

Lisbon Strategy for Jobs and Growth

UK National Reform Programme

Update on progress

October 2006

Lisbon Strategy for Jobs and Growth

UK National Reform Programme

Update on progress

October 2006

© Crown copyright 2006

Published with the permission of HM Treasury on behalf of the Controller of Her Majesty's Stationery Office.

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be sent to:

HMSO
Licensing Division
St Clements House
2-16 Colegate
Norwich
NR3 1BQ

Fax: 01603 723000

E-mail: hmsolicensing@cabinet-office.x.gsi.gov.uk

HM Treasury contacts

This document can be found on the Treasury website at:

hm-treasury.gov.uk

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

ISBN-10: 1-84532-197-9

ISBN-13: 978-1-84532-197-0

PU 025

This document was printed on at least 75% recycled paper.
When you have finished with it please recycle it.

CONTENTS

	Page	
Chapter 1	Introduction	1
Chapter 2	Macroeconomic stability for jobs and growth	5
Chapter 3	Promoting productivity growth	15
Chapter 4	Delivering employment opportunity for all	39
Annex A	Common Contribution by the British and Irish Governments	55
Annex B	Examples of consultations carried out by the UK Government	57

INTRODUCTION

Prioritising jobs and growth

1.1 In March 2005, the European Council agreed to relaunch the Lisbon strategy to focus more 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 and along with other EU Member States, the UK Government published its first National Reform Programme (NRP) under the Lisbon Strategy in October 2005,¹ setting out priority areas for national economic reform and policy commitments. In their 2006 NRP updates, Member States therefore have the opportunity to report on progress against these goals and identify further actions.

1.2 The 2006 Spring European Council confirmed that the 2005-08 Integrated Guidelines remain valid and concluded that, within this framework, specific areas for priority actions should include investing more in knowledge and innovation; unlocking business potential; increasing employment opportunities; and defining an energy policy for Europe. The 2006 NRP update on progress for the UK focuses on implementation of these and other principal reforms over the last 12 months, and sets out further strategies for delivering long-term sustainable growth, high employment and a fair and inclusive society.

Global economy – the challenges we face

1.3 The dominant feature of the world economy in the next decade will continue to be the increasing pace of change and the expanding reach of global markets into national economies, as well as increased pressure on the natural environment. In order to be globally competitive, Europe must make the long-term choices to achieve stability and growth through flexibility and openness. The way to deliver more and better jobs and opportunity for all in Europe is to take advantage of the realities of this new global economy. Governments have a crucial role to play in establishing stable macroeconomic foundations; investing in public infrastructure and public services; promoting flexibility in labour, product and capital markets; providing a modern and flexible welfare state; and facilitating research and innovation. Governments must implement policies, such as completion of the Single Market, which respond to and address these challenges within the wider context of sustainable development.²

The UK Government approach

1.4 As set out in its 2005 NRP, the Government is undertaking a comprehensive programme of long-term reform to deliver strong economic performance and employment growth now and in the future, consistent with the Lisbon Strategy. As set out in its 2005 NRP, the Government's priorities are:

- entrenching macroeconomic stability in the face of a more integrated global economy, and maintaining fiscal sustainability in the face of the long-term demographic challenges facing all developed economies, providing 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 strong incentives to work and

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

² The UK's Sustainable Development Strategy sets out the wider long-term agenda, shared between the 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.

save, at a time when the pace of change in the global economy will be ever quicker and more intense;

- 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, given the growing importance of knowledge-driven industries in the world economy;
- 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; and
- increasing innovation, adaptability and efficiency 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 is rising.

1.5 The UK Government consults widely with national, regional, local and sectoral stakeholders as a matter of course in developing new policies. The Pre-Budget Report, published annually ahead of the Budget, is an important vehicle for updating and informing stakeholders of the Government's overall economic reform strategy, and for consulting on new policy proposals. The Financial Statement and Budget Report include a comprehensive description of new and existing policy reforms. The International Monetary Fund (IMF) has praised the high degree of transparency in the UK policy-making process. The policy measures set out in the UK's NRP have been subject to scrutiny and consultation in accordance with this model. Annex A provides examples of some of the many policy issues on which the Government has consulted stakeholders over the past 12 months.

1.6 In terms of implementing these policies, stakeholders have also played an important role in the NRP process, with many submitting detailed observations and recommendations for economic reform in the UK. This update incorporates contributions on implementing structural reforms made by stakeholders during a seminar organised by the Government in July 2006 and submitted via a web-based consultation,³ with a focus on best practice in Lisbon policy areas. In the context of the "Lisbon Partnership", preparation of the NRP has also benefited from discussions with the European Commission and takes account of the multilateral surveillance of Member States' structural reforms carried out by the Council of Ministers of the European Union, which the Government continues to support.

³ Results of the consultation, run jointly by the Department of Trade and Industry and the Department for Work and Pensions, are available at: <http://www.dti.gov.uk>

Box I.1: Promoting jobs and growth – delivering successful reforms

The Lisbon goals for jobs and growth 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 56 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.

Implementing Lisbon-oriented reforms in the UK is a shared agenda across Government, with each department taking ownership of its particular policy area. The Cabinet Office leads on co-ordinating policy, while delivery of front-line reforms rests primarily with the Department of Trade and Industry (DTI), the Department for Education and Skills (DfES) and the Department for Work and Pensions (DWP). The Chancellor of the Exchequer has overall responsibility for UK economic policy.

Public Service Agreements (PSAs), introduced by the Government in 1998, underpin the reform agenda in the UK by setting out deliverable and measurable outcomes for each government department.^a There is a high degree of convergence between PSAs, the Lisbon goals and the Integrated Guidelines, as well as with the policy frameworks which guide the Government's reform strategy, such as the five drivers of productivity (see Chapter 3). HM Treasury has a PSA target relating to the overall delivery of the Lisbon Strategy: "working with our European Union partners to achieve structural reform in Europe, demonstrating progress towards the Lisbon goals by 2008". Other government departments have PSA targets closely aligned with specific Lisbon goals, such as adapting the skills base; protecting the environment; promoting science, innovation and research and development; boosting employment, including for disadvantaged groups; promoting quality public services; and reducing unnecessary bureaucracy in both the public and private sectors.

The Government's second Comprehensive Spending Review (CSR) offers the opportunity for further development of the PSA framework. CSR 2007 will 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. The key long-term trends and challenges that will shape the next decade, which will be examined in the context of the CSR, correspond to the key objectives of the Lisbon Strategy. These are set out in more detail in Chapter 2.

^a For further details of the public spending framework, see Chapter 2. PSA targets for all Departments can be found at <http://www.hm-treasury.gov.uk>

Macroeconomic stability

2.1 The UK's macroeconomic framework is designed to maintain long-term economic stability,¹ in line with HM Treasury's Public Service Agreement (PSA) objective, "to maintain a stable macroeconomic environment with low inflation and sound public finances in accordance with the Code for Fiscal Stability."

2.2 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 macroeconomic dimension of the EU Broad Economic Policy Guidelines. Large fluctuations in output, employment and inflation add to uncertainty for business, 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.

2.3 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

2.4 The UK's macroeconomic framework is based on the principles of transparency, responsibility and accountability.² 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 world best practice.³

Fiscal policy

2.5 Budget 2006⁴ 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 the 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 2006, an updated Convergence Programme providing further details on its latest forecasts for the economy and public finances, consistent also with the reforms outlined in this NRP update.

2.6 The domestic stability delivered by the Government's macroeconomic framework, with volatility in the UK economy at historically low levels and the lowest in the G7, and 56 quarters of uninterrupted GDP growth, puts the UK in a strong position to respond to the global economic challenges of the next decade.

¹ For further details on the UK macroeconomic framework see Chapter 2 of the 2005 UK NRP.

² For further details, see *Reforming Britain's economic and financial policy*, HM Treasury, 2002.

³ 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.

⁴ Available at <http://www.hm-treasury.gov.uk>

The public spending framework

2.7 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, is consistent with the Lisbon goal to promote quality public services.

Public Service Agreements

2.8 Public Service Agreements set clear outcome-focused targets for public service delivery by each major government department. The introduction of PSAs in 1998 established a new high-level performance framework for improving public service delivery. Accountability and transparency are key features of the PSA framework. PSAs are agreed alongside resources as part of Spending Reviews, and departments are publicly accountable for their delivery and reporting via technical notes and bi-annual reports in print and on departmental websites. A framework of internal monitoring is also in place, through which six-monthly delivery reports including key actions are produced by the centre (HM Treasury and the Prime Minister's Delivery Unit) and departments on the basis of departments' self assessments of likely delivery. To provide the PSA framework with an element of external and independent audit, the National Audit Office validates the data systems underpinning each PSA target.

Spending Review

2.9 Spending Reviews set 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 consistent with fiscal rules. The Treasury then allocates three-year DELs to each department. Successive Spending Reviews have targeted resources at the Government's priorities and have matched these resources with ambitious targets for improvements in key public services. They have also developed and refined PSA targets, giving greater focus on the Government's highest priorities.

2007 Comprehensive Spending Review

2.10 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 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, and identify further steps needed to meet the challenges and opportunities of the decade ahead. To lay the groundwork for the CSR, the Government is taking forward a programme of work involving:

- an examination of the key long-term trends and challenges that will shape the next decade – including demographic and socio-economic change, globalisation, technological change, global insecurity and climate and environmental change;
- detailed studies of key areas where cross-cutting, innovative policy responses are required to meet these long-term challenges;
- an ambitious and far-reaching value for money programme to release the resources needed to address these challenges, involving both further development of the efficiency areas identified in the Gershon Review, and a set of zero-based reviews of departments' baseline expenditure; and
- a more strategic approach to asset management and investment decisions, ensuring the UK is equipped with the infrastructure needed to support both

public service delivery and the productivity and flexibility of the wider economy.

Reviews informing the CSR

2.11 The UK will only succeed in the modern global economy if the Government plans for the long term. The CSR will therefore be informed by the analysis and conclusions of a series of detailed reviews on specific cross-cutting and strategic issues, many of which correspond to the aims of the Lisbon Strategy:⁵

- a joint HM Treasury and Department for Education and Skills (DfES) policy review of children and young people, launched at Budget 2006;
- a review of the policies needed to improve mental health outcomes and employment with a focus on labour market exclusion, also launched at Budget 2006;
- as announced in the 2005 Pre-Budget Report, the Government is conducting a cross-cutting review to ensure that appropriate infrastructure will be provided to support housing and population growth;
- the Eddington Transport Study is reviewing the long-term impact of transport decisions on economic productivity, stability and growth;
- the Leitch Review of Skills will set out the skills profile that the UK should aim to achieve by 2020 in order to maximise productivity and growth over the long-term;
- as set out in *Devolved decision making 3: the Economics of cities*, published alongside Budget 2006, the Government will review the effectiveness of sub-national interventions on economic development and the regeneration and renewal of deprived neighbourhoods;
- building on the recommendations of Kate Barker's independent review of housing supply, the 2005 Pre-Budget Report announced a review of how planning policy can better deliver economic growth and prosperity alongside other sustainable development goals; and
- the economics of climate change, led by Sir Nicholas Stern.

2.12 The Government alone cannot meet these challenges: citizens, communities, businesses and non-governmental organisations will all play a vital role in shaping the future of UK society. To inform the CSR and develop a shared understanding of how the country must respond to the challenges of the decade ahead, the Chancellor of the Exchequer announced at Budget 2006 that the Government plans to hold a national debate on the future priorities for public spending and public services. This reflects the Government's commitment to consulting all stakeholders.

Public sector efficiency

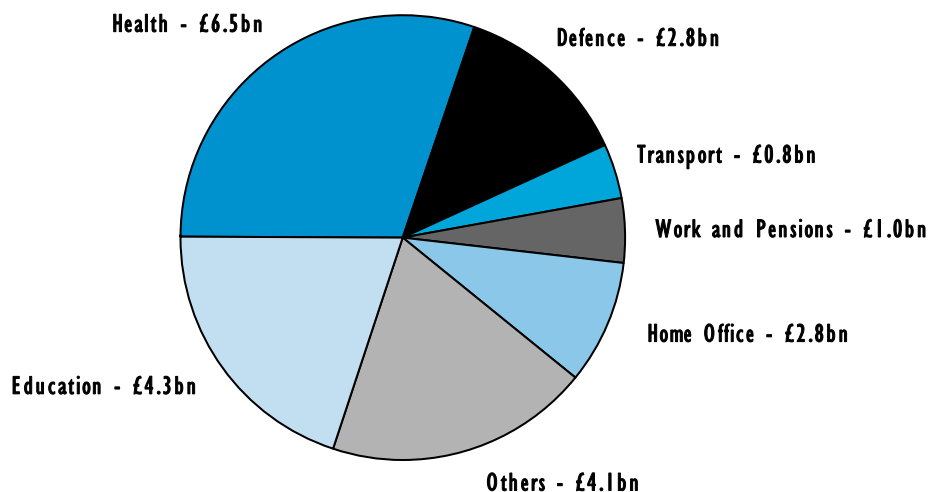
2.13 The Government is developing an ambitious efficiency programme for the CSR period building on the foundations laid in the 2004 Spending Review, and continues to make good progress towards meeting stretching targets that will deliver:

- efficiency gains across the public sector of over £20 billion annually by 2007-08 (see Chart 2.1 for further details);

⁵ Many of these reviews are mentioned elsewhere in the NRP.

- 84,000 gross headcount reductions in civil service and administrative posts by 2007-08 (around 70,000 net taking account of posts redirected to the front line); and
- 20,000 positions relocated out of London and the South East by 2010.

Chart 2.1: Breakdown of departmental efficiency targets



Source: Office of Government Commerce

2.14 Latest figures, published in July 2006, report provisional annual efficiency gains totalling £9.8 billion by the end of March 2006, a significant increase from the projected £6.4 billion announced at Budget 2006.

The Gershon Review

2.15 Efficiency savings have been made in all five areas highlighted by Sir Peter Gershon's *Independent review of public sector efficiency*⁶ as having the greatest potential for efficiency gains. These include provisional savings of:

- £3.7 billion in procurement – by improving the value of goods and services bought by government;
- £2 billion in productive time – by enabling public servants to spend more time providing a service to the public and meeting customers' needs;
- £1 billion through driving up performance in public services through more effective strategy, evidence-based policy, focused inspection and better regulation;
- £884 million in corporate services – by reducing government running costs in areas such as human resources, IT support and finance; and
- £451 million in transactions – by streamlining major processes including tax and benefit administration to make them faster and more accessible.

⁶ *Releasing resources to the front line*, Sir Peter Gershon, July 2004.

2.16 In February 2006 the National Audit Office (NAO) published its report, *Progress in improving government efficiency*.⁷ It concluded that the current programme is more serious and systematic than previous attempts to achieve efficiency in government. The report found that many projects are making good progress towards achieving efficiency gains and commended many departments for managing their efficiency programmes effectively, but noted that further work was needed to strengthen the measurement methodologies used. To enhance further the transparency of the efficiency programme, departments have published the methodology they use to measure efficiency, known as Efficiency Technical Notes (ETNs).⁸

2.17 The Government is also making good progress on delivering asset sales worth £30 billion by 2010, with sales of £6.3 billion during 2004-05. Additionally, by March 2006, departments reported a gross workforce reduction of 45,500 posts, against a target of 84,000 by the end of 2007-08. These include a gross reduction of 24,436 positions in the Department of Work and Pensions (DWP) and a gross reduction of 6,995 positions in HM Revenue and Customs (HMRC).

2.18 Budget 2006 announced that the Chancellor of the Exchequer has asked Sir David Varney, the then Executive Chairman of HMRC and former Chief Executive of O2, to advise him on the opportunities for transforming the delivery of public services. Drawing on the Transformational Government strategy, the review will look at how the channels for service delivery can be made more efficient and responsive to the needs of citizens and businesses, for example by:

- exploiting the full potential of electronic service delivery;
- raising the quality of service provided by call centres;
- identifying the opportunities for more efficient and innovative use of local office networks; and
- exploring the scope to improve processes for handling identity.

The Lyons Review **2.19** In light of Sir Michael Lyons' *Independent review of public sector relocation*,⁹ the Government is committed to relocating 20,000 civil service posts out of London and the South East by 2010. Good progress has been made towards meeting this target and, by April 2006, 7,800 posts had been relocated out of London and the South East and into areas with relatively lower costs of doing business, realising the benefits of dispersal for the efficient delivery of government business and for regional economies.

Investing in public services

Health **2.20** The Department of Health (DH) overall PSA aim, to “transform the health and social care system so that it produces faster, fairer services that deliver better health and tackle health inequalities”, contributes to the Lisbon goals relating to social cohesion and healthcare systems. The White Paper, *Our health, our care, our say*,¹⁰ published in January 2006, sets out a new direction for the health and social care system by aiming to achieve better and earlier prevention services, give people more choice and a louder

⁷ *Progress in Improving Government Efficiency*, National Audit Office, February 2006.

⁸ A list of ETNs for all central departments can be found at <http://www.hm-treasury.gov.uk>

⁹ *The Lyons Review: Independent review of public sector relocation*, Sir Michael Lyons, July 2004.

¹⁰ *Our health, our care, our say*, Department of Health, January 2006.

voice, tackle inequalities and improve access to community services and provide greater support to people with long-term needs.

2.21 UK Government expenditure on health is expected to increase from £76 billion in 2005-06 to £83 billion in 2006-07. Between September 2004 and September 2005 the number of doctors increased by over 2,000 and the number of nurses by over 6,600, while increased resources have meant that the number of English residents waiting more than 3 months for an outpatient appointment has fallen from 62,752 in December 2004 to 171 in December 2005. Health outcomes have also improved – premature deaths from heart disease and cancer have fallen by 31.4 per cent and 13.9 per cent respectively against the 1995-97 baseline. While the majority of National Health Service (NHS) delivery units are operating within their budget, action has been taken to address areas of poor financial management and the NHS is planning to return to financial balance by the end of 2006-07.

Education 2.22 Improved education and skills acquisition underpins the Lisbon goal to speed up the transition to a knowledge-driven economy and is reflected in the Department for Education and Skill (DfES) PSA aim, to “help build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; releasing potential in people to make the most of themselves; achieving excellence in standards of education and levels of skills.” Budget 2006 announced increased investment in schools, childcare and further education to address the key long-term skills challenges. This included a commitment to increasing funding per pupil in maintained schools over time towards the current level in UK private sector day schools. As a first step towards this, Budget 2006 also committed to raising capital investment in schools from £6.4 billion in 2007-08 to £8 billion by 2010-11, matching current levels of per-pupil capital investment in the private sector.

2.23 Latest results show continued improvements in attainment. 2005 GCSE results show the biggest year-on-year increase for a decade: 56.3 per cent of pupils achieved 5 or more grades A*-C, with the fastest improvements being made by the most deprived pupils. However, there remain significant gaps in attainment by socio-economic background, ethnicity and gender: while over 60 per cent of girls achieved five or more grades A*-C at GCSE, only around 50 per cent of boys reached this standard. There are also significant attainment gaps for particular ethnic minority groups (such as Black African and Caribbean, Pakistani and Bangladeshi), where gaps tend to open early in the school system and widen as pupils progress in school. Chapters 3 and 4 give further details of the Government’s reforms to address education and skills challenges.

e-Government 2.24 In November 2005 the Government published a strategy for transforming public services using technology,¹¹ which corresponds broadly to the Lisbon information society goals to stimulate e-government and to create conditions for e-commerce to flourish. Building on the 2004 Spending Review efficiency programme, it identifies the scope for greater sharing and standardisation in corporate and other services. The implementation plan for the strategy was published in March 2006,¹² focusing on the immediate priorities to mid 2007. In November 2006, an annual report will be published, covering the year's achievements in key delivery areas and looking forward to 2007 to describe the challenges ahead.

¹¹ *Transformational government, enabled by technology*, Cabinet Office, November 2005.

¹² *Transformational government: implementation strategy*, Cabinet Office, March 2006.

Transport

2.25 Transport plays a vital role in equipping the UK to respond to the opportunities and challenges of globalisation, through attracting and maintaining investment in the UK and supporting international trade. The Department for Transport (DfT) 2004 White Paper, *The Future of transport*,¹³ outlined a long-term strategy for the UK transport network based around three key themes of sustained investment, better management and long-term planning. The DfT PSA objective, to “support the economy through the provision of efficient and reliable interregional transport systems”, corresponds closely to the Lisbon goals of promoting quality public services and increasing productivity, as well as encouraging environmentally-friendly transport. The Government is currently spending the equivalent of £260 million per week on transport. By 2007, transport spending in real terms will be over 60 per cent higher than in 1997, and by 2015 it will be double 1997 levels.

London Underground

2.26 Under the London Underground Public Private Partnership (PPP), new investment has modernised 32 stations. This figure will rise to 66 by March 2007 and 249 by 2010. PPP contractors must deliver on four key indicators: capability (the practical capacity of each line); availability (day-to-day service reliability); ambience (the quality of the travelling environment); and service points (for asset failures or untimely fault rectification). Monitoring focuses on a number of criteria, which include excess journey time and lost customer hours.

2.27 The additional investment is already delivering results. London Underground now carries record numbers of passengers and is running more trains than ever before, with customer satisfaction at its highest level since records began in 1990-91. London Underground delivers 95 per cent of its schedule and has done for the last two years.

Rail investment

2.28 Private and public investment in the rail industry is continuing to run at a very high level, with £5.4 billion of investment in 2004-05. This has delivered new rolling stock and major infrastructure projects such as the West Coast Main Line upgrade and the Channel Tunnel Rail Link, in addition to a number of smaller schemes designed to increase the capacity and improve the operational performance of the railway network. The Government reached its target of 85 per cent reliability on the rail network ahead of schedule in late 2005, and numbers of passenger journeys have risen to over 1 billion per year – a level not seen since the 1960s.

2.29 The UK rail freight sector is a thriving and competitive private sector industry. In 2005-06, the rail freight industry completed the equivalent of over 6.7 million lorry journeys and saved 1.22 billion lorry kilometres, delivering significant reductions in pollution and congestion.

Roads

2.30 Between 2005 and 2008, the Highways Agency is investing over £2 billion in its Targeted Programme of Improvements (TPI) comprising 80 major road schemes on the strategic road network. Eight major TPI schemes were completed during 2005-06, and seven major schemes have commenced since April 2005. This investment in increased capacity has been matched with the introduction of measures to improve management and usage, including the opening of Traffic Control Centres covering the whole of the strategic road network. The DfT is also considering the potential of road pricing as a means for tackling the predicted growth in road congestion in the future.

¹³ *The Future of transport*, Department for Transport, July 2004.

Local transport **2.31** In urban areas, tackling congestion in the medium to long term will require a combination of measures, including demand management and support for public transport and non-car modes. In 2005-06, central and local government provided a total of around £1.7 billion funding for bus services. In addition, the DfT has recently doubled funding for Cycling England and supports a wide range of travel planning initiatives. In the longer term, resources will be available from the Transport Innovation Fund to tackle congestion through a combination of demand management and better public transport improvements, with up to £200 million a year available from 2008-09 to support such packages.

Eddington Study **2.32** Transport supports the efficient and flexible functioning of the economy, playing a significant role in the operation of labour markets and facilitating the movements of goods and services. Sir Rod Eddington has been asked to advise on the long-term impact of transport decisions on the UK's productivity, stability and growth. The study is taking a strategic approach to understanding how transport networks can support the economy, within the context of the Government's broader commitment to sustainable development and the environment, and is expected to be completed later in 2006.

Accessibility planning **2.33** In addition, the Government's Social Exclusion Unit has already examined the relationship between transport, social exclusion and the location of jobs and key services, and published the report *Making the connections* in February 2003.¹⁴ This report showed that while inadequate transport is rarely the only barrier to entering paid work, or even the most important one, it can still be a significant problem for many people. For instance, inadequate transport can prevent them from attending interviews, limiting the range of jobs they can apply for, and force them to turn down job offers, leading to prolonged periods claiming benefits. As a result, Local Transport Authorities are now required to develop and deliver accessibility strategies as part of their Local Transport Plans, which were submitted to the Government in March 2006. These are designed to identify and address local accessibility problems, in close consultation with stakeholders.

Pensions

Pensions reform **2.34** In common with most EU Member States, the UK faces demographic pressures. The DWP PSA objective, to "combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners", corresponds closely to the Lisbon goal of adapting pension systems to an ageing population, with the twin objectives of quality and sustainability. 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) in the UK will rise from around 27 per cent in 2006 to 40 per cent by 2030, and then further to around 47 per cent by the middle of the century.

2.35 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. Government expenditure on pensions is projected to increase relatively moderately, from just over 5 per cent of GDP in 2006 to 6.7 per cent by 2050, comparing favourably with the substantial projected increases in a number of other Member States.

¹⁴ *Making the connections*, Social Exclusion Unit, February 2003.

2.36 The Government set up the independent Pensions Commission in 2002 to look at long-term trends in pensions savings and assess whether there is any need to move beyond the current voluntary system. Responding to the Pension Commission's report, and building on the 2002 Pensions Green Paper,¹⁵ the Government published a White Paper in May 2006¹⁶ setting out its proposals for reform. These are aimed at meeting the five tests the Government set itself: promoting personal responsibility; fairness; simplicity; affordability; and sustainability.

2.37 The key elements of the Government's proposals are:

- creation of a new scheme of low cost personal accounts, into which employees will be automatically enrolled and entailing contributions from employees, employers and the State;
- to simplify and make more generous state pensions provision; and
- to increase the State Pension age, in line with average life expectancy gains, from 65 to 68 between 2024 and 2046.

2.38 Roll-out of the White Paper will be primarily via implementation of legislation paving the way for future action. The Government is further assessing the appropriate delivery model for personal accounts and will bring forward proposals in autumn 2006. UK Government best practice will be reflected in proposals for future evaluation of the effectiveness of these policies.

Reducing Pensioner Poverty

2.39 The Pension Credit is one of the key Government policies for reducing levels of pensioner poverty. From April 2006, the Pension Credit guarantees a minimum weekly income of £114.05 for single people and £174.05 for couples. As a result of recent Government policies, absolute low income is down by two-thirds (2.1 million pensioner households) compared with 1997. Pensioner poverty is evaluated on both an absolute and a relative basis – relative low income has fallen by 0.5 million between 2002-03, when the Pension Credit was introduced, and 2004-05. Today a pensioner is no more likely to live in a poor household than anyone else in the population.¹⁷

Pensions forecasts

2.40 To help people make informed financial decisions about their retirement, which build on the foundation provided by the State, the Government is facilitating the provision of timely, accurate and tailored information via individual forecasts. Delivery of these projections on target, with almost 13 million forecasts being issued in 2005-06.

Simplification

2.41 To provide individuals with a clear tax framework, and to provide greater flexibility and choice over retirement savings, the Government introduced a single universal regime for tax-privileged pension savings, which came into effect in April 2006. This should also benefit employers and pension providers through a reduction in administrative costs. HMRC plans to carry out a post-implementation evaluation of the pension tax measures, with work already underway to collate baseline figures. Furthermore, the introduction of 'stakeholder' pensions has ensured that value-for-money, flexible private pension arrangements are available to all.

¹⁵ *Simplicity, security and choice: working and saving for retirement*, Department for Work and Pensions, 2002.

¹⁶ *Security in retirement: Towards a new pensions system*, Department for Work and Pensions, May 2006.

¹⁷ *Poverty and Inequality in Britain*, Institute for Fiscal Studies, March 2006.

Increasing opportunities for working longer

2.42 Working for longer not only provides a direct means by which people can supplement their income in later life, but also a way of building up greater state and private pension entitlement for the future. The Government is keen to ensure that those choosing to work for longer are given the opportunity to do so, and has already taken action to provide greater choice and flexibility. For instance, since April 2006, measures have been introduced that make it possible to draw an occupational pension while remaining with the same employer. The Government also brought legislation into force in autumn 2006 to implement the age discrimination strand of the European Employment Directive with a default retirement age of 65 – below which employers will not be able to force people to retire on the grounds of age (unless it can be objectively justified).

3

PROMOTING PRODUCTIVITY GROWTH

3.1 Increased productivity growth is the key determinant of long-term growth, and together with employment growth, it is the primary route to higher prosperity. This is reflected in the joint HM Treasury and Department of Trade and Industry (DTI) Public Service Agreement (PSA) objective, to “demonstrate further progress by 2008 on the Government’s long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors”,¹ which corresponds to several of the Lisbon goals. Many of the reforms outlined in this chapter also correspond to the microeconomic dimension of the EU Broad Economic Policy Guidelines (BEPGs) and to the education and skills elements of the EU Employment Guidelines.

Five drivers of productivity

3.2 The Government’s strategy for improving productivity is based on two principal economic objectives: maintaining macroeconomic stability to ensure businesses and individuals have the certainty needed to make long-term investment decisions; and ensuring that markets work by tackling the underlying causes of low productivity through a strategic approach to microeconomic reform. This approach centres on the five drivers of productivity: competition, enterprise, science and innovation, investment and skills.

3.3 The Government is committed to delivering strong, stable and sustainable economic growth, and believes that it is crucial to take care of the natural environment and the resources on which economic activity depends. Economic growth must therefore be based on the principles of sustainable development: integrating economic prosperity with environmental protection and social equality.

Productivity performance

3.4 Evidence shows that the UK has raised its productivity growth over the current cycle to date compared to previous cycles. Actual productivity growth (trend output per hour worked) is estimated to have grown by more than 2.5 per cent over the first half of the current economic cycle (1997H1-2001Q3), higher than previous economic cycles which recorded growth of around 2 per cent. Recent performance compares favourably with other industrial economies, which have seen periods of lower, and sometimes negative, productivity growth. Productivity growth has also been more stable than in previous cycles.

3.5 This performance is particularly impressive when considered in the context of the UK’s very strong employment performance. Chapter 4 shows how the UK has successfully generated higher and more stable employment growth, with over 223,000 new jobs created since 2005, giving the UK one of the lowest annual unemployment rates in the G7.

3.6 In an environment of increasing global competition, closing the historical productivity gap with principal comparator countries is of particular importance. 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. The UK is also making progress in narrowing the output per worker gap. Despite strong performance by the US in the latter half of the 1990s, the UK has been the only country to have kept pace with the US. The UK has further to catch up on an output per hour worked basis, but steady progress is being made against its competitors.

¹ There also are additional PSA targets consistent this objective, shared between HM Treasury and the Departments for Work and Pensions and between HM Treasury and the Department for Communities and Local Government.

**Productivity
in the regions**

3.7 UK regional economic development and performance is closely linked to achieving the Lisbon goals of increasing productivity and growth. Unfulfilled economic potential in every region must be released to increase overall economic productivity and the long-term growth rate of the UK.

3.8 Trends in regional nominal Gross Value Added (GVA) per capita show that the size and relative rankings of the regions have been persistent over time. 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. The Government also aims to reduce the persistent gap in growth rates between regions in the long term, and is making good progress with all English regions experiencing growth in 2003 and 2004.

3.9 In 2004, the average GVA growth rate per capita for the top three English regions was 3.5 per cent, compared to 4.6 per cent for the bottom six regions. Progress on narrowing the gap in growth rates has been partly due to strong employment growth in the North. By 2005, the average employment rate for the North, Midlands and South West regions had risen to within 0.5 per cent of the average employment rate for London, South West and East, compared to a gap of over 2 per cent in 2001. The skills gap between the top three regions and bottom six regions, as measured by the percentage of the working age population trained to level 2 (upper secondary education) or above, has also narrowed from 4 per cent in 2001 to 2.7 per cent in 2005.

3.10 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 increase. However, the UK will still receive substantial Structural Funds receipts of approximately €9.4 billion over the 2007-13 Financial Perspective. The new strategic arrangements for future Structural Funds spending are designed to establish a clear link between cohesion policy and the Lisbon goals.

3.11 Government policies are implemented at the regional and local level through the Regional Development Agencies (RDAs), Regional Assemblies, and Local Authorities. The Devolved Administrations (DAs) in Scotland and Wales, and the Northern Ireland Administration, have responsibility for economic development. The RDAs were established for each of the English regions in 1999, to provide an integrated approach to economic development and business support at the regional level. They also administer Research and Development (R&D) grants and Business Link services, support business-university collaboration, meet rural socio-economic objectives and promote inward investment. This NRP update reflects their input and gives examples of the reforms carried out by RDAs.

3.12 The Government has significantly increased the flexibility, responsibilities and resources of the RDAs. Spending Review 2004 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 increase to £2.3 billion by 2007-08.

Box 3.1: The UK's National Strategic Reference Framework for future Structural Funds spending

The Government is currently finalising the UK's National Strategic Reference Framework for future Structural Funds spending, following a nationwide consultation in spring 2006.

The National Framework will establish the broad priorities for Structural Funds Programmes from 2007 to 2013 and help to ensure that future Structural Funds Programmes include a strong focus on activities in support of the Lisbon agenda.

In particular, the National Framework will:

- establish a strong focus for future European Regional Development Fund (ERDF) programmes on enterprise, innovation, and knowledge transfer;
- maintain a strong focus for future European Social Fund (ESF) programmes on extending employment opportunities and developing a skilled and adaptable workforce; and
- introduce greater coordination between Structural Funds Programmes and domestic strategies for employment and regional development, including the Regional Economic Strategies for the English Regions, and developing workforce skills through the Regional Skills Partnerships.

The Government will provide detailed updates on the contribution of Structural Funds Programmes to the Lisbon priorities in two reports on Structural Funds spending in 2009 and 2013.

3.13 Important recent measures to stimulate regional economic performance, improve the evidence base that informs policy and increase regional input into national policy include:

- reviews by six of the nine English regions, which have refocused their Regional Economic Strategies;
- indicative regional funding allocations across the inter-related areas of transport, housing and economic development to enable regions to align their strategies and enhance input into relevant public spending decisions;
- publication of *Devolving decision making 3 – Meeting the regional economic challenge: The importance of cities to regional growth*,² which analyses the contribution that cities make to regional economic performance;
- next steps to take forward the Northern Way growth strategy, including new science research centres, skills pilots and transport interventions, and a business plan to implement the £100 million Growth Fund; and
- a review of the powers of the Greater London Authority, which has resulted in significant new powers for the Mayor of London on skills, planning, housing and waste.

² *Devolving decision making 3 – Meeting the regional economic challenge: The importance of cities to regional growth*, HM Treasury/Department of Trade and Industry/Office of the Deputy Prime Minister, March 2006.

Promoting competition

3.14 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. The DTI PSA objective of “ensuring fair, competitive markets and empowering consumers” corresponds to the 2006 Spring European Council conclusion of fostering competitiveness, innovation and productivity. As recognised by the European Commission, 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.

3.15 The Government’s commitment to openness in trade and investment is a key driver of the UK’s competitiveness. A fully open and competitive single market would have similar benefits for the EU. Although UK consumers have benefited from lower prices through increased competition, there is evidence of an increasingly protectionist approach emerging elsewhere in the EU. So encouraging effective competition in the Single Market, and agreeing a vital package of reforms to liberalise trade in the services sector, remains vital to realising the potential benefits for consumers of further trade integration.

3.16 Despite having all the necessary powers to develop a world-class competition regime, the Government remains committed to further improvements and will commission an independent review of the comparative effectiveness of the UK competition regime with its peers in the OECD during 2006-07.

Box 3.2: Strengthening the European Single Market – levelling the playing field

The Government believes strongly that Europe must continue to strengthen and deepen the Single Market, enabling Europe’s firms to compete successfully in the global marketplace, and is seeking:

- full implementation by Member States of existing market-opening legislation across the Single Market, including in the telecommunications and energy sectors;
- swift agreement by Member States and the European Parliament on an ambitious and liberalising directive to remove barriers to trade in services; and
- rapid action by the European Commission and Member States to tackle the barriers to competition identified by the Commission’s sector enquiries into competition in the EU’s gas and electricity markets and in financial services.

Office of Fair Trading

3.17 The Office of Fair Trading (OFT) has the primary role of uncovering and deterring anti-competitive behaviour within its overall mission of making markets work well for consumers. Following the appointment of a new Chairman and Chief Executive, the OFT has reviewed its structure and is now undergoing a wide-ranging transformation programme which result in its work being organised around markets.

3.18 Significant recent areas of work and progress include the OFT's Payment Systems Task Force, set up in March 2004 to address competition and efficiency problems in UK payment systems. The Taskforce agreed in May 2005 to introduce faster electronic payments in the UK, which will reduce clearing times on electronic payments from three days to a matter of hours by November 2007.

3.19 The OFT is also currently undertaking a market study into the UK airports market and has recently completed a study on the market-distorting effects of public subsidies, and will issue guidance to government departments by the end of 2006.

Competition Commission **3.20** The Competition Commission (CC) examines competition issues in depth following referral from another authority, usually the OFT, and in certain circumstances the sectoral regulators. For instance, in May 2006 the OFT referred the grocery market to the CC. In March 2006, the CC published its final report on the store card market, where consumers are estimated to be paying at least £55 million in excess prices per year. Solutions have been published which should encourage greater competition and bring pressure to bear on annual percentage rates (APRs) and insurance terms.

Regulated industries **3.21** The UK has been at the forefront of moves to introduce competition and independent regulation into the utilities sector, formerly dominated by monopoly providers. The water regulator, Ofwat, has established a regime to enable water providers to compete to supply large water users. In addition, Postcomm (the postal services regulator) opened up the UK mail market to competition in January 2006, ahead of the proposed EU directive timetable.

3.22 The UK market for telecommunications is now one of the most competitive in the EU, with over 100 operators and 300 service providers. Consumers have benefited from increased competition in the sector, with mobile pre-pay prices falling by 16 per cent and fixed voice prices falling by 18 per cent in the last three years. The converged communications regulator Ofcom completed a comprehensive review of the telecommunications sector in autumn 2005, and accepted a set of undertakings from the incumbent supplier, British Telecom (BT), to ensure equality of access for competitors and sustainable competition in the future.

3.23 EU rules have successfully begun to open up regulated industries to competition elsewhere in the EU. However, there remains scope for further progress to create a genuine, open and complete Single Market in sectors such as post, telecommunications and energy, and to deliver further benefits to European consumers and businesses. The UK believes that proactive competition policy can play a key role in seizing the opportunities offered by a global economy.

Enterprise

3.24 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 DTI PSA target to “build an enterprise society in which small firms of all kinds thrive and achieve their potential” corresponds closely to the economic reforms called for by the Lisbon Strategy, and mirrors the 2006 Spring European Council conclusion to create an overall positive entrepreneurial climate.

SMEs in the UK economy **3.25** A dynamic Small and Medium-sized Enterprise (SME) sector is needed to drive productivity growth and generate prosperity in disadvantaged areas. The 2005 *Global Entrepreneurship Monitor*³ indicates that UK rate of total entrepreneurial activity is the third highest of the G7, behind the US and Canada. The UK Small Business Service (SBS) estimates there are 4.3 million SMEs in the UK, equivalent to around 99 per cent of all businesses. SMEs employ nearly 13 million people, corresponding to 58.5 per cent of the private sector workforce, and account for 51 per cent of total private sector turnover (£1,200 billion per annum). Overall, the UK approach corresponds closely to

³ *Global Entrepreneurship Monitor 2005*, London Business School, 2005.

the objectives of the European Small Firms Charter.⁴ The Charter serves as a framework and benchmark for actions to be taken by EU Member States to support small firms, and many of the measures described below are in keeping with the ten Charter lines.

Promoting entrepreneurship

3.26 The UK aims to develop the best environment in the world to start and grow a business, and is making good progress: in September 2005, the World Bank ranked the UK as having the least burdensome employment law of any EU Member State.⁵ An effective enterprise culture, which encourages positive attitudes towards entrepreneurship and risk, is central to achieving this goal. In order to help young people develop the enterprise skills and aspirations necessary to start up and grow their own business, and in order to bring a more innovative approach to the workplace, the Government took the following steps in 2006:

- creating a Schools Enterprise Education Network (SEEN) as part of the £60 million roll out of enterprise education to all pupils at key stage 4 (age 14-16);
- creating 23 enterprise summer school pathfinders to be delivered by Young Enterprise to 1,000 pupils across the UK in summer 2006;
- launching the Entrepreneurship Fellows Scheme for outstanding UK university students, which includes a six month placement in the US; and
- establishing new Centres of Vocational Excellence for Enterprise in London, Manchester and Birmingham. A further centre in Leeds/Bradford is also in development.

3.27 In order to promote enterprise more generally, November 2005 saw the running of the UK's second 'Enterprise Week', an annual country-wide week of events aimed at young potential entrepreneurs. Over 2,000 individual events were attended by over 400,000 people. Enterprise Week 2006 will run between 13 and 19 November. Furthermore, the RDAs and the SBS announced the 12 regional winners of the 'Enterprising Britain 2006' competition, which supports the development of enterprising communities.

Boosting entrepreneurship among women and ethnic minorities

3.28 The Government recognises the high potential of women's enterprise to contribute to economic growth in the UK, and has developed a Strategic Framework for Women's Enterprise to meet the target of 20 per cent female business ownership by 2006. The Task Force on Women's Enterprise became operational in autumn 2006, providing high-profile leadership to accelerate women's enterprise development. In addition, five RDAs have established Women's Enterprise Units to pilot different approaches to supporting the start-up and growth of female-owned businesses, the outcomes of which will be promoted and shared widely by March 2007.

3.29 The number of self-employed people of working age from under-represented ethnic groups has increased from around 80,000 to 120,000 in England in the last four years. The SBS is working with the Learning and Skills Council (LSC) to develop Centres of Vocational Excellence in entrepreneurship in five designated cities, and working with banks and financial intermediaries to review the availability and accessibility of finance for ethnic minority firms in those cities.

⁴ Available at <http://ec.europa.eu/enterprise>

⁵ *Doing Business in 2006*, World Bank, September 2005.

- Streamlining business support schemes** **3.30** The Government believes that support to help businesses start up and grow should be simple and easy to access, and is therefore working with RDAs and other bodies to reduce the number of business support schemes from around 3,000 now, to no more than 100 by 2010. This work is feeding into the sub-national review of economic development and regeneration.
- One-stop shop principle** **3.31** The one-stop shop principle is already firmly embedded via the Business Link network in England and through comparable mechanisms in the Devolved Administrations. The network provides a one-stop service covering a whole range of business information, advice and support needed to start, maintain and grow a business, including legislative issues and a "No-nonsense guide" to starting a business.
- 3.32** Companies House, the body responsible for company registrations in England, Scotland and Wales, is able to register a company within 24 hours. Furthermore, over 85 per cent of companies incorporated in England, Scotland and Wales are currently incorporated on-line. The same services will soon be extended to Northern Ireland, following a recent review of company law.
- High growth business coaching** **3.33** Increasing the number and performance of high-growth SMEs is central to improving the UK's productivity. Building on the services currently available via Business Link, all nine RDAs have rolled out the High Growth SME Coaching Scheme, a structured programme of intensive coaching and assistance for high-growth SMEs, on a phased basis since April 2006. The scheme will be scaled up in every region in the coming years to improve coverage and maximise impact.
- Cox review of creativity** **3.34** At Budget 2005, Sir George Cox, Chair of the Design Council, was asked to consider how best to ensure that businesses – SMEs and modern manufacturers in particular – apply creativity to improve their productivity and performance, enabling them to compete more effectively. The review,⁶ published in December 2005, identified a number of steps that could be taken by the Government, businesses, broadcasters and educational institutions working together, including:
- raising the profile of the UK's world-class creative capabilities;
 - improving awareness of the role of creativity and design in business;
 - improving the effectiveness of support and incentive schemes;
 - ensuring higher education builds links with creative and other disciplines; and
 - using public procurement to encourage more imaginative solutions.
- Local enterprise growth initiative** **3.35** In 2005, the Government announced a Local Enterprise Growth Initiative (LEGI) to provide flexible, devolved investment to some of the UK's most deprived areas. Funds will be used to support locally developed and owned proposals to stimulate economic activity, productivity and investment through enterprise, and to ensure sustainable change. The first tranche of funding, worth £126 million, has already been awarded to 10 projects, including 15 local authorities (as some were joint bids).
- Promoting use of ICT** **3.36** Information and Communications Technology (ICT) usage by business continues to be a key driver of improvements in productivity and international competitiveness, as recognised by the Lisbon Strategy. Although levels of ICT investment are relatively high in the UK, business can suffer from a lack of access to

⁶ *The Cox review of creativity*, HM Treasury, December 2005.

information on ICT management. This is addressed primarily through the SBS's Business Link website and by RDAs. The DTI is also working with the ICT sector, to examine how ICT enables productivity growth and to identify best practice in other countries, particularly the US.

3.37 The UK currently has the most extensive broadband availability anywhere in the world, making it one of the best places for online business. Over 99.8 per cent of premises are able to access broadband, and take-up is rising fast with the total number of connections at 9.8 million (at the end of 2005). In order to consolidate progress to date, the Government is:

- working with the Broadband Stakeholders' Group (BSG), which brings together industry experts on issues such as the rollout of next generation networks and access;
- implementing the 2006 Spectrum Action Plan by releasing surplus capacity to the market and creating opportunities for more innovation and increased competition; and
- supporting the 2005 *Spectrum framework review: Implementation plan*.⁷ Ofcom made its first award under this plan in May 2006, with further awards planned for 2006-07.

**Improving
access to
finance**

3.38 In line with the Spring European Council Conclusion to develop comprehensive support policies for SMEs of all types, the Government is committed to tackling market failures in the supply of risk capital – the equity gap – and improving access to finance for small businesses. Steps taken to achieve this include:

- establishing Enterprise Capital Funds (ECFs), which will invest a mixture of public and private capital in companies whose needs are not currently addressed. Budget 2006 announced an increase of £100 million to the ECF programme, which reflects its success to date. A further £50 million will be allocated in 2006-07 and £50 million in 2007-08; and
- following on from the launch of the newly enhanced Small Firms Loan Guarantee (SFLG) scheme in December 2005, the SBS is currently working to accredit additional lenders to operate the scheme, thus ensuring that it is accessible to all sections of the small business community.

**Encouraging
enterprise
through the
tax system**

3.39 The Government has enhanced the R&D tax credits system to encourage R&D investment by business, and phased out payment of the Working Tax Credit via employers, with some 1.2 million small businesses benefiting from this reform. The Government has also increased the first-year capital allowance for investment in plant and machinery by SMEs: for 2006-07, this increases to 50 per cent. In addition, the individuals' annual investment limit in the Enterprise Investment Scheme (EIS) eligible for income tax relief has been doubled from £200,000 to £400,000, to increase incentives to invest through the scheme.

3.40 In terms of the VAT Annual Accounting Scheme, the Government has increased the turnover threshold up to which businesses can take advantage of the scheme, from £660,000 to £1,350,000 from 1 April 2006, thereby opening the scheme to a further 80,000 eligible businesses. The Government also requested an EU derogation for

⁷ *Spectrum framework review: Implementation plan*, Office of Communications, January 2005.

increasing the threshold of the VAT Cash Accounting Scheme from £660,000 to £1,350,000.

3.41 Budget 2006 announced a new 30 per cent rate of income tax relief for investments in Venture Capital Trusts (VCTs), to help ensure that the VCT industry has a solid foundation for stable fundraising and continued growth. The Government has also increased the minimum holding period for new shares in VCTs to five years.

Regulatory reform **3.42** Inefficient and over-burdensome regulation can impose significant costs on business without improving regulatory outcomes. The Lisbon goal of lowering the costs of doing business and reducing red tape corresponds to the Cabinet Office’s PSA target on regulation, “by April 2008, ensure departments deliver better regulation and tackle unnecessary bureaucracy in both the public and private sectors”. The Government is committed to pursuing a programme of reform to deliver better and effective regulation by reducing administrative burdens upon business; examining and streamlining the existing stock of regulation; and ensuring that there is a clear rationale to new regulations.

Think small first **3.43** The SBS works closely with departments to embed the “think small first”⁸ principle of supporting small business, and in particular encourages regulators to take account of the impact of policies on SMEs. This is achieved via specific measures outlined below, such as common commencement dates and implementation of the Hampton Review.

Implementing the 2005 Better Regulation Action Plan **3.44** Following the Hampton⁹ and Arculus¹⁰ reviews, the Government published an Action Plan in 2005,¹¹ which sets out the timetable for implementing the wide-ranging reforms to the UK’s regulatory framework. The Government remains on track to deliver these fundamental reforms in full by 2009. Already the Government has:

- introduced in January 2006 the Legislative and Regulatory Reform Bill to Parliament, which aims to make it quicker and easier to tackle unnecessary or over-complicated regulation and help bring about a risk-based approach to regulation;
- published a draft Code of Practice at Budget 2006, which will entrench the Hampton Review’s principles in law if the Bill receives Royal Assent;
- made progress on merging regulatory bodies;
- announced in the 2005 Pre-Budget Report a Local Better Regulation Office (LBRO) to minimise local regulatory burdens on business, and deliver a risk-based approach to business inspection and enforcement; and
- appointed Professor Richard Macrory of University College London to lead an independent review of regulatory penalty regimes. The review will make recommendations designed to speed up regulatory justice, and to improve the consistency and proportionality of penalties.

⁸ *Think small first*, Small Business Service, January 2001

⁹ *Reducing administrative burdens: effective inspection and enforcement*, HM Treasury, March 2005.

¹⁰ *Regulation – less is more*, Cabinet Office, March 2005.

¹¹ *Better Regulation Action Plan*, HM Treasury Press Notice 50/05, May 2005.

- Common commencement dates** **3.45** Common commencement dates (CCD) of 6 April and 1 October for all legislation bearing on business are being introduced on a rolling basis. The purpose of CCD is to help businesses plan for new legislation and to increase awareness of the introduction of new or amended requirements.
- The Davidson Review** **3.46** The 2005 Pre-Budget Report announced that the Government had asked Lord Davidson QC, Advocate General for Scotland, to conduct a review of the UK's implementation of EU legislation. Lord Davidson has written to government departments with guidance on how to screen the stock of EU-derived legislation for potential 'over-implementation', and will report by the end of 2006 with recommendations to the Government on how to avoid the unnecessary over-implementation of EU legislation in the future, as well as specific simplification proposals on areas of legislation which may have been over-implemented in the past. A summary of stakeholder responses to the Review was published in July 2006,¹² together with an initial response from the lead government department or regulator.
- Measuring and reducing the administrative burden** **3.47** Following the recommendation of the Better Regulation Task Force (BRTF) to adopt best practice from the Netherlands, the Government has measured the total administrative burden to business of complying with government regulations and is agreeing targets for reducing burdens with departments. Following the recommendations of Sir David Arculus, government departments have been measuring the administrative burdens which they impose on business and the voluntary sector, agreeing targets for their reduction, and setting out in forthcoming simplification plans the measures to implement these targets. The simplification plans will be published in time for the 2006 Pre-Budget Report.
- Reducing the administrative burdens of tax** **3.48** In addition, at Budget 2006, HM Revenue and Customs (HMRC) announced a programme for streamlining the tax system which includes:
- reducing the administrative burdens on business of dealing with HMRC forms and returns by at least 10 per cent over 5 years;
 - reducing the administrative burden on business of dealing with HMRC's audits and inspections, by 10 per cent over three years and at least 15 per cent over five years;
 - launching a new business-led Administrative Burdens Advisory Board chaired by Teresa Graham, to propose and develop reforms to administration of the tax system; and
 - examining the scope further to align income tax and national insurance systems in order to improve outcomes for the low paid and to reduce burdens on employers, particularly SMEs.
- Progress on financial services reform** **3.49** The 2005 Pre-Budget Report announced a ten-point action plan of reforms to wholesale and retail financial markets, which reflects the areas of greatest concern for regulation. Substantial progress has been made, including via:
- launching consultations on deregulatory reforms to the 'controllers regime' of the Financial Services and Markets Act (FSMA) and more freedoms for employers to advise employees on work-related financial services;
 - introducing a Regulatory Reform Order;

¹² Davidson Review: Summary of responses to call for evidence, Cabinet Office, July 2006.

- improving consumer credit regulation;
- launching in June 2006 a value for money review into the Financial Services Authority (FSA);
- reviewing the effectiveness of mortgage and general insurance regulation;
- enhancing consumer education and understanding of financial services; and
- introducing simplification plans and quantified burden reduction targets.

Regulatory reform in Europe

3.50 The Government also placed regulatory reform at the heart of its Presidency of the EU in the second half of 2005. By working closely with the European Commission and other Member States, the UK Presidency achieved significant progress including agreement to simplify 222 basic legislative acts affecting over 1,400 related legal acts, and to withdraw 68 pending legislative proposals which were either outdated or did not adhere to better regulation principles. The Commission also committed itself to a systematic examination of all new EU proposals in order to ensure that the needs of SMEs are properly prioritised, since research consistently shows that small businesses suffer disproportionately from poor regulation. Given that significant challenges still remain, the SBS is leading efforts domestically to identify measures to reduce the regulatory burden on SMEs, and will work with the Commission to meet these challenges.

Innovation

3.51 The successful exploitation of new ideas is one of the main engines of long-term economic growth and structural change. The DTI PSA objective of “promoting world class science and innovation” corresponds closely to the Lisbon goal of speeding up the transition towards a knowledge-driven economy, and is a priority area identified by the 2006 Spring European Council. Innovation can occur through investment in R&D; through adopting new technologies from other firms or countries; or through employing new ways of working. Investments in innovation can result in direct and spillover gains to productivity, including through the emergence of new technologies, products and processes, as well as novel services and means of delivery.

3.52 The UK has a strong research base, but relatively low levels of R&D investment compared to 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*,¹³ which set a target 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 1.8 per cent.

3.53 Meeting this challenge will require a sustained effort from the private as well as the public sector. The ten-year framework sets out a number of long-term policies based around six broad themes to improve the UK’s R&D and innovation performance. The six themes focus on maintaining the UK as a centre for research excellence; making research more responsive to the needs of the economy; increasing business investment and engagement; addressing shortages of scientists, engineers and technologists; increasing public engagement; and promoting science and innovation across government.

¹³ *Science & innovation investment framework 2004-2014*, HM Treasury/Department of Trade and Industry/Department for Education and Skills, July 2004.

3.54 The framework was built upon in March 2006 with publication of the *Science and innovation investment framework 2004-2014: next steps*,¹⁴ which sought to maximise the economic impact of additional public investment in science. The Government also consulted earlier in 2006 on enabling an appropriate level of risk taking; removing bias against innovative research fields; and the barriers to business innovation and business-university collaboration.

World-class excellence and sustainability

3.55 The UK is keen to create a more effective science and innovation system which maximises the impact of public investment in science on business innovation, and which provides greater incentives for businesses to collaborate with the science base to meet the challenges of globalisation. Although UK scientists already claim around 10 per cent of internationally recognised scientific prizes every year, the Government is investing 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 for Research Councils.

Responsiveness of the science base to the economy

3.56 The ten-year framework seeks to improve the responsiveness of the publicly-funded research base to the needs of the economy, and the UK has led work with European partners through the Open Method of Coordination (OMC) on facilitating cross-border collaborations and improving the framework of knowledge transfer training. The 2006 annual report shows that universities are continuing to strengthen their links with business and community organisations. For instance, transatlantic knowledge transfer links are now being fostered through UK-US Science Bridges to develop collaborations between leading UK universities and US partners. There is also evidence of strong growth in licensing and intellectual property in higher education institutions. Since 2004, 20 university spin-out companies have been floated, bringing the Initial Public Offering value to over £1 billion. The current market value of these companies is now close to £1.5 billion.

3.57 The recently published *Higher education-business and community interaction survey*¹⁵ shows constant improvement across a number of knowledge transfer activities in the UK higher education (HE) sector. The sector has successfully undertaken collaborative research projects, innovative applications of existing knowledge and developed good practice in regeneration programmes and the training of individuals working in the knowledge economy. The survey also highlights the UK HE sector's continued relative success in forming new companies from knowledge transfer activities compared with institutions in the US, although UK institutions generate proportionally less licence income.

¹⁴ *Science and innovation investment framework 2004-2014: next steps*, HM Treasury/Department of Trade and Industry/Department for Education and Skills/Department of Health, March 2006.

¹⁵ *Higher education-business and community interaction survey, 2005/25*, Higher Education Funding Council for England, July 2006.

Box 3.3: Examples of interdisciplinary research

- Collaboration between cell biologists, engineers and materials scientists has made it possible to grow complex human tissues suitable for repairing the human body. Interdisciplinary research supported by three UK Research Councils has led to the production of injectable tissue scaffolds which are now being commercially exploited by Critical Pharmaceuticals Ltd., a Research Council spin-out company which recently secured £1 million of venture capital investment.
- The development of Magnetic Resonance Imaging (MRI), which allows doctors to produce images of living tissue, was the product of high-risk interdisciplinary research at the University of Nottingham, linking physics, medicine and engineering. All major hospitals around the world now have MRI scanners, and these are revolutionising medical diagnosis and brain science.

Increasing business investment in R&D

3.58 Commitment from the private sector to increasing its investment in R&D and its links to the science base will be necessary to meet the UK's science and innovation goals. The latest figures show that UK gross domestic expenditure on R&D was 1.78 per cent of GDP in 2004, equivalent to £21 billion or a 22 per cent increase in real terms since 1997. The Government contribution was 33 per cent, a 31 per cent increase compared to 2003. Further efforts by the Government to boost business investment in R&D include the R&D tax credits scheme, the UK Technology Strategy, the new R&D strategy for UK Trade and Investment (UKTI), and the UK Science Forum. The Science Forum brings together Government, business leaders and academics to support the UK's innovation goals and discuss issues such as skills, public procurement, joint programmes and projects, public attitudes to science and the measurement of progress on the ten-year framework.

R&D tax credit scheme

3.59 The UK's R&D tax credit scheme aims to encourage greater business investment in R&D. Since their introduction in 2000, nearly 22,000 claims have been made for R&D tax credits, with almost £1.8 billion of support provided. The Government recently consulted with business on further improvements to the scheme, and announced in December 2005 a package of major improvements to its administration. HM Revenue and Customs (HMRC) will therefore create dedicated R&D units by the end of 2006, to develop expertise and handle all SME R&D tax credit claims. Budget 2006 also announced additional R&D tax credit support for companies with 250-500 employees, subject to the outcome of state aid discussions with the European Commission. The Government's initial evaluation of the R&D tax credit shows that the measure does affect companies' R&D spending decisions. Evidence also shows further strong growth in the number of smaller R&D-intensive companies in the UK.¹⁶

UK Technology Strategy

3.60 The Technology Strategy Board (TSB) advises the Government on business research; technology and innovation priorities for the UK; the allocation of funding to these priority areas; and the most appropriate form of intervention to support them. The board aims to support key technologies and develop Innovation Platforms, which require collaboration across Government to help solve major innovation challenges. The Government is backing the Technology Strategy with funding which is set to increase to at least £178 million by 2007-08.

3.61 In order to stimulate further business innovation for growth, the Government intends to widen the remit of the TSB. The Board will therefore be required to set

¹⁶ See <http://www.innovation.gov.uk>

priorities for its support for innovation, and focus on areas which offer the greatest scope for boosting growth and productivity. The enhanced TSB will be business-led and market-focused, and will help business to make informed decisions on future development.

SMEs and innovation **3.62** The Government is using procurement policy as a means to support R&D in smaller firms. The Small Business Research Initiative (SBRI) is designed to increase the success of smaller businesses in obtaining R&D contracts from government bodies. Each government department aims to place 2.5 per cent of extra-mural R&D contracts with SMEs, to encourage small firms to undertake high-risk R&D. The most recent figures show that 10.6 per cent of the total government procurement budget of £2.5 billion was spent on extra-mural R&D contracts with SMEs in 2004-05, amounting to £269.1 million. SMEs are now also able to access government extra-mural R&D opportunities with a value below £100,000, via a new procurement portal launched in March 2006.¹⁷

Science and innovation in the regions **3.63** Supporting science and innovation in the regions is essential to achieving the ambition of increased R&D investment. The RDAs play a crucial role in encouraging stronger links between industry and the research base, and promoting knowledge transfer and business innovation. All RDAs have set up Science and Industry Councils, bringing together business leaders, scientists, and local and regional government, to provide strategic advice on regional science and technology priorities.

Box 3.4: Newcastle Science City

Newcastle Science City is a unique combination of science and technology R&D and its application of key economic drivers, with spatial planning and urban development. The scheme is expected to contribute to the delivery of many of the Lisbon goals by providing a significant new opportunity to boost the economic and social development of both the Newcastle-upon-Tyne area and the North East region. A key principle of the *Science City* initiative is that the commercialisation of science and technological research happens most effectively at the local level, and that the city centre environment should be used as a focal point for concentrated science-based development.

Governance of *Science City* is carried out by a leadership group comprising representatives from industry, academia and the public sector, and a unique business-led partnership which brings together Newcastle University, Newcastle City Council and *One NorthEast* (the RDA for north east England). Progress of *Science City* will be monitored by the leadership group. The North East region aims to generate an additional £6 billion of added value to the region's economy, some of which will stem from emerging science and technology-related activity. The *Science City* programme will therefore be instrumental to achieving these targets.

More information about *Science City* is available at www.newcastlesciencecity.com.

Source: *One NorthEast*

Intellectual Property **3.64** Many highly successful UK businesses are 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. An independent review, led by Andrew Gowers, was announced in the 2005 Pre-Budget Report to examine how the UK's intellectual property (IP) framework functions in the digital age, and the challenges posed by rapid technological change. The review will undertake a

¹⁷ <http://www.supply2.gov.uk>

rigorous analysis of the IP system, and make practical policy recommendations, reporting in autumn 2006.

Supply and demand of STEM skills **3.65** A vibrant national innovation system requires a strong supply of scientists, engineers and technologists. The Government's ten-year framework incorporates a comprehensive set of policies to enhance the teaching and learning of STEM subjects (science, technology, engineering and mathematics) at all levels, and recruitment and retention incentives for science teachers and professional researchers. Budget 2006 also announced a package of measures to improve the skills of science teachers and the quality of science lessons, and to increase progression to A-level science.

Monitoring and evaluation **3.66** The policy initiatives within the ten-year Science and Innovation Investment Framework are designed to support investment in R&D and contribute to progress towards meeting the UK's 2.5 per cent of GDP investment target. However, given the long-term nature of the measures involved, an overall assessment of their impact is not possible after only two years. Furthermore, the expected lags in the system mean that policies are unlikely to translate into a more favourable investment climate immediately. Against this background, the Government is committed to monitoring progress on an annual basis, supplemented by a set of detailed indicators and a comprehensive evaluation of progress every two years.

3.67 The 2006 annual report¹⁸ includes expanded metrics for innovation, and sets baselines for the future monitoring of progress for indicators developed over the past year. It concludes that two years into implementation of the ten-year framework, the programme is on course. However, considerable challenges remain to both lift levels of business innovation and ensure that the UK has the continued throughput of trained scientists that it needs.

Investment

3.68 The accumulation of physical capital through investment is a key driver of productivity, and underpins the Lisbon goal of improving productivity across the whole economy. 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.¹⁹ The Government is therefore committed to enhancing the economic environment for investment decisions, by providing a platform of macroeconomic stability to enable firms and households to plan for the long term, and by removing the barriers that prevent capital markets from functioning effectively.

UK Trade and Investment **3.69** The UK recognises that R&D is increasingly mobile internationally, with emerging economies becoming more and more attractive as investment locations. Budget 2006 therefore announced an initial allocation of £9 million for UK Trade & Investment (UKTI) to implement, to attract more business R&D and to promote innovative British firms abroad. The Government published a five-year national strategy in July 2006,²⁰ which will generate a step change in the drive to market the strengths of the UK economy internationally.

¹⁸ *Science & innovation investment framework 2004-2014: Annual report 2006*, HM Treasury/Department of Trade and Industry/Department for Education and Skills, July 2006.

¹⁹ *Britain's Relative Productivity Performance: Updates to 1999*, National Institute of Economic and Social Research, O'Mahony and de Boer, 2002.

²⁰ *UK Trade & Investment five-year strategy*, Department of Trade and Industry, July 2006.

Education exports **3.70** Higher education (HE) is an increasingly international market. The UK has the largest share of the international market for overseas students of all EU Member States, worth over £3 billion to the UK economy each year and second only to the USA in the world. The 2005 Pre-Budget Report announced measures to ensure the UK retains its reputation as one of the most attractive places for students to study abroad. These include allowing international postgraduate students to work in the UK for up to 12 months following completion of their course, three new University Partnership Schemes, and more high-level education trade missions abroad.

Responding to the Barker Review **3.71** A stable and responsive housing market is essential for the UK's future economic and social success. The Government's response to Kate Barker's *Review of housing supply* was published alongside the 2005 Pre-Budget Report, and sets out how achieving the Government's aim of improving affordability for future generations of homebuyers requires housing supply to become much more responsive to demand. Current projections suggest that to improve affordability, new housing supply in England will need to increase over the next decade to at least 200,000 net additions per year. The Government's response to the review includes a comprehensive package of proposals to help deliver investment in the infrastructure necessary to support housing growth, and to reform the mechanisms, particularly planning, by which new housing and infrastructure will be delivered.

Increases in housing supply **3.72** The drive to increase housing supply has delivered an increase in new housebuilding, with new housing completions in England reaching 160,000 in 2005 – the highest level since 1990. The Government is determined to see faster progress, and will bring forward further measures to increase and speed up the delivery of new, sustainable, housing. These include the publication of a new *Planning policy statement for housing* (PPS3) by the end of 2006, to ensure that local and regional plans prepare and release more land in response to demand.

3.73 As part of its wider strategy of helping extend home ownership to another one million people over the next five years, the Government will be directly assisting over 100,000 households that could not otherwise afford a home, via subsidised shared equity products. The Government has established a Shared Equity Task Force to determine whether there are market or state failures holding back the development of affordable shared-equity products for the 'intermediate' housing sector.

3.74 Furthermore, the 2005 Pre-Budget Report announced that increasing the supply of social housing will be a priority for the 2007 Comprehensive Spending Review (CSR). The CSR will also be informed by a cross-cutting review into supporting housing growth, which will engage with stakeholders in the usual way.

Reforming the Planning System **3.75** The Government is committed to further reform of the planning system in England. A review of land use planning announced in the 2005 Pre-Budget Report and carried out by Kate Barker will build on reforms already put in place in England, and will consider how planning policy and procedures can better deliver economic growth and prosperity alongside other sustainable development goals. An interim report, published in July 2006, concluded that more could be done to ensure the planning system responds more effectively to the challenges of globalisation, and that improvements to the performance of the planning regime could, where justified, help to close the productivity gap between the UK and other developed economies. The final report will be published in late 2006.

Box 3.5: The Planning-gain Supplement

To help finance the infrastructure to support growth and ensure that local communities directly share in the benefits that growth brings, the Government consulted on its proposals for a Planning-gain Supplement (PGS). PGS would capture a modest portion of the increase in value accruing to landowners on the grant of planning permission, as recommended by Kate Barker. If introduced, a significant majority of PGS revenues would be retained for infrastructure priorities within the local authority area where they were raised. During a twelve-week consultation launched in late 2005, the Government directly engaged with a wide range of stakeholders across the UK, holding events in the English regions, meeting with representative bodies, presenting to industry conferences and engaging with local government. Approximately 800 responses to the consultation were received. Further announcements on PGS will be made by the end of 2006, and a summary of responses will be published.

Real Estate Investment Trusts

3.76 The Government legislated in the 2006 Finance Bill to create Real Estate Investment Trusts (UK-REITs). The Government’s objective for the UK-REIT regime is to improve the efficiency of both the commercial and residential property investment markets, by providing liquid and publicly available investment vehicles. This reform was recommended by the Barker Review of Housing Supply,²¹ and will encourage increased institutional and professional investment to support the growth of new housing, as well as supporting the Government’s wider objectives for raising productivity. The Government’s Regulatory Impact Assessment (RIA), published alongside Budget 2006, included the criteria that will be used for monitoring the impact of this measure.

Skills

3.77 The quality and quantity of skilled labour available in an economy is a key driver of economic performance and productivity growth. As well as increasing the productivity of individuals, a highly skilled workforce also enables businesses to improve working practices and products and services faster, making the economy more flexible and competitive. This is particularly important in responding to the challenges of demographic and technological change and the shifts in the balance of global economic activity.

3.78 Skills acquisition is central to the Department for Education and Skills (DfES) overall PSA aim, to “help build a competitive economy and inclusive society by: creating opportunities for everyone to develop their learning; releasing potential in people to make the most of themselves; achieving excellence in standards of education and levels of skills”, and corresponds closely to the Lisbon goals of promoting lifelong learning and better adapting the skills base to the needs of a knowledge society.

14-19 Participation

3.79 The Government is committed to ensuring that all young people reach the age of 19 equipped to enter higher education or skilled employment, and aims to raise participation in education and training from 75 per cent today to at least 90 per cent at age 17 by 2015. The Government recently set out a comprehensive programme of reform to transform the English further education system in a Further Education White Paper.²² Chapter 4 also examines skills acquisition in the context of labour market reforms.

²¹ *Review of housing supply*, Kate Barker, March 2004

²² *Further Education: Raising Skills, Improving Life Chances*, Department for Education and Skills, March 2006.

3.80 A key factor in achieving this commitment is to provide more flexible pathways through education, combining academic and vocational routes which can be school, college or work-based:

- in England, an implementation plan has been published to transform the 14-19 curriculum into such a system;²³
- 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;
- in Scotland, a strategy has been launched to reduce the number of people who are not in employment, education or training (NEET) by improving the experience of education pre-16, ensuring services exist post-16 to re-engage young people who are already NEET, and providing financial incentives;²⁴ and
- in Northern Ireland, a menu of provision is being developed to assist young people who are marginalised, disadvantaged or have decided not to participate in training. Public consultation on the new training provision (which is due to commence in April 2007) was completed in September 2006.

3.81 The Government launched several initiatives in April 2006 to improve access to skills for young people. Learning Agreement pilots will invest £80 million over two years in increased access to training options for 16 to 17 year-olds who are in employment with no training, and the Government will also monitor the effectiveness of a range of other financial incentives. Activity Agreements and Allowance pilots will invest £60 million over two years to provide financial support and a route into learning or work for 16 or 17 year-olds who have been out of education, employment and training for more than 20 weeks. Both the Learning Agreement pilots and the Activity Agreements and Allowance pilots have the specific aim of increasing participation.

3.82 The Government also extended Education Maintenance Allowances in April 2006 to young people on an Entry to Employment Programme or a course leading to an Apprenticeship. This extension will further contribute to removing financial barriers faced by young people wishing to continue in vocational education or training.

Adult skills 3.83 The Government's strategy for adult skills aims to support individuals in seeking sustainable and better-paid employment, by ensuring that every adult has the opportunity to acquire new skills and develop their existing skills throughout their working life. By creating a flexible, demand-led training system that has the involvement of all social and economic partners, the Government aims to tackle market failures and help those with low skills in particular.

²³ *14-19 Education and Skills: Implementation Plan*, Department for Education and Skills, December 2005.

²⁴ *More Choices, More Chances: A Strategy to reduce young people not in Education, Employment and Training in Scotland*, Scottish Executive, June 2006.

Box 3.6: Unionlearn

Trades unions play an increasingly important role in the skills agenda in engaging with both individuals and employers, particularly in workplaces where learning opportunities have been limited in the past. The Union Learning Fund, established by DfES in 1998, currently has over 15,000 union learning representatives and helps 107,000 workers to access courses every year.

The Government is providing financial support to help the Trades Unions Congress (TUC) establish Unionlearn, which draws together all strands of union learning activity and funding streams, to increase the capacity of unions to assist their members in accessing training and learning opportunities. The development work of Unionlearn is funded through the TUC EQUAL 2 “High Road” project. With over 125 staff and an annual turnover of £12 million, the new organisation will provide a more coherent and strategic framework for union-led learning. Unionlearn aims by 2010 to have recruited 22,000 representatives, and to help 250,000 workers into learning each year, with a focus on ICT and Skills for Life opportunities.

Source: Trades Unions Congress.

3.84 In England, the Government seeks to address this challenge by offering an entitlement for free tuition up to a first, full level 2 qualification for any adult without one, and free training in literacy, language and numeracy skills, as part of its Skills for Life programme. 1,275,000 learners have so far achieved a first Skills for Life qualification. In Northern Ireland, the Skills Strategy for Northern Ireland is being implemented through the Success Through Skills programme.

Train to Gain 3.85 Ensuring that the provision of training is aligned with the needs of employers is central to the Government’s skills strategy. The Government is rolling out Train to Gain across England during 2006-07, a national employer training service that builds on the evaluation of the Employer Training Pilots originally introduced in 2002. The first tranche of rollout occurred in April 2006, with Train to Gain being made available in 20 of the 47 Learning and Skills Council (LSC) local areas. The service will reach full operational capacity by 2007-08, at which point it is expected to produce over 500,000 first full level 2 qualifications by 2010. 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.

3.86 Train to Gain delivers personalised support in the workplace, is supported by a network of independent skills brokers, and focuses on hard-to-reach employers. Three regional trials will be undertaken in 2006-07 to explore how level 3 (technician, craft or associate professional education) skills can support career progression and higher earnings, including one trial which is focused specifically on low skilled, part-time and ethnic minority women.

Sector Skills Councils 3.87 Sector Skills Councils (SSCs) are employer-led bodies that work with trades unions, professional bodies, trade associations, employers and the Government to identify skills and productivity trends within their sector, and to establish priorities for investing in the skills of the sector workforce. The nine English RDAs also play a key role in ensuring that the overall skills strategy is responsive to a range of both sectoral and local priorities. Regional Skills Partnerships have been established to provide a mechanism for determining, region-by-region, the priorities for economic development and skills.

3.88 SSCs and employers will work in partnership to develop proposals for National Skills Academies (NSAs). NSAs will build on a strong Further Education infrastructure and unite employers and Further Education on a sector-by-sector basis. The network of 12 NSAs will create Public Private Partnerships (PPPs), led by employers in SSCs, to establish national and regionally networked centres of excellence for training and workforce development.

3.89 In addition, following the publication of the Further Education White Paper,²⁵ a free entitlement to tuition for first, full level 3 qualifications for those aged 19-25 will be implemented, alongside an expanded Adult Learning Grant, from 2007-08. A programme of learner accounts, focused on level 3 skills acquisition, will also be trialled, which aim to give learners greater choice and control over their learning.

**Leitch Review
of Skills**

3.90 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, due to be published later in 2006, will report to the Government on what skills profile it should aim to achieve by 2020 in order to support productivity and growth over the longer term. The Review will also report on how skills and employment services in the UK can complement each other even more effectively in supporting labour market flexibility, better employment outcomes and greater progression to productive and sustainable jobs for those with skills needs. Interim findings of the Review were published in December 2005²⁶ and are summarised below in Box 3.7.

²⁵ *Raising skills, improving life chances*, Department for Education and Skills, March 2006

²⁶ *Skills in the UK: The long-term challenge*, HM Treasury, December 2005.

Box 3.7: Leitch Review of Skills

The global economy is undergoing fundamental change and the UK must respond in order to secure its prosperity over the longer term. *Skills in the UK: the long-term challenge*, published in December 2005, sets out the interim analysis of the Leitch Review of Skills, and shows that while the UK has a strong economy and world-leading employment levels, its productivity trails some of its key peer economies. Poor skills are a key contributor to this problem as well as having wider impacts on social welfare.

Over the last decade, the skills profile of the UK has improved. For example, the proportion of adults with a degree has increased from one fifth to over one quarter of the population. Despite these improvements, the UK still does not have a world-class skills base, since:

- over one third of adults in the UK do not have a basic school-leaving qualification – double the proportion of Canada and Germany;
- 5 million people have no qualifications at all; and
- one in six adults do not have the literacy skills expected of an 11 year old and half do not have such levels of functional numeracy.

Future global, demographic and technological change will place an even greater premium on the UK's skills profile. New analysis conducted by the Review shows that meeting the Government's targets for improvement in skills would bring significant improvements by 2020. The most marked improvements would occur at both ends of the skills spectrum: a decrease in the proportion of the working age population with no qualifications and an increase in those qualified to at least degree level. These changes would have significant benefits to the economy – contributing 0.2 percentage points to average annual productivity growth and generating a net benefit to the economy of £3 billion a year, equivalent to 0.3 per cent of GDP.

However, even meeting current ambitious targets will leave considerable problems in 2020, since at least 4 million adults would still not have the literacy skills expected of an 11 year old and 12 million would not have numeracy skills at this level. The Leitch Review indicates that the UK must urgently raise its game still further, and set itself a more challenging ambition to have a world-class skills base by 2020. The next phase of the Leitch Review will build on this analysis and address three key issues:

- the skills profile that the UK should aim to achieve by 2020 to support the needs of the economy and society over the longer-term;
- the appropriate balance of responsibility between government, employers and individuals for the action required to meet this level of change; and
- the policy framework required to support this.

The Review will report its conclusions and recommendations to the Government later in 2006.

Protection of the environment and innovative use of resources

3.91 The Government's commitment to delivering strong, stable economic growth goes hand in hand with taking care of the natural environment and resources on which economic activity depends. This is enshrined in the PSA targets of both the Department for Environment, Food and Rural Affairs (DEFRA), "to promote sustainable development across government and in the UK and internationally", and the DTI, "to lead work to deliver the goals of energy policy, including reduced greenhouse gases", and corresponds both to the Lisbon goal of reduced greenhouse gas emissions and the new EU Sustainable Development Strategy, adopted in June 2006. Economic growth must be based on the principles of sustainable development: integrating economic prosperity with environmental protection and social equity, so as to ensure a better quality of life for everybody, today and for generations to come.

3.92 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.

The Energy Review

3.93 The Government published its Energy Review in July 2006.²⁷ The purpose of the Review was to assess progress against the goals of the 2003 Energy White Paper, which remain in force. In line with the Spring European Council conclusions to prioritise security of supply, competitiveness and sustainability, the Energy Review aims to consider all available options with a view to meeting the following goals:

- to put the UK on a path to cut carbon dioxide emissions by 60 per cent by around 2050 with real progress by 2020;
- to maintain the reliability of energy supplies;
- to promote competitive markets in the UK and beyond, helping to raise the rate of sustainable economic growth and to improve productivity; and
- to ensure that every home is adequately and affordably heated.

3.94 The Review identifies the two major long-term challenges in UK energy policy as tackling climate change by reducing carbon dioxide emissions; and delivering secure, clean energy at affordable prices, as dependence on imported energy increases.

Review of the economics of climate change

3.95 To tackle climate change effectively, the Government believes that that the evidence base must continue to be improved, and has therefore set up a review to examine the global economics of climate change, led by Sir Nicholas Stern. The Review is due to report in autumn 2006, and will enhance understanding of the consequences of climate change in both developed and developing countries. It will also assess how this analysis applies to the specific case of the UK, in the context of its existing climate change goals.

²⁷ *The Energy Challenge*, Department of Trade and Industry, July 2006.

Box 3.8: Review of the economics of climate change

Sir Nicholas Stern outlined the conclusions of the review so far at a lecture to the Oxford Institute of Economic Policy on 31 January 2006, including that:

- the problem is complex. Unlike other environmental problems, such as city smog or water pollution, climate change is global in both its cause and its effects. The long time horizons also mean that the effects are not immediately tangible;
- there is a serious risk of adverse consequences. Some risks, if they were to be realised, could be irreversible and accelerate the process of global warming – for example, the release of greenhouse gases from thawing permafrost. These impacts may justify more extensive action now to avoid the risk of such events occurring;
- the most severe impacts of climate change are likely to be felt in some of the poorest countries with the smallest margins for adjustment. Millions are at risk of being pushed back into poverty, of facing hunger and being forced to migrate;
- the current pathway of emissions is unsustainable in terms of its consequences for climate change. Urgent action is necessary to move economies onto low-carbon growth pathways, including the development and deployment of low-carbon technologies; and
- climate change requires an international response based on a shared understanding of its implications. Effective action requires both leadership from the world’s richest nations, and the involvement of the fast-growing developing countries.

Reducing emissions

3.96 The UK has a target to reduce carbon dioxide emissions by 20 per cent below 1990 levels by 2010, and a target under the Kyoto Protocol to reduce greenhouse gas emissions by 12.5 per cent below 1990 levels throughout the period 2008-2012. In March 2006, the revised *UK climate change programme*²⁸ was published, setting out a number of policies across the energy supply, business, household, transport, agriculture and public sectors to tackle climate change. Although the UK is likely to exceed its Kyoto target, more effort will be needed to reach its domestic target. The UK submits a Greenhouse Gas Inventory to the United Nations Framework Convention on Climate Change (UNFCCC) annually, which reflects a full and accurate picture of UK emissions.

3.97 The EU Emissions Trading Scheme (EU ETS), introduced in 2005, has made good initial progress across the EU in its first year. The infrastructure is functioning well and forms a sound basis for the future. UK compliance with the Scheme has been excellent, with 99.6% of operators submitting their verified reports and surrendering the correct number of allowances within the deadline. Over the first 3 years of the Scheme (2005-07), UK operators are set to deliver emissions savings of 65MtCO₂ (below business as usual levels), and the Government recently announced plans to deliver additional savings of 8MtC per annum for the 2008-12 period. This is consistent with moving towards the UK’s long-term 60% carbon reduction goal, and illustrates the UK’s strong commitment to the Scheme. The Energy Review restated this commitment as the central element of the UK’s emissions reductions policy framework.

²⁸ *Climate Change: the UK programme 2006*, Department for Environment, Food and Rural Affairs, March 2006.

Microgeneration 3.98 In November 2005, the Government announced £30 million over the next three years to fund microgeneration under the new Low Carbon Buildings Programme (LCBP). The LCBP is aimed at householders, communities and large-scale projects which install microgeneration technologies such as small wind turbines, solar panels, ground source heat pumps and micro-combined heat and power (CHP). Budget 2006 announced a further £50 million to develop microgeneration technologies under the LCBP and the development of a new National Institute of Energy Technologies.

Biodiversity 3.99 As highlighted in the Millennium Ecosystem Assessment's synthesis report,²⁹ all human beings depend on biodiversity and the Earth's ecosystems, since they provide services such as food, water, climate regulation and disease management. The UK, in common with all EU Member States, remains committed to halting the loss of domestic biodiversity and reducing the rate of loss of global biodiversity by 2010.

Sustainable consumption and production 3.100 The UK was the first country to produce a strategy for sustainable consumption and production (SCP), one of four priorities in the 2005 UK Sustainable Development Strategy, *Securing the future*.³⁰ A national SCP Action Plan is currently being developed. The UK's business-led Sustainable Procurement Task Force (SPTF) presented its *National action plan*³¹ with recommendations to the Government in June 2006. The Government also published the cross-cutting *National roadmap for implementation of the EU Environmental Technologies Action Plan*³² in December 2005, providing a strategic overview of activity in the UK under the umbrella of environmental technology.

3.101 Good progress has also been made by the business-led Environmental Innovations Advisory Group (EIAG) on a range of issues including procurement, technology, finance and skills. Following a review, Ministers have agreed that the EIAG should continue for a further two years until March 2008.

The need for multilateral action 3.102 Domestic policy alone will not be sufficient to deliver global sustainable development, tackle climate change or increase energy security, since the UK produces only 2 per cent of global climate change emissions. The UK used its presidencies of the EU and of the G8 during 2005 to put climate change at the top of the international agenda. With the successful agreement of the Gleneagles Dialogue in July 2005, and the Montreal Action Plan at the December 2005 UN Climate Change conference, opportunities for moving multilateral action forward are better than ever. The adoption of the EU Sustainable Development Strategy (EU SDS) in June 2006 has provided a framework for action across the board, with a stronger governance process to help ensure delivery. The UK will seek to make the most of the momentum that has developed over the past twelve months by working with stakeholders to ensure implementation and further development of the new governance structure.

²⁹ *Ecosystems and human well-being: synthesis*, Millennium Ecosystem Assessment, 2005.

³⁰ *Securing the future: Delivering UK sustainable development strategy*, Department for Environment, Food and Rural Affairs, March 2005.

³¹ *Procuring the future: the Sustainable procurement task force national action plan*, Department for Environment, Food and Rural Affairs, June 2006.

³² *UK national roadmap for implementation of the environmental technologies action plan*, Department for Environment, Food and Rural Affairs, December 2005.

4

DELIVERING EMPLOYMENT OPPORTUNITY FOR ALL

The UK's labour market policy framework

4.1 One of the Government's principal responses to the Lisbon goals for securing more and better jobs and social cohesion has been to deliver employment opportunity for all. This objective is reflected in many of the PSA targets of the Department for Work and Pensions, some of which are also shared with HM Treasury. The UK's reform agenda is designed to deliver security throughout the lifecycle by balancing flexibility and fairness. The development of a culture of self-reliance and not dependency continues to underpin policies to deliver the Lisbon goals, and many of the reforms outlined in this chapter also correspond to the EU Employment Guidelines.

4.2 The 2005 National Reform Programme (NRP) set out the UK's labour market policy framework, focusing on active labour market policies; policies that make work pay; and policies that reduce barriers to work. These measures are designed to move away from a culture of welfare dependency, and towards a welfare state that enables and encourages people to participate in the labour market throughout their working lives.

4.3 A flexible and efficient labour market must be underpinned by policies which enable people to adjust to change, and which support them at times when they may not be able to work, thereby creating opportunity for all. The *National report on strategies for social protection and social inclusion*,¹ part of the UK's integrated approach to the Lisbon goals, gives details of such support. The main challenges include workless households; child poverty; pensioners' retirement income (as mentioned in Chapter 2); and health inequalities. The *National report*, which has been developed alongside the NRP, sets out the UK's approach to overcoming these challenges.

Box 4.1: Social Bridges – meeting the challenges of globalisation

The rapidly changing global economy presents both challenges and opportunities in the labour market. In April 2006, HM Treasury published a paper jointly with the Swedish Finance Ministry,^a outlining common features of successful policy responses. Such responses should be based on protecting an individual's employability, not specific jobs or declining sectors.

A "social bridges" approach equips individuals to move from one job to the next, allowing them to realise their potential and benefit from the opportunities that globalisation brings. This can be done by providing insurance in the broadest sense through: skills and retraining; help while unemployed; conditions suitable for high levels of job creation; and policies such as child care which make it easier to work. All of these measures can help individuals take advantage of the opportunities presented by globalisation whilst increasing levels of social inclusion. Most of this work can be implemented at Member State level, in the context of shared European social values.

^a *Social bridges – Meeting the challenges of globalisation*, HM Treasury and the Swedish Ministry of Finance, April 2006.

¹ *National report on strategies for social protection and social inclusion*, Department for Work and Pensions, September 2006.

Building on the UK's labour market success

Successful employment outcomes

4.4 The UK's employment strategy and its implementation rests on a foundation of sustained high levels of employment. More people are in work in the UK now than ever before, with the current overall employment rate in the working age population of 71.6 per cent,² in excess of the Lisbon target. Although economic growth in 2005 was weaker than in previous years, continued growth in employment provides an indication of the underlying stability and strength of the labour market.

4.5 The Government maintains its aspiration of an overall employment rate equivalent to 80 per cent of the working age population. Continued high levels of employment will contribute to achieving this, although the overall increase in the working age population of almost 2.5 million (5.6 per cent³) since 1997 has meant that recent employment rate growth has been modest.

4.6 Overall, the number of individuals of working age not in work has fallen over the last year. Economic inactivity has fallen by 108,000, with the rate at 21 per cent one of the lowest on record. Unemployment has risen over the year, with ILO unemployment up 280,000 compared to 2005; and Jobseeker's Allowance claims up to 957,000. This must nevertheless be offset against the increase in the working age population of 268,000 in the last year, and a corresponding increase in employment of 240,000 to 28.94 million.

Delivering employment opportunity for all

Delivering active labour market policies

4.7 The public employment service, Jobcentre Plus, remains at the heart of the UK's active approach, which is a key factor in successfully increasing employment.⁴ On every working day, Jobcentre Plus now conducts 43,000 advisor interviews and helps 3,400 people into work. In 2005-06 it handled 3.1 million vacancies, placing 742,000 people. Jobcentre Plus is leading on the use of modern information technologies to help people find work. Initiatives introduced since 2005 include:

- Employer Direct online, giving 24-hour access to one of the largest job websites in the UK, introduced nationally and receives 650,000 job searches via the website; and
- the Internet Job Bank has been enhanced to allow employers to input their vacancies directly.

Modernising welfare delivery

4.8 Jobcentre Plus also plays a central role in the modernisation of welfare delivery and is engaged in a programme of major change. Modernisation carried out by the Government in 2005-06 led to the following achievements:

- Pathways to Work for Incapacity Benefit (IB) customers has been expanded to cover a third of the country (the 30 local authority districts with the greatest concentrations of IB claimants, and expansion to 43 per cent by year end). By February 2006 there had been over 25,000 job entries through these pilots;

² Source: Eurostat August 2006. 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 years. The UK national overall employment rate figure is 74.6% (August 2006).

³ Labour market statistics, June 2006

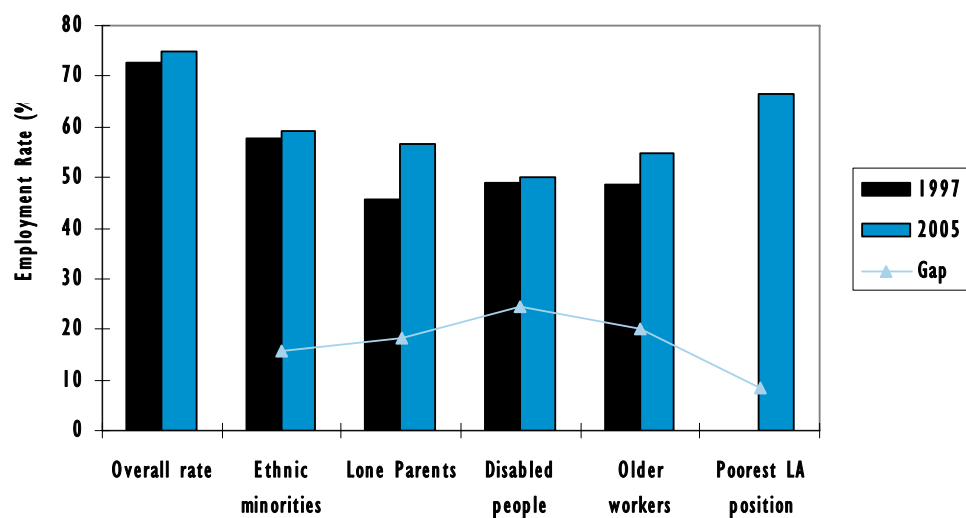
⁴ OECD Employment Outlook 2006 Edition: Boosting Jobs and Incomes, OECD, 2006

- centralisation of benefits processing has commenced, with the aim of providing this service across 77 locations by the end of 2006-07;
- more people's benefits were paid straight into their bank accounts, from 27 per cent of customers in March 2003 to 95.9 per cent in December 2005; and
- by summer 2006, 870 new integrated offices had been rolled out, and the first stage of a streamlining process to improve efficiency was completed, including a reduction in the number of districts from 83 to 50.

Simplifying the system

4.9 A dedicated unit has been set up within the DWP to act as a catalyst to drive forward simplification across the benefits system as a whole. As a first step the unit published *Simplification: Guide to best practice*⁵ in May 2006.

Chart 4.1: Employment rates of selected groups



Notes: "Poorest LA position" means local authority areas with the poorest labour market position. Figures for these areas are not available for 1997. For disabled people, the earlier figure is 1993.

New opportunities to work – the next steps

4.10 In order to achieve the Government's employment aspirations, a further 2.3 million people will need to be helped into work. The Government is therefore developing policies focused on increasing opportunities for those who remain outside or are excluded from the labour market through a range of measures to address the various obstacles people face throughout the lifecycle. These measures include targeted support to help particular groups of people who are facing obstacles to obtaining work, and welfare reform to extend opportunities to work alongside support for those who cannot work.

Supporting people into work

4.11 The UK commenced intensive efforts to support people into work with its New Deal for Young People (NDYP), which continues to be successful. So far, it has helped over 660,000 young people into work, and contributed to a two-thirds reduction in young people claiming unemployment benefits for more than six months.⁶ Building on

⁵ *Simplification: Guide to best practice*, Department for Work and Pensions, May 2006

⁶ The New Deal Evaluation database is available on the DWP website: <http://www.dwp.gov.uk>

the success of this programme, the Government has extended the concept by developing a package of New Deal initiatives aimed at increasing participation in the labour market amongst groups that are historically characterised by low employment and high inactivity. All of these New Deal initiatives are based on the principle of tailored, intensive support to help people into work.

Welfare reform – a New Deal for Welfare

4.12 In January 2006, the Government published its Welfare Reform Green Paper,⁷ which sets out proposals for delivering the opportunity of work to everyone, towards the aspiration of an employment rate equivalent to 80 per cent of the working age population. This would equate to a million more older workers; 300,000 more lone parents in work; and a million fewer people claiming IB.

4.13 Besides tackling challenges common to many other EU Member States, the Green Paper proposals address the challenges specific to the UK, where there is evidence linking deprivation to areas with high numbers of people claiming incapacity benefits.

Box 4.2: Knowsley's Local Strategic Partnership

The borough of Knowsley in Merseyside has implemented a single employment and skills strategy, which was adopted by all partners in January 2006. The strategy's targets have been refined to mirror Knowsley's aims around 'narrowing the gap', and its Local Strategic Partnership (LSP) is the only one in its region to have received the highest rating for 'worklessness' within the LSP annual review for 2006-07. Cross-partnership endorsement and closer joint working between the Learning and Skills Council (LSC), Jobcentre Plus and Knowsley Council has enabled a better understanding of shared priorities and how funding can be aligned to achieve these. For instance £3.5 million Neighbourhood Renewal Fund is being committed to employment and skills during 2006-07, the LSC is re-aligning its resources towards achieving NVQ 2 targets, ESF is being aligned more closely with the strategy's objectives, and the Northern Way has secured £1 million to address the strategy's long-term Incapacity Benefit. The Local Implementation Team, made up of all local partners, and supported by four sub groups, drives forward the strategy and identifies joint actions 'on the ground'. Nationally, the strategy is hailed as exemplary by other councils, Learning and Skills Councils and Jobcentre Plus. The opening of the Knowsley Works centre has allowed outreach workers to target priority people into jobs. Knowsley is on target to reach its 70% employment rate by 2010, having already reached 67.3%. The strategy faces mounting challenges to target the remaining disadvantaged groups who are furthest away from the labour market and face significant barriers.

Source: Knowsley Metropolitan Borough Council

Incapacity 4.14 There are currently 2.71 million IB claimants, a reduction of 61,000 compared to 2005, with the largest decreases in the areas with highest proportion of benefit recipients. In addition, as many as half of the most severe pockets of deprivation in the UK are contained within the 100 Parliamentary constituencies that have the largest numbers of people claiming IB. Providing more suitable support to benefit recipients, and facilitating a move into work where appropriate, should help to develop these areas of deprivation, and support the Government's anti-poverty agenda.

4.15 The UK has adopted a holistic approach to tackling this issue, encompassing support to help people retain employment, support to IB claimants and support to those moving into employment. Many IB claimants want to work. The Government has

⁷ A new deal for welfare: Empowering people to work, Department for Work and Pensions, January 2006.

therefore committed to working more actively with this group of people, balancing their responsibility to prepare for a return to work with their right to be treated fairly, and, in particular, to:

- increase support for claimants to make a return to work, building on the successful Pathways to Work pilots by extending provision across the country by 2008. Future Pathways to Work provision will be delivered primarily by the private and voluntary sectors, with payment by results; and
- increase support to claimants, through the introduction of a new Employment and Support Allowance (replacing incapacity benefits), based on a revised medical assessment which is more effective at collecting evidence, measures both physical and mental impairment and provides advice on capability and support needs. This will be available from 2008, initially for new claimants.

4.16 Following an improved Personal Capability Assessment process, the new Employment and Support Allowance will, for a majority, require active engagement with an employment adviser, construction of a personal action plan, and delivery against agreed actions. These actions will be wide-ranging, from ongoing treatment through to voluntary activity and improving skills. Those claimants who do not engage effectively will see their benefit reduced in stages to the standard level of Jobseeker's Allowance. Despite this, the Pathways to Work pilots showed that the number not engaging was minimal. A small minority considered incapable of engagement following the medical assessment will receive a higher rate of payment, and will not be required to engage.

Box 4.3: Closing the Opportunity Gap

The Scottish Executive continues to develop and implement its "Closing the Opportunity Gap" (CtOG) approach as reported on in the 2005 UK NRP. CtOG aims to prevent individuals and families from falling into poverty; to provide routes out of poverty for individuals and families; and to sustain them in a lifestyle free from poverty. The CtOG approach co-ordinates 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. The Scottish Executive published *Workforce Plus: an Employability Framework for Scotland*^a in June 2006. This describes how, despite record levels of employment, Scotland must be more ambitious in terms of helping vulnerable and disadvantaged people find work. This intervention will help the Scottish Executive to deliver continued economic growth and the CtOG programme. It sets a headline target to help 66,000 people off benefits into work by 2010, in seven key areas. Funding bodies in these areas will work together in local Workforce Plus partnerships to develop the joined-up services needed to deliver their local targets. Some initial funding will be made available over the coming two years, but Workforce Plus is primarily concerned with making better use of the estimated £500 million a year spent across Scotland on employability services. As part of this work, the Scottish Executive will work closely with the Government on its proposals for Welfare Reform.

Source: *Scottish Executive*.

^a *Workforce Plus: an Employability Framework for Scotland*, Scottish Executive, June 2006.

Health, work and well-being

4.17 Reducing the need to take sick leave and claim sickness benefits is an ongoing priority for the Government. To support these aims, the Government published its Health, work and well-being strategy in October 2005.⁸ The strategy involves several departments working with a variety of partners, including employers, trade unions and health care professionals to create healthier workplaces. This initiative reduced the likelihood of people becoming sick or injured at work and encourages the provision of good occupational health services and enhanced rehabilitation support, both in the workplace and through public provision. In Scotland, where healthcare is a devolved competency, workplace health and wellbeing is supported by the Scottish Executive's Healthy working lives initiative, launched in August 2004. The Executive published its Plan for action⁹ in April 2005. The Scottish Centre for Healthy Working Lives, established in April 2005, is implementing the delivery of initiatives to promote workplace health and wellbeing.

4.18 The Government is also working to engage General Practitioners (GPs) and other healthcare professionals, giving them the training and support necessary to provide informed advice to their patients on fitness for work and their options. In many cases work may be beneficial to their patients' recovery and well-being. The Government is therefore:

- providing occupational health advice to small and medium employers;
- promoting the adoption of Stress Management Standards;
- testing access to employment advice for GPs and their patients, including locating employment advisers in GP surgeries;
- incorporating competencies in health and work into the undergraduate and postgraduate training of doctors;
- developing a national education programme on health and work for GPs;
- developing a health related component of the Investors In People award; and
- testing the impact of wider access to simple psychological therapies.

Box 4.4: Want2Work

“Want2Work” is a joint Welsh Assembly Government and Jobcentre Plus Wales initiative, which was launched in 2004 and is now operational in four local authority areas in Wales. The projects provide targeted and tailored support and advice on health and work issues to people claiming inactivity benefits (mostly IB) in order to help them into employment. The initiative is funded by a mix of European (ESF) and domestic funding. Health professionals work in conjunction with Jobcentre Plus officials to provide advice to individuals on managing health conditions in the workplace. These services are delivered through outreach centres in local communities, and involve partners such as Careers Wales and the Welsh Assembly Government's Communities First partnerships. “Want2Work” aims to engage with a minimum of 5,000 people and to help at least 1,000 people to find and retain jobs by the end of 2007.

Source: Welsh Assembly Government.

⁸ *Health, work and well-being: Caring for our future*, Department for Work and Pensions, Department of Health and health and Safety Executive, October 2005

⁹ *Healthy working lives: a plan for action*, Scottish Executive, April 2005.

Tackling obstacles to labour market participation

4.19 Helping certain groups into work means recognising and tackling specific obstacles to participation. Removing barriers to entry into the labour market is embodied in the DWP PSA targets “to increase the employment rates of disadvantaged groups” and “to further improve the rights of disabled people and remove barriers to their participation in society”, which correspond closely to the Lisbon employment targets for priority categories and the goal of strengthening equal opportunities for the disabled. The Government’s commitment to removing barriers to access extends to a number of groups, including people with disabilities; lone parents; ethnic minorities; people from deprived areas and older workers,. This forms part of an overall approach based on active labour market support measures, tackling discrimination and welfare reform.

Disability 4.20 *Improving the life chances of disabled people*,¹⁰ published by the Prime Minister’s Strategy Unit, sets out a range of measures necessary to achieve the Government’s ambition of disability equality by 2025. It includes measures such as the foundation of a new Office for Disability Issues in December 2005 to co-ordinate strategies for disabled people across government and work with partner organisations.

4.21 The creation of a new advisory body – Equality 2025: the UK Advisory Network on Disability Equality – will be an important milestone. It will be launched in December 2006 and will provide disabled people with a voice at the heart of Government and an opportunity to influence the strategies, policies and services that affect their lives. Plans to create a Commission for Equality and Human Rights (CEHR) are also on course, for launch in October 2007. The CEHR will bring together the work of the three existing equality commissions and take responsibility for the Disability Discrimination Act and new laws in respect of age, religion or belief, and sexual orientation.

4.22 In the last five years, the number of disabled people in the UK population has increased by half a million to 5.7 million. This includes those already in work, which has led to an increase in the percentage of disabled people who are in work. Work-focused interviews, the Incapacity Benefits Pathways pilots, and the New Deal for Disabled People (NDDP) have also had a positive effect. In addition, the increase in the employment rate of disabled people can be partly attributed to a general trend in the population to report milder disabilities or health conditions.

4.23 The effectiveness of the NDDP Job Broker service in helping people into sustained employment is comprehensively evaluated. NDDP performance remains strong, and the programme is making an important contribution to helping people with health conditions and disabilities back into work. Latest figures from May 2006 show that 227,450 people have participated in NDDP and 121,940 people have been helped into work since the programme began.

¹⁰ *Improving the life chances of disabled people*, Prime Minister’s Strategy Unit/Department for Work and Pensions/Department of Health/Department for Education and Skills/Office of the Deputy Prime Minister, January 2005.

Box 4.5: Royal National Institute for the Blind (RNIB)

RNIB Scotland worked with Intercontinental Hotel Group (IHG) and Jobcentre Plus (JCP) to deliver a pre-recruitment course to disabled people in Edinburgh. The process began with an Open Day, during which members of the IHG team carried out a competency based screening exercise. Successfully screened candidates were then interviewed by a member of RNIB Scotland. Of the 102 people who attended the Open Day, 33 went straight to job interview with IHG for existing vacancies. A further 12 were chosen to benefit from the two-week pre-recruitment course 'Skills for Life', delivered by RNIB at their Employment and Learning Centre in Edinburgh. Half of the 12 course participants obtained employment with IHG, four of whom were blind or partially sighted. The remaining course participants have been offered work placements with the IHG hotels in Edinburgh funded through RNIB Scotland's existing work preparation contract with JCP; at least half of the work placements are expected to result in employment. The programme will soon be replicated within the financial and retail sectors.

Source: Royal National Institute for the Blind

Ethnic minorities **4.24** A cross-government Ethnic Minority Employment Task Force chaired by the DWP oversees the Government's aim of narrowing the employment rate gap between ethnic minorities and the overall population. The Task Force, which includes external stakeholders, is working to overcome three main barriers to employment faced by ethnic minorities: lack of human capital; lack of connection to work; and the 'ethnic penalty', of which employer discrimination is a significant part. The Task Force departments are currently testing new ways of using public procurement to promote race equality.¹¹

4.25 Funding for Action Teams for Jobs and Ethnic Minority Outreach was merged in October 2006 to form a Deprived Areas Fund, which has been allocated to Jobcentre Plus districts with the most deprived wards. District Managers have the discretion to decide how this is best allocated according to local needs, with both the private and voluntary sectors being involved in delivering activity in these areas.

Deprived areas **4.26** The 2005 NRP set out the Government's efforts to target pockets of deprivation, and to shift focus from the 30 most disadvantaged local authority areas to 903 individual wards, in order to ensure that efforts are more effectively targeted at areas of greatest deprivation.

4.27 By July 2006, the Government had announced a further 13 Cities Strategy pathfinders. Consortia made up of Government agencies, local government and the private and voluntary sector will pool resources and expertise in order to tackle unemployment in the areas furthest away from the 80 per cent employment rate ambition. The consortia will develop evidence based delivery plans that are innovative and which will make a difference to the way employment-related services are delivered on the ground. The disadvantaged target groups may vary from area to area, but will include IB claimants, lone parents, people with disabilities, older people and those from ethnic minority groups.

4.28 Each consortium will be different, although it is expected that all partners will join up to identify ways of overcoming barriers to solve local issues. The focus will be on results, not on prescribed process and reward funding will be paid to those consortia that reach their targets.

¹¹ See *Ethnic Minority Employment Task Force: Second Annual Report*, Ethnic Minority Employment Task Force, February 2006.

Box 4.6: Genesis Wales

The Genesis Wales project aims to increase economic activity and decrease child poverty in disadvantaged areas by enabling hard-to-reach economically inactive parents to access learning, training and work opportunities. This is achieved primarily through the provision of advice, guidance and free childcare. Genesis Wales has secured ESF funding under the current Objective One and Three programmes, which has enabled local authorities to increase childcare provision across Wales. All 22 local authorities in Wales have developed their own plans, and these have been tailored to the specific needs of the different regions.

Source: Welsh Assembly Government

Lone parents 4.29 The Government has also been implementing policy actions to improve employment levels of lone parents, including:

- increasing work focus through mandatory Work Focused Interviews and New Deal for Lone Parents (NDLP);
- easing immediate transition into work and providing more long-term support to make work pay through Tax Credits and the National Minimum Wage; and
- increasing access to childcare places through implementation of the National Childcare Strategy.

4.30 Research¹² has shown that most lone parents moving into work through the NDLP would not have done so without assistance from the programme. The Government's policies are estimated to be responsible for around half of the rise in lone parent employment rates since 1997. Almost 659,000 lone parents have joined NDLP since 1998, of whom over 420,000 have been helped into work. However, the number of lone parents out of work and claiming benefit remains high compared with other Member States.¹³

4.31 The Welfare Reform Green Paper also sets out measures to help more people into work by extending the roll-out of compulsory mandatory Work-Focused Interviews to lone parents who are claiming Income Support. This will include increasing the scope and frequency of interviews, piloting the provision of more intensive support for lone parents during the first year of a claim, and piloting a new work-related activity premium so that lone parents are rewarded for taking serious steps towards preparing for work. This enhanced package, which brings together existing pilots, including Worksearch Premium and In-work Credit, is being piloted in five Jobcentre Plus Districts. A further two pilots, in Scotland and in Wales, are planned from October 2006.

Extending working lives 4.32 Taking forward work to meet the demographic challenges of the future means that the focus on enhancing the participation of older workers, and extending working life, are key components of the UK NRP.

4.33 Older workers have benefited from the New Deal 50 plus, which has supported over 54,000 job entries from April 2003 to February 2006. In addition to this, back-to-work help is now available to people claiming Pension Credits (from the age of 60). There are also more generous options for delaying taking the State Pension.

¹² *Welfare Reform and Lone Parents Employment in the UK*, CMPO working paper no 72, Gregg and Harkness, 2003.

¹³ *Employment in Europe*, European Commission, September 2005.

4.34 To make progress towards its employment rate aspiration, the UK also needs to reduce levels of inactivity amongst those aged 50 and above. The Welfare Reform Green Paper therefore includes proposals to:

- align additional employment support for older long-term unemployed people with that for younger age groups, by requiring older people to take up additional, active job-seeking support;
- improve back-to-work support for Jobseeker's Allowance claimants and their dependent partners who are over 50;
- pilot face-to-face guidance sessions to deliver tailored and relevant information on working, training and planning for retirement; and
- work with employers to extend flexible working opportunities.

4.35 Tackling age discrimination is vital to ensuring that older workers have the same range of opportunities to work as everybody else. Regulations to combat age discrimination in employment and vocational training will enter into force in October 2006. The legislation will provide for a default retirement age of 65. Employers will not be able to make people retire below this age unless, in their particular case, they can justify a lower age. Employees will also have a right to request the option to work past the employer's retirement age, which the employer will have a duty to consider. To help employers prepare for the legislation, a capacity building programme is currently underway. The Government is also continuing its Age Positive campaign to raise awareness among employers of the positive contribution older workers can make to businesses.

Box 4.7: Contribution of the European Social Fund

The European Social Fund (ESF) continues to support employment and training projects, which add value to the welfare-to-work and skills strategies set out in the National Reform Programme. In doing so ESF, including through the EQUAL programme, also helps to combat social exclusion in the UK. The final stages of the 2000-2006 ESF programmes are focusing increasingly on helping disadvantaged people move from unemployment and inactivity into work. Target groups include people with disabilities, lone parents, older workers, those from ethnic minorities and low skilled people. Both the Government and Devolved Administrations believe that these should continue to be important priorities in the next round of ESF programmes in 2007-2013, which are currently being developed. The UK Government's draft National Strategic Reference Framework has put forward a proposed approach to future Structural Fund spending across the UK, including in the nations and regions.

In England, ESF funding is strategically aligned with domestic provision delivered through Jobcentre Plus, the Learning and Skills Council and other ESF Co-financing Organisations. These organisations use the ESF to expand and enhance employment and training provision. In Wales Objective One is particularly important to funding skills development and to enable people in west Wales and the Valleys to find and retain good-quality jobs or develop entrepreneurship. Objective Three programmes are run in all areas not covered by Objective One. In Scotland there are three ESF Programmes – Objective One in Highlands & Islands, Objective Two in West of Scotland, and Objective Three across the whole of Lowland and Upland Scotland. The funding is used in support of key devolved strategies developed by the Scottish Executive in partnership with local organisations. In Northern Ireland ESF is currently delivered under the Programme for Building Sustainable Prosperity; the EU Programme for Peace and Reconciliation in Northern Ireland and the Border Region of Ireland; and the Equal programme.

A full list of ESF programmes is available at www.esf.gov.uk

Equipping people to realise their potential

4.36 Increasing the level of skills in the workforce is good for the economy as a whole, and is an area in which domestic PSA targets and Lisbon goals converge. The Government aims to deliver an integrated adult skills and employment service that is demand led and is responsive to the needs of both individuals and employers. The impact of policies on improving education and skills can be observed via a decrease in the proportion of the working-age population with no qualifications, aided by positive demographic trends. However, this means that those who remain without qualifications are increasingly hard to help, although specific measures to target intensive support at this group have been introduced.

The New Deal for Skills

4.37 The UK has an evidence-based strategy, which includes, for low-skilled Jobcentre Plus customers, the development of New Deal for Skills initiatives such as skills coaching – a personal careers guidance service – and the Adult Learning Option, which will help customers access level 2 (upper secondary education) job-related courses through the Learning and Skills Council-funded provision. In addition to such initiatives, all customers are screened to identify those who need help with Basic Skills.

4.38 Rollout of the Adult Learning Option commenced in September 2006, following trials of individual elements such as Skills Coaching and Skills Passports introduced in April 2005. Budget 2006 announced an increase of existing skills coaching pilots to more

Jobcentre Plus districts, with a specific focus on improving the employability of low-skilled women.

Box 4.8: The Essential Skills for Living Strategy

Improving the level of Essential Skills in Northern Ireland remains one of the key challenges for the local Administration. The Essential Skills for Living Strategy continues to help adults improve their literacy and numeracy skills. To date, over 11,500 learners have achieved a qualification in literacy and numeracy, with support available to enable 18,500 qualifications to be achieved by March 2007. Essential Skills provision has been fully integrated into local employment and skills programmes where appropriate, in particular provision for unemployed people and benefit claimants, prisoners and low skilled employees. There are also strategies in place to tackle poor Essential Skills within families. From September 2006 it is planned to trial ICT as a third Essential Skill. The Essential Skills strategy has also helped to improve the quality of tutor education with almost 500 tutors enrolled in level 4 (university degree level) provision at September 2005, of whom 400 have already achieved a qualification. A further 200 have since enrolled on the course.

Source: Northern Ireland Executive

Making work pay

Tackling poverty – making work pay

4.39 While the Government's lifecycle approach enables labour market and welfare measures to be targeted on the specific situation of individuals, it is also important to provide an overarching framework to ensure that work pays. This gives an additional incentive for people to move into work and tackles poverty and disadvantage among those who are in work. It is also a key part of the Government's strategy to tackle poverty and worklessness across the board, which is set out in detail in the *National report on strategies for social protection and social inclusion*.

4.40 Significant progress has been made towards reducing the number of children in poor or workless households, which demonstrates the success of providing financial support for families combined with continued progress against employment targets. For example:

- as a result of the Government's reforms to the tax and benefit system, families with children will be on average £1,500 a year better off in real terms by October 2006, while those in the poorest fifth will be on average £3,400 per year better off; and
- the number of children in workless households in the UK has fallen by more than 350,000 since autumn 1997. Furthermore, two thirds of children in workless households live in households that contain a lone parent. The lone parent employment rate has increased from 45.3 per cent in spring 1997 to 56.6 per cent in spring 2005.

National Minimum Wage

4.41 The National Minimum Wage guarantees a fair minimum income from work. In March 2006 the Low Pay Commission published its latest report to the Government on the National Minimum Wage. The Government accepted the following main recommendations made by the Commission:

- the Adult Rate of the minimum wage (for workers aged 22 and over) should increase from £5.05 to £5.35 per hour in October 2006;

- the Development Rate (for workers aged 18 - 21 inclusive) should increase from £4.25 to £4.45 per hour in October 2006; and
- the 16 - 17 year old rate of £3 an hour should increase to £3.30 from October 2006.

Working Tax Credits 4.42 The Working Tax Credit provides financial support over and above earnings for households with low incomes. In April 2006, over 2 million working families and almost 320,000 low-income households without children benefited from the Working Tax Credit. A total of 102,000 households benefited 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.

Tackling gender inequality

4.43 Making progress on closing the gender pay gap remains a key priority for the Government. The employment rate for women in the UK was 65.9 per cent in 2005.¹⁴ The gender pay gap fell from 14.5 per cent in 2004, to 13 per cent in 2005.¹⁵

4.44 The Women and Work Commission report *Shaping a fairer future*¹⁶ was presented to the Prime Minister in February 2006. The Commission made 40 practical recommendations on how to tackle job segregation and the gender pay gap, which still exists, despite 30 years of Equal Pay legislation. These include setting up a national World of Work programme to improve vocational training; providing work taster days for primary school pupils; and using work experience to encourage girls to think about non-traditional jobs, as well as promoting apprenticeships for women, particularly in sectors with skill shortages. The Commission consulted a range of organisations and individuals, and the report was based on a thorough analysis of all available evidence. The waste of women's skills and potential has a negative impact on the UK economy, and the Government is determined to take action to address all causes of the pay gap highlighted in the Commission's report.

Making work flexible

Work-life balance 4.45 Increasing opportunities for individuals to control their work-life balance is of fundamental importance to meeting the demographic challenge, and gives people more control as pressures change through their working life.

4.46 Following the introduction in 2003 of the right to request flexible working for parents with young children, over five million full-time employees now have some form of flexible work arrangement. Provision of flexi-time has increased: 68 per cent of mothers and 54 per cent of fathers report that flexi-time is available to them. Take-up of flexi-time has also increased significantly: 47 per cent of new mothers work flexi-time compared to just 17 per cent in 2002, while almost triple the number of new fathers now work flexi-time, with 31 per cent reporting that they use this practice, compared to 11 per cent in 2002.

4.47 The Work and Families Act 2006 extends statutory maternity and adoption pay to nine months from April 2007, with the aim of increasing it to a full year by 2010. Around 400,000 women a year are expected to benefit from these changes. A new

¹⁴ Source: Eurostat 2005.

¹⁵ Source: *Annual Survey of Hours and Earnings*, Office of National Statistics, 2005.

¹⁶ *Shaping a fairer future*, Women and Work Commission, February 2006.

entitlement for fathers to take up to 26 weeks' additional paternity leave in the first year, which may be paid if the mother returns to work, will be introduced alongside the extension of maternity pay to one year. This will enable parents to have greater choice about how to share the responsibility for bringing up their children.

Box 4.9: Portsmouth Council's Work Life Balance project

Portsmouth Council's Work Life Balance project continues under the ESF funded Employer Brokerage Project, managed by Solent Skill Quest. The project provides expert brokerage to include training needs, organisational training plans, offering information, advice and guidance, and encouraging take up of NVQ level 3 (technician, craft or associate professional education) to SMEs in the Hospitality and Tourism, Sport and Recreation, Care, Retail and Construction sectors across Hampshire. The Project works with partners such as Training and Pride in Pompey (a learndirect centre) to source suitable companies to provide tailored training. Companies can receive 70 per cent of the training cost, or up to £285. In Portsmouth it is anticipated that 64 companies and 93 individual learners will subscribe to the scheme. The project runs until the end of 2007. Since January 2006, thirty companies have received Work Life Balance Toolkits. The impact of the toolkit and the Employment and Skills adviser has resulted in several companies re-thinking their recruitment advertising strategy – for instance splitting shifts and identifying hours of work that can be covered by parents.

Making connections with Children's Centres and helping young parents re-enter the labour market is central to Portsmouth's aims to increase the local employment rate. Portsmouth's 'Ready, Steady, Work' course was originally aimed at lone parents, but is now being adapted to help parents who feel they are ready to return to work at one of the Children's Centres. The course includes motivational and vocational courses in a supported environment, and a link with Jobcentre Plus Advisers.

Source: Portsmouth City Council

Childcare 4.48 The Government published a Ten Year Strategy Action Plan Choice for parents, the best start for children: making it happen¹⁷ in April 2006. It highlights achievements since the Strategy itself was published in December 2004,¹⁸ the challenges ahead, accompanied by agreed actions and timelines to ensure that Strategy commitments are delivered. Key achievements over the last year include:

- over 900 Sure Start Children's Centres in place, offering integrated early years and family services to over 720,000 children;
- a stock of 1,264,000 registered childcare places by June 2006; and
- greater than expected interest from schools in developing extended services, with over 2,000 offering access to the full core offer (including access to year round childcare between 8am and 6pm).

4.49 Sure Start Children's Centres are building on the experience of pioneering Sure Start Local Programmes. Early evaluation of the impact of Local Programmes, published in November 2005, showed positive findings for the majority of children and families. Evidence nevertheless showed that they were not always reaching some of the most

¹⁷ *Choice for parents, the best start for children: Making it happen*, Department for Education and Skills/Department for Work and Pensions, April 2006.

¹⁸ *Choice for parent: The Best Start for Children*, Department for Education and Skills/Department for Work and Pensions, December 2004.

disadvantaged families, which led to best practice guidance being issued alongside the evaluation, highlighting how Centres might best engage with the most vulnerable and disaffected.

4.50 The Childcare Act (2006) will take forward and give statutory force to key commitments in the Ten Year Strategy. It lays the foundations for the development of services for young children and to support parents in balancing work and family life. Many of its main provisions will come into effect in 2008.

4.51 The Act underlines the strategic role of Local Authorities and includes a new responsibility for them to secure sufficient childcare to meet local needs, in particular for those parents on low incomes or with disabled children and to improve outcomes for children up to age 5 and reduce inequalities between them.

A

COMMON CONTRIBUTION BY THE BRITISH AND IRISH GOVERNMENTS

A.1 In 2005, the British and Irish Governments agreed to include a Common Contribution in their respective National Reform Programmes with a view to promoting North/South economic and social co-operation of mutual benefit on the island of Ireland.

A.2 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.

A.3 The Governments continue to 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.

A.4 They also 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.

A.5 The challenges and opportunities for North and South identified in the 2005 Common Contribution remain valid. In order to advance cooperation, to mutual benefit, the two Governments will continue to 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.

PROGRESS SINCE THE 2005 COMMON CONTRIBUTION

A.6 Significant progress has been made since the 2005 Common Contribution across a range of areas.

Comprehensive study on the all-island economy

A.7 The Governments are currently undertaking a comprehensive study on the opportunities for further practical cooperation on the development of a more competitive and prosperous all-island economy, including building on the Lisbon Common Contribution. The final report is due in October 2006 and will set out specific actions and initiatives to further improve all-island cooperation.

A.8 As part of this process, the Governments have already agreed:

- to co-operate and pool resources in trade promotion;
- an all-island approach to labour market skills forecasting;

- an all-island approach to international collaboration in science and technology; and
- an all-island approach to business development through knowledge exchange by developing networks and clusters.

Regional Development/Northwest Gateway Initiative

A.9 The two Governments have agreed on a new Northwest Gateway Initiative in order to maximise the potential of the North-West of the island through close co-operation. The Initiative includes a non-statutory integrated spatial planning and development framework for the region, an examination of the potential for joint investment in key infrastructure projects, joint analysis and actions by agencies in areas such as trade and investment promotion, tourism, skills/training, further and higher education, innovation and business development and better co-ordination of public services, notably in health, education and information services.

Spatial Planning and Infrastructure

A.10 The two Governments have agreed on collaborative action involving the two spatial planning strategies on the island. The relevant government departments and other key stakeholders are currently preparing a new collaborative framework for the spatial strategies.

Energy

A.11 In November 2004 the Ministers responsible for energy in both the North and South agreed an All-Island Energy Market Framework. This framework mandated the Regulatory Authorities in the two jurisdictions to create the single electricity market within the period 2004 to 2007. Since then the two regulators have been working towards the creation of the Single Electricity Market, which is expected to be operational by November 2007.

A.12 The two Governments have also agreed to work together to maximise the contribution of renewable and sustainable energy to the future energy needs of the island.

B

EXAMPLES OF CONSULTATIONS CARRIED OUT BY THE UK GOVERNMENT

B.1 Effective consultation is a key part of the UK's policy development process. The views of stakeholders can help shape policy developments and set the agenda for better public services. Government departments are bound by the terms of the *Code of Practice on Consultation*,¹ and aim to consult as wide a cross-section of stakeholders as possible and to give feedback to respondents. The Government also ensures that the Principles of Better Regulation – proportionality, consistency, transparency, accountability and targeting – are applied to all policy development processes.

Stakeholder consultation on the NRP

B.2 Many of the policies described in this 2006 update to the UK National Reform Programme (NRP) have been subject to the consultation practices, which form an inherent and regular part of the domestic UK policy development process, involving a wide range of national, regional and local stakeholders, both across government and non-government.

B.3 In addition to these discussions, the Government has also sought feedback from stakeholders specifically in the context of the 2006 NRP update, as well as on the Lisbon Strategy more generally, including with a view to sharing best practice. The main features were:

- a web-based consultation run jointly by the Department of Trade and Industry (DTI) and the Department of Work and Pensions (DWP);
- a stakeholder seminar held on 24 July 2006, run by the Foreign and Commonwealth Office (FCO), HM Treasury, DTI, DWP and the Cabinet Office, and attended by around 60 delegates;² and
- a stakeholder meeting as part of the European Commission's NRP technical visit on 29 June 2006, hosted by HM Treasury.

Examples of regular consultation

B.4 The following examples give an indication of the type of policy development consultations undertaken by the Government on a regular basis, and represent a small fraction of the number of consultations carried out each year, including over 70 since the 2005 UK NRP was published:

i2010 Strategy **B.5** The i2010 Strategy is the EU's Information and Communications Technology (ICT) strategy until 2010. It has as its overriding aim to ensure that ICT makes a full and realistic contribution to productivity and growth. Since the launch by the European Commission of the i2010 Strategy in June 2005, the Government has been undertaking informal consultation. This includes:

- hosting an i2010 Conference during the UK Presidency of the EU in September 2005, the purpose of which was to collect stakeholder views and feedback on the i2010 Strategy;

¹ *Code of practice on consultation*, Cabinet Office, January 2004.

² Results of the consultation and of the stakeholder seminar are available at <http://www.dwp.gov.uk> and <http://www.dti.gov.uk>.

- holding regular (at least quarterly) meetings of the i2010 Stakeholder Group and the i2010 Cross-Government Group. There is also an email circulation list which is used to disseminate useful i2010 information; and
- involving stakeholders in specific streams of the i2010 Strategy, for example selecting stakeholders to form part of the UK delegation to the eInclusion conference (June 2006) and to attend the i2010 Finnish Presidency Conference (September 2006).

Enterprise B.6 In order to obtain SME opinions on Government proposals, the Small Business Service (SBS) facilitates the input of the SME community's views via a number of different routes on an ongoing basis. These include:

- the Small Firms Consultation Database of 2,200 SMEs who have volunteered to be approached for their views on developing Government legislative proposals. Membership is spread across the UK. Members receive early warning of proposed new regulations;
- the Small Business Council. The Council has 20 SME members appointed by the Government to give independent advice on government proposals and initiatives. The Council meets regularly, including at the early stages of the development of proposals, to offer SME views rapidly and on a confidential basis;
- the Small Business Investment Taskforce. The Taskforce advises the Government on SME finance issues and on how best to stimulate the operation of markets providing finance for SMEs. It is made up of up to 15 members who represent a wide cross section of industry professionals, including venture capitalists, business angels, micro-finance practitioners, financial advisers, bankers and other providers of debt finance;
- the Ethnic Minority Business Forum, which consists of 17 SME representatives and one academic appointed by the Government to give independent advice on government policies and initiatives and their impact on ethnic minority businesses; and
- the new Women's Enterprise Task Force is expected to be operational by autumn 2006. The Task Force will provide high profile leadership to accelerate women's enterprise development and provide a response to relevant government consultations.

R&D tax credits B.7 Research and Development (R&D) tax credits for SMEs were introduced in 2000, following extensive consultation with business. The consultation was led by a collaborative process across HM Treasury, HM Revenue and Customs (HMRC) and the DTI. Since the introduction of the credits, there has been continuous discussion with businesses, trade organisations, academics, accountancy and financial professionals to influence their design, as well as how they are operated in practice. This dialogue has influenced not only the design of the SME scheme, but also the large company scheme prior to its introduction in 2002. There have also been a succession of incremental improvements to both schemes as a result of consultation.

B.8 Examples of these include a revised, clearer definition of R&D for tax purposes; guidance to tax inspectors; and new, simplified guidance for SMEs about the credits. Most recently, the dialogue that resulted from the Government's publication in July

2005 of *Supporting growth in innovation: Enhancing the R&D tax credit*³ strongly influenced the announcement in December 2005 that HMRC would be creating new specialist R&D units to deal with all SME tax credit claims. It also was a major factor behind the announcement in Budget 2006 to extend additional support to R&D performing companies with between 250 and 500 employees, subject to the outcome of state aid discussions with the European Commission.

B.9 The EU Scientific and Technical Research Committee (CREST) has recognised⁴ the UK's ongoing consultation with business on R&D tax credits as a model of best practice in developing such fiscal measures. The Government is keen to maintain and build on this success.

Pensions B.10 Focusing on the broad package of reforms put forward by the independent Pensions Commission over seven months, the National Pensions Debate gathered the views of thousands of people to help inform the Government's White Paper, *Security in retirement: towards a new pensions system*,⁵ published in May 2006.

B.11 This large-scale exercise was run on deliberative engagement principles that provided participants with facts and information and time to discuss and think critically about the issues before them, in order to come to informed views. This promotes wider public engagement in the democratic process. It included:

- over one thousand people participating in six satellite-linked events across the whole of the UK. Discussions were heard directly by Ministers from several government departments and the Pensions Commissioners;
- wider debate was promoted through a dedicated website which included video links and an online survey;
- a 'stakeholder toolkit' was also provided which allowed organisations to run events to explore the Pensions Commission's proposals; and
- to build a lasting consensus on pensions, a new Pensions Forum keeps the public updated on the latest Government activity on pensions, enables views to be put direct to Ministers. The Minister of State for Pensions Reform, James Purnell MP, also hosts a weblog on pensions reform to facilitate regular online discussions about some of the key pensions issues.⁶

Welfare reform B.12 The Welfare Reform Green Paper, *A new deal for welfare: empowering people to work*,⁷ was published in January 2006 and represents the next stage in developments as set out in the 2005 UK NRP.

B.13 Over 5,000 copies of the Green Paper were distributed and some 600 responses received. The report on the consultation was published in June 2006. The consultation itself was based on the model of the National Pensions Day. Its main features were:

³ *Supporting growth and innovation: Enhancing the R&D tax credit*, HM Revenue and Customs / HM Treasury / Department of Trade and Industry, July 2005.

⁴ *Expert Group on Fiscal Measures for Research*, 'Report submitted to CREST in the context of the Open Method of Co-operation', The Hague, June 2004.

⁵ *Security in retirement: Towards a new pensions system*, Department for Work and Pensions, May 2006.

⁶ See <http://www.dwp.gov.uk/pensionsreform>

⁷ *A new deal for welfare: Empowering people to work*, Department for Work and Pensions, January 2006.

- almost one hundred events hosted by the DWP or attended by its representatives, with an estimated total audience of over 5,000 people. Besides a dedicated Welfare Reform Green Paper Conference held in Birmingham on 9 March 2006, some events specifically involved organisations representing the homeless, those with mental illness, the disabled, lone parents, as well as programme providers, child poverty and welfare rights organisations; and
- the consultation was also supported by an on-line discussion forum: a prototype devised with and moderated by the Hansard Society to test whether people might find this type of engagement useful. Over 80 people registered.

B.14 Even in areas where the Government is moving towards legislation, there remains much detail to develop and the Government will continue to work with stakeholders. Indeed, the next phase of the ongoing consultation strategy was launched over summer 2006, with an event for larger stakeholder groups across the Welfare Reform agenda. The Government intends to build upon this platform to ensure that in each area of work it is engaged with stakeholders, using their experience and know-how to help transform services to customers.

ISBN 1-84532-197-9



9 781845 321970 >