres a month but is due to accelerate in the second half of 2017, so that by next February, 65 more jobcentres each month will be operating the Full Service. Under the latest plans, Full Service roll-out would be complete by September 2018, and the remaining benefit and tax credit claimants would transfer to UC between July 2019 and March 2022 (although the OBR assumes a further six-month delay).

Changes made to key elements of the UC system

UC rates have been frozen and controversial cuts have been made to the “work allowances” – the amounts claimants can earn before their UC award begins to taper away. For most families, the 2p in the pound reduction in the taper rate from April 2017 will do little to offset losses from other cuts. UC is now expected to be less generous overall than existing “legacy” benefits and tax credits. The IFS estimated that UC will save the Government around £5 billion a year in the long run, although the May Government still put the total economic benefits at £7 billion a year. Other analysis suggests that around 1 million more children could be in poverty as a result of policy changes, compared with UC as originally designed. Pressure groups have

Chart 1:
Universal Credit roll-out schedule
(Millions of claimants)



called for reforms to UC to restore the original policy intent – including reversing the work allowance cuts – but costs would be considerable.

The impact on claimants in Full Service areas

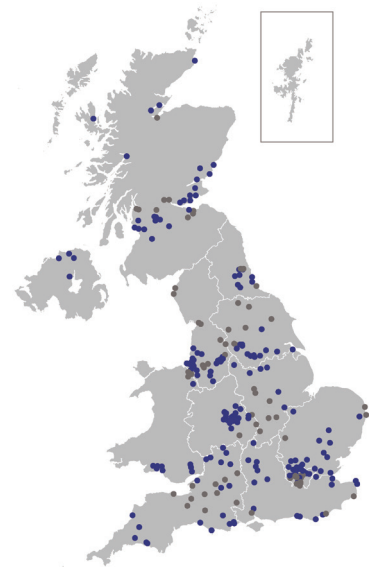
Emerging evidence points to a number of problems for claimants in Full Service areas, including:

- financial hardship and distress caused by lengthy waits before the first payment of UC is received, compounded by the 7-day “waiting period” for which no benefit is paid;
- some, particularly vulnerable claimants, struggling to adapt to single, monthly payments in arrears;
- inflexible rules governing Alternative Payment Arrangements such as direct payment of rent to landlords;
- increases in rent arrears, with serious consequences not only for claimants but also for local authorities and housing providers, as a result of exposure to greater financial risk;
- homeless claimants unable to get help with the full costs of emergency temporary accommodation.
- issues with registering and processing claims – e.g. online claims being rejected or “disappearing”, awards not including the housing element due to problems verifying rent payments;
- a lack of support from jobcentres for claimants without ready access to a computer or with limited digital skills/capabilities;
- lengthy, repeated and expensive calls to the UC helpline to resolve problems;
- increasing demands on support and advice services from local authorities, housing associations and charities as a result of having to assist UC claimants;
- insufficient funding from the DWP for local authorities and partner organisations providing “Universal Support”, such as budgeting advice;
- third parties facing difficulties resolving claimants’ problems due to the DWP’s insistence that the claimant must give explicit consent for an adviser to act on their behalf.

The Trussell Trust reports that food banks in Full Service areas have seen an increase in referrals of nearly 17% – more than double the national average.

Full steam ahead for the Full Service?

In March, the Chair of the Work and Pensions Committee, Frank Field, claimed the Government had its “head in the sand” over emerging problems with Universal Credit. In light of the “near unanimous set of concerns” voiced by stakeholders in evidence to the Committee’s inquiry into UC and the planned acceleration of Full Service roll-out, he wrote to Ministers again on 27 April stating that the practical operation of UC should be an urgent priority for the DWP. The Scottish Government has gone further, calling for a complete and immediate halt to the roll-out of the Full Service in Scotland to resolve problems with its implementation.



Universal Credit Roll out
 ● Up to and inc. June 2017
 ● July 2017 up to and inc. December 2017

“Universal credit may be coming, but it is clear that it is hamstrung by severe funding, policy design and practical problems. Its revolutionary promises have long faded. We now face the very real prospect of a large, single – and flawed – means test bearing down on working-age families. We are running out of time to avert a crash landing.”

Alison Garnham, Child Poverty Action Group Chief Executive, April 2017

“We will not call a halt to the [Full Service] roll-out, because it would be unfair and wrong to deprive people in Scotland or elsewhere of the advantages that the universal credit system brings. We continue to work on improving processes and accelerating delivery...”

Damian Hinds, Minister for Employment, 27 March 2017

The housing crisis

Chart 1:
Trends in UK housing tenure
(% of households)

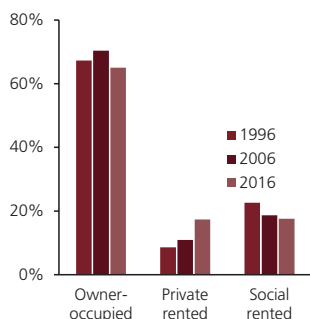
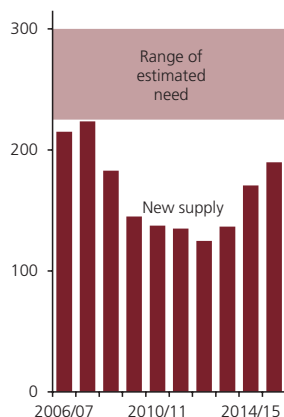


Chart 2:
Supply v need: New dwellings in England
(thousands)



The long-term failure to build sufficient homes to keep up with newly arising demand is at the heart of the housing crisis. This demand is generated by rising life expectancy, immigration and the growing number of one-person households. The most visible manifestation of the crisis is the 134% increase in rough sleeping in England since 2010.

The economic and human costs of housing under-supply spread far and wide. Labour mobility is impeded. Families living in overcrowded, substandard and insecure homes are more likely to experience health problems. The 119,000 children in temporary accommodation in England at the end of December 2016 were at risk of impaired educational attainment.

Repeated surveys demonstrate the public's clear preference for home ownership, but buying a home is becoming increasingly difficult for those without access to the 'bank of mum and dad'. Consequently, a higher proportion of families with children now live in the private rented sector and are spending a significantly greater proportion of their income on housing costs than social renters or those buying with a mortgage.

Mind the gap: supply vs demand

Two things determine the amount of new housing needed: the amount of new households forming and the backlog of existing need created by those who are homeless or in unsuitable accommodation.

The government has estimated that England requires an additional 225,000 to 275,000 units per year to meet housing need. Some commentators suggest at least 300,000 would be needed to tackle the backlog and prevent rising unaffordability. As the chart shows, new supply in England has remained consistently below this level.

The housing supply gap is less of an issue in Wales, Scotland and Northern Ireland, where recent new supply has been higher than the projected number of new households.

Gaps in the policy response?

The February 2017 Housing White Paper, 'Fixing our broken housing market', identified a threefold problem in England of "not enough local authorities planning for the homes they need; housebuilding that is simply too slow; and a construction industry that is too reliant on a small number of big players." Commentators welcomed many of the White Paper's measures and the upfront acknowledgement that the housing market is 'broken', but were quick to point out that, even if the ambition of 1 million net additions by the end of the Parliament in 2020 was achieved, development at this level would not close the housing supply gap.

There is agreement that closing the supply gap will require a multi-pronged policy approach – some areas identified for future attention include:

- Who should build? Since 1939, the delivery of more than 200,000 homes per year in England has only happened in years when there have been major public sector house building programmes. But in 2015-16, local authority house building made up just 2% of the UK total. The 2017 General Election manifestos saw most parties signing up to a significant increase in public sector house building.
- How can sufficient affordable housing be provided for the 20-25% of people who cannot afford market rents or home ownership?
- Is there an opportunity to release the potential of councils and housing associations through increased grant funding; lifting local authority borrowing caps; and rent flexibility for housing associations? Labour and the Liberal Democrats have both committed to removing restrictions on local authorities.
- Is it time to re-evaluate green belt principles?
- Could a comprehensive review of property taxation deliver additional revenue and promote economic and housing market stability?
- Could the £21 billion per year spent on Housing Benefit (£8 billion of which is paid to private landlords) be used more effectively to contribute to housing supply?

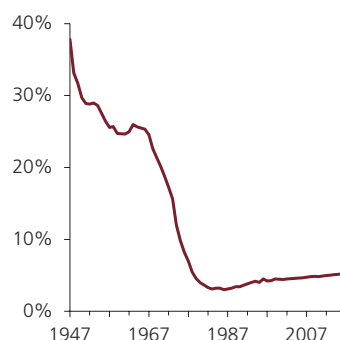
Austerity vs affordability

Housing Benefit has traditionally helped low-income households access and retain rented housing. The welfare reforms started by the Coalition Government in 2010 and continued after 2015 have increased the likelihood of households experiencing a gap between their rent and Housing Benefit entitlement. There is evidence of private landlords refusing to let to Housing Benefit claimants, many of whom are working. A significant proportion of social landlords' income is reliant on Housing Benefit, which in turn finances investment in new and existing stock. Annual 1% rent reductions have been imposed on social landlords since 2016 to reduce Housing Benefit expenditure. This led the National Housing Federation to estimate that 27,000 new affordable homes would not be built as a direct result of this measure, an outcome which conflicts with the aim of reducing the housing supply gap.

A consistent plea within the sector is for certainty in order to aid long-term planning, and for joined-up policy making between the Treasury, Department for Work and Pensions, Department for Communities and Local Government and the Bank of England.

Grammar schools: the rebirth of selection?

Chart 1:
% of pupils in state funded grammars
England/England & Wales



The creation of new grammar schools in England has been a defining policy proposal of Theresa May's Government. The plans challenge the dominance of the comprehensive model in the English school system, which has shaped the state sector since the decline of selective education during the 1960s and 1970s. A rebirth of selective education could significantly impact on English schooling, and affect social mobility in England for years to come.

Where we are now

Grammar schools select all or most of their pupils based on examination of their academic ability, usually at age 11.

It is currently unlawful to open entirely new grammar schools in England, although existing schools may expand, including onto new sites.

There are 163 grammar schools in England with a total of 167,000 pupils – 5% of all pupils in state-funded secondary schools. This proportion has risen slowly but consistently in recent years, from a low of 3% in 1986.

Grammar school provision is not widespread. The Department for Education classifies ten Local Education Authorities, out of the 151 with secondary schools, as having a wholly selective system. A further 26 have one or more grammar schools in their area.

Government plans

The Prime Minister announced in September 2016 that the Government would end the existing prohibition on new grammar schools, as well as facilitating the expansion of existing selective schools and allowing existing non-selective schools to become selective. This would be subject to certain conditions aimed at improving social mobility or setting up or supporting non-selective schools. A consultation including initial proposals was published that month.

Funding of £50 million per year to expand selective schools was announced in the Autumn Statement 2016. The March 2017 Budget included £320 million to help fund up to 140 new free schools, including selective schools, during the period to 2020.

A White Paper to advance the proposals had been expected in the spring. The 2017 Conservative Manifesto reaffirmed the party's commitment to the policy.

Social mobility and choice?

The Government's consultation focused on two areas in which it believed new and expanded grammar schools could improve the school system:

- **Social mobility:** The Government suggested that grammar schools could be particularly beneficial for pupils on lower incomes. They asked what proportion of new selective schools' intake should be children from lower income households.
- **Increasing parental choice:** At present, selective state schools are not an option for children who do not live in a selective area, or whose parents cannot afford to move to one.

Opponents of grammar schools have argued that, in a selective system, the choice lies with the school rather than with children or their parents.

The evidence around social mobility has been hotly debated, with particular concerns about the low numbers of children from deprived households at existing selective schools, and also the impact of selection on children who miss out on a grammar school place. Levels of special educational needs (SEN) and eligibility for free school meals (FSM) are both well below average in grammars. Exam performance at grammars is well above that in other school types, even when prior attainment is taken into account (as in the Government's new Progress 8 value-added school performance measure). However, performance at non-selective schools in areas with grammar schools is below that in comprehensive schools in non-selective areas.

Potential impact

Some commentators have suggested that the limited funding currently being offered to expand or establish selective schools means the impact of a change in the law could be modest, with few new grammar schools established as a result of the change, and those not for several years.

However, the removal of the prohibition on new grammar schools would be significant in itself, and could reshape the educational landscape over the longer term. The Government indicated that it intended to encourage multi-academy trusts to introduce selection within their trust, which gives potential for more rapid expansion, particularly if new grammar schools prove to be popular.

Whether swift or slow, grammar school expansion will meet with opposition. The nature of a selective system means that most children in selective areas will not attend grammars – they will not pass, or perhaps even take, the test. The impact of expanded selective education on those children, and the views of their parents, may form a key part of the debate as a reformed system takes shape.

Chart 2:
Under-represented groups in grammars, 2016

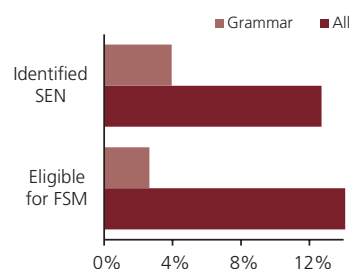
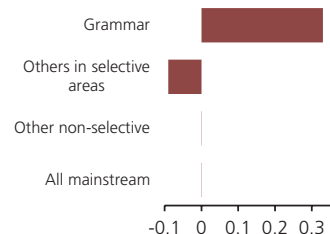


Chart 3:
Progress 8 scores at secondary schools, 2016



School funding in England

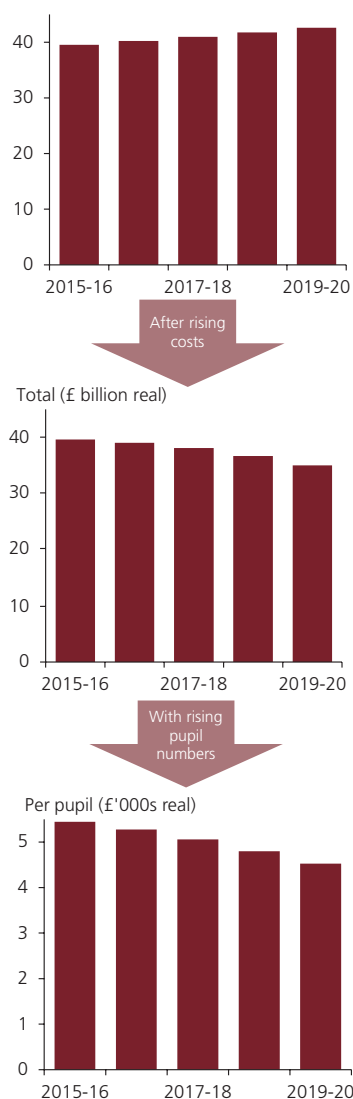
“Tory uprising” claim puts school funding row centre stage in campaign

Guardian, 3 May 2017

‘One in six schools admit asking parents for money due to budget cuts, survey reveals’

Telegraph, 10 April 2017

Chart 1:
Core school budget in England
Total (£ billion cash)



The Conservative Government insisted that it had protected total core school funding in real terms over the last Parliament. However, as the National Audit Office (NAO) and the Institute for Fiscal Studies (IFS) pointed out, pupil numbers have been rising and schools are facing cost pressures; the money has to go further.

The previous Government also proposed a national funding formula for schools. A consultation held just before the 2017 General Election promised the formula would target funding more fairly and consistently, and while the formula was welcomed in principle, there have been concerns, including from backbench Conservatives, about its impact.

The size of the cake

Core per-pupil school spending was better protected over the last two Parliaments than most other areas of public spending. It increased by 0.6% in real terms during the 2010 Parliament, and was broadly held steady in cash terms during the two years of the 2015 Parliament and in plans to 2020.

The IFS, the NAO and the Government have all recognised that schools are facing cost pressures on top of increased pupil numbers. These include higher pension and National Insurance contributions, the new Apprenticeship Levy and pay increases.

The IFS concluded that during the last Parliament schools faced their first real-term per-pupil reductions since the mid-1990s. They estimated that protecting spending per pupil in real terms between 2017-18 and 2021-22 would cost an additional £2 billion. Reimbursing schools for the costs of earlier pressures, as well as protecting them going forward, would add another £1.7 billion. In total, that would require a 10% increase to the schools budget. Labour, the Conservatives, the Liberal Democrats and the Greens have all promised real-terms increases in school funding.

The way the cake’s shared out

Currently, central Government allocates an amount of money to local authorities, who then use a local funding formula to share out the money between schools. The new funding formula would award money based on a range of factors including: a basic age-weighted per-pupil amount, deprivation, and prior attainment. These are similar factors to those currently used by local authorities, but the new national formula would apply them uniformly across the country. In the absence of any further increase in planned spending at a national level, the new formula would be largely redistributive. There would be winners and losers. The May Government proposed short-term limits on the amount individual schools would gain or lose, but the Conservative Manifesto 2017 promised to “make sure that no school has its budget cut as a result of the new formula”.

To accompany the funding formula consultation, the Department for Education published illustrative allocations for schools and local authorities, based on 2016 pupil data. Under this hypothetical scenario and the formula set out in the consultation, 54% of schools would see a cash increase, while 46% would see a cut. This presumes that the formula has been implemented in full in 2016, and without any transitional protections.

The proposal is for the new formula to be phased in from 2018; sticking to this deadline would require swift action following the General Election.

Reaction to the Government's funding formula plans

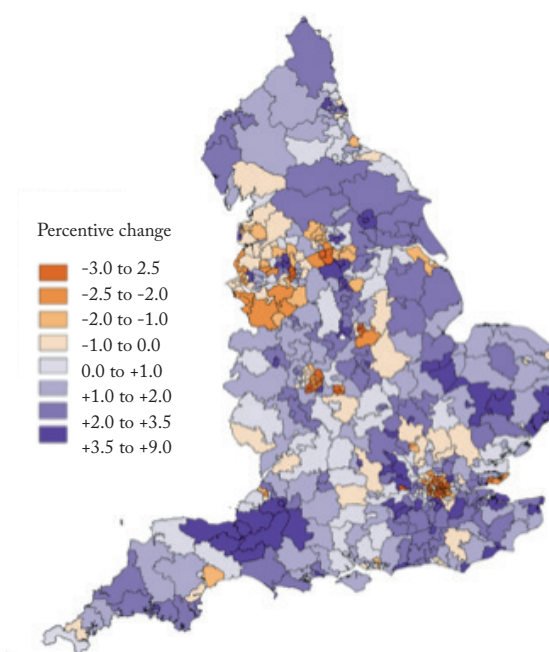
Most seem to agree that a new formula for distributing school funding is needed, and that the current system is opaque and out of date. However, School Cuts, an alliance of some of the main teaching unions, has argued that there will be almost no real-terms 'winners' under the proposed formula because of increasing pupil numbers and costs; the cake needs to be bigger for anyone to get a bigger slice.

MPs of all political stripes expressed concerns about potential negative impacts of the formula in their areas, with the press citing an 'uprising' among some Conservative backbenchers.

The f40 campaign group of 'low funded' local authorities was critical of the proposed formula, saying it was "alarmed that so many schools are losers". It failed to understand "why this should be the case when those schools were already poorly funded and well below the national average". It called for a lower weighting on additional needs factors (such as deprivation) and a higher weighting for basic per-pupil funding, because all schools had a minimum running cost, regardless of their circumstances.

The Labour Party has promised a formula "that leaves no school worse off" and addresses "historic underfunding" of some schools.

Figure 1:
Change in funding by Parliamentary Constituency
Illustrative NFF funding compared to baseline if formula implemented in full in 2016-17, without transitional protections

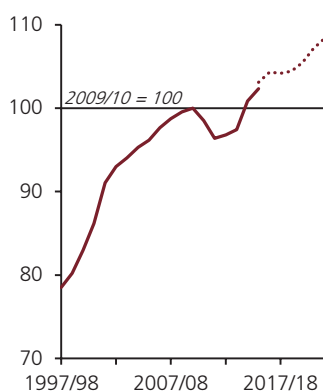


Living standards and inequality

Chart 1:

Real median UK household incomes

Before deducting housing costs 2009/10 = 100;
IFS projections for 2016/17 to 2021/22



By historical standards, growth in household incomes over the past decade has been severely disappointing. In the long run, living standards as measured using real average incomes (i.e. adjusted for inflation) tend to improve over time, but the economic downturn in 2008 resulted in a prolonged period of weak earnings growth. Average incomes continued to increase for some groups, including pensioners, but for other groups average incomes slumped. This was particularly true of those in their 20s.

Increases in employment since 2013, combined with low inflation, mean average income has now climbed out of a trough and sits slightly above its 2009/10 peak. However, it remains well off its pre-recession path. With benefit cuts likely to be felt more keenly in the new Parliament, the prospects for a shared revival in living standards look doubtful.

Wages are stuck in a rut

Median earnings for full-time employees fell by around £30 per week between 2008 and 2016, after adjusting for inflation – a decrease of 5.3%. Although average wages have grown more quickly than prices over the past two years, thanks in part to low inflation, OBR forecasts suggest real average earnings will not regain their 2008 level until after 2020. To find a period of similarly weak growth in average earnings, we have to look back to at least the 1920s.

The outlook for real wages has deteriorated since the EU referendum. In March 2016 the OBR forecast growth in real average wages of 8.5% between 2015/16 and 2020/21. That compares to the most recent March 2017 forecast of 4.6% growth. The gloomier outlook reflects the OBR's expectations that inflation will be higher and productivity growth weaker as a result of Brexit. Of course, any such forecasts are subject to much uncertainty.

Lowest-paid employees can expect to see their earnings boosted by the National Living Wage, which is set to rise to 60% of median earnings by 2020 (expected to be just under £9 an hour) – or by a 'real Living Wage' of around £10 an hour under Labour Party proposals. However, for many of the poorest households, the greatest impact on income in the new Parliament will arise from benefits changes.

Benefits changes will bite in the next Parliament

Real incomes for the poorest households increased between 2013/14 and 2015/16 thanks to strong employment growth and very low inflation. This was despite increases in most working-age benefits being limited to 1% over the period.

The period of very low inflation now appears to have drawn to a close and over the next few years, benefits changes are likely to see incomes of the poorest households decrease in real terms. The freeze in the value of working-age benefits for four years from 2016/17, along with the phased introduction of a two-child limit for tax credits and the roll-out of Universal Credit, will have the most impact on families with children.

Labour's manifesto committed £2 billion to "reform and redesign" Universal Credit but commentators have pointed out this is relatively small compared to the total scale of cuts. Labour has also said it will end the freeze in working-age benefits (although this was not included in the manifesto). The Liberal Democrats plan to end the freeze as well as reversing most other planned benefit changes.

Better outcomes for some

Behind the headline trends, some groups have fared relatively well since 2008, notably pensioners and people who own their own home.

Although pensioner incomes have been supported by the 'triple lock' on the State Pension from 2011, they were already growing strongly in the years before the recession. To a large extent this is attributable to new cohorts of pensioners holding larger private pension pots and continuing to have some income from employment.

By contrast, median incomes for the working-age population have been flat since the recession, with particularly steep falls in average income of people in their 20s. (Note: we are not comparing the same groups of individuals over the period, since people will move in and out of age groups as they get older.)

Falls in mortgage rates since 2008 have benefited those who own their own home. At the same time, a larger share of people are living in the private rented sector, due to lack of supply in the social rented sector as well as high house prices for those seeking to buy a home.

What is to be done?

While the tax and benefit system can help support living standards for certain groups of families, or incentivise people to improve their living standards by taking up higher-paid employment, ultimately longer-term improvements in UK living standards will depend on delivering growth in earnings.

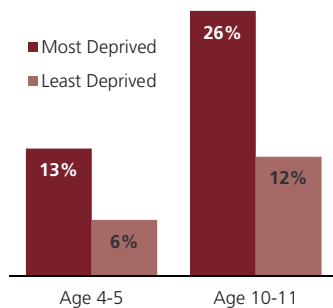
If that is to occur, the UK needs to escape the stagnant productivity that has been a feature of the economy since the 2008 recession. Put simply, we need to produce more for each unit of work we put in. Solving this problem will require the new Parliament to search for answers across policy areas more widely: from skills to infrastructure, from employment to trade, and beyond.

Obesity: a public health crisis?

“Obesity is the new smoking, and it represents a slow-motion car crash in terms of avoidable illness and rising health care costs.”

Simon Stevens (NHS England Chief Executive)

Chart 1:
Obesity levels are higher among children in deprived areas of England



Significant measures to improve public health in the last Parliament included the introduction of standardised packaging for tobacco products and the soft drinks industry levy. However, the consensus from health organisations is that more could be done to prevent illness and promote long-term health.

Obesity continues to be a significant public health challenge, and one that will keep both health professionals and policy makers busy in the new Parliament.

The figures

While figures on obesity have not increased significantly in the last decade, they have remained static, maintaining the UK's reputation as 'the fat man of Europe.' Currently 27% of adults and 20% of children (aged 10-11) in England are obese. Prevalence is predicted to increase, alongside the numerous associated physical and mental health conditions, and reduced life expectancy.

The cost of obesity is highly uncertain but the latest estimate of the annual cost to the NHS in England is £5.1 billion, projected to reach £9.7 billion by 2050. This is only the cost to the health service; the total cost to the economy will be greater.

An inequality issue

Obesity in the UK serves as a good example of the social gradient in health: children living in the most deprived areas are substantially more likely to be obese than their more well-off peers. These children are also more likely to have poorer diets, be exposed to more urban air pollution, and will tend to have a shorter life expectancy.

Ten years ago, a Government Office for Science Foresight report on obesity said that the causes of being overweight are complex, and reported that although "personal responsibility plays a crucial part in weight gain, human biology is being overwhelmed by the effects of today's 'obesogenic' environment, with its abundance of energy dense food, motorised transport and sedentary lifestyles." It highlighted that tackling obesity was a long-term, large-scale commitment and that significant population level action was required.

The 2014 NHS Five Year Forward View echoed this, calling for "hard-hitting national action on obesity" and other health risks.

Childhood obesity plan

The previous Government's highly anticipated childhood obesity plan was published in August 2016. Stakeholders and commentators welcomed the introduction of the soft drinks industry levy and a reformulation programme on high sugar foods, but were disappointed that some measures recommended by Public Health England had not been included. These measures (present in a leaked draft of the plan) included controls on price promotions and stricter rules on advertising and marketing high fat, salt and sugar foods. The May Government described the plan as the beginning of a conversation and said further action could be taken once progress had been assessed.

Childhood Obesity: A Plan for Action 2016

The Government's Childhood obesity plan introduces numerous measures, which include:

- A Public Health England (PHE) reformulation programme to reduce the sugar in foods aimed at children;
- Recommitment to the healthy start voucher scheme enabling low-income families to buy fruit and vegetables;
- Action to increase physical activity in schools;
- The soft drinks industry levy to apply to manufacturers and importers of added sugar soft drinks;
- Reassessment of school foods standards;
- A review of food labelling;
- Promotion of the use of technology to aid healthy choices; and
- A review of health professional training and education on obesity and nutrition.

“The future health of millions of children, the sustainability of the NHS, and the economic prosperity of Britain all now depend on a radical upgrade in prevention and public health.”

NHS Five Year Forward View (2014)

Investment in public health

Recent changes to the organisation and funding of public health in general have provoked some concern.

The Commons Health Select Committee, in its 2016 report on Public Health post-2013, said that there was a clear mismatch between funding on public health and the significance attached to it in the NHS Five Year Forward View. It described cuts as a false economy and reported that they could lead to negative consequences for future generations, and threaten the future sustainability of the NHS. The Committee also noted plans to change the way public health is funded, and remove the current ring-fence on this funding. It recommended that the Government outline how this could be managed to ensure it didn't lead to further health inequality.

Public health professionals and medical charities have said that the next Government should focus on and invest in preventing ill health, which will ease the pressures on the NHS. Calls have been made for health issues to be integrated into all areas of local government policy, ensuring that health is a material consideration in planning and licensing.

Members of the 2017 Parliament will witness the initial impacts of the childhood obesity plan, but may also be faced with questions on what further action should be taken to improve health and reduce health inequality in the UK.

Key Issues: Chapter 4

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Brexit and borders: migration and asylum

The latest available data suggests there were around 900,000 British citizens living in other EU countries in 2011, and around 3.2 million citizens of other EU countries living in the UK in 2015.

A major consequence of Brexit is that EU free movement laws will no longer apply to the UK. Before free movement is brought to an end, the Government must answer three significant questions:

- What is to be the immigration status of EU citizens currently resident in the UK and what rights will they have?
- What is to be the new immigration policy to regulate migration from the EU?
- What border checks should be conducted on EU citizens coming to the UK?

Due to the significance of the changes, the previous Government announced in its White Paper on Brexit its intention to bring forward a new Immigration Bill. Existing rules may continue to apply during an implementation period in which new policies are phased in.

Securing the status of British and other EU migrants

For both the Government and European leaders, a top priority in the Brexit negotiations will be to secure the rights of British citizens living in the 27 remaining EU Member States and those of EU citizens living in the UK.

Although there is a broad consensus on the need to protect migrants' rights and agreement on the importance of an early resolution of the issue, it is more complicated than it first appears.

The Government must decide:

- Shall those EU citizens with a right to permanent residence in the UK keep all the rights they currently enjoy?
- What cut-off date should apply to those EU citizens currently living in the UK but who have not acquired a right of permanent residence?

The first issue may be a sticking point in negotiations: for instance, EU citizens in the UK (and British citizens living in other EU Member States) currently enjoy greater rights than British citizens in the UK in terms of bringing family members to live with them. The EU wants these rights protected (or 'frozen') for the lifetime of these migrants.

A new immigration policy for migration from the EU

A future policy may be subject to the terms of any trade deal struck between the Government and the EU.

The Scottish Government and the Mayor of London have called for a regional visa system to take account of regions' specific needs. The May Government took the view that such a change would complicate the immigration system and harm its integrity.

The Immigration Rules applicable to non-EU migrants would, if applied to EU migration, dramatically cut the numbers of medium and low skilled workers coming to the UK. The Exiting the EU Committee highlighted that a future migration policy must be flexible to meet the labour needs of all sectors of the UK economy. The NHS predicts a shortage of nurses, and the agriculture and horticulture industry has warned of the consequences if it's unable to recruit 'low skilled' labour from the EU27.

Immigration control and EU citizens

If the Government opts to add EU Member States to the list of those countries whose citizens enjoy visa-free travel to the UK it must still decide what checks will be conducted before or upon arrival. Subjecting EU citizens to the same checks applied to non-EU visitors would place huge additional demands on Border Force staff. Online pre-travel screening has been suggested as a means of alleviating pressure at airports and ports.

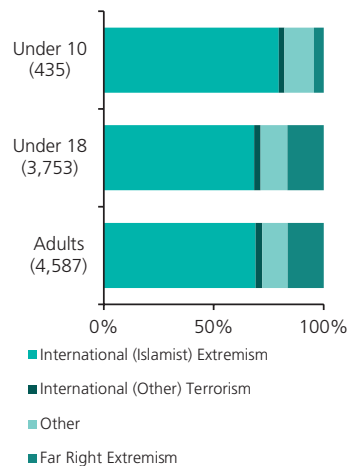
The refugee crisis and the future of the Dublin III Regulation

Aid agencies warn that 2017 will see no let-up in the numbers of people crossing the Mediterranean to seek asylum in Europe. Whilst the UK's obligations under the 1951 Refugee Convention are unaffected by Brexit, the Government must decide whether it will seek to continue UK participation in the Dublin III Regulation, which determines which EU Member State is responsible for an asylum seeker. To date, successive Governments have been very much in favour of the Dublin Regulation, under which the UK has transferred many more asylum seekers to other Member States than it has received.

Outside the EU, the UK would not be able to opt out of proposed changes to the Regulation that would ease the burden on southern Member States through a more even distribution of asylum seekers throughout Europe. Declining to participate further would probably end, at least in the short to medium term, the UK's ability to transfer asylum seekers to other states. Hitherto there has been no need for the UK to negotiate agreements with other states for the return of asylum seekers. Other countries may be unwilling to accept transfers from the UK with nothing in return.

The challenges of countering extremism

Chart 1:
Channel programme referrals
Indicators of risk that prompted referral,
2012/13 to 2015/16



In recent years, Government policy has increasingly sought to confront the underlying causes of terrorist behaviour, including extremist ideologies. However, the Government's approach to countering extremism has been criticised as divisive, counterproductive and 'Orwellian'. In particular, the definition of extremism has been widely criticised as unworkable and there is no consensus as to what legal powers, if any, should be used to combat extremism. The new Government will be faced with a number of challenges. What constitutes extremism? Is the current strategy fit for purpose? Is there a need for new legislation?

Extremism was defined by the May Government as:

The vocal or active opposition to our fundamental values, including democracy, the rule of law, individual liberty and the mutual respect and tolerance of different faiths and beliefs.

There are concerns that such a definition is imprecise and therefore unworkable. Further, defining "British values" in relation to contested terms such as "democracy" is always likely to prove controversial.

What is the current strategy?

The Prevent strategy, part of the Government's wider counter-terrorism strategy CONTEST, seeks to deal with the factors that predispose individuals or groups to respond to terrorist ideologies. It sets three key objectives:

1. To respond to the ideological challenge of terrorism and the threat we face from those who promote it.
2. To prevent people from being drawn into terrorism and ensure that they are given appropriate advice and support.
3. To work with a wide range of sectors and institutions where there are risks of radicalisation.

Prevent placed a duty on certain public sector bodies to prevent people from being drawn into terrorism. This duty was recently written into law by the Counter-Terrorism and Security Act 2015.

The Channel programme, part of the Prevent strategy, is a multi-agency programme coordinated by the police to identify individuals vulnerable to radicalisation and direct them towards appropriate support. The charts show the total numbers of referrals and the percentage rate of referrals by age and indicators of risk.

Is Prevent working?

The Home Office Minister, Baroness Williams of Trafford, reported that since 2012 over 1,000 people had received support through Channel, and the vast majority of those people left the programme with no further terrorist-related concerns. Critics say the strategy assumes there is a "conveyor belt" leading from religious conservatism to violent extremism, which is unproven.

There has also been a widespread perception in Muslim communities that Prevent is divisive because its main purpose is to gather intelligence. Civil liberties organisations have highlighted the potential “chilling effect” on freedom of speech, particularly within the education sector. Consequently, there have been repeated calls for an independent review.

A new regime?

Proposals to introduce a new civil order regime were announced in 2015 and 2016. In May 2015, the Coalition Government announced the introduction of an Extremism Bill, which included:

- Banning Orders (a power for the Home Secretary to ban extremist groups)
- Extremism Disruption Orders (a power for law enforcement to stop individuals engaging in extremist behaviour)
- Closure Orders (a power for law enforcement and local authorities to close down premises used to support extremism)

There were further announcements in October 2015 and May 2016 (when a Counter-Extremism and Safeguarding Bill was announced in the Queen’s Speech), but no detailed proposals emerged.

Is legislation needed?

David Anderson QC, the former Independent Reviewer of Terrorism Legislation, told the Home Affairs Select Committee he was “wary about extending the law... any further than it already goes into what people believe and what they say”. Critics warned that the proposed new powers would be counterproductive, potentially criminalise orthodox views, and constitute a crackdown on “thought crime”.

If counter-extremism legislation is published, the new Parliament will need to grapple with questions like:

- Can extremism be defined in a way that offers legal certainty?
- Is it necessary to resort to new civil orders instead of existing criminal offences?
- How will proposals avoid unjustified interference with freedom of religion and expression?
- Is it justified to limit speech which is not in itself illegal?
- Is there evidence of a causal link between extremism and terrorism?

Unless a consensus can be reached as to what constitutes extremism in the first place, the development of effective measures will continue to prove problematic.

Safety in prisons: is enough being done?

Chart 1:
Assaults per 1,000 prisoners

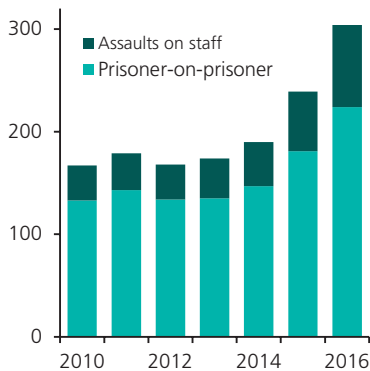
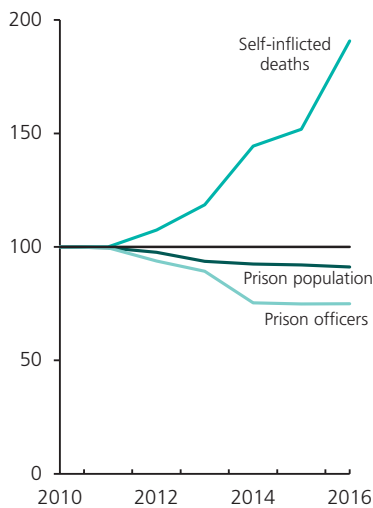


Chart 2:
Indices of self-inflicted deaths, prison population and prison officers, England and Wales Public sector prisons 2010=100



Prison safety in England and Wales has declined sharply over the last few years. Her Majesty's Chief Inspector of Prisons, the Prisons and Probation Ombudsman and the Justice Committee have all voiced alarm. The May Government acknowledged the problem, citing factors such as new psychoactive drugs. Critics blame cutbacks. So what is going wrong, and what can be done to fix it?

All the main indicators show a decline in prison safety

- The rate of self-inflicted deaths has more than doubled since 2013.
- Self-harm reached a record high of over 40,000 incidents in the year up to December 2016.
- Assaults reached a record high of over 26,000 incidents in the year up to December 2016.

Compared with the previous year:

- prisoner-on-prisoner assaults increased by 23%
- prisoner-on-staff assaults increased by 38%

The chart opposite shows assaults per 1,000 prisoners since 2000.

In their 2016 Prison Safety and Reform White Paper, the May Government identified a number of "personal and situational factors" behind declining safety, including anti-social attitudes and poor self-control.

New Psychoactive Substances are making prisons less safe

The proportion of prisoners testing positive for drugs under the Random Mandatory Drug Testing programme (RMDT) has been falling since 2003/04. However, it is widely recognised that many prisoners are changing to newer synthetic drugs, which are not captured under the RMDT. The White Paper cited a dramatic increase in the use of these New Psychoactive Substances (NPS) since 2012. In September 2016, the Prisons and Probation Ombudsman called this a "game-changer in terms of reducing prison safety".

In response to the wider problem of NPS in society, the Government brought in legislation in 2015 and 2016, including a new offence of possession in a custodial setting.

There is a more challenging mix of prisoners in the system

There have been long-term shifts in the prison population, with a rise in the proportion of prisoners with convictions for violence against the person, sexual offences and drug offences. The 2016 White Paper suggests these have played a part in the decline in safety.

The number of prison officers has declined

In a 2015 report, the Justice Committee argued that “severely restricted regimes” had resulted from changes in operational policy and falling staffing levels; it was, the Committee argued, “improbable” that decreased prison safety was not linked to this. The 2016 White Paper said that, whilst it had been “right to seek to operate prisons more efficiently”, the Government’s analysis showed “a statistical correlation between the numbers of staff and the level of violent incidents”.

The chart opposite shows that, since 2011:

- the number of prison officers employed by public sector prisons has fallen by 25%;
- the prison population in those prisons has fallen by 9%;
- self-inflicted deaths have risen sharply (91%).

The previous Government was bringing in a raft of prison reforms

The 2016 White Paper announced a range of prison reform measures, including:

- greater autonomy for prison governors, together with “sharper” inspection and other scrutiny arrangements;
- additional funding and 2,500 more prison officers by 2018;
- more extensive drug testing, including on entry and exit from prison, to inform assessments of prison performance;
- new prison league tables.

Many of the reforms did not require legislation. The Prisons and Courts Bill did contain some reforms, but fell at the General Election. It would have:

- set out new statutory purposes for prisons;
- given the Secretary of State a duty to report on the extent to which prisons achieve those purposes;
- given the Secretary of State a new duty to respond when inspectors had significant concerns about prisons;
- allowed for prisoners to be tested for NPS without each individual substance needing to be specified separately.

What next?

Clearly there are many challenges ahead. Recruiting and retaining sufficient staff to have 2,500 additional prison officers is one of them. The prisons minister, Sam Gyimah, acknowledged in November 2016 that this would mean recruiting 8,000 staff by 2018.

In February 2017, Mr Gyimah said that what the Government was doing would help “in the medium term”; there were some encouraging early signs, but “we will see where we are with the public data later this year”. The next quarterly update to safety in custody statistics is expected in July 2017. Legislation is likely in the next Parliament.

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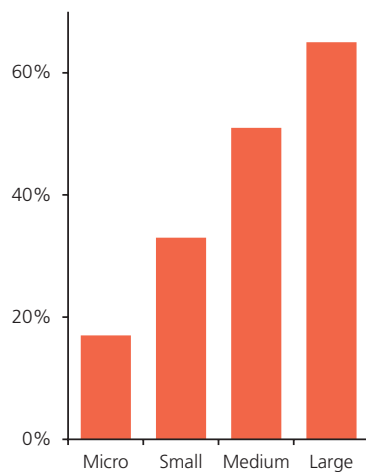
Cyber-crime and security

The average cost of breaches experienced by large firms in the past year was £36,500

Chart 1:

Cyber-security breaches

Proportion of businesses that had a breach in the past year (30 November 2015 – 5 February 2016) by size of business



We are critically dependent on the internet, yet anything connected to it is vulnerable to cyber-attack. The global May 2017 ransomware cyber-attack, which affected some 150 countries, highlights the vulnerability of computer networks and the need for strengthened cyber-security. Can the Government keep pace with this evolving threat?

Understanding the threat

'Cyber-security' refers to the protection of information systems and networks from unauthorised access, harm or misuse. Many breaches of it are small-scale and unreported. A black market in computerised extortion, hacking-for-hire and stolen digital goods is on the rise. Large-scale cyber-attacks make headline news.

Phishing emails sent to politicians in the Democratic National Party in 2016 led to the first recorded attempt to use cyber to influence a US election.

The threat to cyber-security comes from a number of sources: states and state-sponsored threats, terrorists and 'insider threats'. Technical expertise can now be bought rather than learnt, making it an increasingly accessible form of crime.

With the advance of the 'Internet of Things' (IoT) it is predicted that by 2020, 21 billion devices worldwide will be internet-connected. As this number increases, so too does the potential for cyber-attacks.

Quantifying the threat

According to the Cameron Government's Cyber Security Breaches Survey 2016 a quarter of all businesses in the UK have experienced one or more cyber-security breaches in the past year. Of those companies that had a breach, 68% said they suffered from viruses, spyware and malware, 32% had attacks resulting from others impersonating the company, and 15% had a denial-of-service attack.

The average cost of a cyber-security breach for large firms is estimated to be £36,500, and it is thought that the costs of cyber-security breaches to the UK economy as a whole range from £1 billion to £27 billion per year.

Of all UK businesses, just 17% said their staff had attended some sort of cyber-security training in the past year. This varies across the size of businesses (around 10% of micro firms had staff training in the past year, compared with over 60% of large firms).

It is estimated that by 2022 there will be a shortfall of 1.8 million people in the global cyber-security workforce, and that the UK currently has the second largest skills gap of 10 major countries.

Responding to the threat

The National Cyber Security Strategy (NCSS) aims to make the UK resilient to cyber-attack by defending against an evolving threat, deterring attacks by pursuing offenders and developing research and skills. The Strategic Defence and Security Review (SDSR) committed £1.9 billion over five years to “transform significantly the UK’s cyber security.” In 2016 the National Cyber Security Centre was established to provide leadership on this issue.

Despite the global reach of cyber-crime, there is no agreed mechanism to deal with it internationally. Part of the UK strategy is to operate closely with allies in the EU, NATO and the UN on this issue.

Both the SDSR and the NCSS committed to providing the armed forces with advanced offensive cyber capabilities. The previous Government was reticent to provide more details but has said the armed forces are working closely with GCHQ on a National Offensive Cyber Programme. This includes basing a unit from the Joint Forces Cyber Group at GCHQ’s base in Cheltenham.

There is a growing body of work examining how current international law applies to cyber warfare, and there has been some discussion of whether a treaty to govern cyber-weapons is needed.

What are the laws against cyber-attacks?

The Computer Misuse Act 1990 (CMA) is the main piece of UK legislation relating to cyber-crimes such as hacking and denial-of-service attacks. Other legislation deals with unlawful interceptions and data protection.

The 1990 Act does not define what is meant by a ‘computer’, to allow for technological development. Although the NCSS does not include any specific proposals for new legislation, the law will need to accommodate technologies moving further away from traditional conceptions of computer-based tools.

Stopping the threat: what more could be done?

Some commentators argue that companies can’t be wholly reliant on the national Government strategy to protect them and should take measures such as ensuring that staff are trained in cyber-security principles and computer networks have adequate software.

Others have suggested that, while it’s good that more money is being devoted to cyber-security, legislative change is needed too. John Naughton, for example, argues that it could be made a criminal offence to sell or import IoT devices that don’t meet specific security criteria.

Additionally, Naughton argues that, just as it’s illegal to drive a car without an MOT, it could be made a criminal offence to run a networked computer system that does not have all current security patches installed, or make software companies liable if they sell/distribute software that has known security vulnerabilities.

Chart 2:

Cyber-security training
% of businesses where staff had cyber-security training in the past year (30 November 2015 – 5 February 2016) by size of business

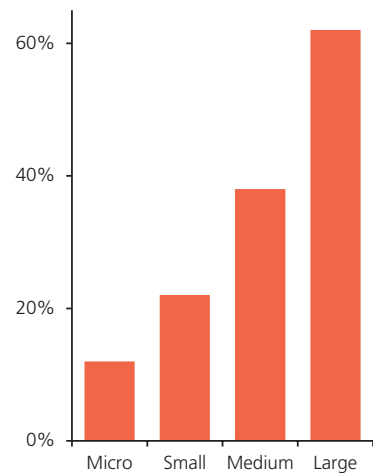
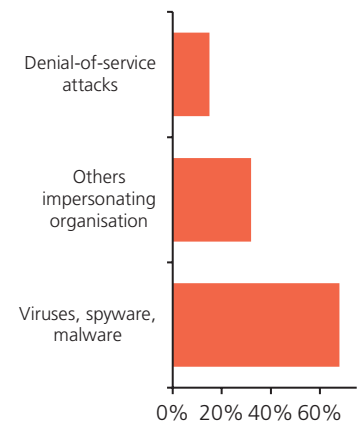


Chart 3:

Types of breach
Types of breach in the past year (30 November 2015 – 5 February 2016) any attack or breach



Internet regulation: safety or censorship?

How is content driven to users?

Social media platforms and internet search engines use algorithms (sequences of instructions) to personalise the content that each individual user sees.

Content on social media platforms includes posts generated by users and third parties, and adverts. The order in which it is displayed is typically determined by these algorithms and is based on the user's activity and connections. Material produced by the people or organisations that a user interacts with most, and content which garners the most interactions, will appear higher in the list.

Internet search engines use algorithms to find results that are likely to be most relevant to the user. They depend on numerous factors, including the user's previous searches and location.

Can governments regulate the internet?

Concerns over misuse of social media, online abuse and fake news have been raised loudly in the last year. The previous Government's policy was to work internationally to ensure the continuation of a "free, open and secure internet that supports our economic prosperity and social well-being".

Self-governance rules online: social media websites have 'community' rules, while consumer feedback and reviews build consumer confidence. While there is no specific law governing internet content in the UK, laws and offences that apply offline apply equally online. For those seeking more rules, regulating an evolving area can be difficult: we risk technology developing faster than the law.

Online abuse

Several existing offences, scattered across different legislation, are used to deal with online abuse (e.g. "trolling" and threatening behaviour). The Crown Prosecution Service (CPS) has published guidelines on prosecuting such offences in relation to social media. A recent addition, aimed more specifically at online behaviour, is the new "revenge pornography" offence under section 33 of the Criminal Justice and Courts Act 2015.

The previous Parliament saw calls for specific legislation to deal with online abuse in a parliamentary debate on the issue. The Home Affairs Select Committee's April 2017 report on hate crime pointed out that "most legal provisions in this field predate the era of mass social media use and some predate the internet itself." It called for Government to review the entire legislative framework governing online hate speech, harassment and extremism, and for social media companies to do more to safeguard users.

The Government announced in February 2017 that a Green Paper on online safety for young people would be published this summer.

Fake News and what to do about it

Defining fake news can be challenging. The BBC News definition is:

False information deliberately circulated by those who have scant regard for the truth but hope to advance particular (often extreme) political causes and make money out of online traffic.

They add that social media often presents real and fictional stories in a similar way, making it difficult to tell them apart.

Some argue the best way to tackle the issue is through education – helping users to assess online information critically. Some social media sites have started to tackle fake news, with Facebook showing users warning signs when they are about to read potentially false information.

Others say the influence of fake news has been overstated and efforts to tackle it could amount to censorship

Protecting children – age verification for online pornography

The Digital Economy Act 2017 will force commercial providers of online pornography to have age controls in place if they want to make adult material available in the UK. The intention is to protect under-18s from “distressing or unrealistic images of sex”, which may harm their ability to “develop healthy personal relationships based on respect and consent”.

The British Board of Film Classification (BBFC), will (subject to parliamentary approval) act as the age verification regulator. It will direct Internet Service Providers (ISPs) to block access to websites which don't have age verification controls in place or which make “extreme pornography” available (the possession of which is already illegal).

When the Digital Economy Bill was introduced, the Government planned to prevent underage access to material that would be rated 18 or R18 by the BBFC – i.e. the same standards would apply to adult material in the offline and online worlds.

Critics claimed the Government's original proposals would result in censorship of “non-conventional” sex acts. The Government acknowledged these concerns and introduced amendments in the Lords, saying the Bill's provisions were concerned with child protection, not censorship.

The BBFC will only be able to direct ISPs to block access to sites containing “extreme pornography” (provided they have age verification controls in place). This was controversial, with some Lords concerned this would still allow access to violent and abusive material.

The Government said that its internet safety strategy would look at these issues and pointed out that content behind age verification controls could still be prosecuted under legislation such as the Obscene Publications Act 1959.

Technology and the internet will continue to evolve, and how these changes should be managed and regulated will be on Parliament's agenda for years to come.

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The UK environment: Brexit challenges and opportunities

Devolution and environmental policy

While there is a common EU framework, most environmental policy in the UK is devolved. Each Administration has its own approaches which are broadly similar in theme, but diverge in terms of specific targets and regulation.

From spending on flood defences to concerns about air quality, from banning microbeads to recycling coffee cups, environmental issues are rarely out of the news or political debate.

The Conservative manifesto of 2015 committed to “ensuring we are the first generation to leave the natural environment of England in a better state than we found it”, but the 2015 Government was criticised for budget cuts to its environment Department and delays to flagship projects like its 25-year environment plan. Brexit adds a substantial layer of EU-driven environmental policy and legislation which needs to be untangled and integrated with emerging domestic approaches.

The new Parliament will have an opportunity to shape a national approach to UK environmental policy for generations to come. But this will come with some key questions and challenges.

...Heading into the Brexit negotiations

Many commentators attribute environmental improvements in the UK to its membership of the EU, referencing the UK's reputation as the “dirty man of Europe” when it first joined. Others argue that the UK could well have achieved these improvements as a sovereign nation.

Either way, most UK environmental legislation and policy is currently driven by the EU and subject to EU enforcement mechanisms. For example, the Government has identified around 1,100 pieces of EU legislation ‘owned’ by Defra (the Department for Environment, Food and Rural Affairs), including those related to water and air pollution, flooding, habitats and nature protection, waste and recycling. What's more, nearly half of Defra's spending on agricultural and environmental work came from EU sources in recent years. This is only a snapshot of the full picture – many of the Defra-owned policy areas, as well as wider environmental issues such as climate change, emissions trading and environmental impact assessments, sit across multiple government departments.

Defra has been developing a comprehensive 25-year plan for the environment to ensure that the environment is maintained and improved as well as becoming systematically valued and integrated into wider decisions across different sectors. The plan was expected to set out the direction of the Government's environmental policy post-Brexit, but had not been published before the election.

The previous Government stated that it would leave the single market and through the Great Repeal Bill convert all existing EU law into domestic law “wherever practical”. The general purpose of the Great Repeal Bill was welcomed by environmental groups such as the RSPB.

However, some commentators raised concerns that the environment wasn’t one of the Prime Minister’s Brexit negotiating priorities. In addition, the European Parliament’s resolution on Brexit negotiations calls on EU negotiators to ensure that any future trade agreement is subject to continued UK adherence to international environmental obligations and EU environment policies.

Questions for the next Parliament

Whatever the approach of the next Government, Brexit poses a unique set of risks, challenges and opportunities for the next Parliament to consider. For example:

- **Risks** that environmental standards could be lowered or transposed EU environmental laws could quickly become outdated (‘zombie legislation’). Some argue that EU enforcement mechanisms provide a strong incentive to take action on environmental issues. Defra itself has acknowledged that roughly a third of EU environmental legislation cannot be simply transposed onto the UK statute book due to a number of technical challenges concerning enforcement and accountability. How will the next Government choose to enforce environmental laws—through the existing powers of the High Court or perhaps with a new environmental court? How will legislation be kept up-to-date, and will the next Government seek to introduce a new Environment Act?
- **Challenges** around environmental policy and devolution. Will the next Government want to create a common UK environmental framework and how would this work? Alternatively, how would an increasingly diverse approach to environmental policy ensure a coherent approach to environmental protection across the UK?
- **Opportunities** to develop a bespoke UK approach to environmental protection. There have been calls to embrace innovation and combine best practice from the EU to develop new UK environmental policies. How will the next Government set its environmental priorities and provide the necessary funding? Will it publish a comprehensive 25-year environment plan?

Considerable uncertainty still remains. So, while it is clear Brexit will have an impact on environmental policy in the UK, no one can yet foresee precisely how.

What are the UK’s international environmental obligations?

The UK has ratified almost 40 international environmental treaties, many of which are reflected in EU law, including: the Ramsar Convention on the conservation and wise use of all wetlands; the Bern Convention on the Conservation of European Wildlife and Natural Habitats; and the Bonn Convention on the Conservation of Migratory Species of Wild Animals.

Clean air in our cities

Chart 1:
UK Nitrogen Oxide emissions by source (megatonnes)

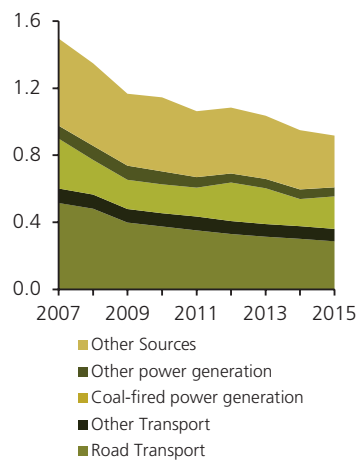
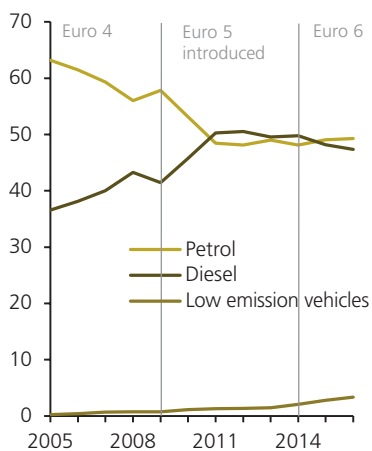


Chart 2:
New car registrations in GB by fuel type (%)



The UK's continuing failure to meet air quality targets, which led to Government court battles with NGOs in the last Parliament, has raised public awareness of and concerns about the harm to our health from air pollution.

These concerns were exacerbated after the 'dieselgate' scandal, the decision about airport capacity expansion in the South East, and the Government losing a third court case.

The current approach to the problem involves a combination of road charges, 'clean air' zones, and encouraging cleaner vehicles. But is this enough?

What are the concerns about air pollution?

The previous Government's new Air Quality Plan (AQP) for NO₂ (May 2017) acknowledged poor air quality as the largest environmental risk to public health in the UK. The Royal College of Physicians estimates that the annual cost of health problems resulting from exposure to air pollution in the UK exceeds £20 billion. This includes costs to society and business, health services and individuals who are affected.

Health Impacts

Short term poor air quality can cause respiratory symptoms such as wheeze and cough, and exacerbate pre-existing conditions such as asthma. These can lead to an increase in hospital admissions and deaths for those affected.

Long term exposure to air pollution can contribute to the development of lung cancer, cardiovascular disease, and respiratory disease. Potential wide-ranging associations between air pollution and health are the subject of ongoing research, including in relation to diabetes and dementia. Particularly vulnerable groups are children and the elderly.

Under EU legislation, Member States must meet air quality targets for a range of pollutants. The deadline for NO₂ was extendable to 2015, as long as an adequate plan was in place and the exceedance period was "kept as short as possible". However, several countries including the UK have failed to achieve this. Currently many areas in the UK do not meet the NO₂ targets, especially roadsides in urban centres.

Why is this still a problem?

Roughly a third of nitrogen oxide emissions come from road transport, and levels have remained flat since 2011, despite stricter emissions standards for all vehicles. *Older* diesel vehicles are significant contributors but not the only cause, as became evident during the 'dieseldgate' scandal.

In 2015 the US Environmental Protection Agency issued a notice alleging that Volkswagen and Audi diesel cars from model years 2009–2015 included software that circumvented emissions standards for certain air pollutants (so-called 'defeat devices') in diesel cars. VW admitted that this software affected nearly 1.2 million UK-registered vehicles. Other manufacturers have also since been implicated.

This led to a worldwide trail of inquiries looking into 'real world' emissions from vehicles across several brands. The best analysis of typical VW cars in real-world driving conditions found NO_x emissions of around 0.6g/km, over three times higher than the latest Euro 6 standard of 0.18g/km.

Diesel vehicle owners were angry at the manufacturers' deception and at governments that had encouraged the buying of diesel vehicles in the 1980s and 1990s as part of a strategy to reduce CO₂ emissions. They are also likely to be amongst those most affected by measures to address the problem. Recent months have seen further falls in new diesel registrations.

What could the Government do?

The UK Government has responsibility for implementing a National Air Quality Strategy and an AQP for NO₂. The Courts have twice ruled the existing AQP inadequate, and the Government was ordered to consult on a third version by May 2017 and publish it by July. This draft AQP and consultation have been criticised for lacking detail and delegating action to local authorities. As a result a further legal challenge has been launched.

There are three main options for tackling air pollution from road vehicles: a diesel scrappage scheme and retrofitting, taxes and charges, including clean air zones, and low emission vehicles.

- **Diesel scrappage and retrofitting:** owners of diesel vehicles would receive a financial incentive to 'scrap' their vehicle and replace it with a less polluting alternative. The draft AQP does not advocate a scrappage scheme, but the accompanying consultation seeks views on the viability of such a scheme. There may also be some sort of financial assistance for diesel owners to 'retrofit' their vehicles so that they emit less NO₂.

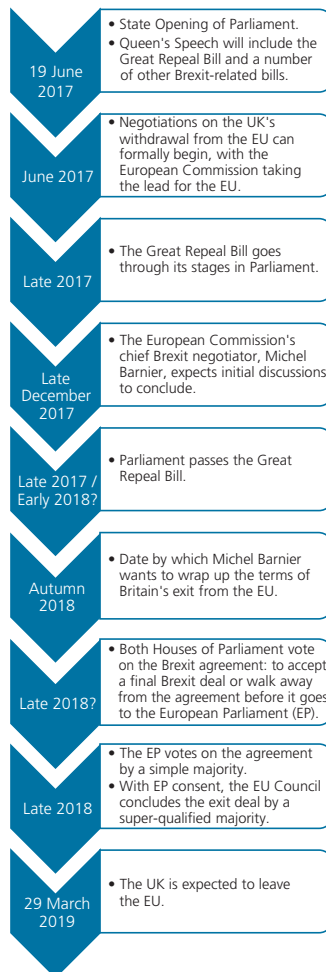
- **Taxes and charges:** local authorities already have powers to limit – and charge for – vehicle access to urban areas. These charges can be varied depending on vehicle age and/or emission levels. In 2008 London introduced an emissions-based charge zone, which consecutive mayors have supported and sought to extend. Some London councils have already begun to trial higher parking charges for diesel vehicles in certain areas. Another option would be to raise fuel duty on diesel or the Vehicle Excise Duty (VED, or car tax) on diesel vehicles.
- **Low emission vehicles:** the Government and local authorities are seeking to decarbonise the road transport fleet by providing financial incentives for the uptake of electric vehicles; supporting R&D for hydrogen and autonomous vehicles; and switching to sustainably fuelled buses and taxis in urban areas.

Whilst the Government stated its commitment to tackling air pollution, the UK's future approach may be shaped by the decision to leave the EU. In March 2017 four select committees launched an unprecedented joint inquiry on air quality to scrutinise cross-departmental plans to tackle urban pollution hotspots. The General Election halted this inquiry and it will be for the 2017 Parliament to decide whether to revive it.

Key Issues: Chapter 7

The Economy and
Public Finances
Work and Industry
Living in the UK
Justice and
Immigration
Key Issues 2017
Media and
Technology
Environment
**Foreign Affairs
and Defence**
Governing the UK

Brexit: an overview



Brexit dominates the current political landscape, and was at the core of the general election. But hopes, fears, rumours and opinions have often been more prominent than facts. Although there are a number of unknowns (such as whether notice to withdraw can be revoked) it is possible to shed light on the process of leaving the EU, what some initial negotiating positions might be, and what 'no deal' would mean for the UK.

The Article 50 process

Article 50 allows an EU Member State to leave the EU. It has never been used before and its interpretation has not been straightforward. But it is accepted that the two sides now have two years – until 29 March 2019 – to negotiate a withdrawal agreement, or to unanimously agree an extension. The UK can leave without an agreement, but an 'orderly withdrawal' is the desired outcome for all parties.

Where are we now?

The exit process was triggered on 29 March 2017, when Theresa May delivered a letter of notice to the European Council setting out the UK's priorities. The Council then adopted political guidelines which will form the EU's framework for the withdrawal negotiations. A Council Decision authorises the European Commission to open negotiations with the UK and issues detailed negotiating directives. The first formal meeting will take place in June.

Throughout the negotiations, right up until Brexit day, the UK will remain a Member State, so EU rights and obligations will continue to apply.

The negotiations

Who will negotiate?

Michel Barnier is the EU's chief negotiator. He will be assisted by the Council, the Committee of Permanent Representatives, a representative of the rotating Council Presidency (Malta followed by Estonia), and the Working Party on Article 50 headed by Didier Seeuws.

The UK negotiators are likely to include David Davis, the Secretary of State for Exiting the EU, officials in his Department (Oliver Robbins and colleagues), and Tim Barrow, the UK's top diplomat in Brussels.

Priorities

Both sides have said that they want to prioritise citizens' rights and resolve the complex impacts of Brexit on the Ireland-Northern Ireland border. But beyond that there has already been some significant disagreement.

What does the UK want?

The previous Government's strategy called for:

- negotiation of the withdrawal agreement alongside the UK's future relationship with the EU;
- "deep and special partnership", including economic and security cooperation;
- a "fair settlement of the UK's rights and obligations as a departing member state"; and
- transitional arrangements to allow businesses to adjust to the new situation.

Although Theresa May called for a "bold and ambitious Free Trade Agreement" with the EU, she was not seeking Single Market membership.

EU 'red lines'

The EU guidelines stipulate: no "cherry picking", no settlement that is more favourable than EU membership, and a "single package" – nothing is agreed until everything is agreed.

They prescribe a phased approach to the negotiations, first establishing "clarity and legal certainty" for citizens, businesses and international partners on the immediate effects of Brexit, and determining a "single financial settlement" – the so-called 'divorce bill'. A second phase would begin only if "sufficient progress" had been made. Then there would be new negotiating directives on transitional arrangements (how to move from the present relationship to a future relations agreement).

The European Parliament has passed a non-binding Resolution on the negotiations, making clear it will not approve any agreement giving the UK similar benefits to EU membership.

Scrutiny of negotiations

The UK Parliament will not have a formal role or final say on the negotiations. The May Government promised a vote in both Houses on the final version of the agreement before the EP vote, but said it would not try renegotiating if Parliament votes no.

Parliament will, however, want to scrutinise the Brexit process. Backbench Business and the petitions system are likely to initiate debates. Select Committees, once they are established, will carry out inquiries into aspects of Brexit.

The May Government said it would be as transparent as possible, but would not give away its negotiating hand or damage its negotiating stance. The Commission intends to keep the EP "closely and regularly informed" about the negotiations, and the UK Government pledged to keep Parliament at least as well informed as the EP. It is not yet clear in either case how information on progress in the negotiations will be shared. Michel Barnier says the Commission "will be transparent throughout the process".

Theresa May's negotiating strategy was set out in a speech to the Conservative Party conference in October 2016, a speech at Lancaster House in January 2017, and the Brexit White Paper in February.

What topics will be covered where?

It's not clear exactly what subjects would need to be in a withdrawal agreement, and what might be in a future relations agreement.

As well as citizens' rights, the Northern Ireland border and the financial settlement, some of the main issues for agreement include:

- trade and economic relations
- the role of the Court of Justice of the EU (CJEU)
- customs and immigration arrangements
- EU programmes and funding in the UK
- relocating UK-based EU agencies
- arrangements for UK Sovereign Base Areas in Cyprus
- EU international agreements
- police and judicial cooperation
- foreign policy, security and defence
- 'passporting' rights for financial services
- air traffic arrangements
- energy, environment, climate change, agriculture and fisheries
- data transfer rights
- higher education and research
- Gibraltar

The financial settlement

The EU expects the UK to make a 'financial settlement' when it leaves, with estimates ranging from €15 billion to €100 billion, possibly payable over several years.

There are no rules on what a departing country should pay, and conflicting views over whether there is a legally enforceable obligation to pay. But failure to agree a payment could damage prospects for agreement on other important issues.

The EU says the payment should be based on the principle that the UK honours its share of all its obligations as a Member State, e.g. spending it agreed to and other commitments and liabilities, such as EU staff pensions or outstanding loans.

UK negotiators are likely to argue that if the UK shares these costs, it should also receive a share of EU assets, lowering the payment.

The Government also intended to involve the Devolved Administrations; they have been discussing their Brexit requirements in a Joint Ministerial Committee on EU Negotiations.

Could the UK revoke its withdrawal notice?

Theresa May's Government said it did not intend to revoke the withdrawal notice, regardless of the legal position.

But if Parliament rejects a withdrawal agreement, or there is a new UK Government, or an unexpected global crisis, could the UK Government unilaterally halt Brexit?

Nobody knows the answer. Article 50 doesn't say. The Supreme Court didn't decide either way in the Miller case. And the CJEU has not ruled on this (although it may yet be asked to).

There is considerable opinion in academia and in the EU that notification could be revoked up to 29 March 2019, on the grounds that (for instance) Article 50 is a mechanism for voluntary withdrawal, not expulsion from the EU.

Concluding a withdrawal agreement

An Article 50 withdrawal agreement needs the approval of:

- the UK Government (but not the devolved administrations)
- the European Parliament (including UK MEPs; simple majority of votes cast)
- the European Council (super-qualified majority, i.e. 20 of the 27 remaining EU Member States)

If the withdrawal agreement includes provisions on the future relationship, it might require an additional legal basis which is likely to require unanimity in the Council. If it covered matters considered to be Member State competences, it could also become a 'mixed agreement' needing national ratification by all 27 remaining States (EU27).

If there is a withdrawal agreement, the EU Treaties will cease to apply to the UK on the date the agreement enters into force. This could in theory be after 29 March 2019, but the draft EU negotiating mandate says it should enter into force no later than 30 March 2019.

A separate 'future relations' agreement?

Although the UK Government argued for concluding a future relations agreement alongside the withdrawal agreement, the EU considers that a future relations agreement cannot be concluded until the UK has left the EU. Article 50 does not require a future relations agreement to be concluded in the two-year period, but it does say the withdrawal agreement should take account of the framework for the future relationship.

A future relations agreement would probably require unanimity in the Council, and possibly national ratification by each of the EU27 (though a recent CJEU judgment stated that most aspects of the EU-Singapore Free Trade Agreement did not require national ratification).

Gibraltar

Gibraltar, a British Overseas Territory, voted overwhelmingly to stay in the EU, but will have to leave with the UK. Gibraltar's particular requirements are being discussed at the Joint Ministerial Council (Gibraltar).

The European Council guidelines state that a future agreement between the EU and the UK cannot apply to Gibraltar unless Spain agrees. This was widely reported as potentially giving Spain a right of veto over an agreement.

The Gibraltar Government called it unfair and discriminatory, but Gibraltar's Chief Minister thinks it will "change little".

What would 'no deal' mean?

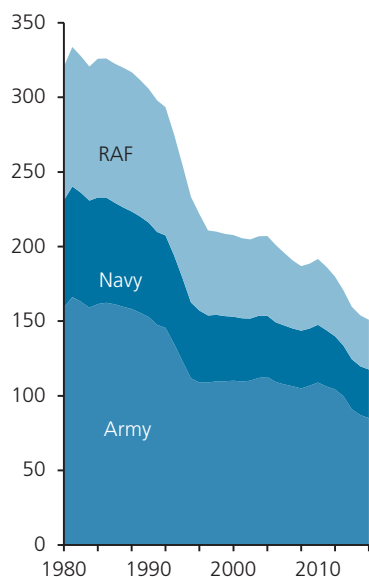
If there is no withdrawal agreement by 29 March 2019, and no unanimous agreement to extend the two-year period, the EU Treaties will automatically cease to apply to the UK. Both sides have said they want to avoid this, but it is still a real possibility.

'No deal' would result in UK-EU trade being subject to general WTO rules, meaning increased barriers to trade in goods, and possibly preventing some trade in services. It would also mean significant uncertainty about all the other issues in the negotiations, such as citizens' rights.

However, leaving with no withdrawal agreement would not necessarily prevent the two sides from reaching future bilateral agreements on any or all of these matters.

Defence and the Armed Forces

Chart 1:
Total UK Regular Forces (thousands)
Trained and untrained at 1 April



Since 2010, UK defence policy and the armed forces have undergone significant change. A massive programme of reform and restructuring has been implemented to allow the MOD to make savings, as well as achieve a leaner and more agile force that meets the UK's needs by 2020. Much of that reform process is still ongoing amidst constantly changing global challenges.

A smaller military

The armed forces remain on a long-term downward trajectory in terms of raw numbers of personnel.

The Coalition Government initiated a significant reduction in the size of the armed forces, to be completed by 2020. Since then the Army has gone from 102,000 regular soldiers to under 80,000 – below its 2020 target. The full-time trained strength targets for all three services are:

Trained Full-time UK Armed Forces

Trained and Trade Trained	1 March 2017	2020 Target
Army Service	78,432	82,000
Naval Service	29,478	30,450
RAF Service	30,852	31,750
Total	138,762	144,200

The 2015 Strategic Defence and Security Review also committed to reduce the civilian headcount by almost 30%, to 41,000 by 2020, and reduce the defence estate by 30% by 2040. Some of the 91 sites across the UK earmarked for disposal will be sold off in the next five years.

Recruitment and retention

Recruitment and retention remains a key issue for all three services. The armed forces are in the midst of reforming the terms and conditions of service to be more attractive to potential recruits and help to keep those already serving. New measures include: a new pay model, a new payment system for service accommodation, and support for those wishing to buy their own property. The MOD is also aiming to provide better support to help spouses gain employment, and greater stability for children to reduce the impact of service on family and personal life.

Housing is likely to remain a big issue in the new Parliament. The maintenance of service family accommodation has already come under intense scrutiny; while the Service Families Federations reported “increasing nervousness” about the Future Accommodation Model under development by the MOD.

The 2% defence spending target

The 2015 Comprehensive Spending Review committed to increase defence spending by 0.5% above inflation every year until 2021.

Ministry of Defence planned defence budget

As set at the 2015 Spending Review £ billion

	2016-17	2017-18	2018-19	2019-20	2020-21
Resource DEL ^a	27.8	28.5	29.2	30.0	31.0
Capital DEL	7.3	7.5	7.8	8.1	8.7
Total DEL	35.1	36.0	37.0	38.1	39.7

a. Resource DEL excludes depreciation. DEL = departmental expenditure limits

Source: MOD, Defence budget increases for the first time in six years, 1 April 2016

In doing so, the UK will meet the NATO target of spending 2% of GDP on defence, until the end of the decade. Will the new Government fulfil its manifesto commitment to spend 2% until the end of the Parliament? And will the 23 members of NATO who don't meet that target bow to US pressure to come up with clear plans of how they intend to do so?

£178 billion equipment spend over the next decade

£178 billion will be spent on equipment and support over the next ten years, according to the Defence Equipment Plan 2016. Spending is based on the assumption of an ongoing commitment to a 1% above inflation fund for equipment for the entire decade.

The National Audit Office has cautioned: "the affordability of the Equipment Plan is at greater risk than at any time since its inception".

One of the first major equipment decisions of the new Parliament concerns the Navy's new fleet of frigates. A National Shipbuilding Strategy is expected to outline the MOD's build plans for the new Type 26 and the new Type 31, which has yet to be designed.

Military deployments

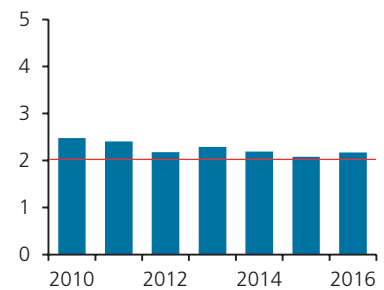
British Forces are currently involved in more than 30 operations in over 20 countries, protecting the UK and its interests and promoting security in key regions of the world. Significantly:

Operation Shader – the UK's military contribution to the global coalition response to ISIS/Daesh advances in Iraq and Syria (1,350 personnel).

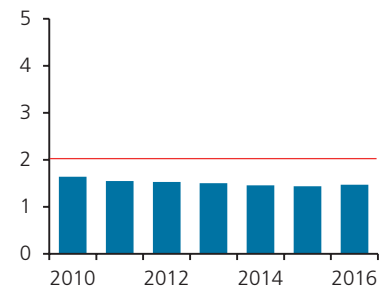
The RAF is conducting airstrikes in support of local forces on the ground and providing intelligence and surveillance to coalition operations. The UK is the second largest contributor to the air campaign, behind the US. The RAF is conducting operations at a tempo not seen since 1990-1991.

Defence expenditure as a share of GDP
Red line is NATO 2% guideline 2016 estimated

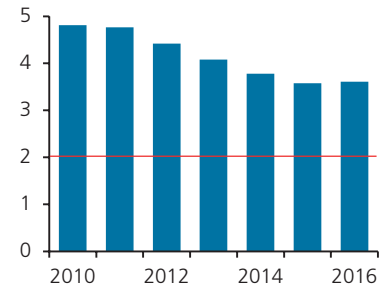
United Kingdom



NATO – Europe



United States



New equipment expected during the next Parliament:

- New aircraft carrier
- Lightning II aircraft
- Final Astute class submarines
- Ajax armoured vehicles
- Maritime patrol aircraft
- New complex weapons
- Offshore patrol vessels and tankers

Non-combat personnel are providing training to Iraqi forces, many of whom are now conducting operations in Mosul. The UK is the lead nation for counter-IED (Improvised Explosive Device) training. In October 2016, the UK also resumed training for vetted moderate Syrian opposition groups. The UK has also provided non-lethal military equipment to the Kurdish Peshmerga.

Coalition leaders stressed at the outset of the campaign that it would be one of “patience and persistence, not shock and awe”.

Eastern Europe – NATO has significantly boosted its military deployments and exercises in direct response to Russia’s annexation of Crimea in 2014. The UK is making a significant contribution in 2017:

- Leading the new multinational battlegroup in Estonia (800 troops)
- Contributing 150 troops to the US-led battlegroup in Poland
- Typhoon aircraft in Romania to support policing of NATO’s southern airspace
- Leading the Very High Readiness Joint Task Force, with 3,000 personnel on standby to deploy rapidly if required

Afghanistan – The UK has 500 personnel deployed in Afghanistan as part of NATO’s train, advise and assist mission for Afghan security forces, and leads the Afghan National Army Officer Academy in Kabul. Recently the NATO Secretary General called for a re-evaluation of NATO’s commitment to Afghanistan, which is increasingly under threat from a resurgent Taliban.

Parliamentary approval for deploying the Armed Forces

The deployment of the armed forces remains a prerogative power – exercised by the Queen on the advice of her ministers – and Parliament has no legally established role. In 2011, however, the Coalition Government acknowledged the emergence of a convention giving the House of Commons an opportunity to debate the deployment of military forces, prior to deployment, except in the event of an emergency.

The defeat of the Government in a vote on military action in Syria in August 2013 was widely viewed as an assertion of Parliamentary sovereignty on such matters. This was compounded by subsequent votes on military action in Iraq and Syria in September 2014 and December 2015 respectively.

Following the US military response to the alleged use of chemical weapons by the Syrian Government against its own civilians, a parliamentary vote extending UK military operations in Syria, beyond their current remit, is possible early in the new Parliament.

Concerns remain that the convention continues to lack clarity and is open to interpretation and exploitation, so calls for the convention to be backed by legislation may also resurface. The 2015 Government had committed to legislate on this issue, but that commitment was dropped in 2016 because of concerns over freedom of action for the Government, and over giving the courts the power to rule on the lawfulness of a deployment decision.

The debate over defining 'combat' may re-emerge if the new Government pushes ahead with previous proposals to enshrine the principle of combat immunity in law.

Trident: Replacing the UK's nuclear deterrent

In July 2016, the House of Commons approved the decision to maintain the UK's nuclear deterrent beyond the early 2030s. Having already been in place for almost a decade, the 2016 vote enabled the programme to move into its manufacturing phase, which will see the construction of four new Dreadnought class ballistic missile submarines over the next 10-15 years. The first submarine will enter service in the early 2030s.

The programme will be intensely scrutinised, not least because at £31 billion (with a £10 billion contingency) it will be one of the most expensive in the MOD's equipment plan. A new body focused solely on delivering the programme is currently being set up.

As the programme moves forward the prime contractor, BAE Systems, has estimated that 85% of its supply chain will be based in the UK, potentially involving around 850 British companies. The programme as a whole is expected to support up to 6,000 jobs. Questions have already been raised, however, over the use of foreign steel in the construction of the Dreadnought class and whether more can be done to promote the British steel industry within MOD programmes.

The decision to replace the UK's nuclear deterrent has drawn intense criticism from disarmament advocates who argue that it contravenes the UK's obligations under the Nuclear Non-Proliferation Treaty. Successive governments have denied this, but these arguments are likely to return to the fore as a decision on replacing the UK's nuclear warhead is currently earmarked for 2019-2020.

A new Strategic Defence and Security Review?

The 2010 SDSR committed to a full defence and security review at least every five years, so the 2015 SDSR provided a five-year outlook, based on a 2020 General Election.

However, that five-year cycle is not set in stone and the next Government may decide the General Election provides grounds for a new or refreshed review. Alternatively, it may argue that sticking to the 2020 timetable would enable the Government to set out its approach to national security post-Brexit.

Although commonly referred to as "the renewal or replacement of Trident", the Dreadnought programme is about the design, development and manufacture of a new class of four submarines.

Replacement of the Trident II D5 missile itself is not part of the programme.

Foreign affairs: the state of the world

UK foreign policy and Brexit

The foreign policy implications of Brexit for the UK are still far from clear. In the aftermath of the 2016 referendum, Lord Hennessy said: “Never in our peacetime history have so many dials been reset as a result of a single day’s events.”

The outgoing Conservative Government said that, while a good post-Brexit relationship with the EU is very important, Britain’s political and economic future will be ‘global’; that the UK will retain the capacity to intervene around the world; and that Brexit will not harm the UK-US ‘special relationship’. But others fear that a UK outside the EU will struggle to maintain its influence, anticipating that post-Brexit foreign policy will need to combine damage limitation with fresh thinking.

Donald Trump

Campaigning for the presidency, Donald Trump advocated an “America first” foreign policy; NATO was “obsolete,” allies would pay for their defence, and international interventions not obviously in the US national interest would be avoided. He also offered rapprochement with Russia and made defeating ISIS and other jihadi terrorist groups a top priority.

He promised in February 2017: “We build a military might so great – and we are going to do that – that none will dare to challenge it. None.”

Building unchallenged military superiority and then showing more restraint in deploying it may be difficult. One of Trump’s highest profile acts was the cruise missile strike on Syria in April 2017.

Syria-Iraq

In Syria and Iraq, ISIS has lost territory and about half its fighters since its peak, according to the US-led coalition. The Syrian government, helped by Russia and Iran, has improved its position markedly, re-establishing control over Aleppo. It now looks unlikely that the Syrian government will fall.

Nevertheless, a political settlement remains distant. Any post-settlement government that resembled the present one would lack legitimacy; the Syrian government is responsible for far more deaths in the conflict than any other protagonist.

The Russian/Iranian alliance that seems to have saved the Syrian government may come under strain over a final settlement.

Meanwhile the resulting refugee crisis is the biggest of our time and the UNHCR is short of funds.

Accountability is another question. In December 2016 the UK co-sponsored a UN General Assembly resolution establishing a new ‘International, Impartial and Independent Mechanism’ to collect and analyse evidence of serious international crimes committed in Syria. But without Syrian agreement or Security Council authorisation there is very limited scope for using that evidence in an international court or tribunal.

US-China

During the 2016 US election campaign, Donald Trump indicated that if he won, he might tear up key elements of traditional US policy toward China. Soon after his election, he questioned the validity of the 'One China' policy, which in 1979 led the US to sever diplomatic ties with Taiwan and switch recognition to the People's Republic.

So far little has really changed in the US-China relationship. The 'One China' policy has been re-affirmed. Chinese president Xi Jinping and President Trump met. There is greater cooperation over North Korea.

Some have been reviving ideas of a 'grand bargain' between the countries. However, many issues where interests diverge widely – for example, the South China Sea – remain. The relationship could turn sour again.

North Korea

The new US administration is increasing pressure on Pyongyang to abandon its nuclear weapons programme.

There do not appear to be military options for the US without mass civilian casualties. For all the current sabre-rattling, tougher UN sanctions seem more likely – and perhaps an eventual resumption of negotiations. The new president in South Korea wants to dampen down tensions.

Much hinges on how far China is willing to go along with growing US pressure. Traditionally, it has valued North Korea as a 'buffer state' between it and the West, fearing regime collapse above all else.

While Beijing can severely damage the North Korean economy through tougher sanctions, it is uncertain how far this would change Kim Jong-Un's behaviour. There is a real risk of catastrophic miscalculation by one or more of the parties.

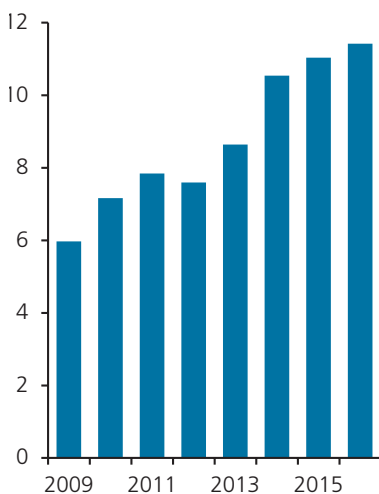
Iran

Donald Trump has described the Iran nuclear deal as "disastrous" and said scrapping it was a top priority. Pressure from conservatives in Washington to impose further sanctions could scupper the deal. European countries are likely to argue for keeping it.

Hassan Rouhani, figurehead of the nuclear deal in Iran and of opening up to the West, easily retained the presidency in the May 2017 election.

The Institute for the Study of War predicts that a major conflict between the US and Iran is likely in the next five years.

Chart 1:
Afghanistan civilian deaths and injuries
(thousands)



Afghanistan

In March 2017 the Taliban captured Sangin, scene of over 100 British deaths a decade ago. In April, the worst Taliban attack since 2001 killed 140 Afghan soldiers in Balkh province; the Defence Minister and the army Chief of Staff resigned – all that before the Taliban's spring offensive began. The Afghan branch of ISIS also mounted attacks against both the Taliban and pro-government forces.

Meanwhile, splits in the government continue to threaten its effectiveness; the Afghan National Security Forces only control slightly over half of the territory. The US military leadership has asked for a few thousand extra troops.

A huge bomb dropped by US forces on an alleged ISIS base suggested, like Trump's action in Syria, that his administration could intervene more decisively.

Libya

The internationally-recognised Government of National Accord (GNA) in Libya is not establishing its authority over the country; it does not control important institutions like the state oil company or the central bank, nor has it been recognised by the House of Representatives.

UN engagement with Libya has faltered in recent months, while Russia has increased its support to General Haftar's Libya National Army, the main rival to the GNA.

The EU seeks ways to control irregular migration through Libya; 1,089 people have been registered missing or dead in the Mediterranean so far this year. The plight of migrants from south of the Sahara inside Libya has also been highlighted, with reports of open slave markets.

ISIS

ISIS is forecast to lose most of its remaining territory in Iraq and Syria before long. That will be a success for the international coalition, but questions remain about what will happen to the organisation and its personnel when there is no longer an 'Islamic State'. It may turn into a more traditional terrorist organisation – inspiring, facilitating and organising attacks in the Middle Eastern and European countries where most of its fighters came from.

Leaders are well aware of the dangers of dispersal, but success in detaining ISIS fighters in Iraq and Syria as the caliphate disintegrates is likely to be patchy. Could the end of the 'Islamic State' mean an increase in lone-actor terrorism such as the horrific attacks of spring 2017? Investigators have discovered ISIS had a more direct role than previously thought in recent events like the Nice lorry attack.

Russia

Hopes of improved relations with the US have been clouded by the US cruise missile attack on Syria and by stronger than expected US commitment to NATO. Trump's pledge to increase defence spending is also worrying Russia, given its economic difficulties and the consequent stall in its military modernisation.

If the Syrian intervention has encouraged the West to take Russia seriously (the US sent a representative to the Russian-backed Astana peace talks), there are opportunities to repeat that process – in Ukraine and Georgia, for example.

No one thinks that Putin will lose the 2018 presidential election, but protests organised by Alexei Navalny, the anti-corruption politician, showed that real resistance to Putinism may be growing, particularly among the young.

The 0.7% aid target

Despite an ongoing campaign for its abandonment, there remains broad political support across the UK for the UN target of spending 0.7% of gross national income on foreign aid, enshrined in UK law in 2015.

This consensus could come under renewed strain if a serious economic downturn occurs in the UK, or if there are further controversies over fraud or waste.

There also remains plenty of scope for future disagreement over where and how UK aid should be spent, and by which Government department. DFID's share of spending has decreased in recent years as UK aid has become more closely linked to the 'national interest'.

Nuclear disarmament

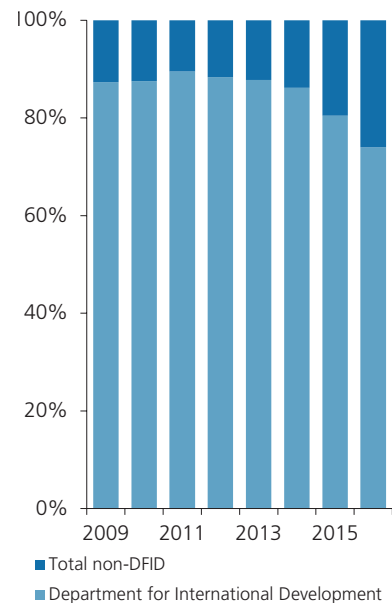
The nuclear disarmament regime is increasingly under pressure as the nuclear weapon states pursue modernisation and North Korea develops a nuclear weapons capability.

Historically, many have looked to the US and Russia for leadership on this issue. President Trump, however, has expressed support for nuclear modernisation and cast doubt on the US-Russian New START treaty, which expires in 2021. The current US nuclear posture review will set the tone for future nuclear relations, although hopes of a follow-on treaty are already starting to fade.

Frustrated with the lack of progress on disarmament, negotiations are underway in the UN General Assembly on a nuclear weapons prohibition treaty. However, none of the nuclear weapon states, including the UK, are participating, which raises questions over what those talks can actually achieve.

Chart 2:

Aid by government department, % total aid



Key Issues: Chapter 8

The Economy and
Public Finances
Work and Industry
Living in the UK
Justice and
Immigration
Key Issues 2017
Media and
Technology
Environment
Foreign Affairs
and Defence
Governing the UK

The Great Repeal Bill

The status of EU-derived law post-Brexit

The White Paper on the Great Repeal Bill made two important points on the status of EU-derived law post-Brexit that were designed to ensure continuity:

Historic CJEU case law will continue to have the same binding status in our courts as decisions of our own Supreme Court.

If, after exit, a conflict arises between a pre-Brexit EU law and a pre-Brexit domestic law, then the EU-derived law will continue to take precedence.

Leaving the EU will require major changes to the UK's constitutional framework and to the statute book. At the same time, repealing all EU law on the day of exit would leave "black holes" in the law governing how we live and work. The 'Great Repeal Bill', which had been expected early in the 2017/18 Session of Parliament, was the previous Government's solution to this problem. The Labour Party opposes the proposed Bill and instead argues for an "EU Rights and Protections Bill". The Conservatives' proposals seek to end the supremacy of EU law in the UK whilst limiting the initial changes to the statute book by converting EU law into domestic law. If the Bill is enacted, it will then be for Parliament to decide on how this body of law should be adapted for life outside the EU. Balancing the Bill's two main aims, constitutional change and legal stability, would require ingenuity, and the Bill would most likely include complex legal mechanisms with far-reaching constitutional effects.

The shape of the Bill

The Bill would be presented as the 'legal nuts and bolts' necessary to give effect to Brexit. Substantive policy changes would be included in stand-alone Bills later in the Parliament, e.g. on immigration and customs.

Delegated powers would be included in the Bill to enable the Government to make secondary legislation for two main purposes:

- 'correcting' EU derived law so that it functions effectively after Brexit, and
- implementing the withdrawal deal.

Since these are wide-ranging powers, their precise nature and the extent to which they enable effective parliamentary involvement and scrutiny may be controversial.

Major constitutional change

The Bill would repeal the European Communities Act 1972 [ECA], the legislation which sets out the UK's relationship with the EU. The 'pipeline' created by the ECA, which enables UK law to be updated in line with changes made by the EU, would be cut off. On the day the UK leaves the EU, laws relating to EU membership, such as the right to vote in elections for the European Parliament, would cease to apply.

The general supremacy of EU law in the UK would be brought to an end. Laws enacted by Parliament post-Brexit would take precedence over earlier laws that originate from the EU. UK courts would no longer refer questions of EU law to the Court of Justice of the European Union [CJEU], and the UK courts would not be bound to follow new judgments given by the CJEU post-Brexit.

Avoiding black holes

The Bill would seek to achieve legislative continuity in three steps.

- Converting the entire ‘acquis communautaire’ (the body of EU law as it stands on Brexit day) into UK law. This is a large body of law, including around 5,000 EU regulations alone.
- Preserving the existing EU law already on the UK statute book.
- Amending this converted and preserved law, known as EU-derived law, so that it functions effectively post-Brexit. The Bill would contain powers to enable Government Ministers to amend this law using secondary legislation.

This is a large scale and unprecedented legislative project that could require a thousand statutory instruments (secondary legislation issued by Ministers) to be enacted in a limited timeframe. The changes would include removing references to EU institutions and EU law.

The right balance would need to be struck between scrutiny and speed in dealing with these statutory instruments. Some MPs and Peers may seek to restrict the correcting power so that only technical changes can be made, whilst the Government may wish to secure more legislative wriggle room. The House of Commons Procedure Committee took a keen interest in this area and has published its evidence received to date.

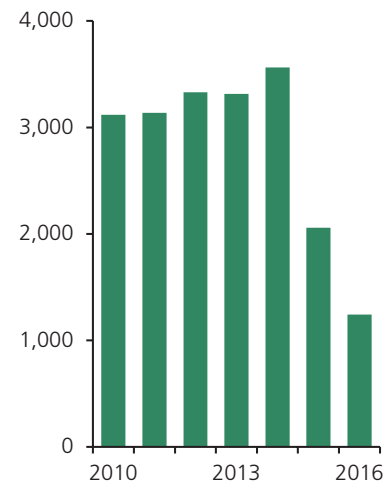
The Withdrawal Agreement

The Great Repeal Bill is likely to enable the Government to use secondary legislation to implement any EU withdrawal agreement. The power in the Bill could represent Parliament’s main chance to legislate for this, although the May Government also indicated that any withdrawal agreement would be subject to a vote on a motion in both Houses, after it is signed.

Would the Great Repeal Bill be enough for Parliament?

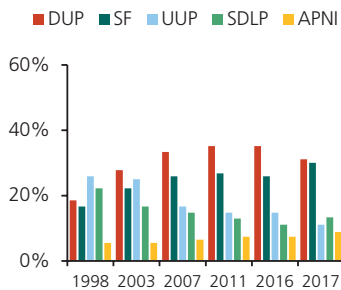
If the Bill is brought before Parliament, negotiations on the UK’s new relationship with the EU will be ongoing, and other Bills covering areas of EU competence will be due. It is therefore difficult to know precisely how much EU law would be preserved on the day the UK leaves the EU. It remains to be seen whether Parliament would feel that it is being offered enough opportunity to scrutinise the changes to the law occurring before Brexit day.

Chart 1:
Volume of UK Statutory Instruments



What’s next for devolution?

Chart 1:
Northern Ireland Assembly



Devolved elections – Share of the seats

Chart 2:
Scottish Parliament

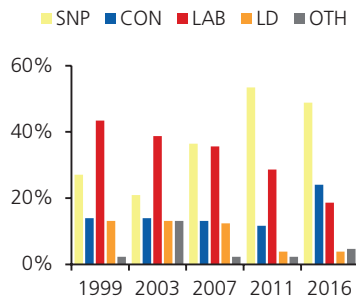
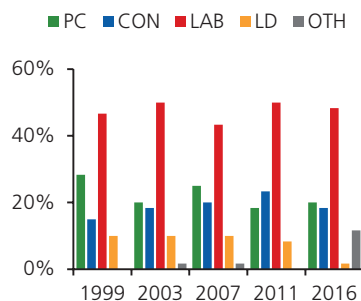


Chart 3:
Welsh Assembly



The UK’s devolution arrangements are now 18 years old but are still developing. New powers were devolved to Scotland and Wales in the last Parliament, and a tense political situation developed in Northern Ireland. Brexit will raise new challenges for the devolution settlement as the economic and social needs of the nations may vary along with political and public opinion towards leaving the EU.

Scotland

Scotland has the greatest range of devolved powers in the UK.

Tax powers introduced by the Scotland Act 2012 (over a portion of income tax, plus taxes on land transactions and landfill) came into effect during 2015 and 2016. New powers from the Scotland Act 2016 (rates and bands of income tax, and their full receipts, air passenger duty, aggregates levy, and a share of VAT receipts) come in over the next three years. Altogether the Scottish Government is likely to raise about 37% of its expenditure, which its VAT share raises to about 50%.

Scotland voted strongly to remain in the EU. The SNP’s 2016 manifesto promised a second independence referendum if Scotland were taken out of the EU against its will. The Scottish Parliament’s call for power to hold this referendum was rejected by the UK Government in early 2017.

Wales

Wales is waiting for its new system of devolution, set out in the Wales Act 2017. The Act introduces a ‘reserved powers’ model which specifies the matters reserved to the UK; everything else is devolved. This is the reverse of the current model. Government commencement orders are needed to introduce these changes.

Income tax changes included in the Wales Act 2014 will come into force in 2019. Rates of income tax will be reduced by 10p and the Assembly will decide a Welsh rate to add on top. Taxes on land transactions and landfill are also being devolved.

The previous Government described the new arrangements as a lasting settlement, to bring an end to a decade of constitutional change in Wales.

Northern Ireland

The political process in Northern Ireland remains tense. The Executive from the 2016 election collapsed in January 2017. An extraordinary election was held in March 2017, but the parties failed to agree on a new Executive within the statutory time limit. That limit was extended by one of the last acts of the outgoing UK Parliament.

Underlying issues include dealing with the past. Delays in implementing agreements on this and other issues cause knock-on delays for the political process. For instance, devolution of the corporation tax rate under the Corporation Tax (Northern Ireland) Act 2015 is subject to the Executive's finances being on a sustainable footing, itself bound up in larger packages of change.

Brexit, opposed by a majority in Northern Ireland, raises special problems for Sinn Féin. Up till now, the membership of Ireland and the UK in the larger political entity of the EU reduced the difficulties of participating in UK politics for nationalists.

Negotiating and implementing Brexit

The Government said it would work with the devolved administrations to get the best deal for all of the UK. Scotland, Wales and Northern Ireland will have specific interests in withdrawal negotiations which may differ from England's. The UK Government has responsibilities for all parts of the UK, but it alone represents England.

The presence of different parties in power in the devolved administrations added to the practical and ideological complexity in resolving policy divergences about withdrawal during the last Parliament. Strains were immediately evident over continuing access to the Single Market, rights of EU nationals and the role of devolved legislatures and executives in the withdrawal process. Northern Ireland faces a unique challenge as a result of its land border with the Republic, and thus the EU.

The mechanisms for devolved involvement in withdrawal policy will be under scrutiny. At present the only access for the devolved institutions is consultative, via the Joint Ministerial Committee, with its EU Negotiations sub-committee, JMC(EN). The Labour Party tried unsuccessfully to amend the European Union (Notification of Withdrawal) Bill to include a statutory role for the JMC. MPs and participants raised concerns about the adequacy of a discussion-only mechanism.

Creating new policy frameworks

The previous UK Government wished to embody in UK law legal frameworks currently set by the EU in devolved matters, such as agriculture and fisheries, probably with devolved ministers then implementing them locally. This would mean the UK Parliament legislating on devolved matters to create the frameworks, and devolved legislatures not having powers to change them.

Where next for devolution?

Devolved institutions entering their third decade may expect more from the centre than a devolution model based on Parliamentary sovereignty may allow an England-based Government to deliver. They have already signalled their opposition to re-reservation of devolved powers following Brexit. Will they also seek to bolster their constitutional position within the UK?

Chart 4:
Turnout at devolved elections

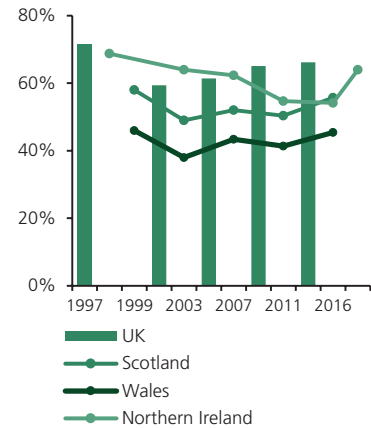
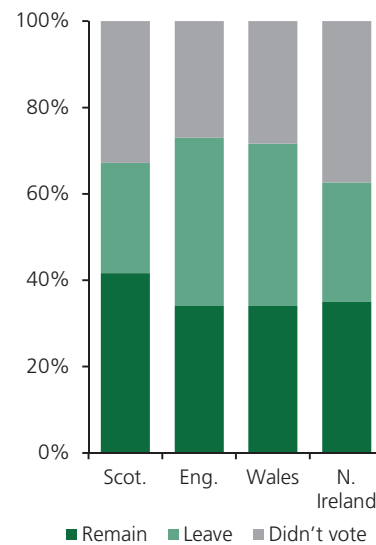


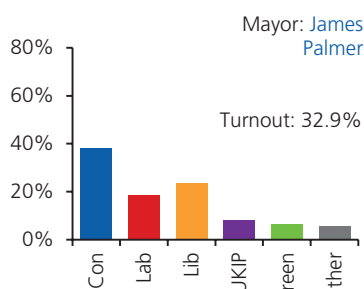
Chart 5:
EU Referendum 2016
Vote by share of the electorate



Share of HMRC tax receipts (2015-16, estimated)	
England	86.9%
Wales	3.3%
Scotland	7.7%
Northern Ireland	2.1%

Metro-mayors and devolution deals

Cambridgeshire and Peterborough



The first elections for six elected mayors of combined authorities (known as 'metro-mayors') took place on 4 May 2017. They were held under the Supplementary Vote system.

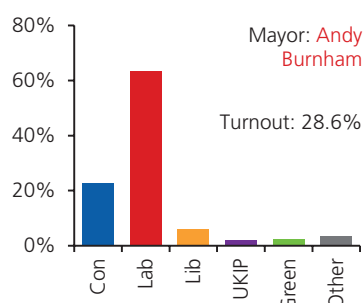
The Conservatives won four of the contests and Labour won two. The mayoral election for the Sheffield city region has been postponed to May 2018.

Devolution deals

This is the latest stage in the policy of 'devolution deals', launched by the former Chancellor George Osborne in November 2014 with the 'Greater Manchester Agreement'. Since then, deals have been struck with eight further areas and all but those in West Yorkshire and Cornwall include elected mayors.

The mix of devolved functions varies. Most combined areas will play a role in spatial planning; transport; business support; the Work and Health Programme; further education; and economic development. Greater Manchester's deal is the strongest. There, the mayor will also control the police and fire authority and a housing investment fund, and will have influence over new joint arrangements for health and social care.

Greater Manchester



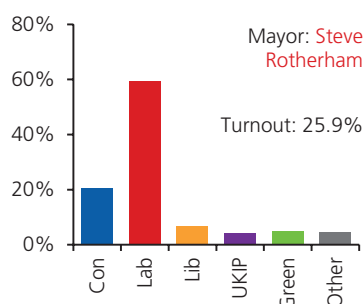
What will the new mayors do?

The mayors will not have the kind of broad powers available to the Mayor of London. Each will chair their combined authority and will appoint council leaders to their 'cabinet'. In Tees Valley and the West Midlands, the mayor will face 'cohabitation', with most of the combined authority members coming from a different party from their own. In practice, all of the mayors will have to garner consensus to deliver tangible outcomes.

Some of the proposed approaches in the winners' manifestos include:

- **High-profile infrastructure investment, supported by the Government.** Each area will receive an annual investment grant, ranging from £15 million in Tees Valley to £36.5 million in the West Midlands, along with other sources of funding for transport and economic growth. Proposals include building new light rail lines, taking over and maintaining railway stations, and airport expansion.
- **Small-scale improvements to existing programmes** such as making access to housing easier for young people; ensuring building takes place on brownfield land; and promoting social enterprise.
- **'Place-shaping': bringing together local actors** including commitments to increase housebuilding; proposals to promote the living wage; and improving careers advice.

Liverpool City Region



Metro-mayor elections 2017

Share of first preference vote; all contests save Liverpool and Manchester went to second preference

Early indications are that the mayors' budgets will range from the high tens to the low hundreds of millions each year.

Average turnout in the mayoral elections was 27%, on the low side by local government standards. Research indicates low levels of awareness of the mayors. Given this, they may seek to prioritise public engagement and awareness.

What changes will the general public see?

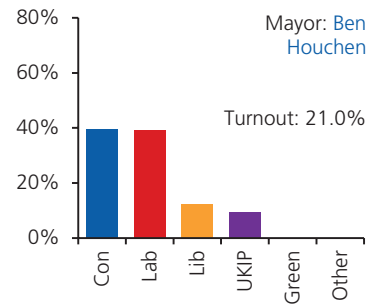
The impact of metro-mayors is not likely to be felt for a number of years. Their impact will depend on how far they can demonstrate results and lodge themselves in the public mind through being visible. They are potentially valuable allies for any government wishing to pursue the Northern Powerhouse and Midlands Engine initiatives, or for the delivery of an industrial strategy. And they will have real powers to affect local economies. However, they may also wish to stand up to the Government – or rival parties locally – to deliver their own manifesto commitments. To achieve tangible outcomes, both sides will need to develop the capacity for routine joint working on an ongoing basis – something which neither is accustomed to.

Brexit effects

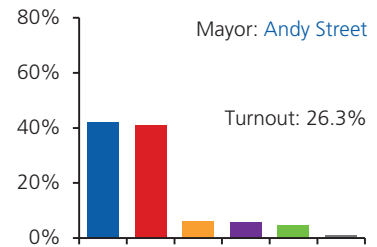
Brexit is unlikely to have a dramatic effect on the devolution deals, although EU structural funds destined for the new devolved bodies will cease after exit. The previous Government guaranteed funding for projects agreed before then.

The extent to which powers returning from the EU to the UK would, or should, be passed to local and devolved governments has been debated. The Secretary of State for communities and local government, Greg Clark, said in July 2016 that he had argued successfully for local government to be “part of the negotiations on the terms of our exit” from the EU.

Tees Valley



West Midlands



Supplementary Vote

The charts show the share of first preference votes cast for each candidate. If no candidate wins more than 50% of first preferences, all but the top two candidates are eliminated. The second preference votes of the eliminated candidates are then redistributed to the top two candidates. The candidate with the most votes after this process is the winner.

Parliamentary and electoral reform

As the 2017 Parliament grapples with the constitutional challenges of Brexit, it will also have a range of internal 'housekeeping' and electoral issues to consider, with the potential to make Parliament look and feel very different at the next election.

Some issues are current (constituency boundary reviews and renovation of the Palace of Westminster). Others are on 'pause' but are always under discussion (House of Lords Reform and electoral reform). Changes have been proposed to how MPs support complaints about public services (draft Public Service Ombudsman Bill) and there are relatively new elements of parliamentary machinery already being tested (fixed-term parliaments).

2018 – new constituency boundaries to be proposed

The Coalition Government of 2010-15 pledged to create "fewer and more equal sized constituencies" and changed the Rules for Redistribution which guide reviews of the size of Parliamentary constituencies.

The new Rules state that there should be 600 constituencies, and determine the extent to which the size of the electorate in each constituency can differ from the average.

These new 600 seats were meant to be in place for the 2015 General Election but the 2013 Review (intended to be the first under the new Rules) was cancelled due to disagreements within the Coalition Government over constitutional reform.

The 2018 Review is underway and the early election has not affected the scheduled delivery of the reports to Government by 1 October 2018.

Once approved, the new boundaries must be implemented at a general election – now expected to be May 2022 rather than 2020. By-elections that are required in the meantime are held on the boundaries in place at the 2017 General Election.

House of Lords Reform – size and powers

Comprehensive reform of the House of Lords was not a priority for the Conservative Government in the 2015 Parliament. Nevertheless, questions about the size and powers of the House arose, leading to calls for change.

800 and counting

Peers regularly express frustrations about the size of the Lords, which currently has 800 members. In September 2015, the Leader of the House of Lords acknowledged that "the House cannot keep growing indefinitely." In December 2016, the Lords agreed that its size should be reduced and the Lord Speaker appointed a committee of Back-Bench Peers to examine the practical and politically viable options. Both main parties have promised to address the size of the House in their manifestos.

A line crossed with tax credits?

In October 2015, the House of Lords prevented the Cameron Government from implementing its policy on tax credits by voting against the necessary changes to secondary legislation.

This led the Government to ask Lord Strathclyde to review secondary legislation and the primacy of the House of Commons. The review recommended a new statutory procedure to allow the Lords to ask the Commons to “think again”, when there was disagreement over a statutory instrument between the two Houses, thus removing the House of Lords’ power to prevent secondary legislation from being implemented. The Government found the review’s analysis to be “compelling” but indicated that “for now” it had no plans to introduce the necessary legislation.

However, if the Lords reject secondary legislation in future, plans to legislate could be revised.

Electoral reform – will any of it happen?

It’s been a very busy couple of years for electoral administrators, with frequent and often combined electoral events. This crammed timetable has highlighted the complexity of our current electoral processes.

Although on the surface all elections look similar, in reality there are separate rules and regulations for each type, which run to hundreds of pages of primary and secondary legislation.

Law Commission review

Electoral law has been described as “voluminous” by the Law Commission (the statutory body which keeps the statute book under review) and “no longer fit for purpose” by the Electoral Commission.

The last consolidation occurred in 1983 and the electoral landscape has been transformed since then.

The Law Commission’s 2016 review of electoral law made over 100 recommendations to simplify and consolidate all aspects of election administration and electoral registration. It is currently waiting for a government response.

Voter ID to combat electoral fraud?

In 2016 the previous Government’s Anti-Corruption Champion, Sir Eric Pickles, published a report into electoral fraud.

One of his 50 recommendations was a requirement for voters to produce personal identification at a polling station before getting a ballot paper, which the Electoral Commission has been recommending since 2014.

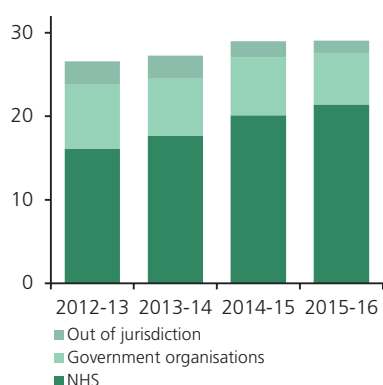
The Electoral Commission welcomed pilots of this, which are due to be held in some parts of England in May 2018. Others have expressed concern. The Labour Party, while welcoming much of the Pickles report, said plans for

One view of electoral law

“...this body of laws has grown so large, fragmented, complex and outdated that it is no longer fit for purpose.”

Electoral Commission (February 2016)

Chart 1:
Complaints handled by the Parliamentary and Health Service Ombudsman
(thousands)



voter ID risked discriminating against those entitled to vote but who don't hold appropriate ID. Some groups (such as the poor, the elderly and black and minority ethnic communities) are more likely to lack the requirements – for example, a passport or driving licence.

An end to the 15 year rule for overseas voters?

Following the 2015 General Election, the Conservative Party promised to fulfil its manifesto commitment to end the rule whereby UK citizens who have moved overseas can only vote in UK general elections for up to 15 years.

The Cabinet Office is working with the electoral community to deliver a new system and the previous Government had committed to put this in place in time for the 2020 election. The snap election now means that the next scheduled election is due in May 2022.

Is a Bill likely?

There are dozens of outstanding recommendations from various reviews, as well as initiatives underway to improve registration of under-represented groups, such as students and disabled voters, and to allow anonymous registration of victims of domestic violence.

There is potential for a lot of activity. However, the previous Government indicated that a dedicated electoral reform Bill is unlikely in the near future. It suggested that some measures, particularly relating to overseas voters, could be brought forward in other Bills.

Meanwhile, the devolved administrations could introduce reforms ahead of England as they take on greater responsibilities for devolved elections. Wales, for example, is investigating the potential for votes at 16 and proportional representation in local government elections, which would bring it in line with Scotland.

A new Public Service Ombudsman with no 'MP filter'

The previous Government published a draft Public Service Ombudsman Bill in December 2016 which has yet to be introduced to Parliament.

The draft Bill sought to abolish the existing Parliamentary and Health Service Ombudsman (PHSO) and the Local Government Ombudsman (but not the Housing Ombudsman), merging their existing responsibilities into a single Public Service Ombudsman (PSO) to offer a modernised and simpler system for investigating complaints about a public authority.

Scotland, Wales and Northern Ireland already have their own unified public service ombudsmen covering devolved public services.

By convention, the Parliamentary Ombudsman (PO) and the Health Ombudsman are the same person (the PHSO). Currently, all complaints to the PO must be made through an MP – the 'MP filter' – a feature unique to the PO, that was designed as a temporary measure to help deflect complaints outside the PHSO's remit.

The draft Bill sought to abolish this filter but give MPs the option to add their support to complainants. This was in line with 2014 recommendations by the then Public Administration Committee and a 2000 Cabinet Office review of the PO which found “almost universal dissatisfaction” with the filter. The filter was found to slow down the complaints process unnecessarily, and disempower citizens.

Is the Fixed-term Parliaments Act 2011 working as expected?

The Fixed-term Parliaments Act 2011 introduced five-year fixed-term Parliaments to bring an element of stability to the Coalition Agreement.

The ‘snap’ 2017 election has prompted questions about whether the Act has succeeded in restricting the power of the Prime Minister to call an election at the time of their choosing and, if an early election can be arranged so easily, whether the Act serves any purpose. The 2017 Conservative Manifesto promised to repeal it.

The Act specifies that elections should take place on the first Thursday in May every five years. It also includes two mechanisms to trigger early general elections:

- A House of Commons motion for an early parliamentary general election (requiring a 2/3 majority of the entire House if a division is held); or
- A vote of no confidence in the Government, following which no alternative government is formed.

Professor Robert Hazell (Constitution Unit, UCL) has cautioned that there is a danger of judging the Act prematurely, on the basis of a single episode. However, the key question remains as to whether there are circumstances where an opposition party would not support calls for an early election.

The Act specifies that a committee to review its operation has to be arranged between June and November 2020 with the majority of the membership being MPs. Without the ‘snap’ 2017 election, this review would have begun shortly after the second, scheduled election under the Act.

The next general election is currently scheduled to take place on 5 May 2022.

Between 2012-13 and 2015-16 the total number of complaints handled by the PSHO has increased 9.3%. Complaints about the NHS increased 32.8% in the same period whilst complaints about government departments fell by 19.5%.

In 2015-16, the PHSO completed 4,085 investigations about 4,710 organisations, upholding 40% of complaints.

Restoration and Renewal of the Palace of Westminster

“there is a clear and pressing need to tackle the work required to the Palace of Westminster and to do so in a comprehensive and strategic manner to prevent catastrophic failure in the next decade“

– Joint Committee on the Palace of Westminster

Condition of the Building

Since the construction of the Palace of Westminster in the mid-1800s, many features have never undergone major renovation. The heating, ventilation, water, drainage and electrical systems are now extremely antiquated and improvements to fire safety are needed. The cumulative effects of pollution and lack of maintenance is causing extensive decay to stonework. The roofs are leaking, asbestos is present throughout, corrosion has occurred in gutters and downpipes, and internal plumbing regularly fails, causing visible and sometimes irreversible damage to the Palace’s carved stonework ceilings and Pugin-designed historic interiors.

A major refurbishment is needed to protect and preserve the heritage of the Palace of Westminster if it is to continue to serve as home to the UK Parliament in the 21st century and beyond.

In 2016, a Joint Committee of both Houses of Parliament concluded that “a full decant of the Palace of Westminster presents the best option under which to deliver this work”.

It is expected that Members of the 2017 Parliament will be asked to debate and approve, in principle, the decant and the establishment of a Sponsor Board and Delivery Authority to produce detailed costings.

The Delivery Authority’s proposals for restoration and renewal (R&R) of the Palace would be subject to approval from both Houses. If this work was agreed, the project would be managed by the Delivery Authority and overseen by the Sponsor Board.

What about leaving Westminster altogether?

In 2012, officials from both Houses reviewed the options for the long-term upkeep of the Palace. They suggested four alternative approaches. One, moving Parliament to a new purpose-built building, was ruled out by the House of Commons Commission and the House Committee of the House of Lords. No further analysis of this option has therefore been undertaken.

An Independent Options Appraisal (IOA) was then commissioned to consider alternative delivery options for the Programme. A consortium led by Deloitte Real Estate considered rolling, partial and full decant against three potential outcomes from the minimum required to more ambitious improvements.

It undertook detailed evaluation of five shortlisted scenarios and provided a summary of the likely capital expenditure of each of those five scenarios (see table 1).

Table 1: Total capital expenditure of shortlisted scenarios in the IOA

(£bn, based on a P50 confidence level, at Q2 2014 prices as reported in September 2014)

Outcomes	Options		
	1. Rolling decant (25-40 years)	2. Partial decant (9-14 years)	3. Full decant (5-8 years)
A. ‘do minimum’ – like-for-like replacement of existing systems	£5.67billion	£3.94billion	
B. make some improvements		£4.42billion	£3.52billion
C. more ambitious improvements			£3.87billion

The Consortium commented that as well as being the most expensive, a rolling decant programme was also the “least predictable in terms of cost and duration” and would have a “level of risk to the continuous running of the business of Parliament”. The full decant option was, conversely, deemed to have “greatly reduced” risks to the continuous running of Parliament.

A decision for Parliament

The two Houses established the Joint Committee on the Palace of Westminster, chaired by the then Leaders of the two Houses, to review how best to approach the R&R Programme. In September 2016, it concluded that:

- “a full decant of the Palace of Westminster presents the best option under which to deliver this work”;
- Temporary accommodation in Richmond House (Department of Health) would be ideal for the House of Commons and the Queen Elizabeth II Conference Centre would provide the best possible accommodation for the House of Lords
- The delivery of R&R should be overseen by a statutory Sponsor Board; and
- An arm’s-length Delivery Authority should be given responsibility for delivering the R&R Programme.

The Joint Committee recommended that the two Houses agree a motion to start this process but stressed that once a full business case had been developed, it too would need to be approved by Parliament.

The Government announced that the initial vote would take place before Easter 2017. However, no debate was held.

It is expected that a debate will be held and a decision taken early in the new Parliament.

Is a total decant the only way?

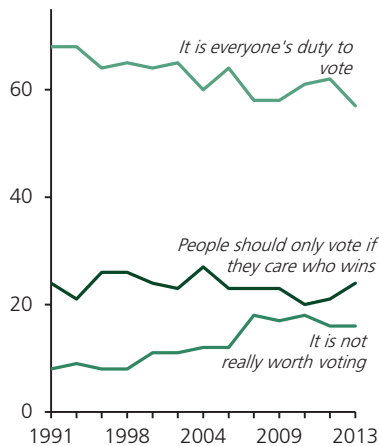
Some Members have argued against a full decant, to ensure that the Palace remains the home of Parliament throughout the works.

In February 2017, the Public Accounts Committee took evidence from the R&R Programme and officials from other large-scale infrastructure projects. The Committee concluded that a full decant was the most economic, efficient and effective choice. It noted that delays in taking decisions added to the Programme’s costs.

However, the Treasury Committee has argued that the assumptions and conclusions of Deloitte and the Joint Committee should be thoroughly scrutinised. It recommended that the House should not commit to an option or timetable until it has done so.

Political (dis)engagement

Chart 1:
Attitudes to voting in General elections (%)



Following the 2016 EU Referendum, interest in the way people engage with the political process has grown. This raises important questions about recent trends in political engagement in the UK and internationally.

Defining political engagement

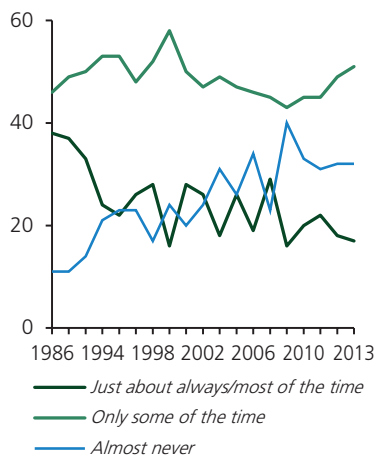
Political engagement is an umbrella term for public behaviour and attitudes towards a political system. Intention to vote and actual turnout, trust in public institutions, knowledge of politics and participation in political activities are some of the indicators that measure the extent to which someone is politically engaged.

Voting intentions and turnout

Attitudes towards voting and actual turnout at General Elections indicate how people view their potential to influence the democratic process. The charts show public attitudes towards voting since 1991 and turnout at General Elections since 1918.

The British Social Attitudes Survey (BSA) shows that the proportion of people saying "it is everyone's duty to vote" decreased from 68% in 1991 to 57% in 2013. Conversely, the proportion of people who thought that it was not worth voting rose from 8% to 14% over the same period.

Chart 2:
Trust in Government (%)



Turnout at General Elections between 1922 and 1997 never fell below 70% of the eligible electorate. However, at the 2001 General Election only 59.4% of the eligible voters turned out. Turnout increased to 66.2% at the 2015 General Election, remaining below the pre-2001 level. Among devolved nations, Northern Ireland has historically registered the highest turnout, whereas Wales has the lowest.

Trust in Government

The BSA shows that the proportion of people who say they trust the Government "just about always" or "most of the time" declined from 38% in 1986 to 17% in 2013. The proportion of people saying they almost never trust the Government nearly trebled, from 11% in 1986 to 32% in 2013.

Trust in the Government was higher in the UK (37%) than the EU average (31%), according to the 2015 Eurobarometer. The Pew Research Centre found that in 2015, 19% of Americans said they could trust their Government to do what is right "just about always" (3%) or "most of the time" (16%).

Interest in politics

The BSA shows that in 2014, 55% felt they had "a pretty good understanding of the important political issues facing Britain", up from 50% in 2004. The proportion of people who said they were interested in politics a great deal or quite a lot remained relatively stable between 1986 and 2013, rising from 29% to 32%. This was similar to the proportion of people saying they had some, or not much/none at all interest in politics.

The UK is among the countries with the lowest level of interest in politics in the EU: the 2015 Eurobarometer found that 49% of UK citizens had a medium or strong interest in politics, compared to the EU average of 61%, 78% in Sweden and 77% in Germany. Pew Research Centre polling found that 51% of Americans said they followed “what’s going on in government and public affairs” most of the time and 26% some of the time.

Engagement in political activities

In their Audit of Political Engagement 2017, the Hansard Society identified a list of 12 political activities to analyse people’s actual and potential participation in the political process. In 2017, 31% of respondents had not undertaken any of the 12 activities, compared with 50% in 2013. The reason for this was an increase in the proportion of people voting in an election (27% to 57%) and in non-electoral participation, such as creating or signing an e-petition. In 2017, only 11% of people reported contacting a local councillor or an MP, but 42% of them said they would do so in the future if they felt strongly about an issue.

Encouraging political engagement

The causes of political disengagement are unclear. Previous governments have attempted to address it through a variety of policies, including initiatives to encourage voter registration among students and other groups, and teaching citizenship in schools. Parliament also engages in outreach activities, by working with schools and universities and through its e-petition system, which has attracted 14 million individual signatories since 2015.

Some questions for the new Parliament to consider:

- Do low levels of political engagement threaten the legitimacy of democracy in the UK?
- How does political engagement relate to wider developments in society, such as economic development and inequality, automation, social mobility and globalisation?
- Will raising awareness about politics lead to higher levels of trust, satisfaction and engagement?
- Automatic voter registration and compulsory voting could result in higher levels of engagement. Would this justify the intervention in personal liberty such measures entail?
- Do political processes and even the electoral system need to be changed to encourage political engagement?

Political activities identified by the Audit of Political Engagement:

Donated money or paid membership fee to a charity or campaigning organisation

Voted in an election

Created or signed a paper petition

Created or signed an e-petition

Contacted a local councillor or MP/ MSP/Welsh Assembly Member

Boycotted certain products for political, ethical or environmental reason

Taken an active part in a campaign

Taken part in a public consultation

Contacted the media

Attended political meetings

Donated money or paid membership to a political party

Taken part in a demonstration, picket or march



