



The UK to 2015

The Queen's speech ⁱ and budget statements from the new coalition government have identified major cuts in public spending ⁱⁱ. More changes will be introduced in the autumn, including a radical re-think of the role of the public sector. These together will have many effects on the UK over the next five years. However there are many other factors that will affect us – from the euro zone developments to long term trends in demographics and energy.

SAMI has brought together a number of these forces for change to describe what may be expected for the UK, over the next five years, to 2015, as well as highlighting the areas where there are big question marks.



How we live

Property and an ageing population

By 2015, there will be 2 million more people over the age of 60 in the UK ⁱⁱⁱ, and over half of women over 60 will rely entirely on the state to provide for them ^{iv}. In the longer term, those who own their homes will find themselves being forced to cash in their value to sustain their care in old age. Inheritance tax will cease to become an issue when property is used to fund old age instead of being handed down.

When granny comes marching home

Energy costs will continue to escalate ^v and become an increasing part of household income. An old home could become a millstone in the longer term as its value will depreciate compared to new-builds designed with conservation in mind. Heating subsidies to the elderly can be expected to be curtailed and 'granny' will not be able



to keep up with the cost of heating her bungalow. Watch for old houses being abandoned in favour of new more energy efficient homes and granny moving in to the spare room of one of her children.

The Englishman's home is at Tesco.

The fallout in reputation of the big insurance providers could provide opportunities for newer more trusted brands to take their space. Tesco Towns^{vi} may end up being a significant new force in the provision of long term provision of shelter and care of citizens as the supermarket retailer pushes deeper into financial services to grab a greater share of our wallets. The Rowntree Continuing Retirement Community Care at Hartrigg Oaks, where a flat fee is charged to residents irrespective of their needs for care, is a model for the way that the private provision of retirement housing may develop for those with financial resources^{vii}.

Taxing times

The working population will continue to be more diverse, with decreasing proportions having continuous full-time employment with a single employer^{viii}. Income tax (both PAYE and self-assessment) is increasingly cumbersome to collect^{ix}. The effect of this will reduce with the introduction of the proposed £10 000 a year tax exempt threshold, but compares badly with the cost to collect of VAT,^x as an example of an efficient tax. Governments will also be forced to think of other ways of raising tax from potentially new sources such as sugar (obesity), carbon, and other taxes with social effect.

The rise of terrorism

There will continue both attempts to land physical attacks on the UK and cyber-terrorism attempts to attack the electronic infrastructure. Europe is the focus of a number of terrorist groups, and if early withdrawal from Afghanistan leaves the region in disarray, this may increase.

The threat from e-espionage, with attacks on intellectual capital from countries both nominally friendly as well as those hostile, is now reaching industries such as pharmaceuticals and fashion. Teams working on mergers and acquisitions use standalone systems as the best way of preventing attacks.

Food security

Many of our traditional international food suppliers are increasingly under threat from water shortages and demands for diets with more meat from new middle classes across the globe. Food production in the UK will increasingly be encouraged to provide security, and also employment.

Extreme weather events will continue as new climate patterns start to be established,^{xi} and damage from wind and flood may become un-insurable.

Immigration

Any introduction of quotas for immigrants will affect parts of the NHS and businesses which rely heavily on non-EU personnel. Currently up to 25% of NHS employees from non-EU countries carry out a combination of skilled and unskilled jobs at the lower paid end^{xii} and 8% of NHS workers in the south-east are not just immigrants,



they're illegal immigrants. Expect longer waiting in A&E, bed shortages and lengthening waiting list for critical operations.

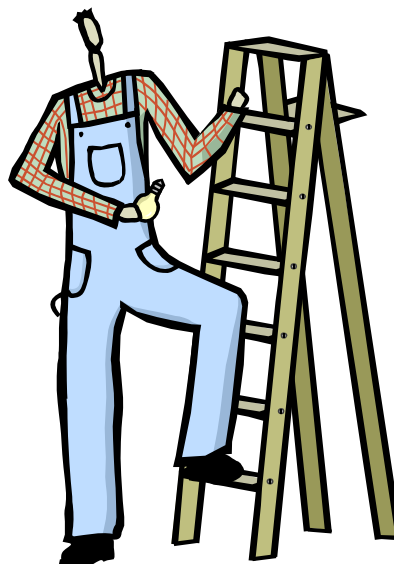
Shooting to save lives

The link between unemployed youth, crime and drugs is well documented. xiii. Experiments such as the Zurich trials^{xiv} where drugs usage has been medicalised, takes the glamour from its usage. Substitutes are prescribed in a strict prescription programme involving methadone, needle exchanges and 'shooting galleries'. New users of drugs have fallen by 82% since the trials began. Adopting this would be a significant U turn in the British approach which has been driven by the desire to criminalise rather than liberalise.

Ryanair health provision

Whilst the basic promise of offering health services to all will not change, it is likely that there will be a core proposition above which citizens have to pay for many aspects of their service by private sources. Introducing means testing for free prescriptions, quotas for visits to the GP, and charges for non essential visits to A&E are things that could be expected.

More resources may be devoted to prevention on the assumption that this is in the end more cost effective than late intervention. Expect anti obesity drives, campaigns to cut down further on the consumption of alcohol and low cost health screening.





How we work

Desperately seeking a job

The budget means that a lot of people will become available on the jobs market at a time of increasing scarcity of employment opportunities; including an estimated million or more off disability benefits ^{xv}, the 300,000 reduction of the civil service headcount ^{xvi} and the 350,000 and rising, long term unemployed youth ^{xvii}. Having a job will in itself become a valued asset and wage rise negotiations will make way for job tenure agreements.

Government will try and stimulate youth employment by incentivising employers to offer internships, expand apprenticeships and reintroducing technical colleges for advanced technical qualification. Expect versions of voluntary community service to be introduced as a citizenship builder.

Longer life expectancy, deferred pension entitlement and anti-age discrimination will encourage people to work longer before they retire. Older employees bring benefits to employers of greater experience, more patience and better service levels for customers and those companies that have positively encouraged their older workforce to stay on have benefitted from the investment. Companies will finally wake up to the notion of targeting the 'silver surfers' and the 'grey pound.' The public sector could come under pressure to employ older workers.

Industries under threat

Many of our industries are under increasing competition from the new economies. Consider the effect of the Tata Nano car, designed to sell for £1,500 ^{xviii}, on the Western car industries and their suppliers from tyre companies to radio and child seat suppliers. Or the effect of internet and media design and technology from India on the media and entertainment industries. Or the effect of the Korean drive to systematise the building of nuclear power stations as they did with ships ^{xix}.

Growth

With financial services unlikely to provide as active a growth motor over the next five years as over the past three decades, other industries will be sought to take up the growth challenge. There is no one obvious segment that promises to replace that gap so government will need to encourage a number of sectors to each provide incremental growth; green technologies, the bio sciences, engineering and even humble retailing and tourism/leisure, all offer growth potential ^{xx}.

Banks will not recover their earlier glamour days, facing increasing regulation and restraints on bonuses and big executive payouts. We could also expect the return of credit unions and micro lending for those sections of society that have been abandoned by the traditional banks.

More of the best graduate output will be drawn to traditional sectors such as accounting and law. The green movement might also see some benefit from talent redirected into saving the planet.



Student visas

A clampdown on student visas might close down many courses and even colleges which have relied on students with overseas funding. Other than the most prestigious internationally renowned institutions, colleges will be hit by the double whammy of reduced government support and falling student numbers. There will be increasing competition from other countries such as the Emirates that have built their own campuses staffed by faculty from some of the top Universities in the world, India which is targeting 14 Universities in the global top 100 and China which is targeting 9^{xxi}.

Ghost towns

The stronger city economies will consolidate as organisations close their 'branches' in uneconomic locations and weaker cities wither. Cities from Stoke to Swansea will be hit as the stronger centres such as London, Birmingham, Manchester and Edinburgh, consolidate^{xxii}. Cities with good transport links thrive – Preston, Milton Keynes, Brighton.^{xxiii} Areas of the UK where over 20% of the jobs are based on public sector employment will be blighted^{xxiv} - Northern Ireland, Scotland, Wales, and the north. In March 2010, the average cost of homes on London's 10 most pricey roads was £5.5 million. The average house price in the top 10 most affordable roads in Greater London was £101,140, compared to the North East, where the figure was the lowest of any region at £36,050.^{xxv}

Choking in the South East

The North South divide is expected to increase with the SE staying relatively unscathed whilst the rest of the country takes the brunt of the cutbacks. The population density of the South East already exceeds the population density of the Netherlands^{xxvi} and the threat of complete grid lock of the road system in London is an ever growing threat.^{xxvii}

How we compete globally

The role of infrastructure in Quality of Life

As global competition increases, Quality of Life factors become important in attracting investment. Many of these Quality of Life factors relate to infrastructure and public goods such as schools, roads, transport links, energy supplies.^{xxviii} While Europe as a whole suffers a lagging infrastructure under many of these headings, the UK has particular problems arising from the congestion in the South East. However Europe and the UK continue to have a good reputation for a safe environment, and a transparent legal and regulatory system.

Sustainability

Organisations will find that sustainability becomes a key concept – wider than the green agenda, and dedicated to purposeful innovation to renew themselves.^{xxix} The concept of sustainability simply means 'an ability to carry on'. Today that requires executives to adapt to an unprecedented set of complex challenges related to



increasingly urgent social, environmental and ethical issues. These include transitions to carbon pricing and abatement, new clean energy and technologies, new customer and stakeholder expectations, new government legislation, increasing resource scarcity and social and environmental performance reporting throughout the supply chain.

Keeping a AAA rating

The measures taken by government to keep a AAA rating for the UK will include more private sector employment through private sector participation in new areas of education, health care and defence, and sale and lease of the five million homes owned by government. The private sector is clearly the place to be in the next five years as the transfer of ownership from the state to private capital accelerates.



An advantage - a nation of foreigners

The government has recognised that the best chances of recovery for the UK are to ensure that growth is export led ^{xxx}. The euro zone is unlikely to provide significant growth markets - Britain's European neighbours will continue to struggle with keeping the euro in its present form as the PIGS ^{xxxii} undertake a fundamental restructuring of their economies and inevitably their way of life.

The UK has a considerable source of competitive advantage to other OECD economies in that London is one of the most pluralistic societies ^{xxxiii}, with over 250 languages spoken. UK companies will increasingly look to do business in countries outside Europe and North America. and can draw on its immigrant groups to establish business networks and understand language and cultural norms in their home countries. Immigration policy may also be adjusted to represent a 'most favoured nation' basis of granting visas and permission to reside in the UK.



While much of the focus has been on the BRICs^{xxxiii}, the UK's historic markets of South East Asia and many parts of Africa will all grow strongly over the next five years.

Some significant uncertainties



As well as the trends and driver of change that will have an impact over the next 5 years, there are also some significant uncertainties. Some of these are highlighted below and could derail our expectations. Some of these are:

Response to debt reduction

The actions needed to reduce the national budget deficit are unprecedented in recent times. The response could be an acceptance that such measures are necessary and that the 'pain' is being equitably shared; or there could be widespread opposition with industrial action and civil protests.

The Euro

The Euro is facing a number of challenges, particularly from the Southern European economies. This could lead to a number of possible outcomes including: long term weakness, that may or may not lead to some countries deciding to leave or being ejected from the euro zone; Governments putting public finances on a sound footing and the euro become a strong international currency and potentially a challenger to the dollar; the currency stabilising and the pressure for reform reduces, so the currency 'muddles on,' with the consequential economic consequences^{xxxiv}.



Growth

The future growth rates will be highly dependent on the above two factors and the conditions in markets outside Europe. Forecasts are likely to continue to be volatile over the next 5 years.

Climate change

By 2015 real progress could have been made on international agreements to address the challenges from climate change; or it could be 'filed as too difficult' in the face of ongoing shorter term economic pressures.

Conflict

There are a number of potential 'flash points' that could lead to international conflict.

The glass half full

Although the UK economy has hard times ahead there is sufficient opportunity for entrepreneurial organisations to take advantage of changing times. Britain is still regarded by many as an attractive place to live and work. If you're fit, reasonably well educated and flexible in your outlook on life then you will get by and some even thrive. The poor, sick and unskilled will become marginalised and find Britain a hard place to be.

SAMI

Since SAMI's founding in 1989 nearly 200 projects have been delivered worldwide, focusing on robust decisions in uncertain times, e.g. scenario planning, horizon scanning, strategic futures, mentoring, training of managers, using futures in work force planning, corporate governance, organisation development, change management and in the wider sustainability agenda. Since 2002, SAMI Consulting has been co-owned by the University of St Andrews and the Fellows. SAMI Consulting works in the public, private and voluntary sectors.

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ⁱ As reported in The Times, 25th May 2010

ⁱⁱ www.pwc.co.uk/budget

ⁱⁱⁱ ONS 2006 projections

^{iv} Social trends 2004

^v <http://www.guardian.co.uk/business/2010/feb/07/branson-warns-peak-oil-close>



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- ^{vi} <http://www.guardian.co.uk/business/2010/apr/26/tesco-town-london-ipswich>
- ^{vii} <http://www.jrht.org.uk/Housing+and+care+services/Retirement+living+and+support/Hartrigg+Oaks>
- ^{viii} For instance in one sector, logistics, part-time employment is expected to go from 14% to 20% by 2014, <http://www.guidance-research.org/future-trends/logistics/info/printAll?lang=en>
- ^{ix} <http://www.telegraph.co.uk/news/election-2010/7273132/Tories-plan-biggest-shake-up-of-income-tax-system-since-Second-World-War.html>
- ^x Joshua Aizenman, Yothin Jinjarak, The collection efficiency of the Value Added Tax: Theory and international evidence , The Journal of International Trade & Economic Development, Volume 17, Issue 3 September 2008 , pages 391 - 410
- ^{xi} www.bbc.co.uk/climate/evidence/extreme.shtml
- ^{xii} <http://www.guardian.co.uk/commentisfree/2010/apr/18/david-cameron-immigration-iceland>
- ^{xiii} <http://business.timesonline.co.uk/tol/business/economics/article6524061.ece>
- ^{xiv} <http://www.independent.co.uk/news/uk/crime/heroin-the-solution-480734.html>
- ^{xv} Private discussions based on pilot studies
- ^{xvi} Sunday Telegraph, 23 May 2010
- ^{xvii} <http://www.cesi.org.uk/statistics>
- ^{xviii} http://www.autoexpres.co.uk/carreviews/firstdrives/251236/tata_nano.html
- ^{xix} <http://www.powertechnology.com/projects/yonggwang/>
- ^{xx} Growth sectors: FT 7th June “High technology and innovation offer best route to growth”, a report by Oxford Economics and Nesta.
- ^{xxi} <http://www.foreignaffairs.com/articles/66216/richard-c-levin/top-of-the-class>
- ^{xxii} <http://news.bbc.co.uk/1/hi/magazine/5179232.stm>
- ^{xxiii} “Dynamic cities seen as solution to jobs deficit”, FT 7th June, report by Centre for Cities.
- ^{xxiv} James, Nicola, Regional analysis of public sector employment, Economic & Labour Review, 3, #9, September 2009
- ^{xxv} <http://www.housepricecrash.co.uk/forum/index.php?showtopic=140564>
- ^{xxvi} http://en.wikipedia.org/wiki/List_of_countries_by_population_density, and Seeda, The Profile of South East England”, March 2008
- ^{xxvii} <http://www.guardian.co.uk/politics/2008/aug/07/congestioncharging.transport>



^{xxviii} <http://internationalliving.com/2010/02/quality-of-life-2010/>

^{xxix} Ringland, Gill, Oliver Sparrow and Patricia Lustig, Beyond Crisis, John Wiley 2010

^{xxx} George Osborne CBI dinner 19th May 2010

^{xxxi} Portugal, Italy, Greece, Spain – also called the Club Med countries

^{xxxii} <http://www.woodlands-junior.kent.sch.uk/customs/questions/london/multicultural.htm>

^{xxxiii} "BRICs and Beyond", Goldman Sachs, on
<http://www.goldmansachs.com/ideas/brics/BRICs-and-Beyond.html>

^{xxxiv} Four scenarios for Europe, FT 2 June 2010.