



Section 2.6

Ensuring fair markets

Introduction

2.195 Economic success provides the wealth on which we all depend. When they work, markets are the key to that success; they provide new and cheaper products and services, full employment and rising living standards. Markets work best within clear rules. Government has a role in helping markets work, and in ensuring they are fair.

2.196 Globalisation brings challenges to existing approaches developed on a national basis. Its impact can be felt more keenly by more vulnerable members of society. Globalisation also brings opportunities because those who get ahead of the game and embrace change benefit the most. There will be significant benefits for business, employees and consumers if we can put in place world-class frameworks for domestic and international business activity which help stimulate new ideas and encourage enterprise and growth within a fair society.

2.197 That is what the Fair Markets Group within the Department aims to do in setting appropriate and proportionate legal frameworks for competition, corporate governance, consumers, labour markets, and in promoting free and fair trade. This work includes acting to liberalise international markets and support sustainable development; shaping rules to maintain competition and to promote openness and competitiveness in the UK and EU business environments; intervening to create fair and flexible labour markets and to ensure that confident and informed consumers drive markets; and acting to protect the vulnerable.

Key achievements 2006-07

- **Companies Act – simplification and reform of company law, saving businesses an estimated £250 million a year (see page 84)**
- **Consumer Credit Act 2006 being implemented, providing millions of borrowers with new protections from dishonest lenders (see page 71)**
- **Adoption of EU Directive on Services in the Internal Market – implementation will open up the EU’s internal market for services and boost our economy by around £5 billion a year (see page 74)**
- **Better Regulation Simplification Plan published showing planned delivery of savings of £700 million in reduction of red tape as part of the Department’s commitment to reduce annual burdens on business by 25% (see section 3.6)**
- **New National Minimum Wage penalties policy (see page 82)**
- **Extended maternity pay and extension of right to request flexible working to carers (see page 80)**
- **Legislation against age discrimination came into force in October 2006 (see page 80)**
- **A record performance from the Export Licensing Organisation, with 80% of licences issued in 20 working days (see page 76)**

2.198 Crucially, it also includes ensuring that when we intervene in markets, we have weighed the evidence and assessed the risks; that regulation is proportionate, as simple as possible to follow and that it imposes no unnecessary burdens. The Department works together with business, trade unions, other interest groups and regulatory bodies to ensure that regulatory frameworks foster the conditions for business success.

2.199 Global security fosters international trade which is good for business. The Export Control Organisation contributes to international security by controlling the proliferation of arms and other strategic goods. The Department aims to implement controls in a way that minimises the burden on legitimate business.

The Department’s work on ensuring fair markets can be divided into three broad subject areas: competitive markets (this area includes PSA 3 and PSA 5 as well as the Department’s business plan objective on competitive markets); maximising potential in the workplace (covered by both a PSA and a BPO of the same name); and the Department’s BPO on corporate and insolvency matters.

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SR04 PSA 3 – Competition and consumers

On course

“Promote fair competitive markets by ensuring that the UK framework for competition and for consumer empowerment and support is at the level of the best by 2008, measuring the effectiveness of the regime through international comparisons, supported by a broader evidence base.”

Current position

Competition

2.200 The latest Peer Review of Competition Policy was carried out by KPMG in 2006-07. As in the 2004 Peer Review, it found that the UK regime was ranked third behind the US and Germany, although it was closing the gap on those countries.

2.201 Other evidence from the most recent Global Competition Review, published in June 2007, found that the UK Competition Bodies are among the best in the world with the Competition Commission sharing the “Elite” category with the US Federal Trade Commission, the European Commission’s DG Competition and the Office of Fair Trading.

2.202 In the 2006 Office of Fair Trading (OFT) business and consumer survey, businesses awarded the UK a score of 7.4 out of 10 for the extent to which its markets are free from illegal practices and anti-competitive behaviour, the same score as for the previous two years.

Consumers

2.203 The 2006 OFT business and consumer survey also found that consumers gave a score of 6.3 (out of 10) for the extent to which UK markets offer a service that is fair and reasonable, the same score as the previous two years.

2.204 In addition, the June 2006 OFT survey of consumer awareness shows that consumers feel better informed of their rights than in 2005: 63% in 2006 compared to 59% in 2005 say they feel fairly or very well informed about their rights. 78% of consumers say they feel well protected and confident in using their rights, which is very similar to results for the last three years.

2.205 The national rollout of Consumer Direct was completed ahead of schedule and it was transferred to the OFT in April 2006. The latest customer satisfaction survey (January 2006) demonstrated that Consumer Direct is helping people to gain redress, with 56% of calls leading to resolution or partial resolution of the problem and 82% of consumers saying they are very or fairly satisfied with the service.

Factors affecting performance

Competition

2.206 Despite performing well in international comparisons, the Department recognises the need to continue to monitor the operation of the competition regime and consider possible enhancements to its speed, efficiency, and effectiveness, including addressing any barriers to redress for those affected by anti-competitive behaviour, in line with the aim of creating a regime that is amongst the best in the world.

2.207 The Department has overall responsibility for competition issues although responsibility for making substantive decisions and enforcing competition law falls to the UK's independent competition authorities, primarily the Office of Fair Trading (OFT)⁸⁸ and the Competition Commission.⁸⁹ The Department has transferred the remaining statutory undertakings given under the Fair Trading Act 1973 to the competition authorities.

2.208 The Department is responsible for coordinating Government responses to OFT's market studies and has responded to recommendations regarding opium derivatives⁹⁰ and airports.⁹¹ The Department is currently coordinating the responses to market studies on commercial use of public information and the pharmaceutical price regulation scheme.

Consumers

2.209 A DTI-led OECD-level research programme is examining specific aspects of consumer regimes in participating countries under the headings of Legislative Framework, Enforcement and Consumer Empowerment, with the aim of identifying the common features of effective regimes under each heading. Our understanding of what makes an effective consumer regime will improve as this research programme progresses. The first phase considered an aspect affecting consumer empowerment, namely how best to run consumer campaigns to prevent consumers falling victim to scams. Guidance has now been published.⁹² The second project, to assess what constitutes an effective penalty regime for breaches of consumer protection legislation, has been completed and is now being considered by the OECD's Committee on Consumer Policy.

2.210 A number of Government initiatives relevant to consumer empowerment and support are also underway, and the Department intends

to consider possible indicators for assessing the level of consumer empowerment, which can be used to benchmark progress in this area.

- Transposition of the **Unfair Commercial Practices (UCP) Directive** will make it easier for consumers to understand the law by simplifying UK consumer law. The UCP Directive will introduce a general prohibition on traders using unfair practices, and will harmonise unfair trading laws across the EU. The Directive overlaps with 29 existing laws and, in December 2006, the Department announced⁹³ that it would repeal provisions in 22 of these. The Department will be consulting on draft regulations (the Consumer Protection from Unfair Trading Regulations) to implement the Directive, and draft guidance in May 2007. These regulations will come into force in April 2008.
- The **DTI-led Retail Enforcement Pilot (REP)**⁹⁴ has made significant progress in delivering the recommendations arising from the Hampton Report⁹⁵ and has developed a new coordinated, risk-based approach for joint delivery of local authority regulatory services for retail businesses. Responsibility for the REP transferred to the Better Regulation Executive in the Cabinet Office with effect from January 2007.
- The **Consumer Credit Act** received Royal Assent in April 2006. The new Act amends and augments the Consumer Credit Act 1974 in order to improve consumer rights and redress; improve the regulation of consumer credit businesses and provide for better OFT oversight; and improve the consistency of the regulation of consumer credit agreements. The Consumer Credit Act is now being implemented. April 2007 has seen the introduction of two important provisions, which will make it easier for consumers to obtain redress if they have been treated badly or unfairly by lenders – a new Alternative Disputes Resolution Scheme, which will provide all consumers with access to a free and independent means of resolving disputes with lenders and a new Unfair Relationships Test, which will give greater scope for courts to consider unfair agreements. Work will also continue on developing a new licensing regime, a new Consumer Credit Appeals Tribunal and regulations designed to improve the level of information consumers can expect

to receive on their credit agreements, which we plan to bring into force in April 2008.

- The DTI, the Department for Work and Pensions and the Department of Constitutional Affairs published the “**Tackling Over-indebtedness Annual Report 2006**”⁹⁶ in the summer, which highlights work across Government to tackle over-indebtedness, including the Department’s work on the face-to-face debt advice programme, which is now being implemented.
- The **Face-to-Face Debt Advice Project** is well on the way to helping tens of thousands of the financially excluded and is financed from the Treasury’s Financial Inclusion Fund.

As a sign of its success, the 2006-07 budget was increased from £15 million to £16.5 million in the 2006 Pre Budget Report.

- In addition, the new **Consumers, Estate Agents & Redress Bill** was introduced in the House of Lords on 16 November and passed in to the House of Commons on 7 February 2007.⁹⁷ This Bill will give consumers a stronger advocacy body to represent them, create redress schemes in certain sectors, and improve the regulation of estate agents and doorstep selling. The Bill is continuing its passage through Parliament and, providing the Bill gets Royal Assent by summer 2007, the Department expects these measures to be implemented in 2008.

SR04 PSA 5 – Trade barriers

Slippage

“Ensure that the EU secures significant reductions in EU and world trade barriers by 2008 leading to improved opportunities for developing countries and a more competitive Europe.” Joint with the Department for International Development.

Action to address slippage

The UK’s main objectives are to encourage all players to engage in discussions across all the Doha Development Agenda (DDA) dossiers to deliver an ambitious and pro-development outcome; and to seek progress on key issues of interest to developing countries that are outside the main negotiations, such as Aid for Trade and Rules of Origin. The Department and DfID are engaging with the Commission, EU and WTO Members on a regular basis.

2.211 This PSA target is an evolution of an SR02 PSA target⁹⁸ that proved unachievable after the failure of the Fifth World Trade Organisation (WTO) Ministerial meeting in Cancun in 2003.

2.212 This target is shared with the Department for International Development, and the assessment of progress is agreed between the Department and DfID (although both Departments use slightly different terminology to express the same assessment).

2.213 Progress is assessed qualitatively. The assessment that there is slippage is based on the cumulative impact of the factors identified below.

Current position

2.214 The main lever for meeting this target is the Doha Development Agenda (DDA). Negotiations on the DDA were formally suspended in July 2006. Informal negotiations restarted in November 2006 and the Director General of the WTO announced a full-scale return to negotiations on 31 January 2007. Throughout, the

UK has been working to encourage all players to move where necessary from established positions, first to deliver relaunched negotiations, and ultimately to deliver an ambitious, pro-development outcome. During negotiations, we have built up a high degree of credibility with opposite numbers in the EU and internationally. We have continued to use this credibility to stress the global benefits of a deal and the risks of failure.

2.215 Although significant, commitment to the DDA is not the only element in the trade policy mix to achieve delivery of the target.

2.216 The Department has been seeking to influence the European Commission as it develops its trade policy agenda beyond the DDA. Commission plans include proposals for new regional trade negotiations (RTAs), beginning with India, South Korea and the Association of South East Asian Nations. The Department's objective is to ensure the WTO remains the cornerstone of a strong and rules-based multilateral trading system, with the DDA the Department's first priority. We want to see the new generation of RTAs build towards future multilateral negotiations, delivering increasing liberalisation while taking account of the needs of developing countries. We want to ensure, too, that the Economic Partnership Agreements (EPAs) being negotiated between the EU and the African, Caribbean and Pacific (ACP) countries will be an effective tool for development. In line with our UK Position Paper of March 2005⁹⁹ we will continue to work to ensure ACP concerns are addressed and that a pro-development conclusion of the EPA negotiations is reached by end 2007.

2.217 The Department has been consulting UK industry and working with the European Commission on the planned reshaped EU Market Access Strategy,¹⁰⁰ intended to address trade barriers in third countries. The Department also consulted UK interests to prepare the UK response to the Commission Green Paper on the operation of EU Trade Defence Instruments.¹⁰¹

Factors affecting performance

2.218 Delivery of this target depends on the actions of the EU (the EU has competence on all European trade issues) and others, especially WTO Members. The UK contribution depends on its credibility and influence both in the EU (the Commission and other Member States) and with key WTO members.

2.219 The WTO negotiations on the DDA have the potential to make the greatest contribution to achieving the target, although there are other non-DDA issues that contribute.

2.220 Jointly with the Department for International Development and other interested departments, the Department works through Ministers and officials to build effective relationships with opposite numbers in the EU and internationally, as well as consulting with business and civil society. In particular, its Trade Policy Consultative Forum, chaired by the Minister for Trade, Investment and Foreign

Affairs, meets regularly and brings together Non-Government Organisations (NGOs) including development charities, business associations, trade unions and consumer groups to discuss world trade issues.

2.221 The Department has continued with regular meetings of the inter-Departmental group that was set up by the Department to improve planning and operations on the Doha Development Agenda. This includes regular review of risks and contingencies and has now been extended to cover all trade negotiations, whether multilateral or bilateral/ regional. The Department has also worked across Government through the high level strategy group, established in 2005, comprising representatives from across Whitehall and UKREP, which covers DDA and non-DDA trade issues. Through both fora, the Department has worked to agree objectives, develop its influencing strategy and ensure targeted and consistent effort.

Business plan objective: extending competitive markets

2.222 The Department aims to extend competitive markets by: developing markets in both Europe and throughout the world; reducing the regulatory burden on business; and placing empowered and protected consumers at the heart of a world-class competition regime.

Plans for 2006-07	Progress in 2006-07
<p>Use the Competitiveness Council, the High Level Group for Competitiveness & Growth and the Internal Market Committee to improve business competitiveness in an outward-looking EU</p>	<p>EU</p> <p>2.223 Building on the significant progress during the UK's EU Presidency in 2005, we have secured good agreements on three proposals under negotiation in the Competitiveness Council that will improve business competitiveness: a Services Directive, which is estimated will benefit the UK economy by some £5 billion per year; a Chemicals Regulation (REACH), which will reduce costs on UK business by over £100 million; and a new Framework Programme for Research and Development, which will give UK companies access to an EU research budget of some £35 billion from 2007-13.</p> <p>2.224 We have also made good progress on: promoting the better regulation agenda in the EU, in particular, the systematic use of competitiveness impact assessments; encouraging Member States to continue to pursue the Lisbon economic reform process to improve business competitiveness; and in advocating an approach to the Review of the Single Market, which focuses on the economic benefits to citizens and businesses.</p>
<p>Progress delivery of the DTI's Better Regulation Change Programme, to reduce the burdens on business arising from Departmental regulations</p>	<p>2.225 Please refer to section 3.6 below for details of the Department's work on better regulation and the Simplification Programme aimed at reducing burdens on business.</p>
<p>Promote an ambitious, pro-development outcome to the Doha development round of world trade negotiations</p>	<p>2.226 Please refer to PSA 5 – Trade barriers (page 72) above.</p>
<p>Continue to maintain a high quality, effective UK framework for competition by sponsorship/funding of independent competition authorities and enabling Ministers and other Government Departments to fulfil their residual competition role speedily and in accordance with the law</p>	<p>2.227 Please refer to PSA 3 – competition and consumers (page 70) above.</p>
<p>Progress implementation of the new Consumer Credit Act and ensure greater access to debt advice</p>	<p>2.228 Please refer to PSA 3 (page 70) above</p>

Plans for 2006-07	Progress in 2006-07
Encourage risk-based enforcement by progressing establishment of the Local Better Regulation Office (LBRO) and the extension of the Office of Fair Trading's role as suggested in the Hampton Report	2.229 Responsibility for setting up the LBRO transferred to the Cabinet Office
Streamline and improve the framework for consumer protection by transposing into UK law the Unfair Commercial Practices Directive	2.230 Please refer to PSA 3 – competition and consumers (page 70) above.

Other significant activities

State Aid

2.231 The Department has lead-responsibility in Government for advice on state aid issues and state aid policy, except in relation to agriculture and transport. The Department led the UK's input to the European Commission's state aid review work through consultation and engagement with UK contacts and other member states. The Department helped secure changes to the new rules for subsidies for R&D and innovation and small (de minimis) aids in 2006 and was also actively engaged in the lead-up to reviews of frameworks for environmental aid and state guarantees where new instruments are due to be finalised in 2007, as well as the broader debate about state aid interpretation, procedure and enforcement issues.

Illegal Money Lending

2.232 The illegal money lending teams based in Glasgow and Birmingham have so far identified over 200 illegal lenders and approximately 40 individuals have been referred for potential prosecution. So far, 25 cases have resulted in convictions or are in the prosecution pipeline. The work of the teams has benefited nearly 2,000 victims and relieved them of more than £3 million in payments that would otherwise have been demanded by the lender. In December 2006, the Department received an additional £1.2 million from HM Treasury to continue and expand the pilot from its current bases to neighbouring regions. On 25 January 2007, the Treasury announced that, as part of its Financial Inclusion Agenda, it would provide further additional funding to roll out the project nationally. See also page 72 above for details on other debt-related work.

Christmas Hampers

2.233 Following the collapse of Farepak, the Government has been working with the hamper companies to put in place new safeguards. Customers' money will now be held in trust accounts controlled by independent trustees, and the new arrangements will be monitored by a new trade association.

Export Control Organisation

2.234 Through its Export Control Organisation, the Department supports Government efforts to prevent proliferation of arms and other strategic goods, whilst minimising the negative impacts on UK business, through the operation of an export licence system in conjunction with other Government Departments. The UK's strategic export controls are based on national and international commitments

concerning transfers of conventional weapons, missiles, chemical and biological weapons and nuclear-related goods and technology. The work on this area was moved from the Department’s Energy Group to Fair Markets Group as of the start of the financial year 2007-08.

Figure 2.18 Standard individual export licence applications

	2006 result	target
processed within 20 days	82%	70%
processed within 60 days	99%	95%

2.235 The number of licences produced per officer per year has risen from 68 in 2003 and 90 in 2005 to 97 in 2006; average costs per standard individual licence have decreased from £525 in 2004 and £450 in 2005 to £421 in 2006. JEWEL (the licensing performance project) has created a single licensing community through the establishment of joint management structures, joint induction and new business processes. More joined-up IT for export licence application processing is being developed through the SPIRE project which is on schedule for roll-out in September 2007.

Maximising potential in the workplace – introduction

2.236 The Department’s challenge is to maximise potential in the workplace while maintaining an adaptable labour market and delivering a reduction in legal complexity for business both here and in Europe, raising the level of and demand for skills and promoting diversity.

2.237 Innovation needs change in the workplace as well as in products, services and processes. Skills levels, organisational and managerial ability are important determinants of productivity and business performance. The successful introduction of new technologies depends on the introduction of new work practices. Business transformation will not work unless the workforce are involved and given the chance to influence and develop new and better skills.

2.238 In the future, the UK will have to compete more and more on the basis of unique and innovative products and services. This will require inspirational leadership, stronger management skills, a highly trained and motivated workforce, a flexible labour market that promotes diversity and fair treatment and workplaces that recognise environmental issues and the need for greater resource productivity.

2.239 The following pages report on performance against the Department’s PSA and business plan objective on maximising potential in the workplace.

SR04 PSA 10

Assessment of progress: not yet assessed

Maximising potential in the workplace

“By 2008, promote ethnic diversity, cooperative employment relations and greater choice and commitment in the workplace, while maintaining a flexible labour market.”

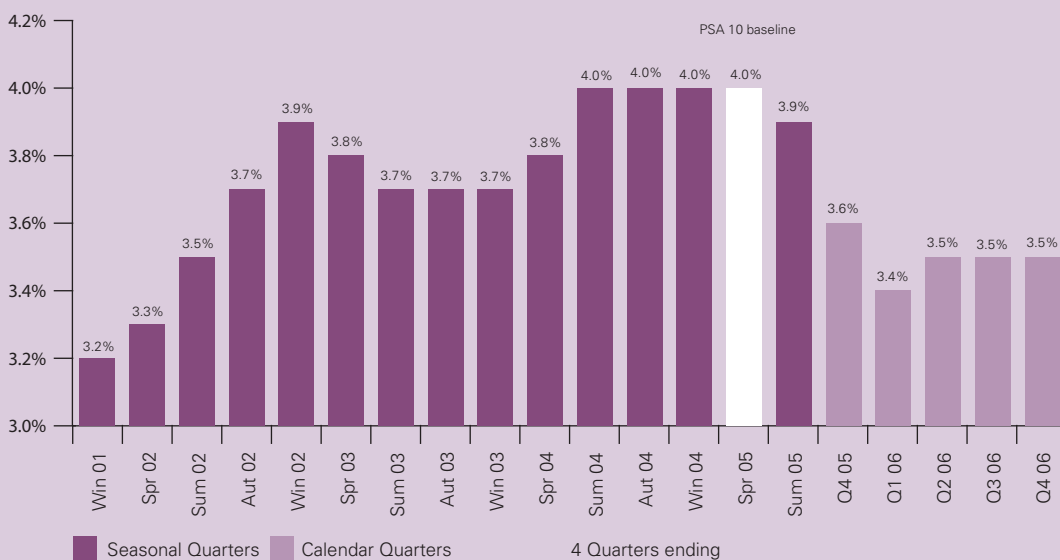
Current position of PSA 10

2.240 This PSA has five indicators. At present performance data is only available for the indicator on the self-employment rate of under-represented ethnic minorities, see below. The technical note setting out the indicators and measures for this target has been revised, and is available on the Department’s website.¹⁰²

2.241 The first indicator for this target is the self-employment rate of under-represented ethnic minorities. Under-represented ethnic minority groups in self-employment are all ethnic minorities except Indian, Pakistani and Chinese (we use the same classification of ethnic minority groups as used in the Census). Against the baseline of a 4 percentage-point gap between the rate for under-represented groups and the rate for all other groups (summer 2004 – spring 2005), the gap has fallen to 3.5 percentage points by Quarter 4 2006 (see graph). It is too early to be sure if this is a long-term trend.

2.242 The self-employment rate of under-represented groups has improved from 5.6% (average summer 2004 – spring 2005) to 6.1% (average Q4 2005 – Q4 2006).

Figure 2.19 Percentage point gap between self-employment rates for under-represented groups and all other groups, England



2.243 Baselines have now been set for indicators measuring progress on the other sub-targets relating to incidences of racial discrimination at work, and information and consultation:

- The baseline for the indicator to measure the reduction in the incidence of racial discrimination at work reported by ethnic minority employees has been set at 4.0% by data gathered in the new Fair Treatment at Work Survey 2005. Data on progress against this indicator will be available in 2008 when the second survey is conducted.
- The baseline to measure the number of employees that have access to information and consultation procedures has been updated using the Workforce Employee Relations Survey (WERS) 2004 data, and set at 43%. Data on interim progress against this indicator will be available in autumn 2007 from the Work Life Balance Survey.
- The baseline for the indicator to measure the number of economically active people who are well informed about their rights at work has been updated using the results from the DTI Awareness Knowledge and Exercise of Employment Rights Survey 2005, and set at 65%. We expect data on progress against this indicator will be available by autumn 2009.

2.244 The baseline for the indicator to measure overall level of UK labour market flexibility will be set by an Index of Labour Market Adaptability (ILMA). A paper outlining the methodology behind the Index and presenting results will be published in the second half of 2007. The Department works to ensure that activities and new legislation in this area are in line with better regulation principles and maintaining choice and flexibility in the labour market.

Factors affecting performance

2.245 The ethnic minority enterprise data (above) since the baseline period of spring 2005 indicates some overall improvement. However, it is too early to say whether this is a trend. This sub-target is a challenging one; the self-employment rates of under-represented groups will need to rise significantly more than that for the white population to decrease the gap. In addition, the age profile of the two groups is a factor, with under-represented groups having a greater proportion of young people. The Regional Development Agencies have ongoing individual programmes to encourage black and minority ethnic enterprise.

2.246 There is some evidence that many people prefer employment to self-employment, and in a buoyant economy there are more employment opportunities. In part this may explain the greater success in reducing the gap between ethnic minority and overall employment. This area is covered by the SR2002 target (shared between the Department and DWP), see annex A.2.

2.247 The majority of the activities carried out under the business plan objective discussed below will also impact on PSA 10.

Business plan objective: maximising potential in the workplace

Plans for 2006-07	Progress in 2006-07
<p>Implement the measures outlined in the Government's employment strategy (Success at Work), focusing on protecting vulnerable workers and supporting good employers, including by targeting enforcement action on those who mistreat vulnerable workers and ensuring that employers and those in work are aware of their rights and responsibilities</p>	<p>Employment Strategy</p> <p>2.248 The Government's employment strategy (Success at Work) sets out a programme for implementation during the current Parliament. Substantial progress has been made during 2006-07, including:</p> <ul style="list-style-type: none"> • Introduction of regulations outlawing age discrimination at work and in vocational training (see section on equality of opportunity below). • Extension of paid maternity leave to nine months and extension of right to request flexible working to carers of adults (see also section on Work and Families Act below). • Consultation on extension of annual leave entitlement to include time equivalent to Bank Holidays (implementation will take place in two stages in October 2007 and April 2009).¹⁰³ • A new National Minimum Wage targeted enforcement campaign (in the child care sector); additional resources for enforcement; a new, tougher, penalties policy; a "know your rights" leaflet aimed at migrant workers. • Piloting new approaches to help vulnerable workers. This includes employers, unions, regulators, voluntary and community organisations, local authorities and Acas. The pilots were launched in June 2007 and are taking place in Birmingham, and City and Docklands in London. The pilots are looking at joining up and improving support for vulnerable workers and are focused on the hospitality and cleaning industries – sectors which have high numbers of ethnic minority and migrant workers. • A second round of the Union Modernisation Fund (see below) • Consultation on a package of measures to tackle certain abuses in the agency sector.¹⁰⁴ • Consultation on facilities and facility time for workplace representatives.¹⁰⁵ • The Employment Law Simplification Review (see below). <p>Advice on rights at work</p> <p>2.249 The Department provides advice on rights at work to individuals through communications channels such as the Acas website and helpline, the Employment Agency standards helpline, and the Insolvency Service's Redundancy helpline. The employee pages on the www.direct.gov website were launched January 2006, with 4000 users per week and had reached 82,000 users per week by September 2006.</p>
<p>Work with the Department for Work and Pensions to influence the EU Employment Council on employment issues in line with UK policy in Europe</p>	<p>EU</p> <p>2.250 The Department positively influenced the direction of ongoing European discussions on labour law, such as on Working Time and the Green Paper on Labour Law in line with the UK approach to flexibility and choice in the labour market.</p>

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Plans for 2006-07	Progress in 2006-07
<p>Provide enhanced support and choice for individuals with caring responsibilities to enable them to better balance those responsibilities with work, so that their skills are not lost to the labour market and they are able to progress their careers; and enable better communication between employers and women on maternity leave</p>	<p>Work and Families Act</p> <p>2.251 The Work and Families Act 2006 received Royal Assent on 21 June. It is the first step towards delivery of some of the measures set out in the Government response to the consultation “Work and Families: Choice and Flexibility”.¹⁰⁶ The full package of measures is being delivered through a combination of legislation, guidance and good practice, in line with the Government’s better regulation agenda.</p> <p>2.252 Changes to maternity and flexible working rights and responsibilities, coming into force in October 2006 and April 2007 respectively, have already been mentioned above. In addition, a step-change has been achieved in the quality of guidance material available to employers and employees on these issues, including the publication of a new booklet “Pregnancy and Work – What you Need to Know”. The trends are already positive with research showing, for example, that three quarters of mothers now take their full entitlement to maternity pay, up from two thirds in 2002. With regard to flexible working, 47% of mothers now work flexi-time, compared to just 17% in 2002 and almost triple the number of new fathers (31%) now work flexi-time, up from 11% in 2002.</p>
<p>Improve equality of opportunity in the workplace and within wider society, for example through narrowing the gap between the self-employment rate of under-represented ethnic minorities and other groups</p>	<p>Equality of opportunity</p> <p>Please also refer to PSA 10 above (page 77).</p> <p>2.253 The Employment Equality (Age) Regulations 2006 came into force on 1 October 2006, with the Department of Work and Pensions bringing the occupational pension provisions into force on 1 December 2006. The regulations prohibit unjustified direct and indirect age discrimination, and all harassment and victimisation on grounds of age in employment and vocational training. They apply to people of any age, young or old. For the first time they establish basic requirements so that people can no longer be denied jobs because of prejudice; so that harassment can be tackled promptly and effectively; and so that people have an equal chance of training and promotion, whatever their age.¹⁰⁷</p> <p>2.254 The Department also continued to provide funding to support bodies working on age issues to enable them to develop projects that provide information, help and direction for individuals in understanding their new rights under the age regulations and supporting the provision of practical workplace-focused guidance.</p> <p>2.255 The Department contributed to the Government Action Plan to implement Women and Work Commission recommendations for closing the gender pay gap.</p> <p>2.256 Acas provides training on equality and diversity to employers and has a regional network of 100 advisers, including 21 specialist equality advisers.</p>
<p>Enhance the ability of trade unions to make a full and effective contribution to constructive employment relations through the Union Modernisation grant scheme</p>	<p>Trade Unions</p> <p>2.257 35 successful Union Modernisation Fund (UMF) Round One projects commenced spring/summer 2006. Bids supported include innovative projects to improve: unions’ understanding of modern business practices; two-way communications within unions; their ability to respond to the increasing diversity of the labour market; and the professional competence of union officers. Round Two was launched in November 2006 and included equality representatives as a new priority theme.¹⁰⁸</p>

Plans for 2006-07	Progress in 2006-07
Promote the benefits of employee involvement to increase the number of employees informed and consulted by their employer	<p>Information and consultation</p> <p>2.258 The Information and Consultation (I&C) regulations, having been introduced to larger companies, were extended in April 2007 to cover companies with 100 to 149 employees and a further awareness campaign was launched. Research on the impact of the regulations has been commissioned.</p>
Work with stakeholders to review employment law with the goal of reducing compliance costs for business without diluting existing rights and protections; several areas for review have already been identified including dispute resolution regulations, statutory redundancy, employment particulars and the right to time off	<p>Simplification of employment law</p> <p>2.259 The Department's Simplification Plan (published in December 2006, see section 3.6) included significant proposals on simplifying UK employment law. £430 million of possible annual administrative savings have been identified. Highlights include a root-and-branch review of the scope for simplification on dispute resolution. Most of these measures are work in progress, which in general the Department hopes to conclude in 2007.</p> <p>2.260 The Department has continued to build the evidence base for good policy making in employment relations, and ensure that proposals for new employment laws meet better regulation principles. The Employment Relations research programme aims to provide evidence to support policy development.¹⁰⁹</p>

Acas

2.261 Acas is an independent statutory body mainly funded by the Department, but which also generates some of its own revenue from training, consultancy and publications. Its aim is to improve organisations and working life through better employment relations. Its services include providing information, advice and training on a wide range of employment issues as well as individual and collective dispute resolution.

2.262 During 2006-07 Acas has:

- Dealt with around 900,000 calls to the Acas National Helpline, with surveys indicating that the information provided enabled 80% of callers to decide what to do next. An estimated £13 million gross has been saved to the taxpayer as a consequence of callers having a clearer picture of their legal rights and responsibilities.
- Received two and a half million visits to Acas' website.¹¹⁰
- Conciliated in almost 1,000 collective disputes, including involvement in all large-scale disputes, as well as delivering 200 workplace projects to improve employment relations. Significant savings are made to the economy by Acas' successful intervention in disputes where industrial action is threatened.
- Conciliated in around 160,000 actual and potential tribunal claims, including tens of thousands of potential local authority equal pay claims, saving over 70% of potential Tribunal Hearing days and around £25 million net to the taxpayer as a consequence of the resolutions it brokered in such cases

- Delivered 3,000 training sessions on employment issues, 81% of those attending feeling they could prevent problems as a result of Acas training.
- Trained more than 200 delegates to operate a mediation service in their own workplaces, thereby reducing the likelihood of grievances proceeding further.

2.263 Further details can be found in Acas' Annual Report.¹¹¹

Other significant activities

Dispute resolution

2.264 On 7 December 2006, the Secretary of State announced that Michael Gibbons would undertake an independent review of Government support for resolving disputes in the workplace and consider options for simplifying all aspects of employment dispute resolution, to make the system work better for employers and employees. The Gibbons Review and a consultation on the way forward were both published on 21 March this year, alongside the Budget.¹¹² The Gibbons Review was based on evidence from a wide range of interested parties, including the CBI, EEF and TUC. The Government is committed to piloting any new approach to dispute resolution that follows the consultation.

National Minimum Wage (NMW)

2.265 On 1 October 2006 the main adult rate for workers aged 22 and over rose to £5.35 an hour; the 18-21 year old rate rose to £4.45, and the 16-17 year old rate rose to £3.30 per hour. The Government also abolished the Older Workers Development Rate and extended the 12 months exemption to all apprentices, to comply with the age strand of the Employment Directive. The national minimum wage communication strategy for 2006-07 was based around this increase in rates. A national campaign started in September 2006 included, in particular, reaching out to ethnic minorities, women, the targeted childcare sector and young workers.



"Know Your Rights" leaflet on National Minimum Wage for Polish workers (also available for workers from other countries)

2.267 In 2005 the Government announced a strategy of targeted enforcement of the NMW in the low paying sectors. For 2006-07 the Department selected the childcare sector. On 9 January 2007 the Department announced a new penalties policy. At current rates, a typical penalty for failing to comply with an enforcement notice will be over £200 per worker. The Department has also been moving forward on its criminal prosecutions strategy.

Figure 2.20 National Minimum Wage enforcement activity April 2006 to January 2007

Telephone enquiries	42,323
Complaints (received)	1,744
Investigations completed	3,299
Arrears identified	£2.4 million

Skills Strategy

2.267 The Government has accepted the ambition for world class skills for the UK advocated by Lord Leitch in his review of skills (published in December 2006).¹¹³ The Department will continue to play a full role in taking forward the skills agenda with DfES and key partners, so that the UK has the necessary skills to be competitive in the global economy.

2.268 The Department has co-sponsored the Skills for Business Network with DfES and the Devolved Administrations. The Network comprises of 25 employer-led Sector Skills Councils (SSCs) who identify the skills priorities in their industry sectors. Each SSC is producing a Sector Skills Agreement (SSA) containing details of these skills issues and proposed solutions. Four SSCs published their SSAs in 2005-06, a further six published theirs in 2006-07, and the remaining 15 will publish by the end of 2007.

2.269 The Department has been involved in the development of National Skills Academies for Manufacturing (see also page 60), Financial Services, Construction and Food and Drink processing. A further eight are in business planning.

2.270 The Department has worked with other departments (including the Home Office, Treasury, FCO and DWP) so that the UK has in place a managed migration regime that meets the needs of the economy, whilst providing the necessary safeguards on illegal working and settlement.

Business plan objective: corporate and insolvency activity framework

2.271 The Department aims to promote and deliver an effective framework for corporate and insolvency activity, giving confidence to investors and business.

2.272 The Department, together with its agencies Companies House and The Insolvency Service, has a key part to play in ensuring that the UK's overall framework for business activity supports productivity, enterprise and the creation of long-term shareholder value. This framework needs to strike a balance between encouraging enterprise and protecting investors and others; and between minimising regulatory burdens and ensuring there are adequate systems for ensuring transparency, compliance and enforcement.

2.273 One of the major changes the Department has made is in reforming and simplifying the company law framework in the new Companies Act 2006.

Plans for 2006-07	Progress in 2006-07
<p>Implement a reformed company and insolvency law framework which minimises complexity to business and enables enterprise</p>	<p>Companies Act</p> <p>2.274 The Companies Act received Royal Assent on 8 November 2006 and represents a major reform of company law, focusing on keeping the regulatory burden to a minimum, and making the law easier to understand and more flexible, especially for small businesses.¹¹⁴ The new legislation rests on four key objectives:</p> <ul style="list-style-type: none"> • enhancing shareholder engagement and a long-term investment culture; • ensuring better regulation and a “Think Small First” approach (whereby more attention is given to the situation of small companies); • making it easier to set up and run a company; and • providing flexibility for the future. <p>2.275 There will be a phased approach to implementation with all provisions of the Act coming into force by October 2008. In January 2007 provisions relating to the EU Transparency Obligations Directive, provisions relating to amendments to the EU First Company Law Directive and provisions relating to electronic communications with shareholders came into force.</p>
<p>More efficient and more effective capital markets as a result of greater confidence in the framework for corporate and insolvency activity arising from greater transparency and stronger participation</p>	<p>Financial Reporting Council</p> <p>2.276 The Department sponsors the Financial Reporting Council, the independent UK regulator for corporate reporting, corporate governance, auditing and the actuarial profession. The Department has worked closely with the FRC throughout the year on our shared objectives. For example on 12 April 2006 the Department and FRC published research jointly commissioned from Oxera into competition and choice in the audit market, which the FRC has followed up with a public consultation and further detailed discussions with market participants on ideas emerging from the consultation.</p> <p>Corporate governance</p> <p>2.277 The Department has continued its activities to improve understanding of the impact of corporate governance on business performance and to encourage the development of links between the research community and business. In July, it co-funded with the Economic and Social Research Council and the Advanced Institute of Management, a Corporate Governance “Ideas Factory”. This was an innovative and interactive approach, bringing together academics, business, the investment community and other market players, to identify policy relevant research. The results of the projects selected will be available summer 2007. The second Departmental corporate governance research conference was held in January and brought together speakers with a range of perspectives on corporate governance. It also launched the publication of the King’s College Report into the key drivers of good corporate governance, commissioned by the Department in 2005.</p> <p>Insolvency law</p> <p>2.278 The Insolvency Act 1986 provides the legal framework for insolvency law. The Insolvency Service is undertaking work to consolidate and modernise the underpinning secondary legislation in order to provide clearer and more effective insolvency law.</p>

Plans for 2006-07	Progress in 2006-07
<p>EU actions will improve the operation of capital markets, promote market liberalisation in the interests of companies and investors and reduce regulatory burden</p>	<p>EU</p> <p>2.279 The Department continued negotiations on proposals contained in the EU Company Law Action Plan published in 2003.¹¹⁵ The legislative process was completed for the Directive amending the Capital Maintenance Regime (Second Directive) and the Directive on Board Members' Responsibilities and the Improvement of Financial and Key Non-Financial Information (Revision of the Fourth and Seventh Directives). These Directives need to be implemented by April and September 2008 respectively. Negotiations also started on the Shareholder Rights Directive, published by the Commission in January 2005.¹¹⁶</p> <p>2.280 The Department achieved a major campaigning and negotiating success in influencing the outcome of the European Commission's review of the Company Law Action Plan and emphasising the need for future EU action, like the UK company law reform programme, to promote enterprise, enhance competitiveness, and stimulate investment and wealth creation. This resulted in Commission proposals (announced in November) that:</p> <ul style="list-style-type: none"> • substantially reduced the number of EU proposals in the pipeline; • reflect better regulation proposals, in particular the objectives of simplification and reducing administrative burdens; and • emphasise the need for a flexible regulatory framework that serves the needs of EU companies.
<p>Improve the efficiency and effectiveness of company registration, compliance, investigation and insolvency to protect investors, business and other stakeholders</p>	<p>Insolvency Service</p> <p>2.281 The Insolvency Service set a planned efficiency target of £5.6 million for 2006-07, which it exceeded, achieving efficiency savings of £6.07 million. The Companies Investigation Branch (CIB) of the Insolvency Service undertook 174 investigations under the Companies Act 1984 into corporate abuse. It is the practice not to announce or confirm the existence of these investigations, but an exemption was made in the case of Farepak Food & Hampers Ltd because of the large public interest and the fact that the company was already in administration.</p> <p>Companies House</p> <p>2.282 Companies House has continued to see growth in the number of documents filed electronically. This provides greater security for companies submitting data to the companies register, helping in the fight against fraud, and it improves integrity of the register by speeding up the registration process and resulting in fewer rejected documents. Overall 37% of documents are now filed electronically including 54% of Annual returns and 5.1% of accounts; 86% of companies are incorporated electronically. Successful communications with customers ensures that compliance levels remain high at 95.6% for accounts and 94.2% for Annual Returns.</p>

Companies House

2.283 Companies House is an executive agency of the Department. Its main functions are: to incorporate and dissolve limited companies; to examine and store company information delivered under the Companies Act and related legislation; and to make this information available to the public. Companies House operates as a trading fund, with its expenditure covered by the fees it charges.

2.284 Please refer to the Annual Report of Companies House for further details.¹¹⁷

The Insolvency Service

2.285 The Insolvency Service is responsible for matters relating to corporate and individual insolvency. Its principal functions are: preliminary investigation and administration of compulsory insolvency and acting as interim receiver and provisional liquidator in public interest cases; acting as trustee/liquidator in compulsory insolvencies where no private sector practitioner is appointed; reporting criminal offences in compulsory insolvencies and taking disqualification proceedings against any unfit directors of failed companies; authorisation and regulation of private sector insolvency practitioners; provision of banking and investment services for bankruptcies and liquidations; and policy advice to Ministers on insolvency issues.

2.286 The Insolvency Service operates under a net control regime, under which the costs of case administration are met from fees. The Service is funded by the Department in respect of its work on investigation and enforcement and the development of insolvency policy. As of 1 April 2006 the Department's Companies Investigation Branch transferred to The Service and this work is also funded by the Department. The Service also receives funding by HM Revenue and Customs to assess and pay statutory entitlement to redundancy payments when an employer cannot or will not pay its employees.

2.287 Please refer to the Annual Report of the Insolvency Service for further details.¹¹⁸

Figure 2.21 Redundancy payments

(£million)	2005-06 Outturn	2006-07 Outturn	2007-08 Estimate	2008-09 Estimate
Payments	289.7	244.6	293.8	255.0
Receipts	37.0	40.0	35.0	35.0

Figure 2.22 Expenditure on ensuring fair markets (£ million)

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Plans
Extending Competitive Markets	169.2	105.4	77.8	75.4	100.1
<i>of which:</i>					
Non Departmental Public Bodies:	26.5	28.6	32.8	26.4	29.0
Competition Commission	19.6	21.1	24.8	19.1	21.3
Competition Service	2.9	3.7	3.6	3.7	4.1
National Consumer Council	4.0	3.8	4.4	3.6	3.6
Citizens' Advice	36.0	27.0	26.8	24.4	24.4
Other consumer protection activities	31.0	56.7	25.1	5.3	7.3
Financial Inclusion Fund (including Face to Face Debt Advice)	0	0	0	16.6	32.2
Ofcom	70.2	-12.0	-15.0	-2.8	
Postwatch	0.3	-1.0	-0.2		
Membership of WTO and other trade promotion	4.5	4.8	7.2	4.5	6.4
SITPRO	0.7	1.3	1.0	1.0	0.8
Maximising Potential in the Workplace	90.1	106.2	124.7	71.2	93.7
Employment Relations Programmes	22.1	18.1	12.4	10.7	12.7
ACAS	45.8	47.3	58.3	51.4	41.8
Paternity Pay	20.0	37.8	50.0	6.7	35
Office of Manpower Economics	2.2	2.9	4.0	2.4	4.2
Corporate Activity and Insolvency Framework	259.7	196.4	279.4	243.7	312.0
<i>of which:</i>					
Redundancy Payments Service	248.6	186.4	252.7	204.6	258.8
Insolvency Service	3.7	0.6	12.9	34.4	45.1
Companies House	-1.6	-0.4	-0.5	-2.3	-0.4
Investor Protection programmes	9.0	9.7	14.3	7.0	8.5

Notes:

- The total spend given here for each business plan objective corresponds with the total of the Resource DEL, Resource AME and Capital DEL spend given in tables 2 and 3 in section 6.3.
- The figures shown as 2007-08 plans reflect the original DTI budgets. These will be allocated to its successor departments created in June 2007 (BERR and DIUS, see section 1.1) in due course.
- See page 102 for spend on export control.



Section 2.7

Securing sustainable energy

Introduction

2.288 The Government's approach has been successful in moving the UK towards its energy goals, but significant challenges remain. While the UK remains one of the few countries on track to meet and go beyond its commitments under the Kyoto agreement, the 2010 carbon reduction target is very challenging. There are growing concerns about diversity of supply as North Sea oil and gas production declines and existing coal and nuclear generating plants close down. Meanwhile, global demand for fossil fuels is increasing, and there is no agreement on concerted international action on greenhouse gases when the Kyoto agreement expires in 2012.

2.289 To address these continuing challenges, the Government set out its strategy in "Meeting the Energy Challenge", published in May 2007. It outlined international and domestic action to address the twin challenges of:

- tackling climate change by reducing carbon dioxide emissions both within the UK and abroad; and
- ensuring secure, clean and affordable energy as we become increasingly dependent on imported fuel.

2.290 The White Paper addresses issues of demand and supply covering electricity, heat and transport. It contains proposals resulting in:

- carbon savings of between 23 and 33 million tonnes of carbon (MtC) in 2020 (including the effect of EU Emissions Trading);

Key achievements 2006-07

- **May 2007: publication of “Meeting the Energy Challenge” (see page 90) as well as launch of a major consultation on whether the private sector should be allowed to build new nuclear power stations (see page 101)**
- **Successful work with industry to bring additional gas import and storage infrastructure on stream, helping to ensure adequate energy supply during the past winter, and lower prices (see page 99)**
- **Record number of applications for UKCS exploration and production licences under the 24th Licensing Round (see page 100)**
- **UK one of only eight countries around the world to have installed over 2GW of onshore and offshore wind capacity (see page 92)**
- **Announcement of a competition for a commercial-scale carbon capture and storage demonstration plant (see page 97) – when operational, this will make the UK a world leader in this technology**
- **Launch of the prospectus for the Energy Technologies Institute, winning firm commitments of funding from the private sector (see page 97)**
- **Delivering extra help to the most vulnerable fuel poor over the winter (with OFGEM and DWP) (see page 94)**
- **Spring European Council agreement on EU energy policy, largely reflecting UK goals and ambitions (see page 91)**

- greenhouse gas emissions 26-32% lower than 1990 levels in 2020; and
- an improvement in the energy efficiency of our economy by around 10% between now and 2020, over and above the 25% improvement we already expect over that period.

2.291 Together with proposed new climate change legislation as set out in the draft Climate Change Bill this will allow the UK to establish the conditions necessary for a successful transition to a low carbon economy delivering reliable, safe and competitively priced energy.

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SR04 PSA 4 – Energy

**Assessment of progress:
set out by sub-target below**

“Lead work to deliver the goals of energy policy:

- (i) Reduce greenhouse gas emissions by 12.5% from 1990 levels in line with our Kyoto commitment and to move towards a 20% reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables. Joint with the Department for Environment, Food and Rural Affairs and Department for Transport;
- (ii) Maintain the reliability of energy supplies;
- (iii) Eliminate fuel poverty in vulnerable households in England by 2010 in line with the Government’s Fuel Poverty Strategy objective. Joint with the Department for Environment, Food and Rural Affairs;
- (iv) Ensure the UK remains in the top three most competitive energy markets in the EU and G7.”

2.292 The Government remains on course to deliver on the security of supply and competitiveness targets, and on the greenhouse gas component of the climate change target. Meeting the carbon dioxide emissions and fuel poverty targets, however, remains extremely challenging.

Action to address slippage

“Meeting the Energy Challenge”¹¹⁹ outlines an ambitious, evidence-based package of measures, building on the proposals and conclusions in our 2006 Energy Review.¹²⁰ The measures it contains will result in:

- carbon savings of between 23 and 33 million tonnes of carbon (MtC) in 2020 (including the effect of EU Emissions Trading);
- electricity consumption being 8-15% lower in 2020 and gas consumption up to 15 billion cubic metres lower (roughly 13% of projected demand);
- an improvement in the energy efficiency of our economy by around 10% between now and 2020, over and above the 25% improvement we already expect over that period; and
- new initiatives to taking around 200,000 households in the UK out of fuel poverty.

The newly created Office of Climate Change will co-ordinate climate change activity across Government to provide a shared resource for analysis and development of climate change policy and strategy, and will be a key resource to help achieve the challenging targets set to reduce carbon dioxide emissions.

Alongside the White Paper, a consultation document “The Role of Nuclear Power in a Low Carbon UK Economy” was also published, to allow for a decision before the end of 2007 whether it is in the public interest for companies to have the option for new nuclear build available for investment decisions.¹²¹

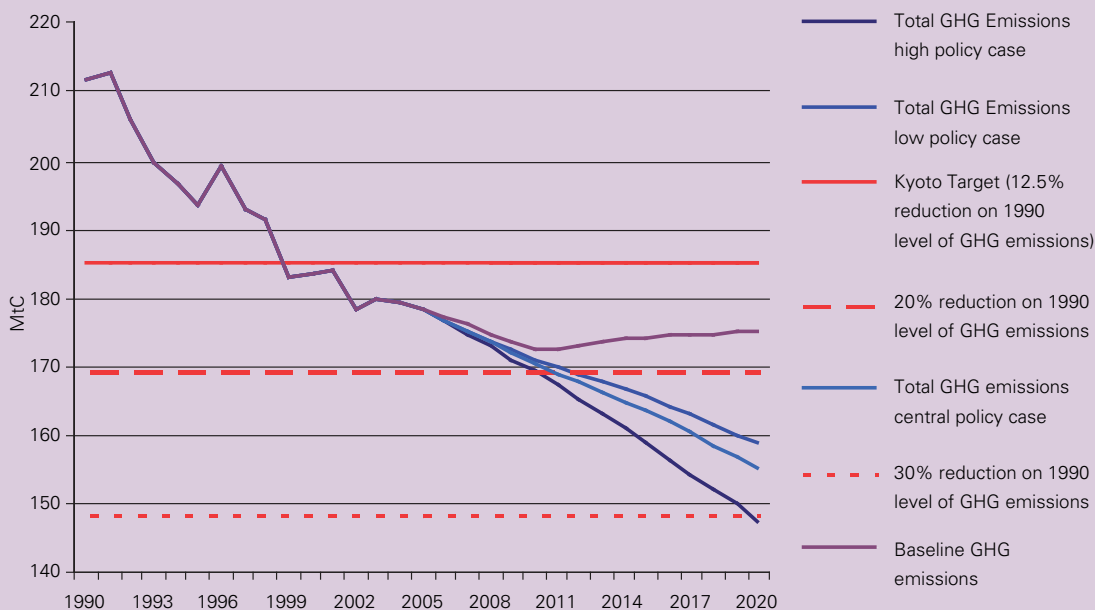
The EU heads of government at the Spring Council in March 2007 agreed a new strategy to address issues around climate change and energy security. Influenced by the UK, these included commitments to competitive energy markets and cuts in greenhouse emissions, and a central role for the EU Emissions Trading Scheme as the potential basis for a global carbon market. The agreement included targets to 2020 for 20-30% reductions in greenhouse gas emissions and a 20% share of energy from renewables.

SR04 PSA 4 (i) Greenhouse gas emissions/carbon dioxide emissions

Current position: ON COURSE

2.293 The UK remains on track to meet its Kyoto Protocol target to reduce greenhouse gas emissions by 12.5% below base year (1990) levels by 2008-2012. Latest provisional estimates show that total UK greenhouse gas emissions in 2006 had fallen by 15% below 1990 levels. Latest projections suggest that by 2010, greenhouse gas emissions will be 23.6% below 1990 levels, around double our Kyoto target.

Figure 2.23 Greenhouse gas emissions against the Kyoto target¹²²



2.294 In addition to its Kyoto commitment, the UK also has a domestic goal of reducing its carbon dioxide emissions (as opposed to all greenhouse gases) by 20% below 1990 base levels by 2010. Progress towards the UK's domestic goal is proving more challenging. Latest projections suggest that, taking into account the impact of the EU Emissions Trading Scheme (ETS) and other measures in the Climate Change Programme,¹²³ the UK will have reduced CO₂ emissions by around 16% below 1990 levels by 2010, saving 12 million tonnes of carbon per annum by 2010 compared with 1990.

Factors affecting performance

2.295 The UK's CO₂ emissions fell by about 5% between 1990 and 2006 based on latest provisional estimates. However, higher than anticipated levels of economic growth and the recent rise in global energy prices, which has altered the relative prices of coal and gas in favour of coal-fired generation, have led to increases in our CO₂ emissions in recent years. The Government used the new Climate Change Programme Review and the recent Energy Review to assess both the impact of existing policies and the potential contribution of new policy options, culminating in the 2007 White Paper.

2.296 The largest single potential contributor to emissions reductions is the EU Emissions Trading Scheme (ETS), the world's most significant step in establishing a carbon price. The EU heads of government recently reaffirmed their commitment to the scheme at the 2007 Spring Council. A key step in building UK and EU consensus on emissions trading is the UK Manifesto on the EU ETS3, launched in March 2007.¹²⁴ The Government published the approved National Allocation Plan for Phase II of the scheme to the December 2006 deadline and it was accepted unchanged by the EU. The Plan sets out the annual allocations for individual installations covered by the scheme for the years 2008-2012 and will deliver savings of 29MtCO₂ each year against projected business-as-usual emissions. The UK's results for the first year of the EU ETS (2005) showed excellent compliance, and the European Commission results show that the UK set one of the most challenging limits on carbon emissions among all Member States.

2.297 The Draft Climate Change Bill,¹²⁵ published in March 2007, set out the

Government's proposed long term framework for tackling climate change including putting into statute our long-term goal to achieve a 60% reduction in CO₂ emissions, and a requirement for Government to report at least every five years on current and predicted impacts of climate change and on its proposals and policy for adapting to climate change.

2.298 Renewable energy is one of the key means to achieve carbon savings, and this area has continued to grow – in February 2007, the UK became one of only eight countries around the world to have installed over 2GW of wind capacity, and at March 2007 the UK had some 2,041 MW of installed onshore and offshore wind capacity. Measures in the Energy White Paper should enable us to get 15% of our electricity generation from renewables by 2015 by increasing the level of the Renewables Obligation, ensuring a boost to investor confidence, and confirming the introduction of banding. A consultation on specific bands, and other proposals to strengthen and modify the RO was published alongside the White Paper.¹²⁶ The EU has also set itself an ambitious goal that 20% of the EU's energy (heat, transport and electricity) should come from renewables by 2020. The Commission has been asked to bring forward detailed proposals – including for each Member State's contribution to the target – by the end of this year. After a decision has been reached on our contribution to the target, the Department will bring forward appropriate measures to deliver the necessary increase in renewable energy. In the meantime, the measures and market framework set out in the Energy White Paper allow us to make significant progress on this important agenda.



One of the UK's onshore windfarms, Cefn Croes (Wales)

SR04 PSA 4 (ii) Security of supply

Current position: ON COURSE

2.299 "Meeting the Energy Challenge" included measures to address the UK's increasing reliance on imported oil and gas as well as the need for private sector investment in gas infrastructure, power stations and electricity networks. These included maximising economic production from our domestic fossil fuel reserves; promoting effective and transparent international energy markets; improving the UK investment framework through better market information and planning reforms.

2.300 Our energy market is continuing to bring forward significant investment in new infrastructure. Between 2006 and 2008 additional gas import capacity equivalent to about 70% of Britain's annual gas consumption will come on stream. On the electricity side, several generating companies have announced plans for the construction of additional capacity to meet future demand as existing capacity reaches the end of its life.

2.301 Ofgem have now published¹²⁷ the first stage of National Grid's Winter Consultation for 2007 – 2008. While they emphasise that there is no room for complacency, significant new investment in infrastructure bringing gas into Great Britain leaves the position generally looking more comfortable than last year. However, the ever increasing interlinkage between UK and international gas markets means that supply shocks overseas can be expected to be reflected in gas availability and prices here.

Factors affecting performance

2.302 In the long term, as a result of declining UK Continental Shelf production, the UK will move to a large and growing import requirement by the end of the decade, and new challenges emerge such as:

- longer supply chains, some through less stable countries or uncompetitive markets;
- new infrastructure and import capacity not being fully utilised as a result of uncompetitive practices in supplier markets; and
- the possibility that new investment in overseas and domestic infrastructure is not made in time to meet demand.

2.303 The Government response to the consultation “the Effectiveness of Current Gas Security of Supply Arrangements” was published alongside the May 2007 White Paper.¹²⁸ Following consideration of responses and supporting analysis, the Government, as announced in the White Paper, will encourage

energy efficiency, improve information arrangements and industry engagement, promote open and competitive markets internationally, improve the planning and licensing regimes for gas infrastructure projects and improve emergency planning arrangements.

SR04 PSA 4 (iii) Fuel poverty

Current position: SLIPPAGE

2.304 Progress against the Government’s fuel poverty targets is published in an annual report (the UK Fuel Poverty Strategy fourth Annual Progress Report, published June 2006). “Meeting the Energy Challenge” outlined additional measures to better target assistance, offer more benefit entitlement checks, and encourage more companies to provide programmes of assistance for vulnerable customers.

2.305 The number of households in fuel poverty in 2004 remained the same as 2003, down from 5.1 million in 1996 to 1.2 million households in England, with 1.0 million of those being vulnerable households. The UK-wide figure fell between 1996 and 2004 from 6.5 million to 2 million, with vulnerable households in fuel poverty falling from 5 million to 1.5 million. Analysis of the effects of fuel prices and incomes, excluding energy efficiency improvements, suggests that the total number of vulnerable households in fuel poverty is likely to rise, by around 1 million vulnerable households in England between 2004 and 2006 with proportional increases in the Devolved Administrations.

Factors affecting performance

2.306 The Department shares responsibility with Defra for this element of the PSA target. Strategies to end fuel poverty depend ultimately on improving housing standards and raising incomes, policies that have been given priority. The main policy levers currently used include benefits and tax credits, Winter Fuel Payments, the Warm Front programme, the Energy Efficiency Commitment and the Decent Homes Standard. These are the responsibility of a number of Departments, including DWP, CLG and Defra. Whilst good progress has been made, recent energy price increases threaten our ability to meet Government targets on fuel poverty.

2.307 The White Paper sets out further detail of the continuing activity to tackle fuel poverty. A full examination of the policy framework is currently underway, and while the policies and measures outlined in the White Paper will take a further 200,000 households out of fuel poverty by 2010, the long-term way forward will depend on the conclusions drawn after the policy review. Next steps will be set out in the UK Fuel Poverty Strategy Fifth Annual Progress Report in the summer 2007.

SR04 PSA 4 (iv) Energy market competitiveness

Current position: ON COURSE

2.308 Despite rising domestic energy prices and the international impacts of the increase in underlying fossil fuel prices, electricity and gas markets in the UK remain amongst the most competitive in the EU on both industrial and domestic prices. The latest OXERA report,¹²⁹ published in October 2006 and based on preliminary data for 2005, confirms the number one ranking for the competitiveness of the UK's energy market and the ranking of both gas and electricity markets individually in first position.

2.309 Energy prices have generally increased in the year to Q1 2007, with domestic electricity prices, including VAT, rising by 21% in real terms. Domestic gas prices, including VAT, rose by 34% in real terms over the same period. Average industrial electricity prices including the Climate Change Levy (CCL) rose by 15%, though industrial gas prices including CCL fell by 15%, and average coal prices decreased by 7%, in real terms, in the year to Q4 2006.

2.310 Estimates for January 2007 show that prices in the UK including taxes were below the EU average (median) for domestic electricity and were below the average for domestic gas consumers. All six major domestic suppliers have announced reductions in domestic gas and electricity tariffs to take effect in spring or early summer 2007.

2.311 For industry, estimated prices in January 2007 showed that electricity and gas prices were above the EU average for all consumers. Historically, prices to industrial users have been below the EU average, and right up to October 2005 industrial prices were no higher than the EU average, except for the very largest energy consumers.

Factors affecting performance

2.312 Increases in oil prices are the main factor behind rising gas prices as the two are often contractually linked. UK wholesale gas prices have been more volatile and higher over the last two years because of the historically tight supply/demand balance over the winters. Increases in the price of gas affect electricity prices as gas is an important part of the UK generation mix. Electricity prices have also risen as a result of higher international coal prices, the recovery of wholesale electricity prices from unsustainably low levels and the introduction of the EU Emissions Trading scheme in 2005.

2.313 The Government strategy for gas markets aims to help all gas consumers by working towards full energy market liberalisation in the EU, and improving the workings of the market – supporting the European Commission in their

efforts to enforce the energy liberalisation legislation and investigate the operation of energy markets across the EU. As the energy market in Europe moves toward full liberalisation there will be further increases in competitive pressure in the UK and Europe.

2.314 The main factor behind higher oil prices over the past few years has been strong global oil demand growth driven by robust economic growth – particularly China and the US. This has eroded the cushion of global spare oil production capacity and upgrading capacity in the refining sector. This lack of spare capacity has left the market less able to cope with supply disruptions and exacerbated market concerns about continuity of supply.

Business plan objective: sustainability and the environment

2.315 The reduction of carbon emissions is a cornerstone of the Government’s energy policy, as confirmed in the White Paper “Meeting the Energy Challenge” published in May 2007. The aim of this objective is to promote sustainability, through the delivery of the low carbon aims of the Energy White Paper, at least cost to the UK economy – through promoting, nationally and internationally, market mechanisms aimed at delivering climate change goals; the development and application of low carbon technologies and the regulation of the offshore energy industries.

Plans for 2006-07	Progress April 2006 – May 2007
<p>Reduce greenhouse gas emissions by 12.5% from 1990 levels in line with the UK’s Kyoto commitment, and move towards a 20% reduction in carbon dioxide emissions from 1990 levels by 2010, and a further reduction in carbon dioxide emissions by 60% by 2050, through measures including energy efficiency and support for renewable energy, working with the Department for Environment, Food, and Rural Affairs (Defra) and the Department for Transport (DfT)</p>	<p>2.316 As regards domestic initiatives, please refer to page 90 above (PSA 4).</p> <p>International</p> <p>2.317 The UK has already taken a strong lead internationally on climate change and the progress made in cutting our greenhouse gas emissions at the same time as maintaining economic growth makes us an exemplar to other countries. Important progress was made on climate change under the UK G8 and EU Presidencies in 2005 and this momentum continued in 2006. A number of key initiatives and themes were launched at the Gleneagles Dialogue ministerial meeting in Monterrey in October 2006:</p> <ul style="list-style-type: none"> • a joint UK-South African approach to finding alternative international climate change frameworks to put before negotiators; • a joint UK-Mexico-Spain-Development Bank study testing the applicability of the World Bank Energy Investment Framework to renewables projects; • a European Commission energy efficiency conference to explore the scope for a global agreement; and • widespread agreement on the vital importance of developing and deploying carbon capture and sequestration. <p>2.318 Germany will host the next Gleneagles Dialogue ministerial meeting in September 2007.</p> <p>2.319 A Climate Change Communication was published by the EC in January, putting Europe in the forefront of global leadership on energy and climate change, culminating in the conclusions made at the Spring Council in March 2007 including an independent EU commitment to achieve at least a 20% reduction of greenhouse gas emissions by 2020.</p>

Plans for 2006-07	Progress April 2006 – May 2007
<p>Increase the proportion of electricity generated from renewable sources, consistent with the Department's wider goals for affordable and reliable energy supplies</p>	<p>2.320 See also page 92 above.</p> <p>Energy White Paper</p> <p>2.321 Measures in the Energy White Paper should enable us to get 15% of our electricity generation from renewables by 2015 by increasing the level of the Renewables Obligation, ensuring a boost to investor confidence, and confirming the introduction of banding. A consultation on specific bands, and other proposals to strengthen and modify the RO was published alongside the White Paper.</p> <p>Renewables</p> <p>2.322 Renewables generation is on an upward trajectory. In 2004, 3.58% of the UK's electricity supply came from all sources of renewable energy, compared to 2.12% in 1997. In 2005, 4% of the UK's electricity supply came from Renewables Obligation eligible sources of renewable energy, and 4.2% from all sources of renewable energy.</p> <p>2.323 The EU Spring Council in March, amongst other targets, announced an ambitious target of 20% of EU energy to come from renewables by 2020. Details of how this will impact on the UK are yet to be decided by the Commission.</p>
<p>Support a wide range of emerging low carbon technologies that could play a role in the longer term UK energy mix, through funding R&D and demonstration projects, and working to remove barriers to deployment</p>	<p>Emerging low carbon technologies</p> <p>2.324 The Department aims to speed deployment of sustainable and affordable low carbon technologies that will contribute to the long term UK target of reducing CO₂ emissions. The Department currently supports private sector investment in a portfolio of emerging technologies and industries through both research and development through the Technology Programme, and through a number of grant programmes for demonstration and early phase deployment.</p> <p>2.325 In September 2006 the Department launched the £50 million Hydrogen, Fuel Cell and Carbon Abatement Technologies Demonstration Programme. The first call for proposals was made in October, focusing on the pre-commercial demonstration of key components and systems to support carbon abatement technologies.</p> <p>2.326 The Environmental Transformation Fund was announced in the Pre Budget Report as a new joint fund with Defra, for energy efficiency and low carbon technologies. On the technology side the fund will support renewable energy, biofuels and other non-nuclear low carbon technologies including carbon capture and storage, with the intention of following on from research and development and supporting demonstration and pre-commercial deployment. The fund is due to open in 2008, and further details will be announced following the current Comprehensive Spending Review.</p> <p>Energy Technologies Institute</p> <p>2.327 In September 2006, the Secretary of State for Trade and Industry published a Prospectus setting out the aims of the Energy Technologies Institute, to accelerate the development of secure, reliable and cost-effective low-carbon energy technologies towards commercial deployment. The Institute will be a partnership with the private sector. A number of high profile private sector companies have already announced their intentions to be involved and the Department has announced that it is prepared to provide up to £500 million, creating the potential for a £1 billion Institute over 10 years. See also section 2.4 (science).</p>

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Plans for 2006-07	Progress April 2006 – May 2007
<p>Implement the Microgeneration Strategy as published in March 2006, to create the conditions under which microgeneration becomes a realistic alternative or supplementary energy generation source for the householder, for the community, and for small businesses</p>	<p>Microgeneration</p> <p>2.328 The Microgeneration Strategy contains actions to tackle some of the wider barriers preventing development of a sustainable market for microgeneration technologies and progress is underway on implementing all of these actions by April 2008. These range from an assessment of existing communications around microgeneration to a review of the permitted development regime. Out of a total of 25 actions, 7 have been completed as at March 2007. Progress can be tracked on the Department’s website.¹³⁰</p> <p>2.329 The Government provides grant funding for the installation of microgeneration technologies under the Low Carbon Buildings Programme (LCBP). This replaces the Clear Skies & Solar PV Major Demonstration Programmes. Phase 1 was launched in April 2006. £30 million was made available to support projects in households, community organisations, housing associations, private, public and non-profit sectors. £1.5 million was used to smooth the transition between the previous capital grant programmes and the LCBP. In the Budget 2007, an additional £6 million was allocated to the household stream. This funding stream was subsequently suspended for two months for consultation on re-structuring the scheme to make best use of the money. It was re-launched in May 2007.</p> <p>2.330 Phase 2 takes forward the Chancellor of the Exchequer’s 2006 Budget commitment of an additional £50 million of capital grant funding for the installation of microgeneration technologies in the public and charity sectors (social housing, libraries, hospitals, schools etc).</p> <p>2.331 Further information can be found on the Department’s website.¹³¹</p>
<p>Work with the offshore oil, gas and renewables industries to minimise the number of significant environmental incidents and the impacts of offshore developments, and regulate without undue burden on the industry or taxpayer liability</p>	<p>Minimise offshore environmental incidents</p> <p>2.332 There have been no significant offshore oil and gas environmental incidents and all activities have been authorised only after demonstrating that they will not have an adverse environmental impact. Permits issued under the Oil Pollution Prevention and Control (OPPC) Regulations resulted in the UK achieving the 15% reduction in oil in produced water discharges required under OSPAR Recommendation 2001/01. Trading under the OPPC Regulations started from 1 January 2007 with a view to sharing the costs of this reduction across the offshore oil and gas industry. Offshore oil and gas EUETS Phase II allocations were successfully negotiated with Defra.</p> <p>2.333 A review of the Department’s Guidance Notes on Decommissioning of Offshore Installations and Pipelines was completed in September and updated guidance placed on the Department’s website.¹³²</p>

Business plan objective: security of energy supply

2.334 “Meeting the Energy Challenge” addressed two main security of supply challenges: the increasing reliance on imports of oil and gas; and the need for substantial and timely private sector investment over the next two decades in gas infrastructure, power stations, and electricity networks.

Plans for 2006-07	Progress April 2006 – May 2007
<p>Support well-functioning UK energy markets to ensure secure, sustainable, affordable energy through working with National Grid, OfGEM, Energywatch and industry to maintain effective regulatory and consumer protection regimes, and support and encourage private sector investment in infrastructure</p>	<p>2.335 See also PSA 4.ii (page 93).</p> <p>Energy markets</p> <p>2.336 The Department has been working closely with Ofgem, National Grid and business to ensure early action is taken to maximise gas and electricity supplies, especially for the winter, and to ensure good communications with industry. The Department’s discussions with the Energy Intensive Users Group, Ofgem, National Grid and other groups have helped us to focus efforts on maximising gas and electricity supplies, improving the operation of the market, encouraging demand-side response and pursuing fair access to markets across Europe.</p> <p>2.337 The Business Energy Forum was established mid-2006 and met three times in the latter half of that year. Jointly chaired by the Secretary of State and the Director General of the CBI, it enables discussion of strategic energy issues of concern to industry, with a particular focus on winter energy supplies and price impacts, and seeks to ensure that accurate and timely information is available to businesses.</p> <p>Infrastructure</p> <p>2.338 The Government also seeks to facilitate the market delivery of new infrastructure to import oil and gas. A Parliamentary Statement of Need was tabled on 16 May 2006 setting out the context for the need for additional gas supply infrastructure – import facilities, storage and pipelines. This year has seen significant new import infrastructure (pipelines and LNG facilities) being delivered by the private sector. The most immediate projects are a further enhancement to the import capacity of the Bacton-Zeebrugge interconnector completed ahead of schedule in October 2006, the construction of the Langeled pipeline from Norway (which started flowing gas on 1 October 2006), the BBL (Bacton – Balgzand) pipeline from the Netherlands, commissioned on 1 December 2006, and the Teesside LNG (Liquefied Natural Gas) importation project which received its first cargo in February 2007.</p> <p>2.339 “Meeting the Energy Challenge” set out arrangements to publish a new Energy Markets Outlook to provide information on key drivers of energy supply and scenario-based analysis of the future demand-supply balance.</p>

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Plans for 2006-07	Progress April 2006 – May 2007
<p>Work with the EU to formulate EU energy policy, including encouraging market liberalisation overseas, and the creation of market mechanisms to deliver climate change goals; and internationally on security of supply and climate change</p>	<p>Energy liberalisation in Europe</p> <p>2.340 The energy market in continental Europe has become increasingly important to the UK as we move to increased import dependency, and the Government and Ofgem have continued to work with the European Parliament, the Commission and other Member States to promote efficient and effective competitive markets across the EU. The UK initiated the process of agreeing a common EU energy policy at the Hampton Court informal council during the UK presidency in 2005 – the publication in January 2007 of the EC’s Strategic Energy Review (SER), and the subsequent Spring European Council conclusions in March were major milestones in that process.</p> <p>2.341 With energy interdependence increasing, developing the global dialogue between producer and consumer countries through the biennial ministerial meetings of the International Energy Forum (IEF) is important in promoting greater market stability, transparency and understanding. The 10th International Energy Forum took place in Doha in April 2006 where we were able to exchange views about helping energy markets to function more effectively and where there was close engagement about the content and direction of policies on production and demand. Since the Doha meeting the UK has secured a seat on the Executive Board of the IEF Secretariat.</p> <p>2.342 The Russian Government set energy security as the priority for its G8 Presidency. Over the course of the negotiations the UK, working alongside our European partners, succeeded in securing agreement to the St Petersburg Statement on Global Energy Security Principles. This commits the G8 to open, transparent, and competitive energy markets based on equitable and stable legal and regulatory frameworks. The Secretary of State and Russian energy minister Viktor Khristenko agreed to establish a regular UK-Russia Energy Forum to promote joint work on issues of mutual interest such as energy efficiency and inward investment. The forum will also provide a means to support the EU’s common external energy policy by reinforcing EU messages towards Russia.</p>
<p>Through collaboration with industry, work to maintain strong investment, and additional North Sea exploration to maximise the economic benefit, and contribution to security of supply, from the UK’s coal, oil and gas reserves</p>	<p>North Sea investment</p> <p>2.343 “Meeting the Energy Challenge” re-states the commitment to work with industry to stimulate North Sea investment and activity, including assessment of the potential for establishing infrastructure West of Shetland and maintaining an appropriate fiscal regime to attract investment.</p> <p>2.344 The 24th Licensing Round awards were announced in February 2007, with continuing record numbers of oil and gas licences. Offers of 150 oil and gas exploration and production licences were issued to 104 companies covering 246 blocks – continuing the record numbers of licences issued last year.</p> <p>2.345 Latest figures show that 2006 was a significant year for discovering oil and gas – the highest level since 2001. It is estimated that the equivalent of at least half a billion barrels have been discovered in 2006 and around 40% of exploration wells have found potentially commercial oil and gas accumulations.</p> <p>2.346 This year the Government has also established the Coal Forum, which met three times, bringing together coal-fired generators, coal producers and suppliers, power plant suppliers, trade unions, small businesses and other parties in order to help them to find solutions, through improved communications and fact-based analysis, to secure the long term future of coal-fired power generation and UK coal production.</p>

Plans for 2006-07	Progress April 2006 – May 2007
<p>Ensure that the effects of significant disruptions to electricity, gas or oil (including petrol) supplies are minimised through effective emergency planning</p>	<p>Emergency planning</p> <p>2.347 A new Gas and Electricity National Emergency Plan (NEP) was published in August 2006. The Plan will be tested in a major cross-Government and industry energy emergency exercise in July 2007. Gas and electricity priority user arrangements are being updated.</p> <p>2.348 A strategic review of gas and electricity emergency arrangements and legislation is underway in conjunction with Ofgem, HSE and industry. A revised National Emergency Plan for Fuel is also being developed in conjunction with industry, local Government and others with an interest, drawing on the lessons learned from Exercise Gemini in May 2006, which simulated a national shortage of petrol and diesel. The Department will introduce later in 2007 a new Plan that is more flexible and quicker to implement than the previous arrangements.</p> <p>2.349 All our emergency planning work is a partnership with industry, regulators and other parties in the public and private sectors.</p> <p>2.350 The UK has international obligations to hold stocks of oil for use in the event of disruption. We are currently changing the basis of the UK system so that it is better placed to meet our obligations, which will increase in the long term as we import more oil as North Sea production declines.</p>
<p>Support Defra in seeking to eliminate fuel poverty in vulnerable households in England by 2010</p>	<p>Fuel poverty</p> <p>2.351 Please refer to PSA 4.iii above (page 94).</p>
<p>Continue, through the Energy Review, the full assessment of options to help the UK make further progress towards its medium and long-term energy policy goals and, following a period of extensive public consultation and stakeholder engagement, make a Government policy statement</p>	<p>2.352 The Government’s report on the Energy Review: “The Energy Challenge” was released on 11 July 2006. Subsequently a number of consultations were launched,¹³³ many of which helped formulate the Government’s position on a range of energy issues published in the Energy White Paper in May 2007.</p> <p>Nuclear energy</p> <p>2.353 Following a court judgement in February 2007, the Secretary of State also committed to conducting a new consultation on nuclear energy – this was published alongside the White Paper in May 2007.</p>

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Figure 2.24 Expenditure on secure sustainable energy (£ million)

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Plans
Sustainability and the Environment	32.3	57.5	68.5	73.1	82.9
<i>of which:</i>					
New and Renewables Barriers Busting	22.2	26.7	23.1	15.4	14.1
Sustainable Energy Capital Grant		13.1	24.8	12.8	58.8
Photovoltaic Grant Scheme		4.5	4.0	11.8	4.0
New and Renewables – Capital Grant	-5.1	3.5	10.0	27.1	0
Capital Modernisation Fund	10.2	3.3	0	0	0
Other	5.0	6.4	6.6	6.0	6.0
<i>of which:</i>					
Environmental Surveys	2.5	2.5	2.5	2.5	2.5
Chemicals Notification	0.5	1.0	0.7	0.7	0.7
Chemicals Notification – Appropriations in Aid	-0.6	-1.4	-0.7	-0.7	-0.7
Consolidated Policy Studies Programme	1.6	2.5	1.8	1.7	1.7
Offshore Aerial Surveillance	0.3	0.3	0.3	0.3	0.3
EU Emissions Trading Scheme	-	0.4	0	0	0
Innovation Group	0.7	1.1	2	1.5	1.5
Security of Energy Supply	9.1	36.5	24.4	9.5	6.5
<i>of which:</i>					
Oil and Gas Maximising Recovery	8.2	7.1	6.4	5.3	6.5
Coal Operating Subsidy	0.2	0.0			
Coal Investment Aid	0.4	29.3	18.0	4.1	
Energywatch	13.3	13.5	13.0	12.3	10.9
Licence Fee Receipts	-13.0	-13.4	-13.1	-12.3	-10.8
Nuclear Security and Export Control	60.6	54.6	61.2	50.3	54.4
<i>Of which:</i>					
Export Licensing via Internet Service (ELVIS) Project and Safeguards Support	1.7	3.1	0	0	0.8
Nuclear support to the former Soviet Union	42.1	35.3	38.7	31.8	32.2
International subscriptions (non-proliferation)	14.1	15.6	20.4	18.0	18.2
Emergency Planning Work	2.7	0.6	1.0	0.5	0.2
Civil Nuclear Police Authority			1.1	0	3.0

Notes:

- The total spend given here for each business plan objective corresponds with the total of the Resource DEL, Resource AME and Capital DEL spend given in tables 2 and 3 in section 6.3.
- The figures shown as 2007-08 plans reflect the original DTI budgets. These will be allocated to its successor departments created in June 2007 (BERR and DIUS, see section 1.1) in due course.



Section 2.8

Managing Government assets and liabilities

Introduction

2.354 In previous decades, many key parts of energy policy were centrally-directed through nationalised industries. As a result of this legacy, the Government continues to be responsible for significant energy assets and liabilities, including British Energy, the costs of civil nuclear decommissioning, as managed through the Nuclear Decommissioning Authority, and residual liabilities arising from the coal, steel and shipbuilding industries including coal health claims. It also, through the Shareholder Executive, manages shareholdings in a number of Government businesses, including Royal Mail, British Nuclear Fuel Plc (BNFL), the Royal Mint and QinetiQ.

2.355 The Shareholder Executive works with Government departments and management teams to help Government businesses perform better, ensuring that Government is an intelligent and professional shareholder. It also has a wider corporate finance role, for example examining and negotiating applications for support under regional and industrial assistance programmes.

2.356 The Department also works to ensure nuclear security and safety, through supervisory and regulatory activities to protect the public and international safety. Substantial technical assistance is also given to former Soviet Union and East European countries in addressing nuclear legacy issues, to reduce the global threat posed by the potential spread of weapons and materials of mass destruction.

Key achievements 2006-07

- **Nuclear Decommissioning Authority on target to continue to achieve annual 2% efficiency gains (see page 105)**
- **£2 billion paid in compensation to claimants under the COPD coal health scheme, with 420,000 claims (out of 592,000) having been settled (see page 109)**
- **More than 140,000 claims settled in full under the Vibration White Finger (VWF) compensation scheme (out of a total of 170,000) with a total of £1.4 billion having been paid in compensation (see page 109)**
- **G8 Partnership against WMD: completion to time and to cost of the £21 million nuclear facility at Atomflot, Murmansk (to secure some three tonnes of highly enriched nuclear fuel for up to 50 years) – see page 110**
- **£917 million increase in value of six Shareholder Executive businesses (see page 108)**
- **Finalisation of new financing framework for the Royal Mail letters business (see page 106)**
- **Announcement of investment package of up to £1.7 billion of funding for the Post Office network (see page 107)**

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SR04 PSA 11

Assessment of progress: not yet assessed

Nuclear Decommissioning Authority

“Reduce the civil nuclear liability by 10% by 2010, and establish a safe, innovative and dynamic market for nuclear cleanup by delivering annual 2% efficiency gains from 2006-07; and ensuring successful competitions have been completed for the management of at least 50% of UK nuclear sites by end 2008.”

2.357 The Nuclear Decommissioning Authority (NDA) was established on 1 April 2005 under the Energy Act 2004. The NDA is charged with cleaning up the UK’s historic civil nuclear legacy at its sites safely, securely, cost effectively and in a manner that safeguards the environment for this and future generations. The NDA has developed the first ever strategy for tackling the legacy.¹³⁴ The programme is challenging and long term (over a hundred years). Civil liabilities were estimated by the NDA at £62.7 billion (undiscounted) and £30.6 billion (discounted) as of 31 March 2006.

2.358 The NDA has a statutory duty to provide support to communities near its sites and promote activities that benefit the social and economic lives of the communities.

2.359 The NDA is now a key player in the nuclear industry and is respected as an open and transparent organisation deploying innovation and engineering excellence.

Current position

2.360 The PSA applies to the Nuclear Decommissioning Authority (NDA). The PSA requires the NDA to:

- from 2006-07 deliver efficiency gains of 2% by means of a dynamic market in nuclear clean up;
- by 2008 – ensure successful competition of 50% of NDA sites; and
- by 2010 – reduce civil nuclear liability by 10%.

2.361 The PSA target is to be redrawn as part of the CSR 07 process in order to better reflect the reality of the NDA’s operations.

2.362 Only one of the three elements of the PSA target is active – that for efficiency gains of 2% per annum with effect from 1 April 2006. The NDA planned and achieved a 2% efficiency gain twelve months early as demonstrated by end year audited results for 2005-06. The NDA is reporting that it is on target this year and predicts the efficiency gains at the end of the 2006-07 financial year will be about £40 million out of a total NDA budget of £2.2 billion.

2.363 The NDA has set out its proposals for achieving site competitions in its approved strategy.¹³⁵ This aspect of the target does not become active until 2008. Its relevance will be considered as part of the proposed review of the PSA.

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2.364 A key task for the NDA is to determine the final cost of the historic civil nuclear liability (legacy). The NDA is undertaking this by means of a management tool known as the Life Time Plan (LTP) which replaces the earlier systems in place prior to its set up. The annual LTP process sets out the complete range of activities that will need to be undertaken at each of the NDA's sites to bring them to their proposed end states. This can be said to represent the cost of the NDA's mission (i.e. its duties and responsibilities, including the running of its commercial operations). The data from individual sites' LTPs is combined to provide a national figure for the historic liability. The NDA is working to deliver a definitive liability figure by March 2008. The legacy should eventually be less than this if the NDA can succeed in driving it down through the introduction of competition in site clean up. This aspect of the PSA will also be subject to review.

2.365 The NDA manages efficiency gains through the fee mechanism in its contracts for site clean up. Contractors are required to deliver 7% efficiencies in order to access 5% fee bonus.

Business plan objective: managing Government assets and liabilities

2.366 The Department's challenge is to deliver safe, economic and efficient management of Departmental (and, where relevant, Government) assets and liabilities. The Shareholder Executive's mission is to work with Government Departments and management teams to improve fundamentally the Government's performance as a shareholder and to provide a source of corporate finance expertise within government.

2.367 The National Audit Office published its report "The Shareholder Executive and Public Sector Businesses" on 28 February 2007.¹³⁶ The NAO concluded that the Shareholder Executive provides value for money and has improved the way in which the Government acts as a shareholder.

Royal Mail

2.368 The Department finalised a new financing framework for the Royal Mail letters business at the end of the year. The framework, which the Secretary of State confirmed on 26 March 2007 via written statement to Parliament, provides Royal Mail with the financial freedom to manage its pensions deficit and to invest to improve performance and efficiency. This is a vital package of support from the Government for the business in a time when it faces the difficult challenges of declining mail volumes, increasing competition, management of its large pension deficit and the need to modernise and transform its operations to secure the efficiency savings required under the latest regulatory settlement. The Government has provided the financial framework for Royal Mail that it needs to secure its future success.

2.369 The agreed package comprises loan facilities to be provided by the National Loans Fund of £900 million, replacing and increasing the package agreed in 2002, and a further shareholder loan facility of £300 million to provide the company with adequate financial headroom. The package also includes the transfer of £850

million of reserves held by Royal Mail into an escrow account to support its pension fund. All financing will be provided on commercial terms.

The Post Office

2.370 On 14 December 2006 the Department launched a 12-week national consultation (administered by the Shareholder Executive) on proposals for the future of the Post Office network. The consultation closed on 8 March 2007 having attracted some 2,500 responses. The Department published its response document on 17 May 2007, after the period covered by this report. Publication was coupled with the Secretary of State's announcement of a package of funding worth up to £1.7 billion up to 2011 for the Post Office network, subject to EC State Aid clearance, with investment, stronger protections for local communities and more Outreach services very much at its heart.¹³⁷

2.371 Post offices play an important social and economic role in the communities they serve, but with widespread acceptance that the current size of the network is unsustainable (with losses rising to £4 million every week), the package of investment demonstrates the Government's commitment to maintaining a national network allowing people to have reasonable access across the whole country. The package will enable Post Office Ltd to strategically reshape the network to place it on a stable footing and includes the compensated closure of a maximum of 2,500 branches, partly offset by 500 new Outreach sites and the introduction of minimum access criteria, as well as up to £150 million a year support for the social network.



Customers at the Post Office

Corporate Finance

2.372 In this role over the last year, the Shareholder Executive continued to lead Government involvement in Bombardier Aerospace (an application for launch investment in connection with the proposed C Series aircraft) and Airbus (also an application for launch investment¹³⁸ in connection with the A350).

Plans for 2006-07	Progress in 2006-07
<p>Enhancing the value of six of the Shareholder Executive's portfolio companies (Royal Mail, Royal Mint, British Nuclear Fuels plc, QinetiQ, NATS and CDC) by £1bn by 2007 by improving the professional management of those businesses</p>	<p>Shareholder Executive portfolio</p> <p>2.373 The value of the businesses increased £917 million in 2005-06, bringing the aggregate total at the end of the second year of the three year review period to £2.6 billion (2006-07 data will become available later this year when the annual reports of these businesses for 2006-07 will be published). The 2005-06 performance was driven by strong contributions from BNFL, NATS and CDC offset by a reduction in value at Royal Mail as it produced a lower economic profit than the previous year. Although the Royal Mint again produced an economic loss in the year, the loss was smaller than in 2004-05 and hence value increased. Overall, whilst this represents a further significant value enhancement, it is still too early to say that the £1 billion target has been achieved on a sustainable basis.</p> <p>2.374 The current £2.6 billion takes no account of the challenges that several of the businesses face in the final year. In particular, 2006-07 was the first full year of new regulatory price control settlements for both Royal Mail and NATS that demand stretching efficiency savings. However, this will in part be offset by the value realised from the \$5.4 billion sale of BNFL's subsidiary, Westinghouse, to the Toshiba Corporation which completed in October 2006.</p>
<p>Continuing to emphasise quality of service and efficiency delivery in these businesses</p>	<p>2.375 This year Royal Mail posted its best ever annual quality of service results. Overall 11 of the 12 service targets set for the business in its licence were achieved or surpassed. First Class mail was 1% above target at 94% of letters arriving next day and Second Class mail was 0.4% above target recording 94.9% of mail delivered within three days. Royal Mail's business mail services which performed above target included Mailsort (for bulk mailers), Presstream (for publishers) and Postage Paid Impression "PPI" (for mail posted in pre-paid envelopes). Standard parcels also performed at their highest level since records began, 4.5% above target at 94.5%.</p>
<p>Applying professional expertise to other businesses owned by Government in order to improve value</p>	<p>2.376 The Shareholder Executive continued to expand its portfolio of government businesses in the year. It now works with 27 Government businesses, responsible to 12 Government departments. Following the transition of the Forensic Science Service from an executive agency to a government company, 100% owned by the Home Office, it was asked to establish a joint team to manage the Department's shareholder interests. The Shareholder Executive also agreed a remit with the Scottish Executive to advise on its shareholder interests in Scottish Water, and with the Department for Communities and Local Government in relation to the Ordnance Survey and QEII Conference Centre.</p>
<p>Ensuring that the Nuclear Decommissioning Authority (NDA) makes progress towards the PSA target of reducing the civil nuclear liabilities by 10% by 2010</p>	<p>2.377 See PSA 10 above (page 77)</p>

Plans for 2006-07**Progress in 2006-07**

Effective management of the health and concessionary coal schemes (including lung disease, vibration and knee injuries schemes) and shipbuilders' liabilities

2.378 The Department is responsible for two schemes to compensate coal miners and their families in relation to Chronic Obstructive Pulmonary Disease (COPD) and Vibration White Finger (VWF). These are the biggest personal injury schemes in British legal history.

2.379 See also Notes 33 and 34 in the Accounts (section 5.6) for an overview of liabilities.

Chronic Obstructive Pulmonary Disease

2.380 Under the COPD scheme, the Department has registered 592,000 claims. £2 billion has been paid in compensation to claimants, with 420,000 claims having been settled. Nearly 296,000 post medical assessment process offers have been made, and 166,000 fast track offers. The COPD scheme is due to complete by Spring 2008.

Vibration White Finger

2.381 The total number of claims received under the Vibration White Finger (VWF) compensation scheme is 170,000, including about 24,000 deceased claims. More than 140,000 claims have been settled in full and 104,000 interim payments have been made, with a total of £1.4 billion having been paid in compensation. The Department aims to complete delivery of the VWF compensation substantially by Autumn 2007.

National Concessionary Fuel Scheme

2.382 The National Concessionary Fuel Scheme provides concessionary solid fuel (or cash in lieu) to former employees of the British Coal Corporation and, at the end of 2006, there were 105,341 beneficiaries in the Scheme. 24,121 beneficiaries took their entitlement as solid fuel and the remainder as cash in lieu.

British Shipbuilders Corporation

2.383 The Department is also responsible for managing the settlement of personal injury liabilities arising from the former employees of the British Shipbuilders Corporation on behalf of the Government. British Shipbuilders Corporation, the former nationalised shipbuilding company, still exists under statute even though the shipyards were sold off during the 1980s. Following a review of the Corporation's liabilities, and an increased likelihood of asbestos related claims from former employees, the Department has taken on the future liabilities of asbestos related claims in line with a Minute to Parliament in 1988 (at the time of re-privatisation) that the Government would meet any financial obligations arising from the Corporation in the future.

Coal Authority

2.384 The Coal Authority continued to discharge its statutory obligations in respect of subsidence and surface damage arising from historic coal mining, and to progress its national programme of minewater treatment. In October 2006, in conjunction with the British Geological Survey, it successfully launched the Ground Stability Report, a new product which provides the public with comprehensive information on natural subsidence as well as coal mining issues relevant to properties.

Business plan objective: nuclear security and safety

2.385 The Department works to ensure nuclear security and safety, through supervisory and regulatory activities to protect the public and international safety. Substantial technical assistance is also given to Former Soviet Union and East European countries in addressing nuclear legacy issues, to reduce the global threat posed by the potential spread of weapons and materials of mass destruction.

Plans for 2006-07	Progress in 2006-07
<p>Contribute to meeting the UK's international non-proliferation obligations while minimising the impact on UK organisations (including business)</p>	<p>Non-proliferation</p> <p>2.386 The UK has continued to cooperate fully with the International Atomic Energy Agency (IAEA) and European Commission on the application of nuclear safeguards to the UK, and with the Organisation for the Prohibition of Chemical Weapons (OPCW) on the application of the Chemicals Weapons Convention to the UK Chemical Industry. Reporting requirements to all organisations have been met in full, and on time. The Department has played a major part in the development of new approaches to inspections in all organisations, and industry and academia have been kept informed.</p> <p>2.387 The nuclear safeguards function was moved from the Department to the Health and Safety Executive as of 1 April 2007.</p>



Building 5 (centre) interim SNF store at Atomflot, Murmansk, NW Russia

Deliver the UK Nuclear Component of the G8 Global Partnership Against the Spread of Weapons and Materials of Mass Destruction

2.388 The Department manages, on behalf of the Government, a £32.2 million annual programme to address nuclear cold war legacy issues in the Former Soviet Union (FSU). The programme is part of a G8 initiative to reduce the global threat posed by the spread of weapons and materials of mass destruction, and the Prime Minister has committed up to £500 million to this work over the period 2003-13.

2.389 The UK has put in place a more effective and efficient framework to ensure the Government can respond to new proliferation threats that may arise in the future. As part of this, a Ministerial Board has been established, responsible for providing strategic direction to ensure all projects continue to meet the Government's WMD counter-proliferation objectives.

Plans for 2006-07

Progress in 2006-07

2.390 As well as ensuring our own programme frameworks are robust and capable of dealing effectively with new challenges, we have provided assistance to other donor countries to help them progress projects associated with submarine dismantling, scientist redirection and chemical weapon destruction. For example, Norway has asked the UK to lead our joint project to dismantle a further nuclear submarine, and will provide some £2 million for the work; Royal Navy salvage experts have provided technical assistance to enable Norway to move a 40-year-old Russian nuclear submarine safely to a shipyard, where it will be dismantled, with funds from the UK and Norway. The confidence that other donors place in the UK to deliver projects and provide advice demonstrates clearly the professional competence of the UK in dealing with these complex and high risk issues.

2.391 Among the successes in delivering the UK programme is completion to time and to cost of the £21 million nuclear facility at Atomflot, Murmansk. This facility will secure some three tonnes of highly enriched nuclear fuel for up to fifty years, until a technical solution is available for its long-term disposal or reprocessing. An evaluation of the UK's Global Partnership programme by Chatham House (Royal Institute of International Affairs) found that the UK programme was well focused and making a significant impact on addressing the priorities identified by leaders at the G8 Kananaskis summit in 2002.

2.392 Further details of the programme can be found in the latest Annual Report.¹³⁹

Continue to improve the UK's framework for the effective and proportionate regulation of nuclear safety and security

Office for Civil Nuclear Security

2.393 Security in the civil nuclear industry is regulated by the Office for Civil Nuclear Security (OCNS), whose activity is governed by the Nuclear Industries Security Regulations 2003 (NISR 03). The Regulations were amended in November 2006, in order to close a gap that had been identified with regard to the duty to protect sensitive nuclear information. Work is also currently underway to complete the three-year review of the general effectiveness of the Regulations. The Director of OCNS publishes an annual report on the state of security in the civil nuclear industry and the effectiveness of regulation. Unauthorised access onto a licensed nuclear site was made a criminal offence in the Terrorism Act 2006. The 2006 report can be found on the Department's website.¹⁴⁰

2.394 The OCNS was transferred to the Health and Safety Executive as of 1 April 2007 and is no longer a DTI body.

Civil Nuclear Constabulary

2.395 Where required, an armed response at nuclear sites is provided by the Civil Nuclear Constabulary (CNC). Deployment of CNC Support Units to nuclear generating sites has been successfully completed. Exercises to test nuclear sites' emergency preparedness occur frequently, and usually involve local emergency services and local Government bodies.

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Figure 2.25 Expenditure on managing Government assets and liabilities (£ million)

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Plans
Total Resource DEL	446.9	728.6	1,213.7	1,568.3	1,710.0
<i>of which:</i>					
Nuclear Decommissioning Authority	0	0	796.1	1,096.0	1,061.5
UKAEA	330.0	347.4	4.7	10.3	15.0
British Energy – Historic Liabilities	4.9	185.2	189.0	196.4	200.0
Coal Authority	39.7	37.9	37.0	21.9	25.5
Other Coal	11.9	55.9	64.6	150.4	7.1
ECGD	0.0	0.0	5.0	5.0	0.0
Post Office	67.7	73.9	21.8	82.0	396.0
Other	-7.3	28.2	95.4	6.2	4.9
Total Resource AME	956.2	-830.4	-263.3	-64.5	-696.9
<i>of which:</i>					
Health claims and associated expenditure – non cash	775.5	-315.5	-176.8	83.2	32.8
<i>Of which: increase/decrease in provision</i>	864.4	-239.3	-138.1	87.3	13.5
<i>Cash expenditure (excluded from resource cost)</i>	926.1	873.2	1,036.7	823.5	744.3
Coal Privatisation – indemnities – non cash	34.4	-0.6	4.2	-3.7	-0.4
<i>Cash expenditure (excluded from resource cost)</i>	11.2	14.0	2.0	1.0	9.5
Coal privatisation – Avenue Cokeworks – non cash	0	8.4	-2.7	-0.4	-0.3
<i>Cash expenditure (excluded from resource cost)</i>	0	0	1.1	1.0	8.0
BNFL/Magnox decommissioning – non cash	202.3	169.8	-93.7	0	-429.2
<i>Cash expenditure (excluded from resource cost)</i>	0	0	0	0.0	0
Managing Nuclear Liabilities	-55.6	-689.3	5.9	-121.4	-384.4
<i>of which:</i>					
UKAEA Decommissioning – non cash	-179.4	-584.2	17.4	-7.0	-213.0
<i>Cash expenditure (excluded from resource cost)</i>	0	0	1.3	0	0
British Energy – non cash	123.8	-105.1	-11.5	-114.4	-171.4
Post Office restructuring	0	0	0	0	68.0
Other	-0.4	-3.1	-0.1	-22.2	16.8

Notes:

- Under the Energy Act 2004, the NDA have taken on responsibility for expenditure on the Civil Nuclear Legacy, and from 2005-06 these liabilities will feature on the NDA Balance sheet
- Figures for Post Office include expenditure between 2003-04 and 2005-06 on Post Office Ltd's Urban Regeneration Programme
- See page 102 for spend on nuclear security and safety.
- The total spend given here for each business plan objective corresponds with the total of the Resource DEL, Resource AME and Capital DEL spend given in tables 2 and 3 in section 6.3.
- The figures shown as 2007-08 plans reflect the original DTI budgets. These will be allocated to its successor departments created in June 2007 (BERR and DIUS, see section 1.1) in due course.

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