

Lisbon Strategy for jobs and growth:

UK national reform programme 2009

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Introduction

1.1 The Lisbon Strategy agreed by European Heads of State and Government (the European Council) in 2000, set the aim of making the EU by 2010 “the most dynamic and competitive, knowledge based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion”.

1.2 The Lisbon Strategy is focused around a number of Integrated Guidelines that set out the European Council’s priorities for growth and jobs. As part of the multilateral monitoring framework of the Lisbon Strategy member states present an annual National Reform Programme (NRP) setting out priority areas for national economic reform and policy commitments. The Government published its first NRP in 2005, since when an update has been produced each year.

1.3 The Spring European Council of March 2008 launched the 2008-10 cycle of the Lisbon Strategy, confirming the existing Integrated Guidelines. It re-emphasised four areas for priority actions within this framework:

- investing in knowledge and innovation;
- improving the business environment;
- increasing employment opportunities for the most disadvantaged; and
- defining a climate and energy policy for Europe.

1.4 The Government’s long-term goals that cover the 2008-10 cycle of the Lisbon Strategy are:

- maintaining macroeconomic stability, through supporting the economic recovery and building a strong economy for the future, while ensuring sound public finances;
- ensuring financial stability, by introducing the Government’s view of the longer-term action required to renew financial markets for the future;
- sustainable growth and prosperity, through reforms that promote R&D and innovation, encourage investment and competition, enhance flexibility and promote science, innovation and skills;
- creating stronger communities and improving long-term housing supply and affordability; and
- building a low-carbon recovery, with action to address the global challenge of climate change.

1.5 On the basis of the European Commission’s assessment of progress towards the Lisbon goals, in March 2009 the European Council endorsed a set of country-specific recommendations and points to watch for the UK:

- **Council Recommendation:** Ensure a sustainable fiscal position in the medium-term, including through fiscal consolidation measures geared towards enhancing the quality of the public finances;

- **Council Recommendation:** Continue to implement plans to substantially improve skill levels and establish an integrated approach to employment and skills in order to raise productivity and increase opportunities for the disadvantaged;
- **Council Point to Watch:** Improve R&D intensity in order to meet medium- to long-term demand pressures; and
- **Council Point to Watch:** Increase housing supply in order to meet medium- to long-term demand pressures.

1.6 In this document, the Government briefly sets out recent progress against key elements of the UK's comprehensive programme of structural reform, including measures being taken in the areas covered by the UK's country-specific recommendation and points to watch (summarised in Table 1.1) and in the four priority areas agreed by the Council in March 2008. This is in the context of the current downturn and medium-term reform measures, in line with the European Economic Recovery Plan (EERP), agreed by the European Council in December 2008. The NRP reports on policies developed and implemented by central government and the Devolved Administrations of Northern Ireland, Scotland, and Wales.

1.7 A separate reporting table¹ gives details of further measures not set out in this document taken to meet UK reform objectives. This table is a basis for assessing the change and progress made in advancing the reform programme since the last reform programme, that is, the NRP 2008. Following European Commission guidance, it includes reform measures: that are new, either planned or taken; where significant steps have taken over the past year in implementation, which includes measures being abolished; and that are not already mentioned in this main document. The reporting table also updates on UK progress with implementing the Small Business Act (SBA) for Europe.

1.8 The UK's NRP is, in part, supported by the European Structural Funds, which include the European Social Fund and the European Regional Development Fund. Last year the spending priorities for the UK's €9.8 billion (2007 to 2013) allocation were set out in 23 Operational Programmes and agreed by the European Commission. One of the Government's priorities for European regional policy in 2007-13 is to give active support to the Lisbon Strategy. Based on spending forecasts over the whole funding period, it is anticipated that 87 per cent of the UK's allocation will be focused on Lisbon-related activities, significantly exceeding the "earmarking" targets set by the European Commission. Now that the Operational Programmes are under way the Government will monitor the level of contracting and spend being made against these targets and will report these in detail by December 2009 as part of the Strategic Report for 2009 required under Article 29 of the General Structural Funds Regulations.

1.9 This year's NRP comes in the context of a severe financial crisis, which has resulted in the sharpest global economic downturn in over 60 years. Global output is forecast to contract by 1.4 per cent in 2009, the first full-year decline in the post-war period. Within the EU, output is expected to fall by 4 per cent this year while unemployment has already risen to almost 9 per cent.

1.10 Challenging economic circumstances emphasise the importance of establishing financial, fiscal and macroeconomic stability as a prerequisite for growth and structural reform, as central to the Lisbon Strategy and a key element of the Integrated Guidelines. Across the EU there has been a concerted and coordinated response to the crisis, in the form of the European Economic Recovery Plan (EERP), and the UK Government, as Chair of the G20 in 2009, has led a

¹ http://www.hm-treasury.gov.uk/int_lisbonstrategy_jobs.htm

coordinated international response to the crisis and forged agreement on a comprehensive *Global Plan for Recovery and Reform* at the London Summit in April 2009.²

1.11 Consistent with the EERP, the UK is delivering a comprehensive and coherent package of support to restore the flow of credit, support economic recovery in the UK, and build a strong economy for the future while ensuring sound public finances. The Government has adopted financial sector support measures to stabilise the banking sector and improve access to finance, which should also support the wider economy and underpin macroeconomic stability. The Government is determined to continue to improve and invest in public services, whilst also ensuring a sustainable path for the public finances.

1.12 The rest of this document is organised as follows:

- Chapter 2, *Macroeconomic stability for growth and jobs*, outlines the UK Government's policies to ensure a sustainable fiscal position in the medium-term, including through fiscal consolidation measures agreed towards enhancing the quality of public finances. This chapter also provides an overview of UK policies towards increasing housing supply in order to meet medium- to long-term demand pressures;
- Chapter 3, *Supporting business, research and development and innovation*, outlines reforms undertaken by the UK Government and Devolved Administrations consistent with recommendations from the European Council that sustain productivity growth, invest in R&D and innovation, and promote the UK as a world-class business environment;
- Chapter 4, *Increasing skills levels and delivering employment opportunities for all*, details UK reforms to substantially improve the skill levels and establish an integrated approach to employment and skills in order to raise productivity and increase opportunities for the disadvantaged; and
- Chapter 5, *Climate change, energy policy, and sustainable development*, outlines the Government's response to the challenges of climate change, the need to maintain reliable and affordable energy supplies, and ensure sustainable development, through measures such as stimulating the development and deployment of low-carbon technologies and improving energy efficiency.

² <http://www.g20.org/Documents/final-communique.pdf>

Table 1.A: Summary of UK progress towards its recommendations and points to watch

<p>Council Recommendation: Ensure a sustainable fiscal position in the medium-term, including through fiscal consolidation measures geared towards enhancing the quality of the public finances.</p>	<p>Value for money improvements identified by the newly set up Operational Efficiency Programme (OEP) and Public Value Programme (PVP), which have identified an additional £5 billion of recoverable savings on the initial savings target of £30 billion outlined in the 2007 Comprehensive Spending Review (CSR). Over the three years from 2011-12, up to £16 billion raised from property and asset sales. By 2013-14, £9 billion of savings across procurement, back-office and IT, and property running costs.</p>
<p>Council Recommendation: Continue to implement plans to substantially improve skill levels and establish an integrated approach to employment and skills in order to raise productivity and increase opportunities for the disadvantaged.</p>	<p>£5 billion of public investment in adult skills during 2009/10. Targeted support to maintain skill and employment levels throughout the downturn, through for instance 35,000 additional apprenticeships this year. An extra 10,000 higher education places will be made available this year. Increased funding for Skills Accounts, increasing from £500 million 2010/11 to £1.5 billion by 2015. Future Jobs Fund provides £1 billion worth of funding to support creation of jobs for long-term unemployed, young people, and others who face disadvantage in the labour market over the next two years. Improved flexibility of the Train to Gain programme has led to significant expansion of demand from employers to participate. Welfare Reform Bill introduced into Parliament in January 2009.</p>
<p>Council Point to Watch: Improve R&D intensity in order to meet medium – to long-term demand pressures.</p>	<p>The Government continues to significantly expand investment in R&D – this has increased by 5 per cent in real terms since 2006. The first Annual Innovation Report was published in December 2008 setting out progress against policy commitments from the <i>Innovation Nation</i> white paper. UK Innovation Investment Fund and Strategic Investment Fund both created to help maintain effective public and private investment in research and innovation.</p>
<p>Council Point to Watch: Increase housing supply in order to meet medium – to long-term demand pressures.</p>	<p>Government continues to work towards target of 240,000 net additional homes per year in England by 2016 to more effectively match supply with demand. £7.5 billion investment over the next two years to deliver up to 112,000 new, social and affordable homes and 15,000 market properties. Progress on measures and strategy to increase housing supply over the medium- to long-term to be set out at the Pre-Budget Report (PBR) 2009.</p>

2

Macroeconomic stability for jobs and growth

2.1 The European Council has a recommendation for the UK to ensure a sustainable fiscal position in the medium-term, including through fiscal consolidation measures agreed towards enhancing the quality of public finances. The Council also has a point to watch for the UK on increasing housing supply in order to meet medium- to long-term demand pressures. This chapter provides an overview of UK policies towards these, focusing first on first fiscal sustainability and second on housing supply, both in the context of the current downturn and medium-term reform measures, in line with the European Economic Recovery Plan.

Fiscal Sustainability

Context

2.2 After a period of sustained growth over the past decade, the world economy is now seeing the most difficult economic conditions for generations, and all countries have been hit. Global output is forecast to contract by 1.4 per cent in 2009, the first full-year decline in the post-war period. Within the EU, output is expected to fall by 4 percent this year while unemployment has already risen to almost 9 percent.

2.3 The global crisis was brought about by a combination of factors, including a mis-pricing of risk, regulatory gaps in financial services high commodity prices, and imbalances between countries' dependencies on imports and exports. Credit conditions tightened as disruption gripped financial markets, and in turn provoked turbulence across the globe. The speed with which this turbulence spread has underlined the ever-closer links between the world's economies and the dependence of each country on others' economic policies, both within and beyond the EU.

2.4 The Government's objectives for fiscal policy are: over the short-term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy; and over the medium-term, to ensure sound public finances and that spending and taxation impact fairly within and between generations.

2.5 In line with these objectives, and consistent with the European Economic Recovery Plan (EERP) agreed by the European Council in December 2008, the Government is delivering a coherent and comprehensive package of support to stabilise the financial system, provide support to the economy and to those who need it most. These actions will support the economy during the downturn, helping to reduce the risk of a deeper or more prolonged recession.

2.6 The Government is committed to ensuring sound public finances. It has acted to protect fiscal sustainability by prioritising its actions carefully, to ensure that they will support recovery and future economic growth, and has set out a clear plan to deliver a sustained fiscal consolidation once the economy emerges from the downturn.

2.7 To underpin its commitment to sustained fiscal consolidation, the Government set a temporary fiscal operating rule in the 2008 Pre-Budget Report: to set policies to improve the cyclically adjusted current budget each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full.

2.8 In line with the Stability and Growth Pact, the Government will provide further details of its latest forecasts for the economy and public finances, including in an updated Convergence Programme in 2009.

Support During the Downturn

2.9 In the face of the steep and synchronised global downturn, and consistent with the European Economic Recovery Plan (EERP), the Government is delivering a coherent and comprehensive package of support to restore the flow of credit, support economic recovery in the UK and build a strong economy for the future, while ensuring sound public finances.

2.10 With reference to the country-specific recommendations and points to watch for the UK, Budget 2009 announced economic reform measures including:

- support for business, including the establishment of a £750 million Strategic Investment Fund to support advanced industrial projects of strategic importance;
- support for employment and skills, including additional funding of £1.7 billion to ensure Jobcentre Plus and Flexible New Deal programmes have the capacity to respond to rising unemployment. This includes £1.2 billion of support offering a job, training, or work placement for all 18-24 year olds who reach 12 months unemployed, to ensure no young people are left behind due to long-term unemployment; and
- support for the environment and the low-carbon sector, including setting the world's first carbon budgets and measures to encourage energy and resource efficiency in business, public buildings and households as part of an overall £1.4 billion package of extra targeted support in Britain's low carbon sector.

Enhancing the Quality of Public Finances

2.11 Over the medium-term, the Government is determined to continue to improve and invest in public services, whilst also ensuring a sustainable path for the public finances, including by further enhancing the quality of public finances.

2.12 In 2008 the Government announced the next stage in the rolling programme of value for money improvements, setting up the Operational Efficiency Programme (OEP) and the Public Value Programme (PVP) to capitalise on best practice and leading thinking in the private and public sectors. The OEP looked at five specific areas, (collaborative procurement, assets, back office and IT, local incentives and empowerment, and property), each led by a senior external advisor. Final recommendations¹ were published alongside Budget 2009 and set out how substantial savings could be delivered across the areas looked at by the OEP. The PVP, a rolling programme of reviews into specific policy areas, has also identified a range of further efficiencies across health, education, transport, prisons, skills, and Regional Development Agencies.

2.13 Based on the savings identified by the OEP and PVP, the original 2007 Comprehensive Spending Review value for money savings target of £30 billion of savings by 2010-11 has been increased to £35 billion, therefore delivering an additional £5 billion of recoverable savings.

2.14 Budget 2009 announced that, in addition to on-going efficiencies that Government departments are expected to deliver, the Government will drive out additional efficiencies identified for 2011-12 and beyond: by 2013-14, £9 billion a year of additional savings identified by the OEP across procurement, back-office and IT, and property running costs; and following the recommendations of the OEP advisors, new incentives and mechanisms will be put in place

¹ http://www.hm-treasury.gov.uk/vfm_operational_efficiency.htm

to realise up to £16 billion of property and other asset sales in the three years from 2011-12, freeing up additional resources on top of capital budgets to fund investment priorities.

2.15 Budget 2009 also announced that the PVP will be expanded to ensure demanding value for money reviews are conducted right across departmental budgets, delivering even greater efficiency savings in the next Spending Review period. The expanded PVP will cover a minimum of 50 per cent of each department's budget and with a particular focus on areas of spend that impact across departmental boundaries.

Housing Supply

Context

2.16 The Government's objective for housing is to ensure everyone has access to a decent home at a price they can afford. The long-term mismatch between supply and demand for new homes, with housing supply failing to keep up to an aspiring and ageing population, has led to significant problems of affordability, particularly for those seeking to buy their first home.

2.17 That is why in the Housing Green Paper, *Homes for the Future: More Affordable, More Sustainable*, published in July 2007², the Government set out its ambition to deliver 240,000 additional homes per year by 2016. By increasing supply to this level the Government aims to address affordability and the instability of the housing market.

2.18 In the short-term, there are undoubtedly challenges to overcome, with global financial and economic conditions significantly impacting upon the delivery of housing. The Government has taken swift and extensive action to support homeowners and homebuyers,³ getting building activity going, and preserving jobs, capacity, and skills in the house building sector. However, the long-term challenge to increase housing supply remains: the demographic pressures on housing continue to build just as new supply falls. When the credit markets unlock, the shortage of housing will result in a further round of affordability problems. This underlines the urgent need to maintain the ambition to provide more homes for this and future generations.

Stimulating Housing Supply in the Short-Term and Boosting Capacity

2.19 The Government is taking active steps to stimulate housing development in the short-term and boost capacity in the house building industry. The Government has brought forward £350m from 2010-11 for use over 2008-09 and 2009-10 from the Affordable Housing Programme. By bringing funds forward, social rented homes will be built earlier than they would otherwise have been delivered.

2.20 Budget 2009 announced funding that in England will deliver up to an additional 10,000 new homes through: £400 million funding for the Kickstart Housing Delivery Programme (KHD) to unlock stalled housing developments; and £100 million funding for local authorities in England for the construction of additional, energy efficient social rented homes over the next two years.

2.21 As detailed in *Building Britain's Future*, published in June 2009,⁴ the Government made a 'Housing Pledge' to invest £1.5 billion to build 20,000 affordable and social homes, and 10,000 market properties over the next two years. This funding is expected to support or create up to 44,000 jobs. The pledge increased funding for a number of programmes, including:

² <http://www.communities.gov.uk/publications/housing/homesforfuture>

³ <http://www.direct.gov.uk/mortgagehelp> and <http://www.communities.gov.uk/housing/buyingselling/ownershipschemes/homebuy/>

⁴ http://www.hmg.gov.uk/media/27749/full_document.pdf

- additional funding for KHD. The provisional allocation for the first round of KHD funding worth £925 million for 270 projects was announced on 27 July 2009, and the results of the second round for the remaining KHD funding will be announced later in 2009;
- expanding the existing affordable housing programme to enable Registered Social Landlords (RSLs) to deliver up to an additional 12,500 affordable homes;
- investing in the development of public sector land owned by the Homes and Communities Agency (HCA), Local Authorities and other public sector bodies to deliver up to 1,250 units of which 500 could be affordable; and
- expanding the Local Authority New Build programme announced at Budget 2009 to enable Local Authorities to deliver an extra 3,000 new Council social rented houses.

2.22 These measures mean the Government has now committed to invest £7.5 billion over the next two years to deliver up to 112,000 affordable homes, and around 15,000 private homes.

Preparing for a Strong Recovery

2.23 Building on the package to support housing supply in the short term, the Government reaffirms its commitments on housing supply and looks to prepare the housing market to respond post-downturn.

Surplus Public Sector Land

2.24 The Surplus Public Sector Land Programme (SPSL) works to ensure that surplus government and other publicly-owned land is effectively reused to deliver homes while meeting the Government's wider objectives including the provision of more affordable homes. The Homes and Communities Agency plays a key role in working with government departments, local authorities, and other public land owners to bring forward surplus sector public land for housing development.

Planning Act 2008

2.25 The Government has embarked on an ambitious programme of planning reform following publication of the planning White Paper in 2007, which responded to the recommendations of the Barker Review of Land Use Planning (2006)⁵ and Eddington Transport Study (2006).⁶ Government has since passed the Planning Act 2008 which will set up a new Infrastructure Planning Commission (IPC), which will put in place a faster, more certain and transparent process for planning for major national infrastructure projects – with the time taken from application to decision cut to less than one year in most cases. The IPC will be advising potential applicants and interested parties from 1 October 2009 and accepting applications from 1 March 2010. The Government has also recently consulted on a new planning policy statement for economic development, which will set out a coherent and modern set of policies designed to provide the flexibility needed to meet the current economic uncertainties and exploit the opportunities that global competition for jobs and investment will bring.

Long-Term Strategy

2.26 The Government will report at the 2009 Pre-Budget Report on progress and set out its strategy to support a timely and effective housing supply response through the recovery, in

⁵ <http://www.communities.gov.uk/documents/planningandbuilding/pdf/154265.pdf>

⁶ <http://www.dft.gov.uk/about/strategy/transportstrategy/eddingtonstudy/>

order to maximise delivery of high quality, energy efficient homes, supporting our long-term housing supply and environmental objectives. This will cover measures to:

- ensure sufficient land for development, through housing allocations in local plans and further action on public sector land, supported by a responsive and efficient planning system;
- deliver effective and coordinated infrastructure provision;
- promote a strong and diverse house building sector;
- continue to ensure the increased long-term supply of social and affordable housing; and
- ensure a proportionate approach to land-value capture and cumulative regulation.

2.27 As part of this, the Government will identify, working with industry and other partners, the best regulatory and policy framework to support the Government's long-term housing objectives.

Killian Pretty Review of Planning

2.28 The Government also commissioned The Killian Pretty Review of Planning (2008) to investigate the opportunities for improving the planning application process for the benefit of all involved. The Government's response to the review was published on 5 March 2009,⁷ and the first package of proposals for reform were published for consultation in July 2009.

Housing – Devolved Administrations

Northern Ireland

2.29 The New Housing Agenda for Northern Ireland, launched in February 2008, has a target to provide over 10,000 new social and affordable homes within the next five years. Initiatives from 2008-09 include the Co-Ownership scheme, with £35 million private finance being levered into the Scheme, this in addition to the £15 million that the Government provided. A new developer-led shared equity scheme was launched involving partnership between a developer, two local housing associations and Barclays Bank. This model will be rolled out further in 2009-10. In 2009, the Government also announced a major change to the House Sales Scheme, which means that social housing tenants can buy a share in their home and a shared equity model of home ownership was launched in partnership with the Private sector.

Scotland

2.30 The Scottish Government has taken a range of measures to support housing during the economic downturn. The measures include accelerating £120m from the Affordable Housing Investment Programme to 2008-09 and 2009-10, increasing support for the Low-Cost Initiative for First Time Buyers (LIFT)⁸ in 2009-10 and allocating £50m of funding to incentivise the delivery of a new generation of local authority housing. As announced in June 2009, the first £26m of that £50m funding package will support the construction of more than 1,343 new council homes in Scotland; decisions on the remainder of the funding are expected to be announced by the end of 2009.

⁷ <http://www.communities.gov.uk/documents/planningandbuilding/pdf/killianprettyresponse.pdf>

⁸ www.scotland.gov.uk/LIFT

Wales

2.31 In response to the economic downturn, additional funding of £42 million from 2008 to 2011 from the Welsh Assembly Government's Strategic Capital Investment Fund (SCIF) has been made available for the provision of affordable housing. The additional SCIF resources will contribute towards a commitment to provide an additional 6,500 affordable homes. It will take advantage of new properties and land and help to maintain employment in the building industry. £40 million has been brought forward from the 2010-2011 Social Housing Grant budget to deliver additional investment in housing owned and developed by housing associations. (£12 million in 2008-9 and £28 million in 2009-10).

3

Support for business, research and development and innovation

3.1 The European Council has a point to watch for the UK to address research and development (R&D) intensity in order to meet medium to long-term demand pressures. This chapter outlines reforms undertaken by the UK Government and Devolved Administrations consistent with recommendations from the European Council that sustain productivity growth, invest in R&D and innovation, and promote the UK as a world-class business environment.

Business

Context

3.2 The Government is committed to maintaining a competitive framework for the recovery and beyond, in order that the UK is well equipped to meet today's global challenges, particularly from the growing influence of the emerging markets. This in the context of the current downturn, that has had a profound impact on the business environment globally and within the UK. The UK is committed to providing real help for business now, to help deal with the tough business climate, and to prepare for and take advantage of a strong recovery. The Government has taken decisive steps to restore lending to credit-worthy businesses and entrepreneurs, and as global demand for goods and services has contracted sharply the Government has introduced targeted measures to help UK enterprise through the recession and lay the foundation for a sustainable recovery in which individuals and businesses will be able to compete successfully for the jobs of the future.

Supporting Business During the Downturn

3.3 Budget 2009 announced a £750 million Strategic Investment Fund to support advanced industrial projects of strategic importance, consistent with the vision set out in Building Britain's Future: New Industry, New Jobs,¹ £250 million will be earmarked for low-carbon investments, £50 million for the Technology Strategy Board, and £10 million for UK Trade and Investment (UKTI).

The Small Business Act for Europe (SBA)

3.4 Consistent with the Small Business Act (SBA), the Government is providing real help for business, both to cope with the downturn and prepare to take advantage of the recovery. An overview of implementation in the three SBA priorities – access to finance, better regulation and access to markets - is given below, and more detail and further examples can be found in the UK's NRP 2009 Reporting Table.²

SBA – Access to Finance

3.5 In January 2009, the Government launched a support package to address the cash flow and credit and capital needs of small- and medium-sized enterprises (SMEs), including: an Enterprise

¹ <http://www.berr.gov.uk/files/file51023.pdf>

² http://www.hm-treasury.gov.uk/int_lisbonstrategy_jobs.htm

Finance Guarantee, providing banks with a 75 per cent Government guarantee on loans to viable businesses with less than £25 million turnover; a Working Capital Scheme of up to £10 billion of guarantees covering up to 50 per cent of the working capital on bank portfolios; and a Capital for Enterprise Fund totalling £75 million (£50 million government funding with £25 million from banks) to help viable small businesses with existing debt raise long-term finance.

3.6 To improve prompt payment and help SMEs with their cash flow, in October 2008 the Prime Minister announced a Central Government commitment pay all invoices within ten days and in December 2008, the Government launched a Prompt Payments Code to encourage business to pay its bills on time. A Business Payment Support Service allows businesses struggling to pay taxes to discuss options, including spreading payments over a timetable that they can afford.

SBA – A Regulatory Environment that Supports SMEs

3.7 The UK uses the approach set out in the SBA for regulating small firms: regulation is introduced on two dates each year ('common commencement dates'); a Small Firms Impact Test is applied in all impact assessments; and flexible approaches are used for firms with fewer than 20 employees, including exemptions or, where that is not possible, steps such as simpler guidance and easy to use forms. The UK welcomes the European Commission's SBA commitments on better regulation, which should be implemented as quickly as possible.

SBA – Enhancing Market Access

3.8 A major review of SME access to public procurement in November 2008 made recommendations in three areas: transparency, simplicity, and strategic use. Measures include a new web portal to be launched in 2010 advertising all contracts above £20,000 from across the public sector. It will be free for businesses to use and will flag opportunities suitable for small businesses.

3.9 The Government has also introduced a range of measures to encourage SMEs to access new markets, including: Gateway to Global Growth; a £3.5 million support package announced by the Prime Minister in March 2009 to help SMEs with 2-10 years' export experience diversify into new overseas markets; and new funding rules from 1 April 2009 to help for SMEs to take part in overseas trade fairs. The Government is evaluating the use of SOLVIT in the UK and taking steps to improve SMEs' awareness of the service.

3.10 From March 2009, free online summaries of a wide selection of national, European, and international standards have been available on the businesslink.gov.uk website. The British Standards Institution (BSI) published, in May 2009, a new, free of charge SME guide to standardisation to demonstrate the benefits of standards and standardisation and encourage SME participation in the standardisation process.

Business Support and Administrative Burdens

3.11 Central Government, Regional Development Agencies (RDAs), and local authorities have worked together to streamline publicly funded business support to make it more targeted and focussed. Over 3,000 products have been reduced to 30 in a portfolio entitled "Solutions for Business", announced in March 2009.³ These products offer real help to companies with common issues such as accessing finance, innovation, research and development, skills and training, exporting and overseas trade, and resource efficiency, including low carbon.

³<http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1081389933&type=CAMPAIGN&site=0&urlname=solutions&urlparam=solutions&ref=http%3A%2F%2Fwww.google.co.uk%2Fsearch%3Fhl%3Den%26source%3Dhp%26q%3DSolutions%2Cfor%2CBusiness%26btnG%3DGoogle%2CSearch%26meta%3D%26aq%3Dnull%26oq%3D&domain=www.businesslink.gov.uk>

3.12 Inefficient regulation can impose significant unnecessary burdens on business and therefore can hinder on job creation and growth. As at December 2008, departments, regulators, and agencies involved in the Government's administrative burden reduction programme reported delivery of nearly £1.9 billion of net annual savings. Given the current downturn, the Government has chosen not to implement a system of regulatory budgets at this stage. Instead, in April 2009 the Government announced a series of measures designed to strengthen regulatory management, including: setting up an independent body to scrutinise impact assessments (the Regulatory Policy Committee); setting a new simplification target for 2010-15; publishing a forward programme of all regulatory measures due to be implemented in the UK; and creating a better regulation sub-committee of the National Economic Council.

Support for the Automotive Sector

3.13 The Government has recognised that this is a particularly challenging time for automotive companies and their supply chain and has taken a range of actions to help ensure that the industry emerges from the current downturn with the skills and technology base needed to be competitive in the global automotive market in the future. On 27 January 2009, the Government announced the Automotive Assistance Programme (AAP) through which Government guarantees could enable up to £2.3 billion of lending to the UK automotive sector for investment projects, which further the UK's low carbon objectives and support jobs and skills. State Aid clearance was given on 27 February and the AAP was launched on 11 March 2009.

3.14 The temporary car and van scrappage scheme, which started on 18 May 2009, is providing a temporary and welcome boost to the motor trades sector. Under the scheme, the Government provides a £1,000 incentive to be match-funded by vehicle manufacturers for consumers to replace a car or light van more than ten years old with a brand new vehicle. The scheme will run until 28 February 2010 or until the £300 million of Government funding is used fully.

Preparing Business for a Strong Recovery

New Industry, New Jobs

3.15 In April 2009 the Government published its new industrial strategy, *New Industry, New Jobs*,⁴ to help ensure that individuals and businesses in the UK will be able to compete successfully for the jobs of the future. This strategy has three main elements. Firstly, it has identified four priority areas for action and reform that are essential to maintaining the UK's competitiveness – namely innovation, skills, finance, and infrastructure. Secondly, the document discusses how the Government can use its role as both a regulator and customer to promote investment, growth, and jobs in Britain through more policy consistency across departments, greater regulatory certainty, and smarter public procurement. Thirdly, the strategy looks at how future action and support could be targeted towards broad areas of technology, products, and services that could have significant benefits for the wider UK economy and have a high growth potential that is being constrained by sector specific barriers.

Advanced Manufacturing Strategy

3.16 Building on the Government's 2008 Manufacturing Strategy⁵ and the commitment in the April 2009 *New Industry, New Jobs* strategy to focus on Advanced Manufacturing, the Government in July 2009 launched a significant package of measures to help UK manufacturers

⁴ <http://www.berr.gov.uk/files/file51023.pdf>

⁵ <http://www.berr.gov.uk/whatwedo/sectors/manufacturing/strategyreview2008/page45271.html>

seize the opportunities offered by new industrial technologies.⁶ The £150 million package will expand access to information and support, encourage take up of new technologies, and address specific challenges faced by the aerospace sector.

3.17 Key measures of the package include £45 million funding to Rolls-Royce for four new facilities to be built in the UK – three aerospace and one civil nuclear – creating and sustaining 800 jobs; £45 million to support Rolls-Royce-led research and technology critical to the development of low-carbon aircraft engines at least £40 million investment in SAMULET, a collaborative aerospace product focusing on productivity and environmental improvements; a £12 million expansion of a display technology facility, the Printable Electronics Centre in Sedgefield, creating up to 1,500 jobs by 2014; and a £4 million expansion of the successful Manufacturing Advisory Service to help a wider range of businesses improve efficiency and increase orders.

Low Carbon Industrial Strategy

3.18 In July 2009 the Government published its *Low Carbon Industrial Strategy*⁷ which outlines action to support the UK in seizing the opportunities that will come with the move to a low carbon economy. At the heart of the strategy, the basic principles for a positive environment for low carbon business include a long-term strategic approach from government that sets stable frameworks for businesses and consumers, and a pragmatic approach to the role of both markets and government in making the transition to low carbon quickly and effectively.

3.19 The UK has deployed a comprehensive range of policies to support the transition to a low carbon future. Budget 2009 committed a further £1.4 billion in targeted support for the low carbon economy and showed how the Government's policy framework is enabling £50 billion of investment in low carbon over the period 2008-11.

Next Generation Broadband

3.20 In June 2009 the Government published the *Digital Britain White Paper*⁸ which sets out a comprehensive and strategic analysis of digital networks, digital content, and digital participation in the UK. In particular Digital Britain recognises the importance of digital communications and other forms of digital technologies in driving productivity growth in the UK.

3.21 Since the first quarter of 2009 the UK has seen an energetic, market-led roll-out of next generation fixed broadband to around 50 per cent of the country, principally through cable infrastructure. The Government believes the fairest and most efficient means of ensuring widespread access to next generation broadband is the creation of a Next Generation Fund, based on a supplement of 50 pence per month on all fixed telecoms lines. The Fund will provide a part subsidy for the deployment of next generation broadband to the 'final third' of homes and small businesses, bringing the cost of the initial deployment to the same level that operators face in the commercially economic parts of the market.

Life Sciences

3.22 The Life Sciences industry is a sector of strategic importance to the UK economy and to continuing improvements in UK healthcare delivery. The Office of Life Science (OLS) was set up on 27 January 2009 to develop a package of measures to sustain a thriving and integrated UK life sciences industry now and in the future. Following extensive discussion between the

⁶ <http://interactive.bis.gov.uk/advancedmanufacturing>

⁷ <http://www.berr.gov.uk/whatwedo/sectors/lowcarbon/lowcarbonstrategy/page50105.html>

⁸ http://www.culture.gov.uk/what_we_do/broadcasting/6216.aspx

Government and industry, *The Life Sciences Blueprint: A Statement from the Office for Life Sciences* was launched on 14 July 2009.⁹ It outlines the Government's vision for the life sciences sector, together with a package of high-level actions Government is taking to strengthen the NHS as an innovation champion; build a more integrated life sciences industry; ensure access to finance and stimulating investment, and; market the UK life sciences industry overseas. The OLS will now focus on implementing the Blueprint commitments. Detailed delivery plans for each action will be published in autumn 2009.

The Single Market and Competition Policy

3.23 Europe's Single Market has brought great benefits to citizens, giving consumers greater choice and better value, allowing businesses access to larger markets and new technologies and suppliers, thus enhancing their ability to contribute to the economy and to offer greater and better employment opportunities. Maintaining an open Single Market throughout the current downturn will be critical. Going forward, a more flexible and strategic approach which focuses on where remaining barriers and future benefits are greatest will be necessary for the Single Market to contribute most effectively to the success of Europe's economic recovery.

3.24 The Competition Commission and the Office of Fair Trading, as well as a number of sector regulators, are key to the independent enforcement of competition policy in the UK. The UK SOLVIT Centre has successfully helped UK businesses exercise their Single Market rights and overcome barriers in a wide range of areas including market access for products and services and VAT refunds.

3.25 The UK strongly supports close cooperation by national competition authorities with the European Commission in the enforcement of the European Commission competition regime and the economic impact and evidence based approach, which underpins this enforcement work. The UK is also a strong advocate for the European Commission's sector inquiries, as a means to identify and tackle barriers to competition, and the development of market monitoring to contribute to sound, evidence based policy making to address wider issues of competitiveness in key strategic sectors in the Single Market.

Services

3.26 The UK is on course to implement the EU Services Directive by the 28 December deadline. The UK believes that the greatest benefits for all EU companies will be obtained by full and correct implementation by every Member State, and therefore welcomes the Commission's proposal to use mutual evaluation to review implementation, and looks forward to engaging in this process throughout 2009.

3.27 The Government is following up its previous research on service innovation, via targeted interventions to support market development for, and tackle market barriers to, services and service sectors. For example, the Government:

- is taking a more strategic approach to standards for services, including reviewing their role in relation to resource and waste management in order to open new opportunities for environmental services, not least in view of the significant global potential. This is due for completion in early autumn 2009; and
- has supported a three year pilot project which began in April 2009 by England's Regional Development Agencies to promote the potential of information and communications technologies to transform small businesses' processes, to meet the challenges of fast-moving global services markets.

⁹ <http://www.dius.gov.uk/~media/publications/O/ols-blueprint>

3.28 The Professional Services Global Competitiveness Group was set-up in September 2008 to look at issues affecting the professional services sector. In March 2009 it published its report into the medium- and long-term challenges facing professional services in the UK.¹⁰ The findings will be reported to the Chancellor's High-Level Group on City Competitiveness, who will meet later in 2009. The analysis will enable the High-Level Group to prioritise the challenges for the UK-based Professional Services industry and related public policy challenges.

Business – Devolved Administrations

Northern Ireland

3.29 The Short Term Aid Scheme, which was announced on 26 May 2009 and has been available from 1 June 2009 up to 31 December 2010, is designed to provide eligible businesses with financial assistance to enable the retention of key staff while businesses plan, and where necessary, restructure for the future. In addition, an Accelerated Support Fund worth £5m, which was announced on 9 December 2008 and has been available from September 2008 until further notice, offers targeted support to businesses to help them address some of the challenges they are facing which have been identified through a diagnostic support process and action plan.

Scotland

3.30 To address established difficulties with access to equity finance for early-stage growth businesses, Scottish Enterprise have developed three equity support schemes: the Scottish Seed Fund (introduced in late 2006 providing loans/equity in the £20k-£100k range), the Scottish Co-investment Fund (introduced in 2003, providing equity investment in the £100k-£1m range), and the Scottish Venture Fund (established in 2006 delivering equity up to £2m, aimed at the second round funding market). Between November 2008 and August 2009 these three schemes have invested £24.5 million and leveraged £42.5 million from the private sector. Through these schemes, Scottish Enterprise is co-investing with the private sector to support risk capital investment in some of Scotland's new innovative technology-based companies.

Wales

3.31 The Joint European Resources for Micro and Medium Enterprises (JEREMIE) initiative was launched in Wales in April 2009 and provides £150 million, including Structural Funds and European Investment Bank finance, to support SMEs by providing them with access to a range of finance, including credit lines, equity, and mezzanine investment. The Assembly Government is also actively engaged in the establishment of a Joint European Support for Sustainable Investment in City Areas (JESSICA) Urban Development Fund for Wales, to be launched in spring 2010. *Capturing the Potential: A Green Jobs Strategy for Wales*,¹¹ launched on 9 July 2009, promotes the greening of existing jobs, the stimulation of new green jobs, and the strengthening of the low carbon energy sector. The Youth Enterprise Strategy for Wales has been recognised at EU level as a model of best practice and a revised Action Plan is currently under consultation with partners across Wales with the aim of agreeing the revised action plan in November 2009.

¹⁰ http://www.hm-treasury.gov.uk/fin_professionalservices_group.htm

¹¹ <http://wales.gov.uk/topics/businessandconomy/publications/greenjobs/?lang=en>

R&D and innovation

Context

3.32 The UK has one of the strongest science and research bases in the world, and the Government is strongly committed to promoting R&D and innovation, which are both vital to helping the UK come out of the current downturn in a strong position, ready to take advantage of future opportunities. R&D investment in 2007-08 (the most recent data) was £25.4 billion, an increase in real terms of 5 per cent over the figure for 2006. Business Enterprise Research and Development (BERD) for 2007 was £16.1 billion, representing a 7 per cent increase in real terms on the corresponding figure for 2006. Government (including Research Councils, HEFCE and HE) expenditure on R&D in the UK in 2007 was £8 billion, up 1.6 per cent in real terms on the 2006 figure.

3.33 The economic downturn could impact on investment in R&D and innovation in the short-term, as some businesses might choose to focus any cutbacks on areas of spend that do not contribute to short-term survival; although the UK may show a lower overall impact than other countries due to the structure of the UK economy. The main R&D intensive sectors in the UK (life sciences and pharmaceuticals, aerospace and defence, and telecommunications) benefit from large public markets for their products, giving them a degree of protection from the downturn compared to cyclical sectors such as the automotive sector. It is also more difficult to cancel R&D projects in sectors such as life science and aerospace due to their long-term nature.

3.34 However, the structure of the UK and global economies after the downturn will be significantly different from before, and UK enterprises need to undertake the R&D and innovation that will ensure they are well positioned for this new environment. The Government therefore has a strong interest and a vital role in providing help and support now and in the future to innovators, at the regional, national, devolved, and European levels – for example, through continued financial support, by ensuring UK innovation policies are implemented in a joined-up way, and actively supporting knowledge transfer.

Investment Funds

3.35 Budget 2009 announced a Strategic Investment Fund that will provide financial support focusing on emerging technologies and regionally important sectors in, for example, advanced manufacturing, digital, and biotechnology. As part of the fund, £250 million will be earmarked for low-carbon investments; £50 million for the Technology Strategy Board to enable the TSB to increase its capacity to support innovation in areas which have high potential to drive future growth, such as low-carbon technologies, advanced manufacturing, and the life-sciences; and £10 million for UK Trade and Investment.

3.36 Building on this, and as part of the Government's strategy for *Building Britain's Future*, the Department for Business, Innovation and Skills, with the Department of Energy and Climate Change and the Department of Health announced the creation of the UK Innovation Investment Fund in June 2009. It will invest £150 million alongside private sector investment on an equal basis and the Government believes that this could leverage enough private investment to build a fund of up to £1 billion over the next 10 years. The Fund will operate on a Fund of Funds structure, which means it will not invest directly in companies, but rather invest in a small number of specialist technology funds that have the expertise and track record to invest in companies. This will be a cost effective solution that provides a market return to both private sector investors and Government. Progress on the UK Innovation Investment Fund will be reported as part of the Industrial Development Act reporting process.

R&D Tax Credit

3.37 The R&D tax credit is one of the key policy tools used by the Government to encourage business investment in R&D, worth over £600 million per year. The Government is currently undertaking work to enable evaluation of the effectiveness of the SME scheme, to be completed by 2010.

Science Investment

3.38 In recognition of the importance of science to innovation, at the Romanes lecture in February 2009 the Prime Minister re-iterated the Government's commitment to invest in science, with science research-spending at the Department for Business, Innovation and Skills (BIS) set to reach £6 billion in 2010-11. The UK has a world citation share of 12 per cent, second only to the USA, and its researchers are the most productive and efficient in the G8.¹² Specific activities undertaken this year include:

- the Research Councils' support for multidisciplinary programmes designed to help solve the global challenges of the next 10 to 20 years in the areas of Energy, Living with Environmental Change and Lifelong Health and Wellbeing; and
- the Government undertook a wide-ranging consultation on a future UK strategy for the relationship between science and society. There were over 3,200 responses from 400 individuals and organisations to this consultation, which have helped to develop a UK Science and Society strategy, published in May 2009.

Technology Strategy Board

3.39 The business-led Technology Strategy Board (TSB) has an important leadership role in stimulating business R&D and innovation, enhancing and building on existing UK capabilities. The TSB invests in innovation across three broad themes: challenge-led innovation (encouraging cross-disciplinary innovation in response to societal challenges such as climate change); key technology areas (underpinning technologies relevant to a range of disciplines such as materials and ICT); and key application areas (sectors or markets which rely on technology and innovation such as waste and environmental technologies).

3.40 The TSB collaborates closely with the Research Councils and the RDAs. Working together, they will invest £1.1 billion in innovation between 2008-11: £761 million from the TSB, £120 million from the Research Councils, and £180 million from the Regional Development Agencies (RDAs). These support a large number of projects, ranging from major programmes such as the Low Carbon Vehicles Innovation Platform (which involves the Engineering and Physical Sciences Research Council, Advantage West Midlands, and One North East), to smaller scale collaborations including funding for Knowledge Transfer Partnerships (an SME-orientated innovation programme) and the Innovation Research Centre (which involves the TSB, the Economic and Social Research Council, and the National Endowment for Science, Technology, and the Arts).

Annual Innovation Report

3.41 The first Annual Innovation Report (AIR), published in December 2008,¹³ is a comprehensive report on the innovation performance of the UK economy across the public, private, and

¹² International comparative performance of the UK research base, July 2008, Evidence Ltd

¹³ http://www.dius.gov.uk/innovation/innovation_nation

voluntary sectors; and it also reports progress against the policy commitments in *Innovation Nation*.¹⁴ It reported:

- that the proportion of innovation-active business had risen from 49 per cent in 2001 to 68 per cent in 2007;
- that the overall number of Science, Technology, Engineering and Mathematics (STEM) degree-level qualifiers has increased by 36,220 and doctorate qualifiers by 2,632 between 2003 and 2007;
- the launch of the Low Carbon Vehicles Innovation Platform, through which £140 million will be invested, including on a demonstrator competition that will see up to 340 ultra-low carbon demonstration vehicles around the UK by the end of 2009, making this the largest programme of its type in the world; and
- the implementation of the Innovation Research Centre that became operational in January 2009 with £5 million over five years to ensure a steady supply of high-quality innovation research into the UK innovation policy community.

3.42 The Government intends to publish the second AIR towards the end of 2009.

Knowledge Transfer

3.43 Government support for knowledge exchange through programmes such as the Higher Education Innovation Fund (HEIF) has driven a continued culture change in university-business interactions, with increasing levels of engagement between universities, business and other users. One measure of the level of such interaction is universities' external income, which rose to £2.8 billion in 2007-08 – a 50 per cent increase in real terms since 2001. The Government will publish a framework for the future of higher education in the autumn, which will outline a medium-term vision for knowledge exchange to ensure that this good progress is continued and built upon.

3.44 The Department for Business, Innovation, and Skills (BIS) is working alongside the Higher Education Funding Council for England (HEFCE) to develop a new Research Excellence Framework (REF) to assess the quality of research in UK universities and thus inform the allocation of research funding by the four UK HE funding bodies. This will replace the Research Assessment Exercise (RAE), which has been in place for almost two decades. The REF will reflect the broader Government agenda for research, taking account of the impact of research, including contributions to public policy making and public engagement. This will complement the continuing focus of the Research Councils in driving up the economic impact of the research base.

European Research Area

3.45 The Government continues its strong support of the European Research Area (ERA) following the adoption of Council conclusions on a long-term vision for ERA in December 2008 and conclusions on the first steps towards the realisation of the ERA vision in May 2009. In particular the Government continues to work with other Member States and the European Commission via the EU's scientific and technical research committee (CREST) and other task forces to progress actions in the five ERA axes: researcher mobility; international collaboration with countries outside the EU (where the UK chairs a sub-group addressing the sharing of information and best-practice); knowledge transfer and intellectual property; joint programming of national research initiatives; and research infrastructures.

¹⁴ http://www.dius.gov.uk/policy/annual_innovation_report.html

3.46 The Government is also taking an active interest in joint programming through its prominent role in the first pilot initiative addressing research into Alzheimer's and neurodegenerative conditions. The promotion of researcher mobility continues to be an area of considerable activity in the UK. The Government's national action plan in this area will be published in the autumn.

Regional Dimension

3.47 The Government recognises that innovation activity will cluster in different places and the nature of this innovation and will vary from place to place. The Government continues to encourage collaborative working between the Technology Strategy Board and the Regional Development Agencies (RDAs) to strengthen the strategic and economic impact of their collective investments, bringing together complementary strategies and investment programmes. For example, two RDAs (Advantage West Midlands and One North East) are working together with the Technology Strategy Board and other partners on the Low Carbon Vehicles Integrated Delivery Innovation Programme, a £100m programme to support the design and development of low carbon transport.

3.48 The RDAs are also rolling-out Innovation Voucher pilot schemes for SMEs in their English regions, over the 2008 to 2011 period. All 9 UK regions currently offer voucher schemes or an equivalent. At least 500 businesses per year will receive a voucher with a value of £3,000 to spend on an engagement with a knowledge institution such as a university or further education college, with the aspiration of increasing to 1,000 per year by 2011.

R&D and Innovation – Devolved Administrations

Northern Ireland

3.49 The first year review of Northern Ireland's Regional Innovation Strategy Action Plan 2008-11¹⁵ has shown that it is providing a new focus on innovation for Northern Ireland, with government, academia and business working together in building a growing culture of innovation within the region. MATRIX, the Northern Ireland Science Industry Panel, published in October 2008 a far reaching strategic report designed to accelerate the transition to a knowledge based economy in the region based on a new cross-sectoral and multi-disciplinary approach to strategic markets. The business and government implementation strands of the report's recommendations are well developed, particularly with regard to the establishment of industry-led innovation communities. A strategic research framework was launched in June 2009 which aims, inter alia, to promote innovation in the agri-food and rural sectors. The Government in autumn 2009 will look at streamlining support to emerging industry led innovation communities and encouraging more innovative public procurement.

Scotland

3.50 Following the publication of *Science for Scotland* in November 2008,¹⁶ the Scottish Funding Council has introduced an Innovation Voucher scheme for universities and colleges that provides £5,000 for collaborative projects with SMEs. Following the publication of the *Innovation for Scotland Framework* in June 2009,¹⁷ Scottish Enterprise has introduced its "Winning Through Innovation" programme, and a series of events to be held across Scotland which will help companies improve their productivity and competitiveness by: challenging traditional ways of doing business; changing company mindsets; taking a fresh look at business models and

¹⁵ <http://www.detini.gov.uk/cgi-bin/downdoc?id=4568>

¹⁶ <http://www.scotland.gov.uk/Publications/2008/11/24143207/0>

¹⁷ <http://www.scotland.gov.uk/Publications/2009/06/26143501/0>

processes; and encouraging new ideas from all parts of the business. This will work in tandem with the Innovation Support Service. The ISS provides clear industry advice that will help businesses embrace new opportunities and gain a clear advantage over competitors. Over 4,000 Scottish businesses have been sent information on these new offerings from Scotland's innovation, investment and enterprise agency.

Wales

3.51 The Welsh Assembly Government has progressed plans for National Research Institutes, which include the Institute of Biological, Environmental and Rural Sciences (IBERS) at Aberystwyth University, which since it was set-up in April 2008 has embarked on major research projects including bio-fuels and low-input farming; and plans for a National Science Academy are currently under consideration. The unified, simple Flexible Support for Business service incorporates programmes to facilitate innovation in Wales' businesses, including the part-ERDF funded Academic Expertise for Business (A4B) programme for technology transfer from Higher and Further Education institutions and advice on R&D. Alongside these programmes there is finance from a Single Investment Fund (also containing elements part-financed through the Structural Funds) and a network of Technium Innovation Centres.

4

Skills and employment

4.1 The European Council has recommended that the UK should continue to implement plans to substantially improve the skill levels and establish an integrated approach to employment and skills in order to raise productivity and increase opportunities for the disadvantaged. This chapter provides an overview of UK policies towards this, including the priority actions that the UK has undertaken in response to the current downturn, in line with the EERP, and the longer-term skills and employment agenda.

4.2 European Social Fund (ESF) programmes complement and add value to the employment and skills policies set out in the NRP. In 2007-13, ESF will invest £3.8 billion across the UK. One of the main priorities for ESF is to extend employment opportunities to people at a disadvantage in the labour market. Key target groups include disabled people, lone parents, older workers, ethnic minorities, and young people not in education, employment or training. The other main priority for ESF is to develop a skilled and adaptable workforce, with a particular focus on people who lack basic skills and good qualifications. By helping disadvantaged groups to improve their job prospects and skills, ESF will also support the Government's policies to promote social inclusion and equal opportunities, therefore meeting all elements of the Lisbon goals.

Skills

Context

4.3 In response to the current downturn, the Government has put in place a package of employment, skills, and training support to help those facing redundancy and the newly unemployed to get a new job quickly. In parallel, the UK continues to address the employability of all those able to work, to ensure that more of society will benefit when the upturn comes, and continues to develop a world-class talent base in order to compete in the world economy of the future.

4.4 In order to sustain and improve the UK's position in the global economy, the Government has committed itself to the ambition of becoming a world leader in skills by 2020, and is committed to the further integration of employment and skills. The Government is taking action over the medium- to long-term to raise the nation's skills base, build productivity, increase social inclusion, and improve economic competitiveness.

4.5 The skills agenda demonstrates the interdependence of economic and social policy. Increased skills lead to greater social mobility, ensuring individuals get on because of talent and hard work, not just because of their background. Skills also make an enormous contribution to the quality of life, health, and well being of individuals, and to communities more broadly. The Government believes this integrated approach is essential to a strong and sustainable recovery, exploiting the opportunities of green growth, and managing the growing challenge of demographic change.

Skills During the Downturn and Preparing for the Recovery

Apprenticeships

4.6 In January 2009 the Government committed to delivering 35,000 additional apprenticeships this year, with at least 21,000 to be in the public sector. There were 196,000 Apprenticeship starts in the first 9 months of the 2008/09 academic year, an increase of 15 per cent on the same period in 2007-08.

Train to Gain

4.7 Since 2006 Train to Gain has engaged with more than 143,000 employers, and since November 2008 464,500 people started on Train to Gain. In response to the downturn, Train to Gain has been made more flexible to respond to employers' needs, including an enhanced offer to SMEs making them the focus of a £350 million increase in resources between now and 2010-11. The new package for SMEs was announced in November 2008 and became available in Jan 2009. From April 2009 Train to Gain and Business Link brokers have been offering integrated information diagnostic and brokerage service to employers. The Train to Gain service is providing sector specific support through three year Compacts agreed with Sector Skills Councils. Combined, these Compacts are worth over £669 million.

Economic Challenge Investment Fund

4.8 The Economic Challenge Investment Fund enables Higher Education Institutions to deliver initiatives to support economic recovery. Matched funding backed by the Higher Education Funding Council for England is used to provide tailored training, development, and support to businesses and individuals. Over 2,000 internships and employer placements are also being made available to support graduates from both the 2007/08 and 2008/09 academic years. Just under £60 million will be available from the Economic Challenge Investment Fund available between April 2009 and September 2010 to help over 11,000 businesses and 50,000 individuals over a similar timescale.

Professional and Career Development Loans

4.9 Professional and Career Development Loans became available on 1 July 2009, building on the successful Career Development Loan programme, targeted at post-graduates, professionals, and those wanting to re-skill and up-skill in light of the current downturn. The number of loans available will increase to 45,000 by 2011.

Higher Education Places

4.10 An extra 10,000 higher education places will be made available this year. The Government will pay the student support costs for extra places in courses related to the New Industry, New Jobs agenda such as science, technology, engineering, and mathematics - areas which will equip young people with the skills they need for the jobs of the future.

Skills for 2020 and the Longer-Term

4.11 In response to the recommendations of the 2006 Leitch Review,¹ the Government in July 2007 produced *World Class Skills*², which sets out its ambition to become a world leader in skills by 2020. Significant progress has been made towards this ambition with substantial public investment in skills, including £5 billion of public investment on adult skills in 2009-10. Adult

¹ http://www.hm-treasury.gov.uk/leitch_review_index.htm

² <http://www.dcsf.gov.uk/skillsstrategy/uploads/documents/World%20Class%20Skills%20FINAL.pdf>

participation in full level 2 and level 3 courses and the number achieving qualifications have increased. The Labour Force Survey shows that as of 2009 the proportion of working age adults qualified to at least full level 2 was 71.4 per cent, compared with 65 per cent in 2001. Similarly, the proportion of working age adults qualified to at least full level 3 has increased to 51 per cent at 2009, from 44.7 per cent in 2001.

4.12 The UK Commission for Employment and Skills (UKCES), established in 2008, published in June 2009 its first annual assessment of progress towards putting the UK amongst the top eight countries in the world at every skill level and in terms of jobs, by 2020.³ It also looked at the immediate question of demand-side responses to the recession. It proposed the following priorities across productivity, employment, and equality: integrated strategy for economic transformation and renewal; effective development in cities and local communities; more strategic, agile and demand-led provision and individual aspiration; as well as employer ambition and capacity. In July 2009, the UKCES launched 'talentmap', with comprehensive, practical information for employers and an online tool to help navigate programmes across the UK to find publicly funded support. It was developed with a coalition of partners. Furthermore, UKCES is assessing the performance of Sector Skills Councils this year to identify any potential for collaboration or consolidation across the network.

4.13 The Government will build on the reforms instituted by World Class Skills to ensure it does all it can so that workers get their share of the jobs of the future in the key industries, technologies, and services that will drive economic growth. The Government will publish a new National Skills Strategy later in the year, which will set this out in more detail.

Young People

4.14 The Education and Skills Act 2008 means that from 2013 all young people will be required to continue in education or training post-16. This will up to their 17th birthday by 2013 and their 18th from 2015. The Apprenticeships, Skills, Children and Learning Bill transfers responsibility for education and training for 16-18 year olds to Local Authorities (LAs) and establishes a new Young People's Learning Agency to support LAs in their strategic commissioning role. These changes are designed to put commissioning for 0-19 year olds in the hands of a single body, enabling LAs to take a more integrated approach to provision of all children's services and help with regional economic planning. The legislation is expected to come into force early in 2010.

4.15 The new National Apprenticeship Service, launched in April 2009 to expand apprenticeships in England, will help to deliver the 250,000 apprenticeship places planned for 2009/10 and also provide a single point of contact for employers and apprentices. The Government is on target to deliver 190,000 successful completions well before 2020, with the total number of starts in 2020 now expected to reach 254,500.

Higher Education

4.16 The Government will publish a framework for the future of higher education in the autumn, which will set out a clear vision for how the Government will support universities and employers in working together to optimise the market for high-level skills. It will set out a range of levers for supporting the effective functioning of this market in areas where Government intervention can have a positive impact. The framework will also focus on the need to ensure that everyone has fair access to higher education, to increase their skills levels – including adults who are already in the workforce.

³ <http://www.ukces.org.uk/publications-and-resources/browse-by-title/ambition-2020-world-class-skills-and-jobs-for-the-uk>

4.17 In order to meet the Leitch target for at least 40 per cent of the workforce to be qualified to level 4 or above by 2020, partnerships between universities and employers need to be scaled up. To this end the Government has invested £148 million of new resources to support co-funding in the higher education sector over three years from 2008/09. Higher Education Institutions are working closely with business, to make real progress in responding to the skills needs of employers and their staff. Through this pilot funding, the Higher Education Funding Council for England will support 5,000 new entrants in the first year, 10,000 in the second year, and 20,000 in the third year. The funding will also support infrastructure development and facilitate wider employer engagement activity.

4.18 The Government is committed to Foundation degrees as a key vehicle for expansion in Higher Education – they are an example of the type of flexible work-focused and demand-led qualifications that Lord Leitch called for. As at December 2008 there were approximately 87,000 people enrolled on Foundation degrees, and the Government is well on the way to achieve its target of 100,000 enrolments by 2010.

Adult Advancement and Lifelong Learning

4.19 The Adult Skills Funding Agency, to be created in 2010, will provide a demand led response to the education and training needs of adult learners and employers.

4.20 Skills Accounts and the Adult Advancement and Careers Service are part of the wider commitment to integrate the employment and skills systems for those out of work and inactive. Key aspects of the Integrated Employment and Skills service are being trialled including skills screening and skills health checks alongside skills accounts. Roll out of the integrated service is expected in 2010-11. Funding for Skills Accounts will rise from £500 million in 2010-11 to £1.5 billion by 2015. In 2009-10, Skills Account trials will be used to pilot more help for working adults on low incomes to progress. Existing entitlements for low-income families on tax credits will be highlighted and an additional entitlement of up to £500 offered to those who need support. Employers will be supported to offer training to this group under Train to Gain. This targeted support will help them take up training both at college and at work, giving them a fairer chance of success in the labour market.

4.21 Legislation giving employees the right to request time to train is currently before Parliament. Current planning expectations are that it will come into force on 6 April 2010. This will use a process similar to that for flexible working. About 25 million UK employees could benefit, and the proposal has received the backing of the national social partners.

4.22 To enable agency workers to achieve their potential and access new opportunities, companies will be encouraged to use Train to Gain for agency workers and funding rules will be relaxed so that from autumn 2009 agency workers can access financial support for Level 2 and Level 3 qualifications, regardless of their previous qualifications, giving maximum flexibility and opportunity.

4.23 The Social Security Advisory Committee (SSAC) is considering proposals for Job Seekers' Allowance (JSA) (Skills Training Conditionality Pilot) Regulations 2010 and held a public consultation over the past summer. The proposed regulations would test skills conditionality in a random assignment pilot for JSA recipients for whom skills have been identified as a key barrier to being able to compete in the labour market. Benefit sanctions would apply to those who do not participate in training, including pre-entry interviews. Four types of training, which will be full-time or part-time, will be included in the pilot (England only): literacy, English language for speakers of other languages and numeracy – 'basic' skills; employability skills; short job focused training of up to eight weeks; and other job related and longer term provision available through Further Education and other learning and skills providers, learndirect, Jobcentre Plus, and contracted providers.

Skills – Devolved Administrations

Northern Ireland

4.24 Recent progress in delivering on the Northern Ireland Government's skills strategy, *Success through Skills*, published in February 2006,⁴ include the launch of Preparing for Success in January 2009;⁵ and a review of further education (FE) Centres of Excellence.⁶ Under the provision of Training for Success, the Northern Ireland Government provides a guarantee of a training place to those who are unemployed and in the 16 and 17 year old age group; aged under 22 for those with a disability; and under 24 for those young people who qualify under the Children (Leaving Care) Act (NI) (2002). The 'Skillsafe' scheme, which commenced on 8 June 2009, assists apprentices who have been placed on short time working as a result of the current economic downturn. The scheme is initially being rolled out in the manufacturing engineering sector. The purpose of the scheme is to fill the Apprentice's downtime with accredited training that will contribute towards their apprenticeship. In addition to this, they will receive a training allowance to help offset the reduction in their pay, brought about as a result of them being placed on short-time working.

Scotland

4.25 The Scottish Government is delivering on its 2007 skills strategy, *Skills for Scotland: A Lifelong Skills Strategy*⁷, and was updated in February 2009⁸. The Higher Education Future Thinking Taskforce report, *New Horizons*, was published in November 2008. 16+ Learning Choices was implemented in December 08, and work is ongoing on having a have a universal offer across Scotland by December 2010. In February 2009, additional funding of £16 million in 2009-10 was announced to increase the number of new starts on Modern Apprenticeships to 18,500 in 2009-10 (an increase of 7,800) and to sustain these individuals in their places for the duration of their apprenticeship. Also in February 2009 a national helpline, revamped website, and improved information resources were launched to make PACE services more accessible to individuals and employers, and an additional 80 SDS staff being dedicated to work alongside Jobcentre Plus staff to deliver seamless services between skills development and employability support.

Wales

4.26 The Welsh Assembly Government is making progress in implementing its skills and employment strategy, *Skills that Work for Wales*,⁹ published in July 2008. Consultation will commence in autumn 2009 on sharing financial responsibility for learning between government, employers and the individual; and a Young Recruits programme and a Pathways to Apprenticeship programme has been introduced during 2009 to provide 3000 additional places for apprentices during the current downturn. The new ProAct scheme, which has been allocated £48 million for 2009/10 and which is part-financed by the ESF, provides training for employees who are on short-time working, and helps businesses to keep skilled staff who may otherwise be made redundant. By June 2009, 43 companies and over 2,500 individuals had been offered support. The ReAct scheme, also part-financed by the ESF, helps to re-train individuals who have been made redundant, and also provides wage and training subsidies for employers who

⁴ http://www.delni.gov.uk/skills_strategy_2006.pdf

⁵ <http://www.delni.gov.uk/preparingforsuccess>

⁶ <http://www.delni.gov.uk/index/publications/r-and-s-stats/research-reports-2/review-of-the-fe-centres-of-excellence-january-2009.htm>

⁷ <http://www.scotland.gov.uk/Publications/2007/09/06091114/0>

⁸ <http://www.scotland.gov.uk/Topics/Education/skills-strategy/progress/sg>

⁹ http://wales.gov.uk/topics/educationandskills/policy_strategy_and_planning/skillsthatforwales?lang=en

employ such individuals. By June 2009, over 4,400 redundant individuals and over 460 employers had accessed ReAct support.

Employment

Context

4.27 The loss of jobs can devastate families and communities and can lead to long-term detachment from the labour market. In particular, the concentration of unemployment amongst certain groups, or in certain areas, can have long-lasting social costs. As detailed below, the Government is taking action now, consistent with the European Economic Recovery Plan, to help individuals move back to work as quickly as possible and to support those most affected by unemployment. The Government is also undertaking longer-term reform to ensure a modern welfare system is in place and that businesses and individuals can adapt to the changing global economy and put themselves in the best position to capitalise on the recovery when it comes.

4.28 In response to the current downturn, the government has announced a series of measures to help those who have lost or are about to lose their jobs. These measures are consistent with the medium and longer term goals of increasing labour supply overall by reducing inactivity, removing obstacles to entering the labour market for disadvantaged groups, and raising skills levels in order to increase productivity. These measures are also fully consistent with the principles of flexicurity. While this is a difficult period for the economy and jobs, the Government is determined not to repeat the mistakes of previous recessions and allow a temporary rise in short-term unemployment to become a permanent increase in long-term unemployment.

Supporting the Labour Market During the Downturn

European Social Fund (ESF)

4.29 The measures are supported by the 2007-13 European Social Fund (ESF) programmes. In November 2008, the Government announced that an extra £158 million of ESF money in England would be used to provide additional skills and job search support to disadvantaged jobseekers and people facing redundancy, including through an expanded Rapid Response Service incorporating Train to Gain.

Getting People into Work

4.30 Since November 2008, £3 billion has been allocated to the Department of Work and Pensions to ensure that Jobcentre Plus has the capacity to respond effectively to rising unemployment, and that those most at risk of long-term labour market detachment receive personalised support from an employment specialist to move them back into work.

4.31 The best way of helping people to gain sustainable employment is through an active job search regime, combined with effective employment-related training. From day one of unemployment, support and employment and skills advice are available from Jobcentre Plus, enabling three quarters of those who sign to leave benefit within six months. Over the next two years, £83 million will be made available to fund 75,000 new training places, allowing those who have claimed unemployment benefit for six months to train whilst seeking a new job, and to carry on studying once they get into work.

Future Jobs Fund

4.32 The Future Jobs Fund, announced at Budget 2009 and worth around £1 billion over the next two years, aims to support the creation of jobs for long-term unemployed young people, and others who face significant disadvantage in the labour market. The Fund aims to create 150,000 jobs, at least 100,000 of which will be aimed at 18-24 year olds who have been out of

work for a year. This will support the guarantee that from 2010 everyone in this age group who has been looking for work for a year will get an offer of a job or training lasting at least six months. Separately, the Government is aiming for 100,000 new jobs in growth sectors such as social care and hospitality and in the future low-carbon economy. Jobs will be paid at least National Minimum Wage and some will also be available for other disadvantaged groups in unemployment hotspots.

Self-Employment

4.33 One route to fulfilling potential for benefit customers is through self-employment. As part of the new offer of support for those unemployed for six months, there will be a straightforward self-employment offer, joining up provision offered through Jobcentre Plus with business start-up packages offered through Business Link in England and working with Business Gateway in Scotland and Flexible Support for Business in Wales. Those who leave benefit and move into self-employment will be offered financial start-up support.

Increasing Opportunities for those Furthest from the Labour Market

4.34 The Government has identified groups that face particular challenges in moving into work and has a Public Service Agreement (PSA) to maximise employment opportunity for all. The key target is to narrow the gap between the employment rates for disadvantaged groups and areas, and the overall rate. In addition, the Government is strongly committed to the national target on ending child poverty, through an empowering welfare state in which no one is left behind. The measures in the Welfare Reform Bill 2009 and those on specific groups, as detailed below, form a major part of the UK's approach to the active inclusion of people furthest from the labour market. In combination with policies on skills, these measures also demonstrate further development of the UK's own 'flexicurity' arrangements, based on the Common Principles¹⁰, especially by extending the security of employment to more people in society. This is increasingly important in the context of the current downturn.

Welfare Reform Bill

4.35 The Welfare Reform Bill was introduced into Parliament in January 2009¹¹. The Bill takes forward many of the measures in the Government's White Paper *Raising Expectations and Increasing Support: Reforming Welfare for the Future*¹², as well as incorporating recommendations from the December 2008 independent Gregg Report into benefit conditionality, *Realising Potential: A Vision for Personalised Conditionality and Support*.¹³ The Bill proposes to reform the welfare and benefit system to improve support and incentives for people to move from benefits into work. It contains measures to increase personal responsibility within the welfare system – a "something for something" system, with a fair deal that asks more of claimants in return for more help and support for them to return to, or prepare for, work.

4.36 The Bill will allow implementation, following trials, of a supported route back to work, instead of a sudden step up into a job, for groups on Income Support (IS), such as lone parents. Customers in this group will not be required to look for or take up paid employment.

4.37 Provision is proposed for those on IS, partners of benefit recipients and Employment and Support Allowance (ESA) claimants to: actively engage with an adviser on an ongoing basis; consider, discuss and agree with an adviser an action plan detailing the work-related activities they will undertake to improve their prospects of moving back into work; and follow directions

¹⁰ Employment, Social Policy, Health and Consumer Affairs Council Conclusions, Brussels, 6 December 2007. Annex, doc.16201/07

¹¹ <http://services.parliament.uk/bills/2008-09/welfarereform.html>

¹² <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/raising-expectations/>

¹³ <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/realising-potential/>

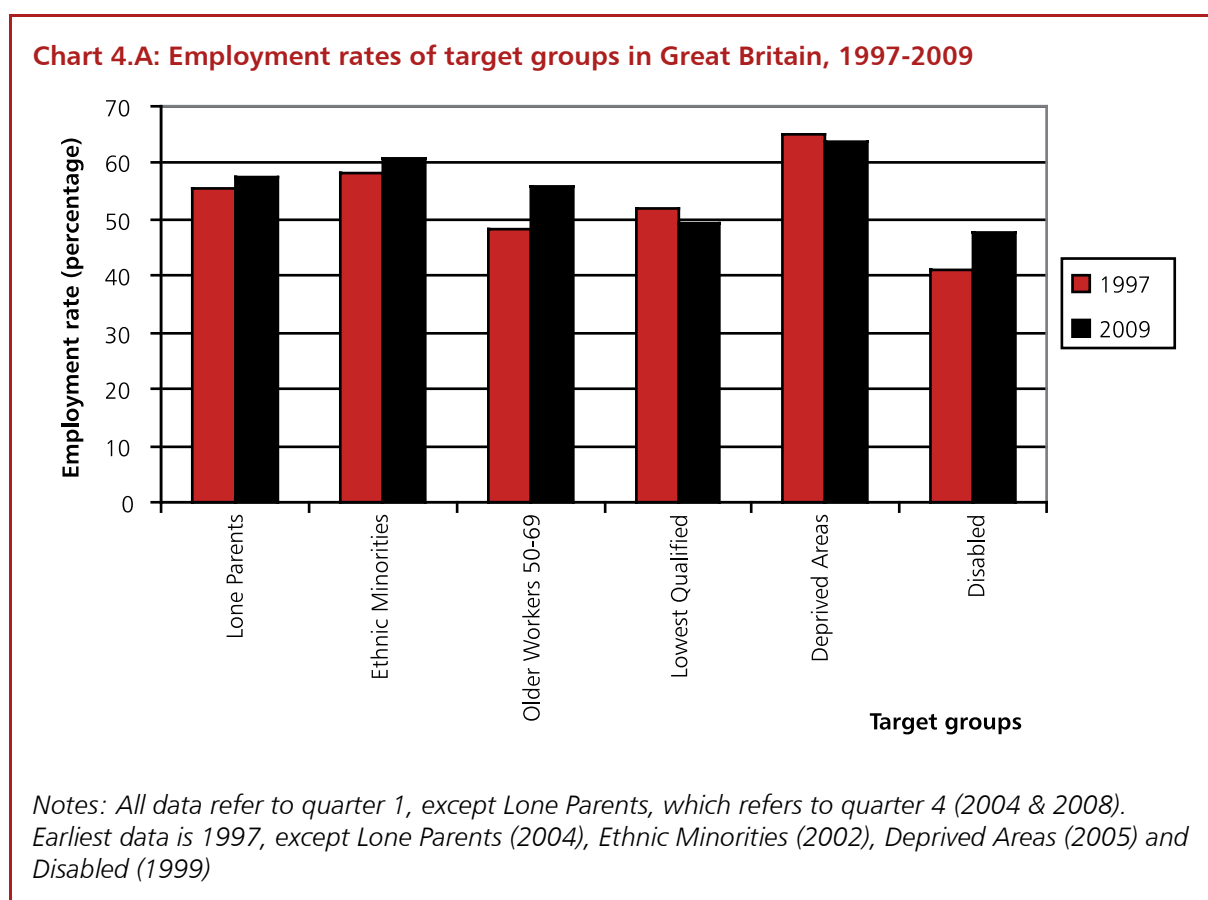
issued by an adviser where they fail or refuse to engage in this process, underpinned by the last resort of recourse to benefit sanctions.

4.38 The Bill also makes provision to abolish IS, once there are no people claiming it. The aim is to move IS claimants who are ready for work onto Job Seeker’s Allowance (JSA), or onto ESA where appropriate. This is a simplification measure as part of a move towards a single working-age benefit.

4.39 Other key areas in the Bill include proposals to: align the contribution conditions between ESA and JSA; introduce work-focused interviews for over-60s; and introduce the “Right to Control” to enable disabled people to have greater choice and control over the way certain services are provided to or for them by defined public authorities.

Maintaining the Focus on Disadvantaged Groups

4.40 The Government continues to make progress on the active inclusion of people furthest from the labour market. Chart 4.A shows the progress made across different groups between 1997 and 2009.



Lone Parents

4.41 Since November 2008, lone parents, who are able to work and whose youngest child is 12 years old or over, are required to actively seek work, with support including national rollout of In Work Credit. Those with a youngest child aged 10 or over will follow from October 2009 and finally those with a youngest child aged 7 or over from October 2010.

Older People

4.42 The Government's strategy, *Building a Society for all Ages*, launched in July 2009,¹⁴ outlines a series of proposals to help deal with an ageing population and to continue to improve the quality of life for older people. A review of the Default Retirement Age has been brought forward from 2011 to 2010 in response to the changing economic landscape and flexible opportunities including for self-employment will be promoted. Key elements of the strategy involve providing support to people to look forward and plan earlier for their longer lives, and making sure that services are suitable when the time comes to use them.

Deprived Areas and Ethnic Minorities

4.43 Under the City Strategy, public, private, and voluntary sector organisations work to improve support for jobless people in the most deprived areas, with freedom to innovate and tailor services in response to local need, behind shared priorities. £1.5 billion of the funding comes from the Working Neighbourhood Fund (WNF) and is allocated to around 65 local authorities with the most deprived neighbourhoods. The 13 City Strategy Pathfinders with substantial ethnic minority populations have also set targets to reduce ethnic minority worklessness and the WNF funding covers over half of the working age ethnic minority population in England.

Disabled People

4.44 Under Employment and Support Allowance (ESA),¹⁵ introduced October 2008, the Personal Capability Assessment was replaced with a Work Capability Assessment initially for new claimants. The Government intends to move all existing incapacity benefits customers to ESA from 2010. As part of this process they will undertake the Work Capability Assessment: those assessed as able to undertake work-related activity will be referred to, for example, training or condition management support.

4.45 *Valuing Employment Now: Real Jobs for People with Learning Disabilities*, published in June 2009,¹⁶ sets out a goal to radically improve employment opportunities for people with learning disabilities in England, so to close the gap between their employment rate and that for all disabled people. The current employment rate for disabled people as a whole is 48 per cent. Closing this gap in today's terms would mean around 45,000 more people with learning disabilities in work than current estimates.

¹⁴ <http://www.hmg.gov.uk/buildingasocietyforallages.aspx>

¹⁵ UK NRP 2008 para 5.2: This includes extending provision in the Welfare Reform Act 2007 which required ESA claimants (with the exception of a defined group) to undertake a work-related activity of their choice

¹⁶ http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_101401

Box 4.A: Royal National Institute for the Blind (RNIB)

The RNIB's employment services can demonstrate considerable success in supporting Blind and Partially Sighted people. Their client group is wide ranging and in general their core service provision supports most effectively those people who are closest to the labour market. In response to this the RNIB has developed a model of social enterprise to help those who could be considered hardest to help and furthestmost from attaining open labour market employment. For example, at 'Viewpoint Leeds', developed with the help of social firm development organisation 'Broomby', clients gain valuable skills, confidence, and vocational training in a supportive working environment. Viewpoint is a multifaceted business whose key service is telephone and internet-based survey research, specialising in customer satisfaction surveys. Viewpoint provides trainees with the opportunity to train as social research assistants, skill that can be transferred to many growth sector occupations in the locality.

Childcare

4.46 The Government continues to make progress in supporting the provision of childcare services. Low and middle-income families receive help with their childcare costs through the tax credits system. In April 2009, 470,000 families were receiving help with their childcare costs through an average payment of £68 a week – a 20,000 increase on the previous year. The Government has made significant progress towards its target of 3,500 Sure Start Children's Centres by 2010, offering access to early learning and childcare, maternity and child health services and support for parents. There are now over 3,000 centres, benefiting 2.4 million families.

4.47 The Government published *Next Steps for Early Learning and Childcare: Building on the 10 Year Strategy* in January 2009.¹⁷ This included an announcement to make free early learning and childcare places available to 15 per cent of the most disadvantaged two year olds in every Local Authority. This is alongside the current provision of 12.5 hours for every three and four year old, rising to 15 hours from September 2010.

4.48 *Building Britain's Future*, published in June 2009,¹⁸ includes an entitlement for all children to start school in the September after their fourth birthday, or be offered 25 hours of free early learning and childcare, as well as extensions to flexible working arrangements for parents of children under 16.

4.49 Following a consultation in April 2009, parents of children aged 16 and under – 4.5 million employees - have the statutory right to request flexible working. This is an extension of the previous application to employees with caring responsibilities of children aged up to 6 (18 and under where the child is disabled) and carer's of adults. The 2010 Workplace Employer Relations Survey will cover the impact of this. Evidence on the measure since its first introduction in 2003 shows savings for employers from increased productivity and retention, with 60 per cent of requests granted.

Employment – Devolved Administrations

Northern Ireland

4.50 In Northern Ireland, a number of enhancements have been made to the Steps to Work programme, first introduced in September 2008, in direct response to the economic downturn.

¹⁷ <http://www.dcsf.gov.uk/everychildmatters/resources-and-practice/IG00356/>

¹⁸ http://www.hmg.gov.uk/media/27749/full_document.pdf

These include: funding a range of short training courses; opportunities for redundant apprentices in the construction, engineering and automotive industry to continue their training and complete their NVQ qualification; giving participants the opportunity to undertake a further NVQ Level 2 qualification; and a substantial increase in the level of support available for childcare cost. Additionally, a range of provision is available for people with health conditions and disabilities to assist them to move into work. This includes the Pathways to Work programme,¹⁹ the Work Preparation Programme,²⁰ and Workable (NI).²¹ Further, it is expected that the first three-year cross-departmental gender equality action plan (detailing actions in support of implementing the Gender Equality Strategy) will be published later in 2009.

Scotland

4.51 The Scottish Government's Employability Framework for Scotland, Workforce Plus has been in place since June 2006.²² There are now 26 partnerships taking forward employability action plans across Scotland. Since the launch of the framework, national level actions to support partnerships have included: the development of a framework for Supported Employment, which will be published in the Autumn and implemented thereafter which aims to help more people with disabilities into work; specific support for areas to improve employment outcomes for those suffering mental ill-health, including mapping of existing services and the joining up of employability services with those provided through primary care; ongoing support of the network of local partnerships to ensure they share good practice; and support to align available funds at a partnership level, including ESF, regeneration funding and other local employability funding. In 2008, 13 partnerships in the most deprived areas were awarded a total of £50million in ESF/ERDF monies which were aligned with local funds to enable a more strategic approach to the use of ESF in those areas.

Wales

4.52 In Wales, a number of programmes have been introduced that integrate employment and skills interventions and which help economically inactive and unemployed people into sustained employment. In the Heads of the Valleys area, for example, the European Social Fund is being used to support the Want2Work and Jobmatch programmes that provide a wide range of flexible help for individuals to overcome barriers to employment and support them when they start work. Additional funding for childcare is being allocated for 2008-11, including £8 million for an expansion of the Flying Start programme that provides free part-time childcare in targeted areas for two-year olds. In March 2008 Local Education Authorities were informed of their allocations for 2008/09 and indicative allocations for 2009-10, 2010-11 from the Community Focused Schools Grant, £14.7 million over the 3 years. The Community Focused Schools grant contains a ring fenced element for childcare, to promote out of schools clubs, £1.3 million is available to Local Authorities in 2009/10 and this will rise to £2.3 million in 2010-11.

¹⁹ <http://www.delni.gov.uk/pathways.htm>

²⁰ <http://www.nidirect.gov.uk/index/people-with-disabilities/employment-support/work-schemes-and-programmes/work-preparation-programme.htm>

²¹ <http://www.nidirect.gov.uk/index/people-with-disabilities/employment-support/work-schemes-and-programmes/workstep-supported-employment.htm>

²² <http://www.scotland.gov.uk/Topics/Business-Industry/Employability>

5

Climate change, energy policy and sustainable development

5.1 This chapter outlines the Government's response to the challenges of climate change, the need to maintain reliable and affordable energy supplies, and ensure sustainable development, through measures such as stimulating the development and deployment of low-carbon technologies and improving energy efficiency.

Context

5.2 Climate change is one of the greatest economic and environmental challenges facing the world. Amidst the current crisis comes an opportunity to fundamentally alter the global organisation of economic activity and ensure the transition to the low-carbon, resource efficient economy of the future. At the same time, it is important to prepare for the climate change that is already inevitable. The Lisbon Strategy makes an essential contribution to the overarching objective of sustainable development focussing primarily on actions and measures aimed at increasing competitiveness, economic growth, and job creation.

5.3 The UK is committed to building a low-carbon recovery from the crisis through short-term targeted support for businesses, entrepreneurs, and households while also investing in the long-term sustainability of the UK's energy and transport infrastructure, in line with the framework for climate change policy put forward in the independent *Stern Review of the Economics of Climate Change*, published in October 2006.¹

Support During the Downturn

5.4 Budget 2009 announced more than £1.4 billion of extra, targeted support in the low carbon sector, which together with other support announced since Autumn 2008 will enable an additional £10.4 billion of low carbon investment to be made over the next three years. This targeted support includes: additional investment in energy and resource efficiency in SMEs and public sector organisations; funds to support the development of a world-leading low carbon and advanced green manufacturing sector; and action to enable lending to renewable and energy projects. The Government has also announced its intention to put in place a mechanism to deliver up to four Carbon Capture and Storage demonstration projects.

Climate Change

Transition to a Low Carbon Economy

5.5 The Government has established the world's first long-term legally-binding national framework to tackle the dangers of climate change through the Climate Change Act 2008. The Act, which became law in November 2008, creates a new approach to managing and responding to climate change in the UK. At the heart of the Act is a legally binding target to reduce the UK's greenhouse emissions to at least 80 per cent below 1990 levels by 2050, to be achieved through action at home and abroad. To drive progress towards this target, the Act introduced five-year "carbon budgets", which define the emissions pathway to the 2050 target

¹ http://www.hm-treasury.gov.uk/sternreview_index.htm

by limiting the total greenhouse gas emissions allowed in each five year period, beginning in 2008. The Act also creates a framework for building the UK's ability to adapt to climate change. The UK has made a commitment to aim to achieve all the emissions reductions required to meet the budgets through domestic emissions reductions and has set in law a zero limit on the use of international credits (outside of the EU Emissions Trading System) for the first carbon budget period.

5.6 Building on the legal framework the Government has published a set of strategic plans and papers detailing the shift to a low carbon economy. These include:

- the *Low Carbon Transition Plan*, published in July 2009,² which sets out how the UK will meet its legally-binding carbon budgets, how the UK's energy needs will be met by increased use of power from low-carbon sources, how energy efficiency can be improved in homes and businesses, and how the most vulnerable sectors of society will be helped through the transition;
- the *UK Low Carbon Industrial Strategy*, published in July 2009,³ which sets out where there are opportunities for UK businesses in making the necessary transition to a low carbon economy and how the Government intends to support key sectors in the transition, including through funding from the £405 million allocated at Budget 2009 for low-carbon industries and advanced green manufacturing;
- the *Low Carbon Transport: A Greener Future*, published in July 2009,⁴ which sets out the measures that the Government is taking to reduce greenhouse gas emissions from transport. The Government is investing over £250 million to support early adoption of ultra-low carbon vehicles, which includes providing £2,000-£5,000 per vehicle from 2011 onwards for consumer incentives and up to £30 million for electric vehicle infrastructure; as well as supporting demonstrations of electric, hybrid, and ultra-low carbon cars and vans around the UK. Other technology measures include investing up to £30 million to support the take-up of low-carbon buses, and a major new programme of rail electrification; and
- the *Renewable Energy Strategy*, published in July 2009⁵, sets out the action plan to increase radically the use of renewable energy in the UK over the coming decade. This includes providing greater financial support, enabling swifter delivery, and giving a stronger push on new technologies and resources. Further details are provided in the Energy Policy section.

International Climate Change Negotiations

5.7 At the United Nations Framework Convention on Climate Change (UNFCCC) in Copenhagen in December, the UK will be seeking to agree a comprehensive, global and long-term framework for addressing climate change. Financing will be a key aspect of the international deal. The Prime Minister outlined in his speech on 26 June 2009 that parties to the UN negotiations should use a working figure of \$100 billion per annum as an indication of the scale of climate finance needed by 2020.⁶ The UK is committed to paying its fair share of this based on ability to pay and responsibility for emissions, and is working with EU partners to progress the EU position in preparation for an ambitious agreement at Copenhagen.

² http://www.decc.gov.uk/en/content/cms/publications/lc_trans_plan/lc_trans_plan.aspx

³ <http://www.berr.gov.uk/whatwedo/sectors/lowcarbon/lowcarbonstrategy/page50105.html>

⁴ <http://www.dft.gov.uk/pgp/sustainable/carbonreduction/low-carbon.pdf>

⁵ http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/energy_mix/renewable/res/res.aspx

⁶ <http://www.number10.gov.uk/Page19813>

Climate Change – Devolved Administrations

Northern Ireland

5.8 The Northern Ireland Programme for Government (2008-2011) commits the Executive to reduce greenhouse gas emissions by 25 per cent on 1990 levels by 2025. A new research facility, the Environment and Renewable Energy Centre, opened in January 2009, and demonstrates a range of renewable energy technologies while researching their effectiveness. The centre is also linked to research into greenhouse gas emissions from agriculture and land use. Planning Policy Statement 18 'Renewable Energy', published in August 2009, sets out the policy framework and guidance for the installation of renewable energy sources. This will help Northern Ireland to meet renewable energy and greenhouse gas emission targets while ensuring appropriate protection of the environment.

Scotland

5.9 The Climate Change (Scotland) Bill, passed by the Scottish Parliament on 24 June 2009, introduced a target of at least 42 per cent cuts in Scotland's emissions by 2020 and by 80 per cent by 2050. The Bill will drive new thinking, new solutions and new technologies, putting Scotland at the forefront of building a sustainable low carbon economy. A Climate Change Delivery Plan for achieving future emissions cuts in Scotland was published on 17 June 2009, and identifies the key sectors for abatement and the high level measures required in each sector to deliver the interim 2020 target.

Wales

5.10 The Welsh Assembly Government launched a consultation – the *High Level Policy Statement* – in January 2009 that sets out proposed definitions and targets for tackling climate change and the areas of focus for action. This was followed in June by the *Programme of Action* consultation that provides, in more detail, the proposals for delivery of climate change objectives, placing them in the context of wider UK and EU policy and the contribution that each organisation, business and community can make. The Assembly Government intends to publish its final Climate Change Strategy by the end of 2009.

Energy Policy

Renewable Energy Strategy

5.11 From June to September 2008, the Government consulted on how to increase the use of renewable energy in the UK to 15 per cent by 2020, in order to meet its EU 2020 renewable energy target. Following the consultation, in July 2009 the Government published a new *UK Renewable Energy Strategy*,⁷ which sets out the policies and measures the Government will employ to increase sustainable renewables in electricity, heat and transport, and enable the UK to achieve the dramatic increase required to meet the target. These measures include:

- in the electricity sector: an extension of the Renewables Obligation and measures to improve the supply chain, planning and grid access reform. The Strategy also announced a new Feed-In Tariff to support small-scale generation, which will incentivise individuals, communities and small businesses to use renewable electricity;
- a new Renewable Heat Incentive to provide support and stimulus to the renewable heat sector, such as the use of biomass in boilers and heaters;

⁷http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/energy_mix/renewable/res/res.aspx

- measures to facilitate the deployment of sustainable biofuels in the transport sector and to encourage other forms of renewable transport;
- direct support and new incentives for new and emerging technologies such as marine energy, electric vehicles and offshore wind;
- establishment of the Office for Renewable Energy Deployment to take forward the deployment of renewable technologies; and
- new opportunities for UK business and jobs, as well as significant carbon reductions and improved security of supply.

5.12 The Strategy will help the UK tackle climate change, reducing the UK's emissions of carbon dioxide by over 750 million tonnes by 2030. It will also promote the security of energy supply, reducing the UK's overall fossil fuel demand by around 10 per cent and gas imports by 20 to 30 per cent against what they would have been in 2020. It will also provide opportunities for the UK economy with the potential to create up to half a million more jobs in the UK.

Box 5.A: Orbis Energy

Over the next decade, more than £10 billion of investment is expected in offshore renewable energy around the East of England coastline, which will lead to some 4,000 new job opportunities. To ensure the region benefits from this growing market, East of England Development Agency (EEDA) is working to put in place the necessary networks, supply chains and infrastructure. A key part of the plan has been a major investment of £6.3 million in OrbisEnergy. The pioneering new OrbisEnergy building in Lowestoft is located at the easternmost point of the region, and is central to its economic future. This innovation and incubation centre opened in November 2008 and when full will house up to 33 high-growth businesses involved in the development of the offshore renewables industry.

Heat and Energy Savings

5.13 The Heat and Energy Saving Strategy (HESS) consultation document was published for public comment on 12 February 2009, with a summary of responses published on 15 July. The Government will publish its formal response to the consultation responses later this year.

5.14 In the July 2009 UK Low Carbon Transition Plan, the Government announced it will pilot the proposed Pay As You Save (PAYS) scheme. This will trial innovative new finance mechanisms that allow consumers to undertake a whole house energy efficiency retrofit by providing consumers with finance for the upfront capital needed to purchase energy efficiency measures.

5.15 The Community Energy Saving Programme (CESP) was launched on 1 September 2009, piloting the 'whole-house' approach, using intensive house-by-house, street-by-street delivery. It is expected that around 90,000 homes will benefit.

5.16 The Government's primary energy efficiency scheme is the Carbon Emissions Reduction Target (CERT), a legal obligation on energy suppliers to meet a carbon saving obligation in the household sector. Energy suppliers meet this target by promoting, typically with subsidy, energy efficiency measures such as loft and cavity wall insulation in homes over the period between April 2008 and March 2011. 40 per cent of the carbon saving target, and so activity, has to be met in a priority group of low-income and elderly consumers. The Government in July 2009 increased CERT's ambition by 20 per cent, taking estimated spending by energy suppliers to around £3.2 billion. CERT and its predecessor schemes have already helped over six million households with significant energy saving measures since 2002. It was confirmed in the UK Low

Carbon Transition Plan that an obligation will be maintained on energy suppliers, extending from the end date of CERT in April 2011 to the end of 2012, at no less an ambitious target.

Fuel Poverty

5.17 The Government is committed to tackling fuel poverty and delivering fairness to energy customers. Over the last year the UK has enhanced its existing policies and programmes, including:

- the Warm Front Scheme – allocating additional resources, to give a total of over £950 million for the period 2008-11, and increasing the level of grants;
- the Carbon Emissions Reduction Target – increasing the obligation on suppliers by 20 per cent, meaning an estimated £1.9 billion will be directed at energy savings amongst the priority group of vulnerable and elderly households in the period 2008 to 2011;
- the Community Energy Saving Programme – a £350m programme launched in autumn 2009 to improve energy efficiency and lower household fuel bills in low income areas;
- Decent Homes – by 2010 work will have been completed to 3.6 million council homes, with improvements for eight million people in total;
- additional Winter Fuel Payments at winter 2008-09, worth £100 for households with someone aged over 80 and £50 for households with someone aged over 60; and
- social price support – the Government will be bringing forward new legislation at the earliest opportunity with the aim of placing social price support on a statutory footing when the current voluntary agreement with suppliers ends in March 2011.

5.18 In October 2008 Ofgem, the independent regulator, published the findings from their probe into retail energy markets. It found no evidence of anti-competitive practices, but it did find evidence of unjustified pricing differences, including for some high consumption pre-payment meter consumers. In response to Government and Ofgem concern at these findings, energy suppliers moved to address this unfair treatment and Ofgem has announced that licence condition changes to outlaw such behaviour in future. The Government has strongly supported this work, and where appropriate will act if the companies involved cannot agree. The Government also proposes to further strengthen consumer protection by seeking additional powers and enforcement options for Government and the regulator.

Energy Security

5.19 The second annual *Energy Markets Outlook*⁸ was published in December 2008. The report provides data and analysis about energy market supply and demand trends including risks and drivers to help market participants to take decisions, including on new investments, across the energy sector, and provides information covering security of supply, electricity, gas, oil, coal, nuclear, renewable energy and carbon. The third Energy Markets Outlook will be published later in 2009.

5.20 The Prime Minister asked Malcolm Wicks MP, as his Special Representative on International Energy Issues, to carry out an independent review of international energy security and how developments were likely to affect the UK's energy security in the coming decades. His report,

⁸http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/markets/outlook/outlook.aspx

Energy Security: A National Challenge in a Changing World,⁹ was published on 5 August 2009 and provides detailed information and analysis on energy security issues, and makes recommendations aimed at improving UK and European energy security.

Energy Policy – Devolved Administrations

Northern Ireland

5.21 The Northern Ireland Government has recently gone out to consultation on a new Strategic Energy Framework 2009, which proposes new and ambitious renewable electricity and renewable heat targets for the region to 2020. The Northern Ireland Government is working with the Scottish Government and the Republic of Ireland on the “ISLES” project on the feasibility of an off-shore electricity grid to exploit wind, wave and tidal resources in the Irish Sea and Atlantic coasts. Consultants are being appointed and work will commence November 2009, and which is set to end in 2011. The three administrations are also supporting the ‘Biomara’ project, a major research study which commenced in spring 2009, into the local production of bio-fuels from marine seaweeds and algae. Both projects reflect EU energy priorities and are supported by EU funding.

Scotland

5.22 The Scottish Renewables Action Plan (RAP), published in July 2009, sets out a framework for action in renewable energy to establish Scotland as a UK and EU leader in the field and to meet the first of its 10 Energy Pledges: support and accelerate implementation of renewable energy in a way which promotes large scale, community based, decentralised and sustainable generation. The RAP identifies collective actions by government and its agencies and partners, to ensure at least a fifth of Scotland’s energy comes from renewables by 2020, as well as contributing to climate change targets.

Wales

5.23 Following the publication in February 2008 of the *Renewable Energy Route Map for Wales*, the Welsh Assembly Government in February 2009 published for consultation its *Bioenergy Action Plan for Wales*, which provides a more-detailed assessment of the potential for bioenergy. A Ministerial Statement on Marine Energy, outlining the enormous marine energy resources in Wales and the initial actions required to accelerate their exploitation in an environmentally acceptable way, was published on 16 July 2009. Further consideration of renewable policies will lead later in 2009 to the production of a comprehensive *Energy Strategy for Wales* within strong sustainable development and climate change policy strategic frameworks.

Sustainable Development

Sustainable Business

5.24 The Government continues to work with business to improve their efficient use of resources and become more innovative. The aim is to reduce environmental impacts, protect resources, improve industrial competitiveness and create green jobs. The Government is providing support and information to help businesses improve their sustainability, for example, advice on reducing waste and energy use featured in the ‘Real Help for Business Now’ campaign in February 2009. The Government will report on the support provided in the 2007-08 financial year in September 2009. For 2009/10, the Department for Environment, Food and Rural Affairs (Defra) will offer over £60 million for resource efficiency support.

⁹http://decc.gov.uk/en/content/cms/what_we_do/change_energy/int_energy/security/security.aspx

5.25 Following on from a requirement in the UK Climate Change Act, the Government in October 2009 will publish guidance on how organisations should measure and report their greenhouse gas emissions.

Sustainable Consumption

5.26 The Government has a well-developed evidence base about individuals' behaviour, habits and attitudes in relation to sustainability and the environment. The evidence base is brought together in Defra's Environmental Behaviours Framework, published in February 2008.¹⁰ During 2009-10, the Government will build on this evidence base to develop proposals for sustainable consumption policy.

5.27 The Climate Change Act included enabling powers for a compulsory charge on carrier bags (around 10 billion were issued in 2008). On 18 December 2008 the British Retail Consortium (BRC) made a voluntary agreement with Defra, the Welsh Assembly Government, and Northern Ireland to reduce the number of single use carrier bags issued by the leading supermarket chains by 50 per cent by the end of May 2009. The reduction delivered was 48 per cent.

5.28 The Greener Living Fund, launched in June 2009, is a new programme informed by the evidence base, which aims to help individuals and communities in England to live more sustainably, reducing their carbon footprint and reducing pressure on natural resources. The fund offers support of £6 million over two years ending in March 2011 to projects working to deliver change through various approaches, targeting priority population segments and specific groups.

5.29 The Government is committed to showing leadership and helping to stimulate demand for innovative, low carbon and more resource efficient products and services through its procurement activities. The UK is actively engaged with the EU Green Public Procurement (GPP) initiative. Defra, working with the Office of Government Commerce (OGC), is leading a review of the technical specifications mandated for use by UK central Government procurement professionals for a wide range of products referred to as 'Buy Sustainable – Quick Wins', to ensure consistency with GPP criteria. 'Quick Wins' also provide a signal to procurers and suppliers on the future direction of public procurement standards by including more stringent voluntary best practice specifications. In areas where public sector demand is of sufficient scale to influence the market, the Government is also stimulating supply through Forward Commitment Procurement (FCP).

Product Policy

5.30 Product policy aims to reduce the – often significant – environmental and social impacts from the manufacture, use, and disposal of products. The Government is promoting a carbon footprinting methodology (PAS 2050) to enable businesses to assess the impacts of their products. This new tool was launched in October 2008 by the British Standards Institute, Defra, and the Carbon Trust, and the Government aims to update the methodology based on the initial experiences from its use.

5.31 Later in 2009 the Government will publish a revised Green Claims Code, which provides guidance and principles for the responsible use of environmental claims in promotional messaging of products and services in marketing. This will be used by those who wish to make claims in business and by marketers and the advertising industry to ensure that they keep to responsible advertising and information on products. In addition, the code will also seek to support those who enforce against misleading claims, such as the Advertising Standards Authority and Trading Standards.

¹⁰ <http://www.defra.gov.uk/evidence/social/behaviour/index.htm>

5.32 Between July and December 2010, the Government plans to launch further product roadmap action plans to address the environmental and social impacts associated with high impact products. The roadmaps are a voluntary engagement process with industry, NGOs, retailers, and academia. Two roadmap action plans have already been published: one on milk (in May 2008) and one on clothing (which was launched at London Fashion Week in February 2009).

Sustainable Development – Devolved Administrations

Northern Ireland

5.33 In support of the Northern Ireland Sustainable Development Strategy¹¹ objective of increasing productivity, from 1 April 2006 to 30 June 2009, Invest NI made almost 2,800 offers to 'knowledge-based' businesses totalling over £226 million and contributing towards planned investment of almost £1.7 billion. Following the All Island Grid Study,¹² completed in October 2007, a follow-up study into the effect of Demand Side Management measures on levels of renewable generation which can be dispatched by the grid was completed in May 2009,¹³ and noted that with such measures, higher CO2 savings were possible. The Northern Ireland Government is engaged with stakeholders to produce a grid development strategy to allow higher levels of renewable generation to be absorbed by the electricity grid.

Scotland

5.34 The Scottish Government's distinctive approach to sustainable development has been to mainstream the approach across the organisation through its central Purpose of 'creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth'. This is set out in the Government Economic Strategy (GES),¹⁴ supported by the National Performance Framework, which now provides a shared set of high level outcomes to focus the whole of the public sector. This has recently been reflected for example in: 'Recipe for Success', Scotland's National Food and Drink Policy, including an emphasis on healthy, sustainable food choices and sustainable food procurement; the implementation of the Scottish Economic Recovery Programme,¹⁵ which includes an emphasis on renewable energy, sustainable transport and energy efficiency; and the consultation in August 2009 on Scotland's Zero Waste Plan.

Wales

5.35 Taking forward a legal obligation to have a sustainable development scheme explaining how it will promote sustainable development in its policies and practices, *One Wales: One Planet*, was launched on 22 May 2009.¹⁶ *Capturing the Potential: A Green Jobs Strategy for Wales* was launched on 9 July 2009,¹⁷ and aims to enable businesses to remain competitive in a world increasingly constrained by carbon, support innovation and development of the new products and services that a low carbon economy will demand, and enable businesses to play their part in stabilising and reducing the ecological footprint of Wales.

¹¹ <http://www.ofmdfmi.gov.uk/sustain-develop.pdf>

¹² <http://www.detini.gov.uk/cgi-bin/moreutil?utilid=986&site=5&util=2&fold=&parent=>

¹³ <http://www.detini.gov.uk/cgi-bin/moreutil?utilid=1218&site=5&util=2&fold=&parent=>

¹⁴ <http://www.scotland.gov.uk/Topics/Economy/Scotlands-Economy>

¹⁵ <http://www.scotland.gov.uk/Publications/2009/06/15090158/0>

¹⁶ <http://wales.gov.uk/topics/sustainabledevelopment/?lang=en>

¹⁷ <http://wales.gov.uk/topics/businessandconomy/publications/greenjobs/?lang=en>

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