

Lisbon Strategy for Jobs and Growth

UK National Reform Programme

Update on progress

September 2007

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This document can be found on the Treasury website at:

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For general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

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INTRODUCTION

1.1 In March 2005, the Spring European Council agreed to re-launch the Lisbon Strategy to focus sharply on the key priorities of jobs and growth. Subsequently, the new Integrated Guidelines package for 2005-08, endorsed by the European Council in June 2005, identified the key challenges facing the EU as a whole. Against this background the Government published its first National Reform Programme (NRP)¹ under the Lisbon Strategy in October 2005, setting out priority areas for national economic reform and policy commitments.

1.2 The Spring European Council of March 2006 confirmed that the 2005-08 Integrated Guidelines remain valid, and identified four areas for priority actions within this framework: investing in knowledge and innovation; improving the business environment; increasing employment opportunities for the most disadvantaged; and defining an energy policy for Europe. The UK's 2006 NRP update² therefore reported on implementation of these and other principal reforms. In their assessments, the Commission and the Council deemed the UK to be making good progress.

1.3 On the basis of the European Commission's assessment of progress towards the Lisbon goals,³ the Spring European Council of March 2007 endorsed a set of country-specific recommendations prepared by the Council of Ministers. The full text of the UK's country-specific recommendation is included at Annex A. In particular, the Council recommended that the UK should increase basic and intermediate skills, which is addressed by the recent Leitch Review of Skills and the Government's response, in order to raise productivity, and further improve employment prospects for the most disadvantaged. Pensions, housing, science and innovation and childcare were identified as *points to watch*.

1.4 The 2007 NRP update briefly sets out recent progress against key elements of the UK's comprehensive programme of structural reform, including measures being taken in the areas covered by the UK's country-specific recommendation and *points to watch*. It also sets out progress against EU-level priorities such as the four areas identified by the 2006 Spring European Council, and the Better Regulation and Energy / Climate Change packages agreed at the 2007 Spring European Council. The update reports on policies developed and implemented by both central UK Government and the Devolved Administrations of Scotland, Wales and Northern Ireland. A separate reporting table requested by the European Commission gives further details of the main measures taken to meet UK reform objectives, and is presented alongside and in complement to this update.

The UK Government approach

1.5 The Government continues to undertake a comprehensive programme of long-term reform to deliver strong and sustainable economic performance and employment growth, consistent with sustainable development and the Lisbon Strategy. The Government's priorities are maintaining macroeconomic stability; raising the sustainable rate of productivity growth; providing employment opportunities for all; ensuring fairness by delivering world-class public services; and addressing environmental challenges.

¹ Lisbon Strategy for Jobs and Growth: UK National Reform Programme, October 2005.

² Lisbon Strategy for Jobs and Growth: UK National Reform Programme – Update on progress, October 2006.

³ Implementing the renewed Lisbon Strategy for growth and jobs, COM (2006) 816 final, December 2006.

1.6 As recognised by the Commission's 2006 Annual Progress Report and the 2007 Spring European Council, the UK is making good progress towards the Lisbon goals of jobs and growth. Budget 2007 reported economic growth of 2¾ per cent in 2006 (compared to the Lisbon goal of 3 per cent growth by 2010), while the UK is one of only three Member States to have already met all of the Lisbon employment targets.

1.7 The importance of establishing macroeconomic stability as a prerequisite for growth and structural reform is central to the Lisbon strategy and a key element of the EU Broad Economic Policy Guidelines. Against a backdrop of an unprecedented 60 quarters of consecutive economic growth and historically low levels of volatility, the Government is undertaking an ambitious Comprehensive Spending Review (CSR). The CSR, which will report in October 2007, will achieve significant value for money savings and thereby release money for front-line delivery. Pensions reforms aimed at increasing fairness and eliminating pensioner poverty, and an ambitious review of the planning system to tackle house price inflation, also form part of the Government's response to long-term challenges.

1.8 The Government continues to deliver on its microeconomic policy reform commitments, and has placed measures to improve productivity at the centre of its reform agenda. For example, regulatory simplification plans will contribute to improving the business environment by delivering over £2 billion in savings, while the UK supports knowledge and innovation through measures such as the Ten-year investment framework, and the work of the Technology Strategy Board.

1.9 Enhancing the skills of the workforce to raise productivity performance is a further central pillar of the UK's reform programme. The Government is rolling out the ambitious Train to Gain programme in England,⁴ delivering training for low-skilled individuals in the workplace, and published plans to take forward reforms in July 2007 recommended by the recent Leitch Review. Furthermore, the wide-ranging Energy White Paper (May 2007) will help to address another key long-term challenge, and the Government is currently consulting on proposals to deliver its objectives through competitive and independently-regulated markets.

1.10 Active labour market policies, underpinned by the notion of flexibility, fairness and making work pay, provide employment opportunities for the most disadvantaged and are at the very heart of the Government's reform agenda. Roll-out of the Pathways to Work pilots and the Employment and Support Allowance will enhance employment opportunities for all, while the Government is also increasing the provision of childcare places and continues to support lower and middle-income families via the Working Tax Credit.

Consultation with stakeholders

1.11 The Government consults widely with national, regional, local and sectoral stakeholders as a matter of course in developing new policies. Policy measures set out in this update have been subject to scrutiny and consultation in accordance with this model, which the International Monetary Fund (IMF) has praised for its high degree of transparency. In terms of implementing structural reform policies in the context of the Lisbon Strategy, the Government has sought the views of a wide range of stakeholders via a seminar and a web-based consultation. This update incorporates contributions from stakeholders reflecting the role they play in implementing the Lisbon Strategy. Preparation of this NRP update has also benefited from discussions with the European Commission.

⁴ Details of similar schemes operated by the Devolved Administrations of Scotland, Wales and Northern Ireland are given in Chapter 3.

2

MACROECONOMIC STABILITY FOR JOBS AND GROWTH

2.1 The Government's macroeconomic framework is designed to maintain long-term economic stability. Large fluctuations in output, employment and inflation add to uncertainty for firms, 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.

Fiscal policy 2.2 In terms of fiscal policy, Budget 2007 projections for the public finances show that the Government is meeting its strict fiscal rules over the economic cycle on the basis of cautious assumptions, with public finances remaining sound and sustainable in the long-term. The use of cautious audited assumptions and tough decisions taken in the past on tax and spending mean that the Government has been able to allow fiscal policy to support monetary policy and safeguard investment in priority public services, while ensuring long-term sustainability. In line with the Stability and Growth Pact, the Government will present, before the end of 2007, an updated Convergence Programme providing further details of its latest forecasts for the economy and public finances, consistent also with the reforms outlined in this NRP update.

Comprehensive spending review

2.3 In 1997 the Government launched the first Comprehensive Spending Review (CSR), the most in-depth examination of public spending ever attempted in the UK. A decade on, the Government is conducting a second CSR, reporting in autumn 2007, which will undertake a fundamental review of the balance and pattern of public expenditure. It will take stock of what investments and reforms have delivered to date, identify further steps needed to meet the challenges and opportunities of the decade ahead, and set expenditure levels for the period 2008-09 to 2010-11. The 2007 CSR is underpinned by a programme of work including:

- a detailed understanding of future trends and a series of policy reviews on strategic and cross-cutting issues;
- an ambitious and far-reaching value for money programme to release resources for front-line service delivery;
- a set of zero-based reviews of departmental expenditure;
- a more strategic approach to asset management and investment decisions; and
- transforming the performance management framework for public services through a more focused set of cross-Government Public Service Agreements (PSAs) and a greater emphasis on user engagement in delivery planning.

2.4 In order to ensure that historic increases in investment are translated into better outcomes across public services, the Government has set out an ambition to achieve annual efficiency gains worth over £21 billion by 2007-08. Against this target, government departments and Local Authorities have reported over £15 billion annual efficiency gains to the end of December 2006.

Value for money in the CSR **2.5** The 2006 Pre-Budget Report set out a baseline ambition of 3 per cent savings per year across central and local government for the CSR years. Since then, departments have been refining their value for money plans for the CSR07 years, and Budget 2007 announced that all of the savings delivered under the CSR07 value for money programme will be net of implementation costs and cash-releasing, thereby maximising resources available to improve frontline services and fund new priorities.

2.6 Strong progress in departments' value for money preparations has enabled a number of them to agree early spending settlements for the 2007 CSR period, which deliver continued service improvements at reduced cost. The Department for Work & Pensions, HM Revenue & Customs, HM Treasury and the Cabinet Office, will see their budgets reduced by 5 per cent a year in real terms over the CSR07 period, with 5 per cent annual real reductions in the spending plans for five smaller departments.¹ The Attorney General's Departments (AGDs) will see a reduction of 3.5 per cent per year in real terms to overall budgets.

2.7 The Government has set aside over £1 billion in modernisation funding for the early settlements announced to date, enabling these departments to release a total of over £2 billion in nominal savings over the 2007 CSR period and to embed ongoing efficiencies for the longer term. Controls on departments' administration budgets help to drive efficiency in the running of government itself and maximise the resources that are delivered to the frontline. The 2006 Pre-Budget Report announced 5 per cent annual real reductions in administration budgets across departments, releasing over £1 billion a year by 2010-11. Budget 2007 also announced 2007 CSR settlements for education and science, which see their budgets rise by 2.5 per cent a year in real terms over the next 3 years. Further details of these settlements are set out in the next chapter.

Performance management in the CSR **2.8** The UK's performance management framework will also evolve in the CSR period to reflect the challenges of the decade ahead. Through a streamlined set of Public Service Agreements, the new framework will focus attention and resources on these key challenges, encourage a collaborative cross-governmental approach and empower the delivery chain, placing trust in those delivering public services.

Setting the spending envelope for the CSR **2.9** Consistent with the Government's strict fiscal rules, Budget 2007 confirmed the firm overall spending envelope for the 2007 CSR period, locking in historic increases in investment since 1997 while allowing total public spending to increase by an average of 2 per cent per year in real terms. Current spending will increase by an average of 1.9 per cent per year in real terms, and net investment will rise to 2¼ per cent of GDP compared with ½ per cent of GDP in 1997-98, locking in the step change in investment over the past decade.

2.10 The Government will announce the remaining CSR settlements and the block budgets for the Devolved Administrations as part of the final CSR announcement in October. The Devolved Administrations will announce their own draft budgets in the autumn setting out how they plan to allocate their block budgets based on their own spending reviews, which are currently underway.

2.11 While much has been achieved in the last ten years, the world is changing rapidly. There are new opportunities and challenges in the decade ahead, which will have far-reaching implications for public services. These include demographic and socio-economic change, the intensification of cross-border economic competition, the

¹ National Savings & Investments, the Food Standards Agency, the Privy Council Office, the Government Actuary's Department and the Central Office of Information.

rapid pace of innovation and technological diffusion, continued global uncertainty and ongoing threats from international terrorism and conflicts, and increasing pressures on global resources and the global climate. Meeting these challenges will require cross-departmental policy responses and sustained investment in key areas.

Housing supply

2.12 A responsive and flexible housing market is essential to secure the UK's future economic prosperity. The Government's July 2007 Housing Green Paper² therefore set out an ambition to increase housing supply to at least 240,000 net additional homes a year in England by 2016. Substantial progress is being made towards this target, with over 185,000 net additional homes delivered in the year to March 2006.

2.13 The Green Paper also set out plans for a 50 per cent increase in social housing supply, which will deliver 45,000 new social homes per year by 2010-11, with a goal to raise this to 50,000 per year in the next Spending Review. This substantial increase will be delivered through a combination of new investment and significant efficiency gains. By 2010-11 investment in new social housing will have increased to £2.7 billion while unit costs will have been driven down by a fifth through better procurement.

2.14 To support Local Authorities in meeting their housing targets, in autumn 2006 the Government consulted on, and now plans to introduce, a new Housing and Planning Delivery Grant. Earlier this year a new independent National Housing and Planning Advice Unit was established to provide expert advice to regional planning bodies, helping them to understand better the relationship between housing supply and affordability.

2.15 Furthermore, to ensure that its ambitious plan for a step change in housing supply is supported by the necessary investment in infrastructure, the Government's *Response to Kate Barker's review of housing supply*³ announced a *Policy Review into Supporting Housing Growth* to determine the social, transport and environmental infrastructure implications of housing growth, to establish a framework for sustainable and cost-effective patterns of growth, and to ensure that departmental resources across government are targeted appropriately to support growth.

2.16 The Review has involved active engagement with key stakeholders to understand the barriers to delivery and develop possible solutions, and proposes to use the CSR performance management framework to ensure that housing growth is given appropriate prioritisation by key infrastructure departments at national level. At the local and regional level the Review proposes changes to infrastructure planning and delivery, and is committed to working with stakeholders to develop suitable mechanisms for 'front funding' infrastructure at an early stage of development.

Devolved Administrations

2.17 Scotland saw 19,289 net additions in the year to September 2006, while in Northern Ireland over 17,000 new dwellings were completed in 2005-06 and in Wales over 9,000 new dwellings were built in 2006-07. The Scottish Executive announced the establishment of a Housing Supply Task Force in June 2007, which aims to inject new momentum into the supply of mainstream and low-cost housing, while the establishment of a Scottish Housing Support Fund will further assist first-time buyers and attract private investment into the shared equity market. The Scottish Executive will also implement reforms to deliver a more efficient, inclusive, fit for purpose and

² *Homes for the future: more affordable, more sustainable*, Department for Communities and Local Government, July 2007.

³ *The Government's response to Kate Barker's review of housing supply*, HM Treasury, December 2005.

sustainable planning system over the next two years, following a White Paper on planning reform in June 2005.

2.18 The Welsh Assembly Government has committed to increasing the supply of affordable housing by at least 6,500 homes over the next four years and related proposals on housing policy include increasing the resources for social housing and further changes to planning policy. In Northern Ireland an Independent Review into Affordable Housing, led by Sir John Semple, was completed in April 2007. The Review made a number of cross-cutting recommendations, which the Northern Ireland Executive is currently considering.

Planning-gain Supplement

2.19 The Planning-gain Supplement is a proposed levy on the value uplift accruing to land granted planning permission, to generate additional resources for investment in infrastructure. The Government has consulted widely on proposals with stakeholders, and is considering next steps. On 11 July the Prime Minister indicated to Parliament that a Planning-gain Supplement Bill is provisional within the third session legislative programme. If a better way of ensuring that local communities receive significantly more of the benefit from planning gain is identified prior to the 2007 Pre-Budget Report – including investment in the necessary housing infrastructure – the Government will be prepared to defer next session’s legislation.

Pensions reform

2.20 The Government is committed to reforming and simplifying pensions provision, and will make the state pension fairer and more widely available, in addition to raising the state pension age in line with increasing longevity. The Government’s objective is to re-link the uprating of the basic State Pension to average earnings in 2012, subject to affordability and the fiscal position. Reforms will seek to improve the foundation for all while continuing to tackle pensioner poverty, uprating the guarantee element of the Pension Credit in line with earnings growth.

2.21 In terms of private pension provision, from 2012 the Government plans to introduce auto-enrolment into a pension, a mandatory employer contribution of 3 per cent, and a new simple, low cost scheme of personal accounts to encourage saving for retirement. Auto-enrolment will make saving for a pension the default (with the freedom to opt out), overcoming some of the psychological barriers, including myopia and inertia, which may prevent individuals from starting to save. The introduction of personal accounts will also meet a gap in the market for those on low to moderate incomes who do not have access to a good workplace pension, and who are not currently well provided for by the market (due to high up front costs and non-persistence associated with pension saving for these groups).

2.22 The Government has consulted on its May 2006⁴ and December 2006⁵ White Papers on pensions reform, and is implementing proposals through Parliament in two separate Bills. The first of these, which is primarily concerned with putting into law the reforms to the state pension system set out in the first White Paper, received Royal Assent in July 2007. Further legislation setting out a framework for personal accounts and automatic enrolment will be in a second Pensions Bill announced by the Government on 11 July 2007 as part of its draft legislative programme.

⁴ *Security in Retirement: towards a new pensions system*, Department for Work and Pensions, May 2006.

⁵ *Personal Accounts: a new way to save*, Department for Work and Pensions, December 2006.

3

MICROECONOMIC REFORMS TO PROMOTE PRODUCTIVITY GROWTH

3.1 The Government's strategy for increasing the UK's productivity is based on two fundamental pillars: providing macroeconomic stability to enable firms and individuals to plan for the future, and implementing microeconomic reforms to the business and policy environment to remove the barriers that prevent markets from functioning efficiently. Competitive and open markets increase the global competitiveness of European firms, raising economic growth and standards of living in Europe and benefiting consumers by ensuring lower prices and a greater variety of goods and services. In this context, the Government also promotes removal of barriers to the effective functioning of the Single European Market, for instance via the recently agreed Services Directive, which is worth a potential €30 billion per annum of economic benefits and up to 600,000 new jobs throughout the EU. The Government's views on the Single Market are summarised in Box 3.1.

Box 3.1: The Single Market – a vision for the 21st century

The Government welcomes the European Commission's Review of the Single Market, which provides an opportunity to look again at how the Single Market can equip Europe to compete in the 21st century global economy. A properly-functioning Single Market is at the heart of delivering jobs and growth in line with the Lisbon Strategy. The Government therefore set out a strategy in January 2007 for a Single Market that delivers for Europe's citizens, businesses and consumers through a pro-competition, flexible and outward-looking approach. In particular, the Government believes that Single Market policy should be based on the following key principles:

- focusing policy on the key outcomes of promoting jobs, growth and prosperity;
- prioritising actions in the areas where economic impacts are greatest;
- emphasising cooperation and the principle of subsidiarity; and
- using a wider range of policy tools.

3.2 The Government is committed to delivering strong, stable and sustainable economic growth. To achieve this aim it is essential to take care of the natural environment and the resources on which economic activity depends, and economic growth need not be at the expense of the environment. Instead it must be based on the principles of sustainable development: integrating economic prosperity with environmental protection and social equity. The latest international comparisons of productivity estimate that the UK is making real progress towards narrowing the productivity gap with its main industrialised competitors, and is the only G7 country to have kept pace with the US' impressive productivity performance since the mid 1990s.

Improving the business environment

3.3 In an increasingly global economy, a vibrant environment for entrepreneurial activity is central to ensuring that the UK can respond flexibly to new challenges. The importance of business to the UK economy is reflected in the recent creation of the Department for Business, Enterprise and Regulatory Reform and of the Business Council for Britain. Competition rewards efficiency, flexibility and innovation and is therefore vital for business. The delivery of robust competition policy in the UK is carried out primarily via the Office of Fair Trading and the Competition Commission. A

recent independent survey of global competition regimes ranked the Competition Commission in joint first place.¹ In this context, the Government fully supports the European Commission in its work to drive greater competition throughout Europe and to carry out its mandate to ensure that competition in the EU is not distorted.

Promoting entrepreneurship

3.4 A dynamic Small and Medium-sized Enterprise (SME) sector is needed to drive productivity growth and generate prosperity in disadvantaged areas. The 2006 Global Entrepreneurship Monitor indicates that the UK rate of total entrepreneurial activity is the third highest of the G7, behind the US and Canada.² Overall, the UK approach corresponds closely to the key policy actions identified within the European Small Firms Charter,³ a framework for actions by EU Member States in support of small firms.

3.5 The Government believes that support to help businesses start up and grow should be simple and easy to access, and therefore aims to reduce the number of business support schemes from over 3,000 now, to no more than 100 by 2010. The Government also remains committed to promoting enterprise culture among ethnic minorities and in deprived areas, via schemes such as the Ethnic Minority Business Task Force and the Local Enterprise Growth Initiative. Budget 2007 also announced continued funding of £60 million a year for enterprise education, while the Women's Enterprise Taskforce became operational in autumn 2006. Providing high-profile leadership to accelerate women's enterprise development, the Taskforce appointed members and held its first meetings in 2007. Budget 2007 also announced a reduction in the main rate of Corporation Tax from 30 per cent to 28 per cent.

Regulatory reform

3.6 Inefficient regulation, or blanket enforcement, can impose significant and unnecessary burdens on business and therefore hinders job creation and growth. The Government recognises the key role played by regulation in delivering the conditions for business success, and in line with the 2006 Spring European Council conclusions and the European Commission's Strategic review of better regulation in the European Union,⁴ remains committed to pursuing a programme of reform to deliver better and effective UK and EU regulation.

3.7 The Government is therefore examining the stock of regulation to ensure that outdated regulations are repealed; scrutinizing the flow of regulations to ensure that the benefits outweigh the costs; reducing the administrative burdens on business; updating the Small Firms Impact Test (SFIT) to encourage departments to give fuller consideration to the needs of small firms in policy design, including consideration of complete or partial exemptions for small firms where possible; and embedding a risk-based approach to the design and enforcement of regulation.⁵

3.8 In May 2007, the Government launched a new Impact Assessment (IA) to ensure that all new regulation is necessary and imposes minimum burdens. The new IA improves on the previous Regulatory Impact Assessment with a simpler, more transparent process to be embedded at the earliest stage of policy making. All IAs will be accessible from an online database, making them easily available for public scrutiny.⁶

¹ The Global Competition Review (2006) ranked the UK Competition Commission in joint first place, with the European Commission (DG COMP) and the USA Federal Trade Commission.

² *Global Entrepreneurship Monitor (2006)*, London Business School, 2006.

³ Available at http://ec.europa.eu/enterprise/enterprise_policy/charter/index_en.htm

⁴ *A strategic review of better regulation in the European Union*, European Commission, COM (2006) 689 final.

⁵ The Devolved Administrations are undertaking separate exercises to reduce administrative burdens.

⁶ The Devolved Administrations also conduct assessments of regulatory impacts, in line with separate procedures.

Administrative burdens **3.9** Following the measurement of the total administrative burden to business of complying with government regulations, 19 government departments published simplification plans in December 2006, outlining measures to simplify the existing stock of regulation. The outcome of this exercise will mean savings to the private and third sectors of over £2 billion in administrative costs by 2010, while additional policy and public sector savings of £1.8 billion will increase total savings to £4 billion. As part of the simplification agenda, the Government has set a net target for 18 departments to reduce the administrative burdens on business by 25 per cent by May 2010. Simplification plans will be updated annually, with the next set due to be published at the end of 2007. These will reflect reductions that have now been introduced, progress on those yet to be implemented, and identify additional measures to ensure the net reduction targets are met. The Government strongly supports EU-level efforts to reduce the burden of EU regulations on business, such as the 25 per cent reduction target agreed by Heads of state and government as part of the 2007 Spring European Council package.

3.10 Budget 2006 announced separate targets for HM Revenue & Customs (HMRC) to reduce burdens imposed on business by the tax system by 2010-11, with a focus on forms, returns, audits and inspections. By April 2007, estimated reductions in these areas were £170 million per annum, with further reductions in wider administrative burdens of £130 million. HMRC will continue to work closely with the Administrative Burden Advisory Board and with the business community to identify new areas for action that tackle the burdens of most concern to business.

Knowledge and innovation

3.11 In a competitive global economy, innovation and the successful exploitation of creative ideas is increasingly important to business success, productivity and long term growth. The Government is committed to providing the right environment for innovation and creativity to flourish in all sectors of the economy. The UK has taken action to invest in the science base, strengthen links between business and the research base, encourage Research and Development (R&D), and ensure an attractive regulatory and investment environment. The creation of a new Department for Innovation, Universities and Skills (DIUS) in June 2007 brings together policy on skills, Higher Education, science and innovation for the first time, and offers a major opportunity to deliver an integrated approach to these key drivers of economic growth.

R&D investment **3.12** The Government's ten-year *Science and Innovation Investment Framework 2004-2014*⁷ set out a long-term ambition for public and private investment in R&D to reach 2.5 per cent of UK GDP by 2014, together with a comprehensive policy framework to underpin this ambition. The third annual report⁸ on the ten-year framework was published in July 2007, and concludes that, three years into the implementation period, good progress is being made. In particular, the UK has maintained the excellence of its scientific research in the face of increased competition, and remains second only to the US in global scientific excellence as measured by citations. Knowledge transfer activity from the research base also continues to increase, with significant growth in licensing and consultancy income in universities and growth in the number of spin-outs created over the past year, while there are encouraging signs that attainment and take-up for

⁷ *Science & innovation investment framework 2004-2014*, HM Treasury / Department of Trade and Industry / Department for Education and Skills, July 2004.

⁸ *Science & innovation framework 2004-2014: Annual report 2007*, HM Treasury / Department for Innovation, Universities and Skills, July 2007.

Science, Technology, Engineering and Mathematics (STEM) skills are beginning to improve.

3.13 The UK currently spends a total of £21.8 billion or 1.76 per cent of GDP on R&D. The ten-year framework included a commitment that public investment in the science base would increase at least in line with the cautious growth trend estimate of the economy over the ten-year period.⁹ Budget 2007 announced three-year settlements for the Science and Education budgets, which will mean that public investment in the research base will rise from £5.4 billion currently to £6.3 billion by 2010-11, equivalent to annual average real growth of 2½ per cent. This builds on the significant increases in public investment in science in recent years, and will provide long-term certainty for the research community.

3.14 The 2007 annual report shows that business investment in R&D is also growing in real terms and is keeping pace with GDP growth. Overall the level of business R&D investment remains low compared to other leading Member States, although this is largely due to the UK's industrial mix. The UK's relative strength in the services sector, where innovation is not always captured by traditional measures such as R&D spending, corresponds to relatively less strength in R&D-intensive manufacturing. Indeed, the OECD's *Economic survey of the UK 2005*¹⁰ suggests that, when adjusting for industry structures, the UK's R&D intensity is in broadly line with that of France and Germany. Other measures of innovation also suggest that the UK is performing well, with the same survey reporting extremely rapid growth in the use of intellectual property protection such as trademarks, which are more prevalent in services. The OECD also points out that the UK's aggregate performance is understated. Nevertheless, raising levels of business innovation and investment in R&D remains a key priority for the Government.

3.15 The ten-year framework is not a static policy, as it must adapt to and reflect changes in society. This year has seen a number of new activities and developments that will influence progress in future years, details of which are set out below.

R&D tax credits **3.16** The R&D tax credit is one of the key policy tools used by the Government to encourage business investment in R&D. Budget 2007 announced an increase in the generosity of R&D tax credits. In 2008, the large company R&D tax credit will be increased from 125 per cent to 130 per cent and the enhanced deduction element of the SME R&D tax credit will rise from 150 per cent to 175 per cent, subject to state aid negotiations. A study by HMRC shows that 64 per cent of companies claiming SME R&D tax credits considered the tax credits to be an incentive to undertake further R&D.¹¹

Sainsbury Review **3.17** In December 2006 the Chancellor of the Exchequer asked Lord Sainsbury, the former Minister for Science and Innovation, to take a forward look at what needs to be done to ensure the UK's continued success in wealth creation and scientific policy-making. Emerging recommendations include further enhancing the role of the Technology Strategy Board (TSB) in delivering support for technology-based business innovation; improving the effectiveness of support for knowledge transfer through the Higher Education Innovation Fund; enhancing government departments' R&D and

⁹ The Government bases its public finance projections on a trend growth assumption that is a ¼ percentage point lower than its neutral view, to accommodate potential errors arising from misjudgements about the trend rate of growth of the economy in the medium term. The Treasury's neutral estimate of the economy's trend rate of growth of output for Budget 2007 remains at 2 ¾ per cent per year to the end of the projection period.

¹⁰ *Economic Survey of the UK 2005: Raising innovation performance*, OECD, 2005.

¹¹ See <http://www.hmrc.gov.uk/research/index.htm>

procurement to drive innovation; and further steps to encourage global research collaboration.

Technology Strategy Board

3.18 The business-led TSB has a key role in supporting business R&D and innovation, and identifying investment priorities in emerging areas of technology which have the potential to drive future economic growth. Over 600 collaborative R&D projects are currently being supported with a combined business and government investment of £900 million. The latest competition was announced in April 2007 and provides £100 million in government support for collaborative research projects. Building on its success, the TSB came into operation as an executive agency operating at arm's length from the Government in July 2007, and will assume an enhanced leadership role in promoting innovation across all sectors of the UK economy. In support of this enhanced role, Budget 2007 announced that the Research Councils will set specific targets for the amount of R&D they conduct in partnership with the TSB.

Box 3.2: Turning research into commercial reality

Research Councils UK has launched its third Business Plan Competition, which is open to researchers from across the spectrum of activity supported by the Research Councils. Aimed at budding entrepreneurs who want to turn their research ideas into a successful business, it represents an exciting way to showcase some of the most innovative research, and helps to commercialise some of the best projects. The competition provides researchers who have commercially viable ideas with the skills, knowledge and support needed to develop a first-rate business plan. All competitors receive business training and mentoring along the way, while the winning team also receives a cash prize to further its business idea. The final will be held in November 2008. Last year's winning team was Warwick Warp, a spin-out company from the University of Warwick. They developed a highly accurate fingerprint identification technology for use in personal ID cards, passports and access control systems, and are now starting their second round of fundraising to develop the company further.

Source: Research Councils UK

Science and innovation in the Devolved Administrations

3.19 The Devolved Administrations have also recently launched strategic advisory bodies. The Northern Ireland Science-Industry Panel, *MATRIX*, launched in February 2007, is a high-technology business-led body that advises the Northern Ireland administration on how the region's science, technology and research strengths can be used to best commercial advantage. *MATRIX* is currently rolling out a Horizon Scanning Programme, which will carry out a series of foresight and future market exploitation analyses in strategic technology sectors.

3.20 The Welsh Assembly Government published its first overarching Strategy for Science in November 2006, covering areas such as schools science, Higher Education research, public engagement and commercialisation. The strategy identifies healthcare and life science, the low carbon economy, and science to enable sustainable economic and social renewal as priority areas for the commercialisation of research. The Welsh Assembly Government also supports a number of other programmes to facilitate innovation in Wales including a network of Technium Innovation Centres, the Knowledge Exploitation Fund for technology transfer from Higher and Further Education institutions and SMART Cymru, an R&D advice and funding scheme to assist new product and process development.

3.21 In Scotland, a comprehensive range of policies supports business innovation. The *SMART Scotland* programme provides grant assistance to SMEs for leading edge research and development projects, while the Scottish Enterprise Proof of Concept Fund supports pre-commercial research within academic institutions identified as having significant commercial potential, and has led to the creation of 34 new technology-based businesses in Scotland. Intermediary Technology Institutes are a unique venture, set up to commission world-leading research in the fields of energy, life sciences and techmedia, with nearly £120 million committed to 19 programmes so far.

Skills

3.22 A skilled workforce is increasingly important in determining the UK's ability to respond to the emerging demographic, socioeconomic and technological challenges presented by globalisation. Recent progress has been made in tackling the historic skills challenges the UK faces at low skills levels. The Government recently achieved the interim milestones for both the Basic Skills and Level 2 targets within the current adult skills Public Service Agreement (PSA). Over 1.7 million adults in England have improved their basic literacy, language and numeracy skills and achieved qualifications since the *Skills for Life* strategy was introduced in 2001. 1.2 million adults have achieved a first Level 2 qualification since 2002, reducing the stock of disadvantaged individuals who lack the basic platform of skills needed for sustainable employment in the modern workplace. The skills policies set out below also relate to the employment reforms in Chapter 4.

Leitch Review of Skills

3.23 The final report of the Leitch Review of Skills, *Prosperity for all in the global economy – world class skills*¹² was published in December 2006. It sets out a compelling vision, recommending that the UK commit to becoming a world leader in skills by 2020, benchmarked against the upper quartile of OECD countries. Stretching objectives for 2020 include ensuring that:

- 95 per cent of adults have basic skills;
- more than 90 per cent of the workforce are qualified to at least Level 2;
- there is a shift in the balance of intermediate skills from Level 2 to Level 3 to deliver 1.9 million additional Level 3 attainments; and
- more than 40 per cent of the adult population have qualifications at Level 4 and above.¹³

3.24 The Review also made a number of recommendations to help the UK meet these objectives, including making all public funding for adult vocational education demand-led and putting employers at the centre of the skills system.

3.25 The Government accepts the ambitions recommended by the Leitch Review, which are echoed in the Council's recommendation to the UK. The significant additional resources for education and skills in the CSR period announced at Budget 2007 will allow the Government to make a good start in implementing the key reforms recommended by Leitch and in increasing the participation of low-skilled adults in training. This will be complemented by support from the new European Social Fund programme for 2007-2013.

¹² *Prosperity for all in the global economy: World class skills*, Leitch Review of Skills, December 2006.

¹³ Broad definitions. *Basic skills* refers to everyday literacy and numeracy skills. *Level 2* equates to 5 good GCSEs or vocational equivalent. *Level 3* equates to 2 'A' Levels or vocational equivalent. *Level 4* equates to a degree or vocational equivalent.

World class skills **3.26** In July 2007, the Government published *World class skills*,¹⁴ which sets out its plans to take forward the recommendations made by the Leitch Review in England. In particular, the Government will aim for a higher trajectory in the CSR for adult participation in training at basic, intermediate and higher skill levels. The Train to Gain service¹⁵ will be expanded. Train to Gain is currently used by 198,710 learners, of whom 53,200 have achieved qualifications, and will receive a doubling in investment from £440 million currently to an expected £900 million by 2010-11. Creation of a new Commission for Employment and Skills will place employers at the centre of the skills system, supported by reform of Sector Skills Councils and further progress in creating a demand-led skills system. It will ensure that an integrated employment and skills service meets the needs of disadvantaged individuals, including benefit claimants, by focusing on sustainable employment and progression as an outcome. More details on integrating employment and skills are provided in Chapter 4.

Devolved Administrations **3.27** The Devolved Administrations are considering the implications of the Leitch Review for their own skills strategies. *Success through Skills* is the Northern Ireland Executive's overarching vehicle for delivering improvements in skills levels within the region, and is underpinned by the key themes of understanding the demand for skills; improving the quality and relevance of education and training; enhancing the skill levels of the workforce; and tackling skills barriers to employment. Details of the *Steps to Work* pilot to removing barriers to work are provided in Chapter 4.

3.28 In Wales, a new Skills and Employment Strategy (incorporating a response to Leitch) is planned for the autumn, while the innovative Basic Skills Employer Pledge scheme has secured commitments from over 260 employers to improve the basic skills of the workforce. The Scottish Executive has announced that it will launch a skills strategy for Scotland during 2007, which will address many of the issues highlighted in the Leitch Review as well as developing a co-ordinated 'cradle to grave' approach to skills development in Scotland.

14-19 **3.29** Improving the skills of young people entering employment will play a key role in achieving the ambitions recommended by the Leitch Review. The Government is committed to ensuring all young people reach the age of 19 equipped with skills to succeed in higher education or skilled employment. A key factor in achieving this commitment is to provide an educational system where all young people have opportunities to learn in ways that motivate and stretch them, and the Government's reforms to the education system are aimed at achieving this system. The Government also believes that increasing the number of young people participating beyond the age of 16 is of key importance, and is consulting on raising the education participation age to 18.¹⁶

Energy policy, climate change and sustainable development

Energy policy **3.30** The Government maintains the principle that independently regulated, competitive energy markets are the most cost-effective and efficient way of delivering its energy policy objectives. The Energy White Paper published in May 2007¹⁷ sets out the Government's response to the twin challenges of tackling climate change and

¹⁴ *World class skills: Implementing the Leitch Review of Skills in England*, Department for Innovation, Universities and Skills, July 2007.

¹⁵ A broadly similar Workforce Development Programme operates in Wales.

¹⁶ *Raising Expectations: staying in education and training post-16*, Department for Education and Skills, March 2007.

¹⁷ *Meeting the energy challenge: a White Paper on energy*, Department of Trade and Industry, May 2007.

ensuring the security of energy supplies. The strategy to deliver energy security and accelerate the transition to a low carbon economy is based on saving energy, developing cleaner energy supplies, and securing reliable energy supplies at prices set in competitive markets. The Energy White Paper announced a series of consultations, which will continue throughout 2007. Consultation on nuclear power closed in October 2007, and the Government is currently considering next steps.

3.31 An important part of this policy agenda includes the need for liberalised energy markets in the EU, which provide the commercial incentive for supply and demand to balance in a flexible and responsive way, and operate best when the market mechanism is allowed to operate freely and unfettered by government. The commitment made at the 2007 Spring European Council to an integrated climate and energy policy, and the common adoption of market-based energy policies in the EU, will create more effective market signals which in turn will improve supply diversification. A more liberalised EU energy market will also help to reduce energy prices, for example through delinking oil and gas prices.

Sustainable Development Strategy

3.32 The UK submitted its contribution to the European Commission's progress report on implementing the EU Sustainable Development Strategy (SDS) in June 2007.¹⁸ The report sets out the steps taken by the Government to implement the commitments of the EU SDS under seven key challenges: climate change and energy; sustainable transport; sustainable consumption and production; conservation and management of natural resources; public health; social inclusion, demography and migration; and global sustainable development.

3.33 In addition to this, Wales has a statutory Sustainable Development Scheme and Action Plan which is subject to regular review. Scotland's sustainable development strategy was published in December 2005, and is subject to regular implementation plans and progress reports, while Northern Ireland published its first sustainable development strategy in May 2006.

Box 3.3: Resource efficiency in Yorkshire

Yorkshire Forward is the Regional Development Agency charged with improving the Yorkshire and Humber economy. Yorkshire Forward co-ordinates delivery of the Business Resource Efficiency and Waste programme in the region, in close cooperation with national programmes such as the Carbon Trust and Envirowise, to stimulate the take-up of resource efficiency advice by SMEs. Yorkshire Forward also offers small-scale capital grants to SMEs to stimulate implementation of energy- and resource-efficient practises.

Yorkshire Forward co-ordinates regional delivery of the Manufacturing Advisory Service – which also promotes energy efficiency in manufacturing as part of its service – and has funded the development of around 30 high quality buildings that showcase an energy-efficient approach to property development. Such buildings include world-class examples such as the York EcoDepot and the Thorpe Park Sustainable Office.

Source: Yorkshire Forward

¹⁸ UK contribution to the European Commission's progress report, June 2007. Available at <http://www.sustainable-development.gov.uk/international/eu/current-status.htm>

Climate change **3.34** The independent Stern Review of the Economics of Climate Change was published in October 2006. The Review highlights the economic costs of failing to act to tackle climate change. Stern estimates that the dangers of unabated climate change could be equivalent to at least 5 per cent of GDP each year and could possibly rise to 20 per cent of GDP or more if a wider range of risks and impacts are taken into account. The costs of mitigating climate change, though significant, are substantially lower and are manageable for the world's economy. The annual cost of stabilising greenhouse gases in the atmosphere at a level which avoids the most serious impacts of climate change is estimated to be around one per cent of GDP in 2050, if there is coordinated, multilateral action.

Draft Climate Change Bill **3.35** In March 2007, the Government published a draft Climate Change Bill which would put into statute the UK's stretching targets to reduce carbon dioxide emissions, through domestic and international action, by 60 per cent by 2050 and 26-32 per cent by 2020 (against a 1990 baseline). It would require the Government to set binding limits on aggregate carbon dioxide emissions over five-year carbon budget periods, starting from the period 2008-2012. A Committee on Climate Change would be set up as an independent statutory body to advise the Government on the emissions reductions pathway to 2050, and on the level of carbon budgets. The Government would also have a duty to report annually to Parliament on the UK's progress towards the 2020 and 2050 targets and in relation to meeting its carbon budgets.

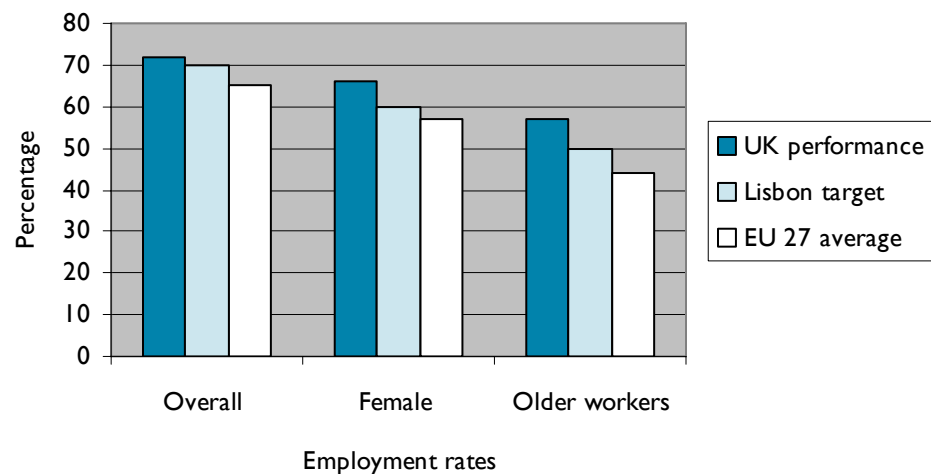
3.36 In addition, the UK has a target under the Kyoto Protocol to reduce greenhouse gas emissions by 12.5 per cent below 1990 levels throughout the period 2008-2012. The most recent published projections show that the UK is on track to almost double its Kyoto target. In 2005 greenhouse gas emissions were 15.3 per cent below 1990 levels, rising to 18.8 per cent when the effect of the EU Emissions Trading Scheme (EU ETS) is taken into account. The Government set out its vision for the long-term future of emissions trading in October 2006, with the aim of developing the EU ETS as the basis of a global carbon market.

3.37 All of the Devolved Administrations fully support the Government's efforts to tackle climate change and reduce CO₂ emissions. The Welsh Assembly Government has committed to achieving annual three per cent emission reductions in areas of devolved competence by 2011 and to setting targets for the residential, transport and public sectors. The Scottish Executive has proposed a mandatory 80 per cent emissions reduction target for Scotland, with a formal consultation expected before the end of 2007. Northern Ireland fully expects to opt into the UK Climate Change Bill and adopt the 2050 target.

DELIVERING EMPLOYMENT OPPORTUNITY FOR ALL

4.1 The Government's continuing priority in response to the Lisbon goals for securing more and better jobs and social cohesion is to deliver employment opportunity for all. The UK's first National Reform Programme (NRP), published in 2005, set out the objective of promoting work as the best form of welfare for people of working age¹ while protecting the position of those in greatest need. This complements the national strategies set out in the integrated UK report on social protection and social inclusion,² and is consistent with the concept of *Flexicurity*, where flexibility and security are mutually reinforcing.³ The Government's approach to delivering employment opportunities will also rely heavily on its ability to develop a world-class skills base and integrating the employment and skills agendas in the future. Details of the Government's skills policies are set out in Chapter 3.

Chart 4.1: UK employment rates compared to EU targets



Note: all figures are Eurostat.⁴ According to national figures, the UK employment rate in the second quarter of 2007 was 74.4 per cent.

4.2 The Government's strategy has delivered one of the highest employment rates in the G7. The UK is one of only three Member States to have already exceeded the Lisbon targets, as set out in Chart 4.1. The Government maintains its aspiration to an overall employment rate equivalent to 80 per cent of the working age population, with a renewed focus on helping those furthest from the labour market back into work. As part of a wider objective of full employment in every region, and consistent with the

¹ The Government's employment programmes and many of its initiatives do not have specific upper age eligibility limits, since people increasingly wish to work up to age 65 and beyond.

² *UK National Report on strategies for Social Protection and Social Inclusion 2006-08*, Department for Work and Pensions, September 2006.

³ The European Commission published a Communication on Flexicurity in June 2007.

⁴ Eurostat figures differ from national figures, since Eurostat use different age brackets to calculate levels of employment. For both the overall employment rate and the female employment rate Eurostat use the age bracket 15-64 years, and for older workers Eurostat use the 55-64 age bracket.

Council's recommendation to the UK, the Department for Work and Pensions (DWP) therefore aims to reduce the gap in employment rates between disadvantaged groups⁵ and the rest of the population. Table 4.2 shows the gaps between the overall employment rate and disadvantaged groups.

Table 4.2: Gaps between overall employment rate and disadvantaged groups

Disadvantaged group	Employment rate gap (per cent)
Disabled people	26.9
Lowest qualified	22.8
Lone parents	18.0
Ethnic minorities	14.3
People in poorest Local Authority wards	12.4
Older workers (between 50 and state pension age)	3.2

Note: all figures are national, in comparison with the overall employment rate of 74.4 per cent.

4.3 The 2006 NRP update reported on the Government's aspirations to help an additional 300,000 lone parents and one million older people into work, and to reduce the numbers claiming Incapacity Benefit by one million. The 2007 update builds on this challenge and responds to the UK's country-specific recommendation to further improve employment prospects for the most disadvantaged, and also reports on progress with the provision of childcare. The update also takes into account the Government's recent Green Paper setting out pathways towards full employment,⁶ which responds to several independent policy reports such as the Harker, Leitch and Freud Reviews. *In work, better off* sets out the direction for welfare reform, based on five core principles:

- rights and responsibilities should underpin the welfare reform agenda;
- employment support should be focused not just on job-entry but also on retention and progression;
- the system should allow a personalised and responsive approach;
- working in partnership to make best use of expertise across the public, private and third sectors; and
- regions, cities and localities should play an important role through devolution and local empowerment.

⁵ Lone parents, ethnic minorities, the disabled, people aged 50 and over, those with the lowest qualifications and those living in local authority wards with the poorest initial labour market position. 903 local authority wards are classed as disadvantaged.

⁶ *In work, better off: Next steps to full employment*, Department for Work and Pensions, July 2007.

Increasing employment for the most disadvantaged

Active labour market policies

4.4 The public employment service, Jobcentre Plus,⁷ provides a modern and professional service for all customers. It also works with partners to meet the needs of particular groups, for example on tax credits and childcare issues for lone parents. Jobcentre Plus is making good progress towards centralising its Benefit Delivery in 77 centres and 31 Contact Centres, which offer more efficient and convenient services by telephone. The Jobcentre Plus website is one of the most used in Europe, with more than 70 million searches, while the recently improved Employer Direct Online service gives employers full control over how they advertise their vacancies.

4.5 A modern benefits system should be flexible, easy to understand and allow smooth transitions between work and benefits. An updated Benefit Simplification Guide has brought together best practice, alongside a major set of simplification changes announced at Budget 2007, and all proposed changes now have to be assessed to ensure that complexity is not added.

4.6 As part of the *Closing the opportunity gap* approach to tackling poverty, the Scottish Executive launched *Workforce Plus* in June 2006,⁸ a framework which sets out how, despite record levels of employment, Scotland must take a partnership approach to improving its employability services and help vulnerable and disadvantaged people find work. *Workforce Plus* aims to help 66,000 people off benefits into work by 2010 in seven key localities, with good progress against the interim target of helping 30,000 people into work by 2007. In Wales, the complementary *Want2Work* programme has helped over 1,400 people into work since it started in selected areas in 2005. Centred on teams of community-based advisers, the programme engages with those most detached from the labour market, offering support in overcoming obstacles and barriers to work and provides greater opportunities to become economically active.

Incapacity benefit

4.7 There are currently 2.67 million people in receipt of incapacity benefits (IB).⁹ Pathways to Work pilots have had a positive effect in decreasing this number. A total of 32,000 people have been helped into work since the pilots began in October 2003, and the number of IB claimants is now falling. The most recent results from the evaluation of Pathways showed that new claimants in Pathways areas were 7.4 percentage points more likely to be in employment after 18 months. Their impact on benefit receipt over the first year of a claim has also been considerable. By December 2006 Jobcentre Plus was delivering Pathways support to 40 per cent of new and repeat IB customers, while Pathways delivered by private and voluntary sector providers will be rolled out in the remaining 60 per cent of the UK by 2008.

4.8 The Welfare Reform Act, which received Royal Assent in May 2007, will replace IB with a new Employment and Support Allowance (ESA) for new customers from October 2008. Entitlement to ESA will be based on the limitations on a person's capability for work. However, there will also be an assessment of remaining capability and most people on ESA will be expected to participate in work-related activity, through which the Government will support them to take steps back towards the labour market. This approach is complemented by *Health, work and well-being*,¹⁰ a cross-Government

⁷ Jobs and Benefit Offices in Northern Ireland.

⁸ *Workforce plus: an employability framework*, Scottish Executive, June 2006.

⁹ Incapacity Benefit, Severe Disabled Allowance and Income Support on the grounds of incapacity or disability.

¹⁰ *Health, work and well-being: caring for our future*, Department for Work and Pensions / Department of Health / Health and Safety Executive, October 2005.

initiative designed to improve the health of working age people and increase understanding of the link between work and health, while the Health and Safety Executive is strengthening the role of health and safety in the workplace to reduce instances of occupational disability.

Disabled people **4.9** Removing the barriers to the participation of disabled people in society is also central to the Government's approach. Significant progress has been made through the launch of the Office for Disability Issues¹¹ alongside a range of cross-Government initiatives, and implementation of the Disability Discrimination Act (DDA) 1995 and 2005 (see also Box 4.1). A campaign targeted at SMEs, business intermediaries and trade bodies ran until December 2006, and has raised awareness of the DDA among employers surveyed to 92 per cent. The Government is currently planning a campaign to challenge employers' assumptions about the employability and willingness to work of people who are disabled or have a long-term health condition.

Box 4.1: The Royal National Institute of Blind People

The RNIB has been working actively with the Government to improve employers' awareness and knowledge of disability, while specifically providing blind and partially sighted people with the information, skills and support they require to compete with their fully sighted peers in the labour market. For instance, the RNIB is contributing to the national roll-out of interactive workshops, whereby employers and blind and partially sighted job-seekers are brought together to identify and overcome the barriers facing disabled job-seekers.

Workshops cover subjects such as the Disability Discrimination Act, the Access to Work Scheme and disability awareness training for the benefit of both parties, while additional training in visual image, social behaviour, job search strategies, career and educational options are provided for blind and partially sighted attendees. This hugely well-received package has also been collated into a fully accessible toolkit, in order to reach as many people throughout the UK as possible.

Source: Royal National Institute of Blind People

Older workers **4.10** Around 46 per cent of incapacity benefit recipients are over 50 years of age. The Government therefore expects that ESA and Pathways to Work will help employment in this group. The long-term unemployed aged 50 to 59 are now required to participate in mandatory additional job seeking support under the New Deal, and jobless couples aged over 50 without dependent children will be treated as individual jobseekers (as under 50s are). A range of policies to extend working lives includes targeted support for those who are over State Pension Age and wish to work, and working with partners to ensure that employers are aware of their responsibilities under the Age Discrimination regulations, which entered into force in October 2006.

Disadvantaged areas **4.11** The City Strategy aims to reduce worklessness in the most disadvantaged communities across the UK – many of which are in major cities and other urban areas with a high proportion of disadvantaged groups. Box 3.2 sets out details of a City Strategy *Pathfinder* project in the Liverpool City Region. Addressing localised pockets of worklessness found in many cities and disadvantaged communities requires strategic coordination and joined-up working across a range of employers and public bodies. government departments and agencies, private providers, local government and voluntary agencies will therefore pool resources and set targets for action.

¹¹ See www.officefordisability.gov.uk

4.12 The strategy is based on the idea that local partners can deliver more if they combine and align their efforts behind shared priorities, and are given more freedom to try out new ideas and to tailor services in response to local need. They have direct control of £32 million from the Government's Deprived Areas Fund, a key role in shaping the delivery of Pathways to Work and ability to influence the provision of training opportunities and employment programmes at a local level.

Box 3.2: The Liverpool City Region DWP Employment 'Pathfinder'

This *Pathfinder* project was established in 2007 by six Local Authorities, and aims to increase the supply of skilled labour to meet demand and reduce worklessness in areas of major deprivation. The Consortium Board comprises Local Authorities, JobcentrePlus, Learning and Skills Councils, employer organisations, the North West Development Agency, Unionlearn North West and the voluntary sector, and will set challenging targets to build upon the existing six individual Local Authority areas' targets. Funding from sources including the Deprived Areas Fund and the ESF will support interventions which are tailored to local business and community needs and linked to local regeneration activities. The programme will also be aligned with partners' mainstream interventions as well as their ESF co-financed programmes, within a joint single investment framework. To strengthen employer engagement, the *Pathfinder* will work through business networks, and proposes to extend its remit to that of an Employment and Skills Board, encompassing the whole range of skills policies and programmes to cover the entire Liverpool City Region. The *Pathfinder* target is to achieve a 3 per cent improvement in the performance of all partner agencies in assisting workless people into employment, and will seek to close the gap between the *Pathfinder's* current employment rate of 68 per cent and the national average of 75 per cent, by focusing on 62 wards which include some of the most deprived areas in the UK.

Source: Local Government Association

Ethnic minorities **4.13** To increase ethnic minority participation in the labour market the Government continues its policies to improve race equality outcomes, which include:

- work by the cross-Government Ethnic Minority Employment Task Force in liaison with the Ethnic Minority Employment Advisory Group, which includes community representatives;
- using public sector procurement to improve suppliers' race equality employment practices;
- maximising the positive effects of the 15 City Strategy *Pathfinders*;
- ensuring the Deprived Areas Fund uses lessons learned from programmes such as Ethnic Minority Outreach; and
- Partners' Outreach targeting non-working ethnic minority partners in low-income households.

Lone Parents **4.14** In April 2007, the Government introduced regular six-monthly work-focused interviews for lone parents with children aged between 5 and 13 years, and, in the seven New Deal Plus for Lone Parents pilot areas, trialled quarterly work-focused interviews for lone parents with children aged 11–13. From April 2008, the regular six-monthly work-focused interviews will be extended to lone parents with children aged up to four.

4.15 Just over two thirds of children in workless households have lone parents. Helping more lone parents to find and stay in work is therefore central to the Government's continuing efforts to eradicate child poverty by 2020. This goal includes a

target to halve the number of children in relative low-income households between 1998-99 and 2010-11. In March 2007 the refreshed *Working for children strategy*¹² was published, showing that there are now 600,000 fewer children living in relative poverty than in 1989, bringing the UK close to the EU average.

4.16 New measures announced at Budget 2007 include an extension of the current In-Work Credit (IWC) pilots to June 2008, benefiting more than 250,000 lone parents and an increase of the weekly payment from £40 to £60 in London to address the higher costs of living in the capital. The Government announced a number of further measures in the child poverty strategy including:

- extending and expanding the New Deal Plus pilots until March 2011 to cover all lone parents in London and making key elements available to all parent couples on benefit;
- introducing regular six monthly work-focused interviews for partners of parents claiming Jobseeker's Allowance; and
- providing financial support for the payment of up-front childcare costs to qualifying lone parents in London.

4.17 *In work, better off* also invited views on proposals to establish a new social contract with lone parents, which would expect an eventual move into the labour market in return for the necessary personalised support.

Childcare

4.18 As a contribution to its child poverty targets, the Government is committed to increasing the stock of registered childcare places by 10 per cent, and increasing the number of children in lower-income working families using formal childcare by 120,000. The Government has created an additional 179,000 childcare places in England, an increase in excess of 16 per cent, meeting the first target well ahead of schedule. Working across several government departments and Local Authorities, a national communications campaign on the benefits of formal childcare, and the choices and financial help available, was launched in March 2007.

Choice for parents

4.19 The Government continues to implement its Ten-Year Strategy Action Plan, *Choice for parents*.¹³ The main strand in the strategy is the Sure Start programme, which aims to deliver a Sure Start Children's Centre for every community by 2010, to improve the health and emotional development of young children – supporting parents in both their family responsibilities and in their aspirations towards employment – and to support growth in the take-up of the childcare element of Working Tax Credit. By July 2007 over 1,300 Sure Start Children's Centres were operational, providing services for over one million young children under 5 and their families.¹⁴

Childcare Act 2006

4.20 The Childcare Act 2006 gives statutory force to the commitments of the strategy underlining the role of Local Authorities, National Health partners and Jobcentre Plus to work together to improve the outcomes of all children up to the age of five. It also

¹² *Child poverty strategy: working for children*, Department for Work and Pensions, March 2007.

¹³ *Choice for parents, the best start for children: a ten-year strategy for childcare*, HM Treasury / Department for Work and Pensions / Department for Education and Skills / Department of Trade and Industry, December 2004.

¹⁴ In parallel, Sure Start in Scotland aims to deliver the best start in life to vulnerable children across Scottish Local Authorities through improving children's health, ability to learn and social and emotional development, as well as strengthening families and communities.

introduced a new duty on Local Authorities, which came into force on 1 April 2007, to assess the sufficiency of childcare in their areas, in advance of a further obligation (starting in April 2008) to ensure that sufficient childcare is available for working parents, and particularly those on low incomes or with disabled children.

4.21 During 2006, the Government and Local Government Association worked closely with 12 Local Authorities focusing on the implementation and delivery of the new duties provided for in the Childcare Act. The purpose of the project was to test different approaches to implementing the childcare agenda in a systematic way, to identify and push best practice throughout the system, and to use practice on the ground to inform policy development guidance and codes of practice.

4.22 The Genesis Wales project is an initiative aimed at removing barriers to employment and decreasing child poverty, which allows economically inactive parents to access learning, training and work opportunities as well as childcare places. To date over 9,000 people in Wales have received assistance and more than 7,000 childcare places have been provided. The Welsh Assembly Government has also implemented the Flying Start programme, which is aimed at the approximately 16,000 0-3 year olds in the most deprived communities in Wales. Free part-time places are being provided for 2-3 year olds as part of the programme.

NEETs **4.23** The Department for Children, Schools and Families has a target to reduce the proportion of young people aged 16-18 not in education, employment or training (NEET) by two percentage points between 2004 and 2010. In delivering this, Local Authorities must ensure that there is robust information about all young people in the area, so they are able to act to identify problems and support young people in engaging in learning or work. Local Authorities should, in partnership with the Learning and Skills Council, plan and commission an attractive range of learning provision that encourages young people to remain in learning up to the age of 18. For young people who are not in employment, education or training for 20 weeks or more, the Government is piloting Activity Agreements to offer support and financial incentives to re-engage young people in education or training. The *Raising the participation age* Green Paper¹⁵ consulted on legislation to ensure all young people are in education or training until age 18, from 2013 onwards. Chapter 3 deals specifically with 14-19 participation.

Low-skilled individuals **4.24** Individuals who lack qualifications are far more likely to be outside the labour market. The worklessness rate for people with no qualifications is twice as high as for those with a Level 2 qualification. The Government's priority is to support low-skilled individuals to improve their skills where they are a key barrier to employment and to provide training support for individuals once in work. The Government is therefore pursuing a programme of reform to improve integration between the employment and skills systems, including trialling Universal Skills Accounts and introducing a new adult careers service which will work with Jobcentre Plus to provide high quality information, advice and guidance to disadvantaged individuals and support their labour market progression. A new Employability Skills programme is being rolled out in 2007, which will give individuals on benefits the opportunity to improve their basic skills and gain a certificate of employability. The Government will also continue to develop Local Employment Partnerships to encourage employers to commit to working with the Government to help long-term benefit claimants back into work.

¹⁵ *Raising Expectations: staying in education and training post-16*, Department for Education and Skills, March 2007.

4.25 Skills acquisition is also at the heart of the Northern Ireland Executive's strategy to help people find work and improve the skills of the workforce in line with the needs of the economy. *Steps to Work* is a pilot which aims to address barriers to individuals finding work through tailored support, while the *Essential Skills for Living Strategy* helps adults to improve their literacy, numeracy and ICT skills. The pilot has so far met its targets, with 19,891 learners achieving a qualification by the end of June 2007.

**European
Social Fund**

4.26 European Social Fund (ESF) programmes in the UK continue to complement and add value to domestic employment policies. The final stages of the 2000-06 ESF programmes have focused increasingly on helping disadvantaged people to improve their skills and move from unemployment and inactivity to work. The new round of ESF programmes for 2007-2013 will focus on extending employment opportunities and developing a skilled and adaptable workforce. They will invest in additional employment and training activities for key target groups such as disabled people, lone parents, older workers, ethnic minorities and people who lack basic skills and qualifications. By helping disadvantaged groups to improve their job prospects and skills, ESF will also support the Government's policies to promote social inclusion and equal opportunities, thus meeting all elements of the Lisbon goal.

The following recommendation was endorsed by the 2007 Spring European Council and adopted by the Council on 27 March 2007:¹

UNITED KINGDOM

A.1 In the light of the analysis presented in the Commission's 2007 Annual Progress Report – Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:

A.2 The UK is making good progress in the implementation of its National Reform Programme and of the commitments made by the 2006 Spring European Council. Solid progress has been made in all policy areas, particularly in micro-economic and employment policy. In macro-economic policy, fiscal consolidation has begun and plans for further fiscal consolidation are in place and should be implemented; and, plans for pension reform have been drawn up, with draft legislation already tabled in Parliament. The UK has made greater efforts to involve stakeholders.

A.3 The particularly strong points in the UK reform implementation are in encouraging entrepreneurship, promoting better regulation, and undertaking welfare reforms. Many other successful reforms have already taken place, such as energy market opening, increasing investment in transport infrastructure, and in introducing charging policies, for example the London road transport congestion charge. The UK has also undertaken innovative reforms to improve the quality of public expenditure that are still in the course of implementation.

A.4 The policy areas in the UK National Reform Programme where challenges remain which need to be tackled with the highest priority are: improving basic and intermediate skills compared with other economies; and taking further measures to tackle disadvantage and exclusion in the labour market. Against this background, it is recommended that the UK:

- increase basic and intermediate skills, which is addressed by the recent Leitch review of skills, in order to raise productivity, and further improve employment prospects for the most disadvantaged.

A.5 In addition, it will be important for the UK over the period of the National Reform Programme to focus on: ensuring that the current proposals on pension reform are effectively implemented; progressively increasing housing supply to reduce house price pressures in the medium-term; implementing its science and innovation strategy, the intermediate level and quality of R&D investment should be indicated for 2010 and measures should be taken to further strengthen investment incentives and to increase private sector engagement; and further improve access to childcare.

¹ Council of the European Union document number 7456/07.

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