



Strategic Audit Progress and challenges for the UK

24 February 2005

Discussion document - not a
statement of government policy



Contents

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Prosperity

- Wealth creation
- Education and skills
- Networks and infrastructure
- Environment

Inclusion

- Employment and worklessness
- Life chances, poverty and social mobility
- Communities and social cohesion

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- Crime and security
- Changing families
- An ageing society
- Housing
- Culture and leisure

Governance

- Democracy and engagement
- Effective government

Conclusion

Summary of this assessment

The following analysis shows that Britain has made considerable and sustained progress in key areas. These include the overall performance and stability of the economy, closing productivity gaps, improving educational attainment, tackling child and pensioner poverty, substantially reducing crime, and improving health outcomes and the capacity of the NHS.

In other areas, the challenges are long running and structural, such as meeting the growing demands on transport infrastructure, ensuring enough houses are built, getting the hardest-to-reach groups back into work, and further improving the life chances of those born into the poorest households.

In a fast changing world, governments face continuing challenges in *every* major area. Consolidation and further progress depend on addressing deep-rooted causes and drivers that will need prolonged and sustained effort to overcome. In many cases, there are no simple answers, but tough choices that face the country as a whole, and that can only be tackled by government and citizens acting together.

Overall – progress and challenges

Progress

- Strong macroeconomic performance by international and historical standards
- High employment and unemployment at a long-term low
- World-class educational attainment by our best students
- Improvement in many environmental indicators
- Reductions in absolute and relative poverty for children and pensioners
- Improving life expectancy, reducing mortality and improved NHS performance
- Crime levels peaked in 1995 and are down by more than a third since 1997

Challenges

- The key drivers of long term prosperity – skills, innovation, investment – still lag international leaders despite some catch-up
- The pool of persistently economically inactive people and poor social mobility
- Balancing infrastructure capacity extension with management of demand
- Root causes of crime, violence and disorder, and reducing the overall harm caused by drugs
- Preparing for an ageing society
- The inflexibility of the housing market and inadequate supply of houses

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This report provides an overview of the progress since 1997 and of the outstanding and emerging challenges



This report is:

- Based on Strategic Audit exercise undertaken in 2003, but updated in the light of work conducted since and feedback from stakeholders
- Focussed on measurable outcomes (health, crime, prosperity etc), rather than inputs (number of police officers, spending increases etc) and concentrates on the domestic agenda. It draws on existing published data, but highlights key trends and themes
- Not a review of targets and public service agreements – these are assessed and driven by the Prime Minister’s Delivery Unit and HM Treasury
- Evidence-based and objective throughout, but with inevitable subjectivity in the choice of issues highlighted and data used. The choice of data and themes represents a Strategy Unit view
- Not a review or critique of the government’s programme, the aim is to establish a cross-government consensus about the key challenges ahead

There is no objectively correct way to govern. Some public policy issues involve trade-offs between competing calls on resources – these will always be a matter for the values of political parties and their leaders

Public views, values, and technical assessments all feed into a rounded assessment of progress and challenges



Values

Alternative political philosophies



Key issues
for Britain

Public concerns

What the British people feel
is important to them

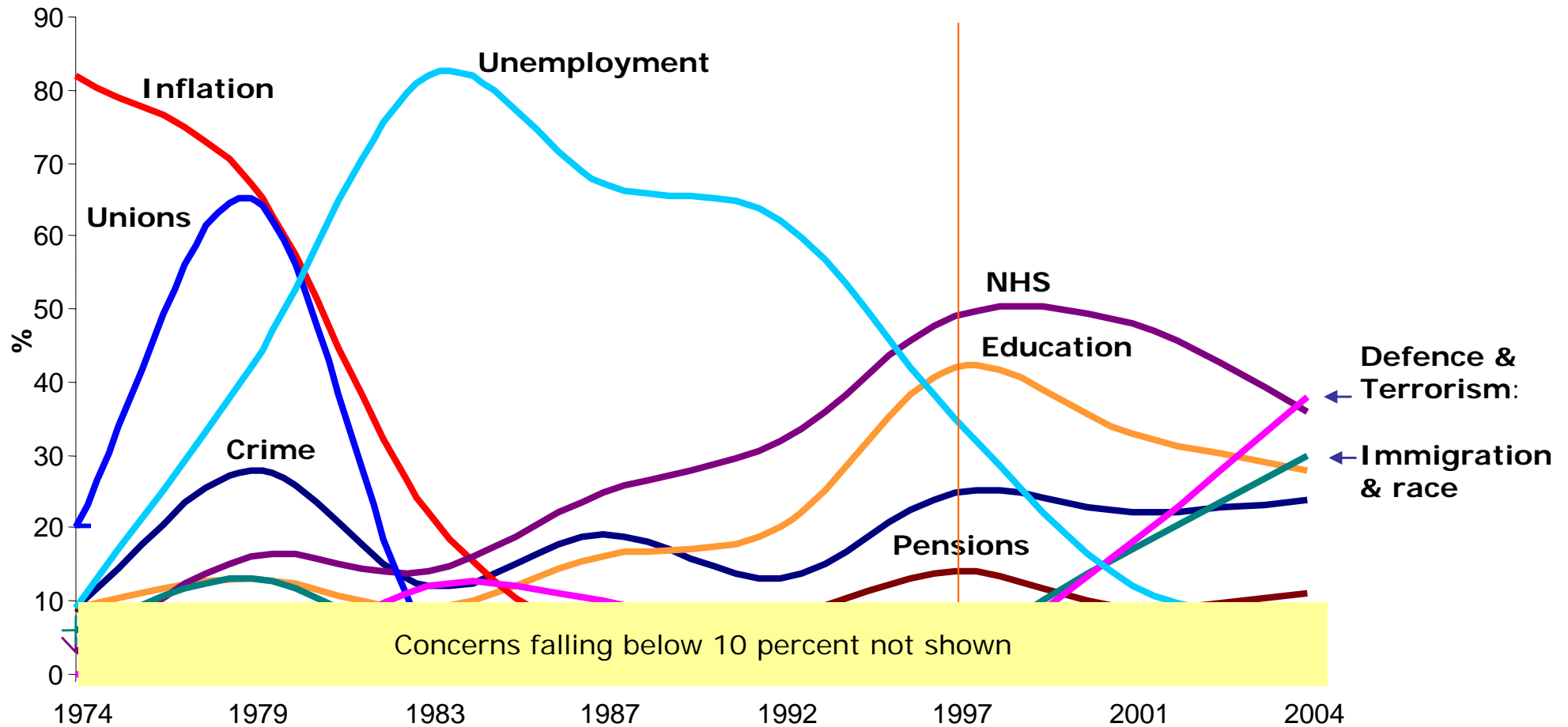
**Technical
assessments**

Data and analysis

As public concern about unemployment and inflation fell, attention shifted to public services. Terrorism and immigration have emerged as concerns since 2001.



Most important issues facing Britain since 1974 (% public see as key issue)



Source: MORI political monitor, 2004

Mapping of trends over time, differences between countries and regions, and detailed analysis help identify strengths, weaknesses, opportunities and threats



- **Trends over time** can identify receding challenges and policy successes, such as unemployment or certain infectious diseases. They can also identify new challenges such as the rise of obesity or rising traffic congestion.
- **Differences between countries** allow us to 'benchmark' our performance against that of others. Although caution should be taken over the comparability of measurements benchmarking can indicate not just where we do well or badly, but also can suggest 'performance frontiers' – how high we could aim.
- **Differences between areas within the UK** can provide similar clues to cross national benchmarking, but may require careful statistical controls to ensure that comparisons are meaningful. It is of particular use as an administrative tool, highlighting best practice and targeting weak performance
- **Differences between groups** are important of themselves, especially to governments concerned with issues of social justice. But they also give important clues about causation and about how resources can best be targeted
- **Detailed analysis** of underlying causal relationships and long-term consequences are critical to interpretation

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Prosperity – progress and challenges

Progress

- Strong macroeconomic performance: high and stable levels of growth; low inflation; low interest rates
- Unemployment at a long-term low and employment at a long-term high
- Evidence of rising productivity – closing gaps with other nations and world class in some service industries and the creative industries
- Improvements in educational attainment, with the top half at world class level
- More graduates helping to meet higher skill needs
- Reducing greenhouse gases to below the Kyoto target level
- Better performance than most developed nations in reducing greenhouse emissions

Challenges

- Sustaining and embedding the macroeconomic progress made so far
- The comparatively high proportion of adults lacking basic and/or intermediate skills
- Capitalising on knowledge and a good record on scientific discovery
- Sustainable development of supply and management of demand in critical networks – transport, energy, water and telecoms
- Achieving continuing reductions in domestic greenhouse emissions to enable the UK to play a leading role in addressing international climate change
- Developing agriculture and fishing as efficient sustainable industries

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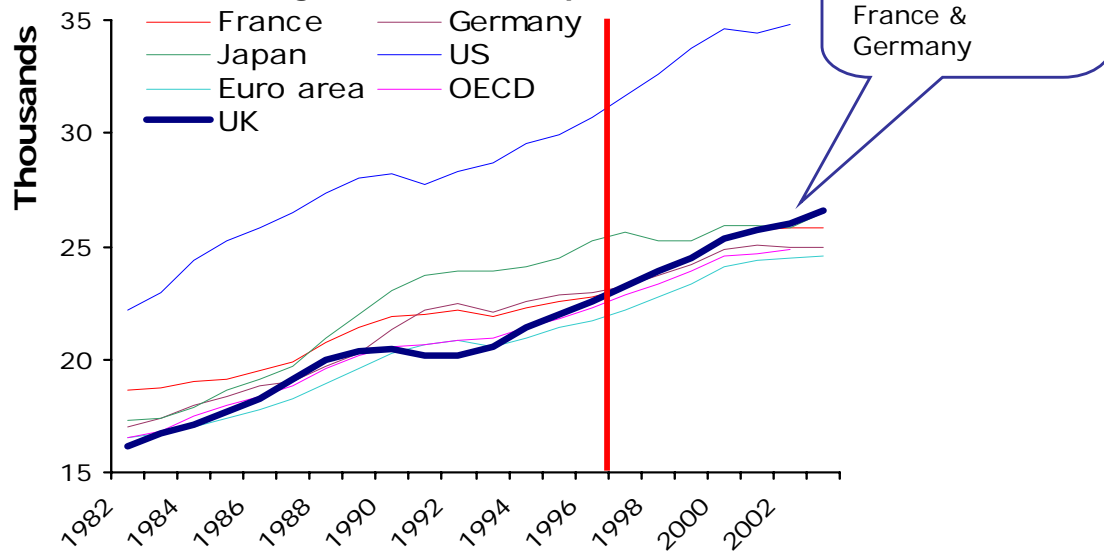
Conclusion

In recent years, the UK has enjoyed high and stable economic growth

- Since 1996 UK output has grown 2.8% a year, the third highest rate in the G7
- Growth in GDP per head strips out the effects of population growth. On this measure, UK performance has been joint highest in the G7
- Growth has been combined with stability. The UK economy has experienced its longest sustained expansion on record
- Between 1992 and 2002, the UK's growth was the most stable in the G7. In contrast, from 1982 to 1992, it was the second most volatile

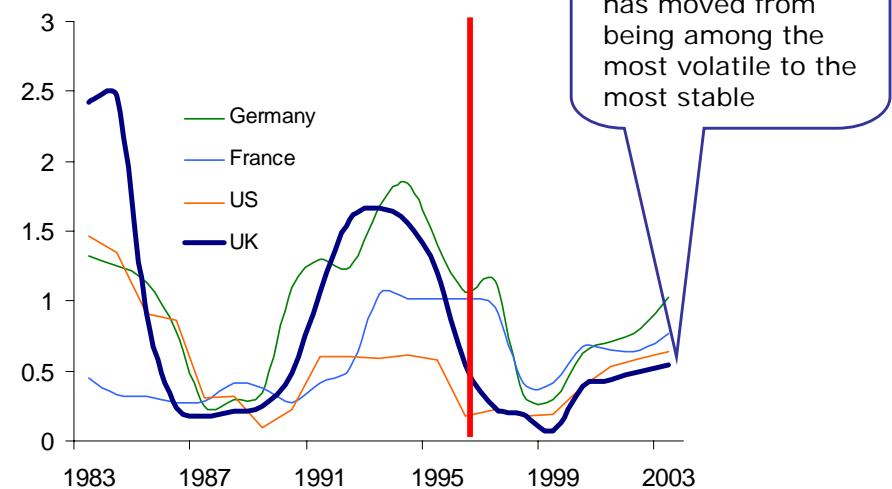
GDP per capita (dollars)

(at PPP exchange rates in 2000 prices)



Volatility of GDP growth

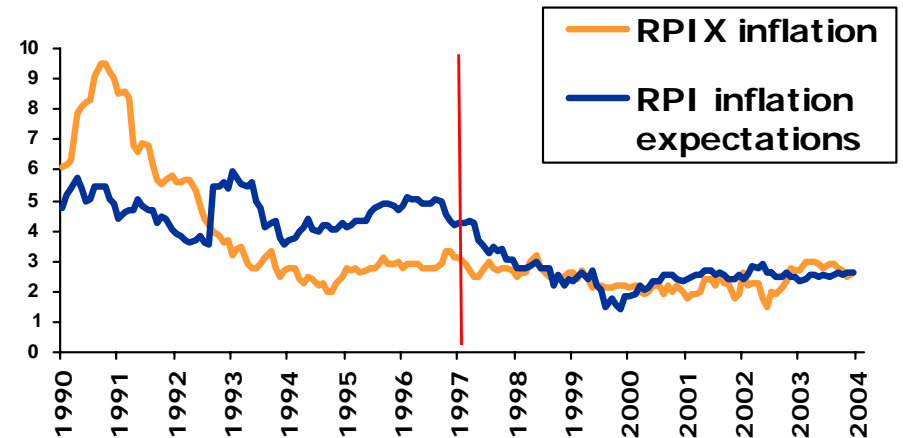
(Rolling average)



Inflation, interest rates and unemployment have all been lower and more stable than for decades

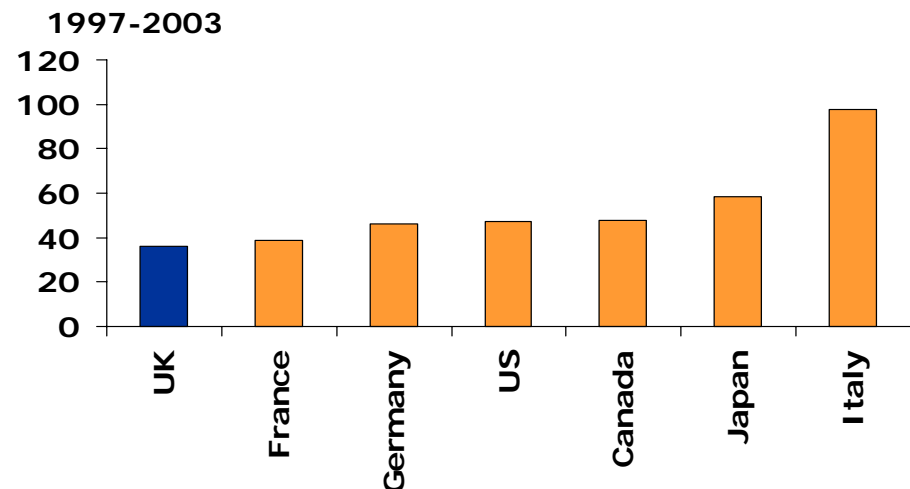
- In the last decade, inflation has fallen to its lowest levels in 30 years and inflation expectations have fallen with it, as the UK's macroeconomic framework has progressively improved
- Government debt levels have remained the lowest in the G7
- Nominal interest rates have been at their lowest levels for forty years
- UK unemployment is at its lowest levels in three decades and is currently the lowest in the G7. *Our employment record is discussed further in the Inclusion section*

UK inflation and inflation expectations, %



Source: HM Treasury

Average net public debt, % of GDP



Source: OECD

The flexibility of UK product, labour and capital markets has increased, so the UK should be more resilient to shocks than in the past. However, risks remain



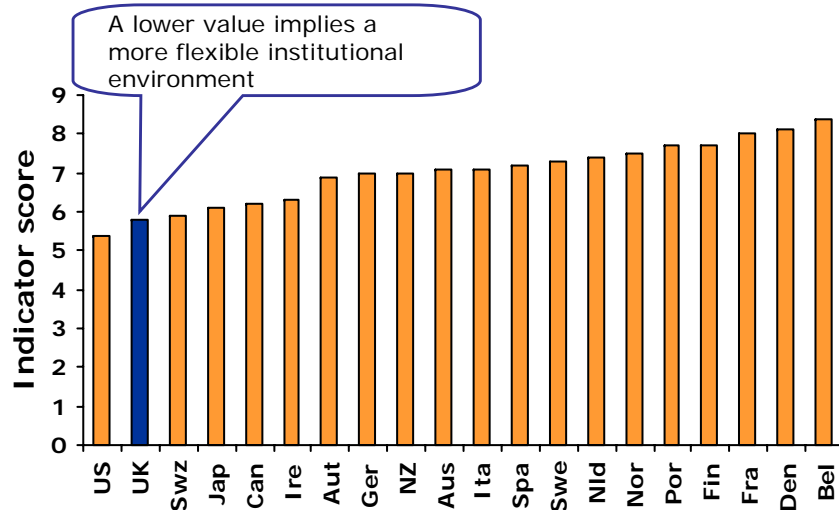
Flexibility

- Real wage flexibility has increased in recent years and UK labour market flexibility is comparatively high
- Increased flexibility should enable the UK to adjust more swiftly to shocks than in the past

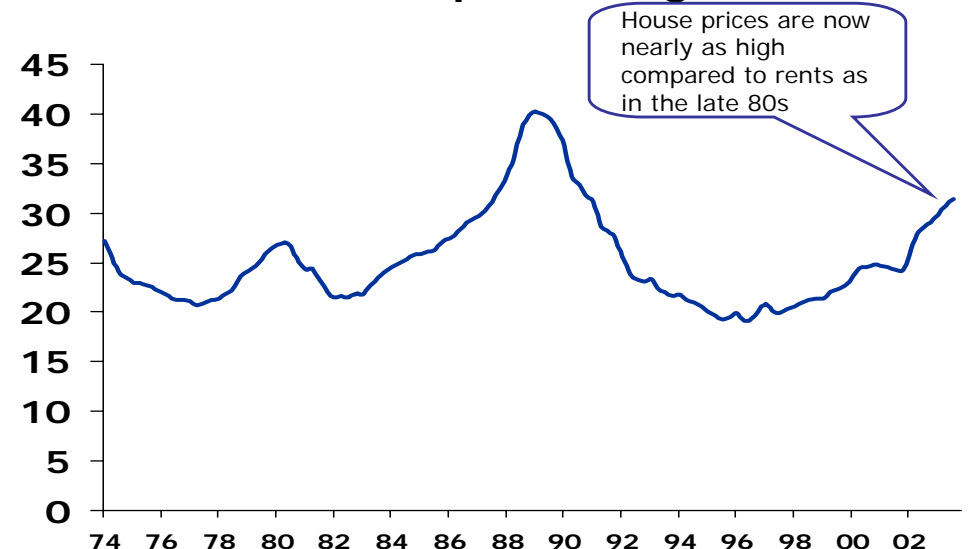
Risks

- Instability arising from the housing market remains a risk although any wider economic impact is likely to be less than in the past because the economic fundamentals are sound
- Other global risks include further rises in the price of oil and substantial movements in key exchange rates

An indicator of labour market flexibility



Ratio of UK house prices to gross rentals



Source: HM Treasury

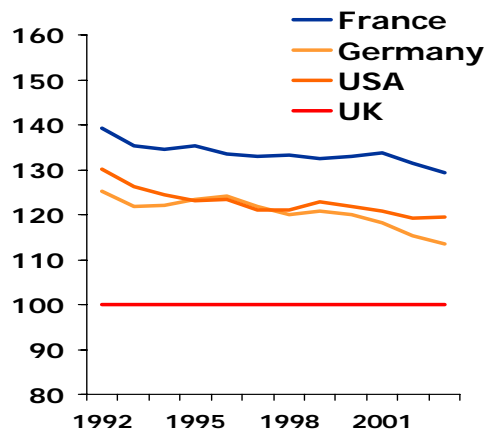
Source: Bank of England

Future prosperity will depend on the UK's productivity performance. While we still lag behind other countries, we are beginning to close the gap

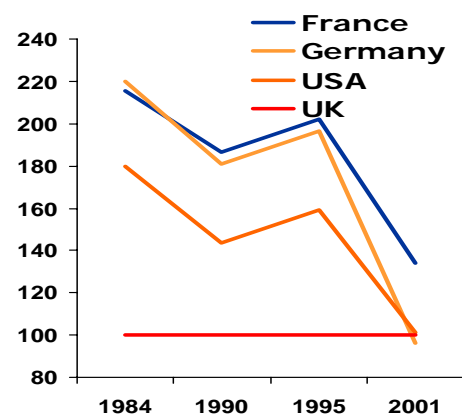


- UK labour productivity levels remain 15-30% lower than major competitors
- The UK trend rate of productivity growth is estimated to have been 2.7% year from 1997-2001, compared with just over 2.2% in the previous cycle
- Productivity gaps have reduced and been closed in some business services sectors
- Higher employment tends to draw less productive workers into work, increasing output and improving fiscal strength, but reducing productivity (GDP/hour worked)
- UK has lower output per hour worked than France and Germany, but higher employment and longer working hours – and now better GDP per capita

Output per hour worked, relative to UK (=100)

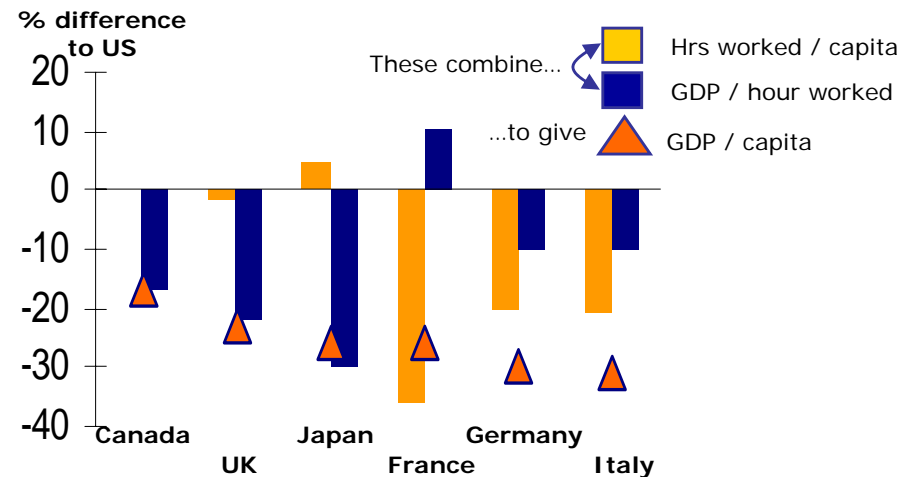


Value added per hour in business services*, relative to UK (=100)



* legal, accountancy, market research, technical, engineering, architectural and advertising services and consultancy. Source: AIM Research

Composition of difference in GDP/capita (PPP) relative to United States, 2003



Source : OECD estimates

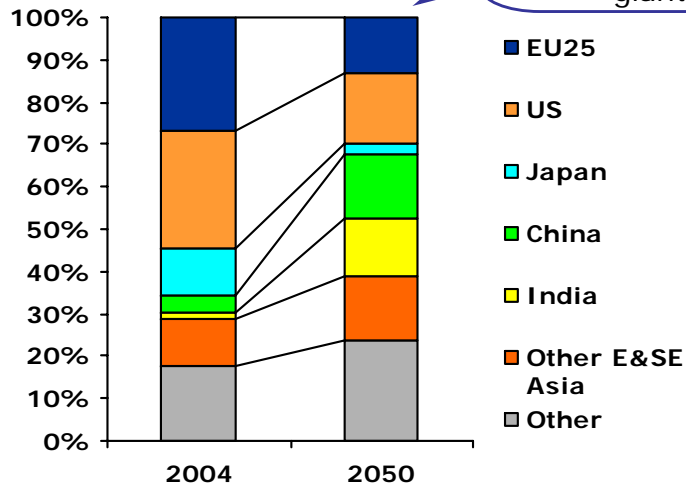
The UK faces a changing global economic environment

- The pattern of global production is changing. This will create opportunities for UK trade and investment, but will bring challenges to many traditional sectors and industries
- Economic value in the UK is increasingly derived not from raw material and physical production but from exploiting knowledge in service and creative industries

Projected relative GDP

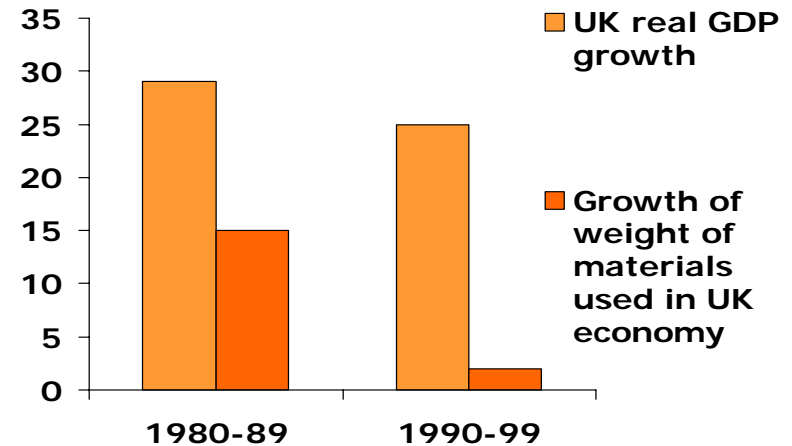
% of world total

Source: scenarios developed by Government Economic Service economists



China and India will join the EU and US as economic giants

UK value vs weight of growth, %



Source: Diane Coyle

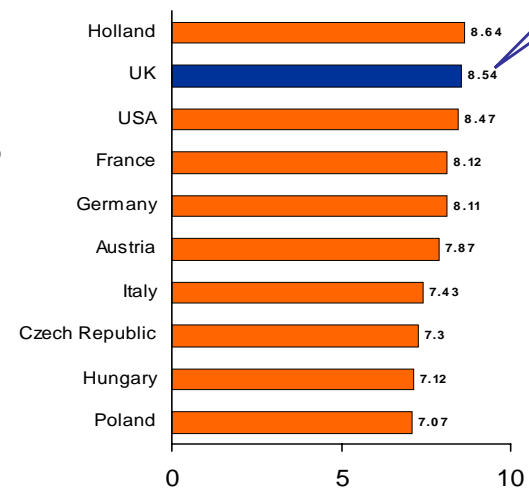
The UK has real strengths, including a favourable business environment

- Though the size of the public sector has increased, tax levels remain below the EU average
- Competition policy has been strengthened

- According to the OECD's indicator, product market regulation in the UK is low by international standards, and has continued to fall in the past five years. This is based on levels of state control, barriers to entrepreneurship and barriers to trade and investment

EIU Business Environment Rankings 2003

Source: Economist Intelligence Unit

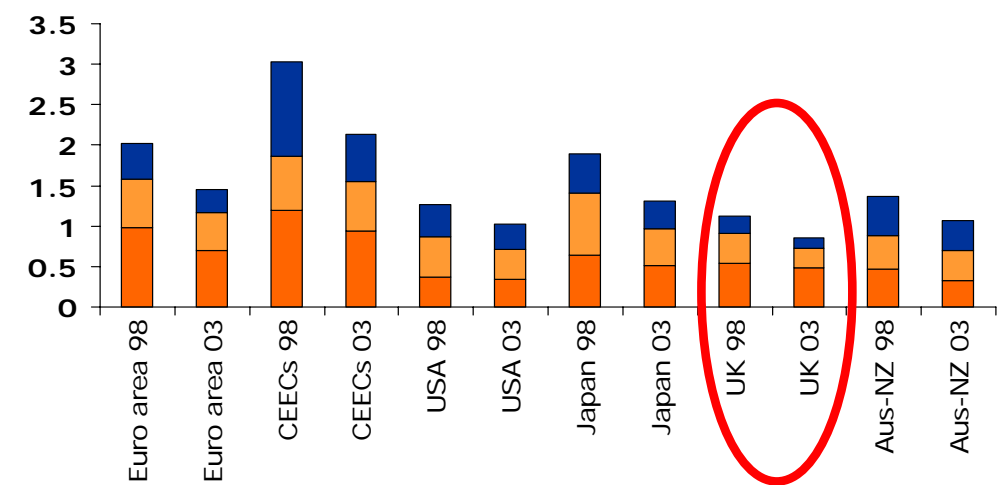


The UK's attractiveness as a business environment has been maintained

Note: Score is based on 70 factors assessing the attractiveness of the business environment in the next 5 years; the UK is the fourth position overall

OECD product market regulation indicator levels

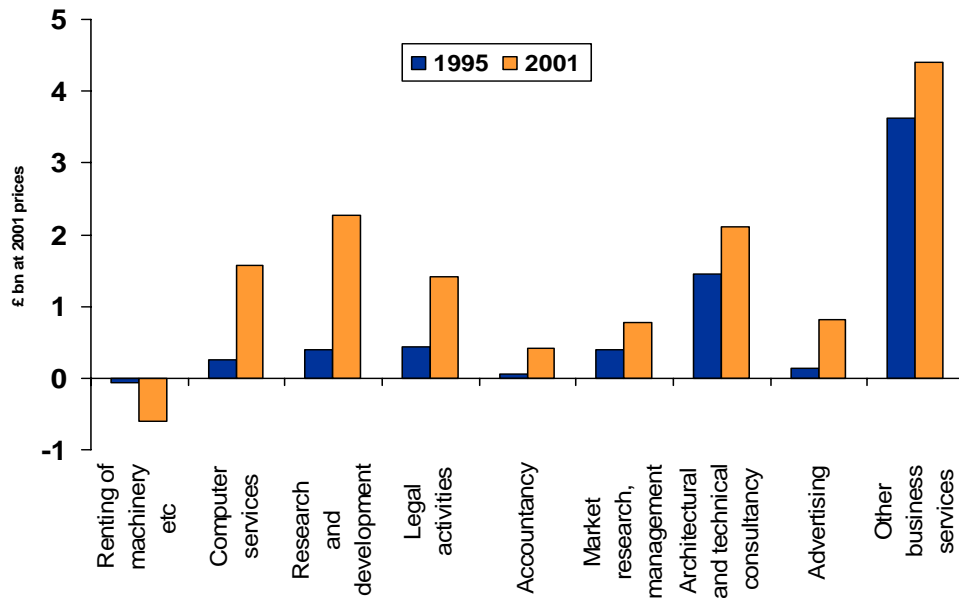
Legend: State control (orange), Barriers to entrepreneurship (light orange), Barriers to trade and investment (blue)



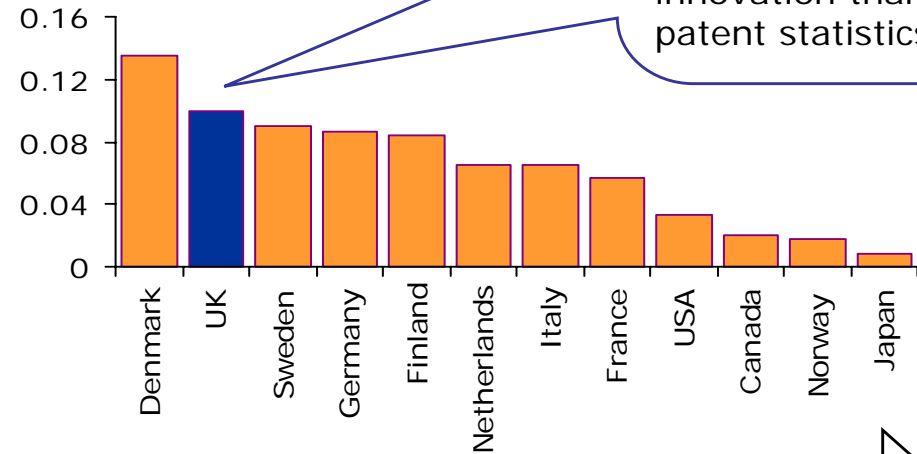
Source: OECD

The UK has successful companies in knowledge-intensive sectors

Trade surplus in business services sectors



Trademarks per million people, 2002



UK performance is strong on filings of trade marks, which may be more closely indicative of non-technology based innovation than patent statistics

Other UK strengths include excellent science base, English language and traditions of openness

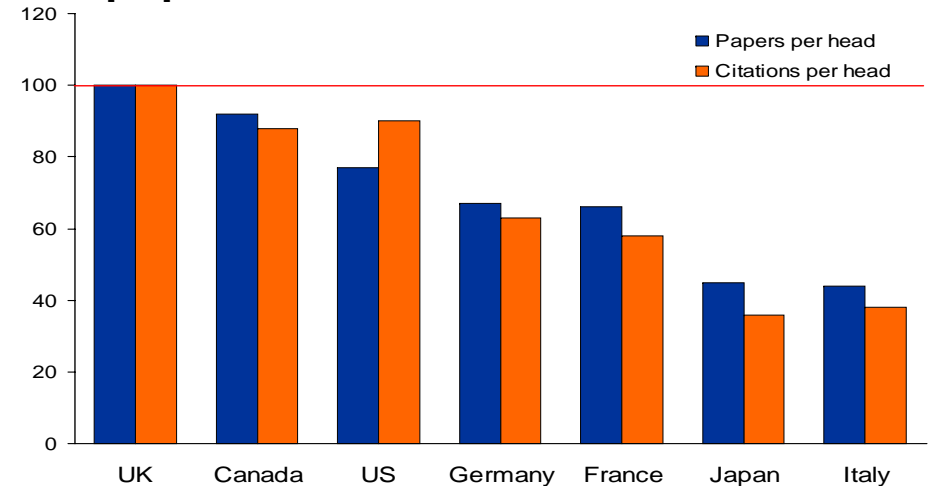
Source: OHIM

A number of challenges remain. The UK's scientific excellence is not matched by strengths in business innovation



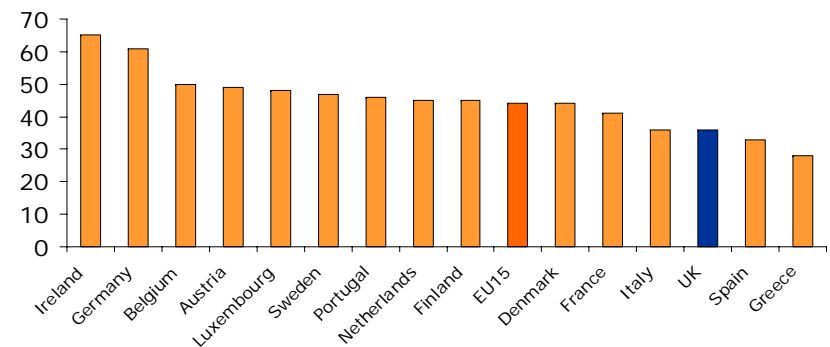
- On a number of measures, the UK science base is second only to the US. On measures of science productivity the UK leads the G7
- Public funding for the science base is currently rising at 6% a year, but public investment in business-driven research remains low compared to leading competitors
- UK business's record on R&D and patents is comparatively weak, though these are imperfect measures of innovation in an increasingly services-focused economy
- Broader measures show a similar pattern, with a below average number of UK businesses engaged in innovation activities

Research papers and citations per head of population, 1997-2002 UK=100



Source: DTI

Proportion of total enterprises with innovation activity, 1998-2000 (%)



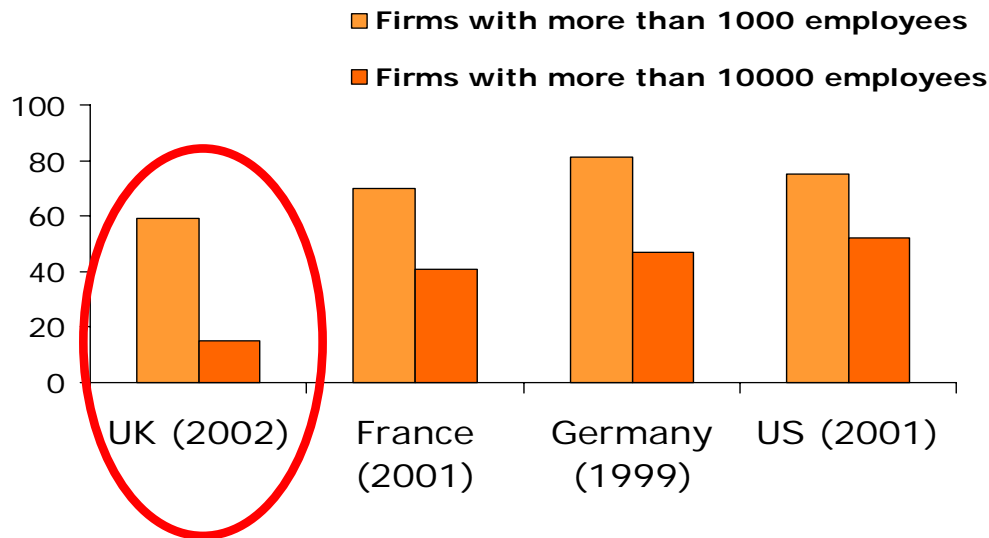
Source: Community Innovation Survey

The UK has comparatively low rates of entrepreneurship and growth of small enterprises into large, world-beating companies

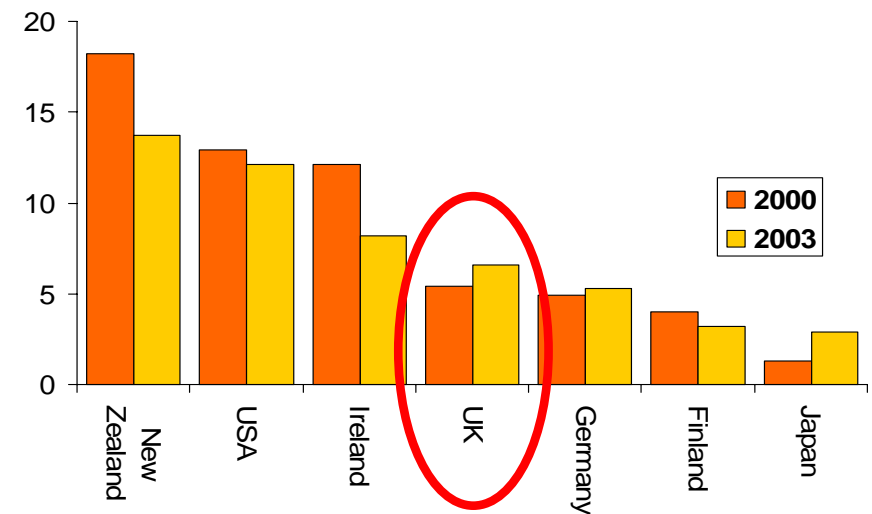


- The UK has a relative lack of large technology-based enterprises
- A small number of mobile foreign multinationals also contribute a large part of the UK R&D effort
- UK SMEs appear less likely to grow into world beaters
- Our culture of entrepreneurship remains weaker than some competitors

% of R&D accounted for by large firms



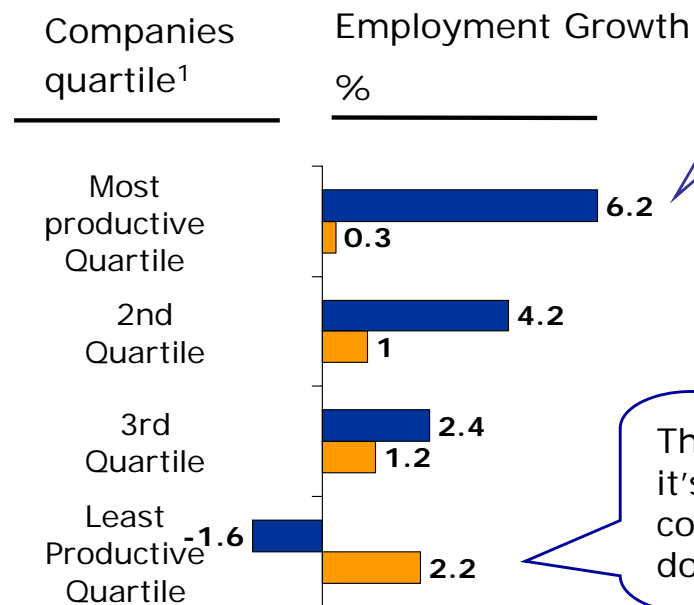
Index of total entrepreneurial activity, %



There is scope for increasing the intensity of competition in key service sectors through removing barriers at an EU level

- Lack of competition means that whereas the majority of US jobs growth takes place in its most productive firms, the EU is the opposite, with resources being allocated to its least productive firms
- Intra-EU services trade is hindered by poor harmonisation and complicated administrative requirements, reducing the potential for economies of scale and better productivity
- Completing the EU single market in services would powerfully raise competition in UK services businesses and expand export opportunities for successful UK services firms

US/EU productivity comparison, 1995-2000



The US is better at reallocating resources to its most productive companies

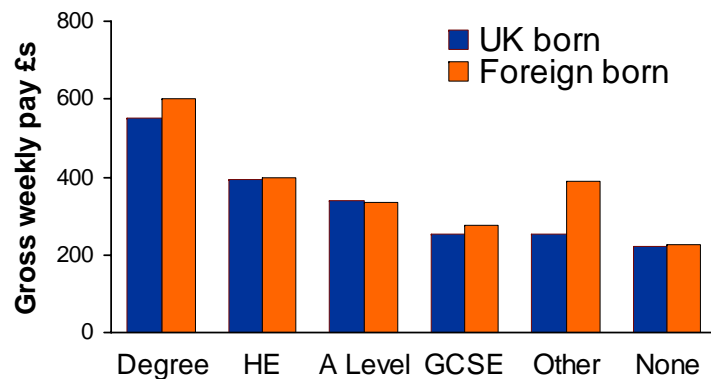
The US eliminates its least productive companies; the EU does not

The UK could further strengthen its attractiveness to global flows of trade, investment, knowledge and talented people

- With global competition and an ageing population, attracting skilled and talented people could be an important source of prosperity.
- Inward migration makes up 15% of forecast UK trend economic growth due to its impact on the size of the working age population. Migrants made a net fiscal contribution to the UK of £2.5bn in 1999. Much of the net gain comes from a small group of high earners

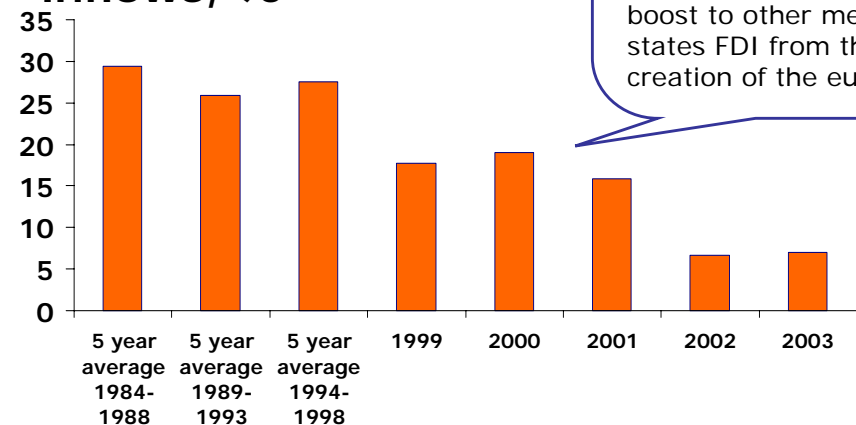
- Attracting overseas firms raises productivity in domestic firms, for example through competition and the dispersion of new technologies and management practices
- The UK has the EU's largest stock of foreign direct investment (FDI), but our share of recent flows has fallen from its previous high levels

Economic contribution of foreign-born vs UK-born workers, by educational qualification



Source: Migrants in the UK, RDS Occasional Paper No 82

UK share of EU15 FDI inflows, %



Possible explanations include the volatility of FDI flows, the unsustainability of our historic share, a disproportionate effect of falling US FDI and a boost to other member states FDI from the creation of the euro

Source: Unctad

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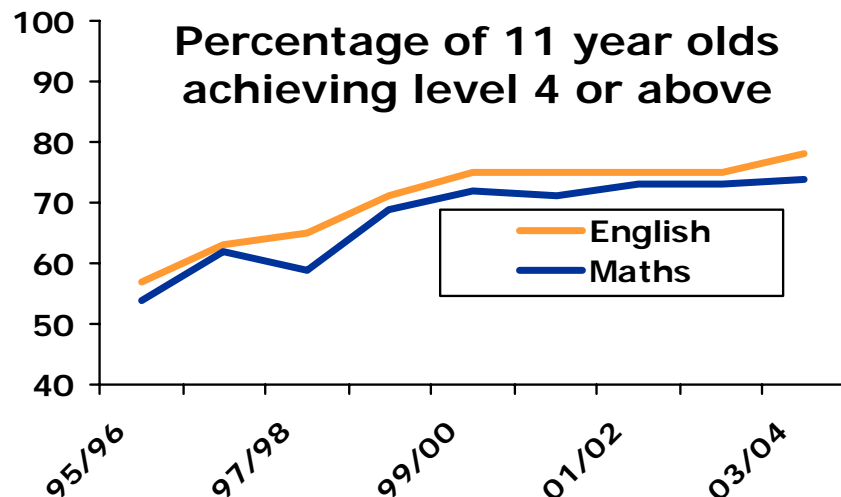
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Substantial progress has been made in primary and secondary educational attainment

Progress since 1997

- At age 7, achievement of the expected standard in English is up from 80% in 1998 to 84% in 2003. Achievement in Maths is up from 84% to 90%
- At age 11, achievement of the expected standard in English is up from 63% in 1998 to 78% in 2004. Achievement in Maths is up from 62% to 74%
- At age 16, level 2 achievement (5 good GCSEs) is up from 45% in 1997 to 53% in 2004

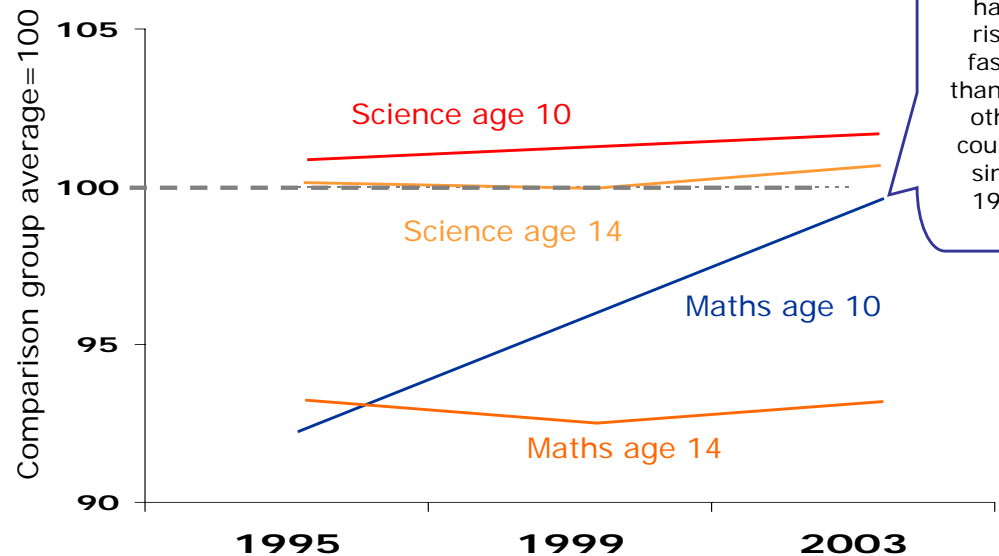


Source: DFES

International comparisons

- International comparisons confirm the increasingly strong performance at primary level, but also suggest that our secondary pupils are relatively underachieving - though our best pupils are internationally outstanding

Performance in science and maths at age 10 and 14 (England) compared to group of comparable countries



Age 10 maths scores have risen faster than any other country since 1995

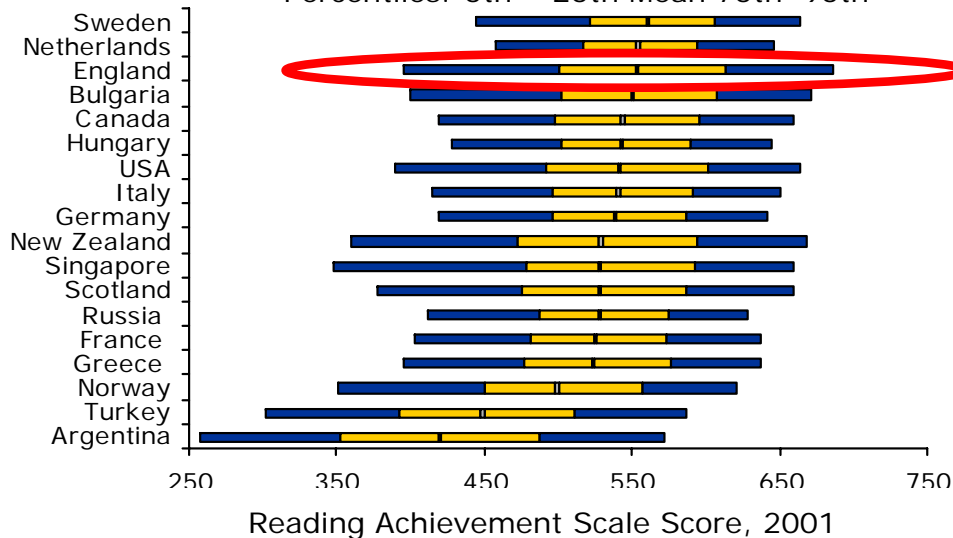
Source: TIMSS

The UK has an unusually wide spread in educational attainment, particularly between social classes

- Though the top stratum of English pupils do very well, a long tail of underachievement is the main brake on our education performance
- Educational attainment is strongly correlated with social class in the UK, which is pronounced even before children reach school
- Since 1998 improvements have been fastest in the schools with the most deprived intake
- International evidence suggests that “early selection” systems, like the UK’s, contribute to worse attainment among the least advantaged students

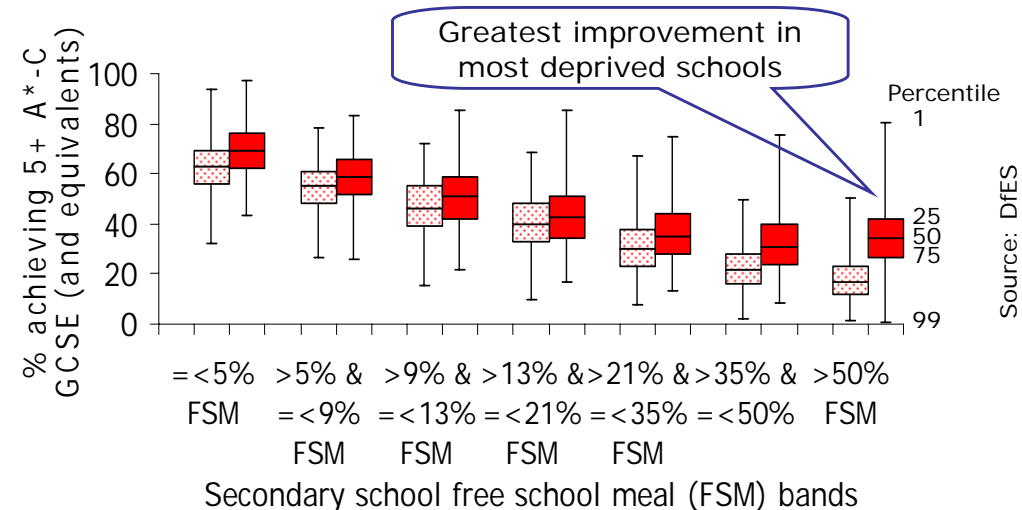
Reading performance at age 10

Percentiles: 5th 25th Mean 75th 95th



Source: IEA PIRLS

% achieving 5+ A-C grades at GCSE by level of deprivation, 1998 and 2004



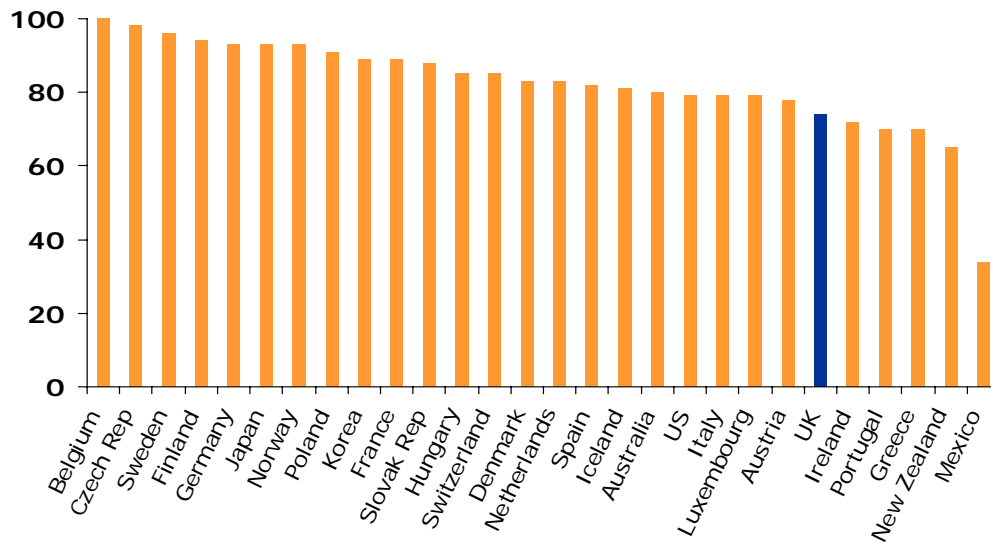
Source: DfES

Post-16, we have a low participation rate, but rising attainment levels

- 74% of 17 year old participate in full-time education. This is amongst the lowest level in the OECD and unchanged since 1996

- However, the percentage of 16-18 year olds sitting A levels who achieved level 3 rose from 79% in 1997 to 91% in 2004

Education participation at age 17, 2002



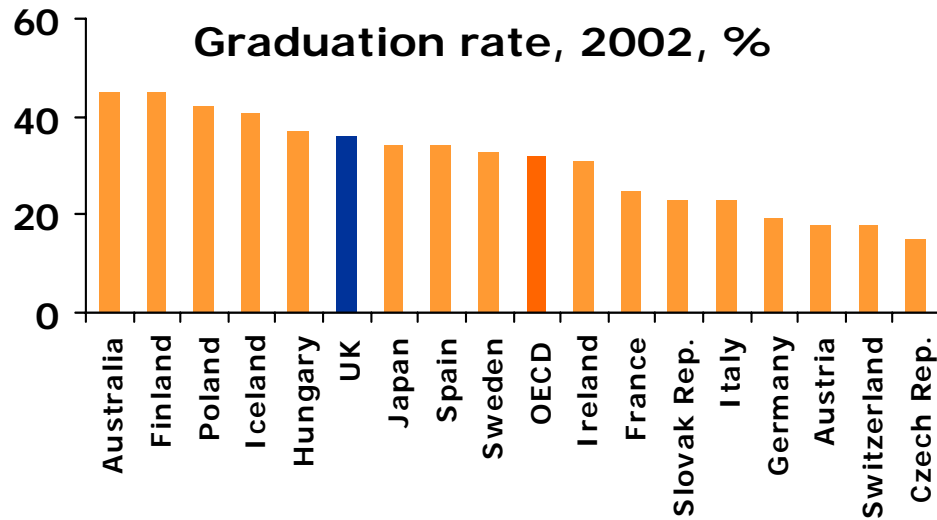
Source: OECD

- The numbers of young people on apprenticeships has grown from 88,000 in 1997 to 242,000 in 2004
- The proportion of 19-21 year olds qualified to at least level 3 is up from 48% in 1997 to 52% in 2003
- Increasing UK adult skills at level 3 and above is likely to require substantial increases in numbers staying-on at school beyond 16

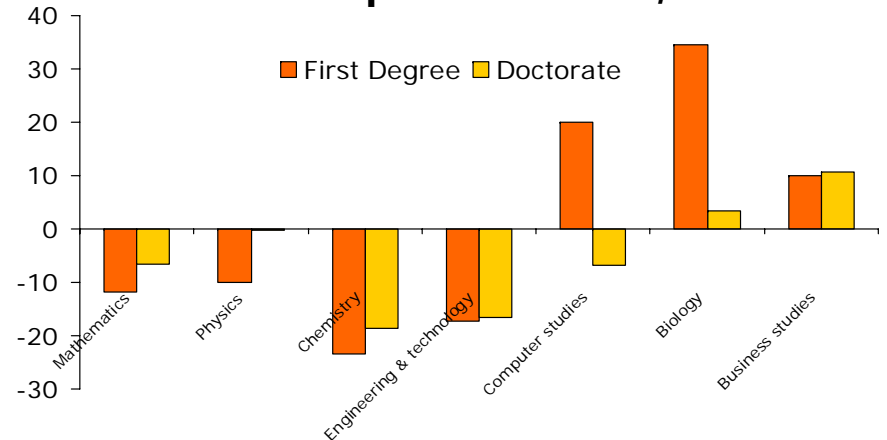
Nearly four times as many young people now enter higher education than 25 years ago

- 44% of 18-30 year olds now enter higher education, compared to 41% in 2000 and 12% of 18-21 year olds in 1980. The UK graduation rate is now above the OECD average
- Returns to individuals from first degrees in the UK have not fallen as the number of graduates has grown and returns are the highest in the OECD

- The UK's top universities are ranked among the best in the world
- Variable tuition fees will bring additional funds from 2006, but universities may still face challenges in matching funding of leading international competitors
- Some technical subjects, like maths, are declining in numbers in spite of evidence of high returns



% change in students gaining scientific and technical qualifications, 1995-2000



Note: Graduation rate is the percentage of tertiary type-A graduates to total population at typical age of graduation. 2002 or latest available year

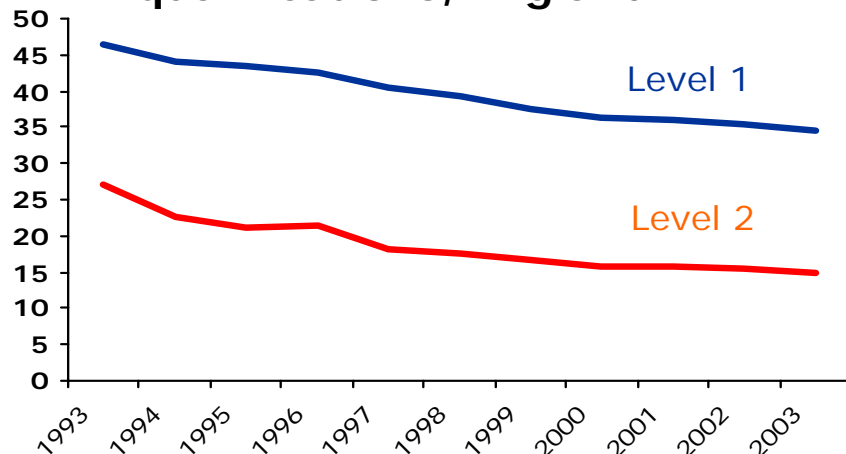
We are making progress on our historical legacy of low adult skills

- 34% of working-age UK citizens still lack a level 2 qualification (down from 40% in 1997) and 15% still lack any qualification (down from 18% in 1997)
- In 2003, 54% of UK 25-28 year olds held a level 3 or higher qualification - up from 47% in 1998, but still lower than the 62% in France and 74% in Germany reaching that level

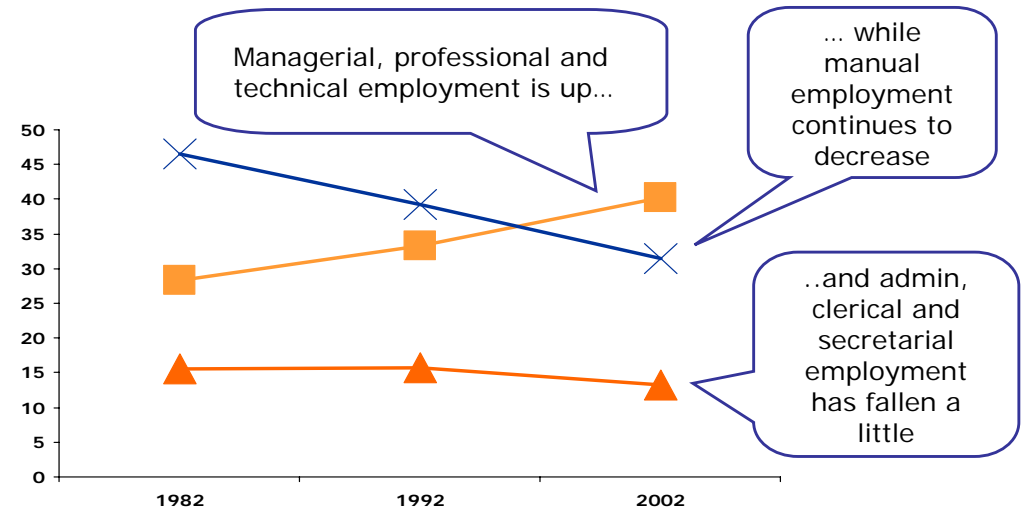
- Employment trends are driving the demand for higher adult skills
- Work-based learning will be increasingly necessary in an environment of increasing employee mobility and technological change

% of working-age population without level 1 or 2 qualifications, England

Sources: DWP



Employment trends by occupation, England 1982-2002, %



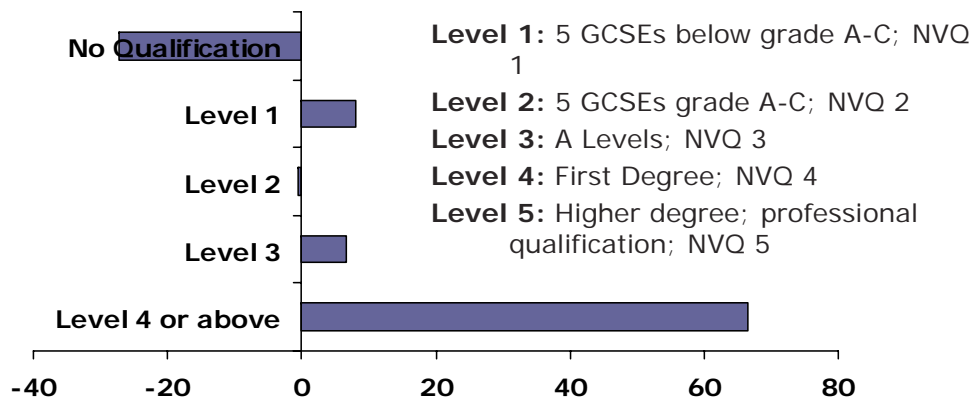
Source: IER

Note: not all types of employment are shown

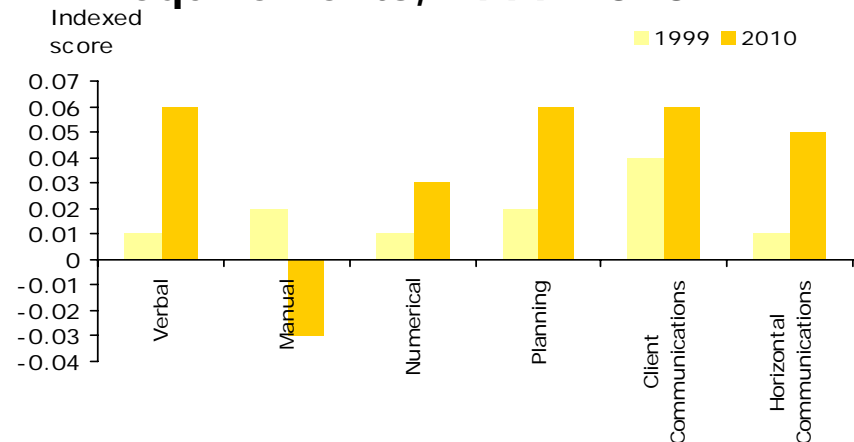
We should be able to raise skill levels further and will need to in order to meet future labour market needs. We are still some way off our 'performance frontier'

- IQs have increased dramatically over the century – an average UK person today would score better than 98% of people in 1900
- 92% of Swedish children reach level 2 compared with 78% of British children – the attainment of our young people is not constrained by innate limitations
- 70% of the job growth by 2009 is projected to need skill level 3 or above
- Verbal, planning and communication skills are projected to become even more important, as demand from service and creative industries grows

Projected increase in demand for qualifications (1998-2009), %



Projected changes in generic skill requirements, 1999-2010



Source: IER / nVision

Sources: IER estimates based on Census and LFS data; DFES skillsbase

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The development and management of infrastructure networks play key roles in sustainable development

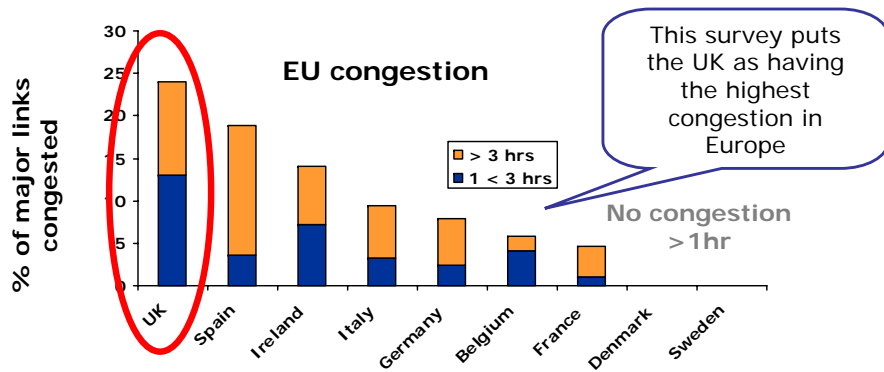


- Modern infrastructure networks are essential to households and firms, enhancing economic growth and providing essential public services
- Design and regulation of core infrastructure networks must ensure economic, environmental and social objectives are met
- Major trade-offs exist in all networks. Principally:
 - capacity expansion—to meet the rising demands driven by economic prosperity; versus
 - demand management—which ensures resources are used productively and with optimum social cost
- Market pressures and regulation can drive technology choices and innovation contributing to overall sustainability objectives



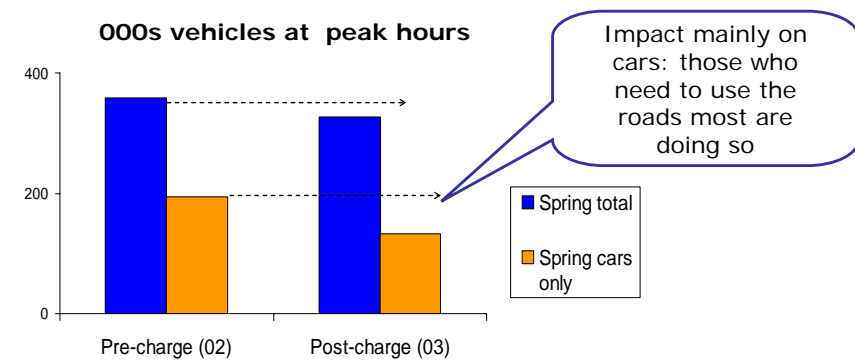
Prosperity has increased car ownership and use, putting pressure on the road system and the environment

- Traffic has increased 9% since 1997. Road build grew at a slower pace (0.8%). Congestion is rising



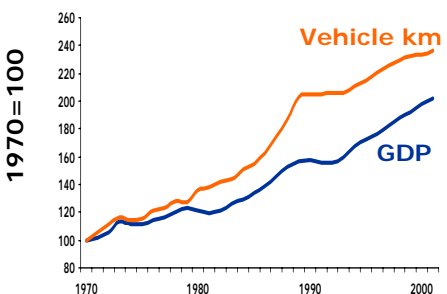
- Road pricing or congestion charging can address demand and allocate road space efficiently

Impact of the London Congestion Charge

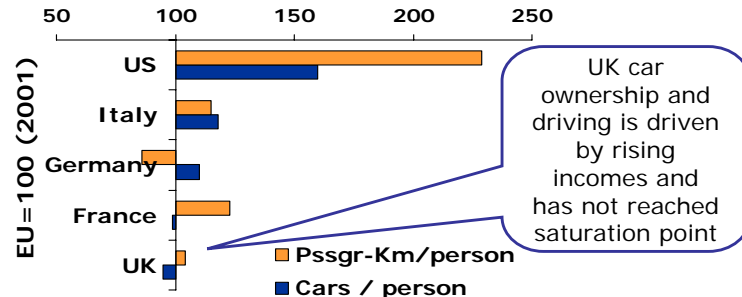


- Traffic growth is ultimately constrained by available road space, willingness to drive and the cost of motoring—which is falling in both real terms and relative to other travel modes

Economic drivers

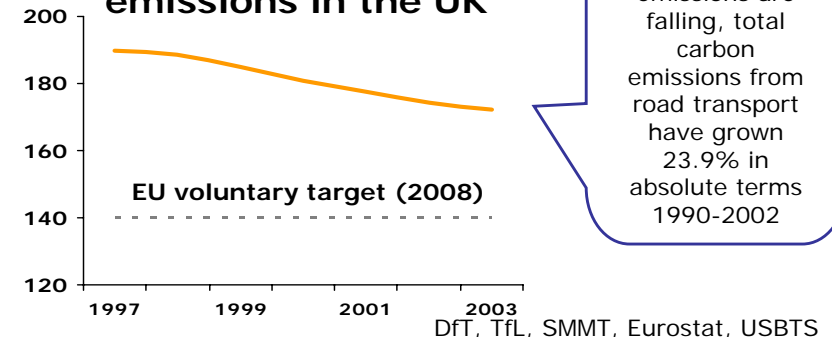


Car ownership/driving relative to EU-15



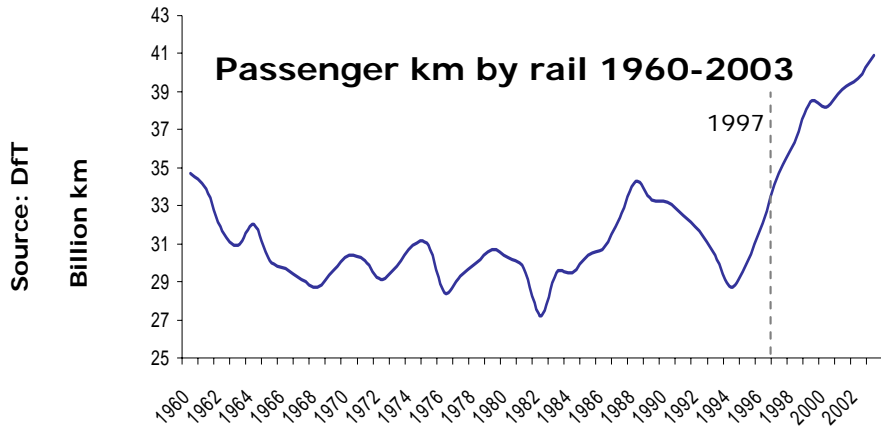
- Technology can mitigate some of the effects of traffic

New car average CO₂ emissions in the UK

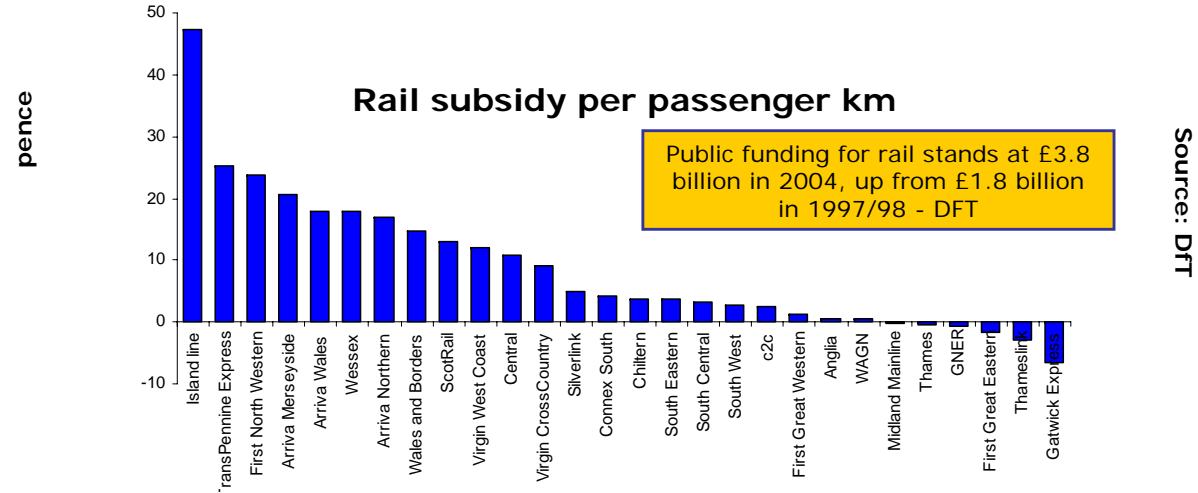


Rail travel is at a 40-year high and reliability is slowly recovering after Hatfield. Subsidies vary considerably; rail is still a very safe form of transport

- The rail system is carrying 26% more passenger kilometres since 1997

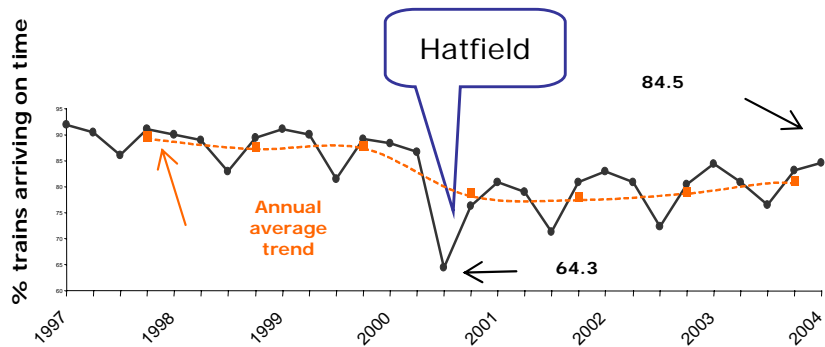


- As in most countries, few lines are profitable. Levels of subsidy vary markedly within the UK



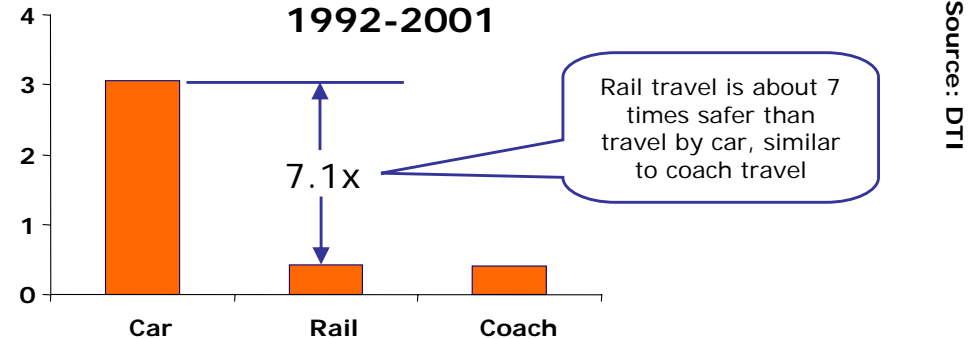
- Reliability is recovering steadily from the post Hatfield crash low

Public Performance Measure 1997-2003



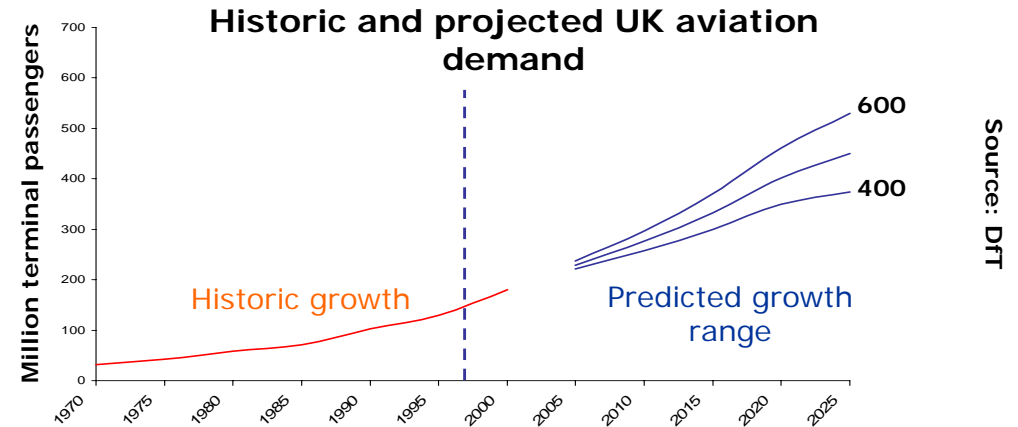
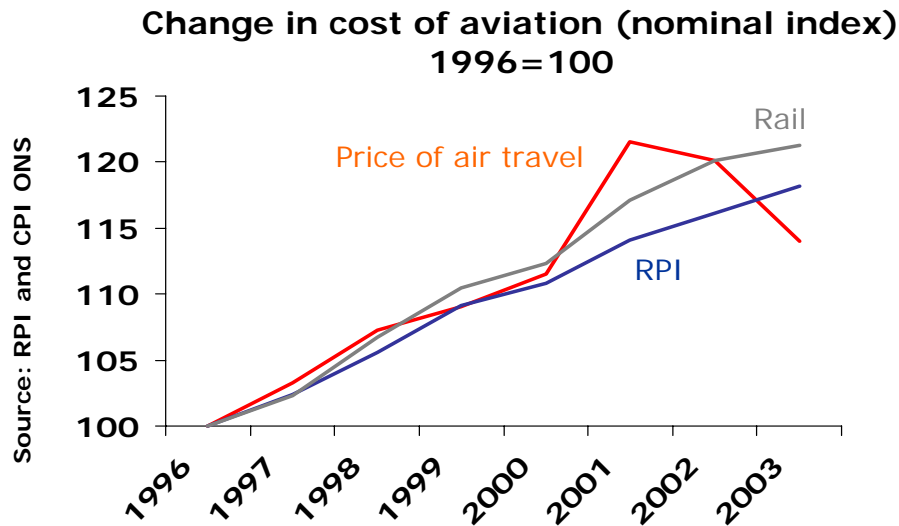
- There are trade-offs between service-level, network coverage, safety and subsidy

Fatalities per billion passenger-km 1992-2001



Aviation demand is projected to rise rapidly as people enjoy more international travel. This will lead to both costs and benefits

- Low fares and higher standards of living have made foreign travel affordable to many more people and businesses contributing to globalisation



- Rising demand is increasing aviation's share of greenhouse gas emissions. UK emissions are projected to be 150% higher in 2030 than 1990
- Against the social and economic benefits of air travel, four main external costs to aviation exist:
 - climate change
 - noise
 - local air quality and landscape
 - congestion of runway slots and air space: one in four flights in the UK now experiences congestion on take-off and landing

Broadband internet access is generally available, but differential take-up could create a “digital divide” if vital services are increasingly delivered through the internet

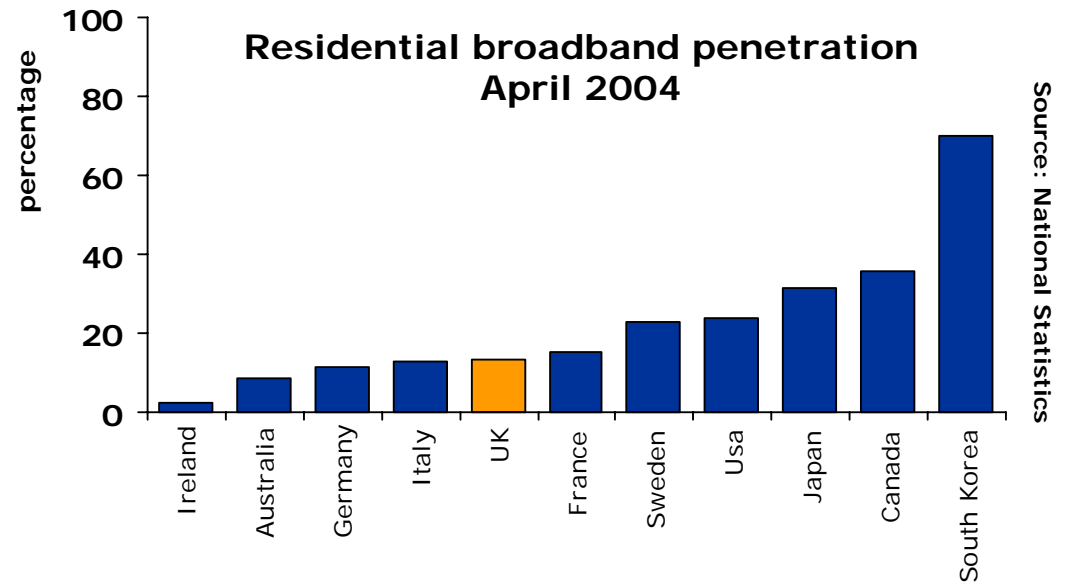
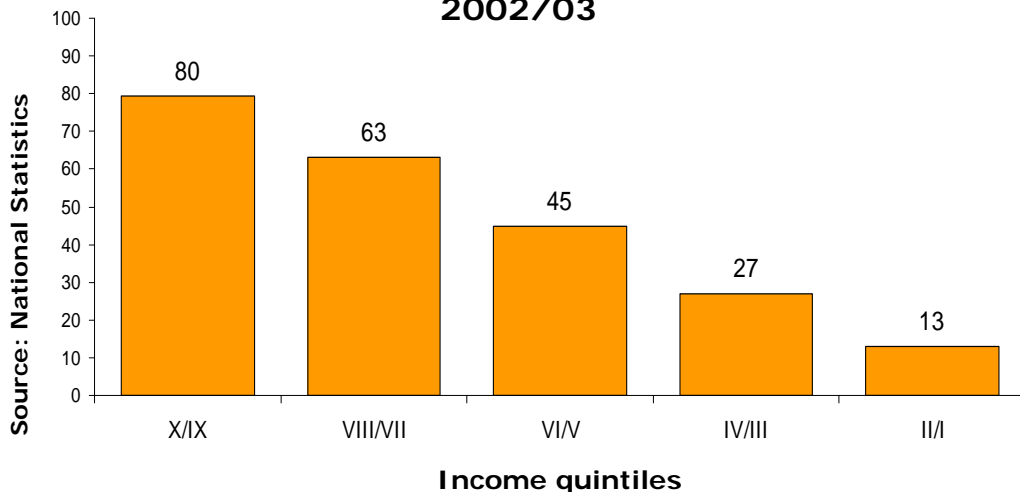


- UK has the second highest mobile phone penetration in the world (78%)
- The internet has revolutionised personal communication and access to information, benefiting both households and firms
- However, access to these benefits is not equal across social classes. This may aggravate inequality by denying opportunities to poor households

- Access to an affordable broadband service is now available to 91% of the UK. Access will reach 99.6% of households by summer 2005
- Although take-up is rising by 50 000 per week, international comparisons show levels of residential use are relatively low

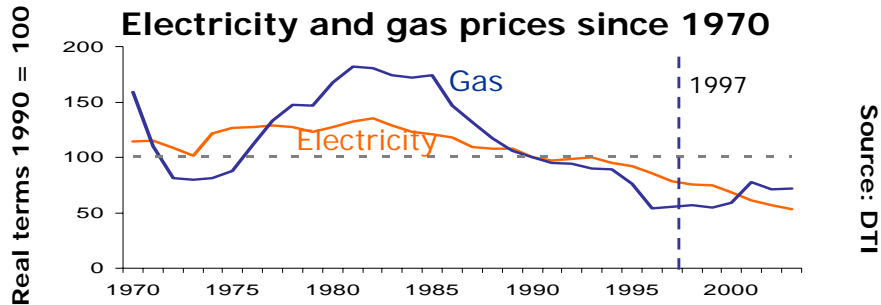
DTI, BT

Per cent of households with internet access 2002/03



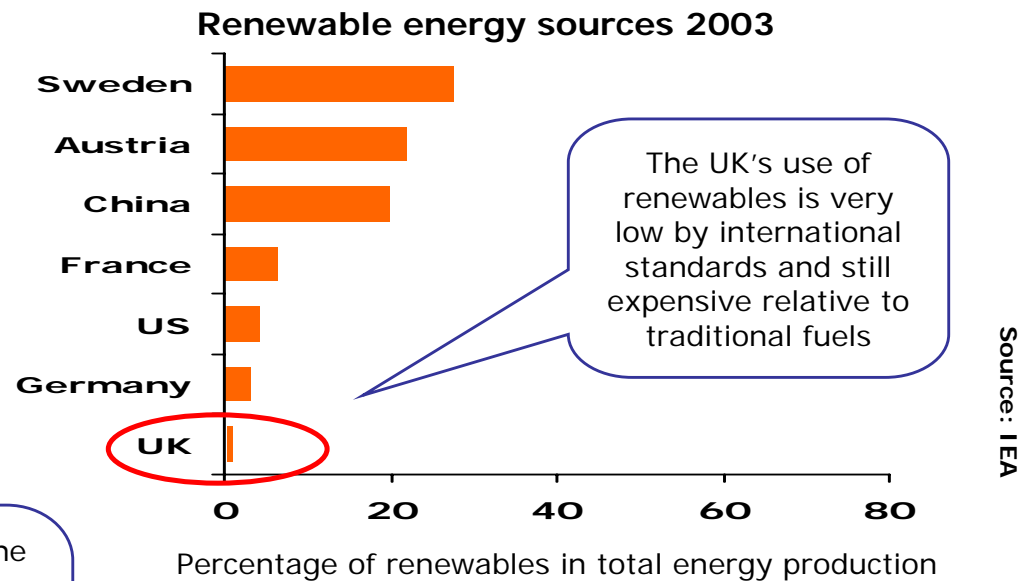
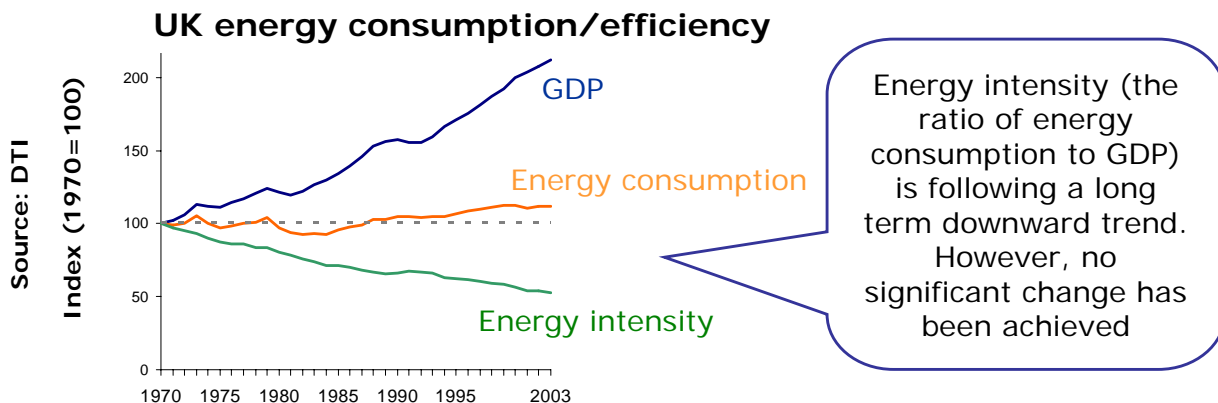
Electricity prices have fallen with competition, but challenges to providing a secure, economic and sustainable energy system are formidable

- Electricity prices are at their lowest since records began in 1970



- The UK is likely to be a net importer of both oil and gas by 2010. This growing dependence on global markets may present challenges for energy security

- The number of households in fuel poverty fell by over half from 5.5m in 1996 to 2.25m in 2002



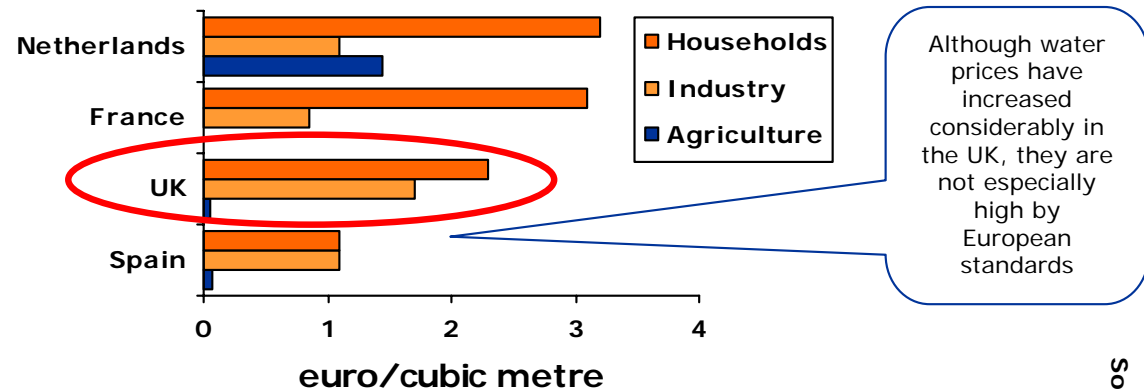
- Nuclear power is still a potential low-carbon energy source, but concerns exist over cost, environmental liabilities, proliferation of fissile materials, dual use technologies and expertise

Increased water prices are funding capital investment to meet standards for cleaner beaches, rivers and drinking water—and to repair an ageing network

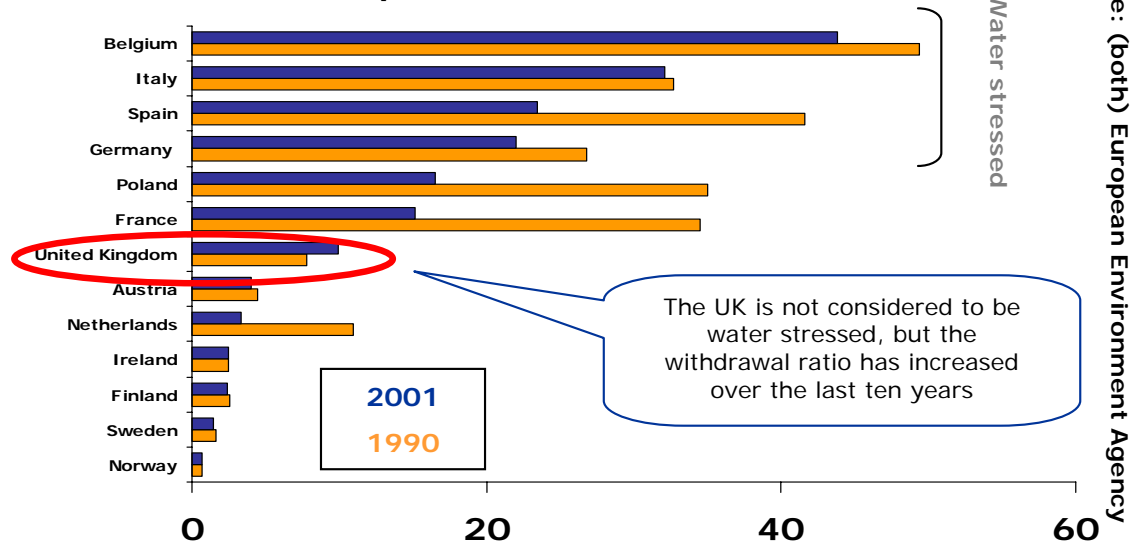


- Water prices have risen steadily with an average real increase of 24.6% since 1989, and a further 18% approved by the regulator to 2010. This reflects:
 - cost of meeting environmental and water quality goals
 - correcting under-investment and replacing aging infrastructure
 - securing supplies in areas of supply and demand mismatch
 - in future, meeting demand in high growth areas in the South East
- Drinking water quality has improved since 1997
- The percentage of UK bathing waters complying with EU regulations rose from 89% in 1998 to 98% in 2003
- The main demand management option for water is metering. The proportion of households with a water meter is still low (22%). Water use in metered households is about 10% less than in unmetered

Comparison of water prices in late 1990s



Water exploitation index 2001/1990



Source: (both) European Environment Agency

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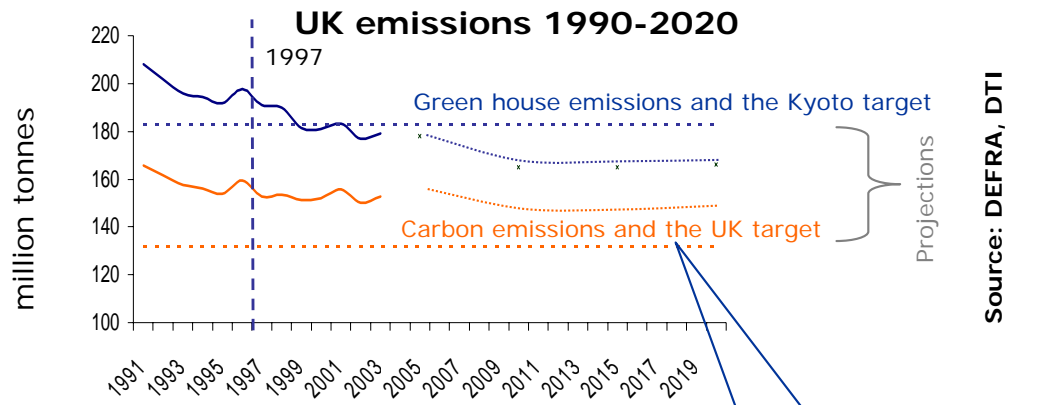
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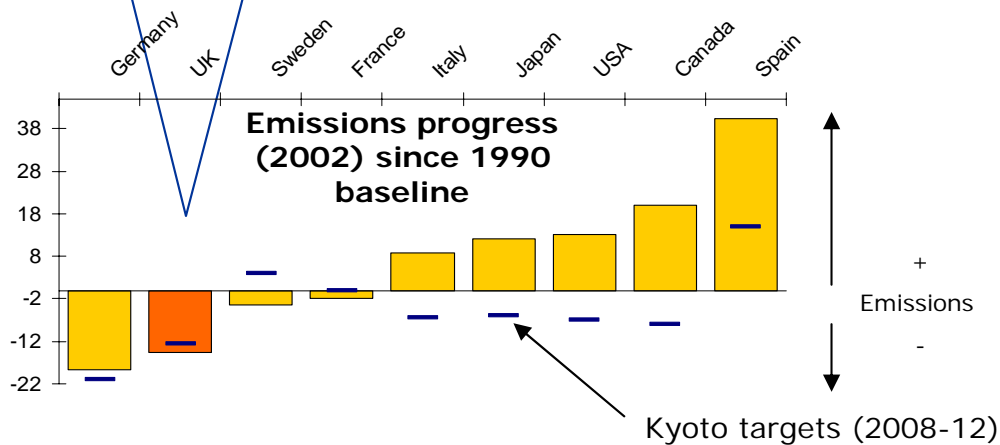
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Climate change is a real threat. The UK is on track to meet its Kyoto target but challenges remain in reaching our self-imposed more aggressive domestic targets

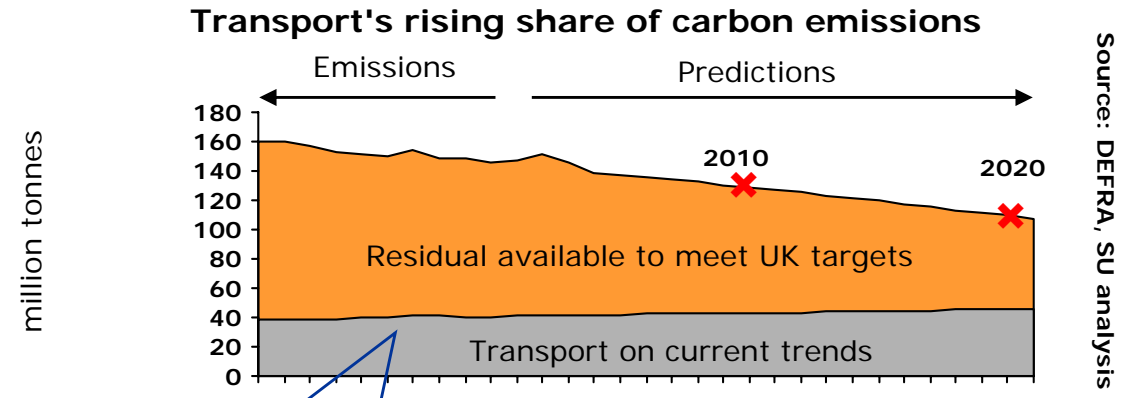


UK greenhouse gas emissions have fallen 14% since 1990—mostly through the decline of heavy industry and the “dash for gas”. Compared to others, this represents good progress, and ahead of target

Further intervention will be necessary to reach the UK's 2010 domestic target



- The contribution of carbon emissions from surface transport has risen from 15% in 1980 to 28% in 2002. Transport is predicted to be the only sector in the UK with higher greenhouse gas emissions in 2020 than 1990
- Innovation is likely to increase the menu of options from which to reduce UK emissions

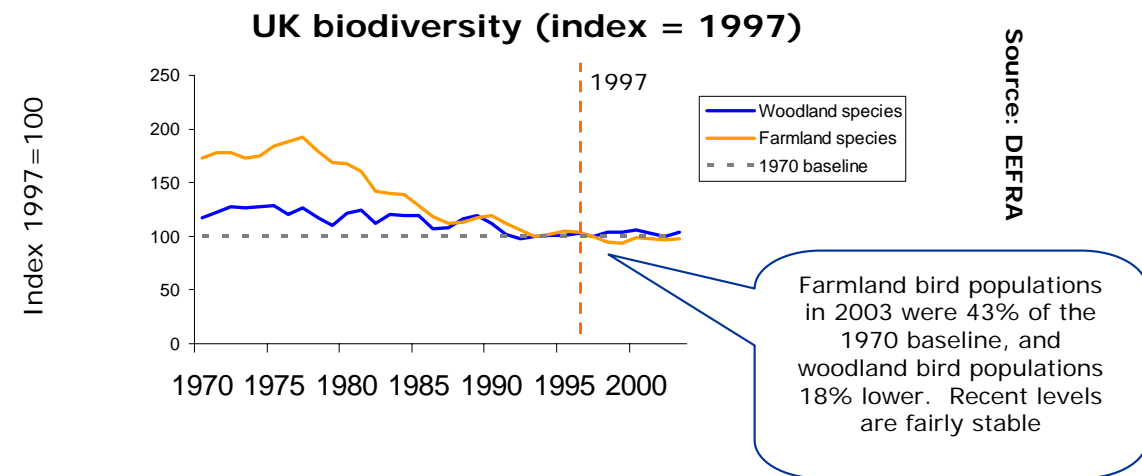
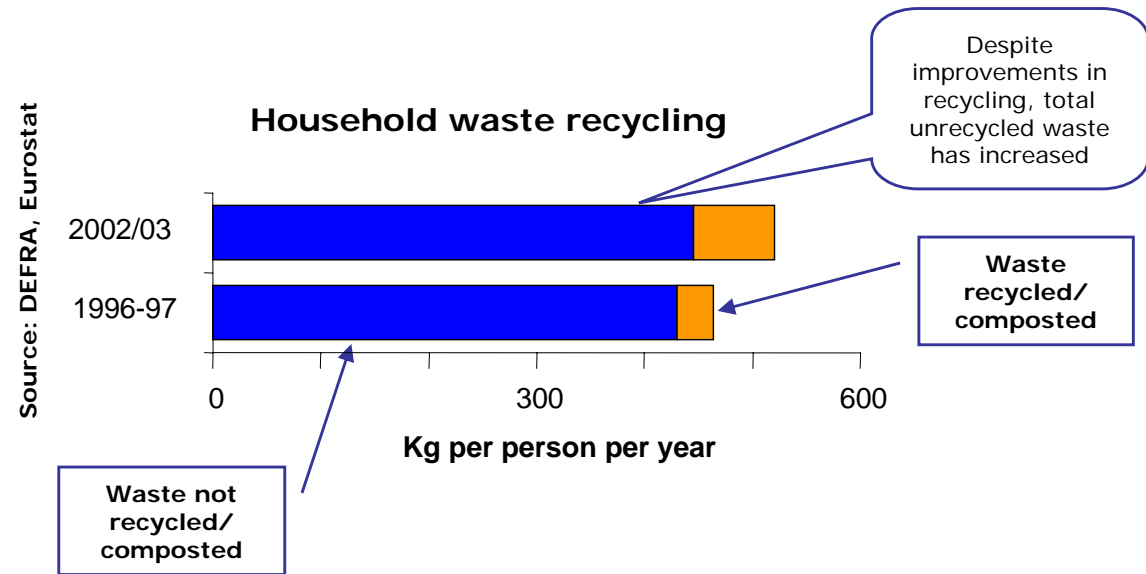


If the UK is to meet its target for 2010, and aspiration for 2020; then—based on transport projections—all other emissions will be squeezed. Transport would be 42% of total emissions in 2020

Sustainable development helps both current and future generations. The UK has made better progress in some areas than others

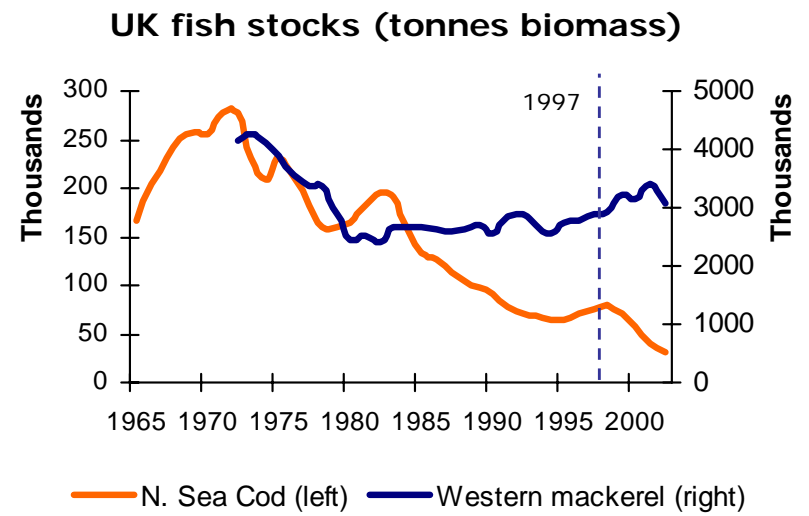


- Successful sustainable development requires a comprehensive and coherent approach across government departments, business and the public – as citizens and consumers.
- Some headline indicators are considered below:
 - Household recycling rates have doubled since 1997 from 7.5% to 14.5%, with a preliminary estimate of 17% for 2003/04. Germany recycles 26.6%, Denmark 18.7%
 - Air pollution improved from 1997 to 2002, but suffered a set back in 2003 largely due to the hot summer
 - The proportion of new homes built on previously developed land has increased from 56% to 66% between 1997 and 2003. However, regional pressures remain



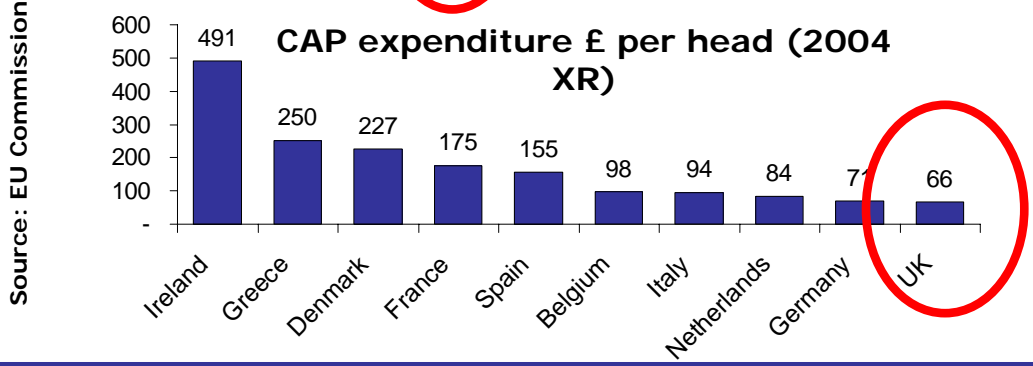
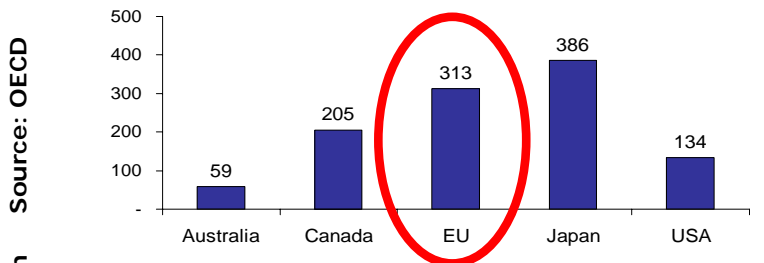
Rural areas face unique challenges. Farm subsidies are still substantial and vary widely across the EU. The fishing industry must continue reforming to ensure sustainability

- 19% of the UK population lives in rural areas. Government is focused on ensuring affordable housing, access to local services, tackling rural social exclusion and protecting and enhancing the environment
- Agricultural subsidies vary across the world, and within the EU. Common Agricultural Policy payments received by UK are low by EU standards



- White fish stocks, notably cod, have collapsed
- Following careful management, other species such as mackerel and shellfish can be profitable and sustainable
- 63% of the UK catch by value is from sustainable sources. Though the industry faces adjustment, it need not face collapse

Producer Support Estimates \$per head



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Inclusion – progress and challenges

Progress

- High and stable rates of employment, low unemployment
- Reductions in absolute poverty across all groups
- Reductions in relative poverty of children and pensioners
- Improvements in economic outcomes for some previously disadvantaged ethnic minority groups
- Improved health and welfare outcomes for people in deprived areas
- Meeting humanitarian commitments, while improving the credibility of the asylum system

Challenges

- Tackling the large stock of economically inactive people
- Addressing financial disincentives to work, particularly those from incapacity-related benefits
- Increasing social mobility: – giving children the best start in life regardless of family background
- Engaging with the growing concentrations of socially excluded individuals and groups

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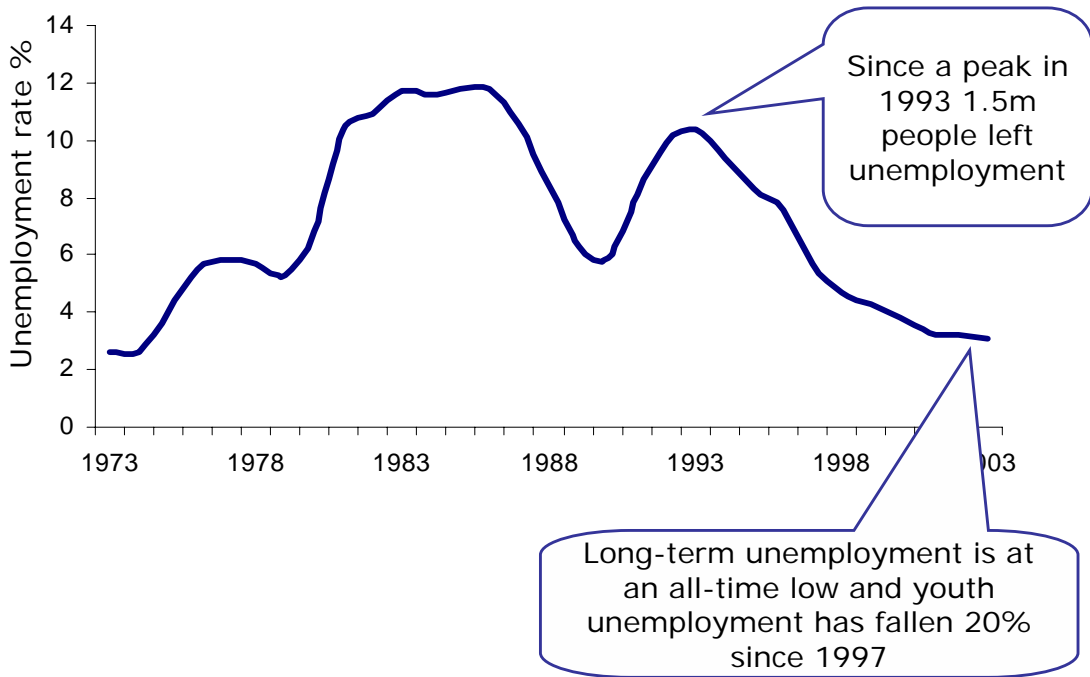
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Unemployment has fallen by 600,000 since 1997 and the UK's employment and unemployment rates compare favourably with other countries

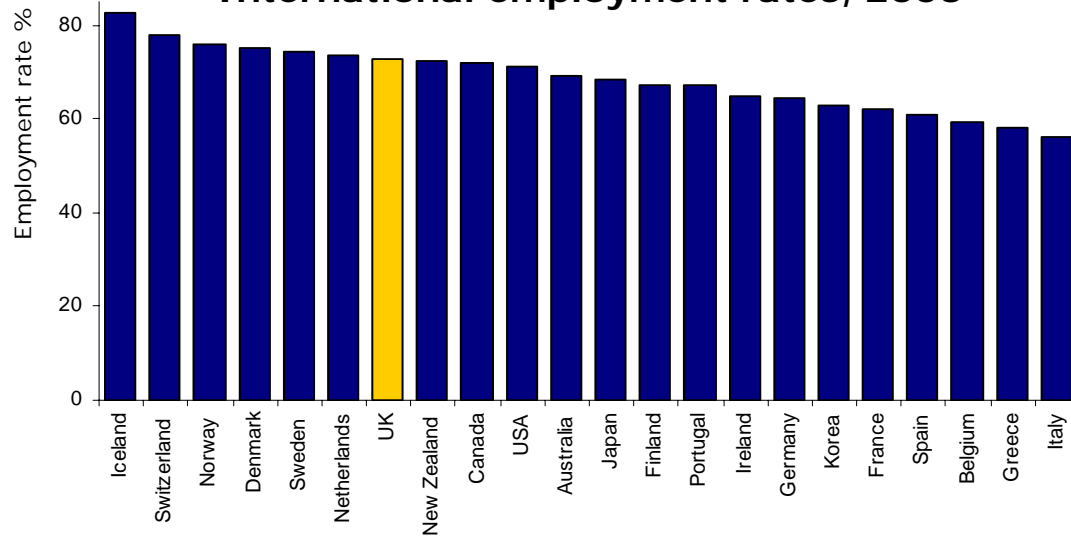


Unemployment rate, 1973-2003

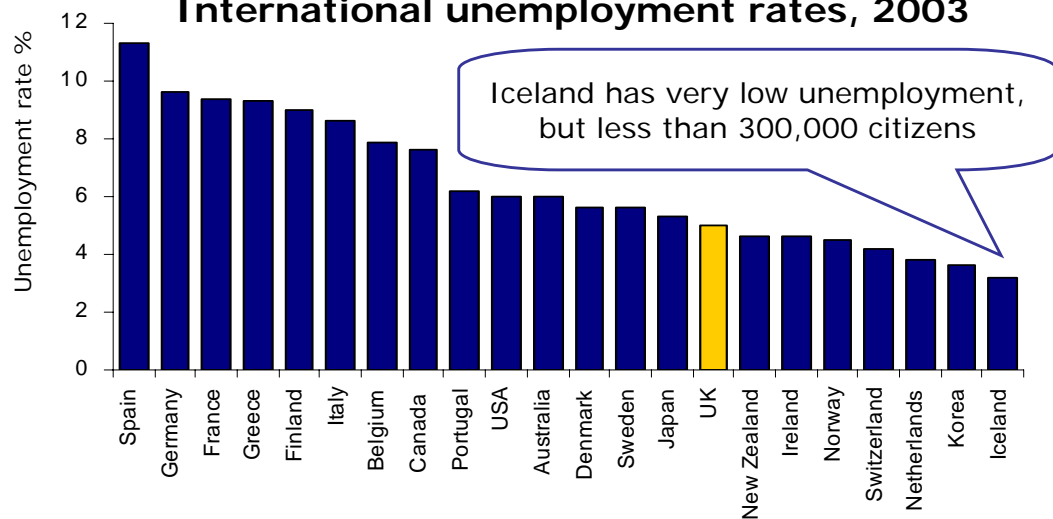


Source: ILO, based on monthly count of unemployment benefit claimants

International employment rates, 2003



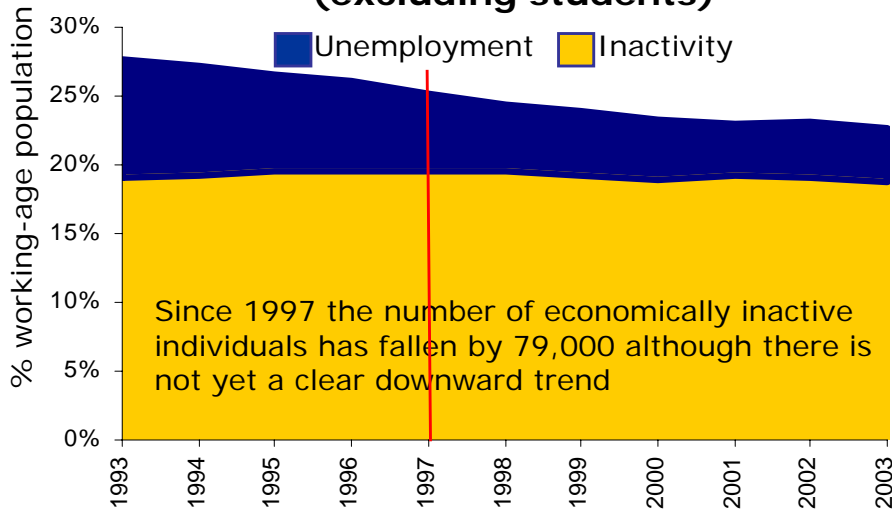
International unemployment rates, 2003



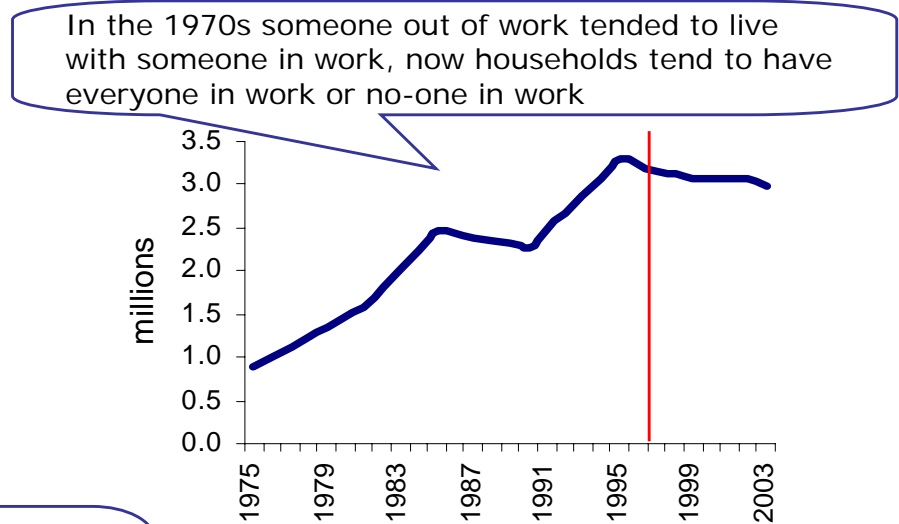
Source: OECD. Individuals are of working age. Note data for Iceland is from 2002

Rates of inactivity have not declined with unemployment. Worklessness is concentrated among particular groups

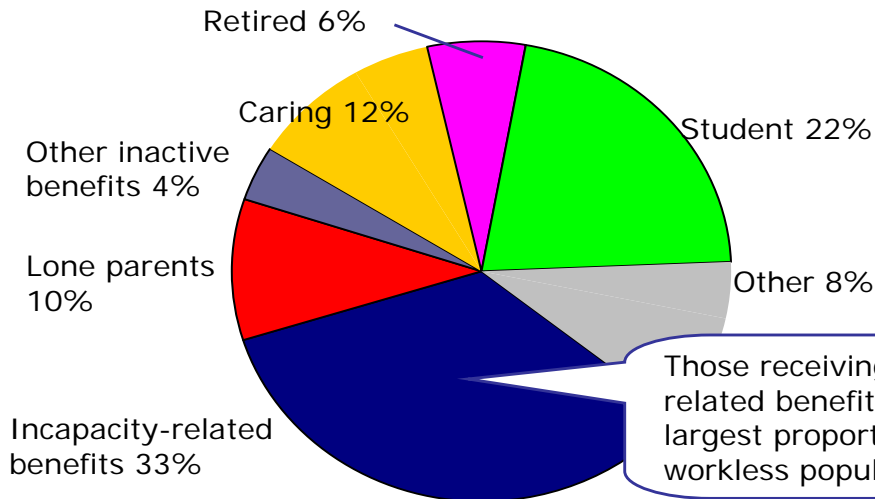
UK rates of worklessness and economic inactivity (excluding students)



Number of workless households



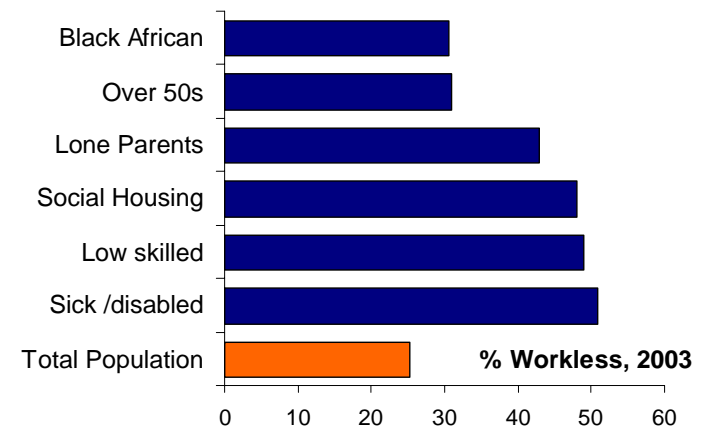
Who are the inactive?



Sick/disabled, lone parents and the low skilled are particularly likely to be workless

Those receiving incapacity-related benefits form the largest proportion of the workless population

Who is most likely to be workless?



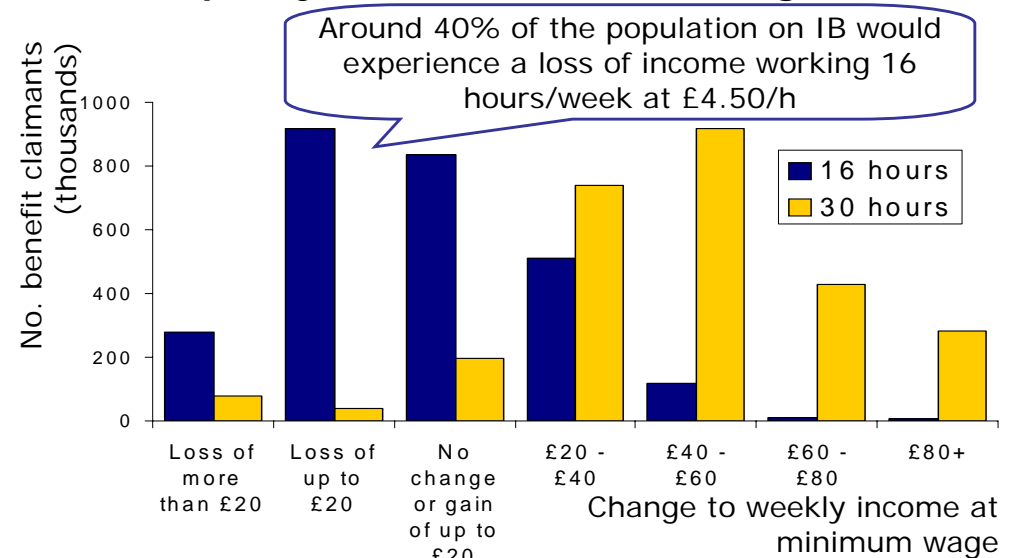
Note: individuals can fall into more than one group

Source: LFS and Dickets, Gregg and Wadsworth 'The labour market under New Labour', 2003. HMT 'Full employment in every region' 2003

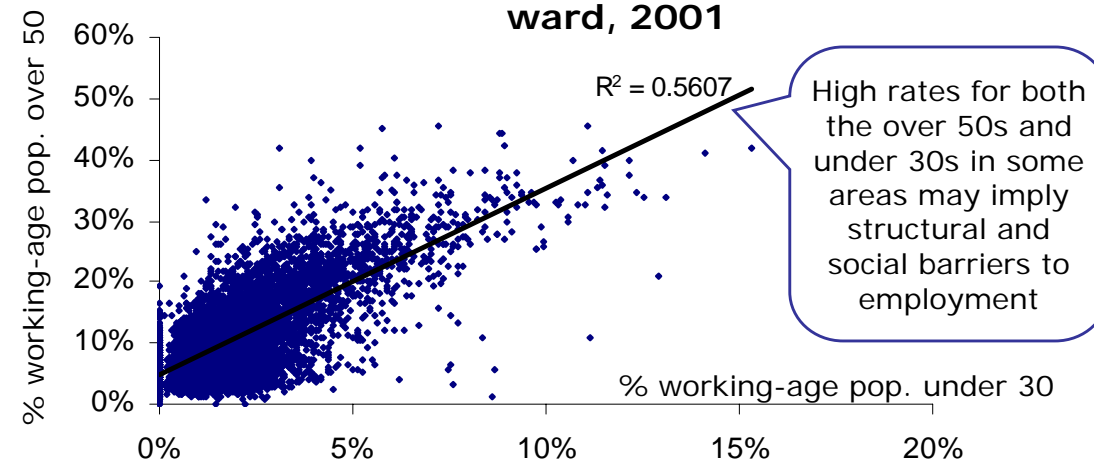
There have been improvements in the returns from working, but incentives to work (or return to work) are still weak for some groups

- Most workless people claim benefits – around 6m out of 7.7m
- Since 1997 fewer people face very severe benefit traps (loss of over 70p through withdrawn benefits and increased tax for every extra pound earned in work). However many will still see 60-70p of every additional pound earned lost in this way
- In areas of high unemployment incapacity benefit (IB) claim rates are also high
- Nine out of ten people in the early stages of claiming IB expect to go back to work but on such benefits people lose access to employment help and support. Recipients may also fear ending up worse off through losing benefits if they look for, or take, work that proves unsustainable
- Tackling the other barriers to work for the remaining inactive population presents similar challenges to those overcome in reducing long-term unemployment – low skills, transport and childcare problems, a lack of information about jobs and work

Changes to weekly income for those receiving incapacity-related benefits moving into work



IB claim rates for over 50s and under 30s by ward, 2001

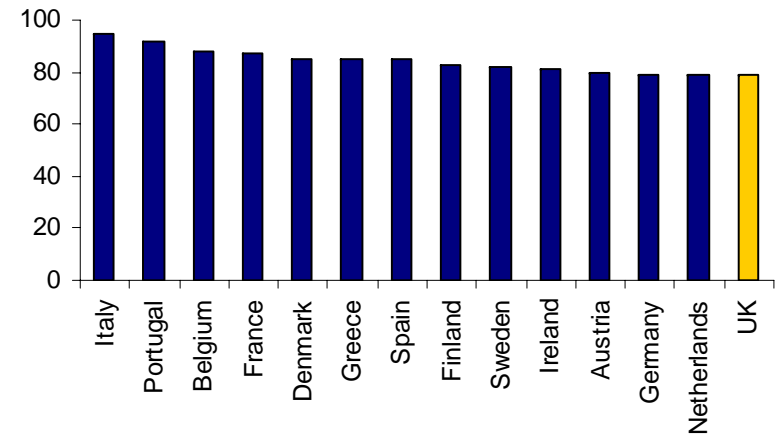


The gap between male and female wages has been closing in recent decades, but a sizable gender differential still remains in the UK

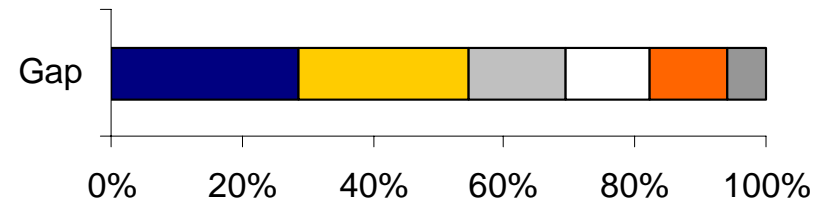
Explanations for the gender pay gap in the UK include:

- time constraints due to balancing work and caring responsibilities
- many more women work part time and the gap between women's part time hourly earnings and men's full time hourly earnings is particularly large
- occupational segregation – women's employment is highly concentrated in low paid occupations

Women's pay as a percentage of men's pay, 2000



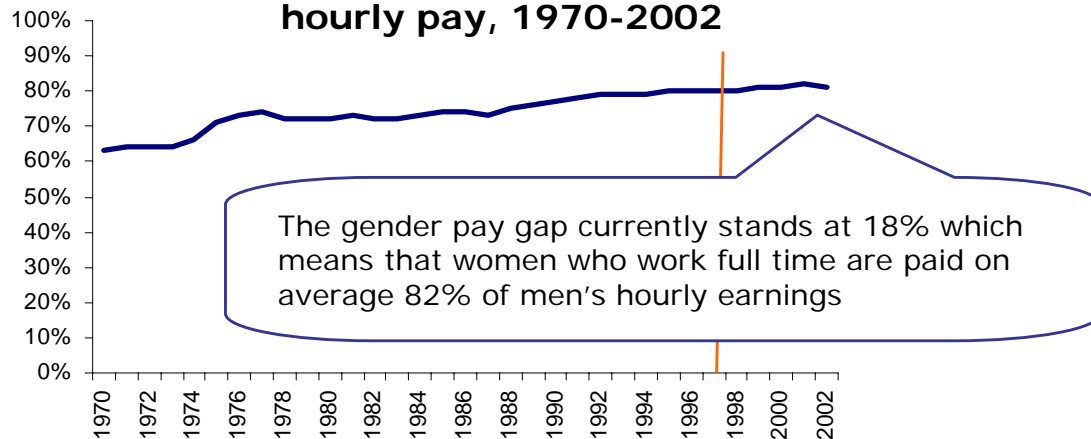
Components of the pay gap



- Discrimination & other factors associated with being female
- Full time employment experience
- Interruptions due to family care
- Segregation*
- Part time employment experience
- Education

*A measure of the extent to which men and women work in different occupations

Women's hourly pay as a percentage of men's hourly pay, 1970-2002



Source: Labour Force Survey; social trends. Eurostat ECHP UDB (2003). DTI The impact of women's position in the labour market on pay and implications for UK productivity 2003.

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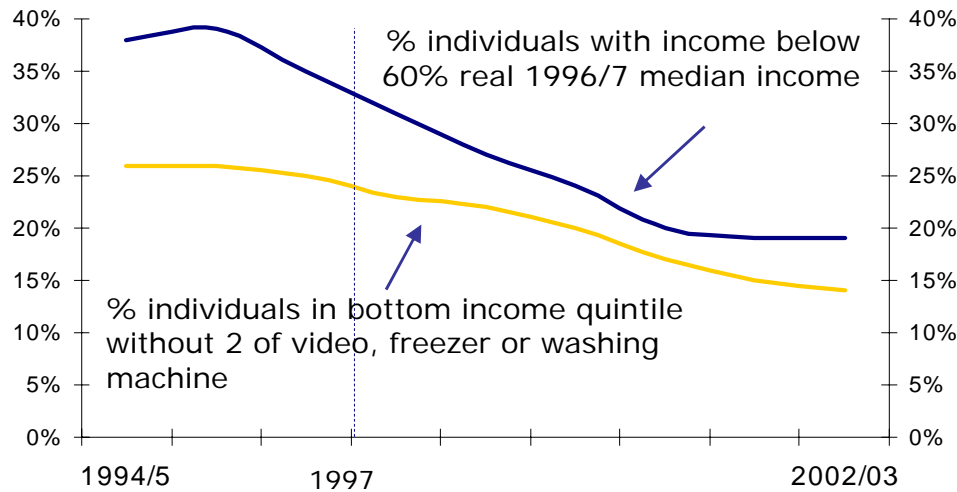
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Absolute and relative poverty have fallen. 600,000 children have been lifted out of relative poverty* since 1997

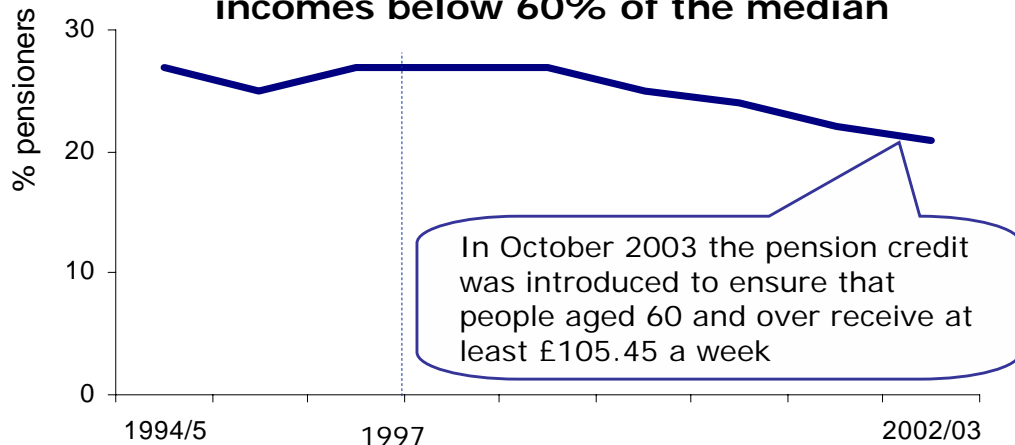
* before housing costs; or 700,000 after housing costs

Absolute poverty trends using two measures



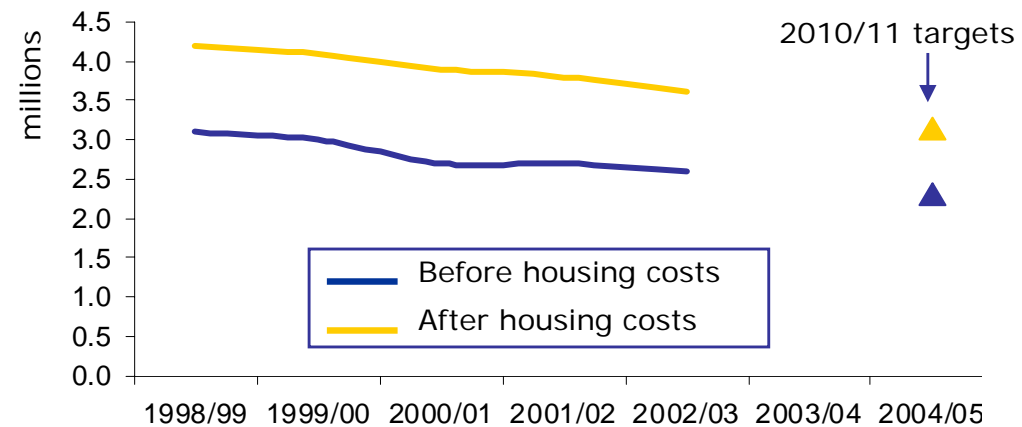
- Since 1994/5 absolute poverty in the UK has fallen
- The proportion of pensioners living in households with incomes below 60% of the median (after housing costs) also fell from 27% in 1996/97 to 21% in 2002/3
- The number of children in relative low income households has also fallen from 34% in 1996/97 to 28% in 2002/3

Proportion of pensioners with household incomes below 60% of the median



Note incomes after housing costs

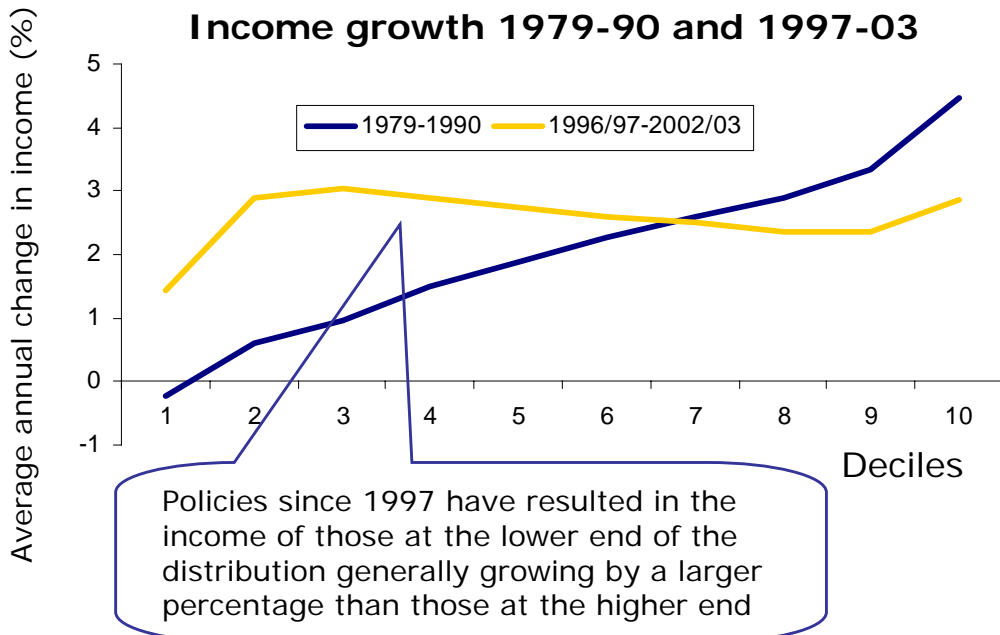
Number of children in households with incomes below 60% of the median



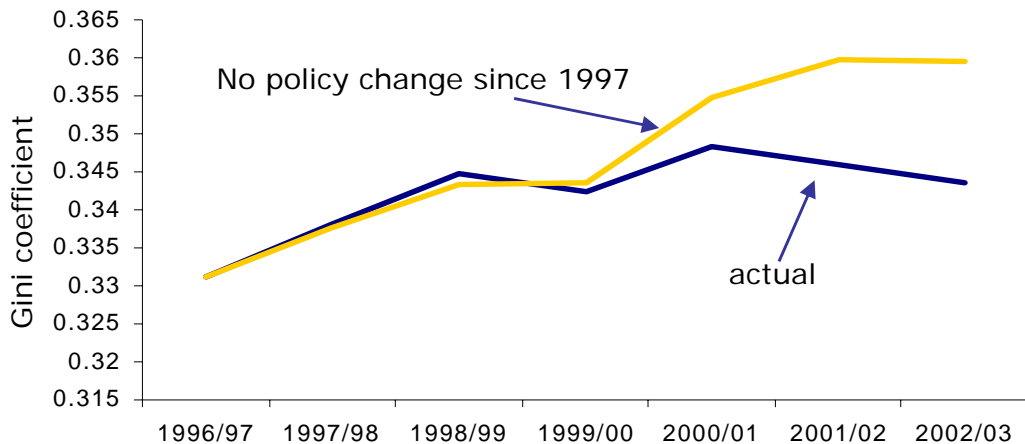
Sources: FRS data in Households below average income DWP 2004; HMT PSA site, British Household Panel survey, University of Essex

After rising during the 1980s income inequality has remained fairly stable since the 1990s

Income growth 1979-90 and 1997-03



Inequality since 1997, actual and simulated



- After rising steeply in the 1980s the widening trend in income inequality slowed during the 1990s
- The tax and benefit policies of the government since 1997 have suppressed the long term tendency towards rising income inequality
- Modelling shows that inequality would have been substantially greater in 2002/03 had the 1996/97 system remained in place unchanged. There has been redistribution through changes to the tax and benefit system since 1997
- Income inequality in the UK is high by international standards although lower than that of the US

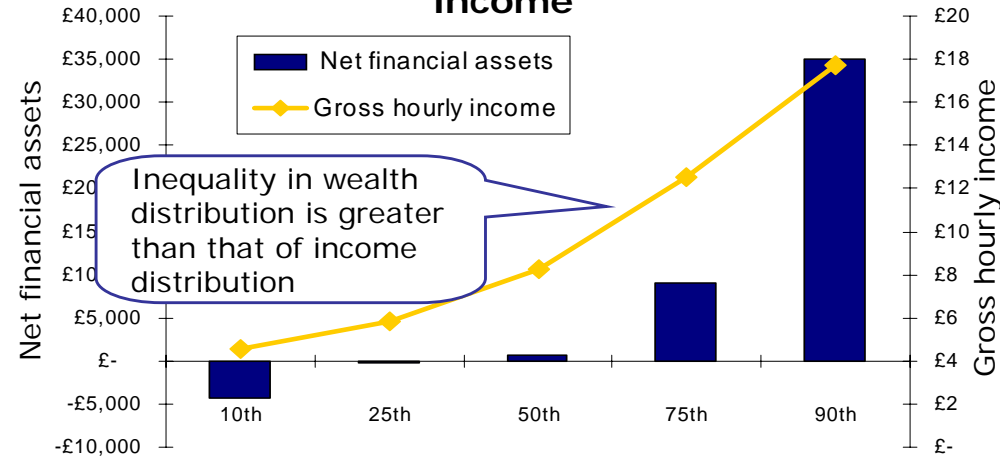
Sources: *Income and expenditure inequality in the 1990s and 2000s* and *Understanding recent trends in income inequality* Institute for Fiscal Studies 2004; FRS data in *Households below average income* DWP 2004

Though *income* inequality has levelled off in recent years, *wealth* inequality has been increasing

Sources: Inland revenue, IFS, Delivering saving and assets HM Treasury 2001, Wealth distribution – the evidence IPPR 2002 IFS The distribution of financial wealth in the UK Working paper 02/21, 2002, 'Know your place: Housing Wealth and Inequality in Great Britain, 1980-2003', B. Thomas and D. Dorling' 2004

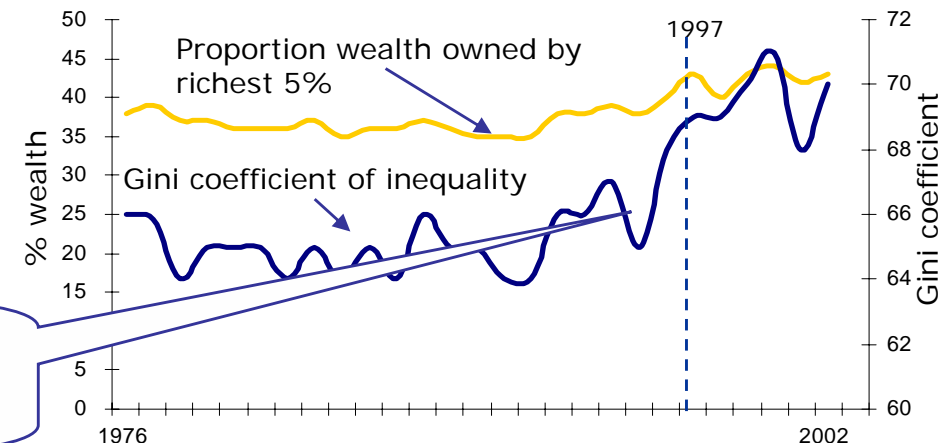
- Holding assets is important for resilience to in difficult transitional periods, improving life chances, for example by funding education.
- Wealth inequality, excluding housing, has increased since the 1970s with a sharp increase since 1995/96
- The share of housing wealth has risen dramatically from 22% to 42% between 1971 and 2002. The distribution of this wealth has become more unequal, socially and geographically.
- Almost one-tenth of the population have no assets at all. Some of these are young individuals or households but there are also substantial levels of financial exclusion amongst middle-aged and older groups

Distribution of net financial assets* and gross income



*Net financial assets consists of savings, investments and debt. Housing wealth not included

Inequality in wealth distribution 1976-2002



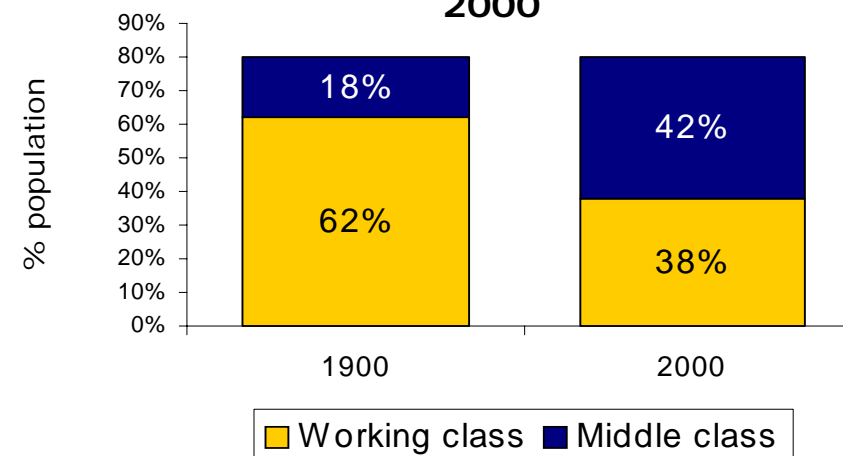
The sharp increase in inequality since 1995/96 may be a lagged response to widening income inequality in the 1980s

Upward social mobility increased over the 20th century but those at the lower end of the income distribution remain less likely to move to a higher bracket

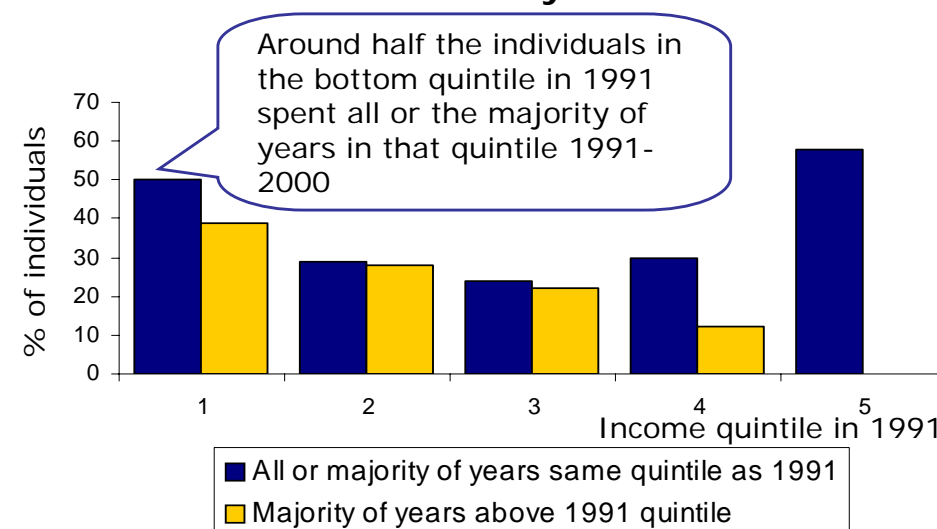


- Over the 20th century upward social mobility increased reflecting the expansion of the middle class - more 'room at the top'
- Relative income mobility appears to have fallen since the 1950s, with a sharper decline in the 1980s – being born into a poor family is a strengthening predictor of being relatively poor in adult life
- At the top and bottom of the income distribution individuals are less likely to move to another quintile. Around 40-50% of those disadvantaged at age 23 remain so at age 33
- While women have enjoyed more favourable social mobility trends than men in recent decades there is an increasing polarisation between well-educated women and less educated women with limited labour market experience, particularly lone parents

The changing class structure of Britain 1900-2000



Income mobility 1991-2000

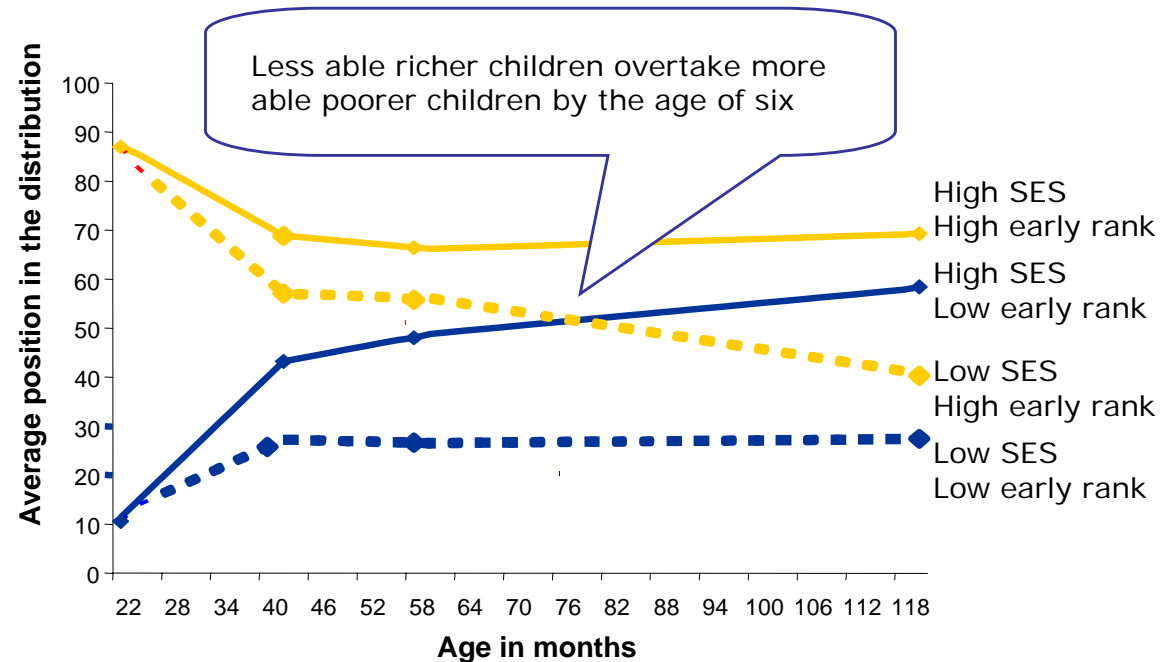


Sources: Strategy Unit Life chances and social mobility – a review of the evidence; Intergenerational Mobility in Britain by L. Dearden et al, The Economic Journal, January 1997; Changes in Intergenerational Mobility in Britain by J Blanden et al, CEP Discussion Paper 517, LSE, December 2001

Children's experiences in early years have a strong and enduring impact on life chances

- Despite opportunities presented by educational, economic and social change, family origins continue to exert a strong influence on adult outcomes
- While family income plays an important role in determining cognitive development and school success, 'cultural capital'* also explains a large proportion of differences in achievement between disadvantaged children and others
- High quality childcare and pre-school programmes produce cognitive gains in children, particularly the most disadvantaged and may have a key role to play in promoting upward social mobility

Socio-economic status and educational outcomes



SES - Socio-economic status

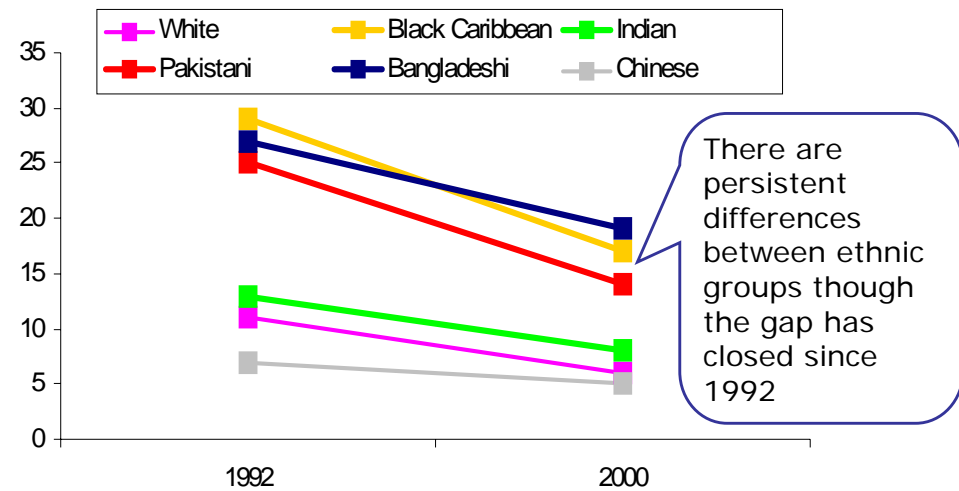
* Cultural capital refers to the cultural environment in the home. In this case it is measured using a composite of the quantity of books in the home, frequency of discussing cultural themes and of frequenting cultural events

Sources: *Life chances and social mobility: An overview of the evidence* Strategy Unit 2003, *The impact of family origins and early childhood experiences on adult outcomes* ESRC, *Inequality in the early cognitive development of British children in the 1970 cohort* Leon Feinstein, *Economica*, February 2003, Waldfogel, J review of evidence on social mobility, life chances and the early years for IPPR social mobility and life chances forum, 2004, Esping-Anderson *Social inheritance and equal opportunity policies* paper for IPPR social mobility and life chances forum 2004

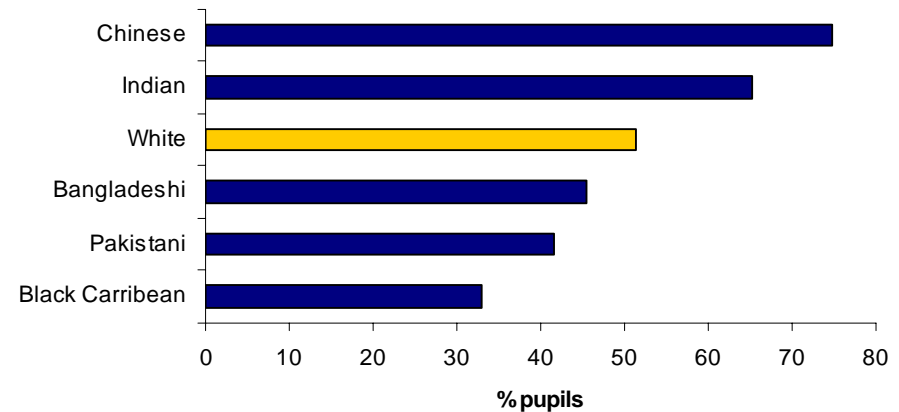
Certain groups, including some ethnic minorities, experience particularly poor social mobility and life chances

- Pakistani, Bangladeshi and Black Caribbean groups tend to have higher rates of unemployment and lower incomes than the white population. They are also less likely to hold managerial posts
- However there are some groups who have experienced rapid upward social mobility e.g. Indian men
- Educational attainment is one of the major factors enabling people to move to a higher income or socioeconomic group than the one they are born in
- While Indian and Chinese pupils now out-perform white pupils at GCSE level, the proportion of white pupils receiving 5+ A*-C grade GCSEs outnumbered that of blacks by 16% and that of Pakistanis and Bangladeshis by over 10%

Male unemployment rates, 1992 and 2000



Pupils achieving 5+ GCSEs A*-C/GNVQs: by ethnic group 2003



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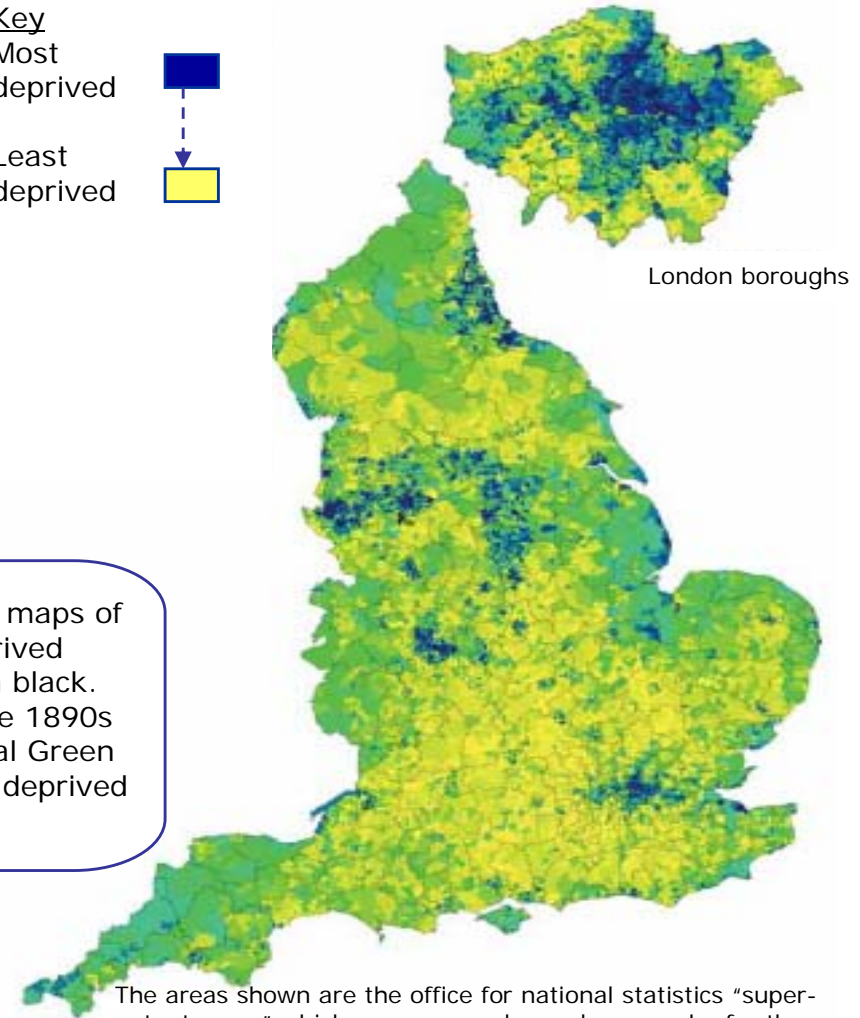
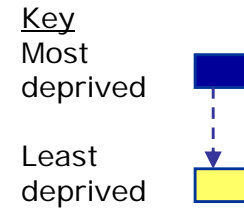
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Conclusion

People living in deprived areas experience poor outcomes in health, education, employment and quality of life. Many areas have been deprived for a long time

- Today's deprived areas are clustered in inner London or in ex-mining or manufacturing areas. However there are some newly deprived areas on the coast reflecting the decline of British seaside tourism
- Many of these areas have been deprived for a long time reflecting the scale of the problems in these areas. Out of the ten most deprived areas in 1991 seven are still among the ten most deprived areas today

Most deprived areas in England, 2004



The areas shown are the office for national statistics "super-output areas" which are a new sub-ward geography for the collection and publication of small area statistics

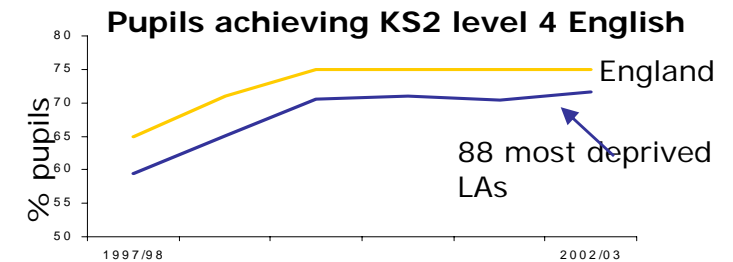
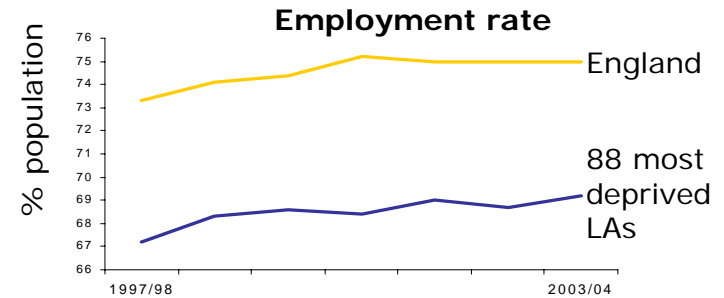
Source: ODPM indices of deprivation 2004

Charles Booth's poverty maps of London highlighted deprived areas by colouring them black. This section drawn in the 1890s shows an area of Bethnal Green that is the second most deprived ward in London today

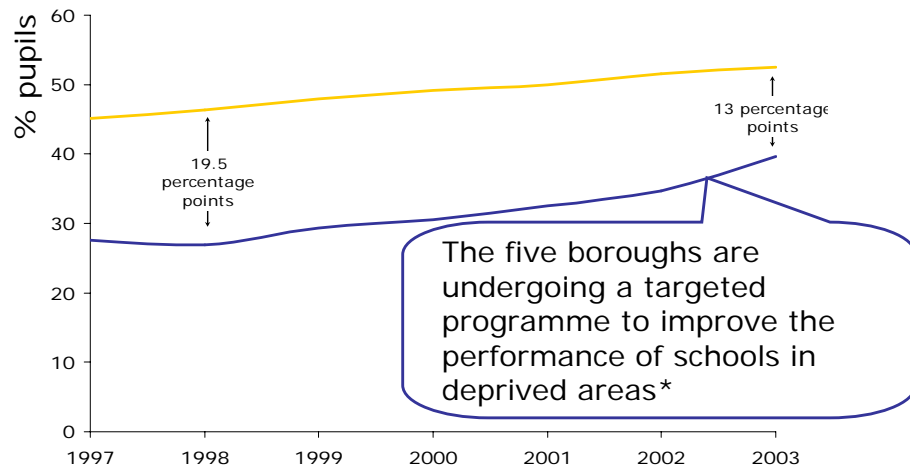


Outcomes for people in deprived areas have improved, mirroring trends across the rest of the country

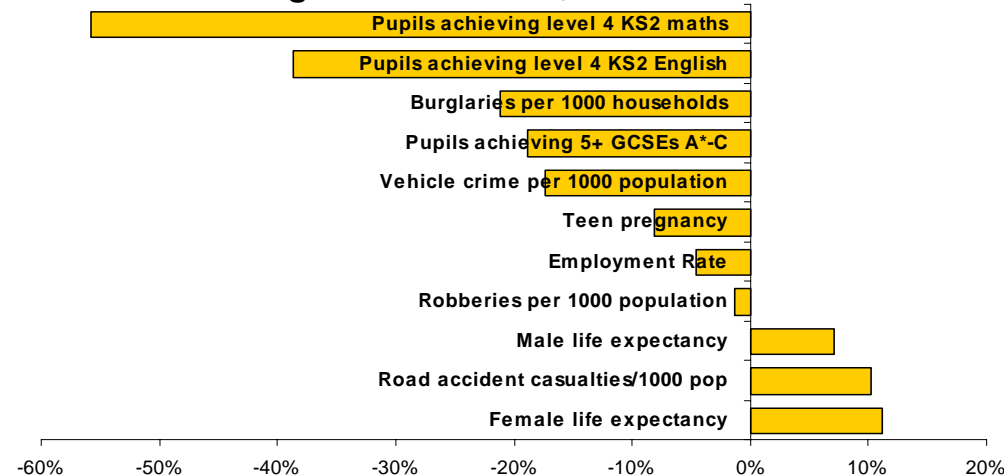
- Since 1997 the 88 most deprived local authorities (LAs) receiving neighbourhood renewal funding (NRF) have seen absolute improvement in outcomes for health, education, employment and some types of crime (see examples on right)
- Outcomes in eight key areas have improved faster than in England as a whole
- In some deprived London boroughs the improvement has been even more marked
- However in other areas – male and female life expectancy and road accident rates – the gap is widening



Pupils achieving 5+ GCSEs A*-C, London and England



Change in gap in outcomes between 88 deprived LAs and England as a whole, 1997-2003



*London Challenge launched in 2003 in Hackney, Haringey, Islington, Lambeth and Southwark
Sources: Neighbourhood renewal unit ODPM, Home Office RDS

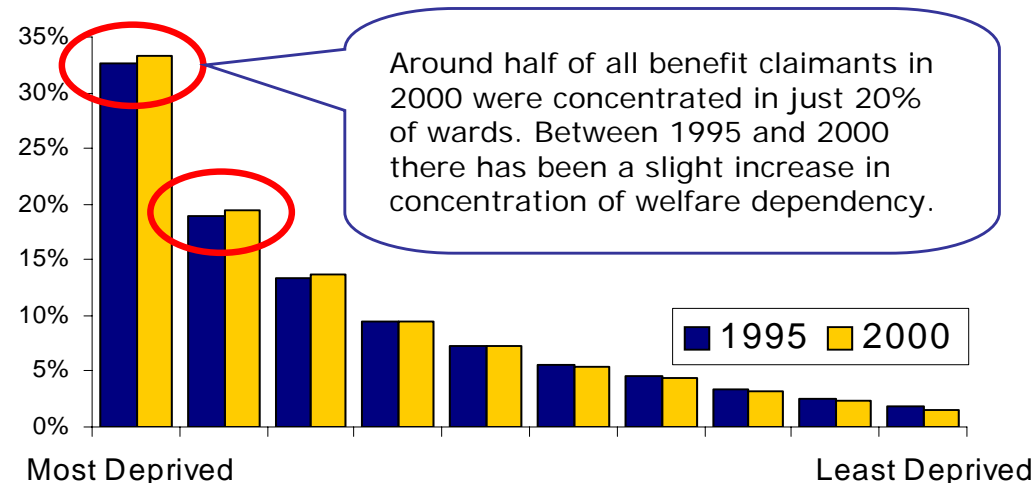
Concentrations of poverty in deprived areas have increased slightly since 1995. Concentrations of deprivation can result in worse outcomes for residents



Sources: Strategy Unit deprived areas project 2004 'Neighbourhood effects', Lupton op. cit.; N. Buck 'Identifying Neighbourhood Effects on Social Exclusion', Urban Studies 38, 12 2251-2275, 2001; 'Higher mortality in deprived areas?'; A. Sloggett & H. Joshi, BMJ 1994; 'The Geography of Life's Chances', Wasserman; Moving to opportunity in Boston: Early Results', L. Katz et al 2000; and others, Home Office crime data, Evans et al Growing together or growing apart JRF 2002

- Concentrations of vulnerable groups in one area - such as the long-term unemployed, people with mental health problems or drug users – tends to negatively impact on:
 - employment – limited personal networks hinder the spread of information about available jobs, negative peer culture limit aspirations
 - crime/anti-social behaviour - peer behaviour is a risk factor for drug use and offending: 65% of heroin users say friends are all users, 48% of offenders are peer induced
- Concentrations of vulnerable groups puts more strain on health and social services and may result in worse service quality and outcomes

Percentage benefit claimants* by ward deciles



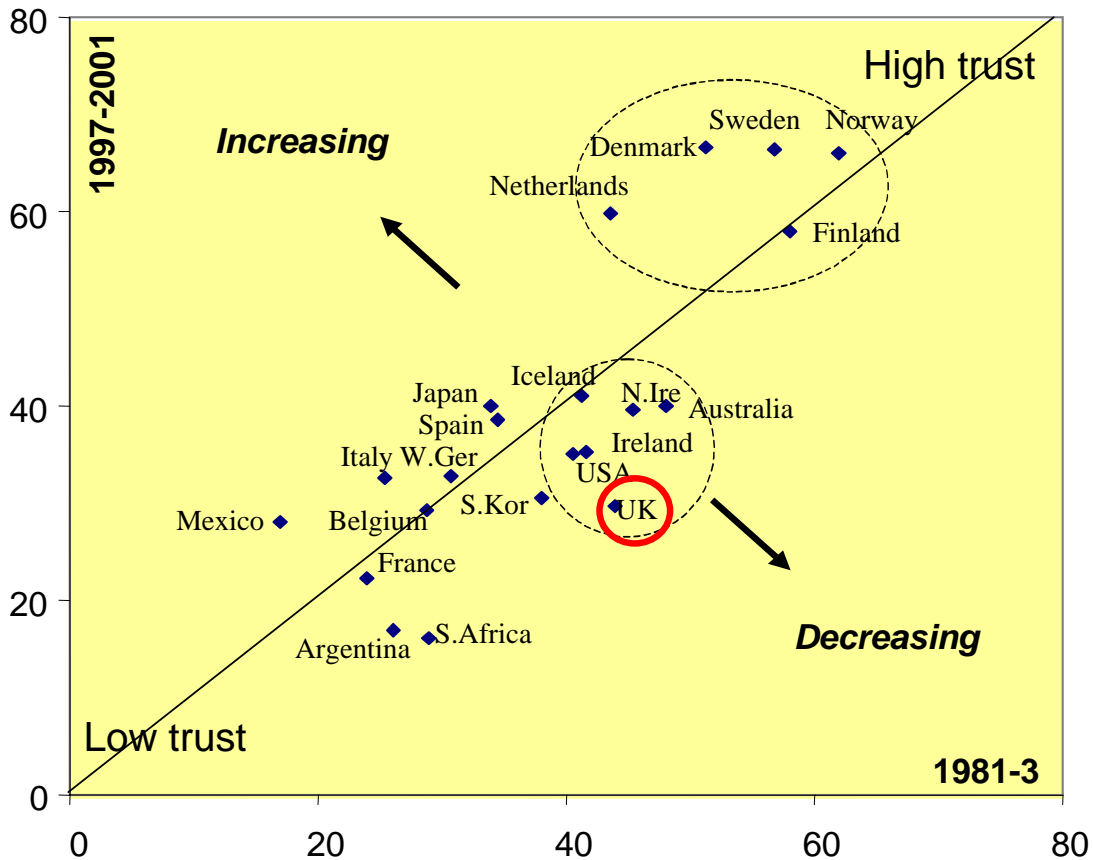
Around half of all benefit claimants in 2000 were concentrated in just 20% of wards. Between 1995 and 2000 there has been a slight increase in concentration of welfare dependency.

*income support and income-based jobseekers' allowance

- Although residential 'clustering' occurs naturally as a result of market forces, in some areas the method of allocating houses to tenants can result in "ghettos" of the most vulnerable

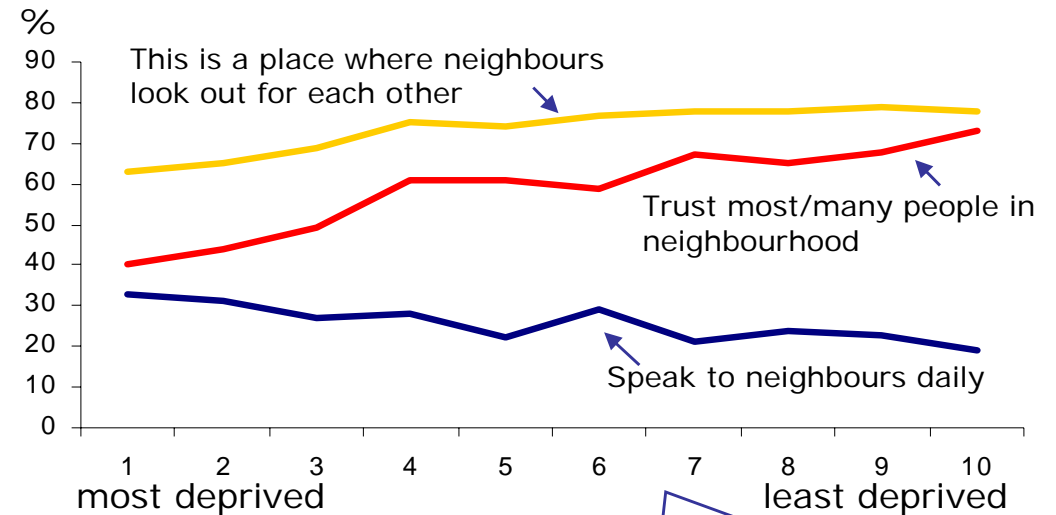
Social trust fell in the 1980s and 1990s but has since levelled off. Social trust is lower in deprived areas

International trends in social trust - % saying most others can be trusted



Neighbourliness by IMD* ward deciles

*IMD = index of multiple deprivation 2000



People living in deprived areas are less likely to trust their neighbours despite having more daily contact with them. Low social capital in deprived areas can have negative implications for education, crime and employment and can limit the effectiveness of community-based regeneration organisations

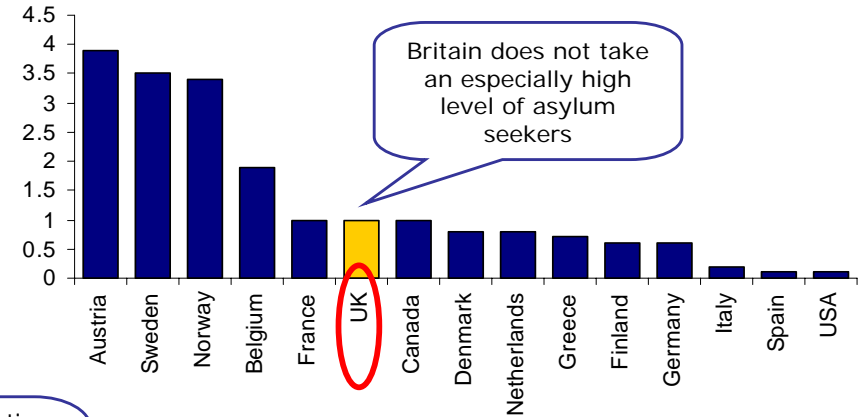
Source: Halpern 2004/WVS data

Source: General Household Survey 2000, *Social capital – a discussion paper* Strategy Unit 2002, SU deprived areas project

Public concern about race and immigration is high but has started to fall, lagging the recent falls in asylum applications

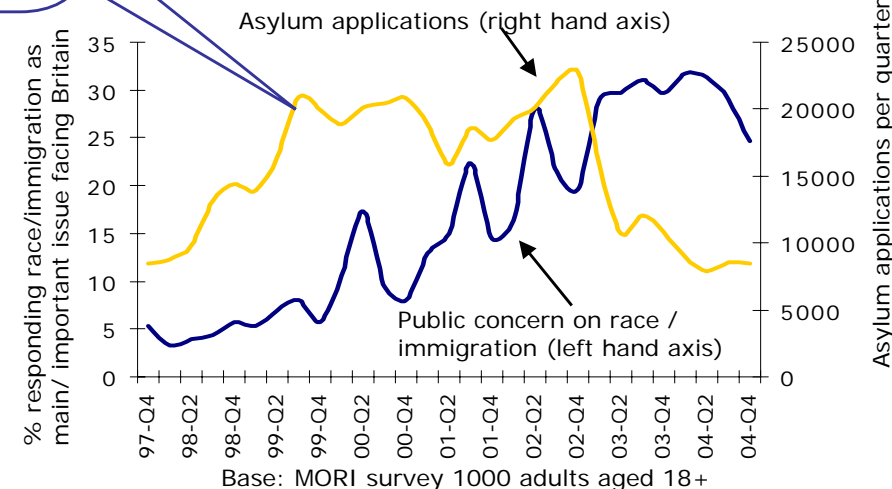
- In 2001, minority ethnic groups were 7.9% of the UK population – up from 5.2% in 1991. However, the public overestimate this figure by three-fold, believing ethnic minorities constitute 23% of the UK population
- Migration is growing worldwide, including from and into the UK. Employment related grants – which benefit the UK economy – have risen 158% to 29,600 since 1999
- In contrast, UK asylum related grants have fallen by 52% from 1999 to 2004. Applications for asylum fell between 2002 and 2004, mirroring trends in most European countries. Applications in 2004 are now lower than 1998 levels
- Minority ethnic groups are geographically concentrated with 45% living in London. Londoners welcome diversity - with only 5% disagreeing with the statement “it is a good thing that Britain is a multicultural society” compared with 12-23% in other regions

Asylum seekers per 1000 population, 2003



Race and immigration is the third highest public concern, rising with negative reporting of asylum applications

Public concern about race/immigration vs. asylum applications



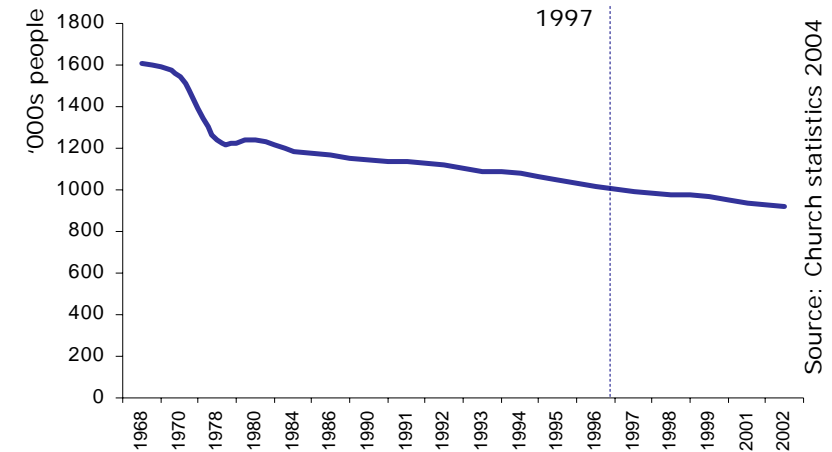
Base: MORI survey 1000 adults aged 18+

Muslim communities are most likely to feel discriminated against on the basis of their faith

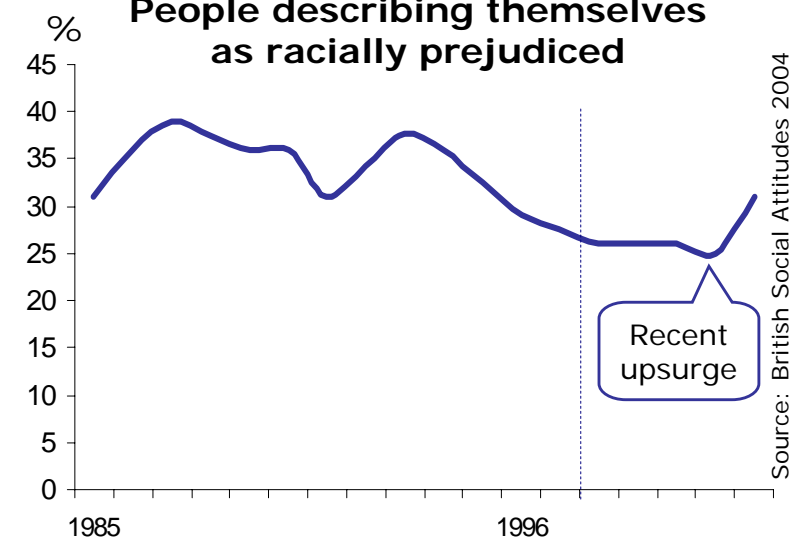
Sources: Religious discrimination in England and Wales Home Office 2001, Muslims in the UK Open Society Institute 2004, House of Commons 2004, Inglehart and Baker Modernisation, cultural change and the persistence of traditional values American Sociological Review 2000 vol 65, Religious Trends

- Churchgoing in the UK has declined significantly since the 1970s although attendance in some areas, notably London boroughs, has risen in recent years
- Attendance at mosques is projected to grow from 620,000 Muslims regularly attending in 2000 to 750,000 by 2005
- Muslims (34%) and Sikhs (33%) are most likely to say the government is doing too little to protect the rights of people belonging to religions in Britain. The majority of these respondents are aged between 16 and 24
- Muslim organisations report a consistently higher level of unfair treatment in education, housing, employment and law and are most likely to say that problems of ignorance, hostility and unfair media coverage have become more frequent over the last five years
- Nevertheless, the differences in values held by members of different religions *within* countries are generally much smaller than cross-national differences

Usual Sunday church attendances



People describing themselves as racially prejudiced



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Well-being – progress and challenges

Progress

- Improving life-expectancy signs of a reversal of the trend in health inequalities
- Increased NHS capacity, innovative new services, reduced long waits for treatment and high satisfaction with the NHS amongst users
- Improving survival rates, reducing mortality for major diseases and steadily increasing life-expectancy
- A sharp fall in crime from its peak in 1995, including falls in violent crime
- Improvements in the ('decent homes') quality of the housing stock
- Increased leisure time and cultural renewal funded through lottery and museums

Challenges

- Capitalising on the increased public spending on the NHS
- Chronic disease – cancer, circulation, lung, sexual health, mental health - through focus on lifestyle factors
- Reducing the harm caused by drugs, alcohol and underachievement
- Addressing concerns about anti-social behaviour
- Preparing for an ageing society – not just pensions
- Ensuring sufficient housing supply through increased supply-side responsiveness

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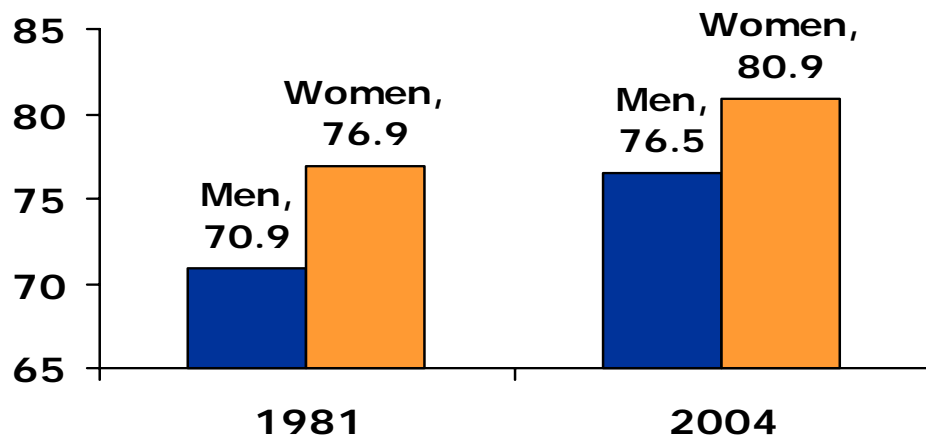
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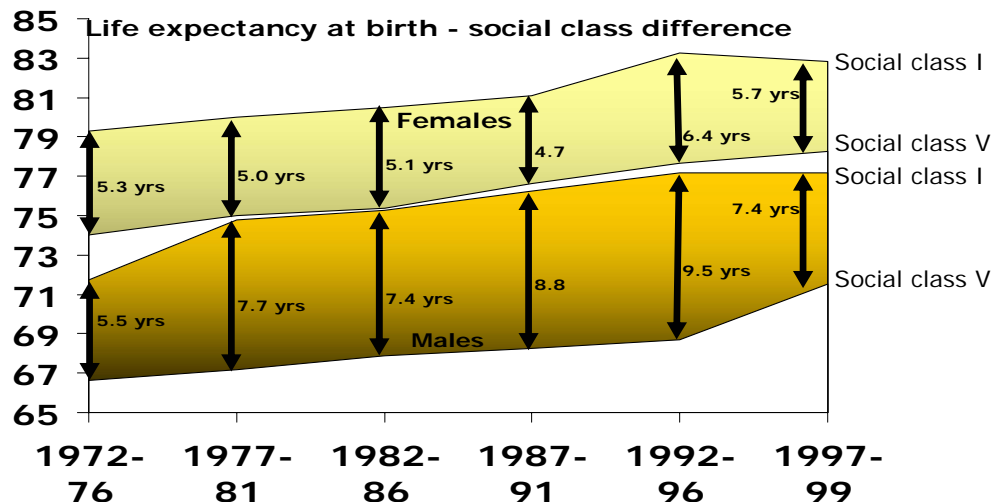
People are living longer and gender and class health inequalities have started to reduce

Life expectancy rising



- Life expectancy is increasing by about 10 weeks per year and men are closing the 5-year gap on women at about 3 weeks per year
- Though life expectancy has increased by about 4 years since 1980, an extra year is spent in poor health
- 3.8 million adults 45-65 (about a quarter) report a long-standing illness that restricts their activity (General Household Survey, 2003)
- Health inequalities had widened as improvements for the better-off outpace improvements for the poorest but that trend has started to reverse
- Furthermore, with rising prosperity the absolute number of people in the poorest social groups is decreasing –tackling poverty has been the key measure to address health inequality

Inequality – widening trend now reversing

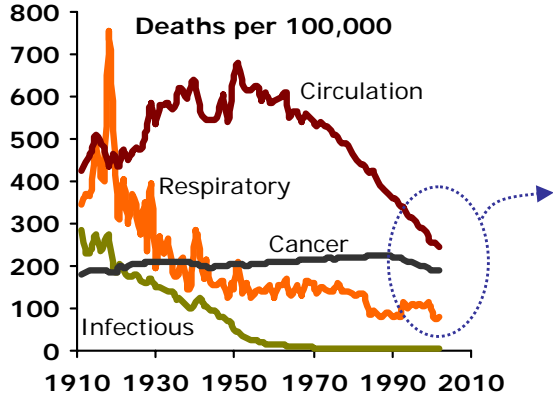


Deaths from major diseases are falling, due to improved survival rates and improvements in key long-term drivers of disease

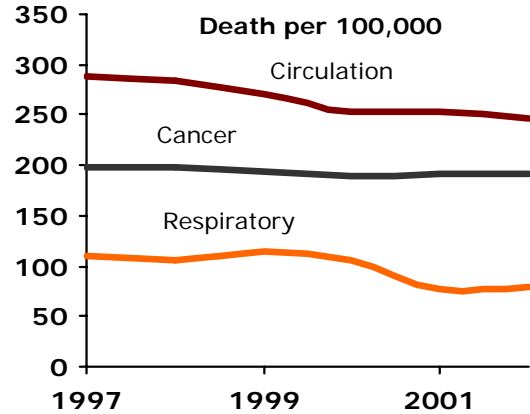


Source: ONS, Age-standardised mortality rates, England & Wales, 2003

Long term mortality trends



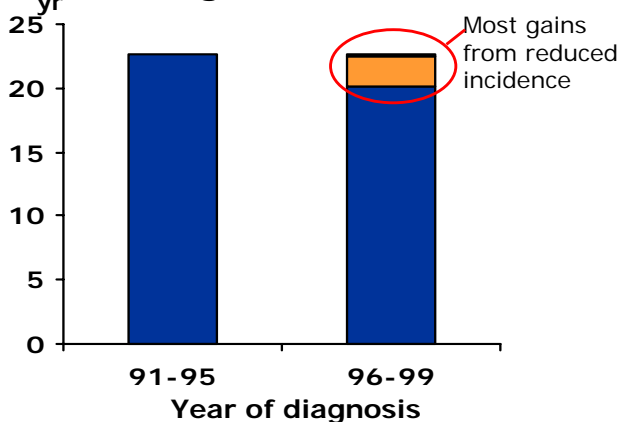
Recent mortality trends



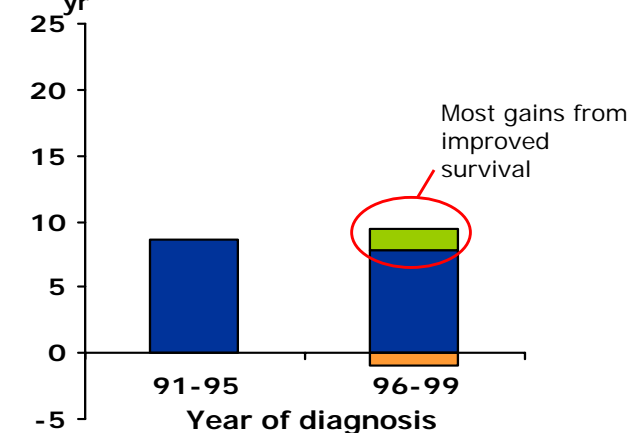
- Survival rates are one outcome of NHS performance, but explain only part of the fall in mortality
- Current health outcomes depend on long term trends in drivers of disease (which determine the incidence) and the survival rate once diagnosed
- UK survival rates have been relatively poor but are improving
- The drivers and changing survival prospects vary for diseases:
 - Lung cancer gains have come from lower incidence due to reduced smoking 10-30 yrs ago
 - For breast cancer, survival improvement accounts for all of the reduction in mortality, and offsets an *increase* in incidence.
 - Cardiovascular mortality has fallen over the long term as diet *and* treatment have improved.

Source: NHS Cancer survival England and Wales 2003, SU analysis

Lung cancer (Men)



Breast cancer



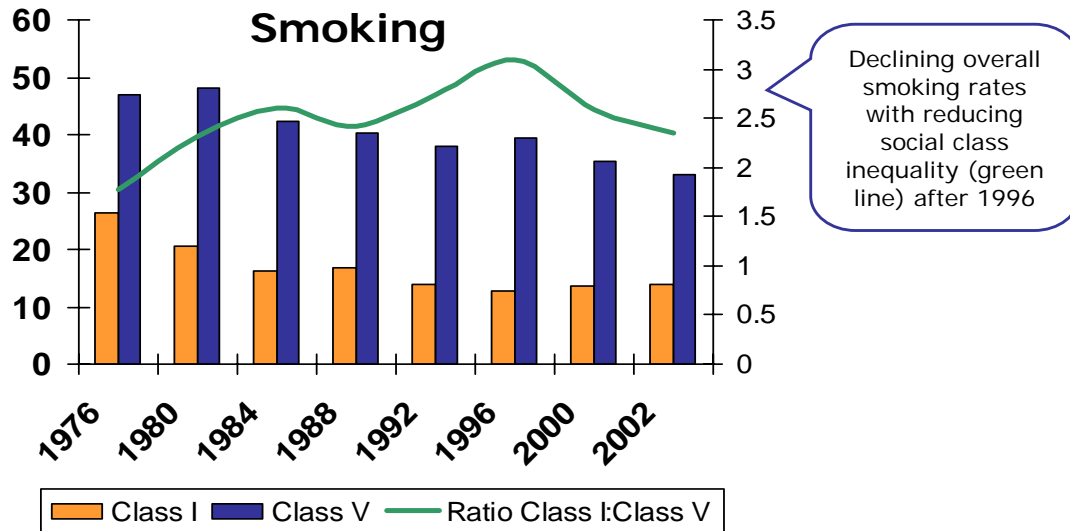
■ Death
■ Change due to +/- incidence
■ Reduction due to improved survival

Charts show improvement in deaths (5-year survival) attributable to improved survival rates and reduced incidence for patients diagnosed 1991-5 and 1996-9

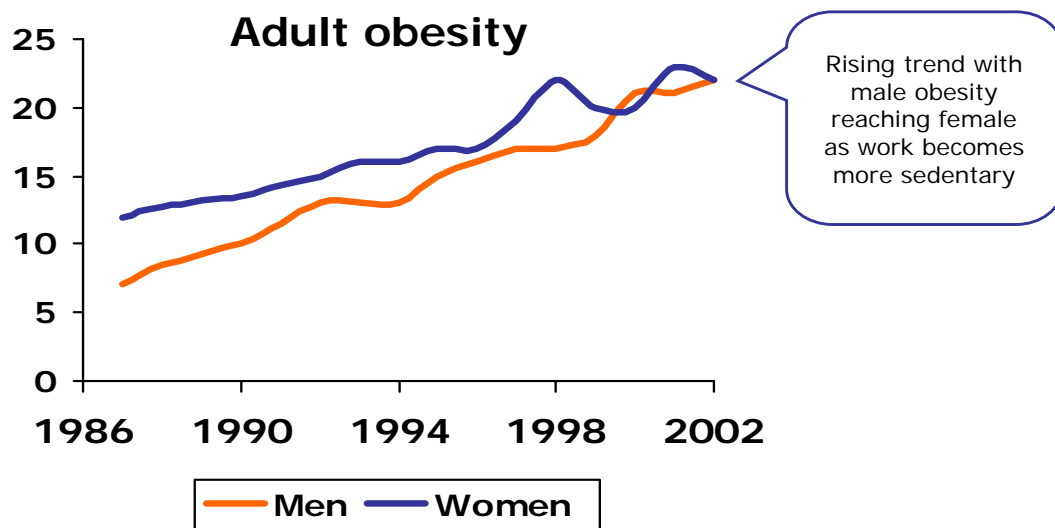
Smoking, poor diet, and lack of exercise are critical to future health outcomes. Rising obesity and low exercise rates are new concerns



Source: Living in Britain 2004: Results from the 2002 General Household Survey



Source: Body mass Index, Health survey for England, 2002



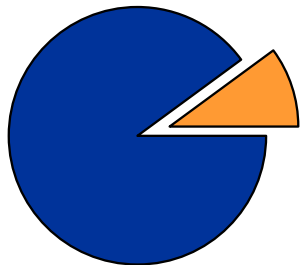
- Tackling drivers of disease could make a major impact on NHS spending in the future. Wanless (for HMT) estimated a 'fully engaged' public health programme could reduce NHS spending by £30 billion per year or 1.9% GDP by 2022-3
- After stalling in the early 1990s the smoking rate may have started to fall again (though slowly). But the UK is well behind European best practice (Sweden 17% vs UK 26% adult smoking prevalence)
- Adult obesity is on the increase (chart) and children are getting fatter - with 22% overweight and 8% obese - up from 15% and 6% in 1996
- On average people walk about 22% less distance per year than 15 years ago

Particular challenges for the NHS include tackling widespread low-level mental illness, sexually transmitted infection, dental provision and MRSA



Prevalence of mental illness

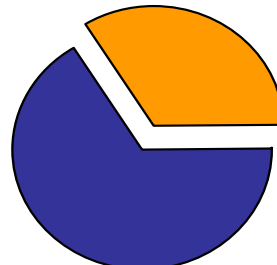
1 in 10 children (5-15)



1 in 6 adults (16-75)



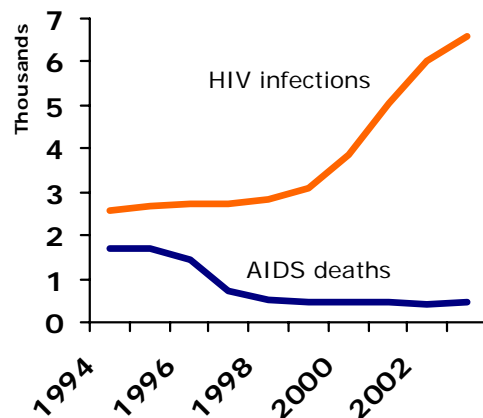
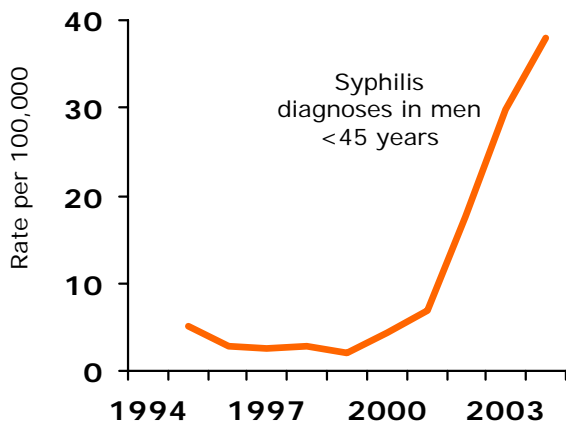
1 in 3 incapacity benefit claims



Mental illness

- The mental health system is treating 2.2 million people at any time – but this is only about ¼ of those with mental illness
- Survival prospects for HIV are improving but the infection rate is rising again for sexually transmitted infections
- Oral health in 12 year olds is the best in Europe. But access to NHS dentistry is declining: only 45% of adults and 62% of children are registered. Private spending on dentistry has risen up to 10 fold to £1.1-1.9bn since the early 1990s (NAO, Reforming NHS dentistry, 2004)
- Deaths associated with MRSA rose from 51 in 1993 to 800 in 2002 and 1.8 bed-days per 10,000 were attributable to MRSA in 2003-4. MRSA infections increased by 3.3% from 2002-3 to 2003-4 (Health Statistics Quarterly, Spring 2004, and MRSA surveillance system, Dept Health)

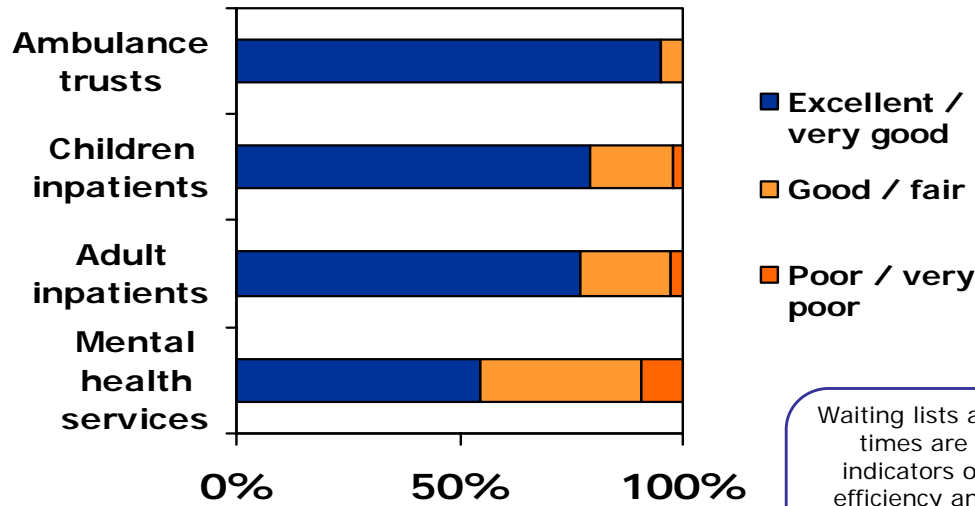
A new epidemic of sexually transmitted infection?



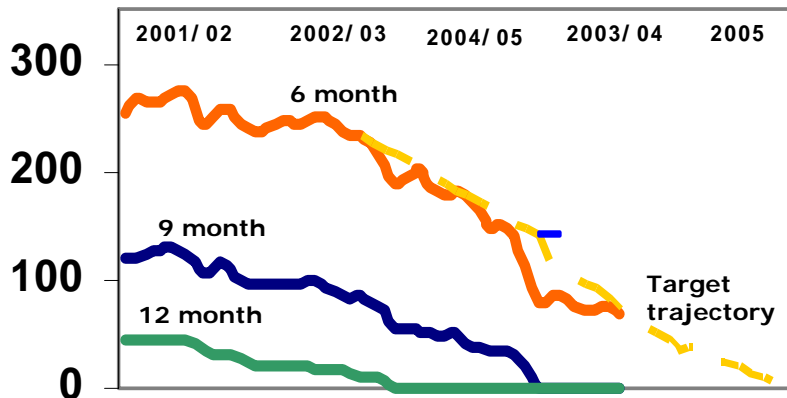
Source: The United Kingdom Collaborative Group for HIV and STI Surveillance, Nov 2004

Extra funding and innovation is steadily transforming the NHS. Long waits are falling, throughput is increasing and satisfaction is high

“Overall, how would you rate the care you received?”



Focus on reducing long inpatient waiting times



Waiting lists and times are indicators of efficiency and the NHS capacity to cope with rising demand

- Extra resources (see next page) and innovations like the National Institute of Clinical Excellence, specialist treatment centres, the Healthcare Commission, NHS Direct Online and increasing choice have helped to empower the NHS users

Waiting lists and service

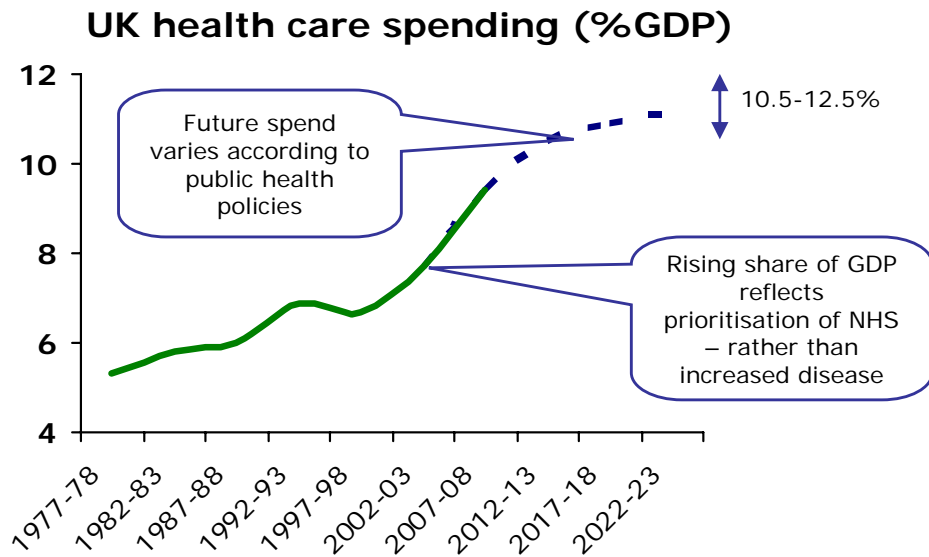
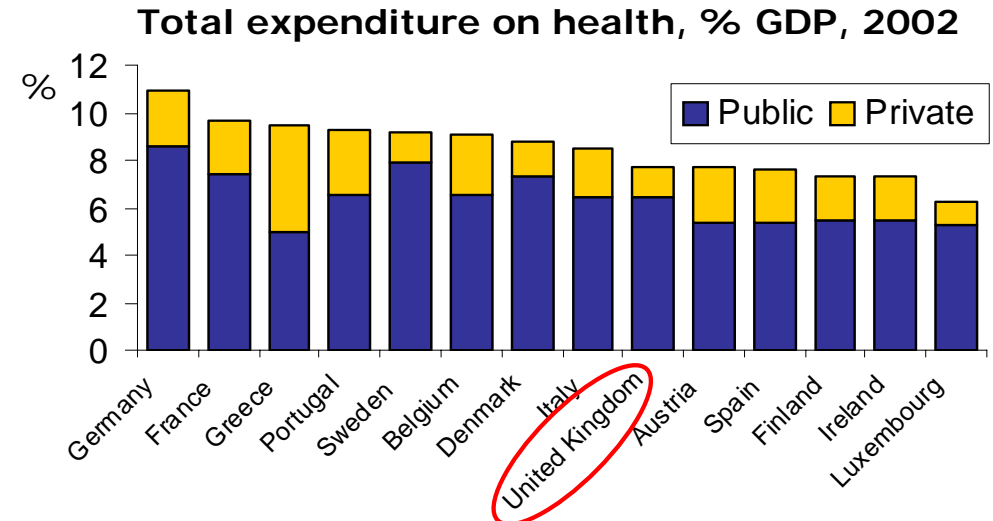
- Long waits of 9 months or longer virtually eliminated (126,000 in 2000).
- Numbers facing medium long waits (>13 weeks) are sharply down (77,000 compared to 393,000 in 2000) and falling
- Average waiting times have fallen on some measures, but are rising slightly on others – depending on whether the stock of people waiting or flow of people entering treatment is used to calculate the average. This is due to the policy focus on long waits.
- “End-to-end” waiting times starting with GP referral and including waits for diagnosis are the focus of the new 18 week target for 2008
- NHS throughput is rising in primary care and hospitals and there is a greater diversity of treatment settings
- Over 95% of A&E patients spend <4hrs waiting (85-90% in 2003) and attendance are up 16% since 2000
- 98% gain access to a GP within 48 hours-75% in 2002
- NHS Direct handled 6.4m calls and 6.5m internet visits in 2003-4. Walk-in centres handled 1.6m visits .

NHS Chief Executive Report 2004. Waiting times: Health Statistics Quarterly 24, Winter 2004. Sheila Dixon Department of Health, Trends in waiting time to date and total times waited: are the source compatible?

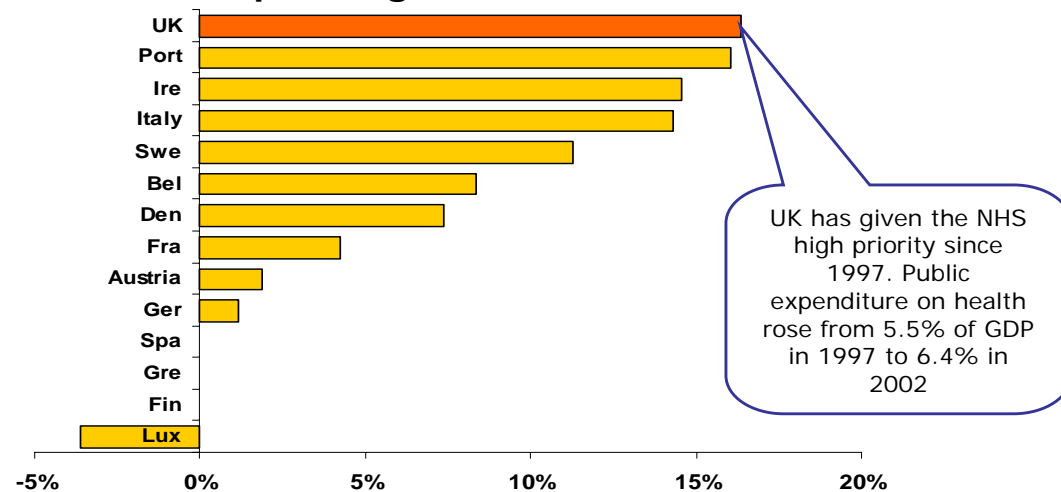
Since 1997 there has been a major prioritisation of the NHS – with a large upward adjustment of the share of national income devoted to public spending on health



- In 1997 the UK's total expenditure on health care was one of the lowest in the EU ranking 13th out of 15 at 5.5% GDP
- But increased prioritisation of NHS is moving the UK up the rankings reaching 9th in 2002 and rising
- UK health care spending will continue to rise as a proportion of GDP, projected to reach 9.4% of GDP in 2007-8 (of which about 14% is private) and over 10% by the 2020s



Change in proportion of GDP allocated to public spending on health 1997-2002



*Excluding the Netherlands - data not available
Source: OECD Health Data 2004

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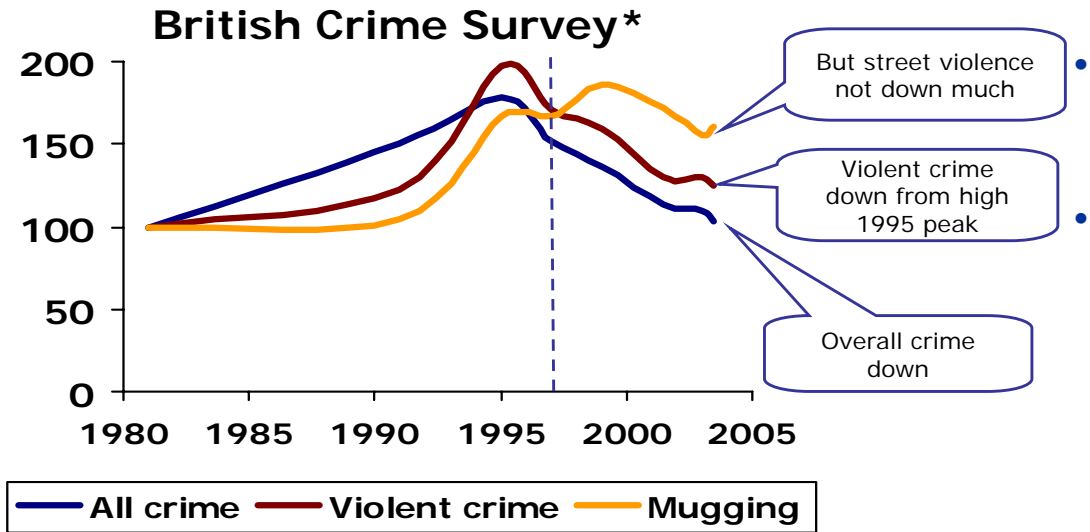
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After years of steady increase, crime peaked in 1995 falling by over a third since then - though violent crime has fallen less and has higher social costs per crime

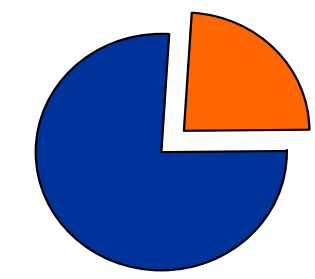
Source: British Crime Survey, 2003/4



- After a steady increase over more than two decades, crime measured by the British Crime Survey, peaked in 1995.
- From 1997 to 2003/4
 - Overall crime reduction of 30%
 - Reduction in violent crime of 26%,
 - Within the overall decline, the mix of violent crime shifts towards violence committed by strangers rather than acquaintances or within the family
- In 1999, Britain compared unfavourably to other European countries in terms of crime and violence. More recent data reflecting trends since 1999 are not yet available.
- Economic research suggests that violent crimes do more overall harm per crime than property crimes – so the crime mix is an important factor in judging the impact of crime on society

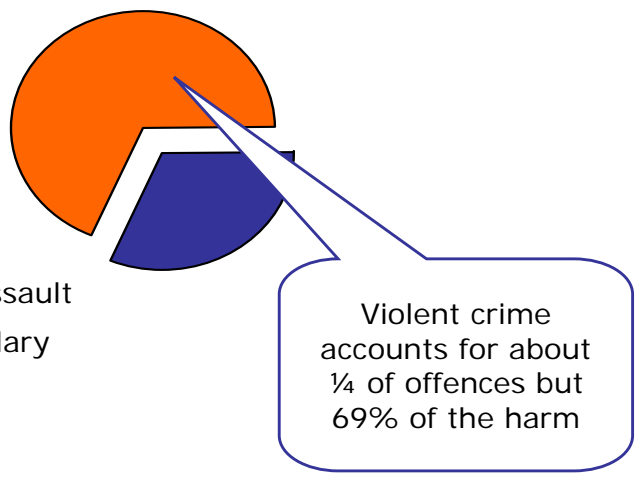
Source: weightings based on harm estimates in Home Office Research Study 217, The economic and social costs of crime: 2000. SU analysis.

Volume of crime



■ Robbery, wounding, assault
■ Vandalism, theft, burglary

Estimate of harm



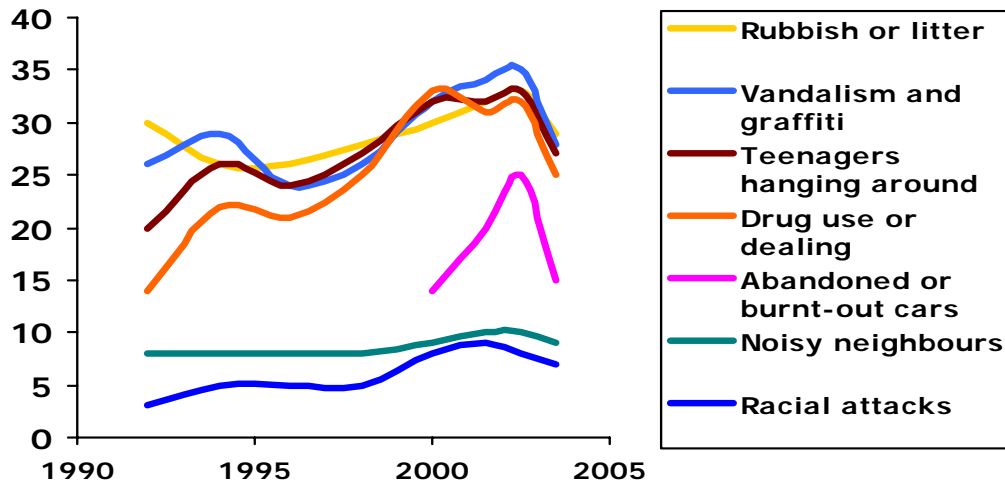
*Note: The BCS is a more reliable way of measuring crime than crime reported to the police. The latter can increase with better reporting and recording procedures, and greater confidence among victims.

Concerns about anti-social behaviour have risen, though with recent improvement. The broad challenge is to address underlying causes

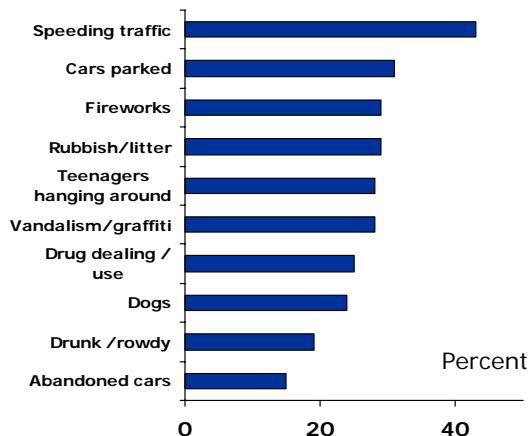


Perception of anti-social behaviour trend

% saying very or fairly big problem



Perceiving 'very big' or 'fairly big' problems in their local area



People do not generally perceive improvement over the last 2 years

Risk factors for problem behaviours in young people

- **Family**
 - Poor parental supervision and discipline
 - Family conflict
 - Family history of problem behaviour
 - Parental involvement / attitudes condoning problem behaviour
 - Low income and poor housing
- **School**
 - Low achievement, beginning at primary school
 - Aggressive behaviour, including bullying
 - Lack of commitment, including truancy
 - School disorganisation
- **Community**
 - Community disorganisation and neglect
 - Availability of drugs
 - Disadvantaged neighbourhood
 - High turnover and lack of neighbourhood attachment
- **Individuals, friends and peers**
 - Alienation and lack of social commitment
 - Attitudes that condone problem behaviour
 - Early involvement in problem behaviour
 - Friends involved in problem behaviour

Protective factors

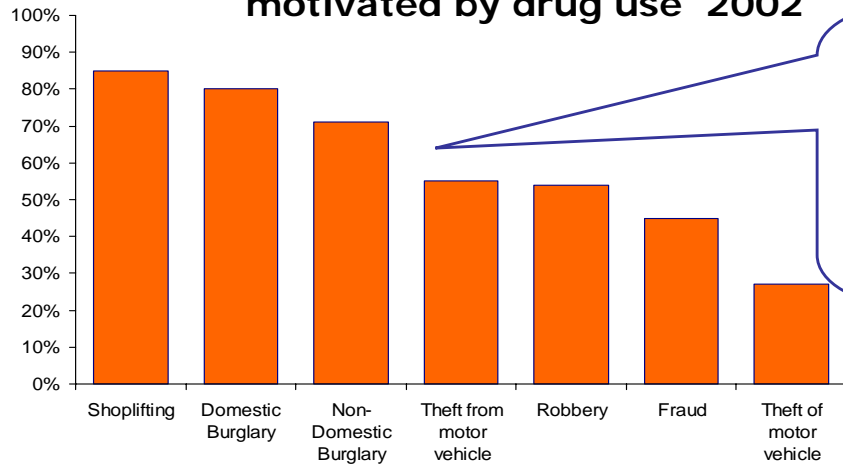
- Strong bonds with family, friends and teachers
- Healthy standards set by parents, teachers and community leaders
- Opportunities for involvement in families, schools and the community
- Social and learning skills to enable participation
- Recognition and praise for positive behaviour

Source: Joseph Rowntree Foundation, 'A national survey of problem behaviour' and associated risk and protective factors among young people. April 2002

Drugs and alcohol use are associated with a high percentage of crimes, and many interventions can impact on the crime rate



Percentage of different crimes motivated by drug use 2002



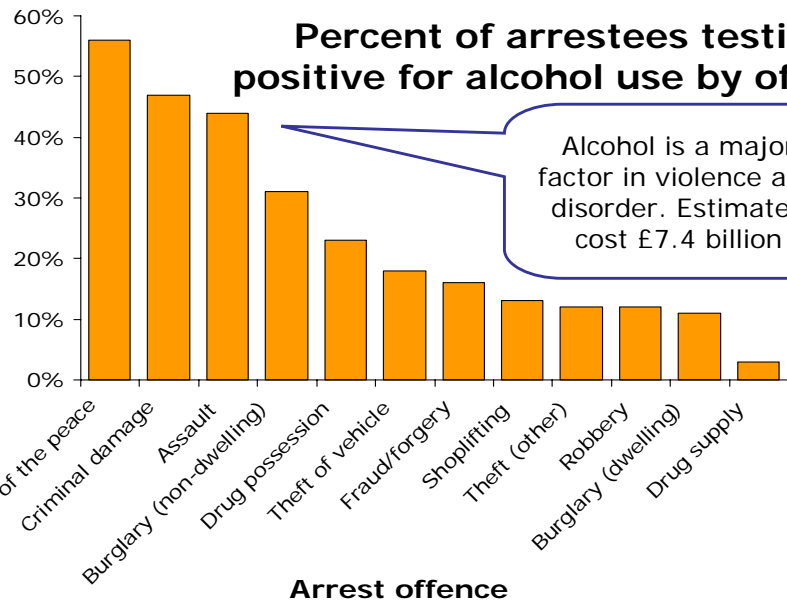
Much acquisitive crime is committed to fund class A drug use (estimated crime impact £19 billion). Drug treatment and prescribing can have substantial crime-reduction benefits – though may not completely prevent offending

Home Office research has assessed the cost effectiveness of different interventions to reduce crime and crime harms, many (such as drug interventions) with significant other, non-crime, benefits. Though this work is in its infancy, it opens the question: what is the optimum overall strategy to reduce crime and other harms?

Cost effectiveness of interventions to reduce crime 2004-2013 (BCS crime)

	Crimes reduced per £1,000 spent	Harms reduced per £ spent (£)
Drug treatment	1.3	0.68
Reducing re-offending: Community	2.3	2.6
Reducing re-offending: Custody	2.3	2.7
Reducing re-offending: CustodyPlus	1.9	2.2
Early 0 to 4	0.30	0.30
Early 5 to 10	1.3	1.3
Youth Inclusion and Support Panel Rollout	15	18
Youth Inclusion Programme Rollout	2.8	3.1
Parenting programmes	11	13
Government situational prevention	2.2	4.3
Offences brought to justice	n/k	n/k
Frontline policing	n/k	n/k
Hot spot policing	1.9	1.9
High visibility patrol	0.39	1.1
Prolific Offenders Strategy pillar 1	4.0	4.5
Prolific Offenders Strategy pillars 2 and 3	3.4	3.4

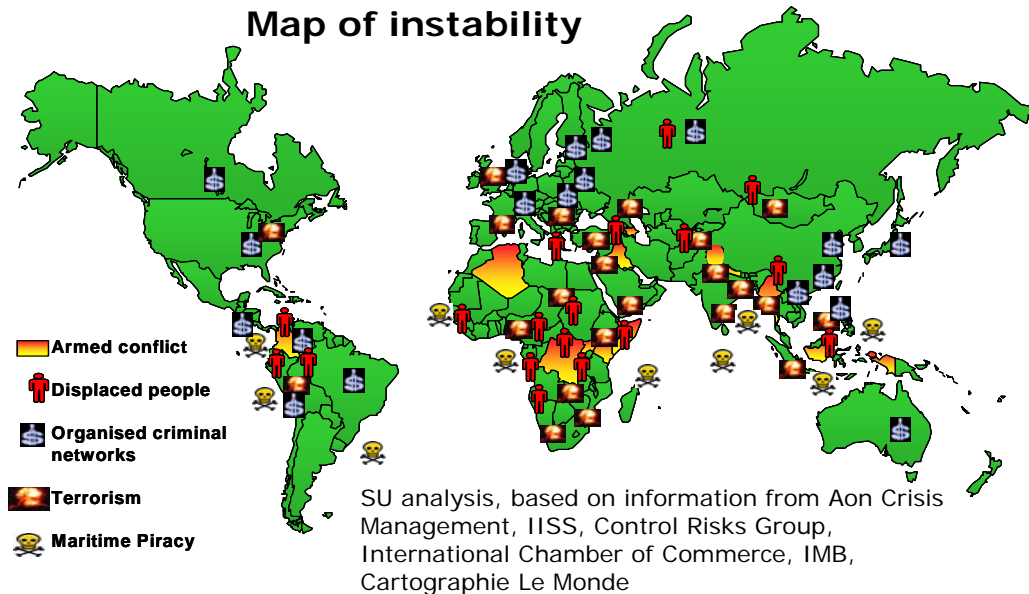
Percent of arrestees testing positive for alcohol use by offence



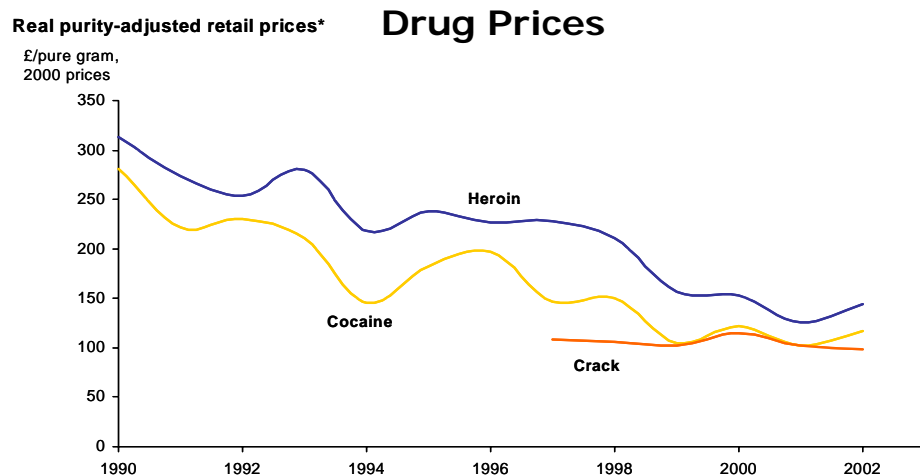
Alcohol is a major factor in violence and disorder. Estimated cost £7.4 billion

Source: Home Office Crime Reduction Review, May 2004 (unpublished)

In an interdependent world our security at home also depends on tackling criminal networks, unstable countries and the drivers of terrorism



- There has been a steady rise in criminal activity with an international dimension:
 - Drugs, tobacco & alcohol smuggling
 - People trafficking, child abuse and prostitution
 - Money laundering and financial crime
 - Growing gun trade – but only 0.4% of recorded crime is gun related
 - Counterfeiting and identity crime
- There are increasing links between organised crime and terrorist networks – driven by decline of state-funded terrorism and need to raise money in other ways
- Much international crime is driven from a group of unstable states – addressing root causes of instability is our best long-term protection
- Efforts to control class A drugs supply dominate the work of national crime agencies, but street prices continue to fall - suggesting demand-side interventions are critical



* Real purity adjusted prices show a different trend to nominal unadjusted purity prices. Nominal prices have remained largely stable, while purity has risen over time. This leads to falling real purity adjusted prices.
 Source: NCIS Streetwise, Forensic Science Service Drug Abuse Trends

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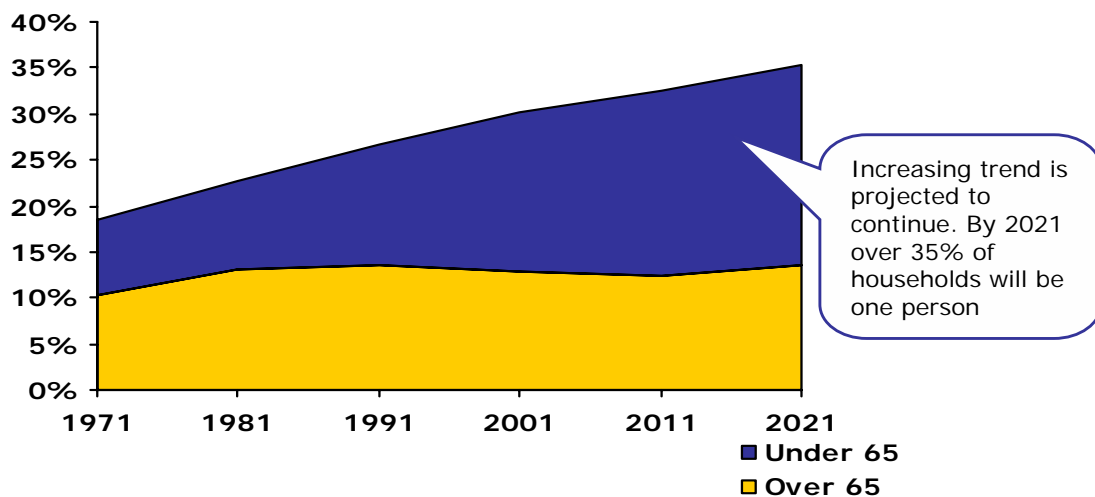
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'Beanpole' families are becoming the norm – with fewer children, more people living alone and women bearing children later



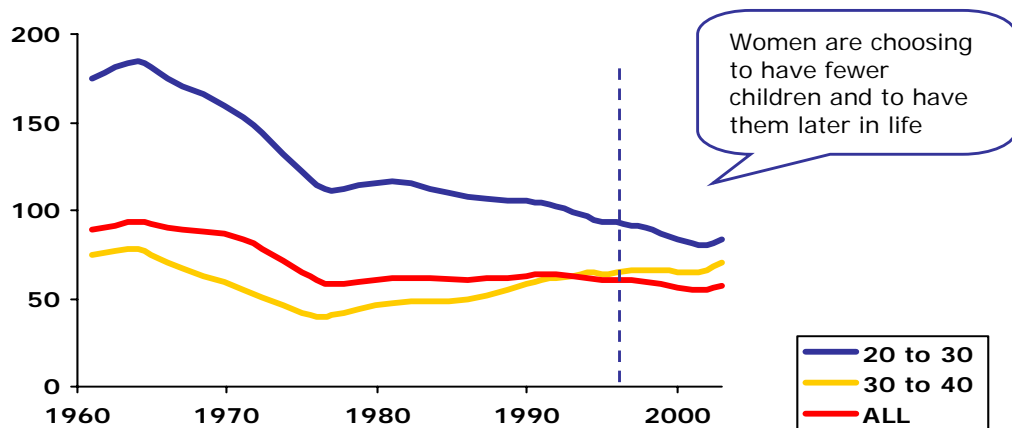
Source: Social Trends 31 – ONS (2001)

Proportion of one person households 1971-2021



Source: Birth Statistics – ONS (2004)

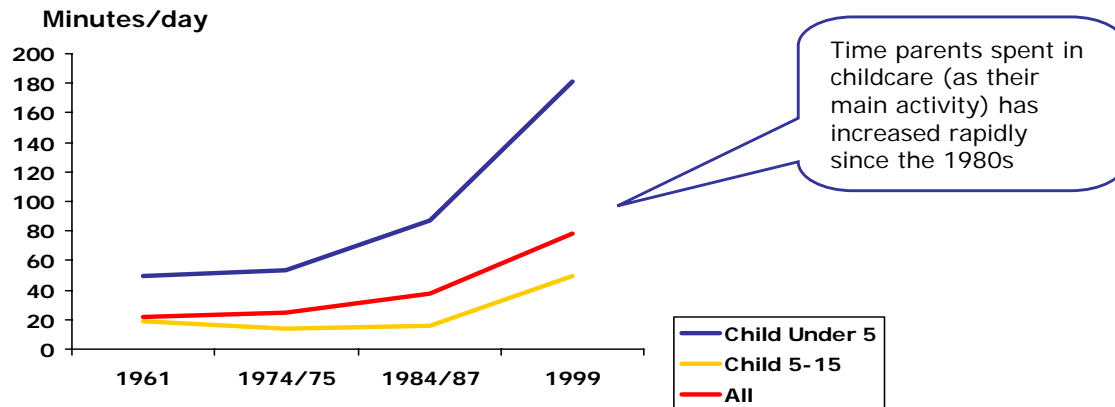
Fertility Rates (Births per 1000 women)



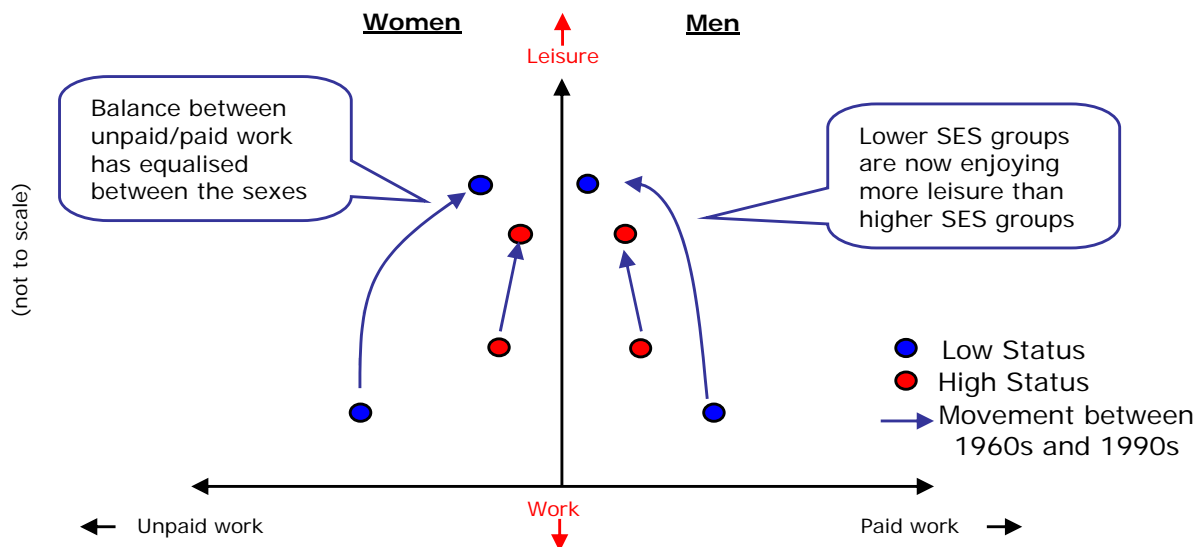
- More people are living on their own – the number of single person households rose from 18% to 30% between 1971 and 2001
- Combined with a decrease in the average size of families, this has led to a 17% fall in average household size since 1971 from 2.9 people/household to 2.4
- Families are shifting to a 'beanpole' structure - becoming smaller, more geographically dispersed and more focussed on immediate parents, on fewer children and on grandparents
- Fertility rates are in decline; women are increasingly postponing motherhood until later in life – fertility rates have fallen in women under 30 and risen in women over 30 – and with more women not having children at all

There is greater 'equality' in leisure and work and despite pressures of work, parents are spending more time with their children

Time spent by parents in childcare (as main activity) 1961-1999



Balance between work & leisure and paid & unpaid work by SES and sex 1960s v 1990s

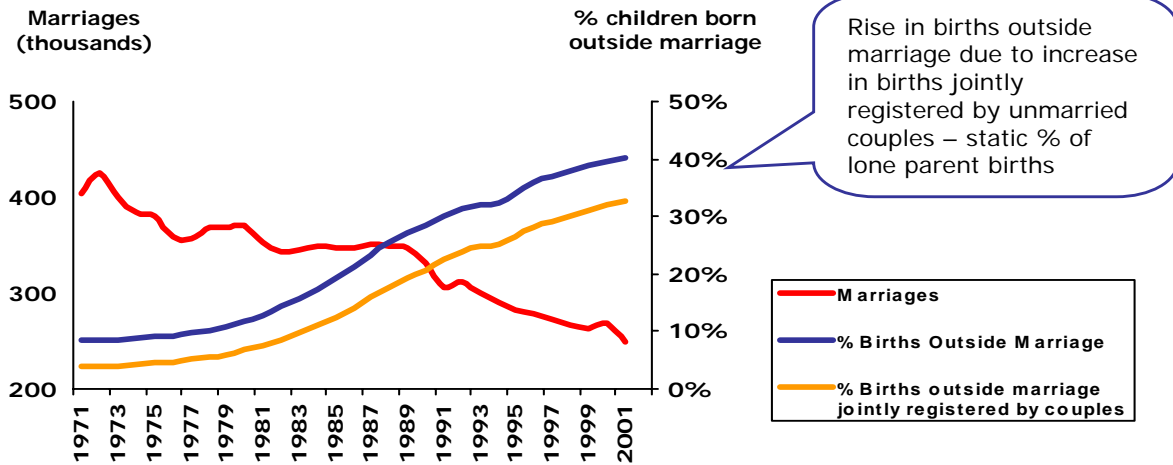


- There are more dual earner families as the economic activity rate of women has increased. In 1998/99, 66% of couples with dependent children were both in work vs 51% in 1979
- Mothers and fathers in the UK spend more time with their children than in most other EU countries
- Fathers are now taking on a greater share of childcare responsibilities than in the past
- Lower socioeconomic status (SES) fathers now spend significantly more time with their children than higher SES fathers, a reversal of the situation in 1961
- On average, people are enjoying more leisure than in the 1960s

Couples are increasingly forming families without marriage. But the UK also has high rates of teenage pregnancy and high rates of lone parenthood

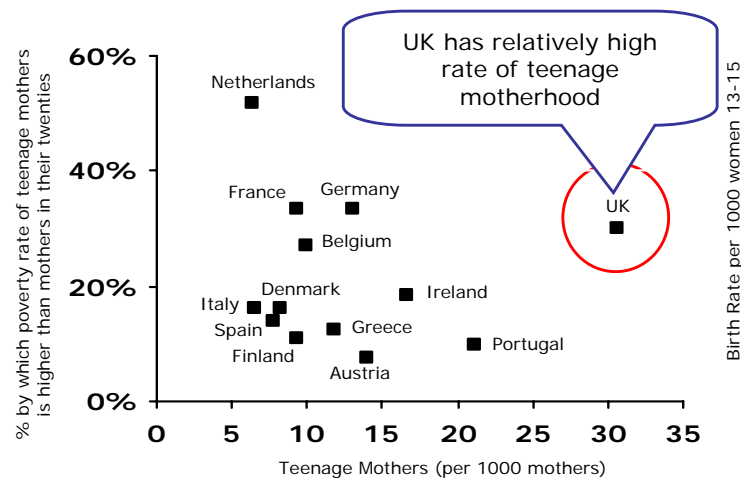
Source: Birth Statistics – ONS (2004)

Number of marriages and Percentage of Children Born Outside Marriage 1971-2001



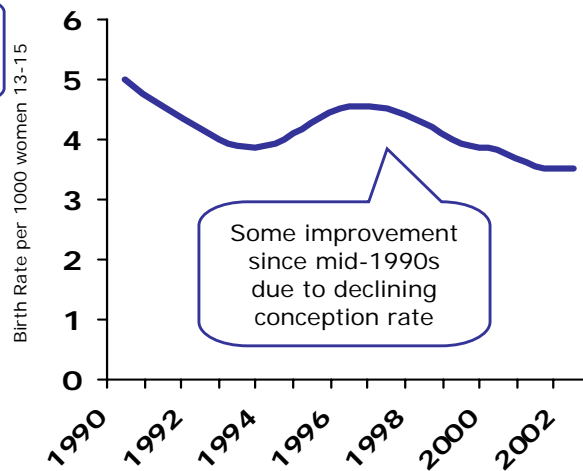
- The number of marriages is falling and the percentage of children born outside marriage is rising
- More children are living in lone parent households: in 2004 24% of dependent children lived in lone parent households vs 15% in 1992 and 7% in 1972. However, the rate of change has slowed in recent years

Teenage pregnancy and poverty



Source: Diverse Europe. Poverty Rate from ECHP 2001, Birth statistics from UNICEF

Under 16s Birth Rate

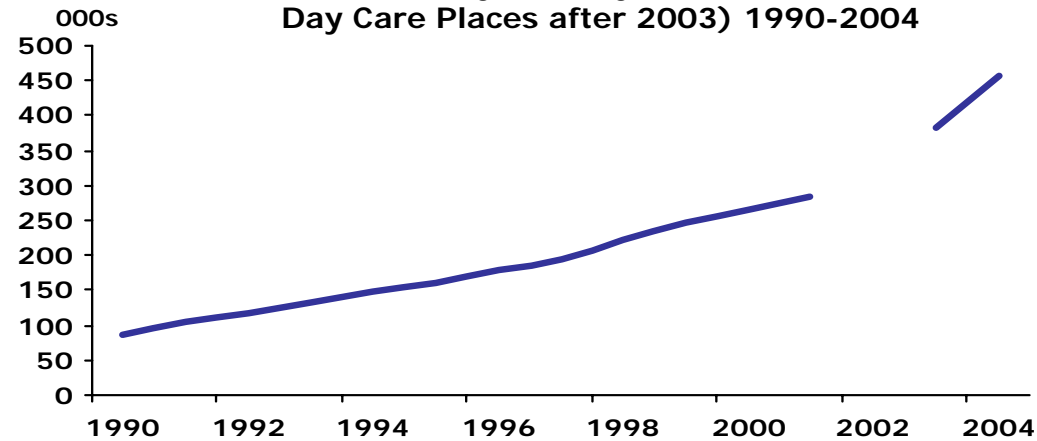


Source: Health Statistics Quarterly 1999-2004

- Teenage birth and lone parenthood are linked to higher rates of poverty and worse outcomes along a number of dimensions including worse educational performance, and the children of teenage parents are more likely to become teenage parents themselves

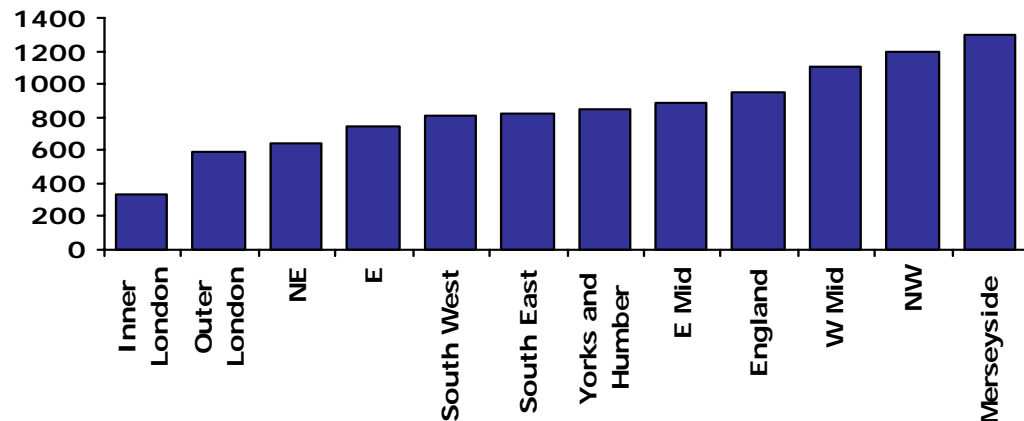
There are a number of challenges posed by changes in family structure

Total Number of Day Nursery Places for under 8s (Full Day Care Places after 2003) 1990-2004



Source: 1990-2001: Children's Day Care Facilities Survey (DfES 2001); 2003/04: "Registered Child Care Providers and Places in England" (Ofsted 2004); no data available 2002; 2003 & 2004 not directly comparable with previous data

2001 Number of Child Day Care Places per 10,000 Under Fives



Source: "Children's Day Care Facilities Survey" DfES (2001)

- More Single Person Households
 - Adds to pressure on house prices as increases housing demand, increased problems associated with loneliness
- Declining Birth Rate
 - Increases the dependency ratio and the future capacity to support pensioners
- High Rates of Young and Lone Parenthood
 - Worsen outcomes for both parents and children
 - Aggravate economic inactivity and benefit dependency of mothers
- More women moving into work increases demands for childcare
 - Number of day nursery places has increased dramatically since 1990 – in September 2004 there were 500,700 full day care places for under 8s registered with Ofsted
 - However, there are areas where provision falls short, particularly in London

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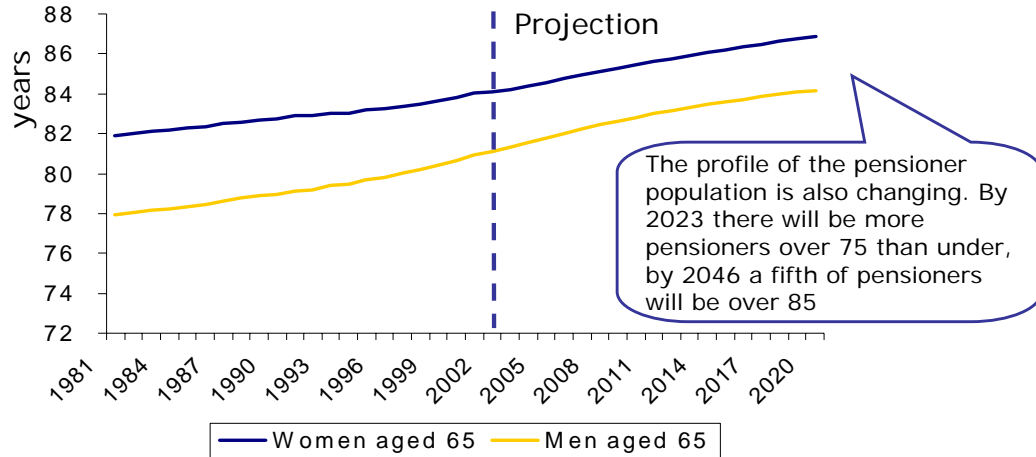
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Increasing life expectancy implies a greater need for saving over an individual's working life and for working lives to be longer

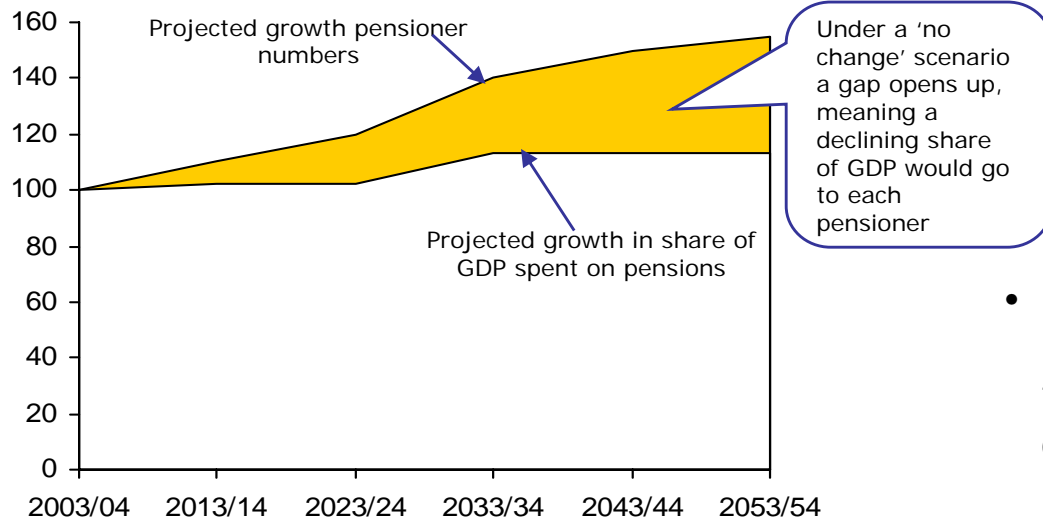


Life expectancy for men and women



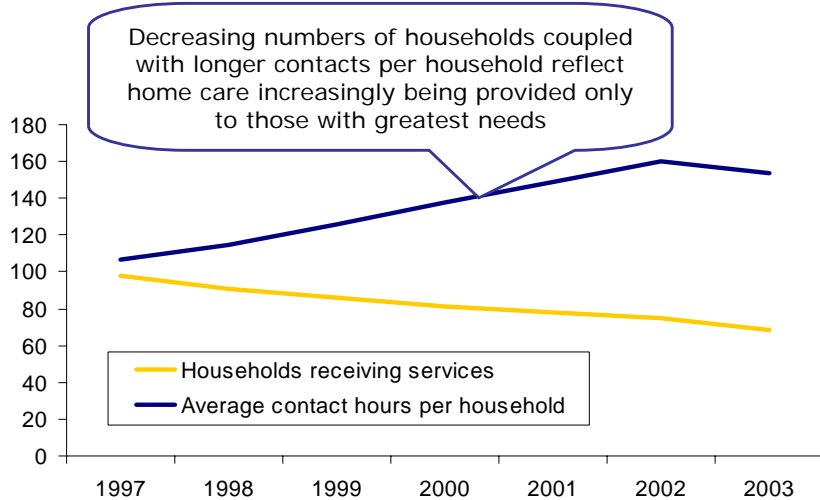
- Life expectancy continues to increase but has not been matched by increases in the retirement age
- The ratio of 65+ year olds to 20-64 year olds is projected to increase from 27% to 47% by 2051. However this ratio is even higher in other European countries
- To maintain pensioner incomes alongside demographic changes the Pension Commission have highlighted that some combination of the following will have to take place:
 - Pensioner incomes will increase slower than incomes of the rest of the population
 - State transfers will increase, requiring either increased tax/NI payments or reduced spending in other areas
 - People of working age will have to save more over time
 - Average retirement ages will rise
- Inward migration of highly skilled immigrants has a role to play in sustaining the elderly population but this can at best only temporarily mitigate the effects of demographic change

Projected state spending per pensioner indexed in constant 2003/04 real terms

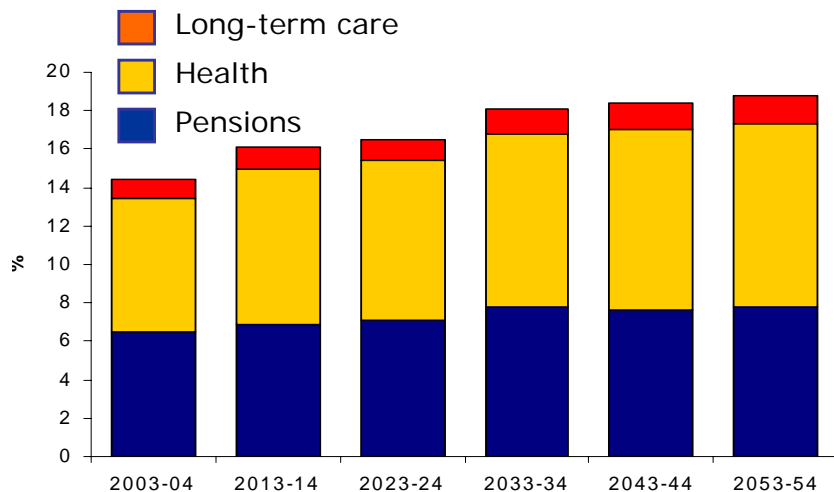


An ageing population will place upward pressure on health and social services

Home help and home care trends (1996=100)



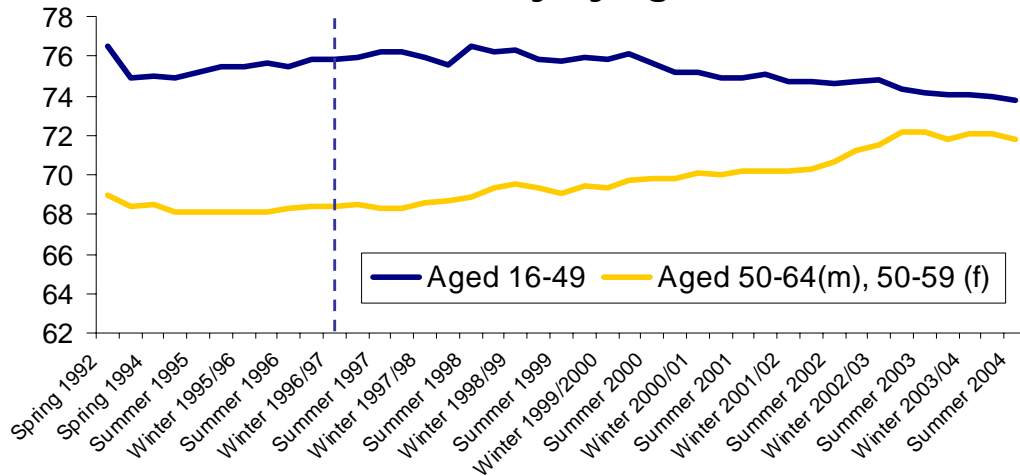
Forecast age-related expenditure, % GDP



- In the UK health care spending on people over 65 is three times that of spending on people under 65
- Expenditure on health and long-term care is highest during the last year of life – approximately 2.4 times the expenditure in the penultimate year of life
- Statutory social care is increasingly restricted to those with the greatest needs, meaning there may be a lack of effective provision for those with lower-level needs to allow them to live independently
- Informal caring places significant burdens on people in the last 15 years of working life: 25% of people aged 45-64 have caring responsibilities and a quarter spend more than 20 hours a week on them

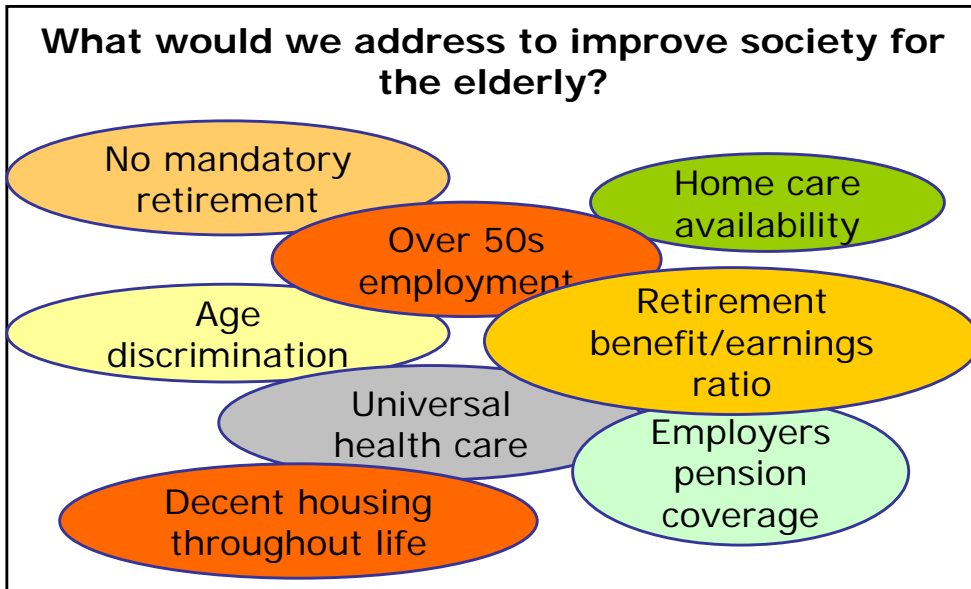
Preparing society for an ageing population goes well beyond ensuring adequate pension provision

Economic activity by age, 1992-2004



- Those between 50 and state pension age make up half of the population claiming incapacity benefits
- Unpaid work by older people is estimated to be worth 2.9% of GDP – this includes childcare, caring and volunteering services
- In 2001, 45% of pensioners aged over 85 lived in homes which failed the decent homes standard
- In a recent survey of how well countries take care of older people, based on 17 financial and lifestyle indicators, the UK came 14th out of 16. Areas where the UK scored poorly include a lack of age discrimination legislation and having a mandatory retirement age (American Association of Retired People, 2004)
- In 2000 the Government agreed to an EU Directive which will outlaw age discrimination in work or training by 2006.

Sources: The economy and older people Age Concern 2004, DWP



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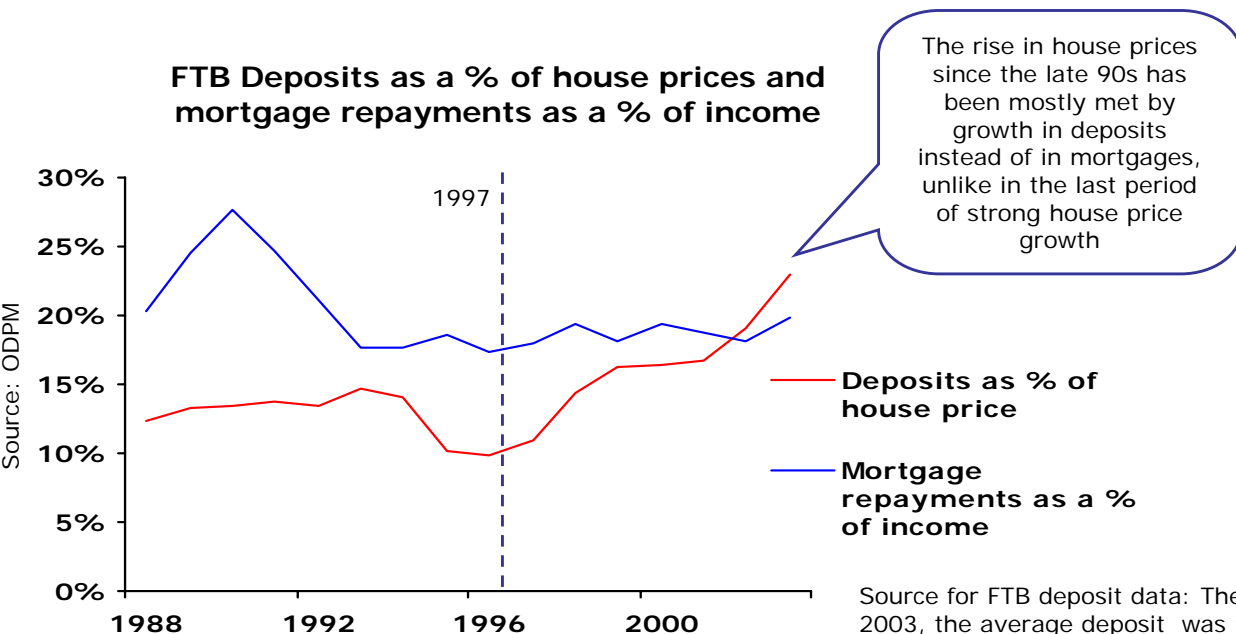
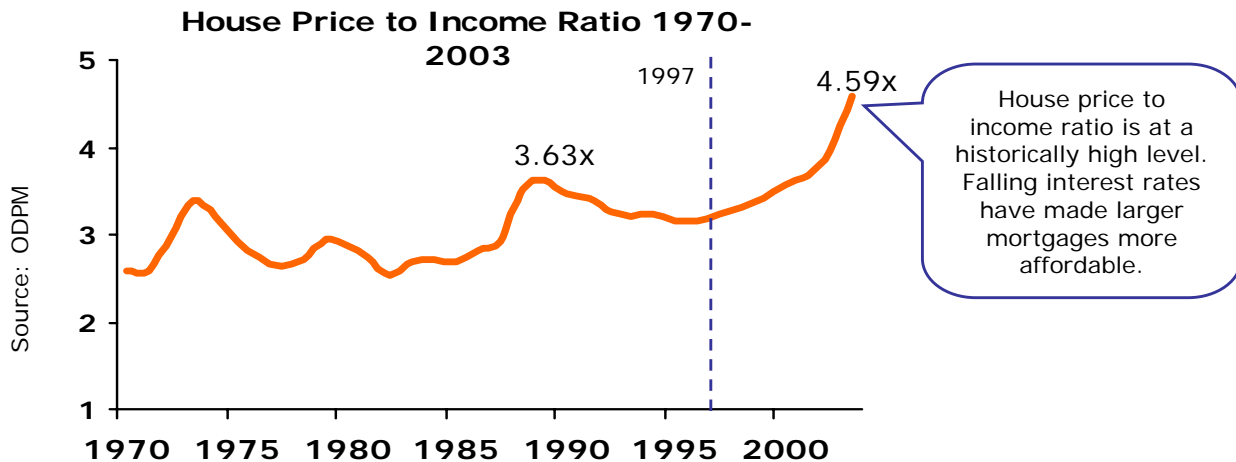
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House prices have doubled since 1997 – this has created challenges for first time buyers and key public sector workers in the South East

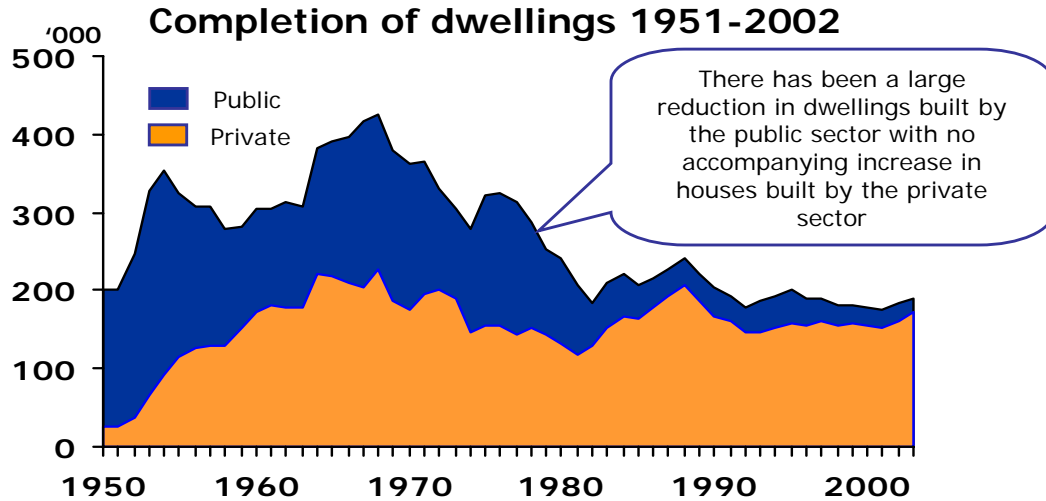


- UK house prices have doubled in real terms between 1Q 1997 and 3Q 2004 (HBOS), creating substantial (though not easily realised) assets for homeowners
- UK real house price inflation has averaged 2.4% over the last 30 years, compared to a 1.1% for the rest of the EU – the equivalent property would have become 46% more expensive in the UK over this period compared to EU
- The recent increases in real house prices have been largely met through increases in deposits rather than higher mortgages. The average deposit for first-time buyers in London in 2003 has been estimated at £47,000
- This has made it more difficult for many first-time buyers and 'key workers' in higher-cost regions to get a foot on the housing ladder

Source for FTB deposit data: The most recent ODPM data estimates that for First Time Buyers in London in 2003, the average deposit was in excess of £47,000; The Halifax First Time Buyer Review (March 2004) estimates the average deposit in London was lower than this at just over £39,000

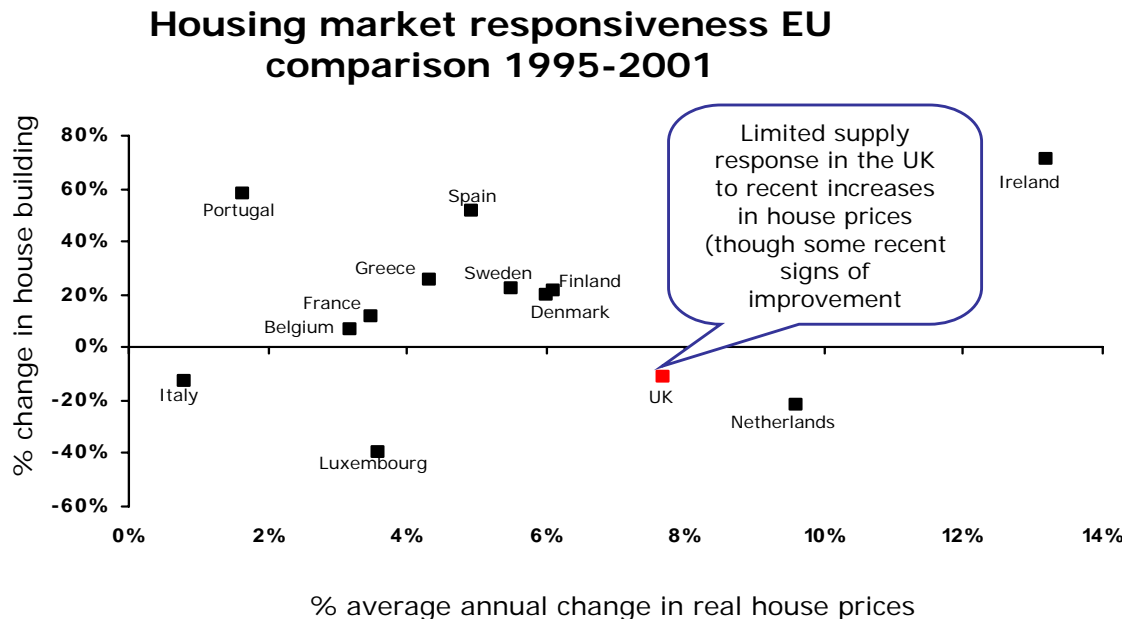
A primary cause of high house price inflation has been inflexibility of supply

Source: ODPM



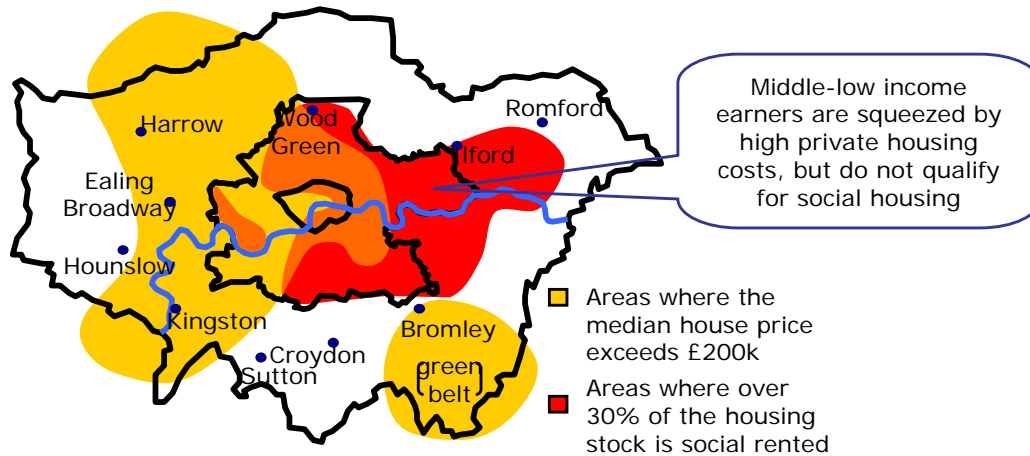
- House building has been at a low level since 1980
- There has been little supply response to the recent large increases in house prices
- The inflexibility of supply is in large part due to:
 - The planning system – local authorities have little incentive to overcome NIMBY opposition to new development
 - Poor responsiveness in the building industry
 - Difficulty in assembling attractive land packages
- The Barker Review estimated that to bring trend real house price growth in line with the EU average, an extra 120,000 houses would need to be built each year

Source: RICS European Housing Review 2003, RICS, London. Cited in Barker Review.

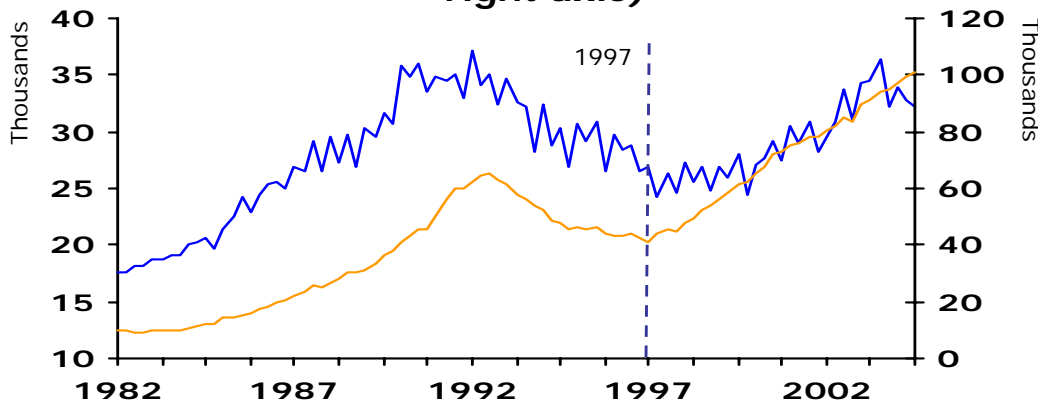


Social housing policy has concentrated poverty and squeezes middle-low income earners in London and the South East

Areas in London with median house price >200K or >30% social housing (schematic)



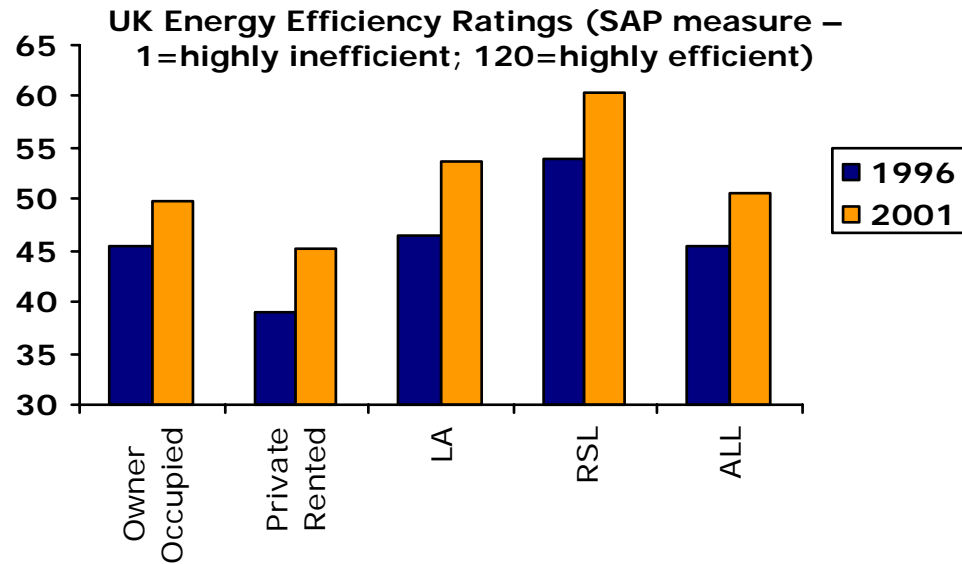
Number of homeless households accepted for re-housing each quarter (blue; left axis) and total number of households in temporary accommodation (orange; right axis)



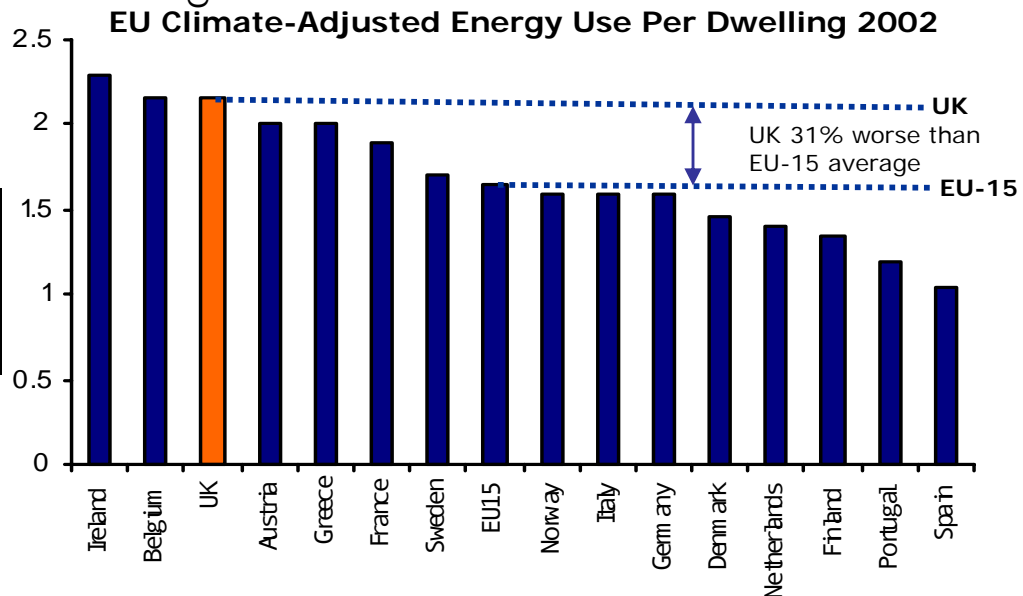
- Social housing has provided a vital safety net, but contributes to the maintenance of high concentrations of deprivation
- 38% of the dwelling stock in Inner London is social housing – this adds to pressure on prices in the remaining stock and forces middle-low earners to the periphery
- Implicit subsidy to social housing occupants is very high in parts of London and the South East with high land and property values
- Choice-based letting, improved mobility and housing benefit reform will help to increase the welfare return on Britain's social housing assets
- With shortage of affordable housing and limited social housing more households are living in temporary accommodation, with high ongoing revenue costs

Note: deprived areas are discussed in the "Inclusion" section

The quality of homes has been improving through investment in 'decent homes', though environmental & energy standards still lag behind the best



- A 'decent' home is defined as one that is "warm, waterproof and has reasonably modern facilities" (ODPM)
- In 2001, 33% of all households were living in homes that were classified as 'non decent' versus 45% in 1996. There has been a reduction of over 1 million non-decent homes
- There has been a slight improvement in the energy efficiency of the housing stock since 1996, with the average energy efficiency rating of homes increasing from 45.4 to 50.6. New building regulations will drive further improvements
- However, there is considerable scope for further improvements compared to best practice – UK uses more energy per dwelling than the EU average (climate-adjusted)



Source: ODPM

Source: Odysee indicators

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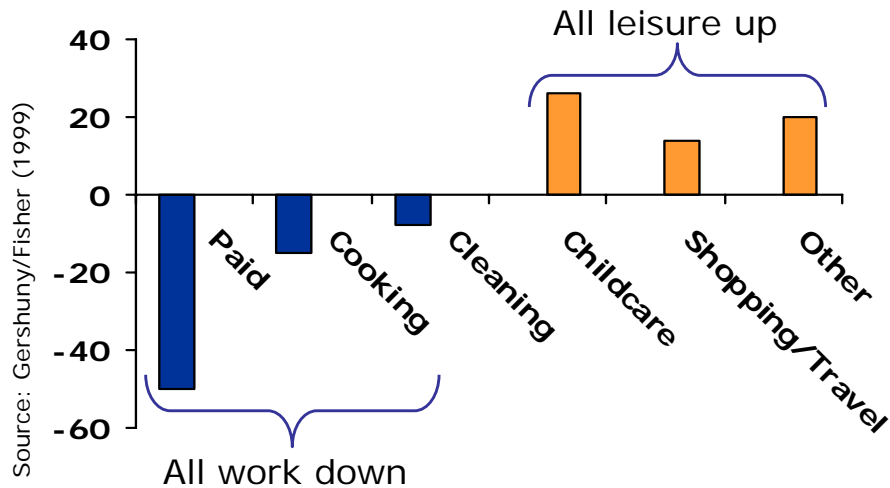
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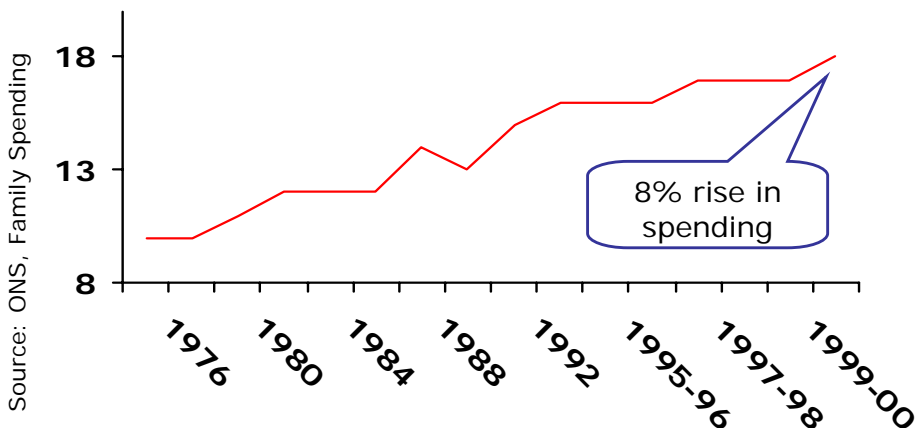
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Leisure time has increased by more than seven hours a week over the last 40 years and we spend more on it

Change in time use – minutes/day (1961-1995)



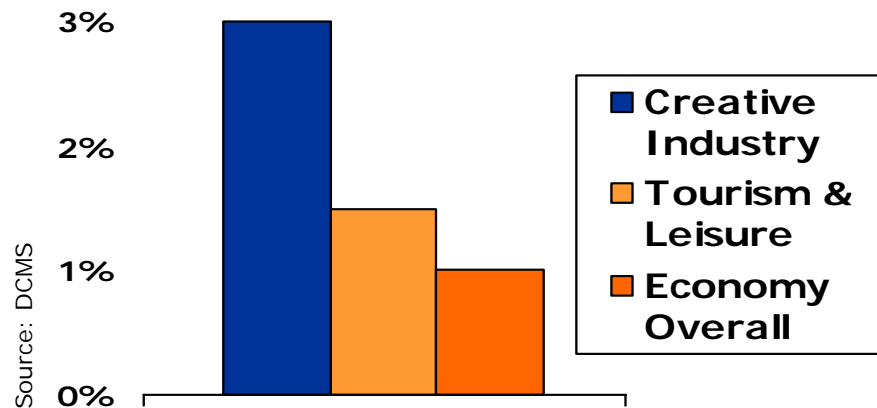
% of Household Expenditure on Leisure



- Leisure time has increased: Britons watch TV and socialise 262 minutes per week; more than the French or Belgians
- But we spend more time per day commuting (46 minutes) than other Europeans; Norwegians have an extra 1 hour of leisure time per day
- Most Britons have 4 weeks paid holiday per year; yet 8% of employers now sell extra holidays to staff
- Between 1998-2002 the number of holidays taken by Britons overseas increased 24% to 39.9 million, we spend an average of 10 days on holiday each time
- People are less active (excluding walking): In 1997 participation in sport was 45% in the prior 4 weeks, in 2003 the rate had declined to 43%
- 57% of adult respondents to the 2000 Time Use Survey had not participated in a cultural activity in the prior 4 weeks

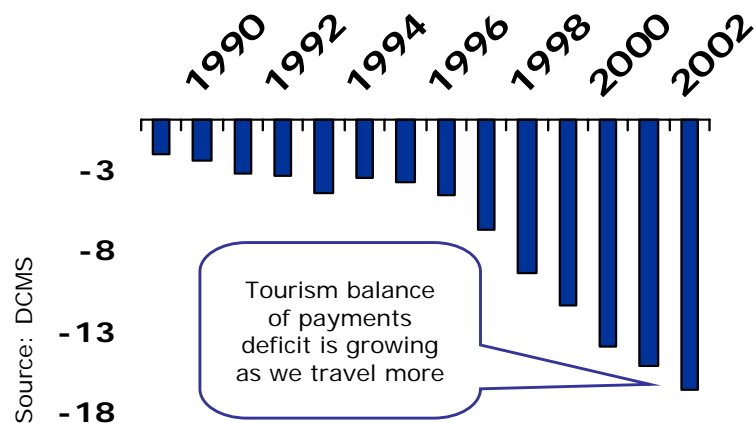
Leisure and creative industries are of growing importance for the economy

Growth in Employment by Sector (1997-2003)

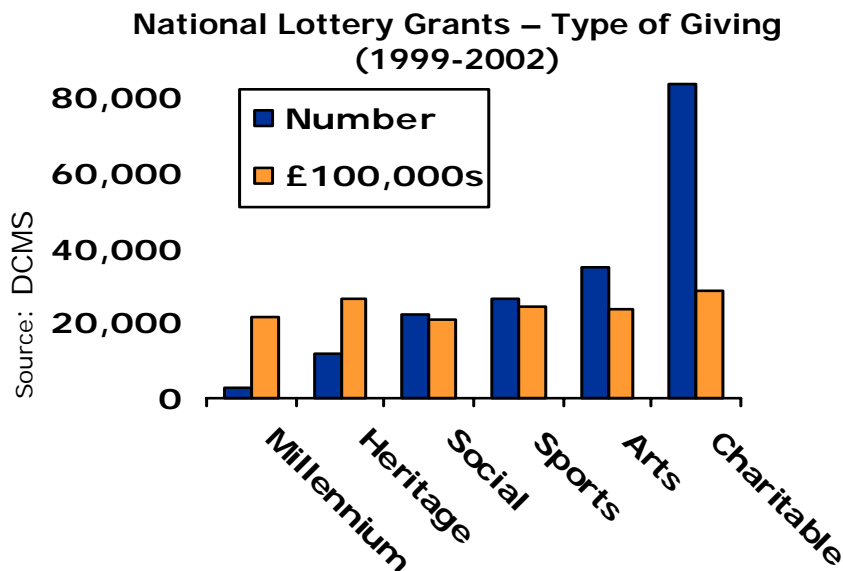
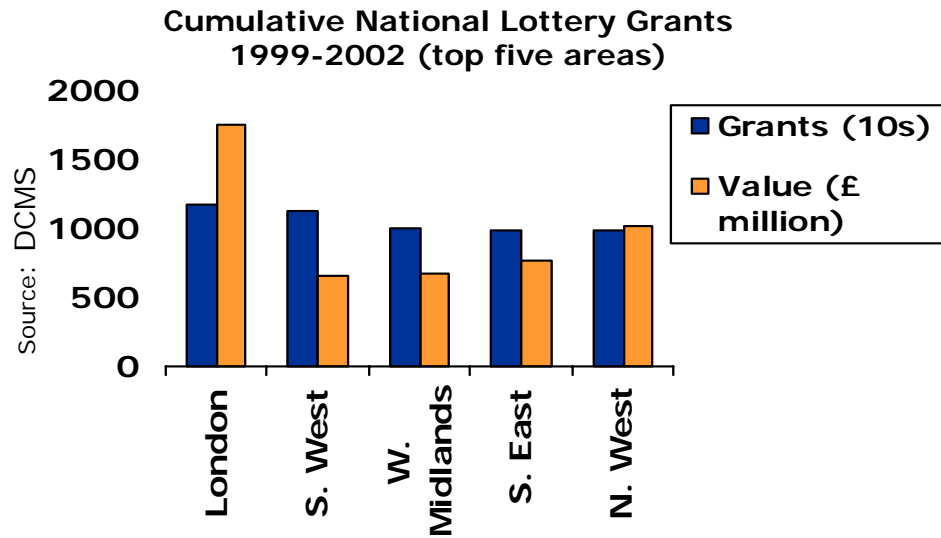


- Average growth in the creative industries during 1998-2002 (6%) was double that of the economy as a whole (3%)
- The combined Gross Value Added (GVA) of the creative industries (8%) and tourism and leisure (5.5%) is greater than that of the financial services (6.7%) and construction sectors (6%)
- Tourists spent £74.2 billion on trips to or in the UK in 2003, with domestic tourism accounting for 80% of the total tourism spend
- Overseas visitors spent £11.7 billion in the UK in 2002, making the UK the 6th most popular tourism destination worldwide
- The number of overseas holiday visits fell 26% between 1998-2002 to 7.7 million, but visits to friends and relatives increased by 1.5 million

Tourism balance of payments 1990-2003 (£bn)



The lottery has injected £14.5 billion into good causes, and helps regenerate deprived areas



- At the end of 2002, London was the largest recipient of lottery grant funds in terms of both numbers (1,755) and value of awards (£1,755 million)
- The North West received the second highest value (£1,010.8 million) though the fifth highest number of grants (9,884)
- Nearly half of the total amount awarded has gone to projects in the 100 most deprived local authorities
- For every £10,000 of heritage fund regeneration funding, an additional £45,000 in investment is generated
- Overall, case studies show that the effect of Lottery capital funding was to release between 2 to 4 times as much in other investment funding
- Funding supports all 10 of the UK's most visited museums, and 12 of the top 20 free visitor attractions

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Governance - progress and challenges

Progress

- UK public institutions have low corruption by international comparison
- Satisfaction with democracy has risen over several decades, despite a recent dip
- Constitutional reforms have been implemented, including devolution, the introduction of mayors, and innovations in electoral practice
- Alternative forms of political engagement have risen, including memberships in special interest groups and contacting the media
- The government's strategy of investment combined with reform and measurement has led to successful delivery and progress in most areas

Challenges

- Engagement through traditional channels – voting and political parties - has fallen, and the most disadvantaged are least engaged
- The public do not connect 'politics' to their own concerns. A majority support 'more community involvement' (82%) but few are 'actually involved' (2%).
- 'Softer' factors, such as dignity and respect, increasingly drive satisfaction with public services and institutions
- International governance arrangements are increasingly critical to many key challenges, but the public has mixed confidence in international institutions

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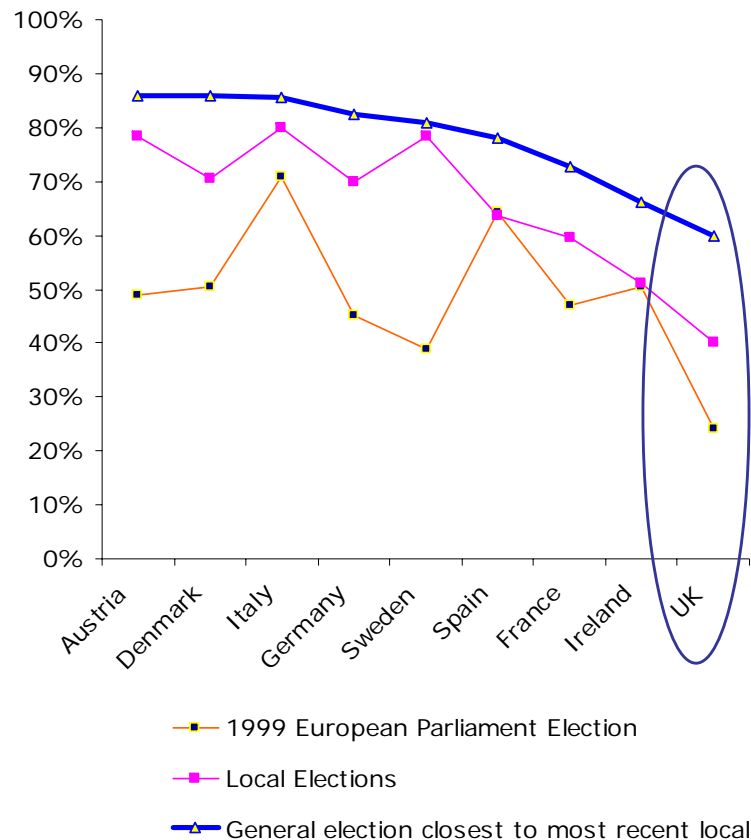
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Turnout in all types of election are lower in the UK, than in other European countries

General, local and EU election turnout by country

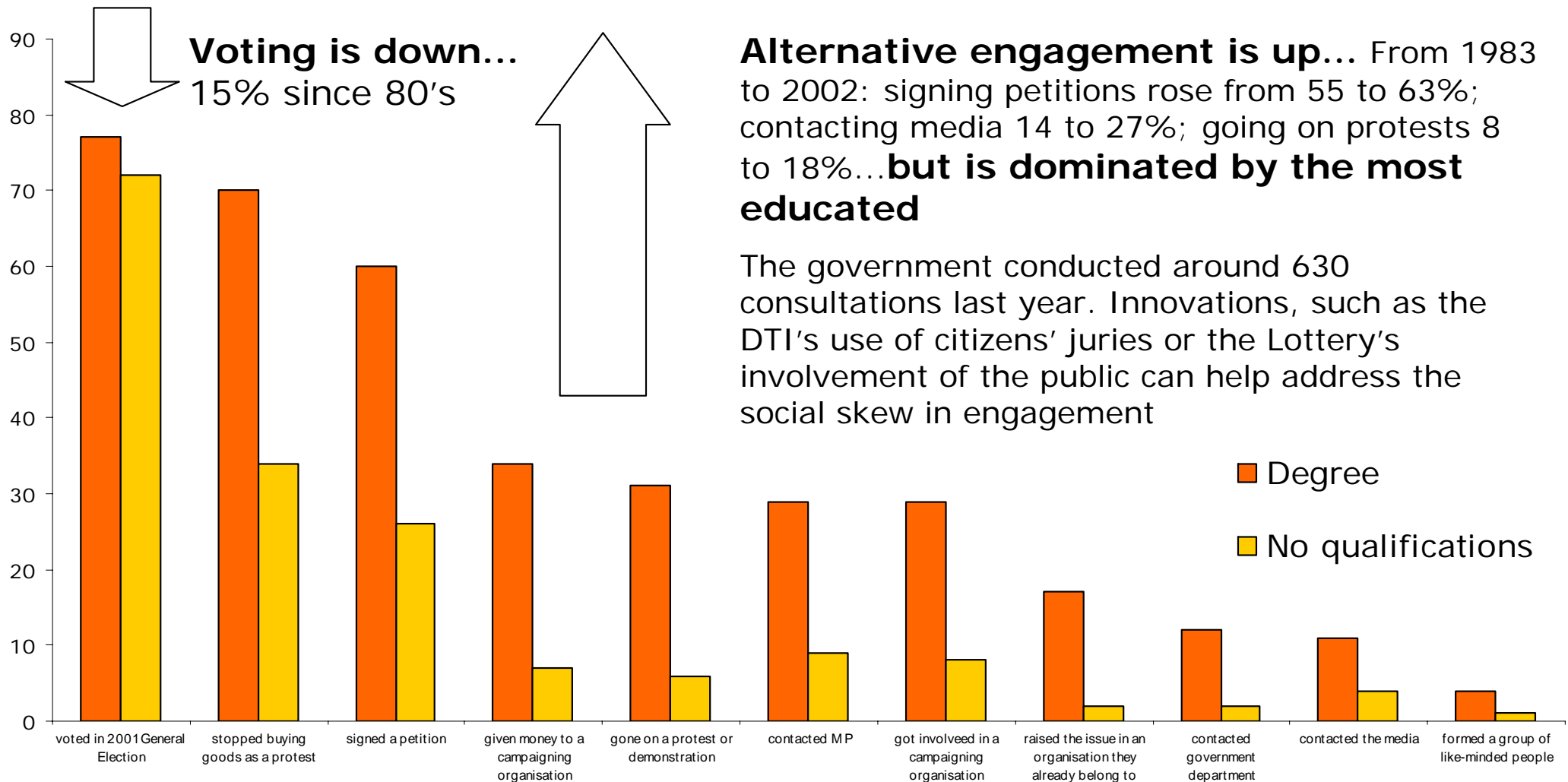


Source: European Parliament/IDEA/CoE

- **Turnouts are generally low** in the UK. Voter turnout has fallen across the advanced democracies by an average of 8% in national elections from the 80's to early 2000s
- **Individual factors** associated with higher turnout include: political interest and knowledge, being older, a sense of voting as 'duty', being more educated, and having higher income
- **Institutional factors** associated with higher turnout include: the prediction of a close result; big political differences; compulsory voting; postal voting; proportional representation; and having a small number of political parties
- **Political interest** is low in the UK, and is falling in younger age groups. Party identification and membership is also falling

Alternative forms of engagement have risen, but are dominated by the middle class and better educated

Non-electoral participation by educational attainment, 2002



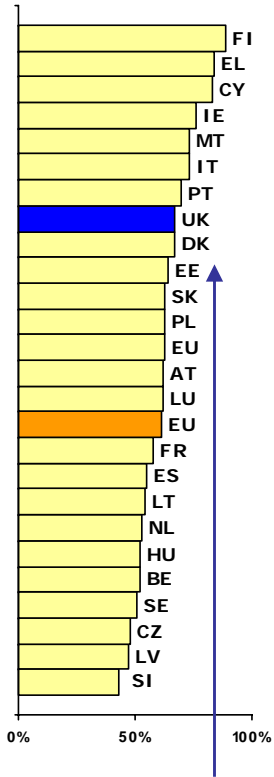
Source: British Social Attitudes

The British, compared with other EU nationals, are relatively trusting of our army and police, but not very trusting of our Parliament, the EU or our press

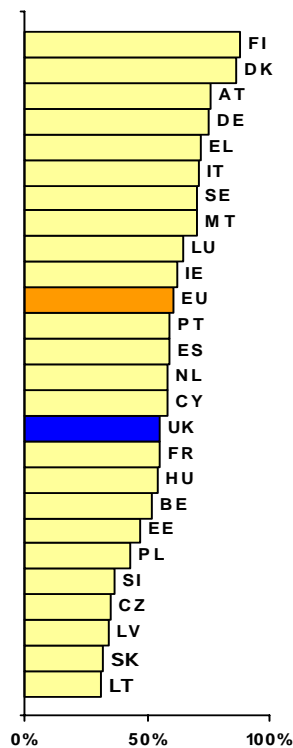


Confidence in...

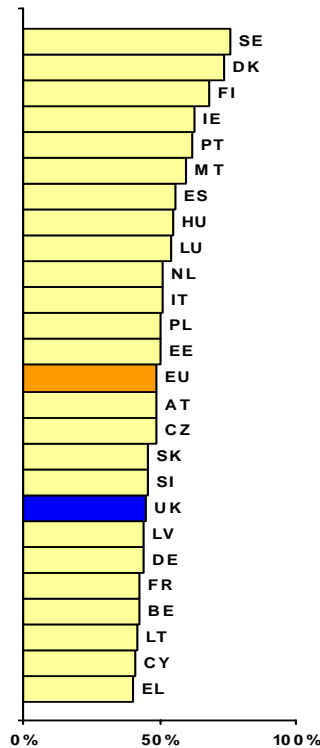
Army (%)



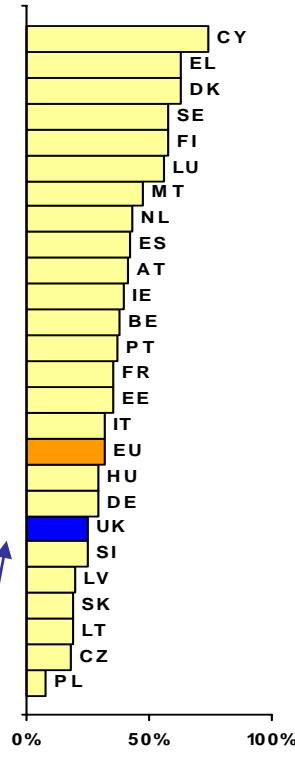
Police (%)



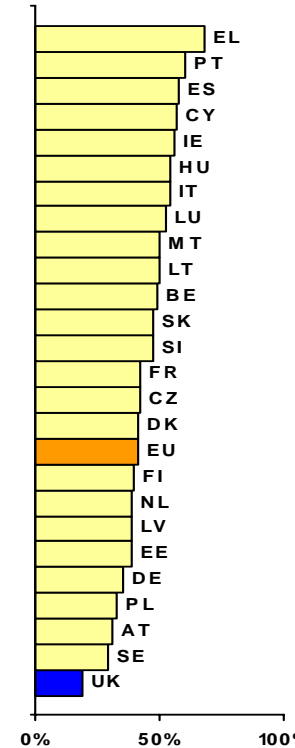
UN (%)



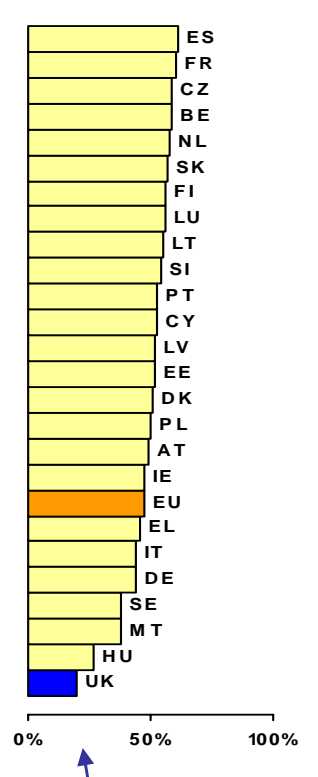
Parliament (%)



EU (%)



Press (%)



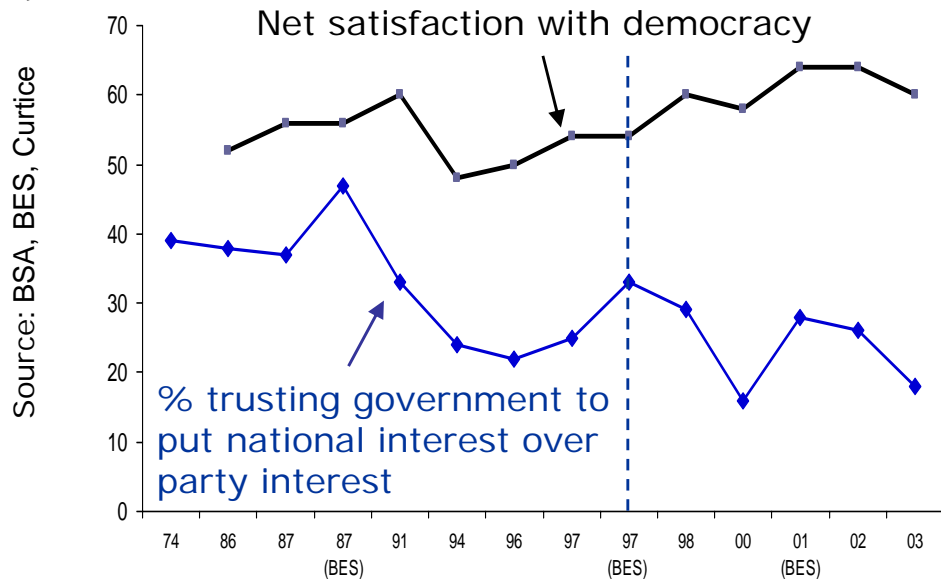
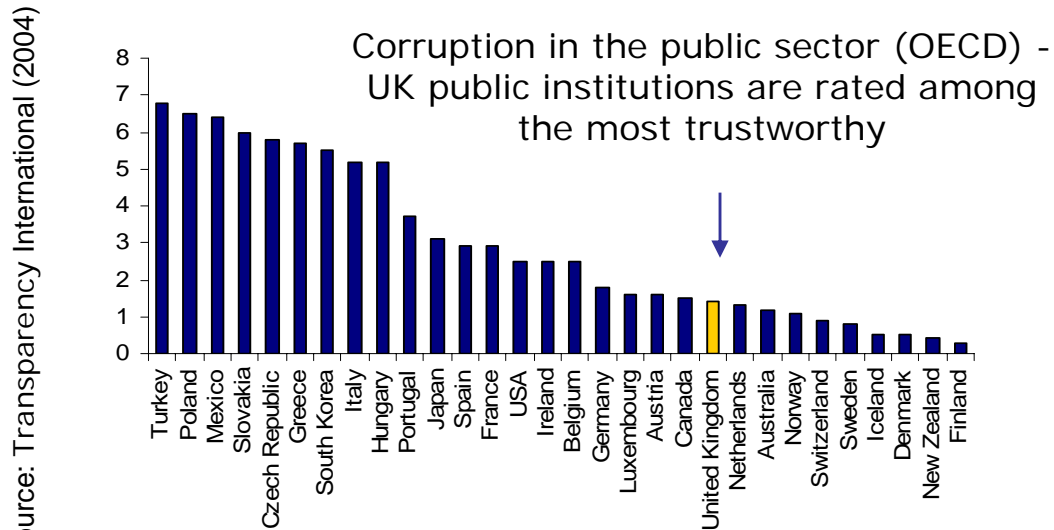
The British have high confidence in our armed forces

The Scottish Parliament and Welsh Assembly have significantly higher confidence ratings than Westminster (63 and 68%). In both cases, confidence initially declined, but has been rising for the last two years

Confidence in the British press is very low, but confidence is higher in British TV

Source: Eurobarometer 2004

Corruption is low in UK public institutions, but the British are 'dissatisfied democrats' - sceptical about party politics though satisfied with democracy

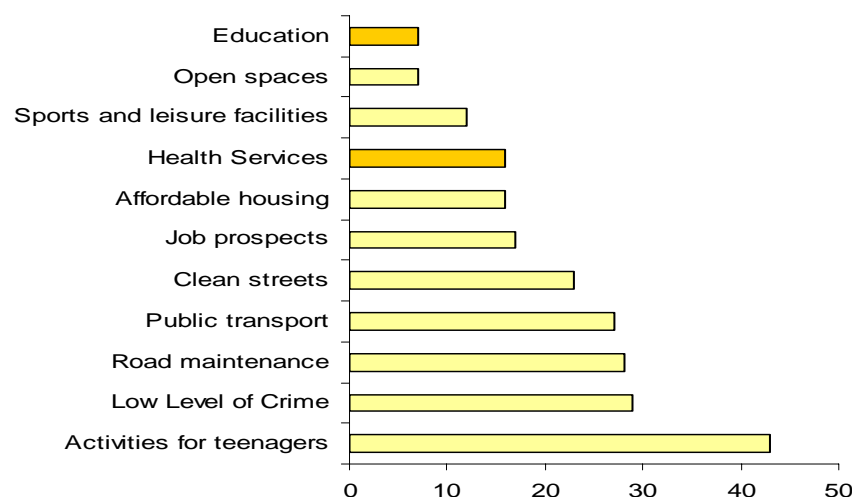


- International indices rate UK public institutions as the 11th least corrupt out of 146 countries
- Trust in government to put national interest above that of party dropped in the early 90's, while satisfaction with democracy in general – which is highly correlated with consumer confidence - rose modestly
- Front-line public servants are highly trusted 'to tell the truth' (eg doctors at 92%) but politicians and journalists remain viewed with suspicion (24 & 20% respectively). Such trust has risen – especially for the civil service (up from 25 to 50% from 1983 to 2004)
- The public support democratic innovations – 2 in 3 would trust a citizens' jury on a difficult policy issue

At the local level, people's priorities focus on 'liveability' issues. Objective performance has improved, but satisfaction has fallen

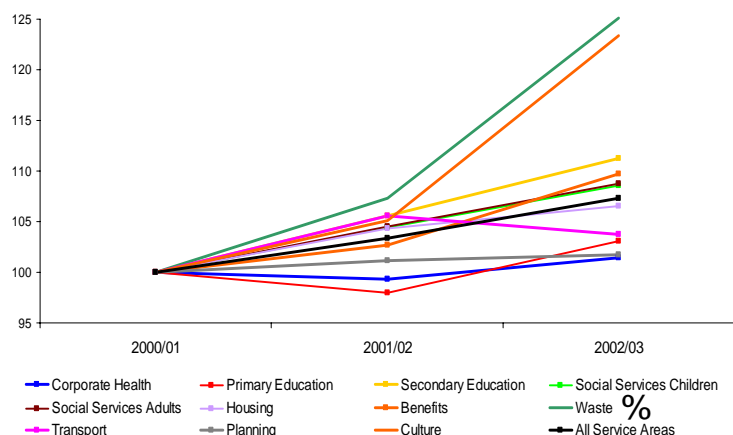


Public priorities for improving their local area



- Public priorities at the local level are about 'liveability': activities for teenagers, anti-social behaviour and local transport and streets
- Local government performance has improved since 2000, especially on waste, culture and education, partly reflecting increased spending. Yet satisfaction has fallen over the same period (from 19 to 11 %). This may reflect low public recognition of what local government does, or insufficient focus on specific local concerns.
- The smallest unit of government in the UK is relatively large. At the very local level, formal governance and informal civic action can blend together, such as local groups organising to manage and directly maintain public spaces

Performance by Service Area, Indexed on Performance in 2000/01



Source: MORI (2002); ODPM

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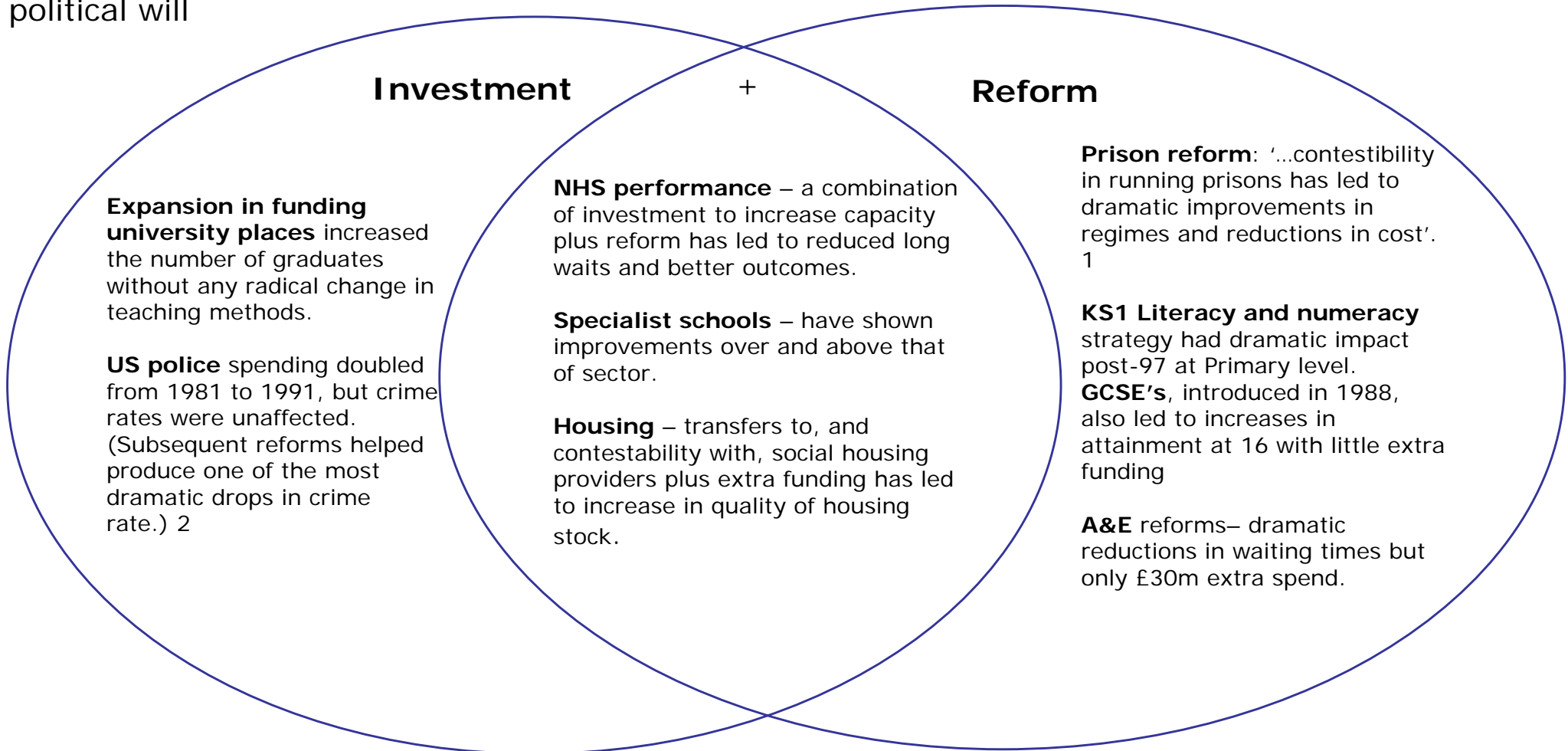
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Evidence shows that reform – not just resources – is key to improving public service productivity and public satisfaction. Tight fiscal constraints reinforce the message



Step changes in public service productivity mostly come from introducing radical reform programmes that are strategic, coherent, evidence-based, and implemented with consistent political will



1. Carter review, 2004 (www.homeoffice.gov.uk/docs2/changinglives.pdf); 2 PMSU Strategic Audit

The Government has used a public service delivery strategy combining increased investment, targets and strengthened accountability



Area	Goal	Direction	Ahead of 1997?
Health	Nurse numbers	Positive	✓
	Doctor numbers	Positive	✓
	Heart disease mortality	Positive	✓
	Cancer mortality	Positive	✓
	Waiting list	Positive	✓
	Waiting times	Positive	✓
	Accident and emergency	Positive	✓
	Primary care access	Positive	✓
Education	Teacher numbers	Positive	✓
	Teacher recruitment	Positive	✓
	11 year old's literacy	Flat	✓
	11 year old's numeracy	Flat	✓
	14 year old's English	Positive	✓
	14 year old's maths	Positive	✓
	5 + A*-C GCSEs	Positive	✓
	Specialist schools	Positive	✓
Truancy	Flat	≡	
Law and Order	Police numbers	Positive	✓
	Overall crime	Positive	✓
	Burglary	Positive	✓
	Vehicle crime	Positive	✓
	Robbery	Positive	✗
	Violent crime	Positive	✓
	Gun crime	Negative	✗
	Anti-social behaviour	Positive	✗
	Likelihood of being a victim	Positive	✓
	Asylum applications	Positive	✓
Transport	Rail patronage	Positive	✓
	Rail punctuality	Positive	✗

The government is also well aware of Charles Goodhart's warning that 'once a social or economic indicator is made a target for the purpose of conducting social or economic policy, then it may lose the information content that would qualify it to play such a role'. For this reason, it is always important to test outcomes against other indicators, and occasionally to refine a target to ensure that it captures the underlying concern.

PMSU, 2004; See also www.hm-treasury.gov.uk/performance/index.cfm

'Soft' factors matter to the public - such as being treated with respect and dignity. Canada has shown that focusing on satisfaction can transform delivery



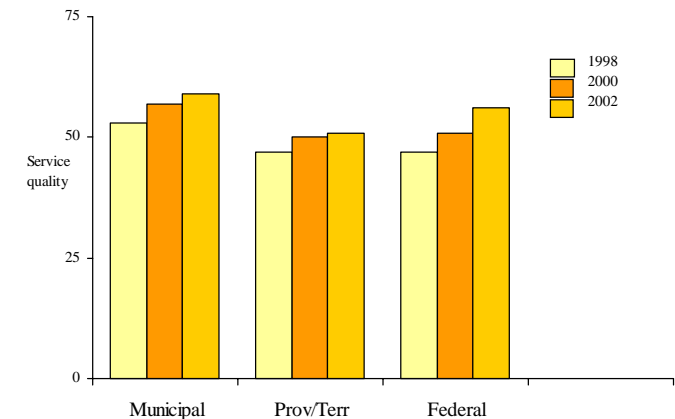
The five key drivers of satisfaction in public-facing services

Timeliness	I was satisfied with the amount of time it took to get the service
Knowledge/Competence	Staff were knowledgeable and competent
Extra mile/Extra smile	Staff were friendly, courteous, went the extra mile
Fairness	I was treated fairly
Outcome	I got what I needed

The five drivers account for 69% of the variance in satisfaction ratings!

UK evidence shows being treated with 'dignity and respect' is key: *"All the staff are very friendly, polite and respectful. They call you Mr or Mrs when they greet you, shake your hand and generally make a good impression on you – it's that sort of thing that you remember"*

Satisfaction with Government in Canada



The Canadians have been tracking satisfaction with public-facing services since the late-90's. Understanding the drivers of satisfaction has helped shape the reform of public services and has also rubbed off as increased satisfaction with government in general.

Sources: Marson, B (2004) Citizens' First Survey; NHS Acute Trust inpatient surveys 2001-2

Many of the issues that concern the UK require interventions and effective governance at the international level

- Effective international governance is necessary to support:
 - **Global Public Goods:** security & stability; financial stability; poverty reduction; and science
 - **International Commons:** climate; fisheries; space; and water
 - **Trans-boundary flows:** in drugs, crime, disease, trade, and the drivers of migration

- International leverage is critical to promote stronger and more robust rules within the WTO, IMF, WB, Basel and UN group - and to ensure that these international institutions are themselves effective and accountable



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Prosperity

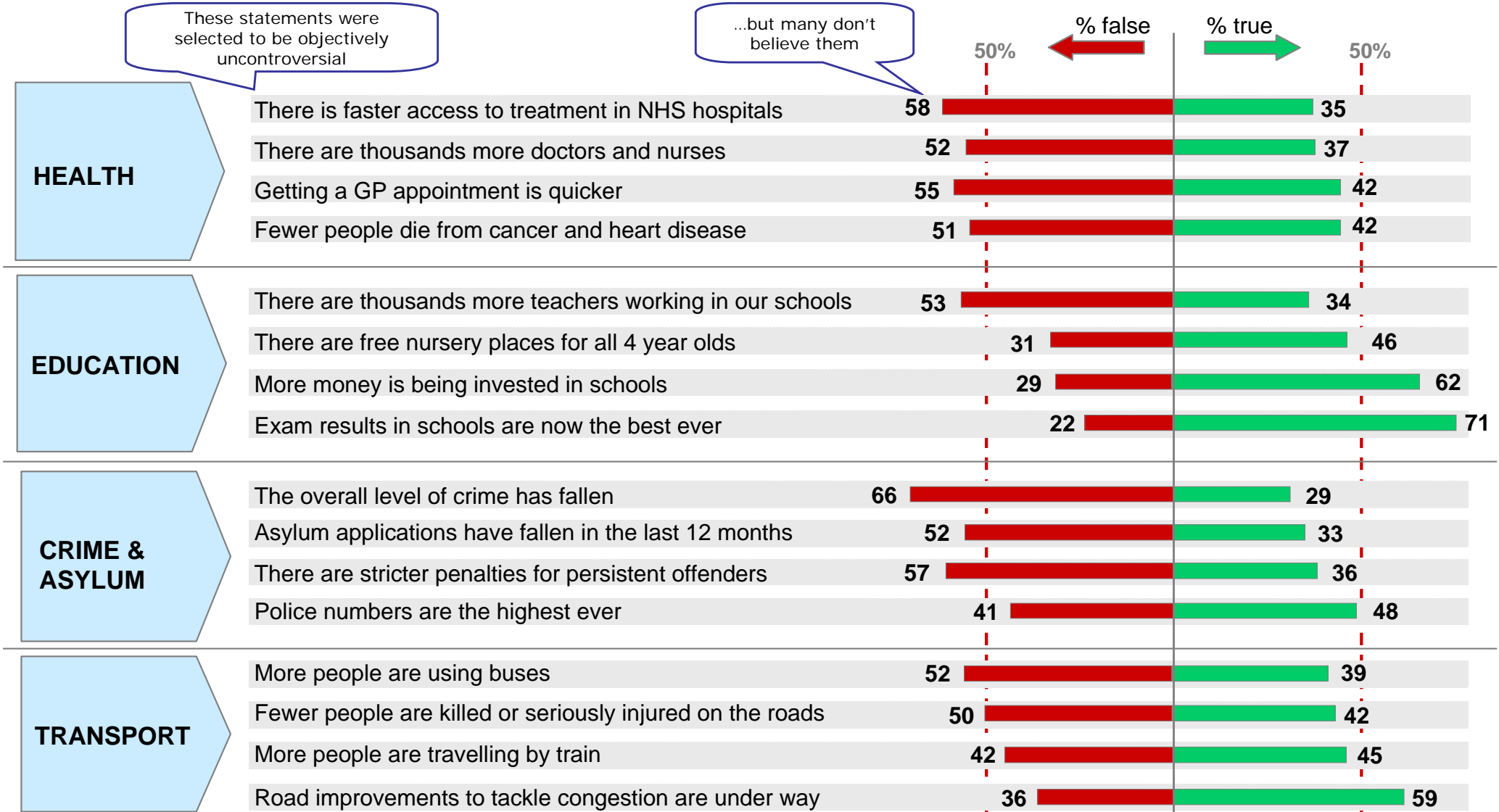
Inclusion

Well-being

Governance

Conclusion

Though there are many reasons to be optimistic about the UK performance, this has not always translated to public opinion

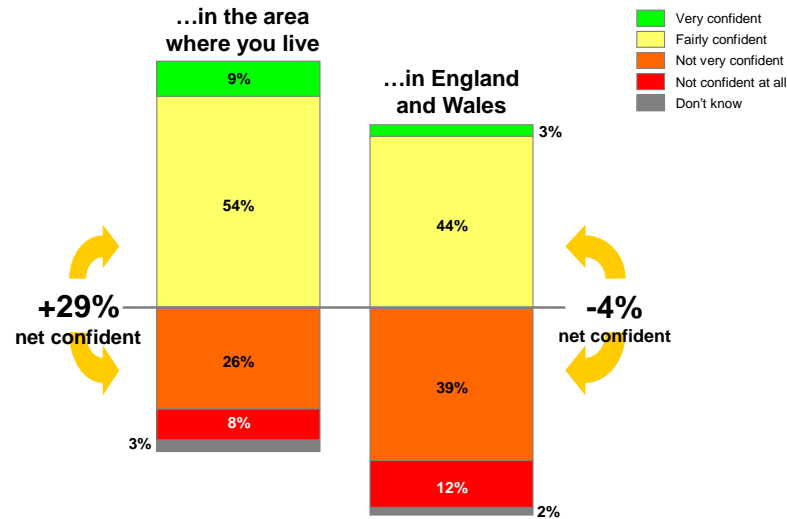


Government polling, September 2004 see http://www.cabinetoffice.gov.uk/opsr/perception_of_reform/public.asp

The public are generally more confident and satisfied with their *local* services than with the same services at *national* level

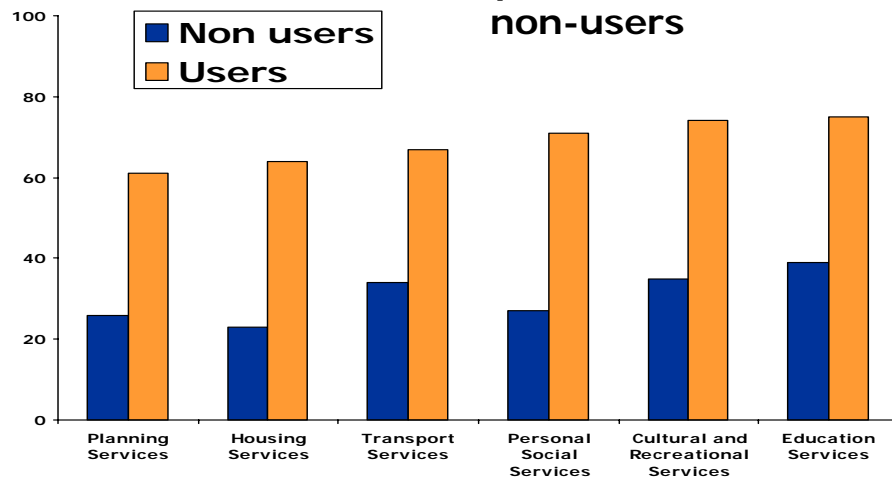


Overall, how confident are you about the way crime is dealt with?



- People are generally confident in their own police, hospitals and schools – but are much less confident about services nationally
- Similarly, users of services report roughly double the satisfaction with those services than non-users – but may think that their own experience is atypical
- There are various explanations for this ‘gap’ including:
 - It takes a while to notice changes when services are only occasionally used
 - Acquaintances and media pass on more bad than good stories
 - People are sceptical about government statistics
 - Some key public concerns, such as ASB, transport and service quality, have not yet improved sufficiently to meet public expectations

Satisfaction with public services – users and non-users

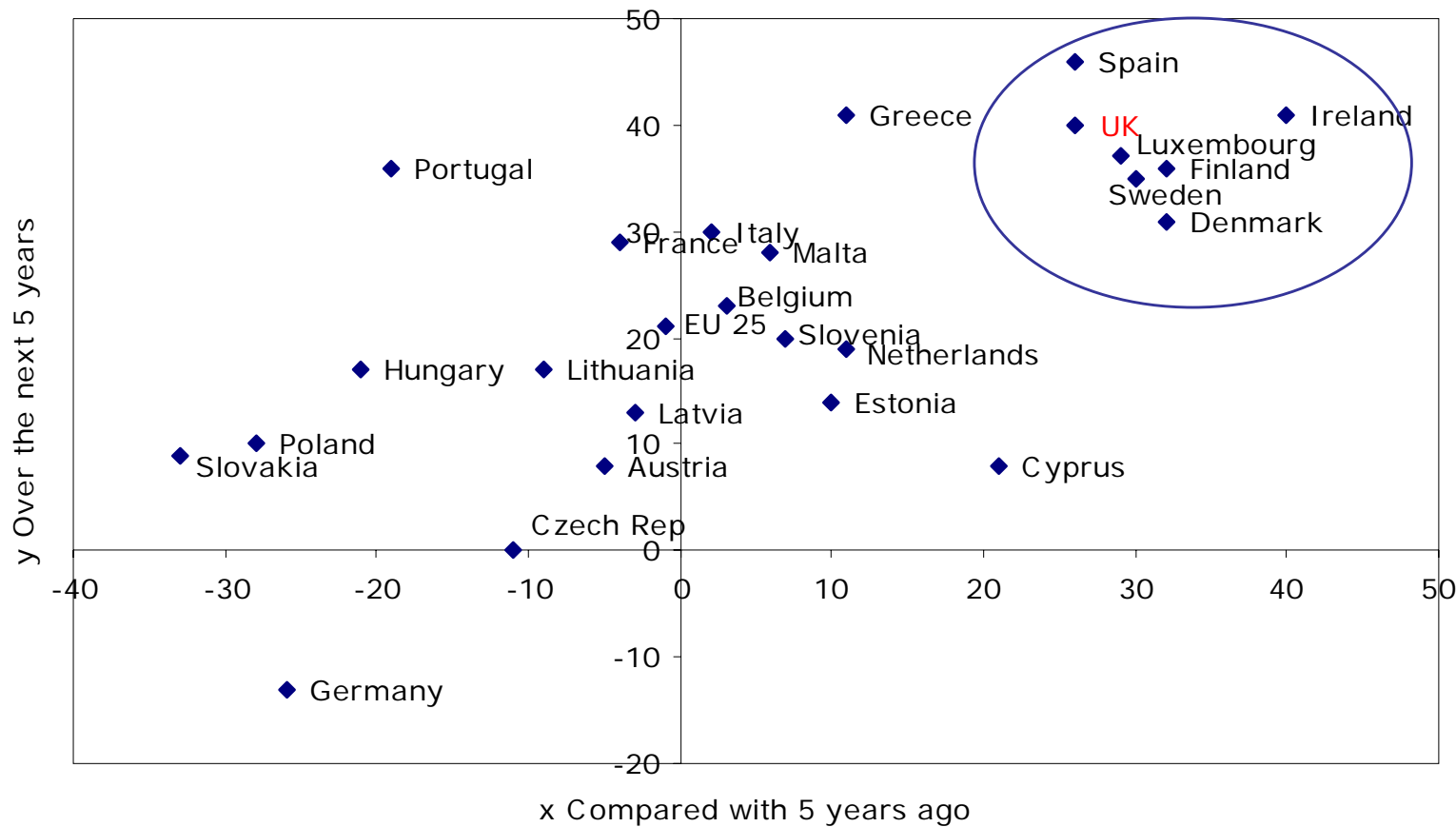


Source: MORI/SU; PDPM BVPI data

Overall, the British public say their personal situation has got better over the past 5 years – and think it will continue to get better



Net Personal Situation compared to 5 years ago vs Net Personal Situation in the next 5 years



The British public is holds a very positive assessment of progress in terms of 'personal situation' in comparison most of our European neighbours.

The Irish stand out as being the most positive about the last 5 years, and Spain stands out as being most positive about the next 5 years.

Source: Eurobarometer, summer 2004

The challenge for Britain is to entrench the progress of recent years, while intensifying our focus on the fundamental drivers and our underlying choices



Many of the key objective measures of the country's performance continue to go in the right direction. The UK has experienced a remarkable period of steady growth, falling crime, reducing poverty and improving health outcomes. For the first time in generations we have mostly kept pace with our competitors, and in some areas overtaken them. Of course, major challenges remain, many involving fundamental socio-economic drivers and important choices for society:

- Maintaining macro-economic stability, while increasing still further our focus on skills and innovation as drivers of prosperity
- Developing our infrastructure to meet rising demand for mobility, energy, water and telecoms, in a way that is sustainable and affordable
- Addressing poverty and exclusion, but with increasing focus on early development and on 'hard-to-reach' groups
- Improving the NHS and introducing more choice and responsiveness, while also increasing focus on the drivers of disease through public health
- Responding to crime and anti-social behaviour, but increasing focus on tackling the root causes of, and opportunities for, offending
- Re-developing the social housing stock, with increasing the focus on breaking up concentrations of deprivation and addressing the undersupply of housing in general
- Tackling pensioner poverty now, while laying foundations for an ageing society
- Continuing constitutional reform, but increasing focus on democratic innovations that address social skew and encourage civil renewal



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