

Lisbon Strategy for Jobs and Growth: UK National Reform Programme

September 2008

**Lisbon Strategy
for Jobs and Growth:
UK National Reform Programme**

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ISBN 978-1-84532-502-2

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INTRODUCTION

1.1 The Lisbon Strategy set the aim of making the EU “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” by 2010.

1.2 In March 2005, the Spring European Council agreed to re-launch the Lisbon Strategy to focus on the key priorities of jobs and growth. The subsequent new Integrated Guidelines package for 2005-08 identified the key challenges facing the EU as a whole. Against this background the Government published its first National Reform Programme (NRP) under the relaunched Strategy in October 2005, setting out priority areas for national economic reform and policy commitments. An update has been produced each year.

1.3 The Spring European Council of March 2008 launched the 2008-2010 cycle of the Lisbon Strategy, confirming the existing Integrated Guidelines. It reemphasised 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 On the basis of the European Commission’s assessment of progress towards the Lisbon goals, the Spring European Council also endorsed a set of country-specific recommendations prepared by the Council of the European Union. The full text of the UK’s country-specific recommendation is included at Annex A. In particular, the Council recommended that the UK should implement plans to substantially improve skill-levels and establish an integrated approach to employment and skills. Housing and innovation were identified as *points to watch*.

1.5 In the 2008 NRP, 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*. Box 1.1 summarises the main reform actions and timetable, as requested by the European Council. The NRP also sets out progress against EU-level priorities in the four priority areas listed above and other commitments made at the 2008 Spring European Council. The NRP reports on policies developed and implemented by central government and the Devolved Administrations of Northern Ireland, Scotland and Wales. A separate reporting table requested by the European Commission gives further details of the main measures taken to meet UK reform objectives, and is presented alongside and in complement to this report.

1.6 The Government continues to undertake a comprehensive programme of long-term reform to deliver strong and sustainable economic performance and employment growth, consistent with sustainable development and the Lisbon Strategy. The Government’s long-term goals that cover the 2008-2010 cycle of the Lisbon Strategy are:

- maintaining macroeconomic stability, despite ongoing challenges facing the global economy;

- sustainable growth and prosperity, through reforms that promote enterprise, support business growth, simplify the tax system, encourage investment and competition, and enhance flexibility and promote science, innovation and skills;
- ensuring fairness and opportunity for all, tackling child and pensioner poverty, providing opportunity for all children and young people, delivering security for all in retirement, and ensuring a modern and fair tax system where everyone pays their fair share of tax;
- creating stronger communities and effective public services, and improving long-term housing supply and affordability; and
- ensuring an environmentally sustainable world, with action to address the global challenge of climate change.

1.7 A more sustained and focused effort needs to be made across the EU to explain to citizens how economic reform can lead to improvements in living standards and well-being, and how it is integral to social and environmentally sustainable progress. For example:

- economic openness and the Single Market are both key to increasing the economic comparative advantage and quality of goods and services;
- an excellent and competitive business environment provides employment and protect consumers;
- higher skill levels boosts self-esteem, social integration and community cohesion; and
- innovation can generate better, cheaper and more environmentally sustainable low-carbon products and services, as well as underpinning our ability to meet healthcare, mobility and consumption needs in a sustainable way in the future.

1.8 As recognised by both the European Commission and the European Council, the UK has been making significant progress towards the Lisbon goals of jobs and growth. The UK economy continued to perform strongly in 2007, growing 3 per cent on a year earlier, the fastest growth rate among the G7 economies. However, growth has slowed substantially in the first half of this year. This reflects the significant challenges the UK and other countries face from the twin global shocks of the continued disruption in financial markets and the increase in commodity prices.

1.9 However, following a decade of strong growth and job creation, the flexibility of the UK economy provides a solid platform from which to face the global economic shocks. On average, external forecasters expect slower growth this year and next. The Government sets out its own forecast in the Pre-Budget and Budget reports. Challenging economic circumstances only emphasise the importance of establishing macroeconomic stability as a prerequisite for growth and structural reform, as central to the Lisbon strategy and a key element of the EU Broad Economic Policy Guidelines.

1.10 The Government continues to deliver on its microeconomic policy reform commitments, and has placed measures to improve productivity at the centre of its reform agenda. For example:

- existing legislation is being reviewed to look for opportunities to exempt small firms;
- the Small Business Research Initiative is being refocused;
- the Government is investing £210 million over the next three years to support the further development of enterprise education; and
- an Innovation Voucher scheme for SMEs is being piloted in several English regions.

1.11 Enhancing the skills of the workforce to raise productivity performance is a further central pillar of the UK's reform programme. Good progress has been made laying the foundations for the 2020 ambitions, which were set out and accepted by the Government in Lord Leitch's review of UK skills in 2006. The skills system is being reformed to boost demand and deliver high quality, relevant and responsive training. Budget 2008 committed more resources through the demand-led routes Skills Accounts and Train to Gain, with £60 million of additional funding for adult skills focused on Level 3 skills. This will be used to create new opportunities and progression for people to realise their talents, have second chances and achieve their ambitions.¹

1.12 Active labour market policies, underpinned by the principles of flexibility, fairness and making work pay, provide employment opportunities for the most disadvantaged and are at the heart of the Government's reform agenda. More support, especially on skills, will be extended to all jobseekers, in particular lone parents and those on incapacity benefits. In return, they will be expected to assume more responsibility to take up suitable work or training.

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

1.14 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. This 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.² 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 in place, the project approval process is underway. Next year will provide an opportunity to report on the initial focus of expenditure.

¹ Details of similar schemes operated by the Devolved Administrations of Northern Ireland, Scotland and Wales are given in Chapter 3.

² This excludes the funding and programmes under the European Territorial Cooperation Objective, as they have no "earmarking" target.

Box 1.1: Addressing the UK's country-specific recommendation and *points to watch*: summary of measures

| | |
|--|--|
| <p>Implement recent plans to substantially improve skill-levels and establish as integrated approach to employment and skills in order to improve productivity and increase opportunities for the disadvantaged</p> | <ul style="list-style-type: none"> • Additional investment in higher-level skills, with government funding for Train to Gain rising to over £1 billion by 2010-11 • UK Commission for Employment and Skills operational in April 2008 • Consultation on a new right for workers to request time to train in June 2008 • Trial aspects of an integrated employment and skills service between 2008 and 2009, including: new screening process for literacy, numeracy, language and employability skills' new Adult Advancement and Careers Service (AACS); Skills Health Check; and Skills Accounts for benefit customers • Suite of robust operational targets for Jobcentre Plus and Learning and Skills Council set in 2009, to underpin the Government objective of delivering sustainable employment and progress for all • Skills Funding Agency fully operational from 2010 • Integrated employment and skills system fully operational by 2010-11 • Full participation of all 16 year-olds by 2013 and all 17 year-olds by 2015 |
| <p>Progressively increase housing supply in order to meet medium-term demand pressures</p> | <ul style="list-style-type: none"> • Government target to deliver 240,000 net additional homes per year by 2016 in order to more effectively match supply with demand • £20 billion by 2010-11 for housing investment in England • Integrate the Regional Economic Strategy (RES) and Regional Spatial Strategy (RSS) by Spring 2010 • Commitment to achieve delivery of 200,000 new homes on surplus public sector land by 2016. Budget 2007 announced that sites have been identified with potential for 70,000 new homes |
| <p>Ensure progress towards the UK's R&D intensity target through full implementation of the recent review of R&D and innovation policy, particularly taking fuller account of the specific needs of the services sector</p> | <ul style="list-style-type: none"> • Measures aimed at further boosting UK research and innovation performance (including in the services sector), with associated timetables for their implementation, were set out in the <i>Innovation Nation</i> White Paper and in the Government response to the Lord Sainsbury Review of UK science and research policies, both published in March 2008. • The Government will publish a first Annual Innovation Report in autumn 2008 setting out progress made in delivering on these commitments. |

2.1 The Government's macroeconomic framework is designed to maintain long-term economic stability. Prospects for the world economy are subject to considerable uncertainties, relating to the tightening of credit conditions associated with the ongoing disruption in financial markets as well as rising global commodity prices. However, the UK economy has proved resilient to a number of shocks over the past decade, demonstrating the strength of the Government's macroeconomic framework and promotion of open and flexible labour, product and capital markets. The UK economy is therefore well placed to adjust to recent developments.

Fiscal Policy

2.2 Budget 2008, in line with the objectives of the fiscal framework, set out a path for fiscal policy that provides support to the economy in the short term, while taking action to maintain sound public finances in the medium term. Discipline imposed on the public finances through the framework has seen debt cut over the economic cycle that began in 1997-98 from 43.3 per cent of GDP at the end of 1996-97 to 36.6 per cent in 2006-07. Alongside the fiscal tightening in the medium term, net investment, protected by the fiscal framework, is forecast to remain around 2¼ per cent of GDP until the end of the projection period. The Government will continue to ensure that public finances remain sustainable in the long term. This is confirmed by the comprehensive assessment of long-term fiscal sustainability published in the 2008 *Long-term public finance report*.¹

2.3 The Government has consistently supported a prudent interpretation of the Stability and Growth Pact, which takes into account the economic cycle, the long-term sustainability of public finances and the important role of public investment. 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 2008, consistent also with the reforms outlined in this NRP.

Comprehensive Spending Review

2.4 In 1997 the Government launched the first Comprehensive Spending Review (CSR), the most in-depth examination of public spending ever attempted in the UK. A decade on, the Government conducted a second CSR, which reported in October 2007.² The CSR was underpinned by a programme of work including:

- a detailed understanding of future trends and a series of policy reviews on strategic and cross-cutting issues;
- an ambitious and far-reaching value for money programme to release resources for front-line service delivery;
- a set of zero-based reviews of departmental expenditure;
- a more strategic approach to asset management and investments; and

¹ *Long-term public finance report: an analysis of fiscal sustainability*, HM Treasury, March 2008

² *Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review*, HM Treasury, October 2007

- transforming the performance management framework through a more focused set of cross-government Public Service Agreements (PSAs).

Spending plans 2008 – 2010

2.5 The 2007 Pre-Budget Report and CSR presented updated assessments and forecasts of the economy and public finances, set out the Government's priorities and reforms and fixed firm departmental spending plans for the years 2008-09, 2009-10 and 2010-11. This covers the new Lisbon cycle. It details investment in the future, with total public spending rising from £589 billion in 2007-08 to £678 billion in 2010-11, an average increase of 2.1 per cent per year in real terms. With reference to the country-specific recommendation and *points to watch*, this investment includes:

- increasing spending on higher education and skills from £13.6 billion in 2007-08 to £15.8 billion by 2010-11 to implement the recommendations of the Leitch Review, developing a strong partnership with employers and individuals to deliver higher skills;
- increasing public investment in the science base from £5.4 billion in 2007-08 to £6.3 billion by 2010-11 to implement the recommendations of the Sainsbury Review. Total public support for business innovation of over £1 billion will ensure the UK's continued success in generating new ideas and using them in wealth creation; and
- delivering the targets of 2 million new homes by 2016 and 3 million new homes by 2020, by increasing spending on housing from £8.8 billion in 2007-08 to £10 billion by 2010-11, reforming the tax and planning systems, and laying the ground for new planning charges to support essential investment in infrastructure.

Value for money 2008 - 2010

2.6 While investing to further improve the quality of key public services, the Government is committed to ensuring that taxpayers receive maximum value for money. Sir Peter Gershon's independent Review in 2004 identified that departments could deliver annual savings of over £20 billion by 2007-08, and by December 2007 departments reported having achieved £23 billion of efficiency savings.

2.7 Building on this, the CSR announced that departments had identified scope to go further and achieve £30 billion of additional annual saving by 2010-11. Not only is this a more ambitious target, but the criteria for scoring gains will also be tougher, with all gains required to be cash releasing and net of costs.

2.8 In addition to ensuring that departments deliver this package of savings, the Government has announced a continuing ambition to ensure that all opportunities for maximising value for money are seized. To deliver against this ambition two pieces of work will be taken forward and the findings will help formulate the agenda of the next Spending Review:

- the Public Value Programme: looking at major areas of spend, including regeneration and road-building to identify scope for reforms to deliver value for money; and
- the Operational Efficiency Programme: a renewed push to improve operational efficiency, ensuring that the public sector learns from private sector best practice on cross-cutting workstrands such as procurement, IT, back-office, estates and asset management.

Performance framework 2008 - 2010 **2.9** The new performance management framework includes a streamlined set of 30 new PSAs, which articulate the Government's highest priority outcomes for the three-year CSR period, consistent with the Lisbon Strategy and the Integrated Guidelines.

Housing Supply

2.10 The Council of the European Union noted as a *point to watch* that the UK should progressively increase housing supply in order to meet medium-term demand pressures. The Government agrees that a responsive and flexible housing market is essential to secure the UK's future economic prosperity. The Government has a PSA to increase long-term housing supply and affordability and in its July 2007 Housing Green Paper³ set out an ambition to increase housing supply to 240,000 net additional homes a year in England by 2016, with 2 million new homes by 2016 and 3 million by 2020. Substantial progress has been made towards this target, with housing supply approaching 200,000 net additions in 2006-07, the highest level since the 1980s.⁴

2.11 However, in the current global market conditions, meeting the targets of 2 million new homes by 2016 and 3 million new homes by 2020 will be extremely challenging. To continue to deliver this ambition, the Government has committed £20 billion by 2010-11 for housing investment in England, introduced planning reforms, allocated targeted funding, optimised public sector land and is considering housing finance. The Government has taken additional steps to respond to the current market conditions while creating the right conditions for recovery and longer-term growth. In July, the Government announced a further set of measures including a new scheme to support first-time buyers into affordable home ownership by renting first and buying later, and new partnerships between the public and private sector to put councils back at the centre stage of providing homes.⁵

2.12 In September 2008, building on previous measures, the Government announced a major cross-government package of new measures to meet current challenges in the housing market. This included temporarily raising the threshold for stamp duty land tax to purchases of residential property of £175,000 or less; a £1 billion housing package to help first time buyers struggling to get onto the housing ladder, support vulnerable homeowners at risk of repossession and support the house-building industry; and reforming Income Support for Mortgage Interest (SMI), which provides help to people who are out of work with their mortgage payments, by shortening the waiting period before SMI is paid from 39 weeks to 13 weeks for new working age claims from April 2009 and increasing the capital limit for new working age claims from £100,000 to £175,000.

2.13 Disruption in global financial markets has led to a sharp contraction in mortgage lending, and this clearly influences the housing market. Housing transactions are down around 44 per cent compared to a year ago, and – after rising 10 per cent in the year to July 2007 – house prices have now shown some falls, which reflects at least in part the higher price and reduced availability of lending. House-builders are also experiencing difficult business conditions after years of favourable conditions.

2.14 However, the long-term fundamentals that underpin the housing market remain strong. Employment is at a record high; interest rates have been reduced three

³ *Homes for the future: more affordable, more sustainable*, Department for Communities and Local Government (CLG), July 2007

⁴ 2006-07 is the latest year for which data is available.

⁵ *Facing the Housing Challenge: Action today, innovation for tomorrow*, CLG, July 2008

times since December 2007; and household growth is projected to rise strongly as the population ages and grows and as more people live alone, which will support house prices in the long-term. The Government remains committed to reaching its annual completions target of 240,000 net additions by 2016, which it believes remain achievable.

Planning Reforms **2.15** Effective planning systems are essential to ensuring that development is delivered in a strategic and sustainable manner. As part of the implementation of the Review of sub national economic development and regeneration, the Government intends to integrate the Regional Economic Strategy (RES) and Regional Spatial Strategy (RSS) to align housing plans alongside wider economic, social and environmental objectives from 2010.⁶ The Government has also consulted on introducing a strengthened economic duty for local authorities (LAs) and new tools to allow for enhanced sub-regional economic collaboration, to ensure that there is a more effective economic focus at the regional and local level. In addition, the Housing Green Paper in July 2007 announced the Government's intention to conduct RSS mini-reviews to ensure each strategy sets ambitious plans consistent with the Government's national targets.

Targeted Funding **2.16** The Government has developed a robust framework to ensure a long-term approach towards more efficient and effective delivery of infrastructure to support housing growth. This is underpinned by £1.7 billion targeted funding for infrastructure in Growth Areas, New Growth Points and eco-towns, including £300 million to continue the Community Infrastructure Fund until 2010-11. Plans for the Community Infrastructure Levy (CIL) announced in the 2007 Pre-Budget Report are being developed. LAs in England and Wales will be empowered to apply a CIL to new developments and spend the income on the infrastructure needed to support the growth of their areas, including housing growth. Subject to Parliament's decisions, the Government aims to formally consult on the draft regulations in autumn 2008.

Public sector land **2.17** More land is needed for housing if the Government is to meet its objectives. As set out in the planning policy statement on housing, LAs are required to identify a rolling five-year supply of developable land as part of a longer term 15 year strategy to deliver the homes needed in their areas. The Government has committed to achieving the delivery of 200,000 new homes on surplus public sector land by 2016, and Budget 2008 announced that the Government has firmly identified sites on central government surplus land with potential for 70,000 new homes. Work will continue to identify further surplus sites, to streamline processes to speed up their release for housing, and to apply new higher standards on quality, sustainability and affordable housing. The Government is also developing a new approach to the use of surplus land owned by local government, with a more active role for LAs in housing development.

2.18 The Government is introducing measures to reform the tax incentives for developing brownfield land to make them more environmentally sustainable. The landfill tax exemption for waste from contaminated land will be phased out by 1 April 2012. The Government will recycle the additional revenue to extend land remediation relief to expenditure on derelict land from 1 April 2009.

Housing finance **2.19** A well-functioning housing finance system is important to many aspects of people's lives and to the functioning of the wider economy. A stable and efficient supply of affordable housing finance is a central part of achieving long-term housing

⁶ *Prosperous Places: Taking forward the Review of Sub National Economic Development and Regeneration*, CLG and Department for Business Enterprise and Regulatory Reform, March 2008

affordability goals. At the same time, however, housing finance can entail significant risks for consumers, and managing those risks efficiently is important for borrowers, lenders and the wider financial sector. The Government undertook a Housing Finance Review, and as a result of this has outlined measures to:

- work with the industry to improve the functioning of mortgage funding markets. Sir Crosby is leading this work and will report later this year; and
- invite views on options for a UK framework in order to deliver more affordable long-term fixed-rate mortgages, and include the lessons learned from international markets and institutions.

2.20 While the Government's long-term strategy is to build more homes to improve housing supply and affordability, it is also providing help for young people and families to buy their own homes. As part of the 2007 CSR, the Government set a target of 70,000 more affordable homes a year by 2010-11, including direct assistance to homebuyers through its shared equity and shared ownership programmes, which will help 25,000 households a year to enter home ownership. To deliver this, the Housing Corporation is undertaking a £8.4 billion investment programme over the next three years.

2.21 Budget 2007 announced the launch of a shared equity competition, which invited bids for a shared equity product to be delivered in partnership with the Government. The aim was to encourage innovation and develop products that offer improved affordability and value for money. Two winning schemes were selected, and have been available to eligible households from 1 April 2008. The new products offer equity loans of up to 50 per cent of the property purchase price, reducing the conventional mortgage required. These loans are larger than those previously available and will help bring home ownership within the reach of many more households.

Devolved Administrations

2.22 In Northern Ireland nearly 18,000 new homes were completed in the year to March 2007, Scotland saw 24,525 net additions in the year to September 2007, and in Wales over 9,000 new dwellings were built in the year to September 2007.

2.23 To increase the supply of social and affordable housing in Northern Ireland a range of measures was announced in February 2008. These aim to make better use of assets including effective land use, extending equity sharing to private developers and developer contributions.

2.24 In October 2007 the Scottish Executive published *Firm Foundations: the Future of Housing in Scotland*,⁷ which set out proposals to create a more responsive housing system, including the aim of increasing housing supply to 35,000 per year by 2015. The systems of planning agreements in Scotland are being reviewed to develop a more efficient system that balances continued developer contributions with the development necessary to support increased sustainable economic growth. First-time buyers are being assisted with a range of measures.

2.25 The Welsh Assembly Government has committed to increase housing supply by 6,500 additional affordable houses by 2011, involving an additional £30.3 million of investment. Other commitments include a grant scheme to support first-time buyers, the promotion of Community Land Trusts, an increase in the Social Housing Grant and the development of Affordable Housing Delivery Statements for LAs.

⁷ *Firm Foundations: the future of housing in Scotland*, The Scottish Government, October 2007

Pensions Reform

2.26 The Government is committed to reforming and simplifying pensions provision, and will make the state pension fairer and more widely available, in addition to raising the state pension age in line with increasing life expectancy. The Government's objective is to re-link the uprating of the basic State Pension to average earnings in 2012, subject to affordability and the fiscal position. Reforms will seek to improve the foundation for all while continuing to tackle pensioner poverty, uprating the guarantee element of the Pension Credit in line with earnings growth. In terms of private pension provision, from 2012 the Government plans to introduce auto-enrolment into a pension, a mandatory employer contribution of 3 per cent, and a new simple, low cost scheme of personal accounts to encourage saving for retirement.

2.27 Following consultation on the May 2006 and December 2006 White Papers⁸ on pensions reform, the Pensions Act 2007 put into law the reforms to the state pension system set out in the first White Paper. A further Pensions Bill, now being taken through Parliament, sets out a framework for automatic enrolment and takes powers to establish a pension scheme to provide personal accounts. Further details on pension reform are in the *UK National Report on Strategies for Social Protection and Social Inclusion 2008-2010*,⁹ which has been prepared in coordination with this report.

⁸Security in Retirement: towards a new pensions system, Department for Work and Pensions (DWP), May 2006 and *Personal Accounts: a new way to save*, DWP, December 2006

⁹ *UK National report on strategies for Social Protection and Social Inclusion 2008-2010*, DWP, September 2008. <http://www.dwp.gov.uk/publications/dwp/2008/socialprotection/>

3

MICROECONOMIC REFORMS TO PROMOTE PRODUCTIVITY GROWTH

3.1 The Government's central economic objective is to achieve high and stable rates of economic growth and employment. Productivity growth is the key determinant of long-run growth, and together with employment growth leads to high prosperity. The Government has a Public Service Agreement (PSA) to raise the productivity of the UK economy.

3.2 The Government's framework to improve productivity performance is based on two objectives: maintaining macroeconomic stability to provide firms and individuals with the certainty needed to invest for the future and implementing microeconomic reforms to remove barriers that prevent markets from functioning efficiently.¹ Chapter 2 focussed on the first objective, and this chapter concentrates on the second objective.

3.3 Openness and increased trade and investment are key drivers of world growth. Increasing international trade provides substantial opportunities for the UK in terms of opening up new markets and providing customers with a greater choice. Participation in global markets also enables firms to gain access to new ideas and technologies and, by increasing competition and incentives to innovate, increases productivity.

3.4 The UK has made progress in raising the rate of productivity growth. Output per hour productivity growth in the current economic cycle averaged 2.4 per cent a year, compared with 1.9 per cent over the previous two cycles. Despite the progress made, a productivity gap remains with comparator countries.

Unlocking the Business Potential

3.5 The Government is committed to creating a world-class environment in which to start and run a business and has a PSA to deliver conditions for business success. Following consultations involving over 600 small businesses, in March 2008 the Government published an *Enterprise Strategy*.² It identifies five enterprise "enablers": culture, knowledge and skills; access to finance; innovation; and, the regulatory framework. The Government is developing a framework based on these "enablers" that will allow businesses, large and small, to continue to thrive, thus driving growth and creating job opportunities for all.

The Single Market and competition policy

3.6 The 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. Adopting a more flexible, strategic and modern approach going forward in developing the Single Market will help build on this success by focusing on where future benefits are greatest.

3.7 The Office of Fair Trading and the Competition Commission, as well as a number of sector regulators, carry out enforcement of competition policy in the UK. Peer reviews credit the Competition Commission and Office of Fair Trading as being among the most effective competition authorities in the world. A key element of the work is cooperation with the European Commission and other national competition

¹ *Productivity in the UK 7: Securing long-term prosperity*, HM Treasury and Department for Business, Enterprise and Regulatory Reform (BERR), November 2007

² *Enterprise: unlocking the UK's talent*, HM Treasury and BERR, March 2008

authorities in other Member States to ensure a consistent and effective network of enforcement of competition rules across the Community.

3.8 In this vein, the UK strongly supports the European Commission's ongoing work on proactive competition policy, and in developing an additional market monitoring tool to provide holistic analysis of the most pressing market problems in key EU sectors. If robust, this tool will enable a move towards a more economic approach underpinning the Single Market that identifies actions needed where gaps are biggest and where citizens' gains are greatest.

Business environment

3.9 New policy measures are being enacted to help ensure that small businesses and entrepreneurs are better able to access and receive the supply of finance they need to start and grow. These include changes to strengthen the Small Firms Loan Guarantee; a third round of Enterprise Capital Funds; government investment of £12.5 million in a fund focusing primarily on investing in women-led businesses; a national framework for the delivery of 'investment readiness' with targeted support for under-represented groups such as women; and, up to £10 million to establish a Risk Capital Fund for social enterprises. In addition, the UK continues to work closely with the European Investment Bank (EIB) to ensure the financial products it offers to small and medium-sized firms (currently being reformed), as well as any new products the Bank is asked to deliver through the European Small Business Act, are responsive to UK SMEs' needs in respect of access to finance and are usefully communicated to the UK market.

Box 3.1: Social Enterprise

Social enterprises are working throughout the UK to create employment opportunities for the most disadvantaged in society, for example, through the development and support of Social Firms and Development Trusts. Social innovation plays a key role in service provision; a good example is Turning Point's 'Connected Care' programme that has helped to target public services like health and housing to areas of most need locally.

Technological innovation is also apparent - Tower Hamlets Community recycling has achieved a 65 per cent recycling rate in households in tower blocks partially by designing recycling kit that can be easily transported in lifts. Hill Holt Wood in Lincolnshire has pioneered the use of sustainable materials such as straw and rammed earth, for buildings. CoRE, Community Renewable Energy, and Baywind are community-owned enterprises that generate their own renewable energy.

Source: Social Enterprise Coalition

Small businesses

3.10 The Government has a long-standing principle of seeking to offer flexibility for small business as part of its "think small first" policy. To strengthen this work, the Government has committed to examine, as a matter of routine, whether a more flexible approach would be appropriate for firms with fewer than 20 employees. This includes considering, from both policy and legal perspectives, whether small firms can be exempt from requirements without affecting essential protections – or if there is scope for simplified inspection, enforcement and guidance.

3.11 In addition, the Government has pledged that work would be carried out to look at where existing legislation could usefully be modified to benefit small firms. For example, since April 2008 small companies have been benefiting from changes that mean private companies do not have to appoint a company secretary unless they choose to, nor do small companies need the signature of two directors to execute deeds.

3.12 An independent review of government guidance was launched in March 2008. The Anderson Review will make recommendations on how the Government can increase the confidence of small businesses in using official guidance. The review will initially focus on employment law, which is a key concern for many small business owners.

Manufacturing Strategy

3.13 In September 2008, the Government published its new strategy for the UK's manufacturing sector, *Manufacturing: New Challenges, New Opportunities*,³ to help UK manufacturers take advantage of changing global trends in manufacturing. The strategy, which is based on extensive consultation and analysis, brings together almost £150 million of medium-term support for UK manufacturing, and sets out the combined views of the Government and industry of what the sector needs for success in the long term. This includes: seizing the opportunities of the low-carbon economy; supporting skills; realising overseas opportunities; improving the perception and understanding of manufacturing; the accelerated pace of technological exploitation; and investment in intangibles – using British lead in design, brands and services.

Business support simplification

3.14 Central government, Regional Development Agencies (RDAs) and local authorities (LAs) are working together to streamline publicly funded business support to make it more targeted, focussed and measurable, so increasing take-up, impact and value for money. The Business Support Simplification Programme (BSSP) will reduce the number of publicly funded schemes from about 3,000 to no more than 100 by 2010, simplifying and improving access to business information and support services. The existing Business Link service will become the primary access channel for all public sector business services. Work is also in progress to ensure that the Business Link services and the Enterprise Europe Network complement each other. Online presence will also be expanded, with content from business facing government websites being migrated to businesslink.gov.uk by 2011. The BSSP portfolio will also allow a number of products designed to give additional support to groups under-represented in enterprise and to promote better environmental protection.

3.15 The Government continues to work closely with the Regional Transition Management Boards (that include representatives of RDAs, LAs and local businesses) and their respective Business Links to ensure the successful rollout of the regional elements of business simplification by 2010. The Government intends to further empower all LAs to promote economic development through the proposed introduction in 2010 of a new economic assessment duty upon LAs.

3.16 The Government has set up an Advisory Committee to look at necessary government action to reduce the barriers to SMEs competing for public sector contracts. It will advise on the practicality of setting a target for SMEs to win 30 per cent of all public sector business in the next five years.

Enterprise education

3.17 Building on the significant investment the Government is making in skills, the Government is providing £210 million over the next three years to support the further development of enterprise education. This will build on the successful embedding of enterprise education within secondary schools and extend it into primary and tertiary education. A National Enterprise Academy will be launched to unlock the entrepreneurial talent among teenagers from all educational backgrounds and £1 million has been awarded to the Prince's Trust to identify role models and raise awareness of the benefits of enterprise amongst some of the most disadvantaged young people. The Government is working to unlock the skills and talent of experienced

³ *Manufacturing: New Challenges, New Opportunities*, BERR, September 2008

business people by encouraging greater involvement in mentoring programmes. Initiatives are also being supported to further provide women with the skills to start and grow their businesses. These include Women's Business Centre Pilots and providing enterprise information and advice through Children's Centres.

Administrative burdens

3.18 Inefficient regulation, or blanket enforcement, can impose significant and unnecessary burdens on business and therefore hinders job creation and growth. Therefore, the Government is consulting on the introduction of a new system of regulatory budgets for departments that would set out the cost to business of new regulation that can be introduced within a given period.⁴ This will build on a revised Impact Assessment system, launched in April 2007, which is designed to create more transparency about the costs and benefits of individual proposals.

3.19 In December 2007 government departments published the second round of simplification plans.⁵ Over 280 measures in last year's plans have now been delivered, taking the total net annual administrative burden savings delivered to over £800 million. The delivered savings are spread across all policy areas, and range from larger measures affecting many businesses to smaller measures that are sector specific. In addition, by April 2007, HM Revenue and Customs delivered net annual administrative burden reductions of £174 million as well as a net reduction to the wider administrative burdens of the tax system of £134 million.

Devolved Administrations

3.20 The Northern Ireland Executive *Programme for Government*⁶ was published in January 2008. Delivering on this will include fostering and promoting North/South and East/West linkages to take forward mutually beneficial and practical co-operation opportunities. Invest Northern Ireland has a range of interventions to realise the potential of new and existing businesses, with a particular focus on the higher value-added sectors and companies at the leading edge of innovation and technology.

3.21 In Scotland the Regulatory Review Group (RRG) has been re-invigorated and its remit increased, including a new role as an independent and informed monitor, helping to coordinate, review and judge the better regulation performance of the Scottish Executive and its regulatory agencies. The RRG was instrumental in encouraging the Scottish Executive to lead the public sector in opening up more choice and more opportunities for small business by changing procurement rules.

3.22 The Welsh Assembly Government has restructured support for business by launching *Flexible Support for Business*, which includes business advice and a new Single Investment Fund. Wales has been a forerunner in exploring the potential of the JEREMIE initiative to combine Structural Funds with EIB loan finance. The *Youth Enterprise Strategy for Wales* has been recognised at EU level as a model of best practice and a revised Action Plan will shortly be developed.

Knowledge and Innovation

3.23 The Council of the European Union noted as a *point to watch* that the UK should ensure progress towards the UK's R&D intensity target through full implementation of the recent review of R&D and innovation policy, particularly taking fuller account of the specific needs of the services sector.

⁴ *Regulatory Budgets: A Consultation Document*, BERR, August 2008

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

⁶ *Building a better future: Northern Ireland Executive Programme for Government 2008-2011*, Office of the First Minister and Deputy First Minister, January 2008

3.24 The Government has a PSA to promote world-class science and innovation in the UK. The 2004 ten year Science and Innovation Investment Framework⁷ is complemented by the March 2008 publications of the *Innovation Nation* White Paper⁸ and the Government's response to the Sainsbury Review on UK science and innovation policies.⁹ The Framework sets out the Government's ambition for UK science and innovation over the next decade and *Innovation Nation* sets out the vision for innovation across the economy.

3.25 Good progress has been made in implementing the Sainsbury Review, with over 20 recommendations fully implemented and the remainder in the process of being implemented. In particular, public investment in the science base is increasing from £5.4 billion in 2007-08 to £6.3 billion by 2010-11, the Higher Education Innovation Fund (HEIF) is to be allocated wholly by formula, specific knowledge transfer targets have been agreed for each Research Council and the next round of the Public Sector Research Establishment Fund will require co-funding from other organisations.

Box 3.2: Innovation Nation White Paper

The Innovation Nation White Paper sets out the UK's aim to become the leading place in the world to be an innovative business, public service or third sector organisation. It reflects a broad consultation with stakeholders including a number of Ministerially chaired workshops and web-based dialogue.

It details how the UK is a global scientific player, has a number of competitive business sectors, a stable and supportive macroeconomic climate and flexible product and labour market regulation. It also reports that the UK excels at "hidden innovation" in its leading service sectors and creative industries. The 2007 UK Innovation Survey reports that 64 per cent of UK businesses were active in innovation, up from 45 per cent in 2000. According to the 2007 European Innovation Scoreboard, the UK is one of the "innovation leaders" in Europe. However, there are some areas in which the UK must improve.

Framework conditions **3.26** A key role for government is to create the conditions for innovation by ensuring macroeconomic stability and open and competitive markets. The Government also needs to ensure that necessary regulation is designed to avoid inhibiting innovation. In many sectors of the economy, maintaining this framework and investing in people and knowledge are sufficient for innovation to flourish. In some areas, however, the Government can provide more direct support using public procurement and public services to encourage the market for innovative solutions.¹⁰ The White Paper sets out a number of proposals, which seeks to balance the traditional emphasis on supply-side measures with demand-side measures. For example, the Small Business Research Initiative is being refocused to enable easier access for high-tech SMEs to government R&D opportunities. The Government will also continue to take steps to ensure that key elements of the UK's innovation infrastructure, such as the intellectual property system and procedures, standards and the National Measurement System, remain world class.

⁷ *Science & innovation investment framework 2004 – 2014*, HM Treasury, Department for Trade and Investment and Department for Education and Skills, July 2004

⁸ *Innovation Nation*, Department for Innovation, Universities and Skills (DIUS), March 2008

⁹ *Implementing 'The Race to the Top': the response to the Lord Sainsbury's Review of Government's Science and Innovation Policies*, DIUS, March 2008

¹⁰ See *Transforming government procurement*, HM Treasury, January 2007

Annual innovation report **3.27** The Government recognises the importance of delivering on the vision set out in the White Paper and has committed to publishing an Annual Innovation Report, which will set out the progress that the Government has made. The first will be published in autumn 2008.

The Technology Strategy Board **3.28** The business-led Technology Strategy Board (TSB) has an important leadership role in stimulating business R&D and innovation. While just over a year has elapsed since it was created as a Non-Departmental Executive Body, the TSB has made significant progress in developing capability, setting strategic direction and delivering key objectives, including running competitive calls for proposals, attracting co-funding for initiatives, such as the Innovation Platforms, and coordinating its programme expenditure with the RDAs and Research Councils.

3.29 In 2008-11 it will coordinate a £1 billion programme, in partnership with the RDAs and Research Councils, focusing on implementing priorities from its first strategic plan.¹¹ The plan highlights three main themes for investment: challenge-led innovation, technology-inspired innovation and the innovation climate. Approaches to investment include collaborative R&D programmes in key and emerging technology areas; challenge competitions; knowledge transfer networks; an expansion in the number of Innovation Platforms that seek to bring together business, government and other stakeholders to foster technological solutions to societal challenges; and, a doubling in the number of Knowledge Transfer Partnerships that aim to spread technical and business skills through projects undertaken by high calibre individuals in business. The TSB also supports UK engagement in a range of European and international innovation activity, such as the Eurostars scheme for research-performing SMEs.

Knowledge transfer **3.30** As indicated above, effective knowledge transfer is a critical part of the innovation cycle. A new Innovation Research Centre will be established to ensure a steady supply of high quality innovation research into the UK innovation policy community. The Research Councils have published delivery plans describing a base line of their economic impact and each will deliver a step change in the economic impact of the research they fund. They are developing better measures of impact and are improving the way they communicate to a wider audience. They are taking a more active role in leading and influencing the business and research community, and in engaging the end users of research in the UK and internationally.

3.31 The development of an innovation voucher scheme across the English regions will help to initiate collaborations between SMEs and knowledge-base institutions. The encouragement of innovative thinking within academic study will be promoted through provision of an extra £300,000 to the National Council for Graduate Entrepreneurship to establish a national network of university enterprise clusters. There are encouraging signs that attainment and take-up for Science, Technology, Engineering and Mathematics (STEM) skills are beginning to improve. The HEIF has provided significant funding for universities to invest in building capacity to engage with business and commercialise research, and will rise to £150 million per year by 2010-11. In July 2008 a consultation on a strategy for Science and Society¹² in the UK was launched with support for a well-qualified scientific workforce a key area of the vision.

¹¹ *Connect and Catalyse: A Strategy for Business Innovation 2008-2011*, Technology Strategy Board, May 2008

¹² *A vision for Science and Society: A consultation on developing a new strategy for the UK*, DIUS, July 2008

Box 3.3: Royal Academy of Engineering Best Programme

The Royal Academy of Engineering brings together the country's most eminent engineers from all disciplines to promote excellence in the science, art and practice of engineering.

The Academy's Best Programme aims to recruit young people into the engineering profession, and provide them with comprehensive education and training opportunities. Together with its partners the Academy has piloted schemes to create new engineering courses, enhance student experience in existing courses, and attract engineering students from under-represented groups – especially women and students from ethnic minorities. The Academy has provided particularly strong support for the development and delivery of the pilot diploma in engineering for 14-19 year olds.

Source: Royal Academy of Engineering

R&D investment **3.32** The Government has set a challenging ambition for public and private sector R&D spending to reach 2.5 per cent of UK GDP by 2014. The latest data show that total R&D investment as a share of GDP in the UK is 1.78 per cent, which is close to the EU average. The most recent figures available show that net government expenditure on R&D in cash terms in 2006 was just under £9.3 billion – an increase of 7 per cent on 2005; this includes expenditure on defence and National Health Service research as well as the science budget.

3.33 The R&D gap relative to major UK competitors is primarily due to a lower share of GDP spent on R&D performed by businesses in the UK. However, a number of analyses in recent years have suggested that at least part of the gap between the UK and other European countries may not be due to under-investment in R&D on the part of UK companies.¹³ The sector mix of the economy plays an important role in explaining these patterns – R&D intensive industries account for a smaller share of UK output than they do in some other leading economies and according to the 2007 UK Innovation Survey, while UK businesses spend about £40 billion a year on innovation, of this only a third is R&D. The National Endowment for Science, Technology and the Arts are developing an Innovation Index to measure UK innovation drawing on a range of input and expertise from partners.

R&D tax credit **3.34** The R&D tax credit is one of the key policy tools used by the Government to encourage business investment in R&D, worth about £600 million per year. By 2005-06, 30,000 claims had been made, giving £2.3 billion of support since the introduction of the credits in 2000 (2002 for large companies). The rate of the relief was increased from 125 to 130 per cent for large companies from April 2008 and from 150 to 175 per cent for SMEs from 1 August 2008. Following approval from the European Commission, the SME scheme was also extended to companies with up to 500 employees from 1 August 2008. The Government intends to evaluate the schemes' effectiveness, focusing first on the SME scheme, by 2010.

Services sector **3.35** The services sector accounts for 75 per cent of the UK economy and is a key driver of productivity and wealth creation. Recent research has highlighted the growing convergence between manufacturing and service innovation, as manufacturing businesses seek to capture greater value added from their knowledge of products by adding additional services in support of products, and service businesses work more closely with their supply chain to respond to customer needs. The key to business

¹³ See *Europe's R&D: Missing the wrong targets*, Bruegel, February 2008

success is exploiting ideas that anticipate customer demand and then scaling up the concept in such a way that provides consumers with the right proposition.

3.36 The *Supporting innovation in services* report¹⁴ highlights a number of areas where the Government can intervene to promote innovation, and outlines steps the Government is taking to respond to the issues raised:

- the role of interoperable standards in opening markets. For example, in providing an objective basis for estimating carbon emissions and the services to reduce them;
- where, through the importance of its regulatory or procurement activities, the Government is a key actor in the market, it should provide the market with the strong signals it needs to invest in developing innovative solutions, by developing a shared perspective with potential suppliers;
- the technology driver of service innovation has been the step change in the performance of ICT and the rapid growth of the internet. The Government can help promote innovative applications of technology by ensuring the broadband infrastructure can handle media rich services; and
- the ability of firms, in a globally competitive market, to respond quickly with innovative offerings requires them to have the systems and skills to do so. Smaller firms may need support to help both management and workforce adapt to these new challenges.

Regional dimension

3.37 Despite the spread of global communications, innovation still tends to cluster in particular locations. The Government is working with the RDAs and the TSB to build a balance between coordination and competition across the UK. New Partnerships for Innovation will drive innovation by bringing together public, private and third sector organisations to come up with innovative solutions to local and regional challenges.

Box 3.4: The East Midlands Regional Innovation Strategy

The strategy identifies a series of actions, the first of which is to establish business-led Innovation Networks (iNets) to drive and increase knowledge exchange. The iNets, which are concentrations of businesses, universities, the public sector and individuals, are brought together around a shared interest in a market sector or the technologies that underpin it. They focus on four priority sectors with the aim of using the region's strengths to maximise competitive advantage. The iNets will work to increase the number and quality of knowledge exchange interactions between the region's businesses and higher and further education institutions in order to increase levels of innovation and impact on the productivity, long term sustainability and growth of businesses in the East Midlands.

The Healthcare and Bioscience iNet was the first to go live in January 2008. It is based at BioCity in Nottingham, the UK's largest bioscience innovation and incubation centre - a joint venture between East Midlands Development Agency (*emda*) and Nottingham's two universities. Using *emda* and ERDF funding, the BioCity project converted and upgraded an empty biomedical research and development building to create a combined science park and innovation and incubation centre.

Source: *emda*

¹⁴ *Supporting innovation in services*, BERR and DIUS, August 2008

Devolved Administrations

3.38 In April 2008 Northern Ireland launched its Regional Innovation Strategic Action Plan 2008-2011.¹⁵ The Action Plan follows discussions with business and academia and represents £360 million of investment over the next 3 years, including £90 million for a new Innovation Fund. A review of STEM has been initiated and its recommendations are expected shortly. £10.7 million has been allocated from the new Innovation Fund for initiatives aimed at increasing the uptake of STEM subjects in schools.

3.39 In April 2008, the Scottish Executive announced the creation of the *Saltire Prize*, a £10 million challenge prize for innovative advances in marine renewable energy. The *SMART Scotland* programme provides grant assistance to SMEs for leading edge research and development projects and the Proof of Concept Fund supports pre-commercial research within academic institutions and has led to the creation of 42 new technology-based businesses. A Strategic Framework for Science and a Framework for Innovation will be launched in autumn 2008.

3.40 The Welsh Assembly Government has set out plans for National Research Institutes and for a National Academy of Science. The new *Flexible Support for Business* service supports a number of programmes to facilitate innovation in Wales including a network of Technium Innovation Centres, the Academic Expertise for Business programme for technology transfer from Higher and Further Education institutions, and advice on R&D alongside finance from a Single Investment Fund.

European Research Area

3.41 The UK strongly supports the work to strengthen and develop the European Research Area (ERA) following the European Commission's Green Paper in 2007 and the Spring 2008 European Council's reaffirmation of the central role of research and innovation in meeting the Lisbon objectives. It therefore welcomed the launch of the Ljubljana process in April 2008, which specifies management methods to enable the ERA to be developed quickly and efficiently, and looks forward to working in partnership with the European Commission and other Member States to make progress on this agenda. In particular the UK welcomes the focus on researcher mobility and careers issues. The UK has a very open science base and has benefited greatly from this openness and flexibility.

3.42 On development of European research infrastructures, the latest update of the *UK's Large Facilities Road Map*¹⁶ sets out the UK's strategy for investment in research infrastructures, including at the European level. The Government looks forward to engaging on the feasibility of joint calls, on intellectual property issues and on working together to develop a shared approach to international scientific collaboration with third countries. The Global Science and Innovation Forum has helped the UK develop common approaches to a number of international science issues. In this context the UK places particular value on the application on the Open Method of Coordination and the continuing role of the EU's Scientific and Technical Research Committee (CREST) in providing a valuable forum, in particular through the ad hoc working groups.

High-speed Internet

3.43 In line with the call of the European Council, there is continued support for a national approach to networking. Regional Broadband Consortia, LAs and the Devolved Administrations work together to ensure that high quality education-focused content and services are available. Schools' access to broadband across the UK currently exceeds 99 per cent. The UK fully supports household Internet access. The Government believes a market-based approach provides the most efficient and cost-effective way to

¹⁵ *Regional Innovation Strategy for Northern Ireland Action Plan 2008-2011*, Department for Enterprise, Trade and Investment, 2008

¹⁶ *2008 Large Facilities Roadmap*, Research Councils UK, 2008

meet the needs of consumers while securing the best long-term outcomes in terms of quality, access and choice. Currently, 99 per cent of households have access to broadband networks and take-up stands at approximately 59 per cent.

Skills

3.44 The Council of the European Union’s recommendation is that the UK should “implement recent plans to substantially improve skill-levels and establish an integrated approach to employment and skills in order to improve productivity and increase opportunities for the disadvantaged”. Together with the material in Chapter 5 on employment and skills, this chapter discusses measures designed to improve skill levels.

3.45 The UK has implemented policies to increase skill attainment at all levels and has placed education, training and the acquisition of skills at the centre of the welfare reform agenda. The Government has a PSA to improve the skills of the population, on the way to ensuring a world-class skills base by 2020. *World Class Skills*,¹⁷ published in July 2007, sets out the Government’s comprehensive response to implementing the Leitch Review of Skills in England and achieving the ambition of becoming a world class leader in skills by 2020. With *Opportunity, Employment and Progression: Making Skills Work* published in November 2007 and *Work Skills* published in June 2008,¹⁸ the Government takes further its intentions to integrate skills with employment.

Box 3.4: The importance of human capital for growth and social inclusion¹⁹

Enhancing skills is a central pillar of the UK reform programme and is also a key response to globalisation. To ensure the benefits are shared between all citizens, Europe must combine flexibility and fairness while providing opportunity for all and increasing human capital is one way of doing this. As set out by the German and Swedish Finance Ministries and the UK Treasury in their joint paper, *Social Bridges II*, EU Member States share fundamental social values, and can come together to identify common challenges and agree strategic objectives even when the main responsibility to achieve them lies with Member States finding policy responses specific to their traditions and institutions.

Social Bridges II identifies some common features of successful policies and draws on examples of modern policy design and development from across Europe so we can begin to learn together and from each other to equip our citizens with the necessary skills to make the most of the opportunities in the global age. In this way security is provided as people can manage and take advantage of change, without protecting specific jobs.

Training 3.46 Good progress has been made laying the foundations for the Leitch 2020 ambitions and reforming the skills system to boost demand and deliver high quality, relevant and responsive training:

- since 2001, 2.27 million learners have achieved their first Skills for Life qualifications, with the Government meeting its target of 2.25 million achievements by 2010 ahead of schedule;

¹⁷ *World Class Skills: Implementing the Leitch Review of Skills in England*, DIUS, July 2007

¹⁸ *Opportunity, Employment and Progression: Making Skills Work*, DIUS and Department for Work and Pensions (DWP), November 2007 and *Work Skills*, DWP and DIUS, June 2008

¹⁹ *Social Bridges II: The importance of human capital for growth and social inclusion*, Swedish Ministry of Finance, German Ministry of Finance and HM Treasury, March 2008

- over 70 per cent of adults age 19 to state retirement age are now qualified to at least full Level 2. This represents an increase of 2.9 million since Q4 2001;
- Train to Gain has engaged over 92,000 employers (of whom more than 75 per cent hard to reach) and almost 455,000 learners started a learning programme; and
- the National Employers Skills Survey (2006) showed that 67 per cent of employers had provided some training in the last 12 months, up from 59 per cent in 2003. The number of employees trained per 1,000 rose from 567 in 2003 to 628 in 2007. Total employer expenditure on training amounted to some £38.6 billion.

3.47 To build on this progress, Budget 2008 committed more resources through the demand-led routes, Skills Accounts and Train to Gain, with £60 million of additional funding focused on Level 3 skills. This will be used to create new opportunities for people to realise their talents, have second chances and achieve their ambitions. A scheme allowing employers to award their own qualifications has been expanded to end the distinction between company training and national qualifications. Investment in Higher Education will have increased by over 30 per cent in real terms between 1997-98 and 2010-11. In June 2008 the Government began consulting on a new right for workers to request time to train.²⁰

3.48 A wide-ranging review of apprenticeships was published in January 2008 and set out measures to improve delivery and quality and to ensure an apprenticeship place is available for all qualified young people by 2013.²¹ The Government is introducing legislation to provide a statutory basis for apprenticeships and to ensure high quality.

Multi-Area Agreements

3.49 In June 2008, the Government announced the launch of five local authority skills collaborations, forming part of the first round of new Multi-Area Agreements (MAAs). Associated proposals have focused upon improved alignment of transport, employment and skills provision at the local level, with an emphasis on physical access to training and economic opportunities. The Government intends to enhance and expand such collaborations over the next two years, agreeing a further round of MAAs in 2009 and seeking to implement its proposals for the introduction of new statutory sub-regional arrangements from 2010.

Post-19

3.50 As announced in the March 2008 White Paper and consultation document *Raising Expectations: enabling the System to Deliver*, changes are being made to the post-19 education and training funding system to strip away bureaucracy and route funding swiftly, efficiently and securely.²² From 2010, a new Skills Funding Agency will:

- route funding for adults to Further Education (FE) colleges and other providers, ensuring that public funds complement provider investment;
- house the discrete National Apprenticeship Service that will take end-to-end responsibility for apprenticeships, including those for 16-19 year olds;
- manage the National Employer Service, the single service for larger employers;

²⁰ *Consulting on a new right to request time to train for employees in England*, DIUS, June 2008

²¹ *World Class Apprenticeships: Unlocking Talent, Building Skills for All*, DIUS, January 2008

²² *Raising Expectations: enabling the system to deliver*, Department for Children, Schools and Families and DIUS, March 2008

- manage the new England-wide Adult Advancement and Careers Service (AACS), which will play a key role, with Jobcentre Plus, in boosting individual demand for skills and guiding people to the right training; and
- manage the performance of FE colleges and providers and intervene where performance does not meet nationally agreed minimum standards.

14-19 3.51 *Raising Expectations: Enabling the System to Deliver* also made clear that the Government wants every 16 and 17 year old to participate in education and training. This will help raise the skills of the UK and help enable all people to access the work they want. Currently funding for 16-19 year olds is distributed to schools and colleges via the Learning and Skills Council (LSC). The LSC also has a duty to deliver adult learning and skills post 19. The LSC have performed this role well, but in order to drive ambition the Government is legislating to:

- move £6-7 billion of funding a year for education and training for 16-18 year olds to LAs;
- give LAs new responsibilities to ensure there is sufficient provision for all young people in their area, including full participation of 16 year-olds by 2013 and 17 year-olds by 2015; and
- establish a new Young People's Learning Agency to support LAs in their strategic commissioning role.

3.52 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 Government is working to make sure LAs and the LSC are working closely together to plan for the transition.

Devolved Administrations

3.53 Significant progress has been made in Northern Ireland in the implementation of *Success through Skills*, including through *Training for Success*, reform of the apprenticeships programme and the Careers Education, Information Advice and Guidance Strategy. In October 2007, a careers strategy consultation document was launched – *Preparing for Success*.²³ The strategy aims to support informed decision-making, leading to more effective career planning.

3.54 *Skills for Scotland; A Lifelong Skills Strategy*²⁴ sets out the Scottish Executive's ambitions for skills in a lifelong learning context, covering the full range of provision from 'cradle to grave'. The Strategy also states for the first time that learning and training delivery should be seen as one system. Skills Development Scotland is a new public body created to bring a better focus to skills development.

3.55 In Wales, a new skills and employment strategy, *Skills That Work for Wales*,²⁵ was published in July 2008. Key proposals include: expansion of the Workforce Development Programme; a new Sector Priorities Fund; a new fees policy; a new approach to employment and skills interventions – Careers Ladders; and proposals for transforming provider networks.

²³ *Preparing for Success*, Department of Education and Department for Employment and Learning, October 2007

²⁴ *Skills for Scotland: A Lifelong Skills Strategy*, The Scottish Government, September 2007

²⁵ *Skills that Work for Wales*, Welsh Assembly Government, July 2008

4

CLIMATE CHANGE, ENERGY POLICY AND SUSTAINABLE DEVELOPMENT

4.1 There is strong evidence that the cost of taking efficient steps to reduce carbon emissions now is smaller than the damage that climate change will do to the economy. The degradation of other natural resources also has the potential to undermine economic growth. European economies will have to make a transition to low-carbon growth and will need to live within environmental means. The EU Sustainable Development Strategy (SDS) is clear that the Lisbon Strategy makes an essential contribution to the overarching objective of sustainable development focusing primarily on actions and measures aimed at increasing competitiveness, economic growth and job creation.

4.2 The Government is tackling the combination of challenges through an integrated climate change and energy security strategy based on open and competitive energy and carbon markets, the development and deployment of a wide range of low-carbon technologies and increased energy efficiency. The Government has Public Service Agreements (PSAs) to lead the global effort to avoid dangerous climate change and to secure a healthy natural environment for today and the future.

Climate Change

4.3 The independent Stern Review of the Economics of Climate Change was published in October 2006. The Government has adopted the framework for climate change policy put forward in the Stern Review, based around three key elements:

- pricing carbon through trading, tax or regulation – ensuring that emissions reductions are delivered in the most cost-effective way;
- encouraging innovation in low-carbon technologies; and
- removing barriers to action, by bringing forward policies to encourage long-term behavioural change.

UK Climate Change Bill

4.4 The UK Climate Change Bill,¹ currently being debated in Parliament, creates the long-term framework for reducing emissions and adapting to climate change. It makes the carbon dioxide emission goals of at least a 26 per cent reduction by 2020 and at least a 60 per cent reduction by 2050 legally binding. The Bill requires the Government to set five-year carbon budgets, starting with 2008-2012, for three periods ahead. It creates an independent, expert Committee on Climate Change to advise on the pathway to the 2050 target, the level of the budgets and to report annually on progress. The committee, currently operating in shadow form ahead of Royal Assent, has been asked to review the UK's 2050 target and advise whether it should be tightened up to 80 per cent. It will report its findings by December 2008.

4.5 The UK is also playing a key role in the negotiations at EU level on the 2020 EU Energy and Climate package, which aims to put Europe on course to reduce its greenhouse gas (GHG) emissions by 20 per cent from 1990 levels by 2020, and by 30 per cent as part of a wider international climate change deal. Any targets set for the UK at European level will be taken forward under the framework of the Climate Change Bill as set out above. As at the national level, the UK is working to ensure that EU climate change policies are consistent with the key principles set by the Stern Review.

¹ Available at <http://services.parliament.uk/bills/2007-08/climatechangehl.html>

4.6 The Bill also establishes a framework to ensure that the UK is adapting to the impacts of climate change such as higher temperatures, droughts and floods. It establishes a power for the Secretary of State to ask for adaptation reports from public bodies and statutory undertakers to ensure that action is taken. The Bill also sets up provision for providing advice to and scrutiny of the Government's adaptation work.

4.7 There are other measures in the Bill such as waste incentives, powers to introduce the Carbon Reduction Commitment for large, non-energy intensive organisations and powers to oblige charging for single use carrier bags – if deemed necessary and cost-effective at a later date. The Bill will also be used to issue voluntary guidance on how organisations could report their GHG emissions.

Devolved Administrations

4.8 The Scottish Executive are preparing a Strategic Overview, which will be published next year, of how and when emissions reductions might be realised over the next 40 years to meet the 80 per cent reduction target. The Scottish Climate Change Bill is due to be introduced to Parliament late in 2008. A Climate Change Commission for Wales has been established with membership from across society. It has been working with the Welsh Assembly Government in developing delivery of its aim to achieve a 3 per cent year on year reduction of GHG emissions from 2011 onwards.

Energy Policy

4.9 Following publication of the 2007 Energy White Paper,² the Government continues to address the long-term energy challenges and deliver on the four energy policy goals: to promote competitive markets in the UK and beyond; to put the UK on a path to cutting CO₂ emissions by some 60 per cent by about 2050, with real progress by 2020; to maintain the reliability of energy supplies; and to ensure that every home is adequately and affordably heated.

UK Energy Bill

4.10 The Energy Bill was introduced in Parliament in January 2008 and will implement some of the legislative aspects of the Energy White Paper, in particular updating the legislative framework to reflect the availability of new technologies, such as Carbon Capture and Storage (CCS) and emerging renewable technologies. The Bill will also correspond with changing requirements for security of supply infrastructure; and ensure adequate protections for the environment and the taxpayer as the energy market changes. In addition, developing further onshore gas supply infrastructure is included with other major infrastructure within the Planning Bill that is also before Parliament. It is hoped that both bills³ will secure Royal assent within the current session of Parliament.

4.11 The Government continues to believe that open and competitive markets are the best way to achieve security of supply at affordable prices. In October 2007, the Government launched a new information service, the Energy Markets Outlook,⁴ intended to assist market participants in investment decision-making. The Government takes an active part in negotiations on the Third EU Energy Liberalisation package.

Nuclear power

4.12 In January 2008, following a public consultation, the Government announced that companies should have the option of investing in new nuclear power stations. A

² *Meeting the Energy Challenge*, Department for Business, Enterprise and Regulatory Reform (BERR), May 2007

³ Available at <http://services.parliament.uk/bills/2007-08/energy.html> and <http://services.parliament.uk/bills/2007-08/planning.html>

⁴ *Energy Markets Outlook*, BERR, October 2007

White Paper was published that set out that nuclear should be part of the UK's future energy mix if it is to reduce carbon emissions and secure energy supplies.⁵

Carbon Capture and Storage

4.13 In June 2008, the Government opened a consultation on several aspects of the regulation of CCS.⁶ In line with the Spring 2007 European Council conclusions, in November 2007, the Government launched a competition to develop one of the world's first full scale demonstrations of the full chain of CCS technology.

Renewable energy

4.14 Also in June 2008, the Government launched a consultation on how to increase the use of renewable energy in the UK.⁷ Responses to this consultation will help shape the UK Renewable Energy Strategy, which is due to be published in spring 2009, once the UK's share of the EU target has been agreed. The Government also continues to take an active part in negotiations on the EU Renewable Energy Directive.

Box 4.1: The EU Emissions Trading Scheme (EU ETS)

The EU ETS is the world's largest mandatory emissions trading scheme and is a key instrument to help deliver the EU's greenhouse gas emissions reduction target – covering approximately 50 per cent of the EU's (and UK's) carbon dioxide emissions. The EU ETS is a cap and trade system and aims to reduce carbon dioxide emissions by putting a price on the carbon that businesses can use.

In November 2006 the European Commission launched a review of the EU ETS with the aim of proposing an amended Directive that would improve the functioning of the scheme from 2013 onwards. This directive was part of a climate and energy package published in January 2008, which included proposals on a 20 per cent reduction in EU GHG emissions by 2020 from 1990 levels, increasing to 30 per cent where there is a comprehensive international climate agreement. The Government welcomes the proposals (post 2012) from the European Commission and specifically supports the proposal for an EU wide cap with a clear downward trajectory to 2025 and beyond.

Energy efficiency

4.15 In 2001, the Government introduced the Climate Change Levy (CCL) package to encourage business to reduce their energy demand. The principal elements of the package are the CCL and Climate Change Agreements (CCAs) which provides businesses, in over 50 energy intensive sectors, with an 80 per cent discount from the levy in return for signing CCAs under which firms agree to improve energy efficiency and/or reduce emissions. Independent analysis by Cambridge Econometrics estimates that by 2010 the levy will reduce energy demand in the commercial and public sector by around 15 per cent a year and deliver annual savings of around 12.8 MtCO₂. By 2010, it is estimated that CCAs will deliver savings of around 7 MtCO₂ a year.

4.16 The Government introduced enhanced capital allowances to support business investment in designated water and energy-efficient technologies. These enable business to claim a 100 per cent first year allowance against profits, to provide a cash boost. In addition, the UK is developing a new cap-and-trade emissions trading scheme for the non-energy intensive sector, the Carbon Reduction Commitment (CRC). The CRC will apply mandatory emissions trading to cut carbon emissions from large commercial and public sector organisations by 1.1 MtC/year by 2020.

4.17 To help improve household energy efficiency, a new Carbon Emissions Reduction Target (CERT) came into effect in April 2008. CERT is an obligation for energy

⁵ *Meeting the Energy Challenge: a white paper on nuclear power*, BERR, January 2008

⁶ *Towards carbon capture and storage: A Consultation Document*, BERR, June 2008

⁷ *UK Renewable Energy Strategy Consultation*, BERR, June 2008

suppliers to achieve targets for promoting reductions in carbon emissions and will deliver annual net savings of 4.2 MtCO₂ by the end of the programme.

4.18 The UK has launched carbon calculators for householders and businesses. Both allow calculations of emissions and offer advice and information. The Energy Savings Trust manages the 'Act on CO₂' calculator, which has now had over 1 million visitors. Their role has recently been expanded to provide an 'Act on CO₂' advice line, with £10 million funding from the Government. This will provide a central point of contact for the public on home energy audit including advice on saving water, waste reduction, sustainable travel choices, grants and offers from energy companies.

Environmental technologies

4.19 As well as regulation and communication, the UK is investing £400 million into the new Environmental Transformation Fund, which aims to accelerate the demonstration and commercialisation of low-carbon energy and energy efficiency technologies in the UK. In addition, the Government is investing in the Energy Technologies Institute, a unique partnership between the public and private sector to support R&D in low-carbon technologies, with a potential £1 billion budget over 10 years.

4.20 Energy Performance Certificates (EPCs) are being rolled-out to cover all dwellings and non-residential buildings by October 2008. EPCs are accompanied by a report that lists measures to improve the energy rating of the building. Recently conducted research suggests that nearly one-third of buyers planned to carry out recommendations in the EPC once they had examined it.

Transport policy

4.21 The Government has introduced a range of measures designed to reduce emissions from the transport sector – which is the second largest source of carbon dioxide emissions in the UK. UK transport emissions are primarily priced through a taxation framework that provides incentives to individuals and business to drive less. In setting fuel duty rates, the Government also takes into account other external costs of motoring and the need to maintain sound public finances. In March 2001 the Government introduced a CO₂ emissions graduated Vehicle Excise Duty for cars, to provide a signal to motorists of the environmental impact of their potential choice of car. This has been progressively refined and sharpened, with recent reforms announced in March 2008 designed to incentivise purchase and development of fuel-efficient cars, and reward drivers of the cleanest cars.

4.22 The Government is committed to enabling the aviation industry to expand in an environmentally-sustainable way, ensuring it better reflects its environmental impacts, as well as contributing fairly to public services. For this reason, in October 2007, the Government announced that air passenger duty would be replaced by a duty payable per plane, rather than per passenger, from 1 November 2009.

Devolved Administrations

4.23 The Single Electricity Market for wholesale electricity on the island of Ireland went live in November 2007. It ensures transparent trading arrangements with independent regulation. Northern Ireland is working with the Republic of Ireland to consider the scope for harmonisation of natural gas arrangements, enhance gas storage and has completed a study to determine investment needed to maximise electricity generated from renewable sources.

4.24 The Scottish Executive has set a target to generate 50 per cent of Scotland's electricity from renewable sources by 2020, with an interim milestone of 31 per cent to be achieved by 2011. Two grid studies are underway to explore potential links between Scotland and Ireland and northern Europe respectively.

4.25 The Welsh Assembly Government in February 2008 published for consultation its *Renewable Energy Route Map*.⁸ This sets out proposals to move Wales towards self-sufficiency in renewable electricity, whilst driving Wales towards more energy efficiency and having more of its heating requirements being supplied from renewable sources.

Sustainable development

4.26 The *UK Sustainable Development Strategy*⁹ sets out five principles for policy-making in the UK: respecting the limits of the planet's environment, resources and biodiversity; ensuring a strong, healthy and just society; achieving a sustainable economy; promoting good governance; and using sound science responsibly.

4.27 The UK submitted its contribution to the European Commission's progress report on implementing the EU SDS in June 2007.¹⁰ This sets out the steps taken by the Government to implement the commitments of the EU SDS under seven key challenges: climate change and energy; sustainable transport; sustainable consumption and production; conservation and management of natural resources; public health; social inclusion, demography and migration; and global sustainable development.

4.28 The main objective of the UK Programme for Sustainable Consumption and Production (SCP) is to address the increasing environmental impacts from the lifecycles of goods, services and materials, while still achieving economic growth. Programme activity is focused around measures to: achieve better products and services that reduce the environmental impacts from the use of energy, resources, or hazardous substances; generate cleaner, more efficient production processes that strengthen competitiveness; and shift consumption towards goods and services with lower impacts.

4.29 Detailed policy approaches look at particular aspects of SCP policy as needed and include contributions across many aspects of EU work to follow up the European Commission's Communication on Integrated Product Policy¹¹ and to contribute ideas to the European Commission's anticipated EU SCP and Sustainable Industrial Policy Action Plan. At a national level, the Government is piloting a product roadmap approach in ten key product areas, which will demonstrate how environmental benefits can be unlocked through shared work on life-cycle evidence, stakeholder engagement and commitments to action at various points in the supply chain.

Sustainable business

4.30 The Government is reviewing its Manufacturing Strategy to include work on low-carbon business opportunities. The low-carbon chapter of the Strategy will be designed to help ensure that manufacturers in particular are able to make the most of the opportunities emerging from low-carbon markets. The UK continues to support the EU Environmental Technologies Action Plan and EU activities to implement it.

4.31 The Government has continued to work with business to drive improved resource efficiency and develop approaches to stimulate innovation, to help manage both their environmental impacts and increase their competitiveness. For example, by establishing the Commission on Environmental Markets and Economic Performance (CEMEP) to advise on how the UK can make the most of the economic opportunities

⁸ *Renewable Energy Route Map for Wales*, Welsh Assembly Government, February 2008

⁹ *Securing the Future – UK Government Sustainable Development Strategy*, Department for Environment Food and Rural Affairs (DEFRA), 2005. The Northern Ireland Strategy contains an additional principle 'Promoting Opportunity and Innovation'

¹⁰ *UK contribution to the European Commission's progress report*, DEFRA, June 2007

¹¹ *Communication from the Commission to the Council and the European Parliament: Integrated Product Policy Building on Environmental Life Cycle thinking*, Commission of the European Communities, June 2003

from the transition to a low-carbon, resource-efficient economy. The CEMEP report was published in November 2007, and the Government response in May 2008.¹²

Sustainable consumption

4.32 In January 2008 the Government published its framework for pro-environmental behaviours.¹³ This summarises understanding of the evidence on consumer behaviour and is now being used to support policy development and implementation, including proposals for third sector partnership working.

Box 4.2: Green Public Procurement

A Centre of Expertise for Sustainable Procurement (CESP) was established within the Office of Government Commerce in Spring 2008, following recommendations made in the UK Sustainable Procurement Action Plan (SPAP) published in March 2007. The CESP will focus initially on the environmental aspects of sustainability, setting out the actions required to counter the barriers hindering further progress in the Government and to raise the Government's capability and leadership in sustainable procurement and operations. They will also work with each government department to support delivery against the Government's sustainable operations on the Government estate targets and SPAP commitments.

Biodiversity

4.33 The UK has a long-standing commitment to biodiversity. The overall trend of the UK Biodiversity Indicators shows that since 2000 there has been a general slowing in the long-term decline in populations of key species or habitats and improvements for some. The Government has published a list of species and habitats of principal importance in England and launched the *Non-Native Species strategy*¹⁴ to raise the awareness of the ecological and economic costs of non-native species. This will enable early detection of threats and eradication of species to prevent their establishment while long-term management solutions are found for more established invasive species.

Devolved Administrations

4.34 In the Northern Ireland *Programme for Government*¹⁵ published in January 2008, a commitment was made that the principles of sustainability would underpin the approach of the Executive to all its activities. The Northern Ireland Sustainable Development Strategy is being renewed to help create the conditions in which opportunities inherent in the challenge of sustainable development are realised. In Scotland the *Government Economic Strategy* and *National Performance Framework*¹⁶ were published in November 2007 and include commitments to improving Scotland's natural and built environment and the sustainable use and enjoyment of it, and a number of high level targets, including on GHG emissions, landfill, habitats and species, renewable energy and fish stocks. In Wales, in line with the statutory duty, a review of the *2004-2007 Sustainable Development Scheme* was published in July 2008.¹⁷ In light of its conclusions the Welsh Assembly Government has decided that a new scheme should be developed, which is due to be published in spring 2009.

¹² *Building a low carbon economy: unlocking innovation and skills*, Department for Environment Food and Rural Affairs, May 2008

¹³ *A Framework for Pro-Environmental Behaviours*, Department for Environment Food and Rural Affairs, May 2008

¹⁴ Available at <http://www.nonnativespecies.org>

¹⁵ *Programme for Government 2008-2011*, Northern Ireland Executive, January 2008

¹⁶ *Government Economic Strategy*, The Scottish Government, 2007

¹⁷ *The Sustainable Development Effectiveness Report*, Welsh Assembly Government, March 2008

5.1 The Council of the European Union recommended that the UK should “implement recent plans to substantially improve skill-levels and establish an integrated approach to employment and skills in order to improve productivity and increase opportunities for the disadvantaged”. Together with the skills section in Chapter 3, this chapter discusses the components that help ensure that people have not just jobs, but jobs offering opportunities for progression. Thus, it is an outline of the main UK policies that give effect to the principles of ‘flexicurity’.¹ The policies discussed are consistent with the approach set out under the Open Method for Social Inclusion and Protection² and EU models and pathways have inspired UK developments.

5.2 Following consultation with stakeholders, proposals from the Government’s welfare reform Green Paper *In work, better off; next steps to full employment* were set out in December 2007 in the White Paper *Ready for Work: full employment in our generation*.³ In June 2008, *Work Skills*⁴ was published that sets out plans to ensure that people who sign on for out of work benefits also sign up for skills and in July 2008 the Government published a Green Paper *No one written off: reforming the welfare state to reward responsibility*.⁵

5.3 These proposals will contribute to the Government’s continuing ambitions to secure an employment rate of 80 per cent and eradicate child poverty, which are at the heart of its response to the Lisbon Strategy for securing more and better jobs with greater social cohesion. The UK continues to be one of the few Member States to have already exceeded the Lisbon employment targets, with over 29 million people in employment. This is an overall rate of 74.7 per cent with a female employment rate of 70.3 per cent and 71.9 per cent for those aged over 50 years (up to State Pension Age).⁶

5.4 Success has been achieved through stable growth, an open and responsive labour market and work-focused employment programmes, workers’ rights (including for flexible working) and measures that make work pay, such as tax credits and the minimum wage. Work has been the main route out of poverty, ensuring people are better off not just financially, but in terms of their health, well-being, self-esteem and future prospects for themselves and their families. The benefits have been across society and have increased community cohesion.

Increasing employment for the most disadvantaged

5.5 The Government has identified groups that face particular challenges in moving into work. The Government has a Public Service Agreement (PSA) to maximise employment opportunity for all. This includes increasing the employment rates of disadvantaged groups, which the Government has identified as lone parents, ethnic minorities, people aged 50 and over, those with the lowest qualifications and those

¹ Member States exchange good practice on how both flexibility and security reinforce each other in their employment policies. Whilst there is no single model, in December 2007 Member States agreed on Common Principles covering: flexible and reliable contractual arrangements; active labour market policies; modern, adequate and sustainable social protection systems; and the active involvement of social partners. Available at <http://ec.europa.eu/social/main.jsp?catId=117&langId=en>

² UK National report on strategies for Social Protection and Social Inclusion 2008-2010, DWP, September 2008. <http://www.dwp.gov.uk/publications/dwp/2008/socialprotection/>

³ *In work, better off; next steps to full employment*, Department for Work and Pensions (DWP), July 2007. *Ready for Work: full employment in our generation*, DWP, December 2007

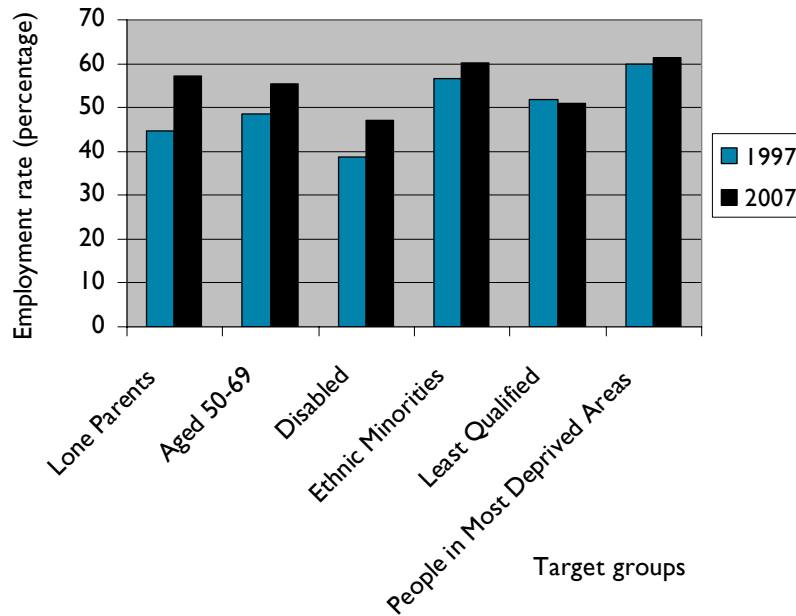
⁴ *Work Skills*, DWP and Department for Innovation, Universities and Skills (DIUS), June 2008

⁵ *No one written off: reforming the welfare state to reward responsibility*, DWP, July 2008

⁶ ONS Labour Force Survey, May to July 2008

living in local authority (LA) wards with the poorest initial labour market position. It also includes significantly reducing the difference between the employment rates of the disadvantaged groups and the overall rate.⁷ Chart 5.1 shows the progress made between 1997 and 2007.

Chart 5.1: Employment rates of target groups in Great Britain, 1997 – 2007



Source: Labour Force Survey

Notes: Earliest data is 1997, except Disabled (1998), Ethnic Minorities (2001) and Deprived Areas (2005)

Integrated employment and skills provision

5.6 The Government has recognised that, whereas in the past lack of jobs has been the main barrier to full employment, in the future it will be lack of skills. In *Opportunity, Employment and Progression*⁸ and *Work Skills* the Government has set out an agenda and timetable for improving and integrating its service to help those out of work gain sustainable employment and to progress both in work and in learning. In April 2008, the new employer-led UK Commission for Employment and Skills became operational. Its role is to advise the Government on employment and skills systems and ensure they are flexible enough to respond to changing employment trends and employer demand.

5.7 The Government is committed to help those on benefits identify their skills needs and where they can obtain support, and ensure that they can upgrade existing skills where lack of skills is a barrier to obtaining and retaining work. Every customer on benefits in England will be signposted to the range of services offered by the new Adult Advancement and Careers Service (AACS), including skills screening to identify any basic skills needs. From autumn 2008, the Government will pilot requiring jobseekers to

⁷ Progress against the PSA targets is measured using the Labour Force Survey based on International Labour Organisation definitions for older workers and lone parents. Single quarter estimates from the Survey are used to measure the employment rates of ethnic minorities and quarterly data for the low and unskilled. Progress is reported in the DWP Annual Report.

⁸ *Opportunity, Employment and Progression: making skills work*, DIUS and DWP, November 2007

attend a full skills health check where the screening has identified a need. The AACCS will be fully operational by 2010-11. The current Employability Skills Programme offers a flexible programme for Jobcentre Plus customers to improve their basic employability skills. After six months, personal advisers have the power to allow jobseekers to access up to 8 weeks of employer-focused training by placing them on a training allowance. In addition, new lifetime Skills Accounts will give individuals the purchasing power to effectively develop and update their skills, to complement the investment already in place through Train to Gain.

5.8 The Government is aligning employment and skills agendas to provide more support and expects more responsibility in return. Alongside better services, help and advice, is an obligation on the part of those on out of work benefits to take steps to find work and to remove any skills barriers to sustainable employment. The Government is taking the powers necessary to require unemployed people to attend training and will test that in pilot areas, and consult on extending the requirement to train to the other key out-of-work groups: lone parents with school-age children receiving Income Support and those who start to claim Employment and Support Allowance. Claimants should have the choice over how to get back to work, not whether they should go back to work.

5.9 *No one written off: reforming the welfare state to reward responsibility* proposes new thinking on welfare. Among the key points put forward for consultation are:

- giving private and voluntary providers a Right to Bid to provide innovative back-to-work services;
- requiring people to take suitable available jobs and training, including doing full-time work in return for benefits at any stage where it would be effective, making it clear that there is no right to a life on benefits;
- giving more support and more responsibility to those on incapacity benefits to prepare for, and, when ready, to return to employment, plus offering disabled people more control over the support they get;
- increasing parental responsibility – for couples, lone parents and non-resident parents completely disregarding child maintenance in the income related benefits; and
- simplifying the benefits system – as resources allow, abolishing Income Support and moving people on to Jobseekers Allowance as part of a move towards a single working age benefit.

NEETs 5.10 The Government has a PSA to increase the number of children and young people on the path to success. The Government has proposed that the minimum age young people can leave education or training in England will be 18. In addition the Education and Maintenance Allowance will be extended to those who are on a wider range of courses, extending the September guarantee so that 17 as well as 16 year olds have an offer of a place in training and extending early entry to the New Deal for 18 year olds with a previous history of being not in employment, education or training (NEET) from April 2008. The Government is working with the most vulnerable adults by increasing the proportion of socially excluded adults in settled accommodation and in employment, education or training.

Devolved Administrations **5.11** Different arrangements may apply in the Devolved Administrations. For example, the Scottish Executive's Employability Framework for Scotland, *Workforce Plus*, has been in place since June 2006.⁹ Although *Workforce Plus* initially focussed on seven priority areas, there are now over 22 employability partnerships. From April 2008 *Workforce Plus* funding has been integrated with the Fairer Scotland Fund. As a result it will enable engagement with all 32 areas across Scotland.

Partnership approach to delivery **5.12** Jobcentre Plus has been central to welfare reform and will now be a gateway into the new integrated employment and skills support and services. As well as job search activity, it will identify those with basic skills needs and where necessary refer them to the AACs, which in many cases will be co-located in Jobcentre Plus offices. Advisers will be given the flexibility to focus on delivering individual customer support not just into a job but beyond as well. By understanding demand and working closely with partners, such as LAs, Jobcentre Plus will ensure that the right provision is available to deliver sustained work outcomes for all individuals.

5.13 One of the Government's core principles is to form strong partnerships with the public, private and third sectors to get more people into work. This will harness expertise, support specialised programmes and encourage innovation and sharing of good practice. Another principle is to empower and involve local communities. A great deal of activity already takes place below the national level and many LAs take an active role in providing additional support to people not in work.

City Strategy **5.14** The City Strategy has been developed to test different approaches to partnership working, and provide local control over resources to promote employment in a way that is matched to local needs. This particularly addresses diversity and serves the ethnic minority communities that predominantly reside in urban areas. Support for the 15 City Strategy Pathfinders has now been extended to 2011 and this includes further funding to help continue develop capacity. Lessons already learnt from the City Strategy have informed the "right to bid" proposals that aim to extend devolution and freedom to choose, for areas that meet challenging and strict criteria. Similarly, around 2,000 employers have committed to working with Jobcentre Plus through Local Employment Partnerships with a target of helping 250,000 disadvantaged people in to work by 2010.

Box 5.1: Local Employment Intermediary Service in Northern Ireland

Eight local community based employment providers in three areas deliver the Local Employment Intermediary Service. It provides tailored assistance to help unemployed people, many of whom may have been out of work for some considerable time and in need of personal help and support to find and hold onto a job, complementing the existing public employment office. The Service is assisted by a small number of Stakeholders Forums made up of local community interests.

Since starting in April 2007 a total of 1,614 participants have come forward seeking the help of qualified mentors who have often developed intimate knowledge of local community issues and employment opportunities. Almost a quarter of the participants have found employment. This represents some 42 per cent of all leavers and is a credible performance in helping those most in need find employment.

Source: Northern Ireland Executive

Regeneration **5.15** In July 2008 the Government launched *Transforming places; changing lives – A*

⁹ *Workforce Plus an Employability Framework for Scotland*, Scottish Executive, 2006

*framework for regeneration.*¹⁰ This sets an ambitious package of proposals to reshape the way regeneration activity is planned and undertaken in England, with a renewed focus upon tackling the underlying economic challenges and better complementing economic development. In particular, the Government wishes to ensure interventions are better targeted upon improving outcomes for the most deprived areas and aligned to wider economic objectives, specifically supporting people back into employment and boosting levels of enterprise. The document forms the basis of a consultation that closes at the end of October.

People in social housing

5.16 More than 50 per cent of people who live in social housing are out of work. The Government is currently developing policies to help people in social housing into employment. Key to this approach will be strengthening the link between housing and employment support and raising awareness of in-work benefits to ensure that people are better off in work. Pilots to test these approaches will be carried out in 2008.

Active labour market policies

5.17 The flexible New Deal will be introduced progressively from 2009, modernising and streamlining the existing New Deals. In addition to strengthening the skills and training components, the main elements provide more personalised support to help people break the cycle of short-term work and end repeated long-term unemployment and benefit claims.

Box 5.2: Addressing worklessness: North West Regional Development Agency

The North West Regional Development Agency (NWDA) is providing £11 million of funding between April 2008 and March 2010 to support worklessness projects across the northwest of England. The projects are primarily focused on deprived areas with the highest number of out-of-work benefit claimants. Funding is channelled through five sub-regional partnerships that have either aligned the funding to City Employment Strategies or have developed a Worklessness Board that includes key stakeholders such as the Learning and Skills Council, Jobcentre Plus and local authorities to set local priorities and avoid duplication of service. The projects aim to assist over 2,500 people to gain a job.

A key benefit of the funding is that more effort has been focused on employer engagement. In addition, sub-regional stakeholders are developing joint investment frameworks that set out the priorities by which all local discretionary funding can be spent on growing the size of the workforce. The ultimate aim is to help the northwest move closer towards the UK long-term aspiration of 80 per cent employment.

Source: NWDA

5.18 The majority of those on Jobseekers Allowance find employment quickly – six out of ten find employment within 13 weeks. In future, jobseekers who have not found work after three months will be required to widen the scope of jobs they look for and will be submitted for suitable jobs. Those with poor employment records will be provided with extra personal help and guidance. Those still seeking work after six months will enter a single Gateway that will provide more intensive support and require the customer to have a stretching action plan to find work. Personal advisers will recommend specific actions that the jobseeker must undertake, including improving their own employability by undertaking work related training for up to eight weeks. Those who have the longest claims outstanding on Jobseekers Allowance will be automatically fast-tracked onto the Gateway, as will younger job seekers who have not

¹⁰ *Transforming places; changing lives – A framework for regeneration*, Communities and Local Government, July 2008

been in education, training or employment for a period prior to claiming. At 12 months those who have still not found employment will be referred to an external specialist provider for more individually tailored help.

Devolved Administrations

5.19 In Northern Ireland, a new Employment Service Delivery Model (EDSM) is currently being tested and aims to improve customer service and produce a highly skilled adviser workforce. ESDM has been operating since April 2007 in four areas and an interim report of its operation to date has taken place. Based on the experiences and lessons learnt from the operation of the model thus far, elements of EDSM will be phased in to other offices during 2008.

5.20 In Wales, *Want2Work*, a project jointly developed by the Welsh Assembly Government and Jobcentre Plus, has been operating in selected LA areas. The project, supported by European funding, has provided a more intensive range of support to help economically inactive people make the transition into employment. It initially ran from 2005 until June 2008, but a funding package has been put in place to enable *Want2Work II* to operate over the period 2008-14, with expanded coverage.

Disabled people and those with health conditions

5.21 The Government has set a target to reduce the number of people on Incapacity Benefits by one million from 2005 levels. The number of Incapacity Benefits claimants has fallen by 137,000 since its peak, reversing a trend that saw the caseload more than treble between 1979 and 1997. Pathways to Work has helped more than 69,000 people into work so far and has been available to everybody in Britain from April 2008. In October 2008 Employment and Support Allowance will replace Incapacity Benefit for new customers, with a revised medical assessment, focusing on what people can do, not what they cannot. From 2009, existing customers, starting with those under the age of 25, will move onto mandatory Pathways to Work and be subject to the new Work Capability Assessment.

5.22 The Government is improving the support available to help people remain in work – including providing practical support for healthcare professionals and employers – and will develop a new coordinated approach across government to tackle the problems faced by people with mental health conditions, the single biggest cause of sickness absence and Incapacity Benefit claims. The new screenings will also ensure that, like jobseekers and lone parents, those with health conditions are supported in developing the skills they need to succeed in the workplace.

5.23 From April 2008, the Return to Work Credit of £40 per week tax-free for a year has been available to everyone who is eligible and who moves into work for more than 16 hours per week, earning less than £15,000 per year. A consultation has been launched on proposals designed to improve the effectiveness of some of the specialist support to help disabled people enter and/or retain employment. A range of initiatives is being taken forward across government to support healthcare professionals and employers in helping to keep people in work. This has included the piloting of an education programme for local general practitioners (GPs) on health and work; development of a training module to help GPs handle fitness for work discussions; and, a training module for nurses on their role in supporting people to remain in and return to work.

5.24 In March 2008, Dame Black's Review of the health of Britain's working population was published.¹¹ This set out how the Government, employers, trade unions, health professionals and individuals can improve the health of the working population,

¹¹ Dame Carol Black's Review of the health of Britain's working age population: *Working for a healthier tomorrow*, March 2008

retaining people in the labour market and helping those who, by virtue of their condition, are unemployed into work. The Government is currently considering its response to the review, which should be published in the autumn. This will be consistent with the existing health and well-being strategy for all in employment that is one contribution to ensuring the provision of decent work.¹²

Older people 5.25 People aged 50 to State Pension age currently form a quarter of the workforce; by 2020 this will increase to a third. One million older workers will need to be retained or encouraged to re-enter the workforce to achieve full employment and help sustain society. The policies to achieve this goal include: using mechanisms already mentioned to ensure economically inactive older people have basic skills; promoting an additional 10,000 Adult Apprenticeship places per year; and improving recruitment and retention through initiatives like the Age Positive campaign, flexible pensions, retirement and working arrangements.

Lone parents 5.26 Helping more lone parents into work is vital to eradicate child poverty by 2020 – the UK's national target. A child of a lone parent who works part time is only a third as likely to be living in poverty as a child of a lone parent who does not work, and a child is less than a fifth as likely to live in poverty if the lone parent works full-time. In large part due to the UK's tax and benefit reforms, which are at the core of modernising the social security system, since 1997 over 600,000 children have been taken out of poverty. However, nearly half of children living in lone parent households are still living below the poverty line. Over the same period the lone parent employment rate has increased from 44.7 per cent to 57.2 per cent, but this is low in comparison to some countries that have a lone parent employment rate of over 70 per cent.

5.27 From October 2008 the presumption will be that lone parents with a child of 12 or over will have to be actively seeking work in order to claim benefits. From October 2009 this obligation will extend to parents with a child of ten and over, and seven and over from October 2010. Lone parents will not be forced into jobs that do not suit their circumstances. Jobcentre Plus advisers will take individual situations into account. This will enable lone parents to look for part-time employment if that best suits them and their family. Increased obligations will be supported by good quality affordable childcare, flexible jobs and tailored pre-employment and skills provision. Employment advisers and lone parents seeking work will agree what childcare provision is required, in liaison with LAs who are required to assess sufficiency of supply.

5.28 To assist lone parents in their return to work a number of key pre-employment measures were introduced in April 2008. These include: job interview guarantees, work focused pre-employment training and quarterly Work Focused Interviews in the last year before their child reaches the age where they may lose eligibility to Income Support.

5.29 Lone parents who enter work will also receive sustained assistance to help them remain there, in-work advisory support from Jobcentre Plus, a discretionary fund to help overcome unexpected financial barriers and an in-work credit of £40 a week (£60 in London) payable for 52 weeks. A new credit is being piloted to ensure that lone parents are at least £25 per week better off, taking into account any in-work benefits they receive, than they were under out of work benefits.

¹² *Health work and well-being – Caring for our future: A strategy for the health and well-being of working age people*, DWP, Department of Health and Health and Safety Executive, 2005

Work-life balance **5.30** Balancing professional and personal life, especially through flexible working and leave arrangements, plays an important part in the UK in helping all priority groups sustain their employment. Rights, which already compare well with the rest of the EU, are being extended. In May 2008 an additional right to request flexible working was announced to help 4.5 million more parents with children up to the age of 16, and consultation with social partners on implementing the proposals is taking place.

Gender equality **5.31** All public bodies and private organisations that perform public functions are, when carrying out those functions, under a duty to have regard to the need to eliminate unlawful discrimination and harassment on the grounds of sex and promote equality of opportunity between women and men. The Government is committed to reducing the gap between men's and women's earnings, and making sure that women's talents are properly used and rewarded. Closing the gender pay gap is one of the indicators in the new PSA on equalities. In October 2007, the Government Equalities Office (GEO) was established whose mission is to put equality at the heart of government. The GEO is responsible for the Government's overall strategy on equality, as well as leading on women's issues across the Government.

Childcare

5.32 The Government has made significant progress in supporting the provision of childcare services. There are currently over 1.28 million places in England – more than double the 1997 level. Increases in the help available through tax credits have helped ensure that childcare is affordable for low and middle income working families. The Government reached its 2008 target of 2,500 Sure Start Children's Centres in March and by July there were 2,900. By 2010 there will be 3,500 centres, one for every community.

5.33 Local Strategic Partnerships and LAs can provide a framework for partners to work together to provide joined up services at the local level to meet the needs of local communities. For example, it is the Government's aim that, by 2010, every school in England will be an extended school by working with local partners to offer access to childcare and supervised activities beyond the school day and in school holidays. More than 8,400 schools – over one in three of the total – already offer access to the core extended services.

Devolved Administrations **5.34** One of the guiding principles for early year services in Northern Ireland is that pre-school education places should be planned in a way that involves genuine partnership across the full range of providers. The former Children and Young People's funding package was provided to identify and meet the demand for childcare in areas of deprivation to allow parents to access work or training. This funding has since been mainstreamed and is used for projects that prioritise those families that need support the most. In Wales, additional funding for childcare is being allocated for 2008-11, including £8 million for an expansion of the Flying Start programme, which provides free part-time childcare in targeted areas for two-year olds, and £4.2 million for Community Focused Schools to promote out of school childcare.

A

UK COUNTRY-SPECIFIC RECOMMENDATION

The following recommendation was endorsed by the 2008 Spring European Council and adopted by the Council of the European Union on 6 May 2008.¹

UNITED KINGDOM

A.1 In the light of the UK's 2007 Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:

A.2 The UK has made significant progress in implementing its National Reform Programme over 2005-2007. The UK has shown good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.

A.3 The Implementation Report shows a good policy response to the recommendation issued by the Council. There has also been a good policy response on the additional areas identified in the Council conclusions as requiring attention.

A.4 Among the strengths shown by the 2007 UK Implementation Report are: the plans to provide an integrated approach to employment and skills, moves towards the creation of a business-friendly regulatory environment, and the forward-looking plans on energy policy.

A.5 The policy areas in the UK National Reform Programme where challenges need to be tackled with the highest priority are improving skills levels to increase productivity and reduce disadvantage in the labour market. Against this background it is recommended that the UK:

- implement recent plans to substantially improve skill-levels and establish an integrated approach to employment and skills in order to improve productivity and increase opportunities for the disadvantaged.

A.6 In addition, it will be important for the UK to focus on the following challenges for the future: progressively increase housing supply in order to meet medium-term demand pressures; ensure progress towards the UK's R&D intensity target through full implementation of the recent review of R&D and innovation policy, particularly taking fuller account of the specific needs of the services sector.

¹ Council Recommendation on the 2008 update of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies, May 2008, Council of the European Union document number 8276/08

ISBN 978-1-84532-502-2



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