

Lisbon Strategy for Jobs and Growth

UK National Reform Programme

October 2005

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INTRODUCTION

Prioritising jobs and growth

I.1 In March 2005, the European Council agreed to relaunch the Lisbon agenda to focus more sharply on the key priorities of jobs and growth. Subsequently, the new Integrated Guidelines package, endorsed by the European Council in June 2005, identified the key challenges facing the EU as a whole. Member States now have the opportunity to identify their own priorities and share best practice in meeting the challenges through their National Reform Programmes. The UK National Reform Programme details the challenges currently facing the UK economy, and sets out the Government's strategy for delivering long term sustainable growth, high employment and a fair and inclusive society.

Global economy – the challenges we face

I.2 The dominant feature of the world economy in the next decade will be the increasing pace of change and the expanding reach of global markets into national economies. Government has a crucial role to play in responding to and addressing these challenges. It must establish stable macroeconomic foundations that are robust to shocks. It needs to invest in public infrastructure and public services. It needs to promote flexibility in labour, product and capital markets and facilitate research and innovation so that individuals and firms can seize new opportunities. And it must provide a modern and flexible welfare state that opens up opportunity to all, protects the vulnerable, and enables individuals to make the transition into new areas of economic activity. The challenge must be met within the wider context of sustainable development¹.

UK Government approach

I.3 The UK Government is undertaking a comprehensive programme of long term reform to deliver strong economic performance and employment growth now and in the future. The Government's priorities are:

- entrenching macroeconomic stability in the face of a more integrated global economy where shocks in one part of the world can be rapidly transmitted to other regions, and maintaining fiscal sustainability in the face of the long-term demographic challenges facing all developed economies. This will give domestic and foreign businesses and individuals the continuing confidence to invest in both physical and human capital;
- ensuring fairness through a modern and flexible welfare state that provides security for people when they need it and provides strong incentives to work and save, at a time when the pace of change in the global economy will be ever quicker and more intense. This includes providing flexibility and choice in balancing work and family commitments, enabling women to participate fully and equally in the labour market, and focusing support on those sections of society who face the greatest barriers to work;
- building an enterprising and flexible business sector that is the best in the world, where firms can succeed and exploit the opportunities presented by a more open and competitive global economy;
- promoting innovation to ensure the UK is a world leader in turning scientific research into business innovation, at a time of increasing rewards to innovation and given the growing importance of knowledge driven industries in the world economy. This will require sustained investment in the science base and action to address barriers to the diffusion and adoption of new ideas;

¹ The UK's Sustainable Development Strategy sets out the wider long term agenda, shared between the UK Government and the Devolved Administrations, based on the principles of living within environmental limits; ensuring a strong, healthy and just society; achieving a sustainable economy; promoting good governance; and using sound science responsibly.

- opening up the acquisition of skills for all, so that the UK has the right skills mix as it seeks to move into more innovative sectors and businesses, at a time of rising skill levels across the world economy. This will ensure that everyone in the workforce has the skills necessary to take higher value-added jobs and the flexibility to retrain and adapt to new technologies and innovation; and
- increasing innovation and adaptability in the use of energy and resources and promoting low-carbon sources of energy, at a time when pressure on global energy and other resources are rising. The challenge – for the UK and internationally – is radically to improve resource efficiency, helping both to boost business competitiveness and break the link between economic growth and environmental degradation.

1.4 The UK Government consults widely with national, regional, local and sectoral stakeholders in developing proposals for structural economic reform. The Government's Pre-Budget Report, published annually ahead of the Budget, is an important vehicle for updating and informing key stakeholders on the Government's overall economic reform strategy and for consulting on new policy proposals, while the Financial Statement and Budget Report includes a comprehensive description of new and existing policy reforms. The IMF has praised the high degree of transparency in the UK policy-making process. The measures set out in the UK's National Reform Programme have been subject to scrutiny and consultation in accordance with this model. Development of the National Reform Programme has also benefited from the involvement of key stakeholders, many of whom submitted detailed observations and recommendations for economic reform in the UK.

Promoting jobs and growth: a forward looking agenda for reform

The Lisbon goals will only be met if there is a real commitment in all Member States to respond to the challenges facing the European economy. The UK has implemented a comprehensive programme of reform to promote stronger productivity growth and higher employment, underpinned by substantial increases in investment in public services and a macroeconomic framework designed to deliver long-term economic stability. These reforms have helped to deliver a successful economy which is currently experiencing its longest unbroken expansion on record – GDP having grown for 52 consecutive quarters and an employment rate of 71.6 per cent. To ensure the UK economy remains competitive in the face of increased global competition the Government is continuing its programme of stability and reform:

Macroeconomic policies for jobs and growth

Maintaining macroeconomic stability in the face of a more integrated global economy, including by:

- continuing to meet the Government's fiscal rules;
- establishing world-class public services, with extra investment tied to reform and results to ensure taxpayers receive value for money, and with £20 billion of efficiency savings to be recycled to frontline services by 2007-08; and
- continuing to ensure long-term fiscal sustainability and address the challenges of an ageing population, while ensuring that the incomes of the poorest pensioners continue to improve and equipping today's workers to make informed choices about preparing for retirement.

Promoting productivity growth

Strengthening the five drivers of productivity, including by:

- implementing a package of radical reforms to tackle the burden of regulation on business while maintaining standards of protection for the public, including by adopting a risk-based approach to inspection and enforcement, streamlining regulatory structures in order to reduce the costs to business of administering regulation, and setting new targets to reduce the burden over time;
- further support for enterprise through the launch of Enterprise Capital Funds to improve access to finance for high growth small businesses, and introducing a Local Enterprise Growth Initiative to promote enterprise in disadvantaged areas;
- implementing the Science and Innovation Investment Framework to realise the ambition that UK public and private investment in R&D will reach 2.5 per cent of GDP by 2014;
- further steps to reform the investment chain, including taking forward the Morris Review recommendations to promote greater competition in the market for actuarial services and to strengthen the regulation of the actuarial profession;
- raising skills levels in the workforce by increasing participation in education at age 17 from 75 per cent to 90 per cent over the next 10 years, increasing participation in higher education for those aged 18 to 30 towards 50 per cent by 2010, ensuring 2.25 million adults improve their basic skills, and reducing the number of adults in the workforce without a level 2 (upper secondary) qualification by 40 per cent;
- promoting effective market-based policies to encourage ICT usage by business and public authorities and its closer integration into business processes; and
- using the Business Resource Efficiency and Waste (BREW) Programme, valued at £284 million over three years from 2005, to create more profitable businesses through minimised waste and more efficient use of materials, water and energy.

Increasing employment opportunity for all

Working towards the aspiration of an 80 per cent employment rate and the aim of employment opportunity for all, including by:

- completing the roll-out of Jobcentre Plus offices in 2006, which successfully combine the delivery of benefits and active labour market support, to around 900 offices in England, Scotland and Wales;
- extending the successful Pathways to Work pilots to one third of Incapacity Benefit claimants by October 2006 in order to help more Incapacity Benefit recipients into the labour market; and
- improving the supply of affordable childcare by extending the network of Sure Start Children's centres to 2,500 across the country by 2008, rising to 3,500 – one for every community – by 2010; putting a statutory duty on Local Authorities to secure sufficient childcare provision for their community; and offering access to childcare for children aged 3-14, from 8am to 6pm on each weekday throughout the year by 2010.

2

MACROECONOMIC STABILITY FOR JOBS AND GROWTH

Macroeconomic stability

2.1 The UK's macroeconomic framework is designed to maintain long-term economic stability². Large fluctuations in output, employment and inflation add to uncertainty for businesses, consumers and the public sector, and can reduce the economy's long-term growth potential. Stability allows businesses, individuals and the Government to plan more effectively for the long term, improving the quality and quantity of investment in physical and human capital and helping to raise productivity.

2.2 The challenge for the UK Government in the next decade is to entrench macroeconomic stability in the face of a more integrated global economy where shocks in one part of the world can be rapidly transmitted to other regions, and to maintain fiscal sustainability in the face of long-term demographic changes.

Monetary policy **2.3** The UK's macroeconomic framework is based on the principles of transparency, responsibility and accountability³. The monetary policy framework seeks to ensure low and stable inflation through full operational independence for the Bank of England's Monetary Policy Committee to set interest rates to meet the Government's symmetrical inflation target. The UK's monetary policy framework is recognised by international commentators as close to, if not at, world best practice⁴.

Fiscal policy **2.4** Fiscal policy is based on the principles set out in the Code for Fiscal Stability⁵ and is underpinned by two strict rules that ensure sound public finances over the medium term. The fiscal rules are the foundation of the Government's public spending framework, which facilitates long-term planning and provides departments with the flexibility and incentives they need to increase the quality of public services and deliver specified outcomes. The fiscal rules are:

- the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
- the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.

2.5 The domestic stability delivered by the Government's macro-economic framework puts the UK in a strong position to respond to the global challenges and opportunities of the next decade. The UK economy grew continuously throughout the recent global downturn and was the only G7 economy not to experience contraction in output in any quarter over this period. It is currently continuing its longest unbroken expansion since quarterly national accounts data began, with Gross Domestic Product (GDP) having grown for 52 consecutive quarters. The framework has also allowed for sustained investment in public services.

² For further details on the UK macroeconomic framework see Chapter 2 of the 2004 Pre-Budget Report.

³ For further details see *Reforming Britain's economic and financial policy*, HM Treasury, 2002.

⁴ For example, Eijffinger and Geraats (2002) rank the United Kingdom's framework as second only to New Zealand based on a number of measures of transparency. Fracasso et al (2003) rank the Bank of England's quarterly Inflation Report as the highest among similar reports of world central banks.

⁵ For further details on the fiscal policy framework see the Code for fiscal stability, HM Treasury, November 1998.

The public spending framework

2.6 The Government's aim is to deliver world-class public services through sustained investment and ongoing reform, with a programme designed to improve outcomes, ensure value for money and strengthen accountability.

Spending Review 2.7 Spending Reviews set firm and fixed three-year Departmental Expenditure Limits (DEL) for each government department. The Budget preceding a Spending Review sets an overall envelope for public spending for the period covered by the Spending Review that is consistent with the fiscal rules. The Treasury then allocates three year DELs to each department. Successive Spending Reviews have targeted resources at the Government's priorities, have matched these resources with reforms, and have set ambitious targets for improvements in key public services.

Public Service Agreements 2.8 Public Service Agreements (PSAs) set clear outcome-focused targets for public service delivery each major government department. The introduction of PSAs in 1998 established a new high-level performance framework for improving public service delivery. They reflect a change in the focus of the public expenditure system, away from measuring success in terms of the conversion of resource to inputs, to defining measurable outcomes that the public could expect from departmental expenditure. PSAs are agreed alongside resources as part of Spending Reviews and departments are accountable for their delivery. PSAs have been developed and refined over successive Spending Reviews giving greater focus to the Government's highest priorities.

Box 2.1 Second Comprehensive Spending review

In 1997, the Government launched a Comprehensive Spending Review (CSR). The CSR was a fundamental examination of government spending and priorities. Subsequent Spending Reviews in 2000, 2002 and 2004 have built on the objectives, reforms and priorities first established in the CSR. With the start of the next spending review period coming a decade after the CSR, the Government is now launching a second Comprehensive Spending Review, to examine what the investments and reforms initiated to date have delivered and what further steps must be taken to ensure that the UK is fully equipped to meet the challenges of the decade ahead. This review will:

- take a zero based approach to assessing the effectiveness of departments' existing spending in delivering the outputs to which they are committed;
- examine the key long-term trends and challenges that will shape the next decade and assess how public services will need to respond; and
- look at how the public expenditure framework can best embed and extend ongoing efficiency improvements and support the long-term investments needed to meet these challenges.

Public Sector efficiency 2.9 In Budget 2003 the Government announced an independent review into new ways of providing departments, their agencies and other parts of the public sector with incentives to exploit opportunities for efficiency savings, so releasing resources for front line public service delivery. Sir Peter Gershon, a former Chief Executive of the Office of Government Commerce, led the review, and his report was published alongside Spending Review 2004.

2.10 Separately, Sir Michael Lyons, previously the Chief Executive of three major local authorities, was asked to undertake an independent study into the scope for relocating a substantial number of public sector activities from London and the South East of England to other parts of the United Kingdom. His report was published in March 2004, and followed up in November 2004 by a further report on better management of public sector assets.

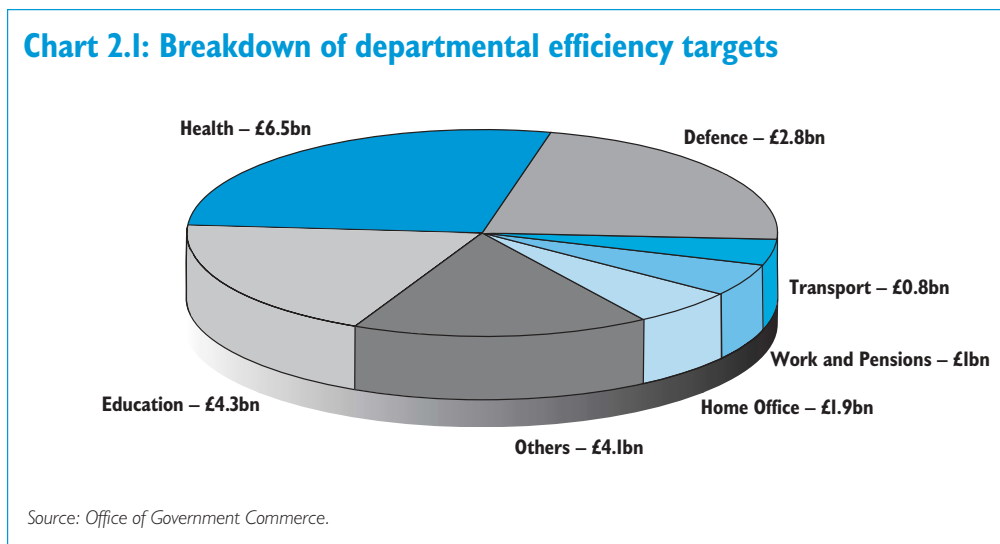
2.11 The Government accepted the recommendations of the Gershon Review on Public Sector Efficiency and the Lyons Review on Public Sector Relocation. The 2004 Spending Review therefore set targets for all government departments to ensure the implementation of the recommendations. These targets amounted to:

- over £20 billion of annual efficiency gains by 2007-08, to be retained by departments for reinvestment into front line services;
- 84,000 gross headcount reductions in civil service and administrative posts by 2007-08 (around 70,000 net taking account of posts redirected to front line); and
- the relocation of 20,000 staff out of London and the South East by 2010.

2.12 Additionally, the Government is taking forward Sir Michael Lyons’ recommendations for securing £30 billion of assets sales by 2010, and is also seeking to reduce the estimated £4 billion annual cost of sickness absence in the public sector.

2.13 The Government’s objective is to release resources out of activities that can be undertaken more efficiently and to reinvest those resources into priority front line public services. Approximately half of the efficiency gains will be in cash savings and half will represent a direct increase in service output – for example, by freeing up the time of public service providers. Administration budgets are capped at the 2005-06 nominal level for the remainder of the Spending Review 2004 period and by 2008 will reach a record low as a percentage of total spending.

2.14 Chart 2.1 shows where the £20 billion of annual efficiency gains will be achieved by 2007-08:



2.15 About £6.5 billion of the £20 billion efficiency targets will be delivered through local government. The Gershon Review identified five areas where there was greatest potential for efficiency gains:

- procurement – improving the value of the goods and services bought by government;
- productive time – enabling public servants to spend more time providing a service to the public and meeting customers' needs;
- policy, funding and regulation – driving up performance in public services through more effective strategy, evidence-based policy, focused inspection and regulation;
- corporate services – reducing government running costs in areas such as human resources, IT support and finance; and
- transactions – streamlining major processes including tax and benefit administration, to make them faster and more accessible.

Early delivery 2.16 Significant progress has already been made, including:

- £2 billion of efficiency gains already delivered;
- 12,500 headcount reductions from efficiencies, freeing up resources for further investment in front line staff; and
- 4,300 Civil Service posts relocated away from London and the Greater South-East, with posts going to every region in England as well as to Scotland and Wales.

Investing in public services

Health 2.17 Government expenditure on health since 1997 has more than doubled, to over £76 billion in 2005-06. In 2004, there were over 27,000 more doctors and over 78,000 more nurses working in the National Health Service than in 1997. Increased resources have led to 330,000 fewer patients waiting for treatment. Maximum waiting times for an operation have halved, from 18 months in 1997 to nine months in April 2004, while health outcomes have also improved – premature deaths from heart disease and cancer have fallen by 27 per cent and 12 per cent respectively.

Education 2.18 The Government has also committed record levels of investment to education, and expenditure on UK education is projected to rise to 5.6 per cent of GDP by 2008. Since 1997, schools have 32,500 more teachers and 82,100 more teaching assistants. Budget 2005 announced increased investment in primary schools and further education, and continued investment in ICT in education. There has been consistent improvement in attainment at all levels, while 2004 GCSE results show that the fastest improvements are in areas of deprivation and historical low achievement. Progress is also being made towards closing gaps in attainment between different groups – Pakistani, Bangladeshi and black pupils made the greatest progress in GCSE results last year.

Transport 2.19 Total investment in transport infrastructure, public and private, has nearly doubled since 1997. The Government is now spending over £260 million each week to improve transport in the UK, an increase of 43 per cent over the last three years:

- the Public Private Partnership modernisation contracts will now release £16 billion over the next 15 years for the largest ever improvement programme planned for London Underground;
- the first phase of the new Channel Tunnel Rail Link was completed to budget and on time in September 2003. Stage 2 is proceeding ahead of schedule and is due for completion in 2007;
- investment in railways has trebled, with £1 billion of new rolling stock introduced since April 2001 and a further £2 billion worth of rolling stock on order; and
- the total cost of Olympic specific transport schemes amounts to £695 million, contributing to schemes such as the Channel Tunnel rail link domestic services, new rolling stock, and tube improvements to help deliver a sustainable Olympic transport strategy in line with the Government's wider transport and regeneration plans.

E-Government 2.20 The Government is committed to providing services, where appropriate, through the Internet or other electronic media for the benefit of both citizens and business. Over recent years there have been unprecedented levels of investment in IT – 2004 IT spend levels, for example, were around £14 billion across the UK public sector – and this investment is directly supporting electronically enabled frontline services. In the autumn of 2005 the Government will launch a new strategic approach to delivering services making optimal use of new technologies so as to make a real difference to businesses and citizens.

Pensions

Long-term fiscal sustainability 2.21 The Government is determined to ensure that fiscal policy is sustainable in the long term. Long term fiscal projections and analysis are presented in each Budget and in the Long-term public finance report, published alongside each Pre-Budget Report. The latest report demonstrates that the UK fiscal position is sustainable in the long-term on the basis of current policies and that the UK is in a strong position relative to many other developed countries to face the challenges ahead.

Pensions reform 2.22 Nonetheless, in common with most EU Member States, the UK faces demographic pressures. Under current projections the old-age dependency ratio (the number of people aged 65 years and over relative to the number of people aged 16 to 64 years) will rise from around 25 per cent today to 40 per cent in the early 2030s and then further to around 45 per cent by the middle of the century.

2.23 Demographic changes, and in particular changes in the working-age population, are likely to affect the long-term growth potential of an economy. The sustainability of the public finances will also be affected by future trend economic growth, which depends on labour market developments and productivity growth. Potential increases in age-related spending, especially on pensions, could have important implications for the long-term fiscal sustainability of the UK's economy. The Government's approach is to safeguard economic

stability, through a pensions system that is fiscally sustainable in the long-term, whilst also ensuring adequate pension provision, most notably by alleviating poverty among today's pensioners. On current projections the poorest pensioners will continue to share in the rising prosperity of the nation, while government expenditure on pensions is set to increase only moderately, from just over 5 per cent of GDP now to almost 6 per cent by 2050, comparing favourably with the substantial projected increases in a number of other Member States.

2.24 As set out in the 2002 Pensions Green Paper⁶, the UK Government is committed to providing a clear and sustainable framework for retirement provision within which individuals can make effective choices about how much to save and when to retire. The measures in the Green Paper have since been developed and taken forward through legislation and the publication of *Informed choices for working and saving*. The Government's policies aim to deliver:

- **a guarantee of a decent minimum income in retirement** – provided by the state and below which no pensioner need live;
- **transparency** – the Government's Informed Choice programme is helping people to make informed and effective choices about working and saving for their retirement;
- **simplicity** – the Government is simplifying the tax regime for pensions, and ensuring that people have access to simple and flexible savings products;
- **security** – the Pension Protection Fund and a new pro-active regulator will improve protection for members of occupational pension schemes; and
- **opportunities for extended working lives** – the Government is providing people with greater opportunity and rewards for working longer if they wish to.

Reducing pensioner poverty **2.25** The Pension Credit is one of the key Government policies for reducing levels of pensioner poverty. From April 2005, the Pension Credit guarantees a minimum income of £109.45 for single people and £167.05 for couples. As a result of recent Government policies, most significantly the introduction of Pension Credit, absolute low income is down two-thirds (2 million pensioner households) compared with 1997, and relative low income has fallen by 25 per cent since 1997, despite this being a period of rapid income growth. Today a pensioner is no more likely to live in a poor household than anyone else in the population⁷. Pension Credit is also characterised by a 40 per cent taper, which means that those who save will be better off in retirement as a result of having done so. This contrasts with the absolute penalty on saving – 100 per cent marginal deduction rates – which was a feature of the previous means-tested system. The UK Financial Services Authority has concluded that “Pension Credit will now mean that for most people most of the time it will pay to have saved”.

Informed choices **2.26** Beyond the foundation provided by the Government, individuals and families make decisions as what income they wish to receive in retirement, for example by saving more through an additional private pension or through wider assets (such as housing), or by working longer than currently planned. The Government is working with employers and the pensions industry to provide timely, accurate and tailored information that will enable people to make informed choices about their retirement provision. The 2004 Spending Review set the Department for Work and Pensions a PSA target to ensure that, by 2007-08, 15.4 million

⁶ *Simplicity, security and choice: working and saving for retirement*, Department for Work and Pensions, December 2002.

⁷ *Poverty and Inequality in Britain*, Institute of Fiscal Studies, March 2004.

individuals are regularly issued with a pension forecast and 60,000 successful pension traces are undertaken each year. The Department for Work and Pensions will deliver a web-based retirement planner by the summer of 2006.

Simplification 2.27 Individuals need clarity around the tax treatment of their pension saving. The Finance Act 2004 legislated for a single universal regime for tax-privileged pension savings, which will come into effect in April 2006. As well as providing individuals with greater flexibility and choice over their retirement savings, tax simplification will benefit employers and pension providers through a reduction in administrative costs. In addition to information and transparency, individuals need access to simple, good value products. The introduction of 'Stakeholder' pensions has ensured that value-for-money, flexible private pension arrangements are available to all.

Pension Protection Fund 2.28 The Government has a role in ensuring that there is appropriate regulation of the pensions and savings industry. To rebuild confidence in saving, the Government introduced legislation in 2004 to establish a new Pension Protection Fund (PPF), which came into effect in April 2005. This is the UK's first scheme for ensuring that individuals in defined benefit pension schemes receive a meaningful proportion of their expected pension income if their sponsoring employer becomes insolvent. Members of defined benefit schemes can now be confident that their pensions are appropriately protected. As well as setting up the PPF, the 2004 legislation also established a new pensions regulator designed to take a pro-active risk-based approach to pension regulation. The Pensions Regulator has wide powers to enable it to be flexible and therefore target its resources on areas where risks to members' benefits are greatest, including, for instance, powers to compel schemes to take specified action to remedy identified problems within specified timescales.

Increasing opportunities for working longer 2.29 Working longer will be an important part of the response to increased life expectancy, and at least as important as increased rates of saving. Of those aged between 50 and the state pension age, the employment rate has risen from 65 per cent in 1997 to over 70 per cent now, well in excess of the 50 per cent Lisbon employment target for older workers. Furthermore, there are now over 1 million people over state pension age in employment. The Government is working to provide greater choice and flexibility for those who wish to work longer, including:

- measures from April 2006 that make it possible to draw an occupational pension while remaining with the same employer;
- since April 2005, financial rewards for those who choose to work longer and defer taking their state pension such as weekly payments that increase by 10.4 per cent for each year of deferral or, alternatively, a taxable lump sum; and
- legislation, which the Government will bring into force in autumn 2006, to implement the age discrimination strand of the European Employment Directive with a national default retirement age of 65.

2.30 The Government set up the independent Pensions Commission to look at long-term trends in pensions savings, and assess whether there is any need to move beyond the current voluntary system. The Pensions Commission has been consulting with government, industry and individuals on the options for further reform of the UK pension system, and will publish its report, including policy recommendations on 30 November 2005.

3

PROMOTING PRODUCTIVITY GROWTH

3.1 Productivity growth underpins strong economic performance and sustained increases in living standards. Delivering improvements in productivity performance requires flexible markets and an economy which can promote enterprise and fairness together. Increased product market flexibility enables individuals, enterprises and industries to respond rapidly to change, enabling them to succeed in a competitive market environment. Capital markets contribute to the flexibility of the economy by ensuring that capital is employed effectively and providing the finance needed to allow firms to develop and grow, and deal with economic shocks.

Five drivers of productivity

3.2 The Government's overall approach to increasing productivity growth in the UK economy is based on maintaining macroeconomic stability, to help businesses and individuals plan for the future, and implementing microeconomic reforms targeted at the five drivers of productivity: competition, enterprise, science & innovation, skills and investment. Effective deployment of information and communications technology (ICT) throughout the economy will have a significant beneficial impact on UK productivity growth. Indeed, recent research from the OECD and the EU has shown that over 40 per cent of labour productivity growth in the 1990s was a consequence of the diffusion of ICT.

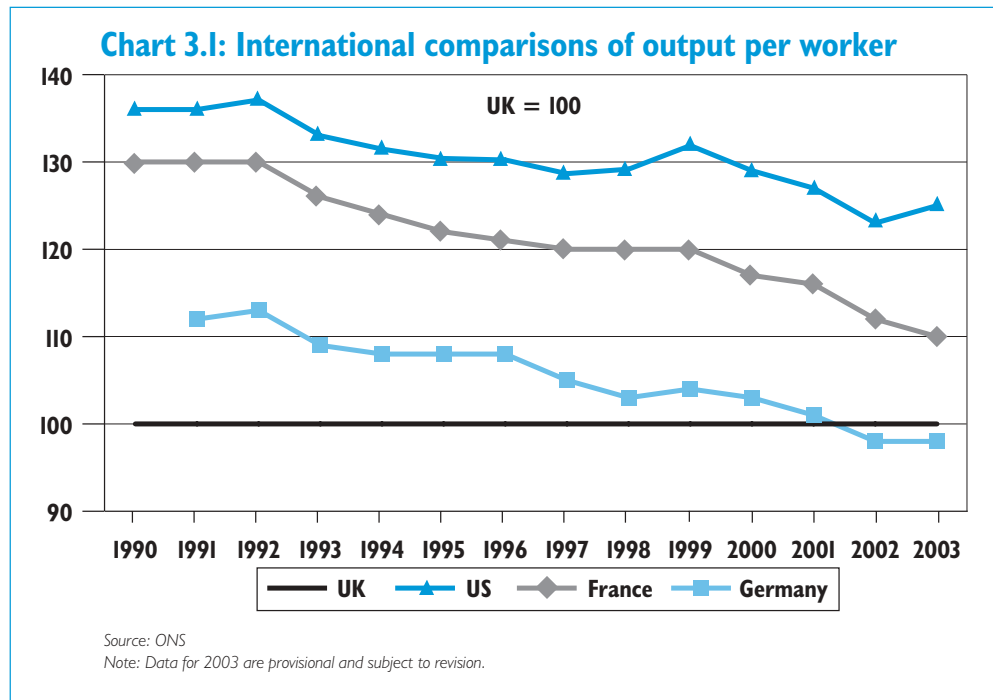
3.3 Chapter 4 describes how UK employment is at record highs with an overall employment rate of 71.6 per cent. Sustained employment growth has made the aim of raising productivity performance more challenging as new workers tend to have lower than average productivity as they take time to learn job specific skills. However, the UK Government is determined to deliver higher productivity growth alongside employment opportunity for all.

Productivity performance

3.4 Whichever measure is used, the UK's productivity performance has historically lagged behind that of other major economies. However, recent data suggest there has been a narrowing of the productivity gaps since 1995 with the rest of the G7.

3.5 Recent data shows signs that the UK is catching up on both of the key measures of labour productivity – output per worker and output per hour worked. As shown in Chart 3.1, the UK has narrowed the output per worker gap with France to 10 per cent from 22 per cent in 1995. Despite strong performance by the US in the latter half of the 1990s the productivity gap with the US has narrowed from 30 per cent to 24 per cent between 1995 and 2005, while the productivity gap with Germany closed in 2001. On an output per hour basis the UK has further to catch-up, although the gap has stabilised.

3.6 The UK outperforms France and Germany on comparisons of output *per person of working age*, although the gap with the US remains significant. Whilst not a direct measure of productivity, this indicator does demonstrate how effectively an economy is using all of its potential workers in productive employment, capturing the twin objectives of high and sustainable levels of productivity and employment.



3.7 Between 1997 and 2001, the first half of the current economic cycle, the trend rate of underlying productivity growth (on an output per hour basis) is estimated to have grown by 2.7 per cent a year in the UK. This compares favourably with the previous economic cycle over which the trend rate of productivity growth averaged just over 2.2 per cent a year. Continued macroeconomic stability and microeconomic reforms are supporting these improvements. In particular, data suggests that there have been recent improvements in workforce skills, the quality of the competition regime, and an increase in ICT investment. However it is too early to say definitively whether it will be sustained.

Productivity in the regions

3.8 The Government is committed to boosting productivity across all countries and localities of the UK and has a target to make sustainable improvements in the economic performance of all English regions and over the long term to reduce the persistent gap in growth rates between regions. Government policies are implemented at the regional and local level through the Regional Development Agencies (RDAs), Regional Assemblies, and Local Authorities. The Devolved Administrations in Scotland and Wales, and the Northern Ireland Administration, have responsibility for economic development.

3.9 UK regional economic development, irrespective of whether it is funded nationally or through European Funds, is closely linked to achievement of the Lisbon objectives of increasing productivity and growth. Across the UK, the majority of regional policy spending is already provided at the national level and, as the expansion of the EU reduces the flow of funding from Europe, this proportion will inevitably become more important. As part of the proposed new strategic approach to Structural and Cohesion Funds spending, the European Commission's draft Community Strategic Guidelines⁹ seek to establish a clear link between cohesion policy and the Lisbon priorities. The National Strategic Reference Framework currently in preparation will outline how these Guidelines will be implemented at the UK level. Progress will be reported in the annual NRP implementation report.

3.10 Since the RDAs were established for each of the English regions in 1999, the Government has significantly increased the flexibilities, responsibilities and resources of the RDAs to enable them to build capacity and contribute towards the delivery of Regional Economic Strategies. The last Spending Review devolved significant new responsibilities and resources to the RDAs in the context of improved performance management arrangements. As a result, the RDA Single Pot, which allows RDAs significant flexibility in managing their own resources to meet regional priorities, will rise to £2.3 billion by 2007-08. To provide an integrated approach to economic development and business support at the regional level, the RDAs took on responsibility for delivery of Business Link services and R&D Grants aimed at promoting enterprise in disadvantaged areas. The RDAs were also given greater responsibility for supporting business-university collaboration, meeting rural socio-economic objectives and promoting inward investment.

Promoting competition

3.11 Competition is essential to an efficient economy and is a key driver of productivity. A strong competition framework drives productivity by putting downward pressure on prices, increasing the diversity and quality of products available to consumers, and driving innovation. Competition is also essential to improving the flexibility and productivity of the EU economy and the Government believes that national and EU competition policy are inextricably linked in creating a strong single market, which is both open and dynamic.

3.12 Reform of the institutional framework of the competition regime continues to be central to the Government's strategy for promoting competition. The introduction of the Competition Act 1998 strengthened the powers of the Office of Fair Trading (OFT) to take action against anti-competitive agreements and the abuse of market power. The Enterprise Act 2002 built on these reforms by making the competition authorities, the OFT and the Competition Commission, stronger, more proactive, and independent from government. In particular, the Enterprise Act gave the OFT a proactive role to keep markets under review and refer them to the Competition Commission where they are not working well.

3.13 The 2004 KPMG peer review of competition regimes ranked the UK regime third globally, and described the UK competition authorities as having all the necessary powers to develop a world-class competition regime. More recently, the 2005 Global Competition Review ranked the UK competition regime second only to the US regime and at least on par with the European Commission. It also placed both the Competition Commission and OFT among the top five authorities in the world.

OFT investigations 3.14 The OFT is continuing to promote competition in several markets with the aim of securing a better deal for consumers. For example:

- following its analysis of a super-complaint submitted by the National Consumer Council, the OFT has referred the supply of home credit to the Competition Commission for further investigation. The OFT found that competition among home credit lenders appeared to be restricted, with lenders having limited incentive to compete on price or to attempt to win business by taking over other lenders' loans. The Competition Commission is also currently investigating the markets for liquefied petroleum gas, store card credit services, classified directories, and banking services in Northern Ireland;

⁹ *Cohesion Policy in Support of Growth and Jobs: Draft Community Strategic Guidelines*, European Commission, 5 July 2005.

- in May 2005 the OFT completed its study into the care homes market for older people, making a series of recommendations to improve the way in which the market is working for older people and their representatives. The Government published its response in August, broadly accepting the OFT recommendations on matters within its remit; and
- the OFT recently published its annual plan which highlighted five priority areas that will be the focus of its work over the next financial year: credit markets; construction and housing markets, including estate agency services; healthcare markets; the interaction between government and markets; and mass-marketed scams.

3.15 The OFT also has an important role in scrutinising markets where government regulation may distort competition. The Government is committed to addressing the OFT findings on these studies. For example:

- the OFT completed an initial report on public subsidies in 2004. The report developed an analytical framework for determining the likely competition distortions caused by subsidies and identified the need to improve aspects of the current approach to controlling subsidies. The OFT is currently undertaking further work on the issue, using specific case studies, to provide the Government with detailed recommendations on how subsidies affect competition in practice, and how to design subsidies so that their impact on competition is minimised; and
- the OFT has published its preliminary research into the impact of public procurement on competition which contains an in-depth economic analysis of the relationships between public procurement and competition. The OFT is currently working with the Office of Government Commerce to further consider the effects of public sector procurement on competition in two specific areas: waste management and construction.

Legal services 3.16 Sir David Clementi's independent review of the regulatory framework for legal services was published at the end of 2004, following wide consultation. The Government set up the review to consider what regulatory framework would best promote competition, innovation and the public and consumer interest in an efficient, effective and independent legal sector. The principal recommendations of the review included the creation of a new oversight regulator with significant powers, the separation of the representative and regulatory functions of the professional bodies, the creation of a single new complaints body and steps to enable the creation of Legal Disciplinary Practices. The Government has accepted the review's recommendations and will publish a White Paper on the implementation of the proposals later this year.

Regulated industries 3.17 The UK has been at the forefront of moves to introduce competition into the utilities sector, formerly dominated by monopoly providers. Since the privatisation of telecoms, energy and water companies in the late 1980s and early 1990s, the utilities have been overseen by economic regulators operating independently from government. The electricity and gas retail markets were fully opened to competition by 1999, and by 2004 around 50 per cent of consumers had taken advantage of competition by switching supplier. The water regulator, Ofwat, is currently putting in place a regime to introduce competition for large users. The UK market for electronic communications is now one of the most competitive in the EU with over 100 operators and 300 service providers. As the markets for broadcasting and linear communications continue to converge the Government has established a converged communications regulator, Ofcom, which is currently completing a comprehensive review of

competition in the electronic communications sector and is assessing a set of undertakings with the incumbent supplier, BT, to ensure equality of access for competitors and sustainable competition in the future. The UK is also enjoying the benefits of its market-based, competitive approach to broadband, with this technology set to be available to 99.6 per cent of the population by the end of 2005 and with the third most competitive market in the G7.

Consumer policy **3.18** Empowered and informed consumers can help to drive competition in the economy. Following reform of the competition framework in the UK, the Government is now focusing on delivering reforms in the UK consumer framework. The DTI's Consumer Strategy, published in June 2005, outlines the Government commitment to establishing a consumer regime that empowers consumers, improves consumer representation and complaints handling in the regulated industries, clarifies the law, helps consumers and business to resolve problems, and improves the enforcement of a fair and safe trading environment. The Government has also outlined proposals to merge a number of consumer enforcement bodies into a new Consumer and Trading Standards Agency which will co-ordinate work on consumer protection and trading standards.

Enterprise

3.19 Enterprise is a critical ingredient of a flexible, modern economy. A thriving small- and medium-sized business sector is needed to drive productivity growth and generate new prosperity in disadvantaged areas.

3.20 There are 4.3 million small- and medium-sized enterprises (SMEs) in the UK. SMEs employ 12.9 million people (over half of the private sector workforce) and account for 51 per cent of total private sector turnover (£1,200 billion each year). Employment in SMEs has risen by over 906,000 since 1997. There are 165,000 more VAT-registered businesses now than in 1997, and 154,000 more self-employed workers. However, the UK continues to face a significant enterprise challenge, and although levels of entrepreneurship in the UK are above the EU average, the UK still lags behind major global competitors such as the US.⁹

3.21 A key challenge for the UK has been to increase the level of female entrepreneurship. Although it is increasing, the rate of female entrepreneurship is still less than half the rate of male entrepreneurial activity.¹⁰ The Government launched a Strategic Framework for Women's Enterprise in May 2003 and has subsequently formed a Women's Enterprise Panel. The Panel has now developed an action plan to ensure that the target of 20 per cent female business ownership is achieved by 2006.

Stakeholder Input

The Centre for Female Entrepreneurship at the University of Luton encapsulates elements of research, skills training and entrepreneurship support. The University hopes to establish a "safe yet enterprise oriented environment to develop entrepreneurship and business to enable females to compete". The centre will offer support, counselling and guidance to intending female entrepreneurs to enable and sustain business start-up and expansion. Additionally the centre will offer educational and development opportunities leading to nationally recognised management qualifications. Overall the project intends to address the under-representation of women in business start-up statistics.

Source: Higher Education Sector

⁹See, for example, *Global Entrepreneurship Monitor (GEM) 2004*.

¹⁰GEM 2004.

Promoting entrepreneurship 3.22 The UK aims to be the best environment in the world for starting and growing a business. To raise the levels of activity and status of enterprise:

- from September 2005 a new £60 million Enterprise Education entitlement will provide all Key Stage 4 pupils with the equivalent of five days' enterprise learning;
- November 2004 saw the first ever Enterprise Week with over 1,000 events run by over 400 organisations across the country. The Government is looking forward to an enhanced Enterprise Week 2005;
- an annual *Enterprising Britain* competition was launched in 2004 to celebrate enterprise achievement by identifying the most enterprising place in the UK; and
- the Government is actively encouraging the participation of SMEs in the government marketplace, supporting a National Opportunities Portal, procurement training for SMEs and Public Sector Procurers, and piloting ways of simplifying the procedures SMEs face when tendering for government contracts. The involvement of SMEs represents a powerful engine for economic growth and the promotion of competition and innovation in government procurement.

3.23 The RDAs have also published a Framework for High Growth Business Coaching. The Framework sets out details of focused support to enhance the survival prospects for high potential pre-start, new and growing businesses. This service will help entrepreneurs meet the challenges of rapid growth, including in the areas of investment readiness, skills and innovation.

Stakeholder Input

Providing an environment conducive to successful enterprises underpins the idea behind the Enterprise Hubs located in the South East of England. Some 22 networked centres offer business incubation services to high-growth start-up and early stage companies and the facility to share sophisticated scientific equipment which companies could not afford on their own. Access to up-to-date facilities, equipment and research expertise specific to sector specialisation makes the centres the focus of clustering in leading edge technologies and products. Businesses learn from and do business with each other and are also more likely to collaborate on strategic projects, helping to build critical mass to better exploit commercialisation opportunities. Another approach is the BioConcepts Hub in Cambridge in the east of England, focusing specifically on biotechnologies, generating start-up businesses commercialising technologies in that dynamic field.

Source: Regional Development Agencies

3.24 In March 2005, the Government announced a Local Enterprise Growth Initiative (LEGI) to support proposals for long-term enterprise growth in around 30 disadvantaged local areas. The LEGI is worth £50 million in 2006-07, rising to £150 million per year by 2008-09, following the end of the time-limited commercial stamp duty land tax disadvantaged area relief.

Improving access to finance **3.25** The Government is pressing ahead with reforms to improve access to finance for SMEs. It has:

- accepted the recommendations of the Graham Review on the Small Firms Loan Guarantee (SFLG) to increase support for start-ups. The Government will implement the recommendations in full from 1 December 2005;
- invited bids for the pathfinder round of Enterprise Capital Funds (ECFs) in July 2005, following European state aids clearance in May 2005. Dependent upon the establishment of a full ECF programme, the Government intends to establish a new public company operating at arms-length from government to deliver ECFs and the new SFLG; and
- announced a major de-regulation of the financial promotions regime, including the introduction of self-certification for high net-worth and sophisticated investors, which will make it easier for small businesses to raise equity finance from individual investors.

Tax reform **3.26** To encourage innovation and investment, reward entrepreneurship and help small and growing businesses, the Government has:

- introduced Research and Development (R&D) tax credits to encourage business investment in R&D;
- cut the small companies' rate of corporation tax from 23 per cent in 1997 to 19 per cent from April 2002;
- introduced permanent 40 per cent first-year capital allowances for investment in plant and machinery by SMEs;
- introduced lower rates and further simplification of the flat rate VAT scheme, under which the requirement to account for every VAT transaction is replaced by one flat payment, reducing firms' costs by up to £600. The Government is now working to increase the uptake of the Flat Rate Scheme among the 600,000 eligible firms; and
- following consultation, the Government is phasing out payment of the Working Tax Credit via employers between November 2005 and April 2006, with some 1.2 million small businesses set to benefit from this reform.

Increasing use of ICT **3.27** The use of ICT by enterprises is a key enabler of improvements in productivity and international competitiveness. However, SMEs in particular can suffer from a lack of access to high quality and impartial information on how to use and manage ICT within their businesses. Through its www.businesslink.gov.uk website, the Government provides information on a wide range of ICT issues, constantly updated in response to a rapidly changing environment. The RDAs, through the regional and local Business Link network, lead the way in front line delivery of support to SMEs on e-business. The ICT agenda also features strongly in regional economic strategies.

3.28 The UK is currently rated as one of the best places in the world for e-readiness and as a place to do e-business. But international competition in these areas and in using ICT more effectively throughout the economy is intense. The Government is therefore working with business and other organisations to:

- improve regulation in the UK and throughout Europe to stimulate competition between providers of electronic communications;
- stimulate the development of a competitive broadband infrastructure;
- encourage investment in innovation through the DTI's Technology Programme;
- promote the confidence and security of Internet users;
- implement the Digital Strategy to ensure everyone has the opportunity to benefit fully from ICT; and
- promote a new degree-level qualification, Information Technology Management for Business, combining professional IT with broader management skills.

Stakeholder Input

By providing training and advice, the eStart for Business project means more SMEs can harness broadband technology, increasing sales and productivity thanks to improved marketing and gaining more cost-effective administration and improved customer feedback. Although focused on businesses owned by members of minority groups in regeneration areas of the Capital such as East London, any small business in Greater London can benefit. Targeting SMEs, in particular those located in less prosperous areas, ensures widespread diffusion of ICT within the regional economy, stimulating productivity growth.

The project supports three main activities via one-to-one advice, seminars, workshops and computer-based training: Broadband Briefing events to explain the benefits to business; a package of intensive training and advice to business-owners on implementing Broadband and transforming the way they work; and expert technical advice.

Source: Regional Development Agencies

Regulatory reform 3.29 International comparative studies¹¹ show that the UK has one of the best regulatory environments for doing business in Europe. However, the Government remains focussed on continuing to improve the regulatory environment.

3.30 Effective and well-focused regulation can play a vital role in correcting market failures, promoting fairness and increasing competition. Society expects government to provide protection for the general public, consumers and employees consistent with the best international standards, and these expectations grow over time. However, the UK Government believes that inefficient regulation can impose a significant burden on business, and is pursuing a programme of reforms to deliver better regulation against five principles: proportionality, accountability, consistency, transparency and targeting. The UK's approach focuses upon:

¹¹ See, for example, *World Bank Doing Business Report 2006*.

- ensuring that regulation is used only where necessary, that it is not 'goldplated' if it originates from EU law, that it is only used to achieve policy outcomes for which there is a clear rationale and where alternatives to regulation are not feasible;
- minimising the administrative burdens upon business of understanding regulations and complying with them, including the costs of paperwork, undergoing inspection and complying with enforcement activity; and
- supporting the process of regulatory reform in Europe, because around half of all significant new regulations affecting UK businesses originate in the EU.

Assessing the impact of proposed regulations

3.31 The Government has built a robust process for designing and scrutinising regulatory proposals. All regulatory proposals are accompanied from their early stages of preparation by Regulatory Impact Assessments (RIAs), which outline the case for government action, the policy options available, and the costs and benefits associated with each of these. RIAs are an integral part of the national regulatory process. They bring together all the main parts of the better regulation agenda in a single document that can be used by the legislator and relevant stakeholders alike to ensure that the principles of better regulation are met. As part of the Government's commitment to transparency and openness, all RIAs are published.

3.32 The guidelines for conducting RIAs were updated and strengthened in 2004 and 2005. This reinforced the need for RIAs to address enforcement, compliance and monitoring of new regulations as well as the impact on public services. Additionally, RIAs are now required to include an implementation and delivery plan and to set out the extent of post-implementation review. From May 2005 RIAs must also include information on any plans to simplify existing requirements for those affected by the new regulation.

3.33 The Prime Minister's Panel for Regulatory Accountability has been established to hold departments to account for their regulatory performance. It scrutinises all new regulatory proposals that impose a significant cost upon business. In doing so it provides a rigorous mechanism through which the flow of new regulations is controlled, and the quality of the regulations it approves is enhanced.

3.34 The Government has also introduced a number of tools to ensure that departments do not add unnecessary measures when transposing EU legislation. It published new Transposition Guidance in March 2005 that sets out the need to avoid over-implementation (gold-plating), and to pursue a risk-based approach to implementation. Ministers are given a range of options for implementation with the costs, benefits and risks attached to each option. Any potential gold-plating is highlighted in the RIA and must be cleared by a Ministerial committee. The guidance encourages departments to take note of how other Member States approach transposition so that best practice can be shared. Transposition Notes also accompany all implementing legislation laid before UK Parliament, setting out how the main elements of a Directive will be transposed, and thereby providing a check on any potential over or under-implementation.

Consultation of relevant stakeholders

3.35 Public consultation is a key stage in the legislative process. Consultation allows non-government stakeholders to challenge the assumptions and data that underpin policy proposals. A Code of Practice on Consultation was published in 2000 and was revised and re-issued in January 2004. The Code sets out the basic minimum principles for conducting effective government consultations and the criteria within it apply to all UK public consultations by government departments and agencies.

Simplification of the stock of legislation **3.36** The Government is also pursuing a programme of regulatory simplification, building on the recommendations of the Better Regulation Task Force (BRTF)¹²:

- all departments are currently developing rolling programmes of simplification to identify regulations that could be simplified, repealed, reformed and/or consolidated. Departmental simplification plans will be published by autumn 2006;
- a Better Regulation Bill is currently being prepared which will help departments by making it simpler to remove or amend outdated, unnecessary or over complicated regulations. The proposals were consulted on over the summer and the Government aims to introduce the Bill by 2006; and
- the Government has set up a new online portal for businesses and other stakeholders to submit proposals for simplification, and has committed to respond, in detail and within 90 working days, to suggestions made to government by businesses and business groups for regulatory simplification.

3.37 In January 2006 The BRTF will transform into a new Better Regulation Commission. Its role will be to provide independent advice to government from business and other stakeholders about new regulatory proposals, and about the Government's overall regulatory performance. It will continue the work of the BRTF and take on new responsibilities for monitoring the Government's ambitious reforms, including working with business organisations and others to make proposals to government for regulatory simplification.

Measuring and reducing administrative burdens **3.38** As well as pursuing better and more proportionate regulation, the Government believes that the costs to businesses of administering regulations should be as low as they possibly can be without jeopardising regulatory outcomes. The time and expense incurred by businesses when trying to comprehend regulations, fill in paperwork and deal with inspections, is time that could otherwise be productively deployed in the running of the business.

3.39 Drawing on the experience of The Netherlands and Denmark, in September 2005 the UK began a major project to measure all administrative burdens that businesses bear within the regulatory system, including the time needed to comply with regulations and other costs including form-filling, inspections, data retention requirements, comprehension costs and, where relevant, the costs of license or permit applications. All departments responsible for aspects of business regulation will use this information to develop plans for delivering targeted reductions in the administrative burden of their regulations over time. These reductions will be driven by the implementation of new risk-based approaches to regulation.

Better inspection and enforcement **3.40** Consistent with the recommendation of Philip Hampton's review of regulatory inspection and enforcement, the Government believes that a risk-based approach should be applied by all regulatory bodies in all aspects of their work, including when making data requests from businesses, shortening forms, applying penalty regimes and applying systems of inspection and enforcement. The benefits of a risk-based approach are that it focuses regulators' resources in those areas where the risks to society are greatest, ensuring inspections of riskier businesses that may not otherwise take place, delivering better regulatory outcomes overall and substantially reducing the costs incurred by the majority of low-risk businesses.

¹²Regulation – Less is More, Reducing Burdens, Improving Outcomes, Better Regulation Task Force, March 2005.

3.41 Philip Hampton's report outlines a balanced package of reforms that will reduce the costs to businesses of complying with regulations. It sets out a number of common principles that it recommends all regulators should follow and which, once implemented, will result in a step change in their culture and management:

- regulators should take a risk-based approach across all of their enforcement activities, so there should be no inspection of businesses without a reason, and regulators' resources and inspection activity should consequently be strengthened in the areas where the risks are greatest;
- information requirements will also be based on risk based assessment to reduce the number of forms and requests for information. The number of forms that businesses have to fill in will be reduced, through greater sharing of data between regulators;
- all new forms sent to businesses by regulatory bodies will have US-style 'time to complete' statements on them, and business reference groups will vet all forms for their business-friendliness before they are introduced;
- the penalty regime will be based on managing the risk of re-offending, and the impact of the offence, but there will be tougher penalties for 'rogue businesses' that persistently break the rules;
- there will be a greater focus upon giving advice and support to businesses on how to comply with regulations and regulators should provide advice on regulatory compliance to any business that asks for it; and
- 31 national regulatory bodies will be consolidated into seven new bodies.

3.42 In May 2005 the Government published an Action Plan outlining how and by when it would implement these reforms in full.

3.43 Action will also be taken to ensure consistency in local regulation. A new strategic body for trading standards, the Consumer and Trading Standards Agency (CTSA), will be created to strengthen national strategies on consumer protection and make trading standards enforcement more consistent. CTSA will also look to simplify the regulation of large multi-site businesses. In order to ensure the spread of best practice in business regulation by local authorities and the adoption of risk-based approaches to enforcement action, a new local partnership body, Local Authority Better Regulation Group, has been established.

3.44 The principles of better regulation are also being applied to the public sector. Public services inspection arrangements will also be rationalised, reducing the existing 11 public services inspectorates to four, covering Children and Learners, Adult Social Care and Health, Local Services and Justice & Community Safety. The streamlining of the inspectorates will reduce the burden of administration on inspected services, while maintaining regulatory standards overall.

Better regulation in financial services markets

Following its review last year of the Financial Services and Markets Act 2000 (FSMA), the Government is taking the following steps to enhance further the regulatory environment for the financial services sector in the UK:

- considering the case for introducing a more effective and simplified financial promotions regime, in line with EU requirements;
- making the regulated activities regime easier to follow, and making requirements on the disclosure of shareholdings more market-focused;
- simplifying and lightening the FSMA controllers regime, under which individuals must notify the Financial Services Authority (FSA) when they hold any of a range of controlling relationships over regulated persons;
- reducing some of the burdens and restrictions placed by FSMA on the FSA, enhancing the FSA's efficiency and enabling it to reduce compliance burdens; and
- applying common commencement dates to statutory instruments made under FSMA, wherever possible and practical.

Innovation

3.45 Science and innovation are key drivers of productivity and essential to maintaining competitiveness in an increasingly knowledge-driven global economy. The UK has a strong research base, but relatively low levels of R&D investment compared with other leading economies. In July 2004, in line with the shared commitment of EU Member States to raise investment in R&D, the Government published a ten-year Science and Innovation Investment Framework, which set an ambition for the UK's public and private investment in R&D to reach 2.5 per cent of GDP by 2014, from a current level of 1.9 per cent. This is a challenging ambition, which reflects the current industrial structure of the UK economy, and will require a sustained effort from the private as well as the public sector. The ten-year framework also set out a number of long-term policies to improve the UK's R&D and innovation performance and focused on promoting world-class excellence and sustainability, improving the responsiveness of the science base to the economy, increasing business investment in R&D, and raising the supply and demand of STEM skills.

World-class excellence and sustainability

3.46 A strong public science base is the foundation of the UK's national innovation system. The UK science base is already highly competitive and ranks second only to the US in global research excellence as measured by citations. It is also the most productive among the G8 in terms of research outputs relative to the level of investment. As a first step towards the ten-year framework ambition, the Government announced in July that it would invest an additional £1 billion in the science base between 2004-05 and 2007-08, including dedicated funding for the renewal of university infrastructure and additional funds to enable Research Councils to cover a greater share of the full economic costs of the research they support.

Responsiveness of the science base to the economy

3.47 The Government also commissioned an in-depth review of business-university collaboration in 2003, which concluded that the UK was strong in research but less effective at translating the products of research into social and economic benefits. The ten-year framework therefore seeks to improve the responsiveness of the publicly-funded research base to the needs of the economy and dedicated funding has been made available to enable universities and public sector research establishments to engage in knowledge transfer and commercialisation activities, for example through the Higher Education Innovation Fund, which will reach £110 million per year by 2007-08. Statistics now show a step change in the level of university knowledge transfer and commercialisation activity in recent years – for

example, between 1999 and 2002, university income from contract research rose by 36 per cent, the number of patent applications rose by 27 per cent, and income from licensing rose by 43 per cent. In 2004, ten university spin-out companies with a combined market value of £604 million were floated on stock exchanges in London and New York.

**Increasing
business
investment in
R&D**

3.48 A key factor in delivering the Government's science and innovation goals over the next ten years will be the level of commitment from the private sector to increase its investment in R&D and its links to the science base. Between 2002 and 2003, UK business R&D increased by 2 per cent in real terms, but remained level as a proportion of GDP at 1.23 per cent. The UK's R&D tax credit scheme aims to encourage greater business investment in R&D and, since 2000, 17,000 claims have been made, amounting to in excess of £1.3 billion in support to business. The R&D tax credits scheme will be evaluated to assess its impact on R&D investment behaviour and the UK is working with other Member States to share evaluation methodology and results to identify good practice. In 2004 the Government also launched a Technology Strategy, led by business, to identify and support emerging technologies which could deliver significant future economic and social benefits. £370 million will be made available for the Technology Strategy over 2005-08. The Strategy aims to deliver these new technologies through collaborative working, which has been found to be key in generating major innovations.

3.49 The Government recently published a detailed analysis of the UK's business R&D investment performance to inform future policy¹³. This showed that UK R&D performers allocated similar levels of resources compared with their international competitors, for the sectors in which they are active. In other R&D intensive sectors notably motor vehicles, IT and electronics, where foreign owned multinationals predominate – R&D results and technology have tended to come from the overseas facilities of these companies. However, given the strength of the UK research base, these businesses may increasingly look to more local suppliers. Several indicators also suggest a growing number of research intensive SMEs, especially in sectors where the UK has performed less well in the past, such as IT.

3.50 The Government is looking to use procurement policy as a means of supporting the emerging innovative firms of the future and has set a mandatory target for 2.5 per cent of departments' extra-mural R&D contracts to be placed with small- and medium-sized enterprises. It has also set out a commitment¹⁴ to provide guidance on broadband content procurement by the public sector, informed by a digital/creative industry perspective. Many highly successful UK businesses are also active in sectors where traditional measures of technology development and innovation, such as patents, are less prevalent – for example financial services and the creative industries. Alternative measures of intellectual property protection, such as registered designs and trademarks, show the UK in the top tier of EU and OECD comparator countries.

¹³ http://www.dti.gov.uk/economics/economics_paper11.pdf

¹⁴ *Connecting the UK: the Digital Strategy*.

Stakeholder Input

Pembrokeshire has experienced significant restructuring in its energy and defence sectors, a relatively narrow industrial base, and an historic overdependence on seasonal low pay sectors such as agriculture and tourism. An £8.7 million project funded by Pembrokeshire County Council, the Welsh Development Agency and Objective 1 to construct a two storey R&D centre will form part of the Swansea University Technium network, accommodate University research staff, and house incubation units and business support facilities. Initially, R&D activity will focus on the power sector, to build on links with existing major oil and gas interests in the area and to help develop new alternative energy technologies related to the area's diverse coastal and marine environment. The longer term goal is to diversify its R&D activities. Innovation and enterprise activities will be hosted within the building to help stimulate R&D spinout, to assist product diversification and to stimulate links with the existing SME community.

Source: Local Government Association / Local Government International Bureau

3.51 The UK's highly developed and successful creative industries are largely built on effective exploitation of copyright. The Government has been working in partnership with industry, from the creative sectors and wider, to examine developing business models in the digital environment, to see how awareness of the benefits of a robust and fair intellectual property enforcement regime can be raised, and to look at enforcement issues under the auspices of the Creative Forum on Intellectual Property. The Government has also commissioned an independent review of how best to develop the creativity of small firms, which will report later in the year.

Supply and demand of STEM skills

3.52 A vibrant national innovation system requires a strong supply of scientists, engineers and technologists. The Government's ten-year framework incorporate a comprehensive set of policies to enhance the teaching and learning of STEM subjects (science, technology, engineering and mathematics) at all levels of education, and to improve incentives for the recruitment and retention of science teachers and professional researchers. There are already signs of progress in many areas – for example, there has been a steady improvement in GCSE attainment in science and mathematics since 2001 and vacancy levels for science teachers have fallen from 1.6 per cent in 2001 to 1.1 per cent in 2005. However, further work is needed to improve take-up of some STEM subjects at A-level and university.

3.53 Progress in implementing the ten-year Science and Innovation Investment Framework will be monitored on an annual basis, with a more comprehensive evaluation of progress every two years. The first annual report on the ten-year framework was published in July 2005¹⁵. The report concluded that a good start had been made over 2004-05 to implement the framework, though significant challenges remained, particularly in raising the level of business R&D and increasing the supply of STEM skills. The Government will continue to monitor closely the impact of recent policy initiatives in these areas, and report on progress in future years.

¹⁵<http://www.ost.gov.uk/policy/sif.htm>

Investment

3.54 Capital investment is a key driver of productivity. Evidence suggests that the UK has a significantly lower level of capital per worker than the US, France and Germany, and that this capital gap contributes to the labour productivity gap with those economies.¹⁶ The Government is therefore committed to enhancing the economic environment within which businesses make their investment decisions, by providing a platform of macroeconomic stability to enable firms and households to plan for the long term and removing the barriers that prevent capital markets from functioning effectively.

The investment chain **3.55** UK institutional investors manage almost half of UK equities, investing a large part of the wealth of UK savers and exerting indirect control and influence over much of UK industry. This ownership is intermediated through an ‘investment chain’ of relationships connecting ultimate owners with their investment in companies. Ensuring this chain works efficiently is of vital economic importance for productivity and long term growth, because the chain is a critical mechanism for ensuring that investment is efficiently allocated. The Government has taken action to improve the functioning of the investment chain, identifying under performing links in the chain and implementing solutions, including by:

- addressing the problem of distorted investment decision-making by institutions through the original Myners Review.¹⁷ The Government endorsed Paul Myners’ recommendation that trustees of occupational pension funds voluntarily adopt, on a ‘comply or explain’ basis, a set of principles codifying best practice for investment decision-making. Building on this, Sir Derek Morris’ Review, described below, makes recommendations for increasing competition in the market for actuarial services and strengthening the regulatory framework for the actuarial profession;
- rectifying, following the Sandler Review¹⁸, the failure of the retail savings industry to serve medium to long term savers optimally, by working with the UK Financial Services Authority to develop simplified and more transparent savings products and to enhance disclosure of the cost of advice;
- improving the UK corporate governance regime following Sir Derek Higgs’ Review¹⁹ into the role of non-executive directors. The Financial Reporting Council has issued a revised Combined Code on Corporate Governance. Moreover, as a result of the Smith Review²⁰ and the work of the Co-ordinating Group on Audit and Accounting, measures have been implemented to improve the independence and transparency of audit and the quality of financial reporting; and
- promoting more active engagement by shareholders with companies. The Institutional Shareholder Committee (ISC) will shortly conclude a review of the impact of its principles on engagement and the Government will take account of the ISC’s conclusions when finalising its own review.

¹⁶ *Britain’s Relative Productivity Performance: Updates to 1999*, National Institute of Economic and Social Research, O’Mahony and de Boer, 2002.

¹⁷ *Institutional investment in the UK: a review*, Paul Myners, March 2001.

¹⁸ *Medium and long-term retail savings in the UK: a review*, Ron Sandler, July 2002.

¹⁹ *Review of the role and effectiveness of non-executive directors*, Derek Higgs, January 2003.

²⁰ *Audit committees: Combined Code guidance*, Financial Reporting Council appointed group chaired by Sir Robert Smith.

Myners principles: review of progress **3.56** Addressing the problem of distorted investment decision-making by institutions is central to improving the functioning of the investment chain. In December 2004, the Government published a review of progress against the Myners principles. This shows that, while behaviour is beginning to change, progress is lagging in key areas. The Government has therefore proposed changes to the principles designed to: strengthen trustee expertise; ensure more effective use is made of advisers; improve the quality of asset allocation activity and the resources devoted to it; and provide greater clarity on funds' investment time horizons. The Government will also work with key stakeholders to improve the quality of the commentary trustees make on how they are implementing the principles. The Government is consulting on its proposals.

Morris Review **3.57** The provision of high-quality actuarial advice is a key element of the investment chain – actuaries advise pension funds on strategic investment issues, including asset allocation and fund manager selection. The Government asked Sir Derek Morris to conduct a wide-ranging independent review of the actuarial profession following Lord Penrose' Inquiry into Equitable Life²¹ and as part of the Government's wider programme of reform to improve the efficiency of the investment chain. The Government is currently working to take forward the Review's recommendations to increase competition in the market for actuarial services, to strengthen the regulatory framework for the actuarial profession, and on the future role and institutional status of the Government Actuary and his department.

Investment in housing and property **3.58** A stable and flexible housing market is essential to a productive economy. Housing market imbalances between supply and demand are a potential brake on economic development, as the cost and availability of housing influences the geographical distribution and mobility of the labour force and may affect capacity levels in local labour markets.

Barker Review **3.59** Kate Barker's independent review of housing supply, published alongside Budget 2004, set out the long-term lack of supply and responsiveness of housing in the UK. It identified problems of affordability for new households, wealth redistribution from those outside the housing market to those inside the market, and significant regional price differentials and expectations which reduce labour mobility and constrain productivity. It recommended a step change in housing supply and a programme of wide-ranging reform to deliver better balanced housing markets.

Increasing investment in housing **3.60** The Government accepts the review's conclusion that the UK needs to build more houses over time to improve affordability and increase access to housing. The 2004 Spending Review therefore announced a 50 per cent increase in direct investment on new social housing by 2007-08 compared with 2004-05 – an additional 10,000 homes a year. It also established a new Community Infrastructure Fund of £150 million by 2007-08 to support the transport infrastructure costs required to enable faster housing development in the four growth areas.

3.61 Ahead of a full response to the Barker review later this year, the Government is consulting on reforms to Planning Policy Guidance for Housing to increase land supply and enhance the planning system's responsiveness to housing market signals. It will respond to all other recommendations by the end of the year, including an assessment of the progress made by the house building industry to improve service quality and customer satisfaction ratings and to increase investment in skills and innovation.

²¹ *Report of the Equitable Life inquiry*, The Right Honourable Lord Penrose, March 2004.

3.62 The Government's strategic approach to the delivery of additional housing will include a full assessment of the wider sustainability impacts. With a view to mitigating harmful environmental impacts the Government will ensure the re-use of previously developed (brownfield) land; avoid as far as possible development in those areas which are most sensitive to harmful impacts – for example, floodplains, or areas which have been statutorily designated for their outstanding environmental value; continue to improve the resource efficiency of new housing²² through both regulatory and voluntary mechanisms; and seek to provide for new environmental infrastructure where it is needed. A joint UK and Swedish initiative, launched in June 2005, will promote sustainable building through the sharing of expertise and best practice across the construction chain. From April 2006, all new homes funded by the Government or its Agencies in the UK, including through relevant public-private partnerships, will conform to the Code for Sustainable Buildings.

Skills

3.63 Effective investment in skills is a key driver of productivity. It increases the flexibility and adaptability of the labour market by helping individuals to adapt to change, sustain employment and absorb innovation. This is particularly important as intensifying international competition and accelerating technological change increase demand for higher level skills.

3.64 The UK faces a number of important skills challenges. While the proportion of people with high skills levels compares well internationally, the share of the workforce with intermediate skills is relatively low. Moreover, despite improvements over the last few years, there remains a large stock of workers with low or no skills, including poor basic literacy and numeracy skills. The Government's approach to addressing these challenges is set out in a series of recent policy documents and White Papers²³ and is underpinned by a five year strategy for children and learners which sets out an integrated lifelong learning strategy to raise the skills levels of all.

3.65 To drive delivery of the skills agenda at the highest level, the Government has set up a Skills Alliance in England. This is a partnership between the four government departments responsible for skills policy²⁴; social and economic partners, including representatives from employers, Trade Unions and small businesses; and regional and sectoral organisations. In Wales, the Welsh Assembly Government's Future Skills Wales Partnership provides a focus for research and policy development and has overseen the development of skills and employment strategy. Similarly, the Scottish Executive's Futureskills Scotland develops new approaches to understanding the Scottish labour market, identifies skills shortages and helps ensure a better matching of skills supply to employer demand. These associations create a dynamic partnership between stakeholders, delivery partners and policymakers.

²²The housing sector provides a quarter of UK greenhouse gas emissions. It consumes almost a third of the overall UK energy demand. It also uses more than half of the national supply of water. The environmental efficiency of new and existing housing stock need to be improved.

²³*Skills in the Global Economy* (Dec 2004), *14-19 Education and Skills White Paper* (Feb 2005), *Adult Skills Education* (March 2005).

²⁴Department for Education and Skills, the Department for Work and Pensions, the Department of Trade and Industry, and the Treasury

3.66 The common aim of the UK Government and Devolved Administrations is that all young people reach the age of 19 ready for skilled employment or higher education. For those already in the workforce the aim is to ensure employers have the right skills to support the success of their businesses, and individuals have the skills they need for employment and personal fulfilment. A series of targets for adults and young people define the Government's ambition. The targets in England are as follows:

- to increase the proportion of 19 year-olds who achieve at least level 2 qualifications (upper secondary education) by 3 percentage points between 2004 and 2006, and by a further 2 percentage points between 2006 and 2008, and to increase the proportion of young people who achieve level 3 qualifications (technician, craft or associate professional education);
- by 2010, to increase participation in higher education towards 50 per cent of those aged 18 to 30 and also to make significant progress year on year towards fair access, and to bear down on rates of non-completion; and
- to increase the number of adults with the skills required for employability and progression to higher levels of training, through improving the basic skill levels (literacy, numeracy and language skills) of 2.25 million adults between 2001 and 2010, with a milestone of 1.5 million in 2007, and reducing by at least 40 per cent the number of adults in the workforce who lack level 2 qualifications by 2010. Working towards this, one million adults in the workforce to achieve level 2 between 2003 and 2006.

3.67 These targets will be the main measures of success of the reform programmes for 14-19 year old education and adult skills. Similar targets apply in other parts of the UK.

Post 16 Participation 3.68 The UK Government aims to raise the learning participation rate at 17 from 75 per cent of young people today to 90 per cent over the next 10 years, to help bring Britain in line with the EU-level benchmark of 85 per cent of 22 year olds having completed upper secondary education. Part of this transformation involves changes to the secondary curriculum in England to provide more flexible pathways through education, combining academic and vocational routes which can be school, college or work-based. In Wales, 14-19 Learning Pathways provide the framework for a comprehensive package for young people, including academic and vocational qualifications, a learning core and learner support. Scotland has been piloting 'skills-for-work' courses as part of a wider curriculum review²⁵. These courses are leading to closer cooperation between schools and Further Education institutions.

3.69 Another key factor is improved provision of information, advice and guidance on career choices post-16. The Youth Green Paper, *Youth Matters*, published in July 2005, proposes a package of reforms in this area on which the Department for Education and Skills in England is consulting. It also emphasises the opportunities for young people to improve their skills and informal learning through voluntary activity.

²⁵A Curriculum for Excellence.

3.70 A third important element in raising participation rates is the provision of financial support for 16-19 year-olds. Education Maintenance Allowances (EMAs), rolled out nationally in September 2004, now form a key part of the Government's framework of financial support for young people continuing in post-16 education in the UK. EMAs currently provide a regular income-tested weekly payment of up to £30 to those continuing in post-16 education, with further bonuses paid to students on satisfactory academic progression. From April 2006, the UK Government is removing the distinction between education and training by extending EMAs to unwaged trainees, aged 16-19, on work-based learning programmes.

3.71 The UK Government is also investing £140 million over two years from 2006 in pilot schemes in England to test the effectiveness of personally-negotiated agreements in re-engaging 16 and 17 year-olds. One set of pilots aims to increase access to training options for 16 and 17 year-olds who are in employment with no training, via a negotiated 'learning agreement' between the employer and the employee. These pilots will test the effectiveness of a range of financial incentives in encouraging employers and employees to access formal training, including Apprenticeships. The second set of pilots will test 'activity agreements and allowances' for 16 and 17 year-olds who have been out of education, training and employment for more than 20 weeks. These agreements will set out the specific steps that the young person should take to move into learning or work, in return for financial support in most areas. In Wales, the Youth Gateway provides focused help for young people who are at risk of disengagement from employment and learning. All of these measures have the specific aim of increasing participation in learning, and therefore contribute to achieving the EU benchmark of reducing the number of early leavers.

Adult skills 3.72 The UK Government and Devolved Administrations want to ensure that every adult has the opportunity to acquire skills and improve them throughout their working life, as a route to sustainable and better-paid employment. The Government's strategy for achieving this is to create a flexible, demand-led training system that has the involvement of all social and economic partners, and to focus Government intervention on tackling market failures in the provision of training. These market failures reduce investment in skills needed for the economy and society, and are most acute for those with low skills.

3.73 In England, to tackle these market failures and create a step change in training opportunities for the low skilled, the Government will offer an entitlement for free tuition up to full upper secondary level (level 2) qualification for any adult without one, and free training in literacy, language and numeracy skills. This offer will be delivered to individuals through Further Education colleges and other training providers from 2006-07, and to employers through the National Employer Training Programme. In Northern Ireland, the Essential Skills for Living Strategy is helping adults to improve their literacy and numeracy skills.

3.74 The National Employer Training Programme will deliver this training in the workplace, tailored to employers' needs. It will be supported by a network of independent, publicly funded brokers that will assess the training needs of employers and help source appropriate training provision. The programme will be rolled out from 2006-07 to cover the whole of England by 2007-08. A similar programme is being pursued in Wales through a new Workforce Development Programme, and in Scotland through Business Learning Accounts which are aimed at small businesses.

3.75 To help improve the number of people in the workforce with intermediate skills levels the National Employer Training Programme will also encourage employers to invest in training at higher levels (level 3) in areas of regional or sectoral priority. Two regional pilots will also run in England from April 2006 to test extended subsidised support at level 3. In Wales, the Modern Skills Diploma for Adults helps existing employees to gain higher-level skills.

3.76 To ensure training supply is clearly linked to employers' skills priorities a network of 25 Sector Skills Councils will operate across the UK by November 2005. They will cover 85 per cent of the workforce and provide a clear mechanism to bring employers together within each sector to agree priorities for collective action on skills. A network of 12 Skills Academies will also be set up by 2007-08, to design and deliver skills training for young people and adults and help to deliver the training that employers want. The Academies will act as national sector-based centres of excellence, and will incorporate the best that is known about working with employers to meet their current and future skills needs.

3.77 As part of its partnership approach the Government will also help the Unions build on the success of the Union Learning Fund and the 12,000 strong network of Union Learning Representatives. Through this network they have been able to encourage and support many people back into learning who would otherwise not have had the confidence, information or networks to do so. From April 2006 a new Union Academy will work with employers, colleges, universities and other training providers to help them deliver the type of learning opportunities that working people want and need to progress, in ways that suit their individual circumstances.

3.78 Achievement of the Government's skills ambitions depends on more adults having access to information and guidance about what training opportunities are available and how to get them. The current system has been reformed by integrating national telephone and online advice and information services with local ones, and focuses on adults who have not yet reached upper secondary level qualifications. From January 2006, this will be extended on a trial basis to offer more intensive guidance focused on those wishing to acquire higher-level skills.

3.79 The complexity and inflexibility of the current system of vocational qualification is a frequently identified barrier to learning. The Government will therefore reform the qualifications framework to make it credit based, thereby allowing learners to build up achievements over time. Scotland and Wales are well advanced with their comprehensive credit-based Credit and Qualifications Frameworks, England is developing a new Framework for Achievement and similar developments are being taken forward in Northern Ireland. These reforms will be compatible with the proposed European Qualifications Framework, to support mobility between the UK and other EU Member States.

3.80 Improving ICT skills at all levels is another key element of the Government's skills reforms. The Government's e-learning strategy will deliver integrated online content and services to support basic skills for adult learners, enhance leadership and staff development in ICT, and build a common digital infrastructure for the education, training and work-based sectors.

Stakeholder Input

E-Skills UK, the Sector Skills Council for IT, telecommunications and contact centres, published comprehensive research reports in November 2004 which forecast a huge increase in the requirement for IT skills over the next ten years. To address this challenge, e-Skills UK is working closely with employers, the education sector and Government on an IT skills action plan to help make IT careers more attractive; develop the IT workforce and improve the existing IT qualifications infrastructure.

An example of a joint e-Skills UK/industry/government initiative is the Computer Clubs for Girls project, aimed at getting young girls more involved in IT. After a successful regional pilot, the national roll-out of the project to 3,600 schools and 150,000 girls across the UK, funded by the Department for Education and Skills, was launched in June 2005.

Source: Sector Skills Councils

3.81 Finally, the Government has asked Lord Leitch to carry out a review of the UK's longer-term skills needs and priorities for business and the economy. The Review will report to Government on what skills profile it should aim to achieve in 2020 in order to support productivity and growth over the longer-term.

Protecting the environment through sustainable and innovative resource use

Environmental pressure is increasing **3.82** With the global economy set to expand by 40 per cent by 2015, driven in particular by strong growth in the emerging economies, significant pressures will be placed on global resources, particularly energy, and on the natural environment. This presents a serious challenge to governments, to businesses and to individuals. The Government is currently working towards a more integrated policy framework to conserve, enhance and manage the natural environment, to safeguard its value for people now and in the future. Central to this is a need to improve understanding of the value of ecosystem goods and services, their contribution to social and economic goals, and the costs of preserving them.

3.83 The challenge for the UK economy and internationally is to become significantly more energy and resource efficient, increasing innovation and adaptability in the use of energy and resources and promoting low-carbon sources of energy. Sound environmental policy should promote enterprise, innovation and productivity, for example by facilitating the development of innovative environmental technologies and encouraging investment.

Responding to the challenge in the UK **3.84** The 2000 UK Climate Change Programme set out a package of policies and measures designed to reduce the UK's emissions of greenhouse gases, including through the climate change levy, climate change agreements, and emissions trading. Along with a major shift from coal-fired to gas-fired electricity generation in the 1990s, these measures have helped reduce greenhouse gas emissions from the UK economy by an estimated 12.5 per cent below 1990 levels in 2004, with emissions of carbon dioxide in 2004 estimated to be 4 per cent lower than in 1990. Over the same period the UK economy has grown by 39 per cent. The EU emissions trading scheme, which started in 2005, is further set to reduce carbon dioxide emissions from 12,000 power plants and other installations across the EU.

3.85 The efficient use of resources is an essential feature of an environmentally sustainable economy. The Government will need to ensure that environmental policy helps to stimulate technological and organisational innovation, so that the economic costs of meeting environmental objectives are reduced and productivity enhanced.

3.86 Increased energy efficiency will need to be accompanied by the development of low carbon energy sources. Over the past decade, the Non Fossil Fuels Obligation and, since 2002, the Renewables Obligation (RO) have stimulated the UK's renewable energy industry. Just over 2 per cent of electricity was supplied under the RO in 2004. The Government aims for renewables to supply 10 per cent of UK electricity in 2010, subject to the costs being acceptable to the consumer, with an aspiration to double this by 2020. The UK has a strong academic research base in this field. Over the next decade, the Government will need to work closely with business to develop technologies with the commercial potential to respond to the challenge of a lower-carbon future.

Need for multilateral action **3.87** Domestic policy however will not be sufficient to tackle climate change or increase energy security. The UK produces only 2 per cent of global climate change emissions, so without action by other countries UK policy will have little impact. Strong engagement in multilateral efforts to tackle climate change will be required to achieve greater energy security and sustainability. The UK is seeking to increase multilateral engagement, including by:

- building on the measures agreed at the G8 Summit in July 2005 where a package of actions to combat climate change was agreed focusing on improvements in energy efficiency, cleaner vehicles, aviation, work on developing cleaner fuels, renewable energy and promoting research and development;
- ensuring that the momentum generated within the international community on climate change is used to set up a more formal process to discuss the post-2012 regime at the UN Conference of the Parties and first meeting of the Kyoto Protocol parties (COP/MOP1) in Montreal in December 2005; and
- working with other Member States to further develop the EU Emissions Trading Scheme, looking to develop links with other trading schemes to develop an efficient global emissions trading market.

Sustainable consumption and production **3.88** The UK was the first country to produce a strategy for sustainable consumption and production, one of four priorities in the 2005 UK Sustainable Development Strategy, *Securing the Future*. The vision and challenge is for a ‘one planet economy’, where more is achieved with less world-wide. Environmental technologies have great potential to contribute to a sustainable economy, by driving new business and jobs and enhancing competitiveness while helping to meet environmental objectives²⁶.

3.89 From 2005, the Business Resource Efficiency and Waste (BREW) programme is providing £284 million over 3 years to improve business efficiency, reduce waste and cut harmful emissions. The Government is expanding the Market Transformation Programme to seek a major shift to new everyday products and services with lower environmental impacts across their life-cycle. A business-led Sustainable Procurement Task Force will develop a national action plan by April 2006 for putting the UK among the leaders in sustainable public procurement across the EU by 2009. Through a Roundtable on Sustainable Consumption, the Government is building understanding of complex UK consumption patterns. By the end of 2006, the Government will provide a consumer advice service – Environment Direct – to help consumers make more sustainable choices.

3.90 The UK environmental goods and services sector was estimated to have an annual turnover of £25 billion in 2004 and to employ around 400,000 people. To sustain this rapid growth, the Government will implement measures by March 2006 to tackle barriers to the commercialisation of innovation in the sector. It is also facilitating the transfer of UK environmental technologies and expertise to developing and rapidly industrialising countries on a commercial basis through the Technology Partnership Initiative. Sustainable Development Dialogues are currently underway between the UK and key emerging markets – for example, China, India and Brazil – to foster joint learning and contribute to more worldwide sustainable development.

Protecting ecosystem services **3.91** Biodiversity is a vital element of the natural environment, and the UK Government, as with all Member States, is committed to halting the loss of domestic biodiversity and reducing the rate of loss of global biodiversity by 2010. Integrating biodiversity with social and economic issues across all sectors, for example by ‘mainstreaming’ biodiversity into other policies through the partnership approach of the Biodiversity Strategy for England, will facilitate progress towards these commitments and bring wider benefits. This will help protect vital ecosystem services such as pollination of crops, healthcare provision and the provision of a high quality environment that promotes well-being and enjoyment at home and abroad.

²⁶A forthcoming roadmap on implementation of the EU Environmental Technologies Action Plan will set out in more detail UK action relevant to promote eco-innovation and environmental technologies.

Stakeholder Input

The Environment Agency has undertaken various activities in relation to internalisation of external environmental costs and decoupling of economic growth from environmental degradation. The Environment Agency is the lead partner in the Sustainable Consumption and Production network (SCPnet). This is a network created and funded by a partnership of the Regional Development Agencies, the Regional Assemblies, the Environment Agency and WWF, building on the REWARD¹ project and linking to the Ecological Budget UK project. The REWARD project's main output was a modelling tool for understanding the links between economic growth and environmental pressures. This allows regional bodies to better understand and manage the links between economic growth and environmental protection. The SCPnet will work to ensure that this tool is effectively used.

¹ Regional and Welsh Appraisal of Resource productivity and Development project, involving 4 RDAs, 1 RA and the National Assembly of Wales – see www.reward-uk.org.

Source: Environment Agency

4

INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

4.1 The UK's radical welfare reform agenda aims to deliver a welfare state which supports individuals in maximising their opportunities throughout the life-cycle. This has involved a move away from a culture of welfare dependency towards a welfare state which enables and encourages people to participate in the labour market and in society more widely. The programmes and policies set out in this chapter ensure that individuals can benefit from tailored support and offer an overall strategy for achieving the Lisbon goals of full employment and greater social cohesion.

Combining flexibility and fairness

4.2 Radical labour market reform aimed at getting more people into employment is key to delivering economic growth and ensuring the long-term fiscal sustainability of the economy. A flexible and job-creating labour market is especially important for competing in today's increasingly global markets. By boosting productivity and employment, it helps ensure that the gains of economic growth go to the many rather than the few. The Government's active labour market policies, tax and benefit system and skills policies together offer everyone in society a ladder to self reliance and self determination.

The UK's labour market policy framework

4.3 Recognising that individuals need the state to play a different role at different points in their lives, the Government is developing labour market policies and welfare reforms that are flexible and take account of people's changing circumstances. By combining flexible active labour market policies with measures to make work pay and initiatives to reduce barriers to work, the UK intends to increase employment opportunities for all, alongside offering help for those who cannot work. Therefore this chapter focuses on:

- active labour market policies – tailored and appropriate help for those without work, both unemployed and inactive, to prevent long-term detachment from the labour market;
- policies that make work pay – improved incentives through reform of the tax and benefit system, and the introduction of the National Minimum Wage; and
- policies that reduce barriers to work – including education, skills, childcare and training policies to create an adaptive, flexible and productive workforce.

Building on the UK's labour market success

Successful employment outcomes

4.4 The UK's employment strategy set out in this report rests on a foundation of success which has been established since 1997. The UK has already exceeded the three Lisbon employment targets. The current UK employment rate stands at 71.6 per cent, the employment rate of older people is 56.2 per cent and the employment rate for women stands at 65.6 per cent, one of the highest in Europe²⁷.

4.5 The future challenge for the Government is to reach its own aspiration of an 80 per cent employment rate²⁸. To achieve this, a further 2.5 million people would need to be helped into work. This might include for example an extra 1 million Incapacity Benefit recipients in work, a further 300,000 lone parents and 1 million older people. This requires a welfare reform agenda focused on improving people's employability and therefore their lives whatever their circumstances.

²⁷ Source: Eurostat. Eurostat figures differ from national figures, because Eurostat use different age brackets to calculate levels of employment. Eurostat use for both the overall employment rate and the female employment rate the age bracket 15-64 years. The Eurostat older workers employment rate relates to 55-64 year-olds.

²⁸ This aspiration is based on the UK's national measure.

Delivering employment opportunity for all

Jobcentre Plus 4.6 Since its launch in 2002, the Jobcentre Plus model has already delivered significant success. It remains central to the UK's approach. By combining payment of benefits with active labour market interventions for customers, Jobcentre Plus provides a service based on the needs of the individuals and helps to maintain continuous attachment with the labour market.

4.7 The rollout of Jobcentre Plus will be completed during 2006. There will be around 900 offices in total across England, Scotland and Wales. As part of this rollout programme Jobcentre Plus is modernising delivery mechanisms, developing and evaluating a range of alternative contact channels for its customers. This approach exploits new technology to provide more convenient ways for customers to access services. In Northern Ireland a network of comparable integrated Jobs and Benefits Offices is being introduced to provide a joint work-focused and benefits service.

Stakeholder Input

Knowsley Metropolitan Borough Council (MBC) is working with partners such as the local Connexions, Jobcentre Plus and Chamber of Commerce to develop a single employment and skills strategy to target groups and areas of greatest disadvantage. The strategy, which was launched in September 2005 aims to ensure sustainable employment, reduce local poverty (workless households), and build closer local level partnership working. It means that all partners working to improve employment and achieve greater social inclusion can refer collectively to an agreed single strategy which uses a common set of labour market statistics and sets long-term targets for improvement. The strategy's targets include a borough-wide employment rate of 70 per cent by 2010, and ward level targets for disadvantaged groups such as lone parents.

Source: Local Government Association /Local Government International Bureau

The New Deal 4.8 The New Deal programmes, delivering tailored intensive support through Jobcentre Plus, are an integral part of the UK's active labour market policies. Since its launch in 1998, over £3.6 billion has been invested in New Deal programmes. This has helped nearly 1.4 million people into work, including 560,000 young people and 220,000 unemployed adults. The New Deal has contributed to a fall in long-term unemployment of over three quarters since 1997, providing strong social, economic and fiscal benefits. The New Deal has been particularly successful in tackling long-term and youth unemployment. Through the New Deal programmes, long-term youth unemployment has been virtually eradicated, thus delivering one of the key outcomes called for under the European Youth Pact. Long-term claimant unemployment has fallen by nearly four-fifths to its lowest for 30 years.²⁹

4.9 The Government will build on the success of the New Deal programme by tailoring services more closely to the needs of different customers. One example of successful tailoring is the New Deal for disabled people.

²⁹ The New Deal in Northern Ireland is delivered through the Jobs and Benefits Offices.

Stakeholder Input

The Royal National Institute for the Blind (RNIB) is operating as a job broker for New Deal for disabled people (NDDP) on behalf of Jobcentre Plus and is an expert in providing specific services to blind and partially sighted people. Through NDDP, the RNIB has provided support in areas such as access to information, mobility, use of assistive technology and specialised rehabilitation and training services.

Source: Royal National Institute for the Blind

Opening up new opportunities to work**A life-cycle approach to work**

4.10 While building on success so far, the UK's reform strategy is increasingly focusing on the need to increase opportunities for those who remain outside or excluded from the labour market, and on ensuring that people are supported appropriately when making key life-cycle transitions, for example between education and work or between a period of ill-health and a return to the workforce. A range of policy measures are being developed to address the various obstacles people face throughout the life-cycle.

Tackling inactivity

4.11 One of the biggest challenges facing the UK is the number of people of working age who are currently inactive. Under existing arrangements these people tend to be categorised according to the kind of welfare benefits they receive. The UK Government is committed to an approach which focuses on helping these people into work through tailored policies both to meet their individual needs and maximise their potential.

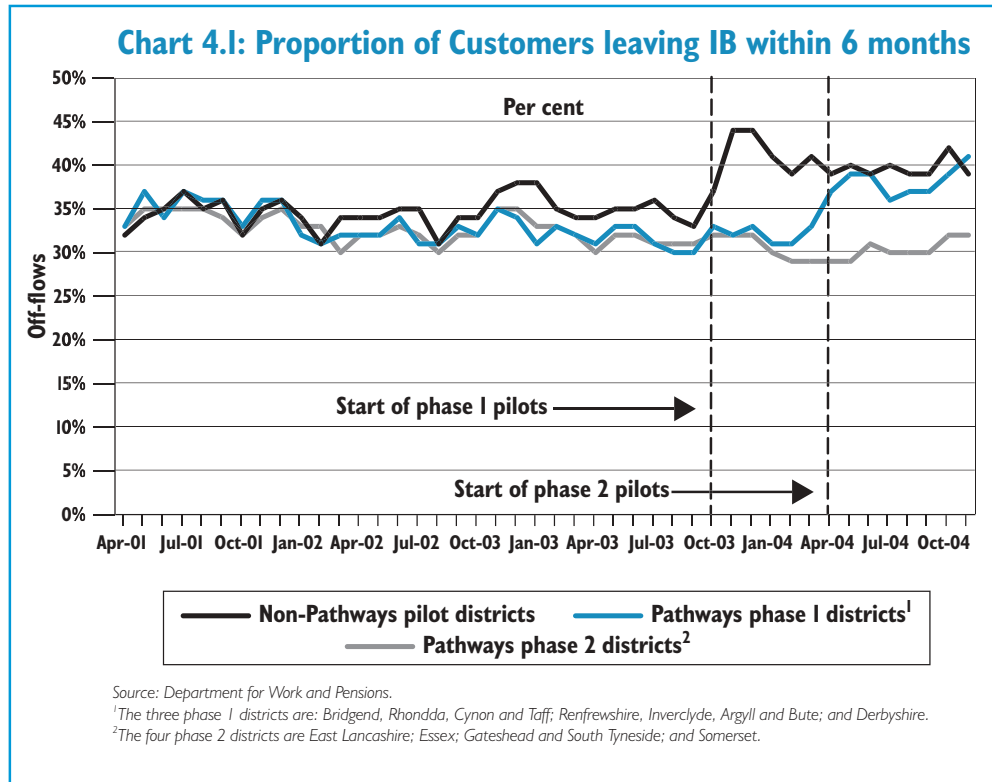
4.12 The UK has 2.63 million people claiming incapacity benefit (IB). Large numbers of these people would like to work (the Shaw Trust estimates 1.5 million people receiving IB would like to work given the right opportunities and the right support) but too often they are excluded because the right support is not available or because of outdated assumptions and a welfare system that until recently ignored the particular barriers to work that they face.

Pathways to Work

4.13 These issues are starting to be addressed through the Pathways to Work pilots. By offering a range of support, (such as specialist employment advice; new National Health Service (NHS) Condition Management Programmes to help people manage their conditions; and a £40 a week Return to Work Credit to make work pay), as well as requiring most new claimants to attend work-focused interviews, the pilot areas have started to deliver positive outcomes.

4.14 The number of incapacity benefit claimants helped into work in the pilot districts has doubled, compared with the pre-pilot period, and as the following chart shows the Government has radically improved the proportions flowing off benefits compared with non-pilot areas. The Government has also found that it is encouraging five times more incapacity benefit claimants to take up back to work support in these pilot areas. Whilst attendance at work-focused interviews is mandatory for most new claimants, over 10 per cent of those taking part are existing recipients of incapacity benefits, who participate on an entirely voluntary basis.

4.15 Recognising the success of Pathways, the Government has announced that it will extend them between October 2005 and October 2006 to cover one-third of all IB claimants and to include Northern Ireland.



4.16 While the primary focus remains on helping people into work, the Government is also considering how incapacity benefits themselves should be reformed. The reforms will recognise that for some people the state will continue to need to provide support. The aim will be to create a more dynamic benefit based upon rights and responsibilities and the value of work to long-term health and long-term wealth, which recognises people’s different capabilities, and to strengthen links with key partners, including the NHS, Local Authorities and employers. The Government will be producing a Green Paper this autumn, considering the future direction of reform not just for incapacity benefit claimants but also for some other groups.

Stakeholder Input

‘Want2Work’, operational in 3 local authority areas in Wales since February 2005, is a joint Welsh Assembly Government and Jobcentre Plus Wales initiative, developed to test a range of tailored measures, including job and health advice to help people claiming benefit (mainly incapacity benefit) move into employment. It is funded through a mix of Objective One and Three EU funds and money from the Assembly Government’s health budgets to provide for a health professional to work alongside Jobcentre Plus services and provide advice to individuals on managing medical conditions in the workplace. Delivery is through outreach provision in local community outlets and with the active engagement of local partners, including Careers Wales and Community First Partnerships. Over its 3 year lifetime, ‘Want2Work’ aims to engage with a minimum of 4,000 people and of these, help at least 1,000 to find, and stay in, work.

Source: Welsh Assembly

Addressing obstacles to labour market participation

Tackling discrimination of disabled people

4.17 Helping disabled people back into the labour market is part of the Government's wider strategy of enabling disabled people to participate fully in all aspects of society and tackling discrimination. The employment provisions of the Disability Discrimination Act 1995 were significantly extended from October 2004 and now cover all employers except the Armed Forces. The provisions within the Disability Discrimination Act 2005 will come into force from December 2005 onwards. The 2005 Act builds on, and extends, the provisions of the Disability Discrimination Act 1995 to provide comprehensive and enforceable civil rights for disabled people. The Government also intends to take forward the recommendations in the Prime Minister's Strategy Unit Report, Improving the Life Chances of Disabled People.

Support for parents

4.18 Whilst some people face labour market disadvantage due to their health, disability or to the operation of passive welfare benefits, others face difficulties reconciling their family and caring responsibilities with the demands of the world of work. This is the case for some lone parents. Therefore, a range of measures has been put in place to provide lone parents with the information and support needed to make work a realistic option. These measures include the New Deal for lone parents, mandatory work-focused interviews, the Sure Start programme, offering a range of support to children and parents, including the National Childcare Strategy, the National Minimum Wage and Tax Credits, all of which make finding and taking up work possible for lone parents and make sure that work pays.

4.19 Overall, this targeted approach has been effective in encouraging lone parents to move from benefit dependency into active participation in the labour market. Since 1997 the lone parent employment rate has risen by 11.3 percentage points to 56.6 per cent, the highest figure on record.³⁰ The Government recognises the importance of tackling occupational segregation and gender stereotyping in jobs and skills, as the talent pool which organisations draw from needs to be as wide as possible for continued economic success, and to enable both men and women to fulfil their own potential.

4.20 In addition, from April 2005 the Government has been piloting the New Deal Plus for lone parents.³¹ This is a package of support bringing together a coherent set of measures based on core provision available nationally through the New Deal for Lone Parents programme, and existing pilots.³² The pilots give advisers the tools they need to make a clearer, stronger and more comprehensive offer of help and support to lone parents than ever before.³³

4.21 To build on this success the Government is piloting new initiatives, to assess whether additional support will help lone parents find and remain in work. Two of these include:

- Work Search Premium – a financial incentive that is being piloted in eight areas across the country, offering a payment of £20 per week to lone parents who undertake intensive work search activity. Lone parents taking part are also entitled to help with the cost of formal childcare while undertaking work search activities; and
- In Work Credit – offering additional support to aid the transition into work of lone parents who have been on Income Support or income-based Jobseeker's Allowance for at least a year.

³⁰ National data; household level labour force survey.

³¹ Leicestershire, Dudley and Sandwell, Bradford, London South East and North London.

³² This pilot includes In Work Credit, Work Search Premium, Extended School Childcare, Childcare Tasters and, where they are already running, Quarterly Work Focused Interviews for lone parents whose youngest children are aged 12 and above.

³³ For more detail, see to the Department for Work and Pensions' Five Year Strategy.

4.22 Those lone parents with older children, who are at secondary school, are less likely to have significant childcare constraints, especially when the extra support outlined above is in place. To give a clear financial incentive, we will look to pilot for this group of lone parents an automatic payment of a £20 activity premium, on top of their weekly Income Support. The payment will be conditional on participation in work-related activities. No one will be worse off but the Government will be able to test a new way of encouraging lone parents to take steps back to work.

Stakeholder Input

Three years ago, Portsmouth City Council appointed its first work-life balance advisor to promote the implementation of work life balance policies by employers in the city. The initiative was aimed at assisting employers to address recruitment and retention issues, whilst also opening up employment opportunities to disadvantaged groups, especially lone parents. The initiative was linked to a local public service agreement target, and featured a toolkit for employers in the city, and has led directly to 100 lone parents entering employment.

Source: Local Government Association /Local Government International Bureau

Better services for parents and children

4.23 Many of the issues facing lone parents equally affect parents in general. One of these is childcare. Affordable and high-quality childcare places make returning to work, or taking up education and training, a real option. The Government's Ten Year Childcare Strategy, *Choice for Parents, the Best Start for Children*, was published in December 2004. It outlines Government plans to further expand the provision by delivering universal affordable childcare for 3- to 14-year-olds and a Sure Start Children's Centre for every community, so that early years and childcare services become a permanent, mainstream part of the welfare state. Plans now aim to:

- ensure the availability of childcare places for all children up to the age of 14 whose parents need them;
- establish a network of 2,500 Children's Centres offering early education, childcare and a range of health and family support, by 2008. Children's Centres are currently being established in the most disadvantaged areas. By 2010, there will be 3,500 centres, so every family will have easy access to high-quality integrated services in their community; and
- extend enriching activities before and after school (including childcare and a wide range of study support activities – such as IT, music and sports) for primary and secondary school pupils. By 2010, all children from 3 to 14 will have access to childcare and other study support activities from 8am to 6pm Monday to Friday, throughout the year.

The Ten Year Childcare Strategy

4.24 The Ten Year Childcare Strategy also includes measures to give greater choice to families in balancing their work and home commitments, enabling them to fulfil their caring roles and remain in employment, and to support employers in recruiting and retaining the best people. The commitments are to:

- extend Statutory Maternity Pay, Maternity Allowance and Statutory Adoption Pay from six to nine months from April 2007, as a step towards the goal of 12 months' paid maternity leave by the end of the Parliament;

- improve communication between parents and employers during maternity leave;
- enable mothers to transfer a proportion of their maternity leave and pay to fathers; and
- consider extending the right to request flexible working to carers of sick and disabled relatives and parents of older children.

Stakeholder Input

In 2004, the Trades Union Congress (TUC) held a key conference on childcare, jointly with the daycare trust, addressed by the then Secretary of State for Work and Pensions. The TUC have welcomed the Government's emphasis on childcare provision, including the move to better quality and affordable childcare for all through the expansion of Surestart and the national network of children's centres. In 2005-06, the TUC is planning to encourage further progress at a workplace level by publishing a new childcare guide for trade unions to use in negotiations with employers.

Source: Trade Union Congress

Extending working lives

Opening up opportunities for older workers

4.25 The realities of demographic ageing make it increasingly important that employment strategies can maximise the potential of older workers. Many people over 50 leave the workforce early, often involuntarily and often without adequate provision for their retirement. Population projections suggest that the number of people aged between 50 and 69 will increase from 13 million to 15.9 million by 2024. It is likely that more of this group will choose to work. More people are already choosing to work for longer, and it is the Government's intention to ensure that policies support these people. Therefore, by 2010, the earliest age at which a private or occupational pension can be taken will be raised from 50 to 55, and the Government has proposed an increase in the normal pension age of public sector schemes from 60 to 65.

4.26 From 2010 to 2020, the Government will be equalising women's State Pension Age with that of men at 65. Currently, over 1 million people have already chosen to carry on working past State Pension age – many in part-time and flexible work. The Government plans to increase the choices and opportunities for individuals to stay in work.

4.27 In April 2005 the Government introduced more generous options for deferring State Pension, raising the deferral rate from around 7.5 per cent to around 10.4 per cent and for the first time, people will be offered the choice of a taxable lump-sum payment as an alternative to an increase in their weekly pension: a typical person who defers their State Pension for five years could receive a payment of £20,000 to £30,000 or a 50 per cent increase in their weekly pension for life³⁴. And from April 2006, changes to tax rules will mean that people will be able to draw on occupational pension and continue to work for the same employer.

Preventing age discrimination

4.28 In order for the policies the Government is putting in place for older people to work, it must ensure that discrimination against them is prevented. The Government is already tackling age discrimination through the Age Positive campaign by encouraging employers to realise the business benefits of recruiting, training and retaining older workers as part of an age-diverse workforce.

³⁴ Pensions Green Paper: *Simplicity, Security and Choice; Working and saving for retirement*, December 2002.

4.29 In May 2005, the Government launched a new high-profile national guidance campaign, providing employers with practical guidance on adopting flexible approaches to work and retirement in relation to age and supporting preparations for the implementation of age discrimination legislation. In October 2006, the Government will enact the European Directive on age discrimination, making it unlawful to discriminate on the basis of age in employment and vocational training. There will initially be a default retirement age of 65; this will be reviewed after 5 years.

Stakeholder Input

The South West region has the largest share of older people in England. The project on employability and skills development for older workers aims to tap into this under-utilised potential by helping older workers to improve their employability. Skills and employment providers from the private and public sectors have come together with organisations representing older people to develop a package of support to maximise the employment chances of older workers. This includes advice and guidance, identification of skills and skills gaps, and IT training for older people, and engagement and awareness raising with employers.

Source: English Regional Development Agencies.

Equipping people to realise their potential

4.30 Just as opportunities for older workers will be crucial to the achievement of the Lisbon employment goal, it is vital that the potential of young people can be harnessed to the full.

4.31 Chapter 3 has already highlighted the crucial role of skills as a driver for productivity. Skills also have a role of making people “employable for life”. The Government’s ambition is to raise the UK’s performance on skills and ensure that employers have the right skills to support the success of their businesses, and individuals have the skills they need to be both employable and personally fulfilled.

The New Deal for skills **4.32** Pilots of the New Deal for Skills were announced in Budget 2004. The programme will help meet the Government’s ambition to reduce the number of adults with low or no skills and help employers to improve the skills of their workforce. It will complement current Jobcentre Plus New Deal programmes and enable personal advisers to distinguish better between clients who already have the skills necessary to get jobs and those who need the chance to develop their skills further. This will include:

- piloting of a skills-coaching service to give adults with low skills access to the skills advice and the support they require to improve their chances of sustained employment;
- the introduction of ‘skills passports’ to provide individuals with a simple and portable way of recording the skills and competencies gained and to support the transfer of skills between jobs;
- piloting of an Adult Learning Option to help both those people on inactive welfare benefits and the long-term unemployed for whom a lack of skills is a significant barrier to sustained employment; and

- better joint working between Jobcentre Plus offices and local Learning and Skills Councils and their devolved counterparts in Scotland, Wales and Northern Ireland, to offer a more effective and integrated skills service to individuals and employers.

Stakeholder Input

In Northern Ireland the Essential Skills for Living Strategy is helping adults to improve their literacy and numeracy skills. ICT will be trialed as a third Essential Skill from September 2005. The Strategy aims to support 46,000 adults by 2007, of which 18,500 are expected to have achieved a qualification. To date over 25,000 learners have been supported. A number of innovative approaches have been piloted in the workplace to encourage employers to identify and address literacy and numeracy needs within the workforce and enable them to access free, tailor-made learning programmes for their employees.

Source: Department for Employment and Learning Northern Ireland

4.33 This agenda is supported by the European Social Fund (ESF), which is delivered through Jobcentre Plus, Learning and Skills Councils and other agencies. One of the main priorities for the European Social Fund is to help disadvantaged groups move from unemployment and inactivity into work. As a result of the mid-term review of the European Social Fund in 2004, there is an increased focus on targeting groups who face particular barriers to entering and making progress in employment. In England, the ESF co-financing system also enables Jobcentre Plus and Learning and Skills Councils to work effectively in partnership with external stakeholders to deliver specific targeted services outcomes such as jobs, qualifications and positive movement towards the labour market.

Stakeholder Input

Jobcentre Plus in London is using ESF funding to help support Bootstrap Enterprises, an outreach project based on a social housing estate. The project aims to help long-term unemployed lone parents and people from ethnic minorities return to work. It provides a wide range of employability support including job-brokering, interview preparation, CV writing and 'basic skills in work' support.

Source: Department for Work and Pensions

Opening up opportunities by challenging disadvantage

4.34 In addition to specific challenges arising from their position in the life-cycle, some clearly definable groups face distinct labour market disadvantage. Some ethnic minorities and those in economically deprived areas all need specific help to enter the labour market. The UK will ensure that New Deal programmes and other mainstream labour market policies support and meet the needs of ethnic minority clients and those in economically deprived areas. In addition the UK has launched a series of initiatives aimed at supporting these groups.

4.35 Firstly, the Government has championed a cross-government strategy through the Ethnic Minority Employment Task Force to tackle the main factors in ethnic minority employment disadvantage. The task force is ensuring that the Government:

- focuses resources in areas of high unemployment with higher numbers of ethnic minorities;
- aims to increase flexibility to allow Jobcentre managers to develop local responses to the needs of particular ethnic minority groups; and
- works with employers and other local stakeholders through the ‘Fair Cities’ initiative. The Fair Cities employer-led initiative aims to close the employment gap for ethnic minorities in three urban areas where large ethnic minority populations face particularly severe disadvantage.

4.36 Secondly, the Government will look to implement the main recommendations of the National Employment Panel report *Enterprising People, Enterprising Places*. The recommendations seek to build on the cross-government strategy, aiming to coordinate resources in the main cities of ethnic minority population through an integrated employment and skills strategy. The Government will also implement the report’s recommendation that outreach support is targeted at those ethnic minorities groups who need most support – those people who are not in work, not on benefit and may have been traditionally excluded from the labour market.

Stakeholder Input

The ‘Opening Doors’ project in the east of England is tapping into the skills of people in minority communities by training them as interpreters. A professional qualification improves their employability and allows them to gain translation and interpreting work with public service providers such as the police, courts and health services. It also helps communities as a whole to overcome barriers to accessing public services – making a valuable contribution to improving social cohesion. Training is available as a short six-week course option or a full 24 week course that leads to the standard qualification required by the legal system as well as many public agencies. About 80 per cent of the trainees are women with no recent experience of work. With self confidence and motivation boosted through training, they can secure part-time employment that fits around home and family commitments.

Source: English Regional Development Agencies

Targeting deprivation

4.37 The Government will also step up efforts to target pockets of deprivation, where worklessness continues to be a substantial barrier to social inclusion.

4.38 From 2005, the focus will shift from the 30 most disadvantaged local authority areas to 903 individual wards to ensure that efforts are more effectively targeted at areas of greatest deprivation. The UK strategy has three strands:

- evolving national programmes to meet the needs of deprived areas more effectively for example benefiting from programmes such as the New Deals;
- using the lessons from specific programmes to seek new ways of addressing area-based disadvantage in the labour market. In particular, Employment Zones, Action Teams for Jobs and the Working Neighbourhoods pilots; and

- working at local level to build partnerships that will develop local solutions to problems, extending the reach of programmes and identifying new ways of bringing together funding from a wide range of budgets, for example through local area agreements.

Stakeholder Input

In Scotland, the Scottish Executive continues to develop and implement its “Closing the Opportunity Gap” (CtOG) approach that aims to prevent individuals and families from falling into poverty, provide routes out of poverty for individuals and families, and to sustain them in a lifestyle free from poverty. The CtOG approach coordinates action across all of the Executive’s departments and agencies, as well as its partners and stakeholders to help communities and individuals to overcome the barriers associated with poverty and disadvantage. Through a series of 10 CtOG targets, which, for example, focus on encouraging the public sector and large employers to tackle aspects of in-work poverty by providing employees with the opportunity to develop skills and progress in their career. The Executive has focussed on what evidence shows to be the most important aspects of disadvantage, poverty and deprivation in Scotland.

In Northern Ireland, government aims to tackle poverty and disadvantage through the broad policy approach on ‘New Targeting Social Need’. This involves government departments and other public bodies targeting effort and resources on those individuals, areas and groups in greatest objective need with a particular focus on increasing employment and employability, tackling areas of inequality such as health and education, and promoting social inclusion.

Source: Scottish Executive / Northern Ireland Administration

Making work pay

Making work pay 4.39 While the Government’s life-cycle approach enables labour market and welfare measures to be targeted on the specific situations of individuals, it is also important to provide an overarching framework to ensure that work pays.

4.40 Through the Working Tax Credit and the National Minimum Wage, the Government has boosted in-work incomes, improving financial incentives to work and tackling poverty among working people. Tax credits provide flexible support that can be tailored to an individual household’s needs, for example, reflecting the number of children in a family.

The National Minimum Wage 4.41 The National Minimum Wage guarantees a fair minimum income from work. The adult rate has been increased to £5.05 an hour from October 2005 and, subject to the Low Pay Commission’s review early next year, will be increased to £5.35 from October 2006. The youth rate, for workers aged between 18 and 21, has also risen, to £4.25 from October 2005 and will rise to £4.45 from October 2006.

The Working Tax Credit 4.42 The Working Tax Credit provides financial support on top of earnings for households with low incomes. In April 2005, 2.2 million working families and over 280,000 low-income working households without children were benefiting from the Working Tax Credit. Some 91,000 households were benefiting from the disabled worker element of the Working Tax Credit. Tax credits have reduced the burden of tax for low-income households and for workers with a disability.

4.43 Recent increases in the value of the childcare element of the Working Tax Credit will make childcare more affordable for working families on low or moderate incomes, significantly increasing the financial gains to work for families with eligible childcare costs. Some 330,000 families stand to benefit by, on average, £400 per year as a result of the increase in the maximum proportion of costs covered from 70 to 80 per cent in April 2006.

4.44 Marginal deduction rates (MDRs) measure the extent of the poverty trap by showing how much of each additional pound of gross earnings is lost through higher taxes and withdrawn benefits or tax credits. The Government's reforms are ensuring that workers have improved incentives to progress in work. As a result of these reforms, around half a million fewer low-income households now face MDRs in excess of 70 per cent than in April 1997.

Addressing the gender pay gap **4.45** Finally making progress on the gender pay gap is a key priority, not least because there are negative consequences for productivity and growth, if the skills of women are not being employed and valued effectively. The employment rate for women in the UK stands at 65.6 per cent already exceeding the Lisbon target of a 60 per cent employment rate for women by 2010³⁵. However, the gender gap in pay persists – women currently earn 14.4 per cent less per hour than men based on the median measure of pay³⁶. In July last year, the Prime Minister announced the creation of the Women and Work Commission (WWC), which will make recommendations to the Prime Minister during January 2006 on tackling the gender pay gap and giving women a fairer deal in the workplace. The Commission is looking at:

- how men's and women's education and skills affect which jobs they can get;
- promotion and career progression;
- women's experiences in the job market before and after having children; and
- the different experiences of women working full-time and part-time.

4.46 The Government is working with a number of different stakeholders who have given evidence to the WWC.

Conclusion **4.47** The UK has achieved a lot but there is more to do. To achieve the changes across Europe that the Lisbon goals demand, we have to make significant changes to the individual lives of our citizens. The Government will be producing a Green Paper this autumn on the future of welfare reform.

4.48 Over the three-year cycle of the Lisbon Reform Programme this process of radical welfare reform will be taken forward to offer a ladder to self-reliance and self-determination based on reciprocity – a 'something for something' contract between the individual and the state. This approach will continue to be underpinned by the concept that work is the best route off welfare and by the Government's continued commitment to the core values of solidarity and mutuality.

³⁵ Source: Eurostat. The definitions differ from national figures. The female employment rate relates to 15-64 year-olds.

³⁶ Annual Survey of Hours and Earnings, 2004.

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COMMON CONTRIBUTION BY THE BRITISH AND IRISH GOVERNMENTS

With a view to further enhancing and promoting North/South economic and social cooperation of mutual benefit, the British Irish Inter-Governmental Conference, meeting at Head of Government level on 27 June 2005, asked officials to examine the possibility of a joint contribution in the reporting on the EU's Lisbon Strategy aimed at supporting growth and employment in the EU.

This initiative was undertaken in the context of the continuing partnership between both Governments to achieve the implementation of the Belfast Agreement and to build peace, prosperity and social inclusion on the island of Ireland.

The British and Irish Governments remain committed to the full implementation of the Good Friday Agreement. They look forward to the early restoration of the political institutions of the Agreement, including the Northern Ireland Executive and Assembly and the North/South Ministerial Council.

They believe that strong, sustainable economic development is an essential component of the long-term success of the Northern Ireland Peace Process. That is best achieved through the full operation of the devolved institutions and the North/South structures of the Agreement.

They support the central ambition of the Lisbon Strategy to promote economic growth and employment, in order to ensure that Europe remains dynamic and competitive in the global economy and to help achieve wider social and environmental objectives.

They believe that improved cooperation within Ireland, North and South, on matters when appropriate of mutual benefit has an important role to play in meeting the Lisbon objectives.

In the modern world, the key issue is how European economies respond to the challenges from outside Europe. This requires a stable, consistent macroeconomic environment along with flexible, innovative and responsive reforms.

While there are important differences, many of the challenges faced by Ireland, North and South, are similar. These include the need:

- to respond to globalisation and maintain competitiveness;
- to continue to grow employment and employment rates;
- to increase productivity;
- to innovate and to develop greater R&D capability;
- to enable people to acquire and maintain the skills needed for a modern, dynamic knowledge economy and to adapt to changes over their working lives;
- to promote enterprise and entrepreneurship;
- to provide a positive climate for business, including through more efficient regulation;
- to remove barriers to physical, labour and academic mobility as part of the completion of the European single market;

- to build world-class infrastructure;
- to achieve equality and good relations; and
- to maintain the highest standards of environmental protection.

It is clear that meaningful mutual benefits can be secured through cooperation on an all-island basis in many areas. This is already evident in policy areas such as energy, where the authorities both North and South are cooperating to create an all-island energy market, and tourism, which is now being marketed on an all-island basis. The Governments believe that further cooperation in areas such as those outlined above can lead to further positive results.

In order to advance cooperation, to mutual benefit, the two Governments will work together to:

- identify those areas and policies where cooperation is appropriate and mutually beneficial;
- communicate with each other in relation to common needs associated with those areas;
- work together to develop joint approaches designed to realise those benefits; and
- assess the potential for lessons to be learned from each other.

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