

# UK progress report on economic reform: product and capital markets

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December 2002

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“The Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge based economy in the world capable of sustaining economic growth with more and better jobs and greater social cohesion.”<sup>1</sup>

## The Lisbon challenge

1. The Government believes that the process of economic reform is necessary if Europe is to meet the strategic goal agreed at Lisbon and confirmed at Stockholm and Barcelona. The reforms of product markets and capital markets examined in this report are an integral part of the economic reform agenda. They bring benefits to consumers and businesses through lower prices and greater employment opportunities, and promote businesses through deeper and more efficient capital markets. At this difficult time when growth is low, there may be temptations to rein back on economic reform, the country examination process – of which this report is part of the UK’s contribution – is important for highlighting the continued need for action on this key EU agenda.

## The UK’s productivity agenda

2. The Lisbon challenge is matched and complemented in the UK by a sustained drive to improve our historically poor productivity record. Only by doing this will the UK meet its central economic objective of raising the UK’s trend growth rate and levels of employment. The Government has identified five drivers that are important to raise the UK’s productivity performance. These are:

- competition;
- enterprise;
- science and innovation;
- skills; and
- investment.

## This report

3. This report describes the developments across product and capital markets. Progress is highlighted using the structural indicators; annex E shows the progress the UK and EU have made using the headline indicators. As part of examining developments in product and capital markets, the report also addresses the progress made on the country-specific recommendations to the UK in the Broad Economic Policy Guidelines (BEPG) 2001 brought together in annex A.

## Special topics

4. This report additionally deals with three special topics:

- services;
- small and medium sized enterprises, and

- effective retirement age.

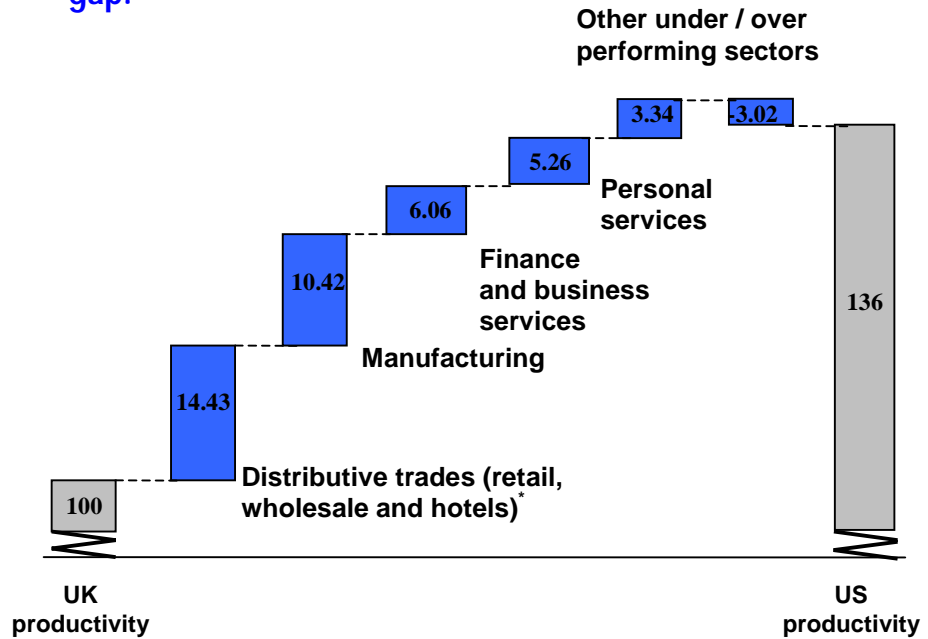
### National priorities

**Raising productivity** 5. The UK has historically experienced low rates of productivity by international standards. Based on output per worker, US productivity remains around 38 per cent higher than that in the UK, while productivity in France and Germany is 15 and 9 per cent higher respectively. Measured in terms of output per hour, the US and France both achieve 29 per cent higher productivity than in the UK, while the gap with Germany is 27 per cent.<sup>ii</sup> The Government is therefore pursuing a wide-ranging strategy to improve productivity. Macroeconomic stability allows businesses, individuals and the Government to plan effectively for the long term, improving the quantity and quality of investment in physical and human capital. To remove the barriers that prevent markets functioning efficiently and firms and workers maximising their productive potential, the Government's programme of microeconomic reform is targeting historic weaknesses in the key drivers of productivity performance, by:

- strengthening the **competition** regime, to encourage firms to innovate and minimise costs, and to deliver better quality goods and services to customers;
- promoting **enterprise**, to help new and established businesses start up, develop and grow;
- supporting **science and innovation**, to utilise the potential of new technologies and to develop more efficient ways of working;
- improving **skills**, through better education for young people and greater training opportunities for those already in the workforce; and
- encouraging **investment** to improve the stock of physical capital in all sectors and industries.

**Main problem areas** 6. Chart 1 shows a sectoral breakdown of the UK's productivity gap with the US. Productivity needs to be improved in a number of areas, in particular in the distributive trades and manufacturing. The UK is committed to domestic structural reforms, as well as EU level initiatives designed to help narrow this gap.

**Figure 1. Sectoral breakdown of UK – US productivity gap.<sup>iii</sup>**



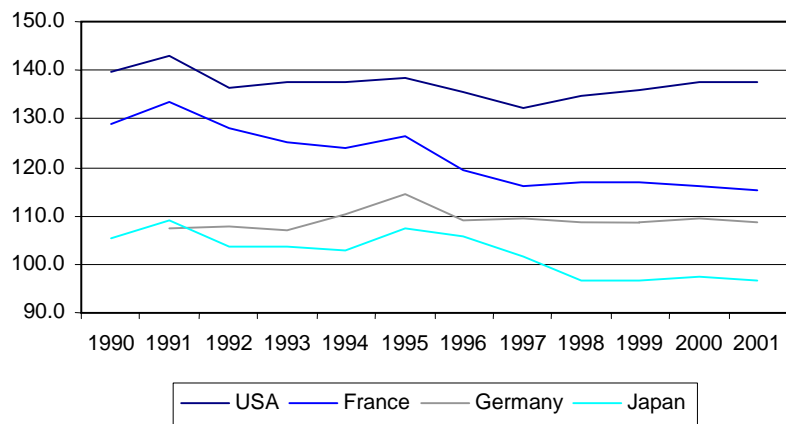
Source: NIESR, 2002<sup>iv</sup>

\* To ensure comparable data it is necessary to look at the “distributive trades” sector as a whole, rather than retail and distribution only. The distorting effect created by the inclusion of hotels can largely be ignored as this sector represents only around 1 per cent of the UK and US economies by output, compared to between 15 per cent and 20 per cent for distributive trades as a whole.

**Narrowing the gap**

7. Figure 2 shows the productivity gap between the UK and other comparable economies over time. Although the gap with the United States has widened recently, it continues to narrow with France and Germany.

**Figure 2: Output per worker, 1990-2001 (UK=100)**

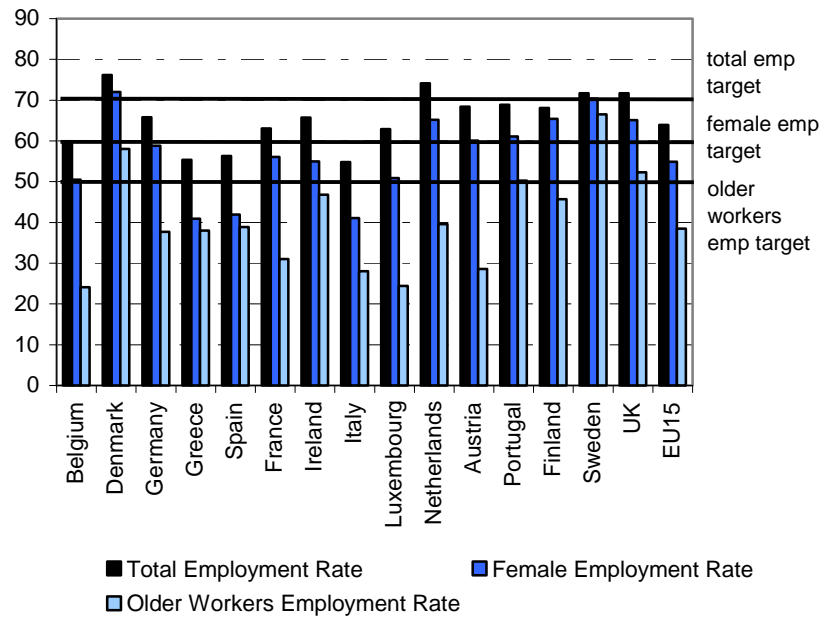


Source: ONS

**Labour market strength**

8. The UK is committed to the reform of EU labour markets to help deliver employment opportunity for all and make progress towards the targets set at Lisbon. UK labour market performance is strong. Employment is at record levels and ILO unemployment is close to its lowest level in over two decades at 5.3 per cent. The UK continues to contribute to the EU employment targets. The UK has total employment at 74.3 per cent, a female employment rate of 69.6 per cent and employment of older workers at 68.4 per cent, using latest UK definitions and numbers from July to September 2002.<sup>v</sup>

**Lisbon targets Figure 3: EU employment levels, 2001**



Source: *Employment in Europe 2002; European Commission; July 2002*

**The environment**

9. The Government’s Sustainable Development Strategy aims to deliver a better quality of life for everyone, today and for future generations. This requires action to improve and preserve the quality of the environment. The Government is determined to meet the challenges of climate change, poor air quality and environmental degradation in urban and rural areas, ensuring that economic and social development goes hand in hand with progress on the environment.

10. The Government believes that, in general, markets provide the best means of allocating an economy’s resources in the private sector. This is as true for environmental resources as for others. However, where markets do not price environmental costs properly, economic instruments such as environmental taxes or measures such as tradeable permits can be used to improve the price signals that are given, recognising the dynamic and long term nature of responses within markets.

# 2

## PRODUCT MARKETS

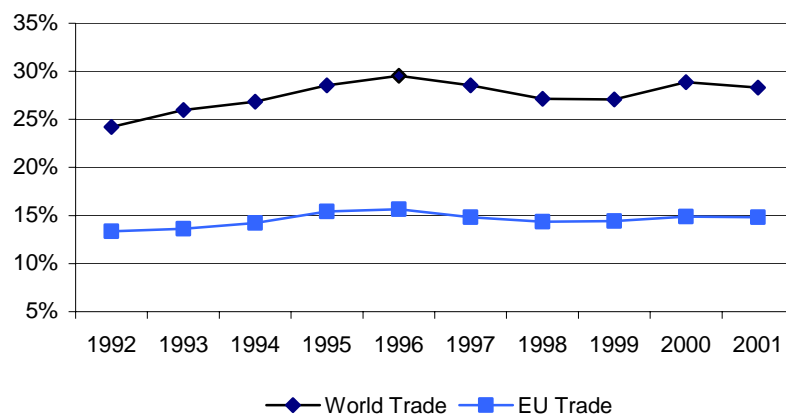
### ENHANCING ECONOMIC INTEGRATION

11. The UK has taken forward the momentum provided by the Lisbon summit in reforming product markets. The UK is a highly open economy. Total exports totalled 27 per cent of GDP in 2001, and the UK received the second highest level of foreign direct investment in the world: £43.8 billion. This chapter focuses on continuing policies to open markets to competition, through measures to increase trade and cross-border investments, to reform the legal and administrative framework and the importance of policies in the services sector.

#### Trade and to cross-border investments

**Trade** 12. Greater openness to trade fosters competition and so has the potential to promote improved productivity. The UK is a highly open economy (see figure 4) with total exports equal to around 27 per cent of GDP in 2001 (around half of which went to EU markets). Total export volumes experienced their fastest growth for more than 25 years in 2000. However, the global economic slowdown inevitably affected UK trade in 2001 and consequently, export growth slowed sharply. Export volumes in the first half of 2002 were up by 1¼ percent on the second half of 2001, however, the third quarter saw growth in exports and imports of goods fall back, indicating that overall growth earlier in the year failed to gather any significant momentum amidst fragile worldwide business confidence.

**Figure 4: Trade Integration in Goods and Services<sup>vi</sup>**



Source: ONS

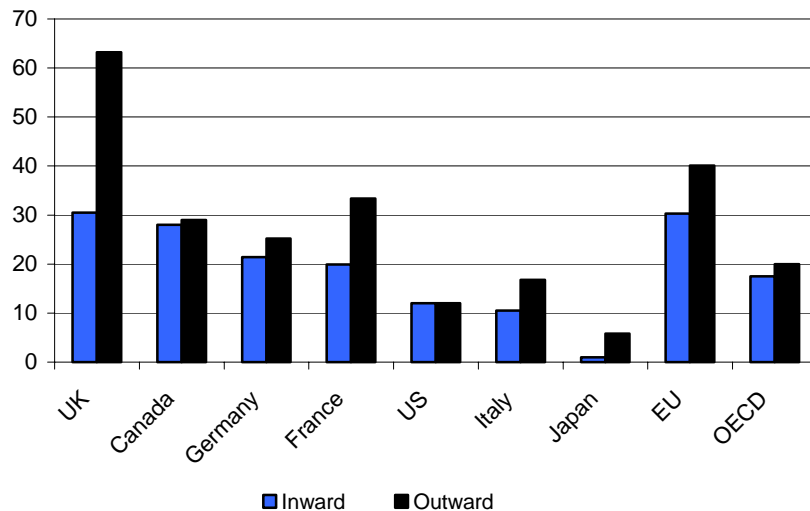
13. Openness can increase the size of commercial markets available to domestic producers, encourage the transfer of technology and knowledge and permit countries to specialise in goods and services they produce most efficiently.

**Foreign Direct Investment** 14. The UK received the second largest amount of inward investment in the world in 2001, a larger amount than any other EU country,

**Investment** totalling £43.8 billion. This amount was below the record high of £79 billion in 2000 due to the sharp fall in world inward investment in 2001. In 2001 the stock of inward investment in the UK was £347.5 billion. The UK also invested £23.7 billion abroad, adding to an existing stock of over £640 billion. More recently, the level of inward investment in the second quarter of 2002 was £8.8 billion, its highest quarterly level for a year, while outward investment totalled nearly £12 billion.

15. Substantial investment flows have complemented the growth in UK trade. Foreign direct investment into the UK and its investment in assets of other countries - as a proportion of GDP- recorded the highest levels in the G7 in 2001. Despite the slowdown in the world economy, the stock of FDI as a proportion of output continued to rise. For example, stocks of inward investment increased from 32.3 to 35.2 per cent of GDP during 2001, whilst the stock of assets invested abroad rose to a record level of 65.3 per cent.

**Figure 5: Value of Foreign Direct Investment<sup>vii</sup>**



### Legal and Administrative Framework

**Implementation of Single Market directives** 16. The UK has continued to improve its rate of transposition of Single Market directives as defined by the Commission's Internal Market Scoreboard. By the 2002 Spring Council, it had implemented 98.7 per cent of directives within two years of their due date, compared with 96.7 per cent in May 2001 and 97.2 per cent in November 2001. The UK thus met the 2002 Spring Council transposition target of 98.5 per cent, one of only seven Member States to do so. The UK maintained that level of performance in May 2002, with 98.5 per cent, and in November, with 98.6 per cent, when only five Member States achieved the transposition target. The UK is working hard to meet the new target that no directives should be more than two years overdue for transposition by the 2003 Spring Council.

### Services

17. The UK has one of the most open service sectors in the European Union, and maintains a trade surplus with the rest of the EU in many service sectors. The UK is committed to strengthening competitive pressures in the services sector, and at an EU level is keen to complete the Internal Market in services. (See annex B for more details.)

## Policies impacting on product markets

18. The UK government believes that open and competitive markets both at a national and EU level are a precondition to improving economic efficiency. This chapter outlines the major reforms introduced over the last year aimed at increasing competition; modernising the tax system; opening up public procurement; reducing the regulatory burden on enterprise and assessing the impact of environmental regulations on product markets.

### Competition policy and State aids

19. Competition is a key driver of productivity growth in the economy, and the Government and the independent competition authorities have sought to focus on areas where competition may not be working well for consumers. Competition in a number of key sectors has been boosted by pro-competition initiatives, including banking, retail financial services, energy and telecommunications.

**Enterprise Act** 20. The Government has taken important steps to strengthen the UK competition regime. The Enterprise Act:

- gives full **independence to the UK competition authorities**, so that they can decide which cases to take forward and to reach decisions on them, free from political interference;
- gives the Office of Fair Trading (OFT) a **clear proactive role** to keep markets under review;
- improves the mergers regime and introduces a new regime for **market investigations**; and
- allows for **criminal sanctions** to be imposed on those engaging in hard core cartels.

21. The new provisions will come into effect in spring 2003 and have been matched with substantial increases in resources for the competition authorities. Together, the changes will increase the competitive intensity of the UK economy and bring down barriers to enterprise and innovation.

22. In 2001 the OFT examined over 350 merger investigations, referring 10 to the Competition Commission for further consideration and took decisions in 21 significant competition cases. During 2002 it has run 3 investigations into markets where competition did not appear to be working well.

23. The OFT has already successfully promoted competition in a

number of markets. Last year, an OFT court action against the practice of setting minimum prices for branded medicines led major retailers to reduce prices on leading brands by between 25 and 50 per cent. The OFT's first completed market investigation into extended warranties for electrical goods found that competition was not working effectively and that consumers lacked adequate information. The Competition Commission will now consider remedies and report on this matter in summer 2003. The OFT is also investigating consumer IT services and estate agencies and, in response to 'super-complaints' brought by consumers' associations, has launched new investigations into doorstep selling and the market for private dentistry.

**Resources of the competition authorities**

24. To enable the UK competition authorities to fulfil their challenging new role under the Enterprise Act, Spending Review 2002 increased resources for the Competition Commission and the Government has increased the resources for the OFT by 50 per cent from the level allocated in the 2000 Spending Review for 2002-03, from £34 million to £52 million. The 2002 Spending Review consolidates this step-change in funding, and allocates an additional £3 million in each of the three years to 2005-06, raising the OFT's annual budget to £55 million.

**State aids**

25. Efforts are on-going to reorient state aid in the UK to more clearly target identified market failures - for example in the areas of access to finance for small companies, the regeneration of deprived communities, and in pursuit of environmental objectives. The UK has also been expanding the resources devoted to the state aid dimensions of policy measures - both centrally in DTI and in the lead policy departments - and contributed to the exchange of information and best practice on the appraisal of state aid at the recent Danish Presidency seminar on this subject. Horizontal objectives account for an increasing share of UK state aid. In 2000, 60 per cent of UK state aid (excluding agriculture, fisheries and transport) was devoted to horizontal objectives, and much of the remainder was regional aid which also often addresses horizontal objectives.

**Consumers**

26. Active consumers are central to the competitive process and are an important driver of productivity at the firm level. Just as a vigorous competition regime is the best way to ensure that consumers receive a good deal, so an empowered, active consumer population is the best way to ensure that poorly performing firms improve or leave the marketplace, and that the best firms are rewarded.

27. The Government wants to see empowered consumers at the heart of the competition regime, and is committed to ensuring they have the skills and information needed to perform an effective role. A new national telephone consumer help-line, Consumer Direct, is being developed with £30 million of Government funding, and there is ongoing work to enhance the public information and education resources provided by the Trading Standards Departments, the OFT and various consumer bodies. The Government is also carrying out a major consumer study to assess the current state of the UK and other regimes, and to lay the foundations for future policy development.

**New cars** 28. A major pro-competition reform of the new cars market was achieved in July, with the announcement of a new European Commission cars block exemption. The new rules will take effect from October 2003 and allow dealers to market their services freely across the EU and to sell multiple brands of car through their showrooms. Internet retailers will also find it easier to cooperate with dealers and individuals who wish to import cars, and the after-sales market will be opened to greater competition.

### **Taxation**

29. To provide stability for business, allow the UK to compete effectively in global markets and ensure that the rewards to successful enterprise are commensurate with the risks that business owners must bear, the Government has introduced significant reforms to the business tax regime.

**Corporation tax** 30. The Government has reduced corporation tax rates so that the main rate is now 30 per cent, the lowest rate in UK history, and introduced a starting rate for the smallest companies. **Budget 2002 introduced further tax cuts; reducing the small companies rate of corporation tax to 19 per cent and the starting rate of corporation tax from 10 per cent to zero**, providing further support to new and growing companies.

**Large business** 31. Budget 2002 took further modernising measures to remove distortions and ensure that the tax system reflects commercial realities. **In Budget 2002, the Government introduced a new regime for taxation of intellectual property, goodwill and other intangible assets** to encourage companies in the new knowledge-based economy; and an exemption for gains and losses on most substantial shareholdings.

**Small business** 32. The Government recognises the important role that small and medium sized business play. In addition to corporation tax cuts that mean 150,000 small companies no longer pay any corporation tax, the Government has in the past also introduced a 40 per cent first-year capital allowances for small and medium sized enterprises, tax relief for investing firms and the provision of a cash flow boost to fund investment in plant and machinery. At the same time it has introduced Enterprise Management Incentives to aid recruitment and retention of key employees by small higher-risk companies by offering access to tax advantaged share options.

**Capital gains tax** 33. The Government has made significant reforms to the capital gains tax (CGT) regime, introducing a business assets taper to create incentives for long term investment in assets generating sustained growth. As announced in the 2001 Pre-Budget Report, from April 2002, **the effective rate of tax for a higher rate taxpayer was reduced to 20 per cent for business assets held for one year and to just 10 per cent after only two years**, making the UK CGT regime more favourable to entrepreneurs overall than the US regime.

**VAT on small business** 34. In Budget 2002, the Government implemented a package of measures designed to help small businesses manage their entry into the VAT system, reduce VAT compliance costs and improve small business cash-flow:

- **increasing the VAT registration threshold**, broadly in line with inflation, from £54,000 to £55,000, keeping it the highest in Europe;
- opening up and simplifying the annual accounting scheme, by **removing the twelve-month qualifying period from registration before businesses with a turnover of up to £100,000 may use the scheme**. Under the scheme businesses normally make nine interim payments throughout the year but they now have an option to make only three larger interim payments if they prefer;
- **introducing a new optional flat rate scheme for small business**, allowing companies with a turnover of up to £100,000 to calculate their VAT payment as a given percentage of their total taxable turnover. The percentage used is determined by the nature of the business. The scheme will be extended to more small businesses (with a turnover up to £150,000) from April 2003;
- **reforming the VAT penalty regime from April 2003**, to ensure that when businesses with a turnover up to £150,000 are late with VAT payments, they are first offered advice and support before facing automatic fines; and
- **simplifying the bad debt relief scheme** so that businesses seeking bad debt relief are no longer required to send a letter to debtor customers notifying them of the claim.

### Public Services

**Value for money** 35. The UK Government is committed to ensuring that all public spending represents value for money and achieves the outcomes that the public want and expect. For this reason the 2002 Spending Review, which set out the Government's spending plans for 2003-4 to 2005-6, outlined reforms designed to improve the efficiency and

effectiveness of UK public services. These proposals are based upon four guiding principles: clear long term goals; independent auditing and inspection; maximum local flexibility and discretion to innovate; and transparency about performance.

**Spending Review 2002** 36. **Spending Review 2002 included new Public Service Agreements (PSAs) for all the main Government departments.**<sup>viii</sup>

These PSAs link future funding to performance against around 130 measurable targets, consistent with the Government's principle of clear objective setting. Inspection and auditing of public services' performance will also be enhanced by the creation of new, independent, bodies monitoring healthcare and social services, while local authorities will be subject to a Comprehensive Performance Assessment. Devolution of responsibility for the provision of public services to local providers, meanwhile, is evident in the Government's plans to increase the powers of police Basic Command Units and give greater freedoms to local authorities. Finally, the importance of transparency to the Government is reflected in its ongoing commitment to publish details of Departments' performance against their PSA targets.

**Public procurement**

37. The UK Government strongly supports the Stockholm aims to see greater efficiency and effectiveness in the process of public procurement. An EU legislative package to simplify and clarify the existing EC procurement directives covering service, supplies and works contracts as well as utilities is likely to be adopted by the summer of 2003, and be implemented in the UK within the following twenty-one months. This will help to ensure that the process is made more accessible to SMEs and catalyse the use of e-procurement for Government's interactions with its supply base.

**OGC Gateway Programme** 38. The Office of Government Commerce (OGC)<sup>ix</sup> launched the Gateway Programme in February 2001 to deliver value for money improvements in government procurement.<sup>x</sup> New procurement projects in civil Central Government are subject to Gateway Reviews. The Gateway Process examines a project at critical stages in its lifecycle to provide assurance that it can progress successfully to the next stage. It is designed to be applied to projects that procure services, construction/property, IT-enabled business change projects and procurements utilising framework contracts. The Government has agreed that this process should be mandatory for all procurement projects. The OGC Gateway programme has been designed to provide structured, independent reviews of procurements throughout the project cycle. Over 235 procurement projects covering some £24 billion of public investment have benefited from Gateway review.

**Policy initiatives to reform markets**

**Regulatory reform** 39. Whereas effective and well-focused regulation can help to correct market failures, promote fairness and ensure public safety, unnecessary or poorly enforced regulation can restrict competition, stifle innovation and deter investment. The Government is therefore committed to

regulatory reform in the UK and EU.

**OECD review of regulatory reform** 40. On 24 October 2002 the OECD published the results of an eighteen-month study of UK regulatory practices and reforms, entitled “*OECD Reviews of Regulatory Reform: UK Challenges at the Cutting Edge*”.<sup>xi</sup> The OECD report praises central government arrangements to promote regulatory quality, transparency, accountability and market openness. It also welcomes the changes made to competition policy, the further development of independent regulators and the innovative solutions used to address regulatory reform issues. Some of the challenges the report identified for the UK include the management of target-based regulation, the development of new approaches to consultation, and the management of the regulatory burden on government itself.

**Regulatory Reform Act** 41. In April 2001 the Regulatory Reform Act came into force. The act allows Ministers to use secondary legislation, Regulatory Reform Orders, to reform primary legislation in order to remove or reduce compliance costs. Since April 2001 six Regulatory Reform Orders have been made. As at October 2002, a further six are at the parliamentary scrutiny stage, four have finished consultation and 5 are currently under consultation.<sup>xii</sup>

**Regulatory Reform Action Plan** 42. In addition, in 2001, the Prime Minister called for departments to draw up a Regulatory Reform Action Plan; which was published in February 2002.<sup>xiii</sup> **The Plan is wide-ranging and covers reform across all sectors, it brings together 268 proposals for change that will benefit businesses, particularly small businesses, charities and the voluntary sector, the wider public sector, and individual citizens.** The measures in the Plan will be delivered through a variety of means, including primary legislation, regulatory reform orders and revisions to regulations as well as through better guidance, simplification of administrative processes or electronic delivery.

**Regulatory impact assessments** 43. A recent addition to the Regulatory Impact Assessment process is the need to consider the impact that new and existing regulations can have on competition. There is also increased prominence of sustainable development issues, and additional guidance on the Small Firms Impact Test and on alternatives to legislation. Revised guidance on RIAs will be issued in December 2002, following a 12 week period of open consultation, and will bring together guidance on domestic and European proposals, currently available as separate guides.<sup>xiv</sup>

**Simplifying regulation for small businesses** 44. The Small Business Service, a part of the Department for Trade and Industry, is leading a cross-Departmental project to produce a single reference source on regulatory requirements for business start ups. This will be available in hard copy by 31 March 2003 with an electronic version to follow shortly afterwards. Regulatory information will be at the core of the Pack - but presented in a context relevant to small businesses and with processes explained in a business-friendly sequence. There will be some practical guidance, and sign-posting to both to specific regional and/or sectoral aspects as well as to sources of business advice (as distinct from business information). New and potential businesses will benefit by being presented with clear guidance on the government’s core regulatory

requirements. The Pack is being produced by the SBS working in collaboration with Treasury, Inland Revenue, Customs & Excise and the Department for Work and Pensions. Other central government departments, local authorities and the devolved administrations are also being consulted.

45. The pack will be additional to the simple introductions to regulatory guidance that the SBS already prepares for small businesses from information collated from other government departments. This is generally distributed via intermediaries (i.e. trade associations, chambers of commerce, Business Links etc) for dissemination to members. Other parts of the DTI (e.g. Companies House) and other government departments also produce a variety of guidance on regulatory issues for businesses, both in hard copy and electronically

### Promoting enterprise

46. The Government's strategy for promoting enterprise was described in *Enterprise Britain: a modern approach to meeting the enterprise challenge*, published 27 November 2002.<sup>xv</sup> In addition, the Small Business Service will shortly publish a framework for government policy towards small business, which will also set out its refocused and enhanced role. The Government is committed to:

- building an enterprise society in which people from all backgrounds consider and act upon enterprise opportunities;
- providing extra support to tackle barriers to small business growth in skills, finance and innovation;
- creating a fertile business environment through a modern and competitive business tax system; and
- removing the obstacles to, and raising levels of, enterprise and investment in the UK's most disadvantaged areas.

### Davies review of enterprise and education

47. In February 2002, Sir Howard Davies, Chairman of the Financial Services Authority (FSA), reported to the Chancellor of the Exchequer and the Secretaries of State for Trade and Industry and for Education and Skills on the steps needed to promote a better understanding of business, the economy and enterprise throughout the school and further education systems.

48. The Government shares and accepts the review's recommendations and its assessment that efforts to build a deeper and wider entrepreneurial culture must begin in schools, and will ensure that by 2005-06 every secondary school can offer five days' enterprise activity to pupils, discussing with OFSTED the best way of assessing performance in this area. **The Government will provide £60 million in 2005-06 for this and, in preparation, intends to test a number of approaches through pilot schemes, allocating £5 million in 2003-04 and £10 million in 2004-05.** This investment will be supported by a number of measures, including new guidance for teachers on enterprise learning, along with new teaching materials, and a new national benchmark of enterprise

capability among young people.

### Impact of environmental regulation

49. One of the principal factors affecting environmental regulation impacts on product markets is EU Internal Market legislation, e.g. on various standards. The UK Government has been a strong advocate of such legislation being made with full cost benefit analysis attached, to ensure that the impact is justified by the gains achieved. The costs associated with environmental protection, much of it private cost, can be substantial. One recent study<sup>xvi</sup> estimated that direct spending on environmental protection by UK manufacturing industry was over £ 4 billion in 1999 alone, similar to an earlier study result. The large impacts show the importance of well-designed policies that are based on cost-benefit analysis and risk assessment.

### Utilities and other network industries

50. Network industries play an important role in the UK economy, both as significant industries in their own right and as inputs into other sectors. As such, liberalisation of network industries represents a significant contribution to the UK's wider productivity agenda.

51. The UK Government has therefore developed a policy approach in these sectors which promotes well-functioning markets, taking account of economic, social and environmental objectives. This approach has delivered economic gains for the UK and clear benefits for consumers. The table below shows that prices in key utility markets continue to fall in all sectors except water, where some £50 billion will have been invested between 1989 and 2005.

**Table 1: Average weighted price indices, utilities**

RPI index	1996	1997	1998	1999	2000	2001
Telecoms	100	97	96	94	90	83
Water	100	105	110	115	108	109
Gas	100	99	96	95	93	95
Electricity	100	95	91	90	88	87
Utilities total	100	99	97	97	94	93

Source: Office for National Statistics

**Telecoms** 52. The UK strongly supports the adoption of the EC Directives which form the new regulatory framework for electronic networks and services. The time is right for a single regulatory framework for electronic communications that does not make arbitrary distinctions on the basis of technological differences. This is consistent with the UK's decision to establish a unified regulator for communications, the Office of Communications. **These changes are being implemented in the UK through the Communications Bill, which is currently going through Parliament.**

53. The Government has a target for the UK to have the most extensive and competitive broadband market in the G7 by 2005, including significantly increased broadband connections to all schools,

libraries, FE colleges and universities.

54. The Government believes strongly in the market as the driver for broadband. The UK has over a million high-speed broadband connections, a figure that is increasing by some 30,000 a week. UK broadband prices are as cheap or cheaper than France, Germany and the US. The Government is acting to stimulate broadband, particularly in rural and remote areas of the UK. **In November 2002, the Government launched the UK Broadband Task Force** whereby a broadband expert will be introduced in each of the English regions and Devolved Administrations to stimulate economic development and enhance the delivery of public services through the extension of regional and local broadband services.

55. The Regional Development Agencies and Devolved Administrations are developing and starting projects under a £30m funding stream to develop innovative schemes to extend broadband access.

56. Opening up the UK telecoms market to competition has also meant that consumers have benefited from rapid price falls. For mobiles, where the total number of subscribers is now over 47 million (about 75 per cent penetration), prices have fallen by approximately 60 per cent since April 1997. Competition in the mobile telecoms market is strong, with the largest competitor having only 27 per cent market share.

57. BT, the market incumbent, is facing increasing competition in all areas of the market and its market share of volumes and revenues continues to decline (71 per cent of residential revenues and 66 per cent of residential call volumes, compared to 89 per cent for both 5 years ago). There has been a consequent decrease in price for overall UK consumers (business and residential) of 30 per cent since April 1997. Using a 'basket' of telecoms charges reveals that in comparison to the EU, UK business rates are about average and consumer rates are a little below average. International benchmarking also shows that in early 2002 residential prices in the UK compared favourably with those in France, Germany and the USA although remaining above those in Sweden.

**Energy** 58. Liberalisation of energy markets has delivered lower prices for consumers. Electricity and gas prices fell by 15 per cent between 1997 and 2001, saving consumers around £3 billion. Increased competition has also reduced the need for regulation, and **price controls were removed from domestic gas and electricity supply in April 2002**. The Government's Energy Policy White Paper will be published early next year, and will set out the next steps for secure and sustainable energy over the long term, building on the benefits of competitive and liberalised energy markets.

59. The UK has also seen a real environmental dividend as a direct result of liberalisation. Total carbon dioxide emissions in the UK are 7½ per cent below 1990 levels and emissions from power stations down by 23 per cent since 1990, despite an overall 8 per cent increase in energy consumption. Part of this improvement is due to the use of

less carbon intensive fuels in electricity generation, resulting from the switch from coal and oil to gas and renewables over the period. However, about half the fall has been due to improved efficiency in electricity generation spurred by the pressures of competition.

**Transport** 60. **UK transport spending will increase by 8.4 per cent a year in real terms with an extra £4.4 billion in 2005-06 as compared with 2002-03.**

**Table 2: UK Transport Spending**

<b>£ Billion</b>				
	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
<b>UK Transport</b>				
<i>UK transport spending (estimated)</i>	12.0	15.3	15.8	16.4

Source: Spending Review 2002

61. **A rise will take place in new capital investment in transport from £3.9 billion this year to £6.4 billion in 2005-06 to help tackle historic under investment in basic transport infrastructure.** This will fund the continued implementation of the Ten Year Plan for Transport, the Government's long term investment strategy for transport, which mainly covers spending on roads and local transport in England and Wales and Railways in Great Britain.<sup>xvii</sup> **In addition some £370 million from unallocated capital within the Ten Year Plan has been brought forward into this spending review period to help accelerate delivery of priorities.**

**Table 3: Transport investment**

<b>£ Billion</b>				
	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
<b>Transport Investment:</b>	3.9	6.1	6.3	6.4
<i>Of which:</i>				
Central Government				
Own Investment	2.9	3.4	3.8	3.4
Investment Grants	1.0	2.7	2.5	3.0

Source: Spending Review 2002

62. The Secretary of State for Transport will publish a first report soon on progress so far in delivering the objectives of the Plan. This report will also set out what will be delivered by 2006 to meet the Plan's overall objectives.

**Rail** 63. Network Rail successfully acquired control of Railtrack Plc, the former network operator in October 2002. Its business plan and financing arrangements will allow them to finance a significant increase in the maintenance and renewals expenditure on the railways compared with what was originally assumed for the Ten-Year Plan. It will also be more closely tied into its stakeholders, allowing greater cooperation and increased focus on results.

64. **The Strategic Rail Authority's Strategic Plan was published in January 2002.** It sets out the key issues that must be tackled on the railways and sets out the service and infrastructure delivery plans necessary to deliver these.<sup>xviii</sup>

65. It is recognised that independent economic regulation is essential if the rail regulatory framework is to provide sufficient comfort and protection to operators and lenders, regulate monopoly and monopony elements and secure private investment in the railways at an efficient cost. The Government intends to build on the existing structure of the Office of the Rail Regulator by establishing a statutory regulatory board.

66. In the first quarter of the year the percentage of trains arriving on time rose by 6 per cent over last year, 4,000 new carriages are now on order or already in service and hundreds of new rail services have been introduced. Construction of the first new major railway for over 100 years, the Channel Tunnel Rail Link, is proceeding on time and on budget.

67. Output figures for the construction industry are showing a 50 per cent increase for road and rail infrastructure combined during the first year of the Plan. This represents the largest increase in new work for a single year on record in the UK.

**Road** 68. Fifty-five Strategic road schemes are now being progressed through the Targeted Programme of Improvements, and around 100 more will be added as the programme of multimodal studies moves towards completion over the next two years.

**Local Transport** 69. The 2002 Spending Review confirmed the step change in funding levels outlined in the Ten-Year Plan for Local Transport to reverse the decline in local roads standards and deliver priority local infrastructure projects. **The allocation for local authorities has doubled, which is funding thousands of smaller schemes across the UK.**

70. Major local road and public transport schemes have already been approved - including new light rail lines in several of the UK's larger cities; and bus patronage is up 52 million journeys on 1998/99.

**Air Travel** 71. The UK Government is committed to achieving liberalisation and normalisation of the aviation industry by ensuring that regulation is effective, that competition policy is vigorously applied and that market distortions are minimised. A major UK Government consultation is underway to examine and decide how our nation's air services and airports should develop over the next 30 years. **A White Paper on aviation will be published next year.**

72. The process of airport slot allocation, governed by European Regulation No. 95/93, affects the efficient use of existing airport infrastructure. The Commission's first proposal for amending this regulation was published in June 2001 and has been the subject of discussion by EU Member States at Council Working Groups over the past year. The Commission have appointed consultants to study the possible use of market methods of allocation and the UK Government

hopes that this will result in a more radical proposal being put forward by the Commission next year.

#### Transport Delivery

73. The long lead times for delivery of transport infrastructure are a significant obstacle to early progress. Streamlined delivery will be targeted through the Department for Transport and Highways Agency working towards an average delivery timescale for new road schemes of no more than four to six years from 2004-05. Moreover successfully piloted highway and traffic management tools will be rapidly deployed to improve performance of, and make better use of, the existing road network.

74. The DfT and the SRA will work with the rail industry to develop special purpose vehicles to deliver major rail projects and the DfT and the Office of the Deputy Prime Minister will undertake a review of the statutory planning process for transport.

#### Water

75. Following a public consultation in the summer of 2002, **the Government intends to introduce greater competition in the supply of water for large commercial users in England and Wales**, to encourage further innovation, greater efficiency and keener prices. The proposals would see new entrants licensed to compete with the appointed statutory water undertakers by using their own source of water, accessing the statutory undertaker's network to transport the water to a customer ("common carriage"), or by buying water from the statutory undertaker to supply a customer (i.e. providing retail services only).

76. The Government has proposed that the threshold for the contestable market should initially be set at 50 megalitres of water consumed annually. To provide further scope for increased competition in future, the proposals also provide for review and, if appropriate, revision of this threshold, once the benefit of practical experience is available and the Government is satisfied that this would remain compatible with its wider objectives for the water industry.

77. These proposals will be implemented through the forthcoming Water Bill. The Bill will also make changes to the economic regulator's powers and duties, including a new duty to promote competition, and will establish an independent consumer body, the Consumer Council for Water.

#### Postal services

78. At the October 2001 European Telecommunications Council, Member States agreed by a large qualified majority to:

- reduce the maximum limit of services that may be reserved where necessary to ensure the provision of the universal service for national Universal Service Providers to 100 grams by 2003;
- move to 50 grams by 2006, and
- to abolish the 'reserved area' by 2009, subject to a further agreement by Member States and the European

Parliament.

79. The Government fully supports the European Commission's objectives, and believes that this agreement, as expressed in EU Directive 2002/39/EC, will benefit all EU consumers. In addition to supporting the Commission's objectives, the UK has also demonstrated its commitment to liberalisation consistent with ensuring the provision of the universal postal service by implementing domestic reforms.

80. The UK Government aims to further the interests of consumers by promoting competition without compromising the universal postal service. The (former) Post Office's statutory monopoly has been replaced by a licensing regime administered by an independent regulator, the Postal Services Commission (PostComm). This regime regulates a market for letters weighing less than 350 grams and costing less than £1. A new Consumer Council for Postal Services (PostWatch) has also been established to promote the consumer interest in the postal market.

81. Royal Mail Group plc, formerly the Post Office, is licensed by the regulator to provide a universal postal service. That license imposes regulatory disciplines on Royal Mail Group regarding its operation in the market. PostComm is also able to license other operators in the regulated market provided it is satisfied that the universal postal service can be maintained. Postcomm therefore, actively introduces competition into the market and to date it has licensed 13 other operators. It may also recommend reductions or exemptions to the licensed area.

## Fostering a knowledge-based society

82. A key priority for the UK is to raise productivity through building research knowledge, exploiting better innovative ideas, greater use of information technology and increasing standards in education.

### R&D and Innovation

**R&D Tax Credit** 83. **In April 2002 a research and development (R&D) tax credit for large companies was introduced**, complementing the small and medium sized company credit introduced in April 2000, making R&D tax credits available to all UK companies.

84. These are both volume tax credits, which give an enhanced tax deduction for the full amount of qualifying R&D. For small and medium sized companies the tax deduction for R&D is increased from the usual 100 per cent to 150 per cent. Large companies are given a 125 per cent deduction. The estimated cost of the two credits combined is £500 million per year.

85. The effect of these credits is to reduce the post-tax cost of R&D. The exact rate of incentive depends upon the rate of tax the company pays, but will typically be 10 per cent for a small or medium sized company and 7.5 per cent for a large company.

**Co-operation** 86. Innovation is vital to the Government's task of improving UK

between research  
bodies and  
business

productivity and competitiveness. Evidence shows that firms which innovate tend to perform better in the long term. Investing in the science base and key technologies is only part of the innovation process. Government has a key role to play as a facilitator in encouraging collaboration, exploitation and business innovation between the science base and business.

87. **The Spending Review 2002 settlement included an increase in resources for knowledge transfer from the science base of £20 million (2003/04), £36 million (2004/05) and £50 million (2005/06)** from a baseline of £64 million in 2002/03 to £114 million in 2005/06 (including £20 million from DfES). This includes an expansion of the Higher Education Innovation Fund to cover:

- work to promote enterprise in universities and networking between universities, business and other user communities for the outputs of research;
- the infrastructure and capability to transfer knowledge from universities into business and the community through applied research, technology and knowledge development and consultancy, linking with all types and sizes of business, and
- the formation, through seedcorn funding, of companies to spin out new knowledge or the development of commercial enterprises to pursue the above activities.

88. **Additionally, £15 million was announced to support increasing commercialisation among Public Sector Research Establishments.**

Faraday  
Partnerships

89. Following the announcement of six new Faraday Partnerships in September 2002, business-driven knowledge base/industry partnerships recognised regionally and nationally as centres of expertise and collaboration in their sectors or technology, **the Government has met its target, set in the Science and Innovation White Paper of July 2000, to establish a national network of 24 Faraday Partnerships by 2002.** These partnerships give British manufacturers the opportunity to work closely with universities and research organisations, other firms and providers of capital to get new products and processes to the marketplace more quickly. In addition, the Government has established five University Innovation Centres which will aim to develop top-class, long term research partnerships between major business interests and the university sector.

90. To build on these successes, the Government is commissioning an independent review into how, over the coming decade, business can better draw on universities to the mutual advantage of both sectors. The aim is to enable business-university interaction in the UK to provide a greater contribution to UK productivity growth and innovation performance.<sup>xix</sup>

Investing in science  
and technology

91. In July 2002 the Government published *Investing in Innovation: A strategy for science, engineering and technology*. The strategy takes forward the recommendations of the cross-cutting review of science

and research and the Roberts review on the supply of scientists and engineers. It sets out substantial extra investment in the UK's science and engineering research base, measures to help translate research outputs into innovation, and measures to improve the supply of people with skills in science, engineering, mathematics and technology. **An extra £1.25 billion per year by 2005 will be invested in measures including additional funding for science and engineering research, better stipends and salaries for Research Council PhD and postdoctoral researchers, investment in school laboratories and teaching support, and an increased funding for the Higher Education Innovation Fund for knowledge transfer activities.**

**DTI Innovation Review** 92. Building on the Government's science strategy and the growing level of resources for Department of Trade and Industry (DTI) innovation programmes, **the Government is launching a wide-ranging review of business innovation and its contribution to UK productivity growth.** The review, led by the Science and Innovation Minister working across Government with the DTI, the Office of Science and Technology, the Treasury and other stakeholders, will set out a clear strategy for improving the UK's comparative innovation performance. The review will report by summer 2003.

**Intellectual property rights** 93. During 2002, the Patent Office (in collaboration with Universities UK and the Association for University Research and Industry Links) produced guidance entitled "A guide to Managing Intellectual Property: Strategic Decision-Making in Universities" identifying the issues that senior managers need to address when developing their strategies and illustrating a number of ways in which such challenges have been successfully met.

#### **Information society**

**National Grid for Learning** 94. Investment in the National Grid for Learning has improved computer to pupil ratios to 1: 9.7 in primary and 1:6 in secondary schools, with more than 99 per cent of all secondary schools connected to the Internet. All secondary schools and most primary schools will have a broadband connection by 2004, when investment in ICT will be over £350 million a year. Over 50,000 teachers have already been provided with PCs and 50 per cent of teachers will have personal access to a PC by 2004. **The Laptops for teachers scheme was launched in 2002 and will equip 100,000 teachers over the next two years.**

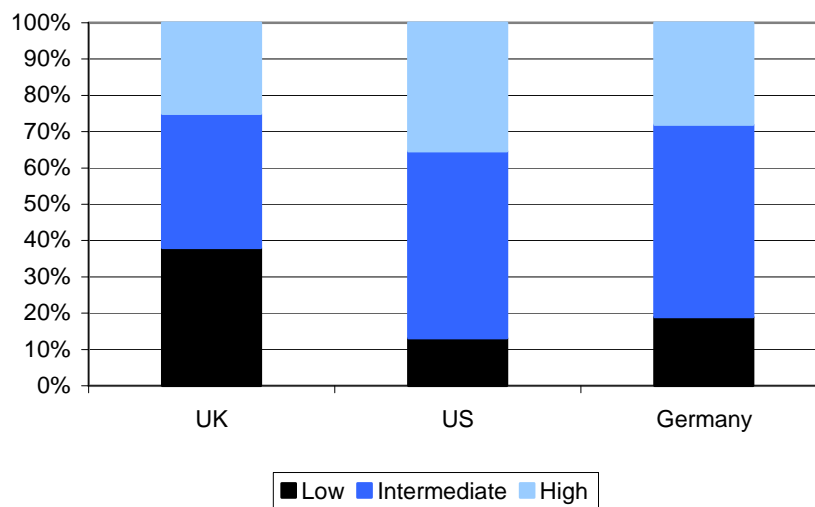
**Increasing access** 95. The UK has continued to build upon its favourable position in the knowledge economy through further increases in accessibility to, and affordability of, the telecommunications networks, led by greater supply-side competition. The DTI's International Benchmarking Study 2002 shows that 86 per cent of all UK SMEs are connected. Recent estimates of Internet use show that by October 2002 and 42 per cent of homes in the UK had Internet access, and 50 per cent of UK adults use the Internet in a variety of locations. In addition, with the increasing availability of alternative access media, nearly 40 per cent of homes now have access to digital TV. The proportion of lower income households and older people on-line is smaller but increasing.

## Education and training

### The importance of education and skills

96. The quantity and quality of skilled labour available in an economy are important determinants of economic performance and productivity growth. A highly skilled workforce allows firms to update working practices and products at the rate demanded by rapidly changing markets, making the economy more flexible and productive in the long term. International evidence suggests that the UK suffers from significant skills shortages, especially at the lower-intermediate level. To raise UK skill levels and increase productivity, the Government is therefore seeking to improve both the skills of young people entering the workforce and the opportunities available to those already in the workforce to acquire new skills.

Figure 6: Employees by skill level



Source: OECD, 2001

Note: International comparisons of workforce skills are complicated by the difficulty in establishing equivalencies between countries with widely different education systems. The data used here is drawn from OECD (2001) which, unlike previous studies, compares both work-related and academic based qualifications across countries. The study shows the UK with a greater human capital deficit compared to the US than the data cited in *Productivity in the UK: Enterprise and the Productivity Challenge*, HM Treasury, June 2001. More detailed discussion of this issue can be found in the accompanying document, 'Developing Workforce Skills: Piloting a New Approach.' Low skills are defined as International Standard Classification of Education (ISCED) levels 0-2, intermediate as ISCED levels 3-4, and high as ISCED levels 5-6.

97. To improve the skill levels of young people entering the workforce the Government is working to improve standards in schools and, building on progress so far, is setting demanding targets over the three year period to 2005-06, including new minimum attainment targets in schools to help ensure that the education system meets the needs of all. The Government is also introducing measures to encourage more young people to stay in education and training after the age of 16, including, as announced in Spending Review 2002, **rolling out the successfully piloted Education Maintenance Allowance, which will provide young people staying in education after 16 with support of up to £1,500 a year from September 2004.**

**Post-16 participation** 98. Pre-Budget Report 2002 announced that **the Government is setting an ambitious new target to increase post-16 participation in education and training that, by 2010, 90 per cent of young people will have participated in a full-time programme fitting them for entry into higher education or skilled employment by the age of 22.** This will increase the proportion of young people expected to participate in such programmes from the current rate of around 80 per cent. Achievement of the target will require a significant reduction in the number of 16 year-olds not currently in full-time education or work-based training, and more support for those that need to progress further with their learning to reach the threshold for skilled employment. This target reinforces the Government's commitment to delivering quality vocational programmes, such as Modern Apprenticeships, and does not change the Government's continued commitment to ensure that, by 2010, participation in higher education increases toward 50 per cent of those aged between 18 and 30, as set out in the 2002 Spending Review.

**Modern Apprenticeships** 99. To widen the vocational choices available to young people, and increase participation in work-based learning, the Government has reformed, strengthened and expanded the Modern Apprenticeships (MA) scheme by establishing:

- a target for 2004 that 28 per cent of young people should enter an apprenticeship by the age of 22;
- an entitlement, from 2004, to an apprenticeship place for all 16 and 17 year-olds with five or more GCSEs at A\*-G, including maths and English;
- a national framework to ensure world class standards, with a network of high quality Apprenticeship Agents to help more employers, including SMEs, deliver apprenticeships; and
- a major three-year marketing campaign to promote apprenticeships to young people and increase take-up.

**National Modern Apprenticeship Taskforce** 100. While recent measures have done much to improve the MA system, and reforms in secondary and further education are raising standards and participation in work-focused learning, more work is needed to ensure that standards are consistently high, that more young people are able to participate and complete their courses, and that more employers become involved in training young people.

101. Employer involvement in MAs is critical to ensuring that the new post-16 participation target is met, and that MAs continue to meet the needs of UK firms while providing young people with high quality training opportunities in a work environment. **The Government is therefore launching a National Modern Apprenticeship Taskforce to champion the MA scheme and report on key policy issues.** The taskforce will be led by Sir Roy Gardner, CEO of Centrica, and will include individuals from across business and the education and training sector. It will report to the Chancellor, the Secretary of State for Education and Skills and to the Chairman of the Learning and Skills

Council (LSC) on a range of important policy issues, building on the work of Sir John Cassels and his committee. These issues will include the involvement of SMEs in MAs, the MA framework, particular problems faced by some sectors in recruiting and training young people, and measures to support improved completion rates. The taskforce will be supported by its own secretariat.

**Improving  
workforce skills**

102. The Government is also committed to improving the skills of those already in the workforce. The 2002 Spending Review set stretching new targets to improve the literacy and numeracy skills of 1.5 million adults by 2007 and to reduce by at least 40 per cent the number of adults in the workforce who lack National Vocational Qualification level 2 or equivalent qualifications by 2010. In order to meet these targets the Government is reviewing funding for adult learning and is enhancing the role of Regional Development Agencies in planning and guiding skill development. **The Government has also established a series of pilot schemes, which began in September 2002, to test a new policy approach to support training for low-skilled people in the workforce.** The approach being tested consists of four complementary, linked elements:

- free learning provision and accreditation for employees without basic skills or level 2 qualifications, building on the current provision of free courses for basic skills;
- a minimum entitlement for all employees who have not attained basic skills or level 2 qualifications to paid time off to train towards the level 2 standard - the pilots are exploring different time periods;
- financial support for employers whose staff take time off, up to 150 per cent of wage costs for small firms, to cover the costs involved in releasing staff to train, and
- extended information, guidance and support for employers and individuals taking part in, or considering taking part in, any new system.

103. The pilot schemes will provide information about how the policy approach outlined above might impact on UK skills, and will gather evidence which will contribute to the Government's consideration of workforce development policy.

**Research and  
higher education**

104. Higher education is crucial to the development of a highly skilled workforce. The Government's aim is that, by 2010, 50 per cent of young people will have the chance to participate in higher education. Higher education is also key to developing the science, engineering and technology essential to the delivery of the Government's central economic objective of high and stable levels of growth and employment.

105. The Government is therefore pursuing two key objectives: widening access to higher education, and ensuring sustained teaching and research excellence. **Spending Review 2002 recognised this, allowing for sustained rises in funding for teaching and providing**

**for the largest sustained growth in spending on science for a decade, with some £1¼ billion additional spending by 2005-06 compared to 2002-03.** Extra resources and reforms to the balance of the funding system will enable university research efforts to move onto a sustainable long term footing. At the same time, additional funding will enable the UK to move into promising new areas of research.

## Environmental policies

106. The Government is committed to sustainable development: achieving economic and social progress whilst protecting, and if possible enhancing, the environment. The Government uses a variety of instruments to achieve this, and is in favour of using economic instruments wherever appropriate. The statement of intent on environmental taxation describes how the Government aims to shift the tax burden, over time, away from ‘goods’, such as employment, to ‘bads’, such as pollution. The Government also attaches great importance to participating in EU decision making on environmental protection, arguing for a sound cost benefit analysis of the social, economic and environmental impacts of proposals.

### Substantial progress

107. The past year has seen some substantial progress in policy delivering environmental objectives: for example; the UK emission trading scheme for greenhouse gases was introduced; the Air Quality Strategy was updated, tightening limits on some pollutants and adding one – aiming to cut pollution further and deliver health benefits; and new enhanced capital allowances for investments in environmentally friendly technologies were announced.

### Achieving sustainable development

108. Sustainable development is vital to ensure a better quality of life for everyone, today and for generations to come. Economic growth and social progress must be balanced with action to protect and improve the environment. The Government is using a range of economic instruments to address the many challenges posed by sustainable development, tackling local environmental threats and controlling and reducing emissions of the gases responsible for climate change and poor air quality. Chapter 7 of the Pre-Budget Report 2002<sup>xx</sup> describes in much more detail the steps the Government is now taking to protect and improve the environment, including:

- publishing details of its strategy for using economic instruments to tackle environmental problems;
- further action to improve waste management, by consulting on a revenue neutral proposal:
  - to increase the landfill tax escalator to £3 per tonne in 2005-06 and to increase the rate of tax by at least £3 per tonne in future years, on the way to a medium- to long term rate of £35 per tonne; and
  - reforming the Landfill Tax Credit Scheme to ensure that funds more effectively promote sustainable waste management, while continuing to support local community environmental projects.
- consulting on a new proposal to allow local authorities to

retain increases in business rates revenue to spend on their own priorities;

- a new tax incentive to encourage donations towards the running costs of Urban Regeneration Companies;
- further steps to promote cleaner fuels, including through a new low rate of duty on bioethanol;
- announcing the next steps towards introducing a lorry road-user charge to ensure that all lorry operators contribute to the cost of using UK roads, regardless of nationality;
- discussing with stakeholders the role of economic instruments in encouraging the aviation industry to take greater account of its environmental impact; and
- consulting further on the use of economic instruments both to promote household energy efficiency and to address the environmental impacts of agriculture.

# 3

## CAPITAL MARKETS

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### Legal, regulatory & supervisory framework

#### Financial Services Action Plan

109. The Financial Services Action Plan should create broader and deeper capital markets that will reduce the cost of capital and increase the efficiency of allocation of capital across the EU, and to allow consumers and investors to benefit from a greater choice of more competitive and innovative financial services and products. All this should make a major contribution to raising Europe's growth, employment and productivity. The UK will continue to work with partners to agree quickly legislation that meets these objectives.

#### Risk Capital Action Plan

110. The Risk Capital Action Plan was intended to create a single, larger, more liquid market for risk capital. A more liquid market will reduce the cost of capital, particularly for small businesses, encouraging investment and growth. On top of European actions, such as the Prospectus Directive and the Pensions Directive, the Plan is made up of a series of Member State actions to promote enterprise. The UK Government has **improved access to finance** through measures such as the Regional Venture Capital Funds; **raised awareness of equity finance** through the launch of pilot programmes to improve the investment readiness of small businesses; worked to **improve the enterprise culture** by providing funding for enterprise training in schools; and, **reduced the barriers to enterprise in deprived areas** through the Community Investment Tax Credit and supporting entrepreneur role models. The deadline for implementation of the Risk Capital Action Plan is end 2003.

#### Cross-border co-operation

111. The UK supports the proposals of ECOFIN, agreed on 3 December, to improve financial regulation, supervision and stability in the European Union, which, in particular will promote cross-border co-operation between national financial supervisors.

#### Recent developments

112. Recent work by the Organisation for Economic Cooperation and Development (OECD) has shown that the taxation of UK branches of foreign companies - including bank branches - puts the UK out of line with international practice among major industrialised countries. From 1 January 2003, capital will be attributed to a UK branch for tax purposes, based on the amount of capital that would be needed if the branch were an independent company. The reform will ensure a more level playing field between UK-based banks and their foreign competitors, bringing the UK closer into line with established international practice.

### Looking ahead

#### Accountancy and audit

113. Corporate crises in the US have highlighted the vital importance of strong frameworks for corporate governance, financial reporting and audit regulation in underpinning strong and efficient national and international capital markets. The Government has acted quickly to ensure that the UK's own arrangements are thoroughly reviewed and further strengthened where necessary. The objective is to rebuild investor confidence while acting proportionately. These issues have global implications and should not be

considered merely in a domestic context. The Government has therefore encouraged the search for global solutions that will not hinder the growing and beneficial integration of international capital markets, working through the Financial Stability Forum and the EU.

114. In the UK, a number of core issues are being addressed by the Company Law Review. In addition, the Treasury and the DTI have established a Coordinating Group on Audit and Accounting Issues (CGAA) to review the UK accounting and auditing regime. An interim report by the CGAA contained a number of recommendations which the Government supports, and the DTI is now reviewing the regulatory arrangements for the accounting and audit professions. The CGAA also proposed that the Government should consider whether competition in the market for large company audit and accountancy is currently too constrained. Following an examination of the competition issues, the OFT decided not to refer the market to the Competition Commission or to launch its own investigation at this stage, but to keep the market under review. Work to develop the Combined Code guidance for audit committees, commissioned by the CGAA, is taking place alongside Derek Higgs' independent Review of the role and effectiveness of non-executive directors, and the FSA is currently consulting on the role and practices of financial analysts.

**Higgs Review of  
the role and  
effectiveness of  
non-executive  
directors**

115. Effective non-executive directors play a central role in raising corporate performance. From the point of view of increasing productivity and competitiveness, a progressive strengthening of the role of non-executive director is strongly desirable. **In April 2002, the Chancellor and the Secretary of State for Trade and Industry appointed Derek Higgs to lead a short independent Review into the role and effectiveness of non-executive directors.**

116. Over 260 responses have been received to the Review's consultation document. The overwhelming majority converge on the view that the existing corporate governance framework in the UK, though fundamentally sound in its essentials, would benefit from progressive strengthening. The 'comply-or-explain' approach of the Combined Code is widely supported. A number of core themes emerged from the consultation:

- a need for greater clarity in defining the role of the non-executive director in the context of the Board as a whole;
- the important position of the Chairman of the Board, widely regarded as essential to facilitate effective individual director and overall Board performance, and the nature of the relationship between Chairmen and companies and their executives;
- the importance of independence, and the existence of a number of competing definitions of "independence" which is seen to be confusing;
- the need for a nominations and appointments process which is open, fair and rigorous to promote meritocracy;

- the fact that the current population of non-executive directors does not necessarily include all talented individuals with the right mix of skills, knowledge and attributes who could make a strong contribution;
- widespread recognition that relationships between shareholders and non-executive directors could be improved; and
- the potential value of appraising the mix of skills, knowledge and expertise needed on a Board, including more formal evaluation of individual and Board performance.

117. Derek Higgs will report to the Government in January next year.

#### Payment systems

118. The OFT have decided to conduct an empirical study into recent payment system developments, starting early in 2003. The Government is closely monitoring developments and will introduce legislation to give the OFT new powers to promote effective competition in payment systems as soon as parliamentary time allows. In the meantime, the Government welcomes moves by payment system participants to address the competition issues identified by the Cruickshank report, Competition in UK Banking, and urges the industry to continue with these reforms.

#### Liability insurance

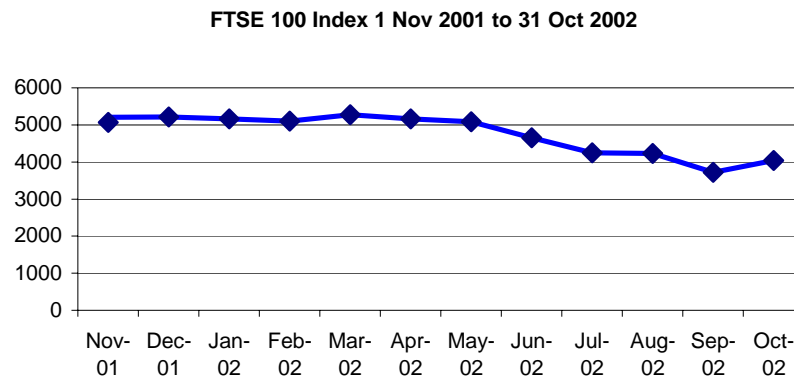
119. Premiums for Employers' Liability Compulsory Insurance (ELCI) have increased substantially in recent months, affecting many businesses, and especially SMEs in high-risk sectors. Following a request from the Government, the Association of British Insurers (ABI) and trade associations are working to ensure that affordable cover is available. The Government has engaged with a wide range of stakeholders including the CBI, TUC and ABI to discuss the long term issues affecting ELCI. **Pre-budget Report 2002 announced that the Department for Work and Pensions will now undertake a formal review of the operation of ELCI. Full details of this review will be announced shortly.**

## Market developments

### Developments in market infrastructure

120. As with prices in other leading equity markets, there has been a large fall in UK equity prices over the last year. The FTSE 100 index of leading shares has fallen by 20.3 per cent over the last year and smaller company equity prices have also fallen with the FTSE SmallCap down 22.9 per cent. One of the UK's Recognised Investment Exchanges dealing with equities, Jiway, was removed from the list of recognised exchanges, and it was subsequently announced it would be shut down on 31 January 2003. In June 2002, International Financial Services London reported that the UK's share of turnover of global trading in Over the Counter (OTC) derivatives was stable, compared to 1998<sup>xxi</sup>, with 36 per cent of global turnover in OTC derivatives trading booked in London, but global turnover had risen by 61 per cent over the same period.

**Figure 7 - FTSE 100 Index 1 November 2001 to 31 October 2002**



### Restructuring of banking and insurance

**Banking** 121. The BEPG recommendation to the UK included improving competition as a means of raising productivity. In retail banking:

- following an inquiry by the UK Competition Commission into the supply of banking services to SMEs,<sup>xxii</sup> Ministers accepted in March 2002 a number of recommendations designed to improve competition in this market. **These included measures, which came into effect in October 2002, to ease the process of switching accounts and a requirement, which will come into force on 1 January 2003, for the largest four banks to pay interest or offer free banking on SME current accounts in England and Wales.** The remedies will be reviewed three years after implementation, or earlier if there is evidence of sufficient improvement in competition in the market;
- following an independent review, **improvements to banks' service levels for personal customers, including easier account switching, were announced in December 2001.** The review also recommended that the banking codes are independently scrutinized, at two year intervals going forward, and
- the UK Government published its revised proposals in August 2001 for giving new powers to the Office of Fair Trading to promote effective competition in payment systems for the benefit of consumers. In particular, the regime will aim to ensure retail price transparency, efficient wholesale pricing and non-discriminatory access to payment systems. The Government is committed to legislate for this new regime as soon as parliamentary time allows.

**Insurance** 122. In insurance:

- **in October 2002, the Government began consultation on the implementation of the Insurance Mediation Directive**, which should be implemented in 2004. The IMD will help competition between all regulated insurance intermediaries across the EU market, and
- the Office of Fair Trading (OFT) carried out an exploratory market investigation into extended warranties, and concluded that they were concerned that competition was not working well in this market and that consumers could be suffering as a result. Consequently, the OFT referred the matter to the Competition Commission for a full investigation. The Commission is due to report to Government in July 2003.

### Securities markets

123. CRESTCo, which operates the UK's share settlement system announced a merger with Euroclear, the Belgian-based international central securities depository. The new group will be settling the transactions in over 60 per cent of Europe's leading 300 shares. The Government issued consultation papers in September and November on changes to the Uncertificated Securities Regulations 2001. If implemented these would allow money market instruments to be issued, held and transferred in electronic form and to replace currently certificated holdings of British Government stock (gilts) by electronic holdings which will be transferable electronically.

### The Myners review of institutional investment

124. The Myners review of institutional investment in the UK was published in March 2001. The Government confirmed last year that it would take forward all the recommendations of the review, including that for Codes of Investment Principles to encourage diversity in investment approaches. The Government will conduct an assessment of the effectiveness of these principles in delivering change, beginning in March 2003. Details of this review will be announced later this year.

125. Following the recommendations of the Myners review, the Government has consulted on three areas of proposed legislation:

- **shareholder activism.** The Institutional Shareholders' Committee has produced a new statement of principles that sets out strengthened responsibilities of institutional shareholders and agents, and outlines best practice on the part of institutional investors to promote their members' interests through more active engagement as shareholders. The Government welcomes this approach and the proposal to review the impact of the principles after two years. At that point the Government will review whether the non-legislative approach has been successful in delivering behavioural change;
- **independent custodians.** The review proposed increasing pension fund members' security by requiring funds to have an independent custodian. However, in the light of consultation, the Government has concluded that the

existing regulatory requirements in this area are satisfactory and that further legislation would not be appropriate; and

- pension scheme trustees. Pension funds' investment decisions are of vital importance to the future security of their members and to the health of the wider economy, and the Government is committed to legislating to require trustees to have appropriate expertise. The forthcoming Pensions Green Paper will provide further detail on this issue.

### Policy measures with direct impact on consumers

**Polarisation regime** 126. During 2002 the Financial Services Authority (FSA) consulted on further reform of the polarisation regime. These rules mandated that advice to retail consumers on most packaged investment products can only be given by independent financial advisers (who could advise on the whole market) or tied agents, who could only advise on the products of one group. About 80 per cent of consumers use the latter distribution channel. The FSA has decided the options for paying advisers (essentially fees or commissions) should be made explicit. The FSA has also decided that tied advisers should be able to advise on a wider range of products, from other suppliers, thereby potentially significantly increasing consumer choice in part of the market.

**Retail savings industry** 127. A major report into the workings of the medium and long-term retail savings industry in the UK was launched in July 2002. It aimed to identify the competitive forces and incentives that drive the industries concern and to suggest policy responses to ensure that consumers are well served. **Government, industry and the industry regulator are now taking forward a number of its recommendations.** This includes a consultation in early 2003 on the introduction of a suite of simple “stakeholder” products with limited risk and capped charges for which there will be less onerous regulation of the advice process. Cost per sale could fall from around £440 for a national Independent Financial Adviser (IFA) to £115, and the main sources of consumer detriment would be tackled through regulation of both the level and the structure of the charges.

**Equitable Life Inquiry** 128. The Equitable Life Assurance Society closed to new business in December 2000. From the late 1950s until 1988, the Equitable Life Assurance Society sold pension policies that included an option which meant that annuities would be paid at a minimum guaranteed rate. During the 1990s annuity rates fell significantly. Equitable’s initial solution to meeting the cost was to reduce terminal bonuses for the policyholders who exercised their guarantees, but this was rejected by the courts in July 2000. In January 2002 members of the Society accepted proposals, put forward by the Society, designed to stabilise affected funds. These required Members to give up certain guaranteed policy rights and any potential claims for mis-selling against the company in return for uplifts to their policy values.

129. The Equitable Life Inquiry under Lord Penrose, was set-up on 31 August 2001 to examine the circumstances leading to the current situation

at Equitable Life and identify any lessons to be learned for the conduct, administration and regulation of life assurance. The inquiry has continued during 2002.

# 4 OTHER REFORMS AFFECTING PRODUCT AND CAPITAL MARKETS

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## Public sector productivity

**Public sector reform** 130. The Government is committed to raising the productivity of the UK economy and recognises that improving the performance of the public sector can help to drive up the productivity of the economy as a whole, as well as being essential to delivering better public services. It has therefore embarked on a reform agenda designed to raise the efficiency and effectiveness of public spending. The introduction of resource accounting and active management of the assets register has already increased the efficiency with which public sector assets are used.

131. As the next step in its reform agenda, the Government is committed to modernising the structures and practices which condition the delivery of public services. Reforming the service delivery environment is the key to delivering an improvement in public services' productivity. The Government's guiding principles for public services' reform include clear long term goals; independent auditing and inspection; maximum local flexibility and discretion to innovate; and transparency about performance.

132. As well as providing efficient public services, the performance of public enterprises has an important role to play in raising productivity in the UK. The challenge for government is to better fulfil its role as shareholder of these businesses. To achieve this the Government is creating a Shareholder Executive, bringing together departmental and external expertise including secondees, that will both advise and work with government departments to improve their ability as shareholders.

## Public-private partnerships

133. Public Private Partnerships (PPPs) continue to be a key element in the UK government's strategy for delivering high quality public services. The PPP approach is based on the recognition that the public and private sectors have different strengths and the belief that the government will only deliver the quality services the public deserve by drawing on the best of both working together in partnership.

134. The Government is continuing to develop innovative PPP projects embracing many business structures and partnership options. These options include the Private Finance Initiative (PFI), joint ventures and concessions, outsourcing, sale of equity stakes in state-owned businesses and the Wider Markets Initiative. All of these arrangements offer immense potential to deliver efficient, modern, high quality public services whilst simultaneously promoting UK competitiveness.

135. Public sector net investment (PSNI), which measures increases to the public sector capital stock, is set to increase to 2 per cent of GDP by 2005-06 - a five-fold increase compared with 1997-98. Total UK investment in public services, which includes PSNI, depreciation, recycled proceeds from

asset sales and investment under the Private Finance Initiative (PFI), will rise to over £46 billion in 2005-06, compared with £23 billion in 1997-98. The vast majority of this increased investment originates in the public sector, with PFI accounting for an estimated 10 per cent this year. The Government will use the discipline of the market to deliver value for money and extend PFI in public procurement to new projects worth £30 billion and to include large-scale regeneration projects, while recognising the limits to markets in areas such as healthcare, education, defence and policing.

136. British Waterways had particular success this year as it completed the Isis waterside regeneration PPP under the Wider Markets Initiative, by setting up a joint venture with a private sector consortium to develop a portfolio of sites from its non-operational waterside land holdings. Isis was launched on 31 October 2002.

137. Today over 250 PPPs are operational and substantially successful with a further 500 in procurement. This year has endorsed further confidence that PPP will enable a better public service provision, tailored to each project.

# 5

## CONCLUSIONS

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### Progress in the last year

138. The creation within the EU of the world's most dynamic knowledge based economy in the world by 2010 is one of the major challenges and opportunities facing Europe today. The UK is committed to contributing to this objective by taking measures to improve productivity. In the last year the UK has introduced a number of reforms to strengthen product and capital markets. These include:

- introducing a new Enterprise Act which gives full independence to the UK competition authorities, the Office of Fair Trading a clear proactive role to keep markets under review, improves the mergers regime by and introduces a new regime for market investigations and introduces criminal sanctions for individuals engaging in cartels;
- reductions in the corporation tax rate for small businesses to 19 per cent and the starting rate of corporation tax to 0 per cent;
- introducing a number of measures to reduce regulatory burden, including the publication of a Regulatory Reform Action Plan, continued use of Regulatory Impact Assessments and measures to simplify regulation for small businesses;
- taking measures to reform the financial services sector to make it more open and competitive, such as taking forward the recommendation from the Sandler review of retail savings to consult on a suite of simple 'stakeholder' products with limited risk and capped charges, and reforms to the banking sector to provide small businesses with interest on their accounts or free business banking;
- introducing an R&D tax credit to promote sustainable investment, and
- increasing spending on and reform of public services, including increased spending on UK transport, which will rise at an average rate of 8.4 per cent above inflation with an extra £4.4 billion in 2005-06 to deliver the Ten-Year Plan.

### European Economic Reform

139. In March 2002, the Barcelona Council gave renewed impetus to an ambitious agenda of reform, approving new commitments to liberalise non-domestic energy markets, complete the Single Market in financial services, boost levels of R&D and reduce regulatory burdens on business. Economic reform in Europe holds the potential to strengthen the drivers of UK productivity and the Government is committed to promoting change, building on the progress made in Barcelona. The Government's White Paper on economic reform<sup>xxiii</sup> describes the Government's strategy for

taking this agenda forward.

140. The Government will report on developments since the White Paper in a progress report early in the New Year.

# ANNEXES

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## A Broad Economic Policy Guidelines

141. The Seville European Council agreed in June 2002 a set of Broad Guidelines (BPEG) of economic policies of the Member States and the Community. The country-specific policy recommendations are targeted towards each country's policy weaknesses. Outlined below are the specific BEPG recommendations to the UK, and policy measures in these areas.

### Budgetary policy

#### Public investment

“allow public investment, net of depreciation, to rise from 2001-02, as projected in the convergence programme, and as suggested in the 2001 BEPGs.”

142. The Government is on course to meet the aims set out in 2001 BEPGs. Public sector net investment as a proportion of GDP is projected to rise from 0.6 per cent in 2000-01 to 1.8 per cent of GDP by 2003-04. As part of the 2002 Spending Review, the Government announced its intention further to increase public sector net investment to 2 per cent of GDP by 2005-06.

#### Stability and growth pact

“be alive to any deterioration in the public finances that would take them away from the terms of the Stability and Growth Pact and, if necessary, take remedial action.”

143. The projections are consistent with a prudent interpretation of the SGP which takes into account the economic cycle, sustainability and the important role of public investment.

### Labour Markets

#### Long term unemployment

“reinforce active measures targeted at those communities and individuals most prone to the risk of concentrated or long term unemployment and inactivity”.

144. Against a background of macroeconomic stability, the Government has continued its strategy of implementing microeconomic reforms to improve the functioning of the labour market, using active labour market polices such as the New Deal to remove barriers to employment. The Government has built on the progress made to date by taking further steps to help the most disadvantaged groups, including additional help for lone parents, the long term unemployed, and people living in deprived areas.

145. The 2002 Budget and Spending Review included announcements of additional funding for initiatives tackling the problem of unacceptably high worklessness in certain deprived areas. Action Teams in 63 areas aim to match the long term unemployed and inactive with suitable vacancies, and the first pilot StepUp schemes, offering programmes of subsidised

employment for jobseekers in deprived areas, have now been launched.

### Sickness and disability benefits

“reform sickness and disability benefit schemes to provide people who are able to work with the opportunities and incentives to do so.”

146. The Government is determined to help all those who can work to find employment, including those who may be claiming incapacity-related benefits (of whom around 13 per cent are aged over 50). Reforms of Incapacity Benefit, which came in to force in April 2002, enable claimants to try small amounts of work<sup>xxiv</sup> without losing their benefit. The New Deal for disabled people has now been extended to all areas in the UK, and has helped over 10,000 people into jobs and the New Deal for older workers has helped over 70,000 people into jobs.

147. The Government recently published a consultation document: “Pathways to work: Helping people into employment”, in which it announced its intention to pilot measures to help new recipients of incapacity benefits back into employment. These measures will offer people coming onto incapacity benefits much more help and a more coherent package of choices and options than they would previously have enjoyed. In particular, the package will provide encouragement for those for whom a return to work is a realistic prospect to focus on doing so.

148. From 2003, the Government will also be testing the effectiveness of retention and rehabilitation schemes. These pilot schemes will assess the impact of early interventions in support of workers at risk of losing their job through sickness or disability. And from 2003, the introduction of the Working Tax Credit will mean a guaranteed minimum income for a single disabled person working 35 hours a week.

### Product markets

### Competition

“continue to improve competition, building on existing policy measures, in sectors such as retail banking, postal services and the professions.”

149. Through the Enterprise Act 2002 the Government brought into force a new competition regime which:

- gives full independence to the UK competition authorities;
- gives the Office of Fair Trading (OFT) a clear proactive role to keep markets under review;
- improves the mergers regime and introduces a new regime for market investigations; and
- introduces criminal sanctions for individuals engaging in cartels.

150. In banking:

- following an inquiry by the UK Competition Commission

into the supply of banking services to SMEs, Ministers accepted a number of recommendations designed to improve competition in this market. These included measures to ease the process of switching accounts and a requirement for the largest four banks to pay interest or offer free banking on SME current accounts in England and Wales. The banks have agreed to implement this by 1 January 2003. The remedies will be reviewed three years after implementation, or earlier if there is evidence of sufficient improvement in competition in the market;

- following an independent review, improvements to banks' service levels for personal customers, including easier account switching, were announced in December 2001. The review also recommended that the banking codes are independently scrutinized, at two year intervals going forward, and
- the UK Government published its revised proposals in August 2001 for giving new powers to the Office of Fair Trading to promote effective competition in payment systems for the benefit of consumers. In particular, the regime will aim to ensure retail price transparency, efficient wholesale pricing and non-discriminatory access to payment systems. The Government is committed to legislate for this new regime as soon as parliamentary time allows.

151. In postal services:

- the UK Government aims to further the interests of consumers by promoting competition without compromising the universal postal service. The (former) Post Office's statutory monopoly has been replaced by a licensing regime administered by an independent regulator, the Postal Services Commission (PostComm). This regime regulates a market for letters weighing less than 350 grams and costing less than £1. A new Consumer Council for Postal Services (PostWatch) has also been established to promote the consumer interest in the postal market.
- Royal Mail Group plc, formerly the Post Office, is licensed by the regulator to provide a universal postal service. That license imposes regulatory disciplines on Royal Mail Group regarding its operation in the market. PostComm is also able to license other operators in the regulated market provided it is satisfied that the universal postal service can be maintained. Postcomm therefore, actively introduces competition into the market and to date it has licensed 13 other operators. It may also recommend reductions or exemptions to the licensed area.

152. In the professions

- In March 2001, the Office Fair Trading (OFT) published its

report on competition in the professions. The report identified restrictions on competition in the provision of professional services in England and Wales. In that report, the OFT focused on three professions: law, accountancy and architecture. The report was a key stage in an ongoing programme of review of competition in professional services in the UK. It built upon past progress by the competition authorities and government departments who, working in tandem, and often with the professions, had brought about significant changes in response to a range of concerns. The report highlighted remaining restrictions, whether arising from law, professional rule or other sources that continued to constrain freedom to compete in the professions reviewed. In April 2002 the OFT published an update to their report.<sup>xxv</sup>

- the Government is committed to ensure that the professions are properly subject to competition. In most cases, open and competitive markets are the best way to ensure that consumers get the best possible service. On all the issues raised the Government's position is that the market should be opened up to competition unless there are strong reasons why that should not be the case, such as evidence that real consumer detriment might result from such a change.
- the Lord Chancellor's Department (LCD) began consulting in July 2002 on matters falling to the Government, including conveyancing and probate, the multi-disciplinary environment for solicitors, legal professional privilege and the Queen's Counsel system. The LCD will report on the consultation in the spring. The Government is also reviewing the framework for regulating legal services with the aim of ensuring that the regulatory regime supports a dynamic and competitive market with appropriate levels of consumer protection.<sup>xxvi</sup>

## Railways

“deliver the announced infrastructure investment in the railways, establish a new railway infrastructure company and improve the regulation of the railway sector.”

153. The 2002 Spending Review announced an annual average increase of 8.4 per cent in real terms to UK Transport spending. As a result by 2005/06 an estimated £16.4 billion will be being spent per annum on Transport. The Department of Transport will shortly publish a delivery report for its Ten-Year Plan that will include a financial breakdown of how this increase is to be allocated in England. The devolved regional administrations will likewise be publishing their budget breakdowns following SR2002.

154. Network Rail successfully acquired control of Railtrack Plc, the former network operator in October 2002. Its business plan and financing arrangements will allow them to finance a significant increase in the maintenance and renewals expenditure on the railways compared with what was originally assumed for the Ten-Year Plan. It will also be more

closely tied into its stakeholders, allowing greater cooperation and increased focus on results.

155. The Strategic Rail Authority's Strategic Plan was published in January 2002. It sets out the key issues that must be tackled on the railways and sets out the service and infrastructure delivery plans necessary to deliver these.<sup>xxvii</sup>

156. It is recognised that independent economic regulation is essential if the rail regulatory framework is to provide sufficient comfort and protection to operators and lenders, regulate monopoly and monopony elements and secure private investment in the railways at an efficient cost. The Government intends to build on the existing structure of the Office of the Rail Regulator by establishing a statutory regulatory board.

157. In the first quarter of the year the percentage of trains arriving on time rose by 6 per cent over last year, 4,000 new carriages are now on order or already in service and hundreds of new rail services have been introduced. Construction of the first new major railway for over 100 years, the Channel Tunnel Rail Link, is proceeding on time and on budget.

158. Output figures for the construction industry are showing a 50 per cent increase for road and rail infrastructure combined during the first year of the Plan. This represents the largest increase in new work for a single year on record in the UK.

## B Services

159. The UK is committed to the completion of the Internal Market in services. In the UK, services account for around half of GDP and employ an increasingly larger share of people. The Government believes that by increasing market access, the benefits of increased competition will be felt by consumers and businesses alike.

### Market access

160. According to academic research, the UK has some of the least restrictive service sectors in the EU:

**Table 4. Indices of Trade Restrictiveness for Domestic Industries, (0 least, 100 highest).<sup>xxviii</sup>**

Country	Accountancy	Architecture	Legal	Engineering	Distribution	Telecoms
Austria	26.6	21.6	33.0	20.4	5	13.3
Belgium	27.8	12.5	21.3	1.3	17.8	10.0
Denmark	20.3	1.3	15.0	1.3	9.0	33.3
Finland	9.6	1.3	2.5	1.3	5.0	0.0
France	24.0	11.6	21.5	2.5	18.4	5.0
Germany	21.6	15.0	29.3	19.8	9.8	4.0
Greece	17.5	5.0	10.0	5.0	5.0	26.1
Ireland	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	5.0	19.3
Italy	12.8	13.0	17.5	15.5	13.8	13.7
Lux.	11.6	0.0	<i>Na</i>	8.0	5.0	16.7
Neth.	19.1	0.0	1.0	9.3	9.4	3.0
Portugal	25.5	13.0	21.3	18.0	5.0	31.0
Spain	20.3	18.0	30.5	16.5	7.5	21.3
Sweden	17.8	11.8	11.8	1.3	7.0	10.0
UK	17.5	0.0	17.5	2.5	5.0	0.0

Source: Findlay & Warren (2000).

### Competition Reform

#### The competition regime

161. Competition is among the key drivers of productivity performance. Effective competition encourages firms to innovate and strive for greater efficiency. Open and competitive markets also persuade firms to lower costs and prices, and to enhance quality and choice in the services they deliver, ensuring that consumers receive the best possible deal. Increasing competitive pressures in the UK further reduces barriers to providers from other Member States.

162. The Government has taken important steps to strengthen the UK's overall competition regime, which, since services account for the greater share of the economy will improve the performance of the sector. These include the introduction of the Enterprise Act which:

- gives full independence to the UK competition authorities;
- gives the Office of Fair Trading (OFT) a clear proactive role to keep markets under review;
- improves the mergers regime and introduces a new regime for market investigations; and
- introduces criminal sanctions for individuals engaging in cartels.

### Planning reform

163. As the Commission's recent report on the State of the Internal Market in Services<sup>xxx</sup> rightly finds, restrictions on establishment, such as difficulties in obtaining planning permission, are a major barrier to market access for would-be service providers.

164. At the end of 2001 the government published a Green Paper on planning, with the intention of delivering a fundamental change to the quality and efficiency of this service.<sup>xxx</sup>

165. Following the consultation exercise, in July 2002 the Government confirmed its intention to simplify the complex hierarchical system of plans and deliver instead quality planning services acceptable to individuals, businesses and communities.

166. On 4 December the Government introduced a Planning and Compulsory Purchase Bill<sup>xxxi</sup> that will:

- stamp out abuse of the system by preventing repeat applications and 'twin tracking', where the same application is submitted twice
- reduce planning permission from five to three years and abolish automatic renewal, so developers will not be able to sit on planning permission for years on end
- require planning authorities to show how they intend to involve local people
- introduce new Business Planning Zones, with the aim of producing high quality, low impact economic development without the need for further planning permission
- modernise the compulsory purchase system

### Professional Services

#### OFT report on competition in the professions

167. In March 2001, the Office Fair Trading (OFT) published its report on competition in the professions. The report identified restrictions on competition in the provision of professional services in England and Wales. In that report, the OFT focused on three professions: law, accountancy and architecture. The report was a key stage in an ongoing programme of review of competition in professional services in the UK. It

built upon past progress by the competition authorities and government departments who, working in tandem, and often with the professions, had brought about significant changes in response to a range of concerns. The report highlighted remaining restrictions, whether arising from law, professional rule or other sources that continued to constrain freedom to compete in the professions reviewed. In April 2002 the OFT published an update to their report.<sup>xxxii</sup>

**Government  
consultation**

168. The Government is committed to ensure that the professions are properly subject to competition. In most cases, open and competitive markets are the best way to ensure that consumers get the best possible service. On all the issues raised the Government's position is that the market should be opened up to competition unless there are strong reasons why that should not be the case, such as evidence that real consumer detriment might result from such a change.

169. The Lord Chancellor's Department (LCD) began consulting in July 2002 on matters falling to the Government, including conveyancing and probate, the multi-disciplinary environment for solicitors, legal professional privilege and the Queen's Counsel system. The LCD will report on the consultation in the spring. The Government is also reviewing the framework for regulating legal services with the aim of ensuring that the regulatory regime supports a dynamic and competitive market with appropriate levels of consumer protection.<sup>xxxiii</sup>

## C Small and Medium sized enterprises

**Small business** 170. In seeking to ensure that the UK has one of the most effective competition regimes in the OECD as measured by peer review, the Government recognises the importance of helping small businesses to develop and flourish. The Government's vision is to make the UK the best place to start and grow a business by 2005. Certain market failures affect smaller firms disproportionately and, if left unresolved, would prevent SMEs from competing with larger firms on an equal basis. Building on previous initiatives, measures are being introduced to ensure:

- improved access to finance - regional Venture Capital Funds and Early Growth Funding increase the supply of small amounts of equity finance for start up and early-stage businesses. To complement these measures, the Government has launched six pilot programmes offering intensive targeted advice to enable small businesses to become 'investment ready', and
- access to information and advice - the Government is making it easier for new and existing small businesses to find out what Government requires of them, and what it can do for them. In particular, a new 'Starter Pack' and enhanced e-service delivery - offering on-line information, advice and transactions - will help cut compliance costs.

**Enterprise for all** 171. To increase the amount of investment in disadvantaged communities, the Government has introduced a number of measures in 2001-2002:

- a Community Investment Tax Credit, to encourage private investment in disadvantaged communities through Community Development Finance Institutions by offering a tax relief worth up to 25 per cent of the investment amount. This will be operational by the end of the 2001-02 financial year.
- the Bridges Community Development Venture Fund - a £40m venture capital fund comprised of £20m Government investment and £20m private investment, which will invest only in disadvantaged areas in England – was launched in May 2002.
- the creation of 2,000 Enterprise areas in the most deprived parts of the UK, with extra support to help businesses start up, develop and grow.

**Small Business Service** 172. The Small Business Service (SBS),<sup>xxxiv</sup> an Agency of the Department of Trade and Industry, was set up with a key part to play in taking forward the UK's policy of making this country the best place in the world to set up and run a business. An important part of this is helping small firms deal with regulation and ensuring that their interests are properly considered in future regulations.

173. The SBS has established a strategy to tackle the burden of red tape

on small businesses, with a view to cutting the time and cost of complying with new and existing regulations.

**Simplifying regulation**

174. As part of this strategy, the SBS is leading a cross-Departmental project to produce a single reference source on regulatory requirements for business start ups. This will be available in hard copy by 31st March 2003 with an electronic version to follow shortly afterwards. Regulatory information will be at the core of the Pack - but presented in a context relevant to small businesses and with processes explained in a business-friendly sequence. There will be some practical guidance, and sign-posting to both to specific regional and/or sectoral aspects as well as to sources of business advice (as distinct from business information). New and potential businesses will benefit by being presented with clear guidance on the government's core regulatory requirements. The Pack is being produced by the SBS working in collaboration with Treasury, Inland Revenue, Customs & Excise and the Department for Work and Pensions. Other central government departments, local authorities and the devolved administrations are also being consulted.

175. The pack will be additional to the simple introductions to regulatory guidance that the SBS already prepares for small businesses from information collated from other government departments. This is generally distributed via intermediaries (i.e. trade associations, chambers of commerce, Business Links etc) for dissemination to members. Other parts of the DTI (e.g. Companies House) and other government departments also produce a variety of guidance on regulatory issues for businesses, both in hard copy and electronically.

**Small business university**

176. The Government welcomes a proposal from high street banks to provide leadership support for prospective and existing businesses by creating a virtual university for small businesses with ready access to information, advice, support and mentoring through the internet and more specialist training courses.

**Local Business Partnerships**

177. The government recognises the importance of working closely with partners in reducing the regulatory burden on businesses. SBS is responsible for, and promotes the work of, Local Business Partnerships (LBPs) throughout the UK. These provide a framework to enable business, local authorities, central government and enforcement agencies to work together to help business (including start ups) understand their obligations and comply with regulations. The network of partnerships around the country share best practice on how to streamline the regulation process, through initiatives that have a regulatory theme, e.g. business advice days where enforcement agencies/regulators give advice on complying with regulations to businesses. The LBPs are used to distribute regulatory information to start ups and established businesses.

**Small Business Council**

178. The SBS also works closely with the Small Business Council (SBC) which is a non-departmental public body which reports to the Secretary of State for Trade and Industry on the needs of existing and potential small businesses.

**Evidence-based-policy**

179. The SBS undertakes a programme of research, evaluation and analysis to better understand the needs of entrepreneurs and businesses and to inform policy development. This programme includes regular surveys

and focus groups of existing businesses and surveys of the general population to examine entrepreneurial attitudes and behaviours. A range of specific policy-relevant studies are also undertaken, for example, on the specific needs of particular types of business.

## Regulatory impact

180. The impact of new legislation is assessed through Regulatory Impact Assessments (RIAs) which are produced by all government departments who are planning to regulate on any issue. RIAs must be produced to demonstrate the various options being considered to meet a policy objective and state the costs and benefits of all options. All RIAs are passed to the SBS for comment on the likely impact on small companies, and are used as part of the public consultation process.

181. The impact of regulation on business start ups is further addressed in the government's Comprehensive Strategy for Start ups. The development and implementation of this is being assisted by an ad hoc advisory group made up of representatives from other Government Departments, as well as public and private sector organisations - the National Policy Forum for Start ups.

182. Specific measures taken to reduce the regulatory burden on small businesses and start ups include:

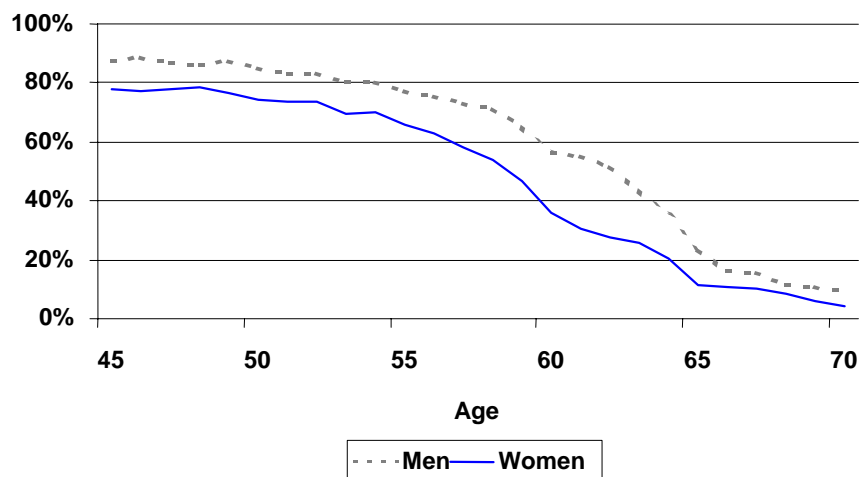
- Introducing implementation periods for new legislation which will give business clear guidance on new legislation 12 weeks before it comes into force;
- Promoting a longer consultation period and more business-friendly regulation on lawful business practice (savings c£800,000 estimated by one leading insurer alone);
- Developing the Electronic Regulation Service as an integral part of the Business Link Information & Advice Service
- Developing regulatory guides on setting up in business, employing staff, business and insolvency, and
- Increasing use of electronic forms, e.g. electronic incorporation.

183. The UK is also part of an EU sponsored project comparing business start ups across Member States, enabling us to compare the many aspects of our start up procedures with others.

## D Effective Retirement age

184. The UK Government focuses its active ageing policies on workers aged 50 and above. The employment rate for the over 50s is currently 68 per cent; for those aged over 55, it is 52.3 per cent<sup>xxxv</sup>, making the UK one of only three Member States already to meet the Stockholm employment target for workers aged 55-64. In the UK, employment rates start to decline at around age 50 and then quite sharply after around age 55. The average age of retirement for men in the UK is 62.6 and 60.4 for women. Immediately before State Pension age is reached (65 for men, 60 for women, increasing to 65 between 2010 and 2020), proportions in employment have dropped below half for women and to about one third for men. These trends are shown below.

**Figure 8: UK Employment rates of older workers by age, 2002**



Source: Labour Force Survey 2002

185. As longevity increases, people need to be encouraged to save more of their earnings for retirement and to extend their working lives. To this end, the Government is pursuing policies to:

- remove barriers to older people remaining in the labour market; and
- make work pay.

186. The Government has set a Public Service Agreement target to increase the employment rates of people aged 50 to State Pension age and to reduce the difference between their employment rates and the overall rate, by 2006.

### Pensioner incomes

187. The UK pensions system is a successful combination of State and private provision, with much of the private provision supported by employers. For the average pensioner, private sources of income are now almost as important as State sources. Successive cohorts of pensioners have retired with more private income, especially occupational pension

income, than those who have retired before.

188. In recent years average pensioner incomes have increased faster than earnings in the UK. The average net income of all pensioner units in Great Britain grew by 64 per cent in real terms between 1979 and 1996/7. Average earnings in the whole economy grew by 36 per cent in real terms over the same period. In more recent years average net income for pensioners in Great Britain has continued to grow – by around 17 per cent in real terms between 1994/5 and 2000/1. Recent growth estimates are subject to particular uncertainty, but the average almost certainly grew faster than average earnings (estimated at 9 per cent in real terms) over the same period.

### Increasing employment

189. The Government's macroeconomic policy framework has successfully maintained stability and growth, and the UK continues to experience the longest period of unbroken economic expansion on record. Despite fragile global conditions, employment has risen to record levels and unemployment is at generational lows. Macroeconomic stability, a flexible labour market and investment in education are essential for achieving high levels of employment. They also underpin a comprehensive programme of microeconomic reform, including:

- **welfare to work** policies that help the long term unemployed achieve a successful return to work. These are delivered through Jobcentre Plus which brings together the Employment Service and Benefits Agency and ensures that active labour market policies reach all those of working age claiming benefits. The New Deal programmes have helped to reduce long term unemployment by more than three quarters since 1997 and have sharply reduced youth long term unemployment;
- **tailored support for disadvantaged groups and areas** that suffer from particularly low levels of employment. New Deal support has been extended to lone parents, disabled people, older people and partners of the unemployed, helping to reduce the number of workless households, while Action Teams are tackling serious employment problems in disadvantaged areas throughout Britain; and
- **reforms to make work pay** and ensure that individuals are rewarded as they move into and progress within employment. Reforms to the tax and benefit system, underpinned by the National Minimum Wage, the Working Families' (WFTC) and Disabled Person's Tax Credits, and, from April 2003, the Child and Working Tax Credits, are improving work incentives for families with children, people with disabilities and those in low paid work. The weekly minimum income guarantees will have increased substantially: for example, from April 2003, a couple, aged 25 or above working 35 hours a week, will be guaranteed £183 a week. This compares with £117 a week in April 1999.

### New Deal 50

190. The New Deal 50 plus was introduced nationally in April 2000. It is

plus available on a voluntary basis to people aged over 50 who have (or whose dependant partner has) received benefits for more than six months, to help them return to work. It provides: personal advice; help with job search; an Employment Credit for one year of £60 per week for full-time and self-employment, and £40 for part-time employment (to be delivered from 2003 as part of the Working Tax Credit), in addition to other in-work financial support for training. By the end of October 2002, over 86,000 people had found work and claimed the Employment Credit.

### Reforming Incapacity Benefit

191. The majority of inactive individuals aged between 50 and State Pension age are claimants of sickness or disability benefits, most of whom receive Incapacity Benefit. The Government recently published a consultation paper on the piloting of measures intended to **help recipients of incapacity benefits to return to work**. *Pathways to work – helping people into employment* proposed piloting, from October 2003:

- a better framework for support in the early stages of a claim to ensure ongoing support is available to help people remain focused on what they can still do before more chronic health problems develop. This support will ensure new incapacity benefits claimants maintain contact with skilled personal advisers throughout the crucial early stages of a claim through a series of work-focused interviews (other than those with the most serious disabilities);
- direct access to a wide range of provision that can address key health and non-health-related obstacles to returning to work. An improved work-focused interview regime will ensure recipients of incapacity benefits are fully aware of their rights to access employment and training programmes. Additionally the Government is establishing joint programmes combining support to find jobs delivered by Jobcentre Plus personal advisers with health-focused rehabilitation delivered in collaboration with the National Health Service. The key focus of these short programmes will be to help those with conditions such as depression, back pain and coronary/respiratory problems, which account for the vast majority of new claims;
- improved, visible financial incentives to encourage claimants to firmly re-establish themselves in the labour market and to enable more individuals to see clearly that they would be better off in work. The Government will pilot a simple Return to Work Credit of £40 per week, payable for 52 weeks, and allow advisers to make awards of up to £300 to spend on anything that will help their client obtain a job through widening access to the Advisers' Discretion Fund. This is in addition to existing in-work support; and
- better support for people with health problems who move from an incapacity benefit to Jobseeker's Allowance (JSA). Many people in this group become long term unemployed or look to move back onto incapacity benefits in due course. The Government will ensure that those transferring across to JSA automatically see a specialist adviser when they first

claim JSA, and will be able to access the tailored support available through the relevant JSA New Deal, without the normal waiting period of 18 months.

#### Age Diversity in Employment

192. The Age Positive Campaign promotes the Code of Practice on Age Diversity in Employment, published in June 1999. By 2001, the number of companies using age as a factor in recruitment fell from 27 per cent to 13 per cent, though efforts are still required to convey the message and the benefits effectively to SMEs (which account for over 99 per cent of all UK businesses).

#### The State Pension and Pension Credit

193. There is no provision in the UK to claim the State Pension before State Pension Age. Individuals can choose to defer their State Pension and earn increments for their pension when they finally retire. Currently, this is limited to a maximum deferral of five years. However, even when people have claimed their State Pension, there is no requirement to give up work. Currently over 800,000 people continue to work after State Pension Age.

194. The Minimum Income Guarantee (MIG), which provides support for around 1.8 million of the poorest pensioners, can be claimed from age 60 by both men and women. By April 2003, the MIG will have been increased by one third in real terms for the poorest pensioners since 1997. Men aged 60-64 who claim MIG are therefore not required to seek work as a condition of claiming benefit – however, Jobcentre Plus, back-to-work help and advice services are available to them if they wish.

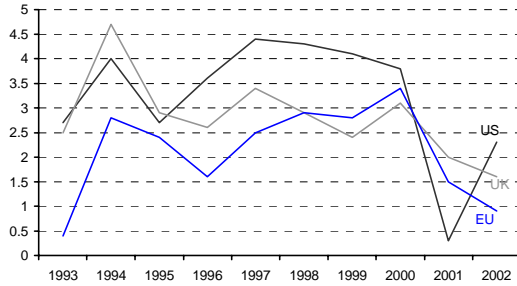
195. The Pension Credit will be introduced from October 2003, subsuming MIG. This will provide pensioners with a guaranteed minimum income in retirement (£102.10 a week for a single pensioner, £155.80 for couples in 2003-4), whilst rewarding pensioners who have saved modest amounts above the level of the basic state pension. This will ensure that pensioners see the benefit of their thrift and effort in saving for retirement. The Pension Credit will reward individuals who have income – including the State Second Pension, private pensions and earnings – of up to £139 for single pensioners (nearly £204 for couples) in 2003-04. As under MIG, people will be able to benefit from an earnings disregard before their entitlement starts to be reduced (£5 per week for single people, £10 for couples and £20 for disabled people).

#### Pensions Green Paper

196. The Government is publishing a Pensions Green Paper shortly on the future of the pensions system. The aim will be to reduce complex regulation, improve information and to decide what more the Government and employers should do to encourage employees to save and enable those who wish to and can to work for longer.

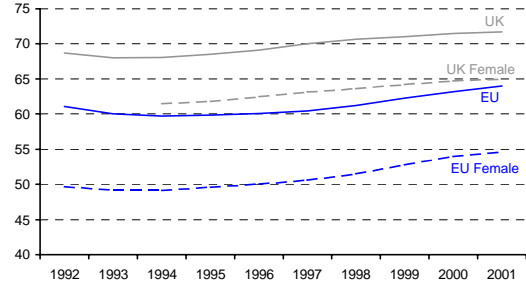
## E Structural Indicators

### GDP growth rate



Change on year earlier. Source: Eurostat

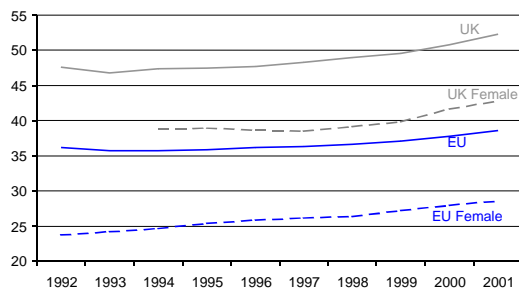
### Employment



As share of relevant working age population.

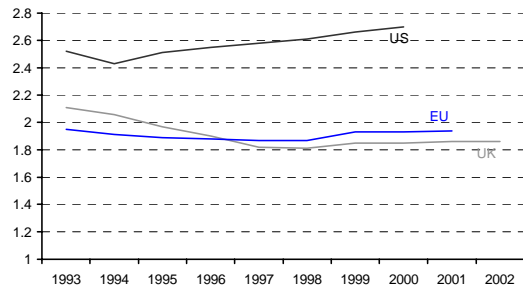
Source: Eurostat

### Older Worker Employment



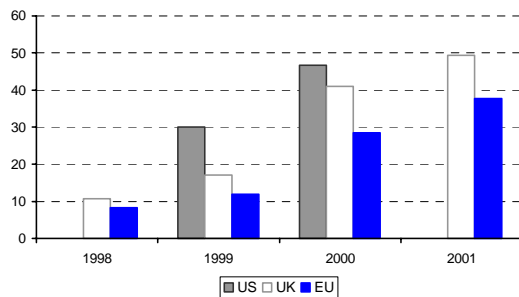
As share of population 55-64. Source: Eurostat

### Total R&D expenditure



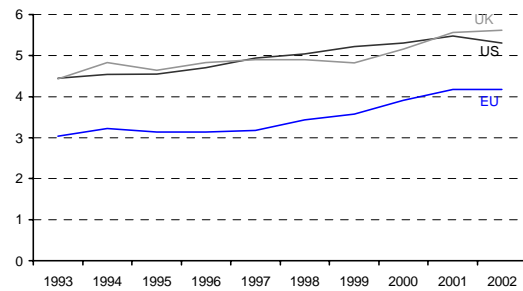
As percentage of GDP. Source: Eurostat

### Level of Internet Access

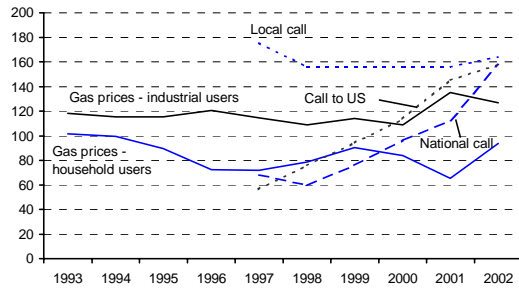


Percentage of citizens with internet access at home. Source: Eurostat (NB no US data for 2001 or 1998)

### ICT Expenditure

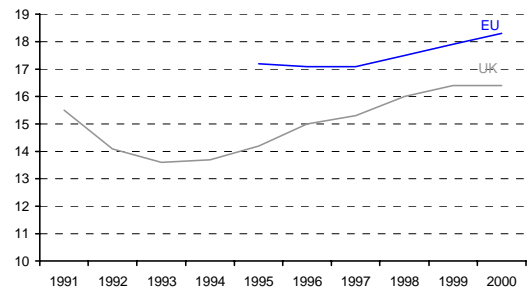


## Network prices



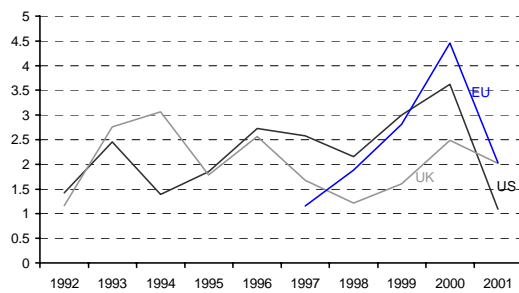
Indexed against EU=100. Source: Eurostat.

## Business investment



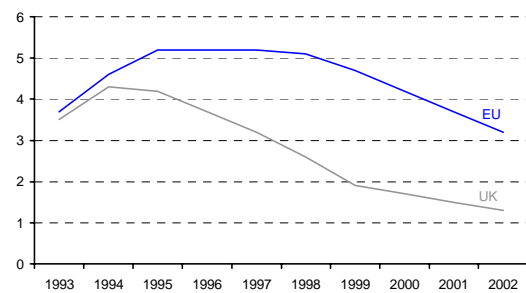
As percentage of GDP. Source: Eurostat

## Capital raised



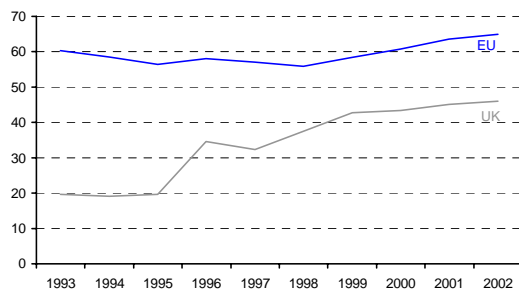
Capital raised on stock markets as percentage of GDP. Source: Eurostat.

## Long-term unemployment



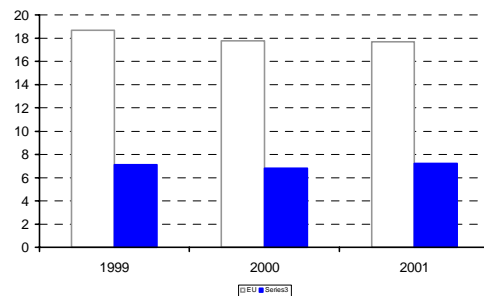
As percentage of active population. Source: Eurostat

## Regional Cohesion



Coefficient of variation of unemployment. Source: Eurostat (coefficient of variation of unemployment)

## Early school leavers



Percentage of 18-24 year olds with only lower secondary level education. Source: Eurostat (Labour force survey)

## Notes

- <sup>i</sup> Lisbon European Council 23/24 March 2000
- <sup>ii</sup> Office for National Statistics.
- <sup>iii</sup> Productivity levels (market economy productivity per hour), UK = 100
- <sup>iv</sup> The productivity figures given are in terms of whole economy productivity per worker. This accounts for the slight difference between the 38 per cent productivity gap with the US measured by ONS, and the 36.5 per cent gap measured by NIESR using market economy productivity per hour. NIESR's full analysis of the UK's relative productivity can be found at <http://www.niesr.ac.uk/research/BRPP02.pdf>
- <sup>v</sup> Source: Labour Force Survey
- <sup>vi</sup> Exports and Imports as a share of twice GDP.
- <sup>vii</sup> G7 Comparison, EU and OECD.
- <sup>viii</sup> See [http://www.hm-treasury.gov.uk/Spending\\_Review/spend\\_sr02/spend\\_sr02\\_index.cfm](http://www.hm-treasury.gov.uk/Spending_Review/spend_sr02/spend_sr02_index.cfm)? for more details of the Spending Review and departmental PSA targets..
- <sup>ix</sup> <http://www.ogc.gov.uk/>
- <sup>x</sup> See <http://www.ogc.gov.uk/index.asp?docid=377> for more information.
- <sup>xi</sup> See the OECD website for more information; <http://www.oecd.org/EN/document/0,,EN-document-0-nodirectorate-no-12-35763-0,00.html>
- <sup>xii</sup> For details of the Regulatory Reform Orders made in 2002 see [http://www.cabinet-office.gov.uk/regulation/act/orders\\_made/2002/](http://www.cabinet-office.gov.uk/regulation/act/orders_made/2002/)
- <sup>xiii</sup> See <http://www.cabinet-office.gov.uk/regulation/actionplan/docs/rrap.pdf> for the full plan.
- <sup>xiv</sup> See the Cabinet Office's Regulatory Impact Assessment website; <http://www.cabinet-office.gov.uk/regulation/2000/riaguide/default.htm> for more information.
- <sup>xv</sup> See [http://www.hm-treasury.gov.uk/Pre\\_Budget\\_Report/prebud\\_pbr02/assoc\\_docs/prebud\\_pbr02\\_adenterbrit.cfm](http://www.hm-treasury.gov.uk/Pre_Budget_Report/prebud_pbr02/assoc_docs/prebud_pbr02_adenterbrit.cfm)? for the full text.
- <sup>xvi</sup> UK Environmental Protection Expenditure Survey, Department for Food, Environment and Rural Affairs (DEFRA), 2001
- <sup>xvii</sup> The full plan can be found at <http://www.dft.gov.uk/trans2010/plan/index.htm>
- <sup>xviii</sup> The full plan can be found at: <http://www.sra.gov.uk/sra/publications>
- <sup>xix</sup> See [http://www.hm-treasury.gov.uk/Pre\\_Budget\\_Report/prebud\\_pbr02/report/prebud\\_pbr02\\_repchap3.cfm](http://www.hm-treasury.gov.uk/Pre_Budget_Report/prebud_pbr02/report/prebud_pbr02_repchap3.cfm)?, 3.67 to 3.70 for more details.
- <sup>xx</sup> See [http://www.hm-treasury.gov.uk/Pre\\_Budget\\_Report/prebud\\_pbr02/report/prebud\\_pbr02\\_repchap7.cfm](http://www.hm-treasury.gov.uk/Pre_Budget_Report/prebud_pbr02/report/prebud_pbr02_repchap7.cfm)? for the full text.
- <sup>xxi</sup> The figures come from a survey makes these estimates once every three years rather than a continuous flow of data.
- <sup>xxii</sup> See [www.competition-commission.org](http://www.competition-commission.org) for the full report.
- <sup>xxiii</sup> Realising Europe's potential: economic reform in Europe, HM Treasury, February 2002.
- <sup>xxiv</sup> Claimants can work for up to 16 hours a week with a maximum wage of £66 per week without losing benefit entitlement.
- <sup>xxv</sup> [www.offt.gov.uk/NR/rdonlyres/ehrla4bcj4ti7ufgitu3mgos7qxxnvdjut2ozg4jbnzsboizyihkcbh54xvrrvxtckg4l4engsooduor5za4yrqt4f/oft385.pdf](http://www.offt.gov.uk/NR/rdonlyres/ehrla4bcj4ti7ufgitu3mgos7qxxnvdjut2ozg4jbnzsboizyihkcbh54xvrrvxtckg4l4engsooduor5za4yrqt4f/oft385.pdf)
- <sup>xxvi</sup> <http://www.lcd.gov.uk/consult/general/oftrept.htm>
- <sup>xxvii</sup> The full plan can be found at: <http://www.sra.gov.uk/sra/publications>
- <sup>xxviii</sup> This table has been derived from Findlay and Warren (2000), the full trade restrictiveness index can be seen at <http://www.pc.gov.au/research/memoranda/servicesrestriction/>. Figures have been multiplied by 100 to facilitate reading.
- <sup>xxix</sup> COM (2002) 0441, 30/07/02. The full text can be downloaded at [http://europa.eu.int/lex/en/com/rpt/2002/com2002\\_0441en01.pdf](http://europa.eu.int/lex/en/com/rpt/2002/com2002_0441en01.pdf)
- <sup>xxx</sup> <http://www.planning.odpm.gov.uk/consult/greenpap/greenind.htm>
- <sup>xxxi</sup> See <http://www.publications.parliament.uk/pa/pabills.htm> for full details.
- <sup>xxxii</sup> [www.offt.gov.uk/NR/rdonlyres/ehrla4bcj4ti7ufgitu3mgos7qxxnvdjut2ozg4jbnzsboizyihkcbh54xvrrvxtckg4l4engsooduor5za4yrqt4f/oft385.pdf](http://www.offt.gov.uk/NR/rdonlyres/ehrla4bcj4ti7ufgitu3mgos7qxxnvdjut2ozg4jbnzsboizyihkcbh54xvrrvxtckg4l4engsooduor5za4yrqt4f/oft385.pdf)
- <sup>xxxiii</sup> <http://www.lcd.gov.uk/consult/general/oftrept.htm>
- <sup>xxxiv</sup> [www.sbs.gov.uk/consultations](http://www.sbs.gov.uk/consultations)
- <sup>xxxv</sup> Figure for 2001, from *Employment in Europe 2002* European Commission