Europe 2020: UK National Reform Programme 2011

HM Government

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ISBN 978-1-84532-877-1
PU1176

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Foreword

This is the UK's first National Reform Programme submitted as part of the EU's new growth strategy, Europe 2020.

The UK strongly supports Europe 2020 and the European semester as important developments in the EU's overall surveillance framework. As Europe recovers from the worst recession since the 1930s, Europe 2020's aims of higher growth and increased employment represent the most important long-term challenges, and opportunities, facing the EU.

In the UK, the Government is determined to promote strong, sustainable and balanced growth that is more evenly shared across the country and between industries, thereby tackling the five obstacles to growth identified for the UK. Creating lasting prosperity requires the economy to change and rebalance: from unsustainable public spending toward exports and investment, to support the UK's long-term economic potential and help to create new jobs.

The June Budget 2010 and the October 2010 Spending Review announced action to support private sector growth and investment while achieving a balanced structural current budget and falling public debt by 2014-15. This action was essential to create the necessary conditions to boost the UK's long-term economic potential and help create new jobs. Now, the challenge is to move from rescue to recovery and reform. Budget 2011 and the *Plan for Growth* set out in March 2011 a package of measures to rebalance the economy and create a new model of economic growth. The Devolved Administrations have also set out their priorities in their plans for government.

But with the prospects of every Member State so closely tied to the prosperity of others and the EU as a whole, higher growth and increased employment depends on action by all Member States and by the EU institutions. The UK therefore welcomes the European Commission's Annual Growth Survey which set out ten priorities for faster growth and higher employment, and the European Council's commitment to "give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth."[1]

In particular, following the Prime Minister's 18 March 2011 letter together with eight other Heads of State and Governments[2] and the pamphlet of 31 March 2011[3], *Let's choose growth*, the EU urgently needs to bring forward concrete actions to: strengthen the Single Market, focusing on sectors with the highest growth potential such as services, digital and energy; link European and global markets to improve trade, including by concluding the Doha round this year; support business and unleash enterprise by removing regulatory burdens; and create the conditions for innovation to flourish.

The world does not owe Europe a living, but by taking the difficult decisions to tackle the most important obstacles to growth at both Member State and EU level, together we can deliver the growth needed to: ensure the sustainability of Europe's public finances; increase employment; enhance social cohesion; and allow the EU to take full advantage of the opportunities of the global economy of the future.

[1] European Council conclusions, 24-25 March 2011: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf
[2] PM Letter: http://www.number10.gov.uk/news/statements-and-articles/2011/03/letter-to-european-council-on-european-growth-62454
[3] Growth Pamphlet: http://www.number10.gov.uk/news/press-notices/2011/03/reform-the-key-to-unlocking-eu-growth-62710

1 Introduction

Context

1.1 The world economy is emerging from the deepest recession since the 1930s. The pain in Europe has been particularly acute – four years of annual growth (more than €500 billion of output) was wiped out. Unemployment rose by 5 million and stands at almost 10 per cent of the workforce. A quarter of those have been out of work for more than 6 months. And with one in five young persons under the age of 25 unable to find a job, there is a severe risk that a cohort of young people never obtain employment.

1.2 While much of the rest of the world looks set to recover from the crisis quickly, the European Commission in its *Annual Growth Survey*[1] argues that, unless Europe reforms, average potential growth could be just 1.5 per cent a year over the next decade. This is significantly below our competitors and below growth rates over the last ten years of around 2 per cent a year; by 2020 this could add up to over €700 billion of lost output.

1.3 Over the last decade, the UK economy became seriously unbalanced and heavily indebted, masking a decline in underlying competitiveness. The economy was underpinned by unsustainable growth in private and public sector debt. By 2009-10, the UK had the largest deficit in peacetime history, with public sector net borrowing standing at 11.1 per cent of GDP. The state was borrowing one pound in every four that it spent.

Europe 2020 and the European Semester

1.4 The Government welcomes the establishment of the European Semester. The publication of Member States' National Reform Programmes, alongside their Stability and Convergence Programmes, marks a crucial first step in better integrated surveillance. It is important that Member States set out in their National Reform Programmes ambitious plans for structural reforms, and the Government looks forward to subsequent discussions on the Programmes with European partners.

1.5 The Government also strongly supports the Europe 2020 strategy and welcomes the Commission's Annual Growth Survey and the conclusions of the 2011 Spring European Council, with their focus on what needs to be done to promote economic growth at both the Member State and EU level, including action on the Single Market, trade, regulation and innovation.

The Government's strategy

1.6 The Government's economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries. Creating lasting prosperity requires the economy to change and to rebalance: from unsustainable public

[1] AGS: http://ec.europa.eu/europe2020/tools/monitoring/annual_growth_survey_2011/index_en.htm

spending toward net trade and investment, which will support the UK's long-term economic potential and help to create sustainable new jobs.

1.7 Government policy does not create growth, but has an important role to play in supporting the necessary rebalancing toward sustainable, private sector-led growth and minimising risks to the recovery. The Government has set out a strategic policy response to the UK's exceptional economic and fiscal challenges:

- fiscal policy will bring the public finances back into balance over the medium-term, addressing the largest budget deficit in the UK's post-war history. It is essential to mitigate downside risks from rising public debt, promote stability and provide businesses with the confidence they need to invest;
- monetary policy will ensure price stability and, thereby, support wider economic stability;
- reform of financial sector regulation will help to prevent the build-up of systemic risks and ensure financial stability, a pre-requisite for sustainable growth; and
- microeconomic policies will drive growth and position the UK at the forefront of the global economy.

1.8 The Government is committed to putting the problems in the economy right. Since May 2010, the Government has demonstrated its willingness to take decisive action. The June Budget 2010 and 2010 Spending Review set out a credible plan to tackle the fiscal deficit and restore debt as a percentage of GDP to a sustainable, downward path. This action was essential to create the necessary conditions to boost the UK's long-term economic potential and help create new jobs. The macroeconomic stability that this will create is an essential pre-condition for sustainable growth.

1.9 The challenge is now to move from rescue to recovery and reform. Budget 2011[2] focused on returning the UK to sustainable growth and rebalancing the economy towards exports and private sector investment to help to create new jobs.

1.10 The *Plan for Growth*[3], published alongside Budget 2011, included a package of measures to create a new model of economic growth by: creating the most competitive tax system in the G20; making the UK the best place in Europe to start, finance and grow a business; ensuring investment and exports as a route to a more balanced economy; and creating a more educated workforce that is the most flexible in Europe.

1.11 The Devolved Administrations are also taking action.

- The Northern Ireland Executive had made a growing dynamic, innovative economy as the top priority in its current *Programme for Government* (2008-11)[4]. Work on a new *Programme for Government* for the period 2011 to 2015 is now underway and will be the subject of consultation later in the year. Elections to the Northern Ireland Assembly will take place on 5 May 2011.

[2] Budget 2011, March 2011: http://www.hm-treasury.gov.uk/2011budget.htm
[3] Plan for Growth, March 2011: http://www.hm-treasury.gov.uk/ukecon_growth_index.htm
[4] Northern Ireland Executive, Programme for Government: http://www.pfgbudgetni.gov.uk

- The Scottish Government's *Economic Recovery Plan* was updated on 24 February[5], and reports on actions to ensure rapid and robust growth of the Scottish economy. Elections to the Scottish Parliament will take place on 5 May 2011.

- The Welsh Assembly Government, following extensive engagement with business and other stakeholders from every part of Wales, in July 2010 launched *Economic Renewal: a new direction*[6], which sets out the role Devolved government can play in providing the best conditions and framework to enable the private sector to grow and flourish.

UK National Reform Programme 2011

1.12 As part of the Europe 2020 strategy for smart, sustainable and inclusive growth[7], Member States submit National Reform Programmes outlining their structural reform plans, focused on promoting growth and employment. This, alongside Member States' Stability and Convergence Programmes, aligns reporting on structural and fiscal policies as part of the new EU Semester.

1.13 This National Reform Programme sets out the UK's economic prospects and plans, including:

- the macroeconomic context in the UK, consistent with the UK's Convergence Programme[8] 2010-2011 document;

- actions taken to address the five key "bottlenecks" or obstacles to growth as agreed by the UK at the EU's Economic and Financial Affairs Council (ECOFIN). The process of governments identifying national bottlenecks, and then being held accountable for tackling them, has the potential to be a valuable way of encouraging reform, recognising the impact of measures on the aggregate EU economy whilst ensuring national ownership; and

- the UK's approach to national monitoring and actions taken in support of the five headline European targets agreed by the European Council in June 2010.

1.14 The UK's 2011 National Reform Programme is based on guidance issued by the Commission and draws on publicly available information, including the October 2010 Spending Review[9], Budget 2011 and the *Plan for Growth* in March 2011, and other documents and announcements. This document sets out key actions, with further detail available in the original documents.

1.15 This National Reform Programme reports on actions taken by the UK, including those by the UK Government and by the Devolved Administrations where policies are of a devolved competence. This distinction is made clear throughout the document.

1.16 These actions are consistent with: the Europe 2020 integrated guidelines (made up of the Broad Economic Policy Guidelines[10] and the Employment Guidelines[11]) presented under Articles 121 and 148 of the Treaty on the Functioning of the EU; the Commission's Annual Growth Survey; the conclusions and discussions of the Council (including ECOFIN on 15 February 2011[12]

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[5] Scottish Government, Economic Recovery Plan: http://www.scotland.gov.uk/Publications/2011/02/24095442/0

[6] Economic Renewal:http://wales.gov.uk/topics/businessandeconomy/help/economicrenewal/?lang=en

[7] Europe 2020: http://ec.europa.eu/europe2020/index_en.htm

[8] UK 2011 Convergence Programme: http://www.hm-treasury.gov.uk/int_eu_index.htm

[9] Spending Review 2010: http://hm-treasury.gov.uk/spend_index.htm

[10] BEPGs: http://register.consilium.europa.eu/pdf/en/10/st11/st11646.en10.pdf

[11] Employment Guidelines: http://register.consilium.europa.eu/pdf/en/10/st14/st14338.en10.pdf

[12] ECOFIN conclusions, February 2011: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/119314.pdf

and the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) on 7 March 2011[13]); and the conclusions of the European Council on 24-25 March 2011.

1.17 This National Reform Programme is also consistent with the reporting requirements of Article 148 of the Treaty on the Functioning of the EU and the Joint Employment Report[14] as adopted by EPSCO on 7 March 2011.

Stakeholder engagement

1.18 Substantial engagement with national parliaments and the wider public is critical to the success of Europe 2020. All the actions reported in this National Reform Programme have been subject to extensive public consultation, and examples of stakeholder involvement in delivering structural reforms are provided in the document. In addition, the UK's draft National Reform Programme 2010 was placed on the Treasury's website[15] and in the case of Northern Ireland, on the Department of Finance and Personnel's website[16] for comment by the public. In Scotland, a stakeholder engagement seminar with local and national interest groups was held on 23 February 2011 and in Wales a similar event was held on 22 March 2011.

1.19 The Government has engaged closely with Parliament in developing the NRP. The House of Lords EU Scrutiny Committee held an evidence session on Europe 2020 and the UK's National Reform Programme on 30 November 2010[17]. The House of Commons EU Scrutiny Committee held a debate on the Europe 2020 integrated guidelines on 10 January 2011[18] and a debate on the Commission's Annual Growth Survey on 29 March 2011[19].

1.20 The actions and policies relating to Northern Ireland outlined in this document have been subject to approval by the Northern Ireland Assembly and the Northern Ireland Executive either in the case of relevant legislation or, where appropriate, new policy developments. The Scottish Parliament's European and External Relations Committee published a report on the Europe 2020 strategy on 4 May 2010[20] and a debate was held in the Scottish Parliament on 12 May 2010. In addition, Scottish Ministers appeared before the Committee in September 2010, December 2010 and January 2011. The Committee was sent a copy of the Scottish National Reform Programme in March 2011[21]. The National Assembly for Wales' European and External Affairs Committee discussed the Europe 2020 strategy on 16 March 2010, with further discussions of Europe 2020 as part of other policy debates. The Welsh Assembly Government held a stakeholder event on the NRP on 22 March 2011.

[13] EPSCO conclusions, March 2011: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/lsa/119656.pdf

[14] Joint Employment Report: http://register.consilium.europa.eu/pdf/en/11/st07/st07396.en11.pdf

[15] UK draft NRP: http://hm-treasury.gov.uk/d/europe_2020_uk_draft_national_reform_programme2010_22112010.pdf

[16] Available at: http://www.dfpni.gov.uk/index/finance/european-funding/content_-_european_funding-future-funding/content_-_european_funding-national-reform-programme.htm

[17] House of Lord Scrutiny Committee: http://www.publications.parliament.uk/pa/ld201011/ldselect/ldeucom/81/81.pdf

[18] EU Scrutiny Committee (integrated guidelines) http://www.publications.parliament.uk/pa/cm201011/cmgeneral/euro/110110/110110s01.htm

[19] EU Scrutiny Committee (Annual Growth Survey) http://www.publications.parliament.uk/pa/cm201011/cmgeneral/euro/110329/110329s01.htm

[20] Report of European and External Relations Committee: http://www.scottish.parliament.uk/s3/committees/europe/reports-10/eur10-01.htm

[21] Scotland NRP 2011: http://www.scotland.gov.uk/Publications/2011/03/28102812/0

2 Macroeconomic context

2.1 This section sets out the Office for Budget Responsibility's (OBR) economic forecasts for 2011-2015[1]. This includes forecasts for aggregate GDP growth, the components of GDP, and the labour market. More detail can be found in Table 2.A below and in the UK's Convergence Programme 2010-2011. All data is correct as of 23 March 2011.

[1] Economic and Fiscal Outlook, Office for Budget Responsibility, March 2011.

Table 2.A: Detailed summary of the OBR's March 2011 economy forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast[1]					
	2009	2010	2011	2012	2013	2014	2015
World economy							
World GDP at purchasing power parity	-0.7	5.0	4.2	4.3	4.3	4.4	4.4
Euro Area GDP	-4.0	1.7	1.4	1.8	1.8	1.9	1.9
World trade in goods and services	-11.1	12.7	6.9	6.8	6.9	7.0	7.0
UK export markets[1]	-11.4	10.7	5.8	5.8	5.8	6.1	6.0
UK economy							
Gross domestic product (GDP)	- 4.9	1.3	1.7	2.5	2.9	2.9	2.8
Expenditure components of GDP							
Domestic demand	-5.5	2.5	1.1	1.5	2.2	2.3	2.3
Household consumption[2]	-3.2	0.8	0.6	1.3	1.8	2.1	2.2
General government consumption	1.0	1.0	0.8	-1.2	-1.8	-2.4	-1.8
Fixed investment	-15.4	3.1	2.3	6.0	8.8	8.7	7.0
Business	-18.9	2.5	6.7	8.9	10.6	10.2	7.8
General government	16.9	4.4	-12.0	-9.9	-5.6	-1.4	2.4
Private dwellings	-25.5	5.2	5.3	6.9	8.5	7.8	6.5
Change in inventories[3]	-1.2	1.4	0.2	0.0	0.0	0.0	0.0
Exports of goods and services[4]	-10.1	5.8	7.9	6.5	6.2	5.7	5.6
Imports of goods and services[4]	-11.9	8.5	5.0	2.9	3.8	3.8	4.1
Balance of payments current account							
£ billion	-24	-35	-41	-34	-28	-22	-15
Per cent of GDP	-1.7	-2.4	-2.7	-2.1	-1.6	-1.2	-0.8
Inflation							
CPI	2.2	3.3	4.2	2.5	2.0	2.0	2.0
RPI	-0.5	4.6	5.1	3.6	3.5	3.6	3.8
Terms of trade[5]	-0.9	-0.3	-2.6	-1.0	-0.2	-0.1	0.0
GDP deflator at market prices	1.5	3.0	3.0	2.4	2.7	2.7	2.7
Labour market							
Employment (millions)	29.0	29.0	29.0	29.2	29.5	29.7	30.0
Wages and salaries	- 0.1	1.5	1.8	2.8	4.8	5.3	5.4
Average earnings[6]	1.8	1.7	2.0	2.2	3.8	4.3	4.5
ILO unemployment (% rate)	7.6	7.9	8.2	8.1	7.6	7.0	6.4
Claimant count (millions)	1.53	1.50	1.54	1.53	1.43	1.31	1.18
Household sector							
Real household disposable income	1.1	-0.7	-0.4	1.4	1.6	1.9	2.1
Saving ratio (level, per cent)	6.0	4.9	3.6	3.6	3.4	3.4	3.4
House prices	-7.8	7.4	-2.3	0.1	3.5	4.3	4.3
Nominal indicators							
Nominal GDP	-3.5	4.4	4.8	5.0	5.7	5.6	5.6
Non-oil PNFC profits[7]	-6.5	1.8	6.9	11.4	9.0	8.8	7.3

[1] Other countries' imports of goods and services weighted according to the importance of those countries in the UK's total exports

[2] Includes households and non-profit institutions serving households

[3] Contribution to GDP growth, percentage points

[4] Trade levels are distorted by MTIC fraud

[5] Ratio of export to import prices

[6] Wages and salaries divided by employees

[7] Private non-oil non-financial corporations' gross trading profits

Source: Economic and Fiscal Outlook, Office for Budget Responsibility, March 2011.

Trend growth

2.2 In its March 2011 forecast, the OBR's assessment of trend output growth, including the assumption of a constant structural unemployment rate of around 5.25 per cent, remained unchanged from their previous forecast in November 2010. The OBR's judgement is that the trend rate of growth is projected to be 2.35 per cent, falling back to 2.10 per cent from 2014 as demographic changes reduce the growth of potential labour supply. Based on the latest evidence from cyclical indicators, the OBR judged the output gap to have been around -3 per cent in the third quarter of 2010.

Table 2.B: The OBR's March 2011 trend output assumptions (annualised growth rates, per cent)

	Trend productivity[1]	Trend average hours	Trend employment rate[2]	Trend population[2]	**Trend output**
2010Q3 to 2013Q4	2.00	-0.20	-0.15	0.70	**2.35**
2014Q1 to 2016Q1	2.00	-0.20	-0.20	0.50	**2.10**

[1] Output per hour

[2] Corresponding to people aged 16 and over

Source: Economic and Fiscal Outlook, Office for Budget Responsibility, March 2011.

GDP growth

2.3 The OBR forecast is for a gradual recovery, as the legacy of unbalanced growth and excessive levels of debt continue to weigh on the economic outlook. The economy is forecast to grow by 1.7 per cent in 2011, lower than forecast in the June Budget 2010. This mainly reflects higher-than-expected inflation this year, as a result of recent global commodity prices shocks, and the weak, weather-affected final quarter of 2010. GDP growth is then forecast to strengthen, with growth peaking at 2.9 per cent in 2013. Table 2.C shows the forecast for GDP and contributions to growth.

Table 2.C: Summary of the OBR's central GDP forecast

	Percentage points, unless otherwise stated						
	Pre-crisis decade average contribution[2]	2010	Forecast 2011	2012	2013	2014	2015
Gross domestic product	2.9	1.3	1.7	2.5	2.9	2.9	2.8
Main contributions							
Private consumption	2.1	0.5	0.4	0.8	1.2	1.3	1.4
Business investment	0.6	0.2	0.6	0.8	1.1	1.1	0.9
Dwellings investment[3]	0.1	0.1	0.2	0.2	0.3	0.3	0.2
Government[4]	0.6	0.4	-0.2	-0.5	-0.5	-0.5	-0.3
Change in inventories	0.0	1.4	0.2	0.0	0.0	0.0	0.0
Net trade	-0.6	-0.9	0.7	1.0	0.7	0.6	0.5
CPI inflation (Q4)		3.4	3.9	2.2	2.0	2.0	2.0

[1] *See OBR's* March 2011 Economic and Fiscal Outlook *for further details. All growth rates in this table are rounded to the nearest 1 decimal place. This is not intended to convey a degree of unwarranted accuracy. Components may not sum to total due to rounding, omission of transfer costs of land and existing buildings, and the statistical discrepancy.*

[2] *The average contribution to real GDP growth between 1997 and 2007. In 2006, private consumption accounted for 64 per cent of GDP, business investment for 10 per cent, dwellings investment for 6 per cent, Government for 23 per cent and change in inventories for less than 1 per cent. As explained in paragraph 1.6, more than a quarter of the GDP per capita growth in the pre-crisis decade to 2007 was reversed during the financial crisis and recession of 2008 and 2009.*

[3] *The sum of public corporations and private sector investment in new dwellings and improvements to dwellings.*

[4] *The sum of government consumption and general government investment.*

Source: Office for National Statistics, Office for Budget Responsibility, and HM Treasury.

2.4 The OBR is forecasting the economy to rebalance, away from private and government consumption towards net trade and investment. As Table 2.C shows:

- the contribution of private consumption to growth is lower over the forecast period than in the pre-crisis decade. The contribution of government consumption is also forecast to be lower;
- business investment is forecast to grow by between 6.5 and 11 per cent in each year over the forecast, and as a result its contribution to growth picks up to over 1 percentage point per year. However, business investment does not return to its pre-recession peak until the third quarter of 2013. This is almost a year later than whole economy output (GDP), and in line with previous recoveries; and
- having made a negative contribution on average through the pre-crisis decade, net trade is forecast to make a significant positive contribution to growth throughout the forecast period, with UK exporters continuing to gain market share into 2013.

Performance against EU obligations

2.5 Following the measures the Government has taken, the path set for fiscal policy is now consistent with the UK meeting the European Union's Excessive Deficit Procedure recommendation to reduce the Treaty deficit below 3 per cent of GDP in 2014-15.

2.6 Taking account of the policy measures announced by the Government, the OBR projects that the Treaty deficit will fall from 11.4 per cent of GDP in 2009-10 to 2.6 per cent of GDP in 2014-15, and that the Treaty debt ratio will be restored to a downward path from 2014-15. Further detail is set out in the UK's Convergence Programme.[2]

[2] UK Convergence Programme: http://www.hm-treasury.gov.uk/int_eu_index.htm

3 Action to tackle "bottlenecks" to growth

3.1 EU Economics and Finance Ministers (ECOFIN) on 8 June 2010 agreed a series of potential "bottlenecks" or obstacles to growth for each Member State[1]. EU Heads of State and Governments then agreed on 17 June 2010 as part of the new EU Semester that Member States would identify their own bottlenecks to growth in their National Reform Programmes and set out the action they were taking to tackle these bottlenecks.

3.2 The Government agrees with the bottlenecks proposed for the UK, namely:

- reducing significantly the high general government deficit;
- ensuring a well-functioning and stable financial sector capable of meeting the financial intermediation needs of the real economy;
- ensuring that constraints on growth posed by household and government sector indebtedness are countered by a rebalancing towards net exports;
- facilitating an increase in aggregate fixed private investment; and
- improving the contribution of the education system to human capital formation including through a broader skills base.

3.3 These bottlenecks are consistent with other analyses of the UK economy, including by the Organisation for Economic Cooperation and Development (OECD)[2] and the International Monetary Fund (IMF)[3].

3.4 The following section outlines UK action to tackle these five bottlenecks to growth. It sets out: the bottleneck; the relationship to the Treaty, the Integrated Guidelines and the Annual Growth Survey; and the action the Government and the Devolved Administrations are taking.

[1] Bottlenecks to Growth: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/114996.pdf and http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp65_en.pdf

[2] Economic Policy Reforms, Going for Growth 2011, OECD http://www.oecd.org/document/15/0,3746,en_2649_37443_47448207_1_1_1_37443,00.html

[3] 2010 Article IV staff report on the UK, IMF, November 2010 http://www.imf.org/external/pubs/ft/scr/2010/cr10338.pdf

Bottleneck: "Reducing significantly the high general government deficit."

ECOFIN report: "*Following the rapid decline in tax revenues and increase in public spending as a share of GDP brought about by the financial crisis, rebalancing the general government budget is a challenge both for the immediate and longer term.*"

Relevant Treaty base: Article 121 of the Treaty on the Functioning of the EU (TFEU), Integrated Guideline 1.

Annual Growth Survey: Priority 1 – implementing a rigorous fiscal consolidation.

Government objectives:

3.5 To address the largest budget deficit in the UK's post-war history, the Government is committed to significantly reducing the deficit, thereby ensuring sustainable public finances that support confidence in the economy, promote intergenerational fairness and ensure the effectiveness of wider Government policy. This is essential to underpin private sector confidence, supporting growth and job creation over the medium term. Fiscal policy should also support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

Actions to achieve objectives:

3.6 The Government has set out a comprehensive set of policies to bring the public finances back under control, including:

- announcing a clear, forward-looking fiscal mandate to guide fiscal policy decisions over the medium term;
- creating the new Office for Budget Responsibility (OBR), thereby introducing independence, greater transparency and credibility to the economic and fiscal forecasts on which fiscal policy is based; and
- setting fiscal plans to restore the public finances to a sustainable position.

The UK's Convergence Programme 2010-11 provides further detail[4].

Fiscal mandate

3.7 The Government has set a forward-looking fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period. At Budget 2011, the end of the forecast period was 2015-16. The Budget in June 2010 also announced a supplementary target for debt. This requires public sector net debt (PSND) as a percentage of GDP to be falling at a fixed date of 2015-16, ensuring that the public finances are restored to a sustainable path.

3.8 The choices of a five-year rolling forecast period for the fiscal mandate, supplemented by the fixed date for the debt target, reflect the exceptional environment in which the Government must address the fiscal challenge. They are designed to ensure that fiscal consolidation is delivered over a realistic and credible timescale. Once the public finances are closer to balance, the period over which cyclically-adjusted current balance must be achieved could safely be shortened in order to create a tighter constraint. In addition, once the exceptional rise in debt

[4] UK 2011 Convergence Programme: http://www.hm-treasury.gov.uk/int_eu_index.htm

has been addressed, a new target for debt as a percentage of GDP will be set, taking account of the OBR's assessment of the long-term sustainability of the public finances.

The Office for Budget Responsibility (OBR)

3.9 The independent OBR has produced all the official forecasts of the economy and public finances since the General Election in May 2010, independently of Ministers. The OBR has now been established on a statutory basis through the Budget Responsibility and National Audit Act 2011.

3.10 The creation of the OBR has significantly enhanced the credibility of the UK's fiscal policy. The IMF has welcomed the OBR as "*addressing deficiencies in the previous government's fiscal framework*" and "*complementing the Government's commitment to fiscal discipline*"[5], while the OECD concluded that "*This is clearly an important initiative in terms of strengthening government management of public spending and improving public confidence in the Government's fiscal policy*"[6].

Fiscal Consolidation Plan

3.11 The Government has set out plans for a total consolidation of £126 billion a year by 2015-16, consisting of total reductions in spending of £95 billion and a net increase in taxes of £30 billion. Implementation of these plans is now underway.

3.12 The Government's fiscal consolidation plans have been designed with growth and fairness in mind, as far as possible:

- protecting the most productive public investment expenditure;
- avoiding punitive increases in tax rates on capital and labour; and
- reforming the welfare system to reward work.

3.13 Taking the consolidation as a whole, 73 per cent of the total will be delivered by lower spending in 2014-15, rising to 76 per cent in 2015-16. This is consistent with OECD and IMF research, which suggests that fiscal consolidation efforts that largely rely on spending restraint promote growth.[7]

3.14 The 2010 Spending Review set firm and fixed departmental budgets for four years from 2011-12 to 2014-15, as well as announcing reforms to Annually Managed Expenditure (AME), including welfare and public service pensions. The Government protected spending on the NHS and overseas aid and also made choices to: prioritise fairness and social mobility; focus on spending that promotes long-term economic growth; and reform public services, to shift power away from central government to the local level and improve value for money.

[5] IMF UK Article IV Report, November 2010

[6] UK: Policies for a Sustainable Recovery, OECD, July 2010

[7] See Economic Outlook No.81, OECD, June 2007 and OECD Economic Surveys: United Kingdom 2011, OECD, March 2011.

Table 3.A: The Government's approach to stakeholder engagement for the Spending Review

The Coalition Government took a completely new approach to the Spending Review, based on openness, innovation and consultation. The Spending Review Framework, published in June 2010, committed the Government to:

- engaging widely. It consulted with experts and the public through roundtable discussions and regional events, and invited public sector workers and the public to submit money saving ideas through the Spending Challenge website. The most promising ideas from the Spending Challenge website and other representations made by consultees and others have been taken into account;
- thinking innovatively about the role of government in society. The Spending Review set out a comprehensive programme of public service reform. The Government appointed an Independent Challenge Group to work with departments and the Treasury to consider opportunities for reform; and
- taking decisions collectively through the Public Expenditure Cabinet Committee (PEX).

Progress to date

3.15 Implementation of the Government's fiscal plans is underway. The Government is on course to deliver the £6.2 billion of savings announced in May 2010.

3.16 The Government is implementing plans and reforms announced in the Spending Review. Legislation has been introduced to Parliament where necessary, including the Welfare Reform and Pensions and Savings Bills (see the employment target section for more detail). Detailed funding settlements have also been announced, including for local government, schools and science.

3.17 The Government has implemented the tax plans for 2011-12, which were announced or confirmed in the June Budget 2010, including the increase in the standard rate of value added tax (VAT) to 20 per cent on 4 January 2011.

3.18 The discretionary policy decisions announced at Budget 2011 have a neutral impact on the public finances. The costs of policy decisions announced are broadly offset in each year by measures to raise revenue. This balanced judgement reinforces the fiscal consolidation plans announced at the June Budget 2010 and 2010 Spending Review.

Devolved administrations

3.19 The Northern Ireland Executive's Budget for 2011 to 2015[8] was revised and issued on 7 March 2011. The Budget (Scotland) Act 2011[9] was passed by the Scottish Parliament on 9 February 2011 and received Royal Assent on 16 March 2011. The Welsh Assembly Government's Budget for 2011-2012[10] was issued on 1 February 2011.

[8] Northern Ireland Executive Budget 2011-2015: http://www.northernireland.gov.uk/budget2010

[9] The Budget (Scotland) Act 2011: http://www.legislation.gov.uk/asp/2011/4/contents/enacted

[10] The Welsh Assembly Government's Budget 2011-2012: http://wales.gov.uk/about/budget/finalbudget2011/;jsessionid=BppTNVBH8rv6G0zQ5Q8T5VJLR7vWxzkf8wZ6klKLK1XGPhvsnGV2!-301227275?lang=en

Bottleneck: "Ensuring a well functioning and stable financial sector capable of meeting the financial intermediation needs of the real economy."

ECOFIN report: "*Both the relatively high share of UK output accounted for by the financial sector and the large capital flows required to fund a rebound in private investment underline the importance of re-establishing a sound and sustainable financial sector framework*."

Relevant Treaty base: Article 121 of the TFEU, Integrated Guidelines 2 and 6.

Annual Growth Survey: Priority 3 – ensuring stability of the financial sector.

Government objectives:

3.20 A stable financial services sector is essential for the economy, business, investors and consumers and therefore maintaining financial stability is a key objective of the Government. And the UK's 4.8 million small and medium sized businesses (SMEs – businesses with an annual turnover of up to £25 million) are vital to the economy. The Government is therefore committed to making the UK one of the best places in Europe to start, finance and grow a business.

Actions to achieve objectives:

3.21 The Government has set out a comprehensive set of policies to ensure a well functioning and stable financial sector, including through:

- reforms to financial regulation, where the system of shared responsibility for financial stability between the Treasury, the Bank of England and the Financial Services Authority (FSA) will be replaced with a new system that will give the Bank of England control of overarching macro-prudential supervision of the financial system and oversight of day-to-day micro-prudential supervision of financial services firms;
- creating an Independent Commission on Banking, which will make recommendations to the Government by the end of September 2011; and
- introducing a bank levy to ensure that banks make a full and fair contribution in respect of the potential risks they pose to the UK financial system and wider economy.

3.22 The Government is also keen to ensure that there are a wide range of sources of finance for businesses to grow and invest and has set out a comprehensive package of measures as detailed below, including:

- those announced in *Financing Business Growth*[11] published in November 2010;
- through agreements reached with the UK's major banks; and
- those announced in the *Plan for Growth*, such as extending Enterprise Capital Funds and continued support for the Enterprise Guarantee Fund.

[11] Financing Business Growth: http://www.bis.gov.uk/assets/biscore/corporate/docs/f/10-1242-financing-business-growth-response.pdf

Well functioning and stable financial sector

Reforms to financial regulation

3.23 The Government believes that the current system of financial regulation has key weaknesses. At present, no single institution has the responsibility, authority and tools to monitor the financial system as a whole, and respond accordingly. The Government has therefore set out proposals to replace this system with a new regulatory framework[12].

3.24 In his 2010 Mansion House speech[13], the Chancellor set out the Government's agenda[14] for reforming the current system of financial regulation. The system of shared responsibility for financial stability between the Treasury, the Bank of England and the Financial Services Authority (FSA) will be replaced with a new system. The proposed new regulatory framework will give the Bank of England control of overarching macro-prudential supervision of the financial system and oversight of day-to-day micro-prudential supervision of financial services firms.

3.25 The Government will create a new Financial Policy Committee (FPC) within the Bank of England, which will look at the wider economic and financial risks to the stability of the system. This Committee will be equipped with specific macro-prudential tools it can use to take action in response to risks and vulnerabilities it identifies.

3.26 In advance of legislation to enact these reforms later in 2011, the Government and Bank of England on 17 February 2011 announced the establishment of an Interim FPC. This body will undertake, as far as possible before formal legal powers are created, the permanent FPC's role to identify and monitor risks to the financial system as a whole, in addition to vital preparatory work and analysis into potential macro-prudential tools.

3.27 The Financial Services Authority (FSA) will cease to exist in its current form, and the Government will create two new focused financial regulators:

- a new Prudential Regulation Authority (PRA) will be responsible for the day-to-day supervision of financial institutions that are subject to significant prudential regulation. It will adopt a more judgement-focused approach to regulation so that business models can be challenged, risks identified and action taken to preserve financial stability; and
- a new consumer protection and markets authority (CPMA) will take a tough approach to regulating how firms conduct their business. It will have a strong mandate for promoting confidence and transparency in financial services and to give greater protection for consumers of financial services.

3.28 The Government in July 2010 launched a consultation on the proposed reforms, *New approach to financial regulation: judgement, focus and stability*[15], and the Government issued its response in November 2010[16]. Building on this, the Government presented a further consultation on its proposals in February 2011, *A New Approach to Financial Regulation: Building a Stronger System*[17], which closed in April 2011. The Government intends to introduce legislation to implement its proposals later this year and the passage of legislation is expected to

[12] Structure of UK financial regulation: http://www.hm-treasury.gov.uk/fin_stability_regreform_structure.htm
[13] Chancellor Mansion House Speech 2010: http://www.hm-treasury.gov.uk/press_12_10.htm
[14] Financial Services Policy Agenda: http://www.hm-treasury.gov.uk/fin_policy_agenda_index.htm
[15] Consultation: New Approach to Financial Regulation: http://www.hm-treasury.gov.uk/d/consult_financial_regulation_condoc.pdf
[16] Government Response: New Approach to Financial Regulation: http://www.hm-treasury.gov.uk/d/summaryofcondocresponses241110.pdf
[17] Consultation: Building a Stronger System: http://www.hm-treasury.gov.uk/consult_finreg_strong.htm

take around a year. The new regulatory framework is anticipated to be in place by the end of 2012.

3.29 The Government is also playing a critical role in driving forward regulatory reform at an international and European level[18], through the G20 and in the EU, to provide the foundation for a healthy and sustainable macroeconomy.

Independent Commission on Banking

3.30 The Government on 16 June 2010 announced the creation of the Independent Commission on Banking[19], chaired by Sir John Vickers. The Commission has been asked to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition, and to make recommendations to the Government by the end of September 2011.

3.31 The Commission on 24 September 2010 published an issues paper and on 26 January 2011 published the responses received to the paper. The Commission published its *Interim Report*[20] on 11 April 2011, which sets out the Commission's current and provisional views on possible reforms to improve stability and competition in UK banking, and seeks responses to those views. The interim report sets out views on capital requirements for retail and investment banks, suggesting that while retail operations should be carried out by separate subsidiaries, full separation is not recommended. The interim report also considers ways to increase competition in retail banking, and suggests that the new body which will be set up to regulate financial firms providing services to consumers, the Financial Conduct Authority, could promote competition in the banking industry. The Government welcomes the publication of the interim report and looks forward to considering the Commission's final recommendations in September 2011.

Bank levy

3.32 To ensure that banks make a full and fair contribution in respect of the potential risks they pose to the UK financial system and wider economy, the Government on 1 January 2011 introduced a bank levy. This tax, which is permanent, is also intended to encourage banks to move to less risky funding profiles.

3.33 The levy is not insurance against failure or a fund for future resolution; it is a contribution reflecting economic risk. Indeed, the Government is clear that it does not support linking levies to supervisory responsibility and resolution funds, and that countries should have flexibility on how levy proceeds are allocated. The levy is expected to generate around £2.5 billion in annual revenues. This is an appropriate contribution which balances fairness with the competitiveness of the banking sector.

Access to finance for SMEs

Financing Business Growth

3.34 The Government issued its consultation, *Financing a Private Sector Recovery*[21], in July 2010. In follow-up to this, the Government published the *Financing Business Growth*[22] green paper in November 2010. This included a range of measures to support access to finance for SMEs

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[18] Further detail available here: http://www.hm-treasury.gov.uk/fin_euintl_reform.htm

[19] Independent Banking Commission:http://bankingcommission.independent.gov.uk/bankingcommission/

[20] Banking Commission Interim Report: http://bankingcommission.independent.gov.uk/bankingcommission/

[21] Consultation: Financing a Private Sector Recovery: http://www.bis.gov.uk/assets/biscore/corporate/docs/f/10-1081-financing-private-sector-recovery.pdf

[22] Green Paper: Financing Business Growth: http://www.bis.gov.uk/assets/biscore/corporate/docs/f/10-1242-financing-business-growth-response.pdf

including an extension of the Enterprise Capital Funds (ECFs) programme by £200 million over the next four years, providing more than £300 million of investment into the equity gap for early stage innovative SMEs with the highest growth potential after taking private sector contributions into account. The ECF programme aims to address structural weaknesses in the provision of equity finance to SMEs across a range of sectors in all parts of the country.

3.35 The Government also announced continued support for the Enterprise Finance Guarantee (EFG) Scheme to enable over £2 billion of new lending to viable SMEs, over the next 4 years. This will support additional lending of up to £600 million to around 6,000 SMEs per year. The Government has also changed the design of the EFG to encourage its use by smaller and specialist lenders such as Community Development Finance Institutions. Since its launch in January 2009, and as of 23 March 2011, the EFG has supported £1.42 billion of lending to 14,096 SMEs. This includes: 961 EFG loans offered to Scottish businesses with a value of £135 million; 154 EFG loans offered to customers in Northern Ireland with a value of £24.9 million; and 633 EFG loans offered to customers in Wales with a value of £56 million.

3.36 To help build up SME demand for equity finance and growth capital, the Government also announced that it will roll out a network of Business Coaching for Growth services across England from January 2012. This initiative will target up to 10,000 high growth potential SMEs per year, providing strategic advice at key stages in the business development cycle.

3.37 In addition, in response to the Government's consultation, the British Bankers Association (BBA) Business Finance Taskforce in November 2010 published 17 commitments to repair bank-business relationships, improve lending standards and increase support to business[23]. These included a new independent review of the bank appeals processes for declined loan applications, an online mentoring portal, a revised Lending Code and the publication of new lending principles. The Taskforce also committed to set up a £1.5 billion Business Growth Fund which will target established and growing businesses with a turnover of between £10 and £100 million. The banks in February 2011 increased their contribution, bringing the total size of the Fund to £2.5 billion. This Fund will provide £2 million to £10 million of finance per transaction. The Chair and Chief Executive of the Fund have been appointed and the Fund will be formally launched in May 2011.

Agreements with the UK's major banks

3.38 The Government has been working with the main UK banks to identify ways in which they can support the recovery of the UK economy[24]. In February 2011 all five major UK retail banks (RBS, Lloyds, Barclays, HSBC and Santander UK, who provide banking to around 90% of banking to SMEs) agreed to make available £190 billion of new credit to businesses in 2011, up from £179 billion in 2010. £76 billion of this lending will be to SMEs, which is a 15 per cent increase on 2010 lending of £66 billion.

Plan for Growth

3.39 The *Plan for Growth* in March 2011 includes further action to facilitate access to finance for new and growing businesses, including through the following tax measures:

- reforming the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT), subject to state aid approval; increasing the rate of EIS income tax relief from 20 per cent to 30 per cent from April 2011; and bringing forward proposals to provide

[23] Available at: http://www.bba.org.uk/media/article/business-finance-taskforce

[24] Available at: http://www.hm-treasury.gov.uk/d/bank_agreement_090211.pdf

further support for seed investment. Around 2000 companies raise funds under EIS each year, and around 1,600 companies have raised funds through VCTs since their introduction in 1995. The schemes have so far supported over £11.5 billion of equity investment;

- increasing from £5 million to £10 million the lifetime limit on capital gains qualifying for Entrepreneur's Relief, with effect from 6 April 2011. This will reduce the barrier for social entrepreneurs who want to grow their business and reinvest gains, helping to make the UK a more attractive location for entrepreneurs. Currently 25,000 to 30,000 people each year claim Entrepreneurs' Relief; and
- re-notification of the Community Investment Tax Relief to continue to enable access to finance for businesses in deprived areas, and launching a consultation on possible improvements to the scheme. The scheme has raised £63 million over the 8 years until 2010 for lending to for profit and social enterprises in disadvantaged areas and has facilitated over 1,300 loans.

Devolved Administrations

Scotland

3.40 The Scottish Investment Bank (SIB) was established on 20 December 2010 and invests in early stage, innovative SMEs with high growth potential. Under the SIB, the new Scottish Loan Fund (SLF) opened for applications on 2 February 2011, offering mezzanine debt finance on a commercial basis to established, viable, growing and exporting SMEs and will provide loans of between £250,000 and £5 million to firms that have the most to contribute to Scotland's economic growth. The SLF has secured around £94 million in funding: £55 million of public funding and almost £40 million from the private sector. It is anticipated that this funding will assist some 200 businesses over the next five years, although this could vary subject to demand and the scale of loans disbursed. The funding is forecast to increase turnover in the assisted businesses by some £536 million and lead to the creation of around 920 jobs.

Wales

3.41 The £150 million Finance Wales Joint European Resources for Micro to Medium Enterprises (JEREMIE) fund was launched in April 2009. It has a 5-year investment period and individual investments range from £5,000 to £2 million. The cumulative level of new investment to the end of February 2011 was £56.8 million invested in 308 SMEs. The funds invested have generated private sector leverage of £109.7 million.

Bottleneck: "Ensuring that constraints on growth posed by household and government sector indebtedness are countered by a rebalancing towards net exports."

ECOFIN report: "*Household sector deleveraging and fiscal consolidation are likely to limit growth in the short to medium term, but sterling's depreciation since 2007 should be conducive to minimising the resulting output loss by both reducing import growth and boosting UK exports*."

Relevant Treaty base: Article 121 of the TFEU, Integrated Guideline 2.

Annual Growth Survey: Priority 2 – correcting macroeconomic imbalances; Priority 8 – tapping the potential of the Single Market.

Government objectives:

3.42 Rebalancing the economy towards net exports is central to the Government's strategy to deliver strong, sustainable and balanced growth in the UK and overseas. Over the past decade UK GDP growth has been dampened by imports growing by more on average than exports. Even over the last three years as sterling depreciated in value by 25 per cent, imports have continued to outpace exports. The role of the Government is to create the conditions for private sector growth by using all its levers to break down barriers to trade and to promote a strong and credible global trading system to take advantage of projected global growth of $20 trillion over the next five years, particularly in emerging markets.

Actions to address these objectives:

3.43 The Government has set out a comprehensive set of policies to rebalance the economy and boost exports, through the Government's *White Paper Trade and Investment for Growth*[25] published on 9 February 2011 and the *Plan for Growth*, published on 23 March 2011. These set out the Government's strategy to boost the UK's international competitiveness by 2015-16. Key actions include measures to:

- support trade finance and insurance;
- support exporters through UK Trade and Investment;
- further the Single Market; and
- promote global trade.

3.44 The OBR in their *Economic and Fiscal Outlook* in March 2011 stated that: "*Given the outlook for domestic demand and the size and persistence of the sterling depreciation, we continue to expect net trade to make a significant contribution to growth throughout the forecast period.*" The OBR expects net exports to contribute between 0.5 and 1 percentage point to UK growth in the five years from 2011 to 2015. Growth in UK exports will average 6.4 per cent a year over the same period.

[25] Available at: http://www.bis.gov.uk/assets/biscore/international-trade-investment-and-development/docs/t/11-717-trade-investment-for-growth.pdf

Measures to support trade finance and insurance

3.45 The *Trade and Investment White Paper* and *Plan for Growth* set out specific measures to support UK exporters gain greater access to trade finance and insurance, to be delivered through the Export Credits Guarantee Department (ECGD).

3.46 To address demand for short-term trade credit insurance, the ECGD has extended the eligibility of its existing short term credit insurance policy, the Export Insurance Policy (EXIP). Previously this product was generally only available for exports of capital goods. It is now open for business on an extended basis which increases the eligible range of goods and services exported to emerging markets. Whilst it is not possible to predict the levels of demand for this product at the outset, it is being introduced as a pilot, which will permit the ECGD to adjust the policy in light of initial experience.

3.47 The Government has also announced that two facilities introduced in response to the financial crisis, the Letter of Credit Guarantee Scheme, and allowing ECGD's guarantees to be used to raise long term finance in capital markets for UK exports, will be extended on a permanent basis to support exporters. To date, ECGD has guaranteed five letters of credit and two capital markets transactions.

3.48 The Government will provide support to exporting SMEs by working with banks to ensure a successful implementation of three new ECGD products: a bond support product, an export working capital product and a foreign exchange credit support product. The bond support product opened for business on 31 March 2011 and the others will be available shortly. It is not possible to predict levels of demand for the products at the outset but the Government will review its impact in light of experience.

3.49 The Government is also launching the Export Enterprise Finance Guarantee (ExEFG) and promoting its use to SMEs. The scheme is aimed at viable SME exporters with an annual turnover of up to £25 million and which require export finance. Under the ExEFG the Government will guarantee lenders to facilitate the provision of short-term export finance lines of up to £1 million to exporting SMEs. The ExEFG is being launched on a pilot basis based on a £40 million facility and is likely to support 160 SMEs at an average loan size of £250,000, over a 12 month period.

Measures to support exports through UK Trade and Investment

3.50 The Government is also introducing a package of measures to support exporters through UK Trade and Investment (UKTI), the UK's trade and export promotion agency. UKTI will deliver a new range of support to help SMEs with an ambition to break into overseas markets. This will include promotion of 'Passport to Export', which helps SMEs new to exporting to build their trade capacity by providing advice on capability, potential markets for products, culture, business practices, regulations and economic conditions. Around 1,250 companies a year benefit from the Passport to Export programme and companies on the programme will receive up to £1,000 match funding to carry out activities in their action plans. The Government will use the Foreign and Commonwealth Office and UKTI to provide UK businesses with local intelligence on high value projects overseas and intensive support to win these deals. Working closely with business, UKTI will identify opportunities and barriers faced by UK companies operating in high-growth markets and ensure that the UK's diplomatic resources and Ministerial visits focus on eliminating these barriers to trade.

Measures to further the Single Market

3.51 The EU is vital to the UK's growth and prosperity, with the Single Market accounting for half of the UK's total exports of goods and services. The UK is supportive of a strong Single

Market that fosters European growth. At the end of February 2011, the UK produced a response to the draft *Single Market Act*[26], which highlighted the UK's priority areas for the Single Market including liberalisation of services and the creation of a digital Single Market. These priorities are also highlighted in the Government's pamphlet on EU growth, *Let's choose growth*, published on 31 March 2011.

3.52 EU Member States must implement the Services Directive by the end of 2011. A number of restrictions to trade in services still exist in the EU in the form of non-tariff barriers and regulatory restrictions, to the extent that cross-border services only represent 5 per cent of GDP (equivalent to less than a third of trade in goods). A tough and transparent approach to enforcement, through measures such as national scorecards, would help Member States to reform.

3.53 The EU also needs to conduct further work to identify and remove unjustified restrictions on professional services. There are more than 4,600 regulated professions in the EU which are reserved for people with specific professional qualifications, and the approach taken by Member States varies considerably in this area. Restrictions should be removed and cut back to those areas where specific qualifications are really necessary. The EU must secure the creation of a fully functioning digital market by 2015 by overhauling the EU regime for online trade. The EU should also set out measures to rule out geographically based differentiation in e-commerce inside the Single Market. At present, only 7 per cent of consumers buy on-line because of the numerous restrictions which prevent the development of cross-border on-line sales.

Measures to promote global trade

3.54 The Government also remains committed to working towards the G20 goal of securing the completion of the Doha Development Agenda in 2011. The EU must continue to push for completion of the Round, which would be worth around £110 billion to the global economy and would act as a safeguard against protectionism, therefore facilitating an increase in global exports. As set out in the *Trade and Investment White Paper*, the Government will continue to work closely with the EU, the World Trade Organisation (WTO) and its G20 partners to secure a multilateral agreement on trade, recognising that 2011 represents an important window of opportunity. The Government is determined to work hard with European partners to achieve this goal. The Government will also actively promote the completion of ambitious, comprehensive Free Trade Agreements between the EU and key markets, including India, Canada, Mercosur and the ASEAN nations. As announced in the *Plan for Growth*, the UK will work with the EU to press for opening of market access overseas in areas of key strengths such as financial and professional services, advanced manufacturing, educational and green goods and services and healthcare goods.

[26] UK response to draft SMA: http://www.bis.gov.uk/assets/biscore/europe/docs/u/11-760-uk-response-single-market-act

Bottleneck: "Facilitating an increase in aggregate fixed private investment."

ECOFIN report: "*In view of the UK's typically low rates of capital deepening, a lasting reinvigoration of fixed capital accumulation could provide an important boost to trend growth*."

Relevant Treaty base: Article 121 of the TFEU, Integrated Guidelines 4 and 6.

Annual Growth Survey: Priority 9 – attracting private capital to finance growth.

Government objectives

3.55 The Government is committed to a new model of economic growth that is more balanced. This follows a decade in which economic growth became increasingly unbalanced and reliant on increasing levels of borrowing, and the UK fell in international surveys of competitiveness. The Government will act swiftly to address barriers to investment as a route to a more balanced economy.

Actions to achieve objectives

3.56 In Budget 2011 and the *Plan for Growth*, both issued in March 2011, the Government set out a range of measures to support balanced economic growth and job creation including through promoting increased fixed private investment. The *Plan for Growth* set out four overarching objectives to ensure that progress is made towards strong, sustainable and balanced growth. This included an objective "*to encourage investment and exports as a route to a more balanced economy*" in addition to aiming "*to create the most competitive tax system in the G20*" that will also help to promote private sector investment.

3.57 This section will focus on: measures to promote investment in capital, infrastructure and across the regions in the UK through the Regional Growth Fund and Enterprise Zones; taxation reforms; and housing and planning. Access to finance is covered under the financial sector bottleneck. Other supporting actions and policies are detailed in the Budget and *Plan for Growth* documents.

Encouraging investment as a route to a more balanced economy

3.58 To encourage capital investment, Budget 2011 announced that from April 2011 the limit on the capital allowances short life assets election will be extended from four to eight years, more closely aligning tax and economic depreciation. It will also extend the Business Premises Renovation Allowance for a further five years from 2012, providing relief on renovation of business premises in assisted areas.

3.59 To encourage inward investment, Budget 2011 and the *Plan for Growth* announced that the Government would:

- launch simplified visa processes to ensure the UK is 'open for business' by increasing added value premium and fast track services in key overseas growth markets, increasing the availability of biometric enrolment and the availability of ePassport gates at Gatwick and Heathrow airports, and publishing visa application guidance in more local languages;
- develop a more entrepreneurial culture within UKTI, led by the Minister for Trade and Investment, which makes better use of private sector expertise and talent with a clear focus on winning business for UK firms; and

- provide a bespoke service to key inward investors, giving them direct access to UK Ministers and speedy resolution of bureaucratic obstacles to investment. This will support a major drive to encourage investment in economically significant projects.

Investment in infrastructure

3.60 In October 2010 the Government produced the UK's first ever *National Infrastructure Plan*[27], which outlined the Government's strategy to unlock the private and public funding required to deliver the infrastructure the UK needs. The *National Infrastructure Plan* identified £200 billion of public and private infrastructure planned over the next five years, and the requirement is likely to grow beyond that to provide the power, communications and transport links to underpin a modern, low carbon economy.

3.61 Budget 2011 announced that in order to give industry the confidence to invest in economic infrastructure, the Government will publish the UK's long-term forward view of projects and programmes in autumn 2011 as part of the *National Infrastructure Plan*. The Government will also enable building contractors to respond more effectively to emerging market opportunities by publishing quarterly, from autumn 2011, a rolling two-year forward programme of infrastructure and construction projects where public funding has been agreed.

3.62 To increase investment in infrastructure, Budget 2011 and the *Plan for Growth* announced that the Government will provide £200 million of new funding for rail projects. The first project to be confirmed is work to deliver the Ordsall Chord, which will link Manchester Victoria and Manchester Piccadilly stations, supporting significant reductions in journey times between Leeds and Liverpool.

Regional Growth Fund

3.63 To encourage investment across the regions, the June Budget 2010 announced a £1.4 billion Regional Growth Fund, operating over three years across England to stimulate private-sector led, sustainable economic growth and employment particularly in those areas most dependent on the public sector. The first round of bidding closed in January 2011; the Government is encouraged by the strength of the response, which saw over 450 bids from across England, supporting a wide range of sectors.

3.64 The Government announced on 12 April 2011 final decisions on the first round of the Regional Growth Fund and on the same day launched a second round of bidding, inviting proposals for further projects and programmes to stimulate private sector led economic growth in areas.

Local Enterprise Partnerships and Enterprise Zones

3.65 A key vehicle for delivering local economic growth and jobs in England are Local Enterprise Partnerships. These are locally-owned partnerships between local authorities and businesses aimed at determining local economic priorities and undertaking activities to drive growth and job creation. Following an invitation in June 2010 to bring forward proposals for local enterprise partnerships, working on the basis of natural economic areas, a total of 32 local enterprise partnerships are now operational. Together, they cover 91 per cent of the country's population, and further announcements are expected in the next few months.

3.66 In order to further encourage investment in the regions, the Government announced in the *Plan for Growth* the creation of 21 new Enterprise Zones to be developed within the new Local

[27] National Infrastructure Plan: http://www.hm-treasury.gov.uk/ppp_national_infrastructure_plan.htm

Enterprise Partnerships. Businesses located in Enterprise Zones will benefit from superfast broadband, lower business tax rates, and low levels of regulation and planning controls. All business rates receipts will be reinvested in the Local Enterprise Partnership area to support local economic priorities. Enterprise Zones will be focused on enhancing the comparative advantage of their wider area, focused on key sectors and connected to wider markets through links to ports and airports in several instances. Reduced business rates will free up capital for investment or to take on more staff.

3.67 In addition, the Government will work with individual Local Enterprise Partnerships to consider the scope to: introduce enhanced capital allowances for plant and machinery to support Enterprise Zones in assisted areas where there is a strong focus on manufacturing; promote the use of Tax Increment Finance to support the long-term viability of the area; and provide UKTI support to promote inward investment or trade opportunities in all new Enterprise Zones.

3.68 The *Plan for Growth* announced in which Local Enterprise Partnership areas the first ten Enterprise Zones will be located[28]. They include the UK's major urban centres, and areas that have significant untapped potential. The specific location of Enterprise Zones will be a matter for each Local Enterprise Partnership, bearing in mind that the Government is seeking to support real growth opportunities, not remedy local dereliction. In addition, London will have an Enterprise Zone and be able to choose its site.

3.69 The Government will launch a competitive process for interested Local Enterprise Partnerships to establish ten more Enterprise Zones, and will seek to make decisions on the final zones in the summer. The Government will also work with the Devolved Administrations to explore opportunities for employing the new Enterprise Zone model across the UK.

Creating the most competitive tax system in the G20

3.70 The Government published its *Corporate Tax Road Map*[29] in November 2010 in support of its aim to create the most competitive tax system in the G20. This included the four annual 1 percentage point reductions in the main rate of corporation tax and the decrease in the rate applicable to small business profits from 21 per cent to 20 per cent announced at the June Budget 2010.

3.71 Budget 2011 announced that the Government will reduce the main rate of corporation tax by a further 1 per cent. From April 2011, the rate will therefore be reduced from 28 per cent to 26 per cent and, by 2014, it will reach 23 per cent. This will promote higher levels of business investment. It will help the UK maintain the lowest rate in the G7. To offset the benefits to banks from the further cut in corporation tax, the rate of the Bank Levy will increase to 0.078 per cent from 1 January 2012.

Housing and planning

3.72 Adequate levels of housing are vital for future economic competitiveness, enabling a mobile workforce and making a direct and immediate impact on GDP through job creation and impact on the wider supply chain. But the UK has the lowest number of new homes being built in peacetime since 1924. This reflects the difficult time that the housing market currently faces, as well as more longstanding problems around burdensome regulation and overly-bureaucratic planning processes, with insufficient land allocated for development.

[28] The first round of ten EZs will be in the following LEPs: Birmingham and Solihull; Leeds City Region; Sheffield City Region; Liverpool City Region; Greater Manchester; West of England; Tees Valley; North Eastern; the Black Country; and Derby & Derbyshire with Nottingham & Nottinghamshire.

[29] *Corporate Tax Reform: delivering a more competitive system*, HM Treasury, November 2010.

3.73 In response, the Government is taking action to create a planning system, supported by powerful financial incentives, that makes the right land available in the right place to deliver commercial development, vital infrastructure and housing that the country needs. A new presumption in favour of sustainable development will be introduced. This will set out the Government's clear expectation that the default answer to development and growth should be 'yes', except where this would compromise sustainable development principles. A draft presumption in favour of sustainable development will be published in May 2011, preceding a consultation this summer on a significantly simplified National Planning Policy Framework, which will have growth objectives as a central priority.

3.74 To bring forward more public sector land for development, the Government Property Unit will work with departments to accelerate the release of surplus land, with the Homes and Communities Agency (HCA) bringing forward development with the private sector to support housing and development. The Government will also work with local authorities to expedite planning decisions for surplus military land and other public sites suitable for housing, and test "build now, pay later" techniques to quicken delivery.

3.75 Through the New Homes Bonus, announced on 17 February 2011, communities are now being offered significant incentives to build new houses. Over the Spending Review period, almost £1 billion has been set aside, including nearly £200 million in 2011-12 and £250 million for each of the following three years.

3.76 At Budget 2011 the Government announced action to boost the supply of housing through support for the house building industry, with a First Buy shared equity programme to assist over 10,000 first time buyers to get on the housing ladder, reforms to stamp duty land tax for bulk purchases of residential property, and a range of measures to remove barriers to entry for new Real Estate Investment Trusts.

3.77 Budget 2011 announced that the Government would strengthen demand for residential property by reforming the stamp duty land tax rules applied to bulk purchases. If the buyer chooses, the rate of Stamp Duty Land Tax on purchases of multiple residential properties will be determined by the mean value of the dwellings purchased (subject to a minimum rate of 1 per cent), rather than their aggregate value as is currently the case. This will reduce a barrier to investment in residential property, promoting private rented housing supply.

3.78 The June Budget 2010 announced that the Government would review the Stamp Duty Land Tax relief for first time buyers, taking into account its impact on affordability and value for money. The Government will announce the outcome of its review in autumn 2011.

3.79 The Government has made a commitment to achieve a net reduction in regulatory and other burdens on the house-building industry by March 2015. Where planning obligations reflect more buoyant property market conditions, the HCA will urge and support Local Authorities to allow development to proceed wherever possible. The Government will work with local authorities and industry to introduce a new local viability test, so that the cumulative impact of regulation does not make development unviable. The Government has already removed all centrally-imposed standards for homes built on surplus central government land, and will not require additional standards for public sector funded homes, resulting in savings of around £8,000 per unit.

3.80 The Government has developed a significantly cheaper definition of zero carbon for new homes, which still enables the UK to meet its legally binding carbon reduction targets for 2020 and 2050. The Government will also unify or align overlapping consent regimes, streamline the application process for planning and related consents, and simplify the process for extending the life of planning permissions.

Bottleneck: "Improving the contribution of the education system to human capital formation including through a broader skills base."

ECOFIN report: "*Weakness in the lower and intermediate skills segment of the labour force make the broadening of access to opportunities to develop such skills an important challenge*."

Relevant Treaty base: Article 121 of the TFEU, Integrated Guideline 8.

Annual Growth Survey: Priority 7 – balancing security and flexibility.

Government objectives

3.81 The Government is committed to creating an education and skills system that is responsive to the needs of employers and learners, and ensures that there are open routes for individuals from wherever they begin, to enable them to succeed in work. Skills are vital for our future and essential to building sustainable growth and stronger communities. A skilled workforce is also necessary to stimulate the private-sector growth that will bring new jobs and new prosperity for people across the UK. In England there remains an attainment gap between pupils from different socio-economic backgrounds. A strong and inclusive education and skills system is fundamental to narrowing this gap.

3.82 Education and skills are a devolved power, with each of the administrations making their own policy decisions. Information for Northern Ireland, Scotland, and Wales is provided at the end of this section.

Actions to achieve objectives

3.83 The Government is committed to reform every stage of education and skills provision, moving away from a culture of bureaucratic central planning towards a system that responds better to the needs of employers and benefits learners. The reforms will raise standards and enable learners, particularly those who have the greatest need, to gain the required and necessary qualifications in order to secure and progress in work, and play a full part in society. In particular the Government will:

- place teachers firmly at the heart of school improvement and free schools from the constraints of central government direction;
- improve vocational education, including by taking forward recommendations from the *Wolf Report* on vocational training; and
- expand the University Technical Colleges programme to establish at least 24 new colleges by 2014.

School reform

3.84 The Government in November 2010 published *The Importance of Teaching*[30]. This set out a radical reform programme for the English schools system, with schools freed from the constraints of central government direction and teachers placed firmly at the heart of school improvement. Following the ambitions set out in the White Paper, there are now more than 450 academies open, and the first free schools are due to be open in September 2011. The Government is also developing a new National Curriculum that will set out only the essential

[30] The Importance of Teaching: http://www.education.gov.uk/b0068570/the-importance-of-teaching

knowledge that all children should acquire, and gives teachers greater professional freedom over how they organise and teach the school curriculum to meet the needs of their pupils.

Further education

3.85 The Skills Strategy, *Skills for Sustainable Growth*[31], published in November 2010, sets out the Government's reform plans for the further education and the skills system based on the Coalition principles of fairness, responsibility and freedom.

3.86 The Strategy ensures that all those who have left school without basic skills in literacy and numeracy will continue to have access to state funded training, with those without a first full level 2 or 3 qualification eligible for fully funded training until the age of 24. It also sets out a system of government backed loans from the 2013-14 academic year to help individuals finance other intermediate and higher-level qualifications to help them realise their potential within the labour market. In 2013-14, £129 million will be available for further education loans and £398 million in 2014-15. The Strategy also establishes a new National Careers Service from April 2012, building on the existing provision to offer more intensive support for those with greatest need, to ensure that they have sufficient information to make their next career move.

Vocational education

3.87 The Government is committed to improving vocational education. Following an independent review, the *Wolf Report*[32], completed on 3 March 2011, the Government is keen to take forward the following recommendations: to enable Further Education lecturers to teach in schools on the same basis as teachers; to clarify the rules relating to other professionals teaching vocational subjects in schools; to remove the requirement for vocational qualifications for 14-19 year-olds to fit within the Qualifications and Credit Framework (QCF); and for the Secretary of State for Education to temporarily approve a small number of key qualifications which have lost their accreditation due to the introduction of the QCF. The Strategy aspires to ensure that vocational education serves the purpose of creating and maintaining opportunities for all young people. The Government will issue a formal response in late spring detailing how it will be taking the recommendations forward.

3.88 The Government currently supports a network of University Technical Colleges (UTCs) which offer full time courses for students aged 14 to 19 that combine practical and academic studies. The UTCs are sponsored by a university, which allows colleges to use specialist facilities and teaching from university staff, but also prepares students for higher education. Employers also play a major part in the UTCs, providing work placements and ensuring that qualifications that students gain reflect local labour market needs. The Government announced at Budget 2011 that it would expand the University Technical Colleges programme to establish at least 24 new colleges by 2014.

Devolved Administrations

Northern Ireland

3.89 A revised and updated draft Skills Strategy, *Success through Skills 2*[33], was published for consultation on 1 June 2010. This looks at Northern Ireland's current skills base and examines the skills that will be needed in the future to grow the economy. Its strategic goal is to increase

[31] Skills, Skills for Sustainable Growth: http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/s/10-1274-skills-for-sustainable-growth-strategy.pdf
[32] The Wolf Report: http://www.education.gov.uk/16to19/qualificationsandlearning/a0074953/review-of-vocational-education-the-wolf-report
[33] Success through Skills 2: http://www.delni.gov.uk/success_through_skills_2_-_the_skills_strategy_for_northern_ireland-consultation_document.pdf

the proportion of individuals in employment with all NQF levels, with a particular focus on increasing the numbers qualifying from local higher education institutions with graduate and post-graduate STEM qualifications by between 25-30 per cent in 2020. Further details are contained within the strategy document.

3.90 An integral part of the above strategy is the Skills Solutions service[34]. This aims to provide the employers of Northern Ireland with a learning and skills service which identifies and helps meet the training needs of those organisations. In the 2010-11 financial year, almost 50 projects to upskill nearly 1,400 existing employees were completed under Skills Solutions at a cost of just over £1 million. A further £500,000 was invested in 33 Bridge to Employment programmes, where almost 400 unemployed people were given pre-employment training matching the skills required by employers and successfully obtained jobs. Assured Skills[35] is a joint pilot project between the Department for Employment and Learning and Invest Northern Ireland. The project delivers a range of activities and interventions, so that Northern Ireland can satisfy the future training and skills needs of both potential inward investors and existing companies wishing to expand. In the 2010-11 financial year, some 17 projects to train over 400 newly recruited staff were completed at a cost of just over £1 million.

Scotland

3.91 *Skills for Scotland*[36], the Scottish Government's revised skills strategy published in October 2010, sets out an ambition for a flexible, responsive, partnership approach to addressing Scotland's skills needs and improving economic performance. This will involve developing a workforce with the right skills, expertise and desire, matched to the needs of successful, growing businesses that are creating employment opportunities. The effective use of such skills and expertise, influenced by increased employer ambition and effective leadership, are also vital for improved productivity and growth. To support this ambition, the Scottish Government has set out a substantial package of education and training support for 2011-12. Skills Development Scotland will create a record 25,000 new modern and 7,000 flexible training opportunities for small employers in 2011-12.

3.92 In December 2010, the Scottish Government published a Green Paper on the future of Scottish Higher Education, *Building a Smarter Scotland*[37]. In March 2011 the Scottish Government confirmed the priorities for the future of the sector, including the desire to maintain the competitiveness of Scottish universities without resorting to tuition fees or a graduate contribution. The higher education sector has agreed to maintain core university student places while, in addition to maintaining core places at 2010-11 levels, investment of £8m will help support 1,200 extra college places.

Wales

3.93 The Welsh Assembly Government is simplifying the skills offer to businesses and individuals, focussing on basic skills in the workplace, leadership and management skills, apprenticeships, and discretionary support targeted at companies with growth potential. The Redundancy Action Scheme (ReAct)[38] aims to address the needs of people who have been made redundant, or are under notice of redundancy, through a series of measures designed to remove barriers to obtaining new employment. ReAct targets four key areas where assistance may be required in

[34] Skills Solution: http://www.delni.gov.uk/index/successthroughskills/skillssolutions.htm
[35] Assured Skills: http://www.delni.gov.uk/index/successthroughskills/skills-and-training-programmes-2/assured-skills-programme.htm
[36] Skills for Scotland: http://www.scotland.gov.uk/Publications/2010/10/04125111/0
[37] Building a Smarter Scotland: http://www.scotland.gov.uk/Publications/2010/12/15125728/0
[38] ReAct: http://wales.gov.uk/topics/educationandskills/skillsandtraining/reactemployers/?lang=en

order for redundant workers to gain new employment. Two are aimed at providing prospective employers with incentives and assistance to employ a redundant worker, whilst two are aimed at updating the skills of redundant workers and removing any barriers to training and employment. ReAct is expected to help 4,600 individuals and 620 businesses annually.

3.94 Further support was launched by the Welsh Assembly Government in January 2009 (running to the end of 2011) in the form of the ProAct[39] programme, which is targeted at helping those at risk of redundancy to retrain and strengthen their transferable skills to find new employment opportunities. The evaluation of ProAct reported impressive results for the £27 million programme, including safeguarding an estimated 183 apprenticeships and 2,240 jobs, with three quarters of companies estimating that they would have made additional redundancies in the absence of ProAct support.

[39] ProAct: http://wales.gov.uk/topics/educationandskills/skillsandtraining/proact/?lang=en

4 Performance and transparency

4.1 The Government aims to be the most open and transparent government in the world. At the 2010 Spending Review, the Government launched the Public Services Transparency Framework. This framework provides information on performance and spending to allow the public to form their own view of whether they are getting value for money. The new framework represents a step-change by replacing traditional bureaucratic accountability with a new system of democratic accountability. It will contain no targets or top-down performance management systems, and will avoid intervention in frontline public service providers. Each of the main 17 Government departments published a draft business plan in November 2010 setting out the details of their reform plans, including their: vision and priorities to 2014-15; structural reform plan, including actions and deadlines for implementing reforms over the next two years; and contribution to transparency, including the key indicators against which they will publish data to show the cost and impact of public services. Draft business plans are available on the Prime Minister's website[1]. Business plans will be finalised by spring 2011, and will then be updated annually for the duration of the Parliament.

4.2 The following section reports on the UK's approach to national monitoring and actions taken in support of the five headline Europe 2020 targets agreed by the European Council in June 2010. For each EU level target it sets out: the EU level target; the relationship to the Treaty, the Integrated Guidelines and the Annual Growth Survey; the Government's objectives; the current level of performance against the objectives (all of the indicators described in the following section can be found on the Prime Minister's website, unless otherwise stated); the action the Government and the Devolved Administrations are taking towards meeting the objectives. Examples of stakeholder engagement are also included at specific points in the text.

Devolved Administrations

4.3 The Devolved Administrations have in some instances a different approach to performance and transparency, and where this is the case it has been detailed below.

4.4 Indicators for the current Northern Ireland Programme for Government 2008 to 2011 provide information on changes in the region's labour market performance, levels of educational attainment and workforce quality, levels of R&D and greenhouse gas emissions. Work is currently underway to develop a new Programme for Government for the period 2011 to 2015.

4.5 Progress towards achieving the Scottish Government Purpose is transparently monitored on the Scottish Government website, through its Scotland Performs portal[2]. This measures progress on a number of targets and indicators, including those which relate to the Europe 2020 targets.

4.6 In Wales, a *Framework for Measuring Success* was issued in March 2011[3], which shows progress on a range of social, environmental and economic indicators.

[1] Indicators available at: http://transparency.number10.gov.uk/#

[2] Scotland Performs Portal: http://www.scotland.gov.uk/About/scotPerforms

[3] Wales Framework for measuring success: http://wales.gov.uk/docs/det/report/110330erpframeworken.pdf

EU headline target: employment

European Council conclusions: "*Aiming to raise to 75 per cent the employment rate for women and men aged 20-64, including through the greater participation of young people, older workers and low-skilled workers and the better integration of legal migrants*."

Relevant Treaty base: Article 148 of the TFEU, Integrated Guideline 7.

Annual Growth Survey: Priority 4 – making work more attractive; Priority 5 – reforming pensions systems; Priority 6 – getting the unemployed back to work; Priority 7 – balancing security and flexibility.

Government objectives

4.7 The Government is committed to increasing employment opportunities for all by providing support mechanisms and benefits systems that encourage work and reduce worklessness, to ensure that individuals can fulfil their potential within the labour market.

4.8 Employment is a reserved power under devolution. Details of policies being implemented in Northern Ireland, Scotland and Wales are included at the end of this section.

Current level of performance against objectives

England

Indicator	Current level	Reference period
Proportion of children living in workless households	16.4 per cent	2009 (January to December 2009)
Number of people on out of work benefits	4,867,300 (GB figure)	August 2010
The number of sustained job entries through the Work Programme	N/A will apply subsequent to the launch of the Programme	

Northern Ireland

Indicator	Current Level	Reference Period
Employment rate (population aged 16-64)[4]	65.8 per cent	October to December 2010

[4] http://www.detini.gov.uk/deti-stats-index.htm

Scotland

Indicator	Current level	Reference period
Employment rate (population aged 16-64)[5]	71.1 per cent	October to December 2010

Wales

Indicator	Current level	Reference period
Employment rate (population aged 16-64)[6]	67.5 per cent	October to December 2010

Policy context

4.9 The Government is committed to increasing employment opportunities for all, with a particular focus on increasing participation of those furthest from the labour market. In the UK, while employment has increased recently, evidence shows that an insufficient number of job vacancies are being filled by those on benefits. Currently, 1.4 million people have been receiving out-of-work benefits for nine or more of the last ten years and 2.6 million people for at least half of the decade[7]. This worklessness is the labour market bottleneck that the UK wants to highlight in the context of Europe 2020 and to explore with other Member States.

4.10 The Labour Market Statistics release in April 2011 gave an employment rate of 70.7 per cent for the fourth quarter of 2010. At Budget 2011 the Office of Budget Responsibility estimated that between 2010 and 2015 total employment would increase by around 900,000 to 30 million people. This comprises an increase in market sector employment of around 1.3 million, partly offset by a reduction in general government employment of around 400,000 between 2010-11 and 2015-16[8].

Actions to achieve objectives

4.11 Jobcentre Plus, the UK's public employment service, plays a key role in delivering this policy, including through regular activation measures and benefit conditionality. In addition, the Government will introduce the Work Programme, which will provide personalised support to help individuals re-enter the labour market. The Government will also reform welfare through the Universal Credit, so that it incentivises work and ensures that every hour of work is rewarded. This section also includes policies related to: integrating income tax and national insurance; skills conditionality; enterprise; raising participation of older workers, lone parents and younger workers; flexible working arrangements and use of the European Social Fund.

[5] http://www.scotland.gov.uk/Topics/Statistics/Browse/Labour-Market/TrendEconomicActivity

[6] http://www.statswales.wales.gov.uk/TableViewer/tableView.aspx?ReportId=2044

[7] Department for Work and Pensions (DWP) Longitudinal Study (people claiming Income Support, incapacity benefits and Jobseeker's Allowance) and Cabinet Office, 2010, State of the Nation report: *Poverty, worklessness and welfare dependency in the UK*, HM Government ref 401172/0510.

[8] OBR Economic and Fiscal Outlook, March 2011: http://cdn.budgetresponsibility.independent.gov.uk/economic_and_fiscal_outlook_23032011.pdf

4.12 These policies are consistent with the Joint Employment Report (JER) on increasing labour market participation and reducing social exclusion, including efficient social spending and sustainable social protection.

4.13 A number of the actions detailed in the rest of this National Reform Programme, in the sections on bottlenecks to growth and the other targets, promote private sector growth which in turn will lead to increased private sector employment and therefore contribute towards the Government's efforts towards achieving the identified key employment objectives.

Work Programme

4.14 The Government has set up the Work Programme[9], announced at the 2010 Spending Review, which will simplify existing programmes for unemployed people and improve personalised support to help individuals to return to work. The Work Programme will apply particularly (but not exclusively) to: longer term claimants on the UK unemployment benefit, Jobseekers Allowance (JSA); those on Employment and Support Allowance (ESA) which started replacing incapacity benefit in October 2008; or existing incapacity benefit recipients who are assessed from February 2011. By spring 2014, 1.5 million people will have performed a Work Capability Assessment, which is an independent assessment of fitness to work or ability to undertake work related activity. The Programme will build support around the needs of individuals, taking account of individuals' circumstances, including caring responsibilities, health conditions, age related barriers or social exclusion factors such as homelessness. It is estimated that between 2011 and 2015 up to 3.2 million people will have been referred to this programme[10].

4.15 The Work Programme will be delivered in partnership between the Government and the private, public and voluntary sectors. Providers will be given the freedom to innovate and do what works. In return, the programme will ensure good value for money for the taxpayer by basing payments largely on results, and paying providers from the benefits saved from getting people into work. Following a stakeholder consultation[11], the organisations selected as preferred bidders were announced on 1 April and will now proceed to sign contracts, which will run from June 2011 until 2016.

4.16 The Work Programme will be backed up by improved benefit conditionality and will continue to support people after they have entered work. The funding model not only rewards the provider for moving people into work, but continues to reward them for keeping people in work.

Universal Credit

4.17 As part of the *Welfare Reform Bill*[12], for which legislative plans were published in November 2011, the Government is reforming its welfare system through introducing a Universal Credit[13]. Universal Credit will simplify the working age benefit system by moving from the current range of means-tested out-of-work benefits and in-work tax credits to one streamlined payment. Universal Credit is complementary to the Work Programme as together they support higher employment through improving work incentives, tackling inactivity and poverty traps (as highlighted in the *Joint Employment Report*), particularly with regard to sustainable social protection and efficient social spending.

[9] The Work Programme: http://www.dwp.gov.uk/docs/work-prog-itt.pdf

[10] Work Programme Prospectus http://www.dwp.gov.uk/docs/work-prog-prospectus-v2.pdf

[11] See Annex A of the Work Programme Prospectus: http://www.dwp.gov.uk/docs/work-prog-prospectus-v2.pdf

[12] Welfare Reform Bill: http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/

[13] Universal Credit: http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf

4.18 Under the current system of means tested working age benefits and tax credits, people in nearly 1.1 million workless households currently lose more than 70 per cent of their earnings if they move into work of 10 hours a week. Additionally, around 700,000 households in low paid work lose more than 80 per cent of any increase in their earnings because of higher tax or withdrawn benefits. Under Universal Credit, individuals moving into employment will have their support withdrawn at one unified rate (65p for each pound of net earnings), ensuring that all worked hours are rewarded.

4.19 The scheme will be piloted from March 2013, with full implementation beginning in October of the same year. The Department of Work and Pensions has been allocated £2 billion over the next four years for the implementation of the Universal Credit. Once fully implemented, around 2.7 million households will be entitled to higher entitlements, with an equivalent benefit expenditure rise of £2.6 billion. It is estimated that 85 per cent of the gains will go to households in the bottom two quintiles of the income distribution[14].

Integrating income tax and National Insurance Contributions

4.20 At Budget 2011, the Government also announced that it would consult on integrating the operation of income tax and National Insurance Contributions (NICs) as this could remove distortions, reduce burdens and improve fairness within the tax system. Any change will be complex and involve a wide range of policy and implementation issues so options will be carefully considered. This is consistent with the JER recommendation on employer social security contributions. Any changes will maintain the contributory principle.

Skills conditionality

4.21 The Government is committed to ensuring that individuals have the right skills for the labour market and are supported and encouraged to address their learning needs. To facilitate this, Jobcentre Plus will refer claimants to an appropriate skills training provider, Further Education College or Next Step adviser so that those on active benefits can address the skill needs preventing them from getting a job. When training provision has been identified, there will be potential benefit sanctions for non-participation. The Government responded to a consultation[15] on skills conditionality on 29 March 2011 and is currently looking at how this could be taken forward.

Enterprise

4.22 To promote individual enterprise as a viable route off benefits Jobcentre Plus is delivering the New Enterprise Allowance (NEA). The NEA will be available to individuals who have been claiming Job Seekers' Allowance (JSA) for six months or more. The scheme provides individuals with access to business mentors and, if they have a viable business proposition with growth potential, access to financial support worth up to around £2,000. Following piloting in six local authorities, from April 2011 the scheme will be expanded to additional target areas and it will be available nationally from autumn 2011. £80 million will be made available for up to 40,000 JSA claimants to take up NEA by the end of 2012-13.

[14] Source: http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf

[15] Consultation on Skills Conditionality: http://www.dwp.gov.uk/consultations/2010/skills-conditionality.shtml

Raising Participation

Older workers

4.23 The Government aims to provide greater opportunities for people to participate in the labour market at age 65 and beyond. The Government is phasing out the default retirement age from April 2011 and ensuring that older workers are incentivised to continue working through reduced National Insurance contributions and higher tax allowances. Employers will not be able to compulsorily retire employees who turn 65 from 1 October 2011, unless the retirement can be objectively justified. The current State Pension age for women will increase from 60 to 65 more quickly between April 2016 and November 2018, and thereafter the State Pension age for both men and women will be raised to 66 by April 2020.

Lone Parents

4.24 Maximising the paid employment rate for parents, and particularly for lone parents, contributes to eradicating child poverty on a sustainable basis. Children in workless lone parent households are over 2.5 times more likely to be in poverty than those where the lone parent works part-time[16]. Lone parents with a youngest child aged seven or older ordinarily need to claim JSA and seek work. The Government intends to extend this requirement in early 2012 to lone parents with a youngest child over five. Based on historical evidence, this is expected to affect around 75,000 lone parents per year. Lone parents with younger children are able to claim Income Support, which has less active requirements associated with it. However lone parents on Income Support may also volunteer for the Work Programme at any point in their claim.

Young people

4.25 The Government is committed to reducing youth unemployment – further information can be found in the skills bottleneck and education target sections.

Flexible working arrangements for parents and disabled people

4.26 For those with young families, flexible working is currently available for parents with children 16 and under and carers. The Government is committed to extending the right to request flexible working to all employees in due course. From 2010, the entitlement for all three and four year olds in England to free childcare rose to a minimum of 15 hours per week, delivered flexibly over a minimum of three days and about 95 per cent of the three and four year old population benefit.

4.27 For severely disabled people, Work Choice[17] was launched on 25 October 2010. The scheme has been developed in close consultation with disability groups and disabled people and is expected to provide a flexible range of support to help disabled people find and stay in work adapted to the needs of about 23,000 people each year.

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[16] Source: Households Below Average Income, 2008-09

[17] Work Choice: http://www.direct.gov.uk/en/DisabledPeople/Employmentsupport/WorkSchemesAndProgrammes/DG_187696

Stakeholder focus: Pluss

Pluss is a Social Enterprise that each year supports over 2,500 people with disabilities and other disadvantages to move towards and into employment. It does this through a range of specialist, local employment services and through direct employment within its own commercial businesses – it currently employs 470 staff, around 40 percent of whom have a disability. It has designed an effective model for evaluating social value and impact

Pluss is owned by four local authorities in south east England and currently delivers employability contracts on behalf of the Department for Work and Pensions (in particular, as a Workchoice provider), other local authorities, the NHS, European Social Fund projects and the Funding Skills Agency. It also advises and supports around 1,000 employers on recruiting and retaining staff with a disability. In a recent example, the enterprise part of Pluss formed a relationship with global recycling company SIMS which helped secure jobs for disabled people and other local people in one of its commercial factories.

European Social Fund (ESF)

4.28 Over 2007-13, the European Social Fund (ESF) will invest around €4.5 billion across the UK, helping to extend employment opportunities to people at a disadvantage in the labour market such as disabled people, lone parents, older workers, ethnic minorities and young people not in education, employment or training. It will also help improve the skills of the workforce, with a particular focus on people who lack basic skills and good qualifications, and on developing skills for green jobs in a low carbon economy.

4.29 For the 2011-13 period, the Department for Work and Pensions in England will be spending around £66 million of ESF funding on voluntary places on the Work Programme for incapacity benefit and income support claimants, and around £200 million on employment focused provision for families with multiple problems.

Stakeholder focus: Wales Council for Voluntary Action (WCVA)

WCVA’s £19 million Intermediate Labour Market project supports over 40 organisations to deliver paid work placements, training and qualifications to 2,295 economically inactive people in North and East Wales, leading to at least 2,295 new work-based qualifications and 1,677 permanent job outcomes. The project is part-funded by the European Social Fund (£9.6 million). WCVA previously ran the project successfully across North Wales during the period 2003-07. Of the 2,146 participants the project supported, 64 per cent entered either full-time, part-time of self-employment and 89 per cent gained an NVQ or equivalent qualification.

Devolved Administrations

Northern Ireland

4.30 The challenge for the Northern Ireland Executive in the next five to ten years is to both rebuild the economy in the aftermath of the recession and to rebalance it towards the private sector. Short-term actions will focus on job creation and retention, as well as skills development. In pursuing these objectives the Executive will promote economic, social and personal development through high quality learning, research and skills training; help people into employment and promote good working practices.

4.31 In support of the above objectives, a consultation[18] was launched on 24 March 2011 to tackle issues surrounding those who are not in education, employment or training (NEETS) in a progressive, suitable and realistic manner. In addition to this, a Short-Term Employment Scheme (STES) has been developed by Invest Northern Ireland[19]. This will promote in excess of 5,000 jobs over 4 years, with a budget of £18.83 million, focusing on job creation and sustainability. Further support for the region's Local Employment Intermediary Service (LEMIS), an innovative employment programme, was announced on 23 March 2011. LEMIS is a community led initiative designed to assist those furthest from the labour market who are not currently using statutory job-finding services. It is a low-cost high-output service which secures an into employment success rate of 25 per cent. £2 million will be invested in the service in 2011-12.

Scotland

4.32 Under the community planning arrangements, there are now active employability partnerships in all local authority areas in Scotland, helping to align strategies and funding streams across a range of partners. An integrated employment and skills (IES) service, led jointly by Skills Development Scotland and Jobcentre Plus, has also been rolled out nationally. Pre-employment training for adults and young people in Scotland is provided through the Training for Work and Get Ready for Work programmes. These are flexible programmes, commissioned with Community Planning Partnerships, aimed at providing job specific skills for adults and more generic employability skills and work experience for young people.

4.33 Throughout the economic slowdown the Scottish Government has put in place a range of incentives to training providers and employers to support progression through the skills and employability pipeline. Over 300,000 training opportunities have been supported since 2007. An additional 100,000 opportunities are planned for 2011-12, including a record 25,000 Modern Apprenticeships. The Employer Recruitment Incentive, offered by Skills Development Scotland, is to be extended and will help deliver up to 5,000 new employment opportunities for individuals aged 18 and above who have been unemployed for six months or more, while a £2.5 million investment fund will provide additional support to small businesses to meet the costs of recruiting staff. A new £10 million Community Jobs Scotland fund will enable the Scottish Government to work with the third sector to provide 2,000 work and training opportunities for young people.

Wales

4.34 The Welsh Assembly Government and the Department of Work and Pensions published a *Labour Market Framework*[20] during 2009. The framework outlines plans for the labour market in Wales and a shared vision covering the integration of employment, skills and other programmes, to raise the employment rate. The framework aims to achieve a better mix of employment, with more high-skilled and high earning jobs with an impact on productivity, economic growth, household incomes and child poverty. Action is facilitated through a Joint Employment Delivery Board for Wales who advise on developments in relation to the programmes of UK and Welsh Governments.

4.35 The *SkillBuild programme*[21,] which currently operates throughout Wales, offers work related skills to young people and adults not in employment. The programme aims to provide learners with key personal and employability skills and qualifications to enable them to effectively enter

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[18] NEET Consultation: http://www.delni.gov.uk/neetconsultation

[19] Short-Term Employment Scheme: http://www.investni.com/about-news.htm?newsid=15969

[20] Labour Market Framework: http://wales.gov.uk/topics/educationandskills/publications/guidance/labourmarketframework/?lang=en

[21] SkillBuild Programme: http://wales.gov.uk/newsroom/educationandskills/2008/3989317/?lang=en

the labour market and retain sustainable employment. This will end in July 2011. SkillBuild will be replaced in August 2011 by the Traineeship Programme for those aged 16-18, and Steps to Employment for those 18 and above who are not in education or employment. The successor programmes will provide an individual approach to learning that fully meets individuals' needs while offering them flexibility and a fuller range of opportunities. Between August 2011 and July 2012 approximately 14,472 16-18 year olds will be impacted by the Traineeship Programme and approximately 5,198 adults will be impacted by the Steps to Employment programme.

EU headline target: education

European Council conclusions: "*Improving education levels, in particular by aiming to reduce school drop-out rates to less than 10 per cent and by increasing the share of 30-34 years old having completed tertiary or equivalent education to at least 40 per cent*."

"The European Council emphasises the competence of Member States to define and implement quantitative targets in the field of education."

Relevant Treaty base: Article 165 of the TFEU, Integrated Guideline 9.

Annual Growth Survey: not applicable.

Government objectives

4.36 The Government will undertake reforms to improve schools and help reduce the number of young people not in education, employment or training (NEET). The Government is also committed to expanding and improving the quality of the apprenticeships programme, enabling individuals to choose the learning pathway that will help them achieve their goals.

4.37 Education and skills are a devolved power, with each of the administrations making their own policy decisions. Information for Wales, Scotland and Northern Ireland can be found at the end of this chapter.

Current level of performance against objectives

England

Indicator	Current level	Reference period
Attainment at age 16[22]	At age 16 - 53.8 per cent achieving English and Mathematics GCSEs at grades A*-C	2009-10
Attainment at age 19[23]	At age 19, 81.5 per cent were qualified to at least Level 2	2010
International comparison (within the OECD) of the qualification levels of the working age population in UK	For 25-64 year olds: 70 percent achieving at least upper secondary (UK level 2); and 33 per cent at least tertiary (UK level 4)	2008

[22] Department for Education Statistical First Release 01/2011: http://www.education.gov.uk/rsgateway/DB/SFR/s000985/sfr01-2011.pdf
[23] Department for Education Statistical First Release 04/2011: http://www.education.gov.uk/rsgateway/DB/SFR/s000995/index.shtml

Northern Ireland

Indicator	Current level	Reference period
Per cent of working age population without qualifications[24]	19.7 per cent	December 2010
Per cent of school leavers achieving 5 or more GCSEs at grades A*- C (or equivalent) including GCSE English and Maths[25]	58.4 per cent	2008-09

Scotland

Indicator	Current level	Reference period
Rate of early school leavers in Scotland[26]	10.9 per cent	April – June 2009
Share of the population aged 30-34 having completed tertiary education[27]	46.7 per cent	2008 survey
Increase the proportion of school leavers (from Scottish publicly funded schools) in a positive and sustained destination[28]	86.8 per cent (up from 85.7 per cent in 2008-09)	2009-10
Increase the percentage of Scottish domiciled graduates from Scottish Higher Education institutions in positive destinations[29]	Almost 90 per cent of qualifiers in employment and/or further study 6 months after qualifying.	2011

Wales

Indicator	Current level	Reference period
Percentage of working age adults qualified to NVQ level 4 and above[30]	30 per cent	2009
Percentage of 16-18 year olds who are not in education, employment or training (NEET)[31]	12 per cent	Year end – 2009 (prov.)
Number of Higher Education qualifications obtained by Welsh domiciles[32]	26,600	2009-10

[24] http://www.detini.gov.uk/lfs_quarterly_supplement_-_october_-_december.pdf
[25] http://www.deni.gov.uk/index/32-statisticsandresearch_pg/32_statistical_publications-indexofstatisticalpublications_pg/32_statistical_publications_pressreleases_pg/statistics_and_research_-_national_statistics_school_performance.htm
[26] http://www.scotland.gov.uk/Publications/2011/03/28102812/7
[27] Ibid
[28] http://www.scotland.gov.uk/Topics/Statistics/Browse/School-Education/TrendDestinations
[29] http://www.scotland.gov.uk/Publications/2011/03/28102812/7
[30] http://wales.gov.uk/topics/statistics/headlines/post16education2010/1010211/?lang=en
[31] http://wales.gov.uk/topics/statistics/headlines/post16education2011/110119/?lang=en

Policy Context

4.38 The Government in the *Plan for Growth* announced its aim to create a more educated workforce that is the most flexible in Europe, including through an increase in participation of 16-24 year olds in employment or learning; supporting more apprenticeships than any other previous government and being home to a world class higher education system. The Government is committed to ensuring that opportunities are more equal and to narrowing the educational attainment gap in employment and learning. This will allow individuals to choose a fulfilling job, to shape the society around them and most importantly fulfil their potential.

Actions to achieve objectives

4.39 A number of the actions detailed in the sections on the skills bottleneck, employment target, and social exclusion target contribute towards the UK's efforts towards achieving identified key education objectives.

Reducing early school leaving

4.40 The most important factor in influencing young people's participation post-16 is good attainment at age 16. The Government's preventative approach therefore focuses first and foremost on raising attainment in schools. The Government's White Paper, *The Importance of Teaching* (see skills bottleneck section for detail) sets out a clear programme of reform to help raise standards for all children.

4.41 The Government is committed to raising the participation age in England to 17 in 2013 and 18 in 2015, so that all 16-17 year olds participate in education or training, building the skills and qualifications that they need for higher education and sustainable employment. In December 2010, the Government confirmed an increase in funding for 16-19 education and training places in 2011-12 of 1.5 per cent over 2010-11 budgets[33]. It also set out specific measures to increase the amount of help provided to disadvantaged learners by increasing the funding in the national funding formula that addresses deprivation from £561 million in 2010-11 to around £770 million in 2011-12. Local authorities in England are expected to have in place a process to make sure that 16 and 17 year olds have an offer of a place in education and training, and to ensure that there are sufficient, suitable, places to meet their needs. Taking forward the recommendations of the *Wolf Report* (see skills bottleneck section for detail) will also help broaden choice for young people post-16.

Apprenticeships

4.42 The Government has placed apprenticeships at the heart of the skills system. Apprenticeships are open to all suitably qualified young people aged 16 and over, provided they are living in England and are not taking part in full-time education. The financial benefits of apprenticeships to young people can be considerable; those with an advanced level apprenticeship can earn on average around £105,000 more over their lifetime than those with intermediate level qualifications[34].

4.43 The Government will provide £180 million for up to 50,000 additional apprenticeship places over the next four years, making the highest ever public investment in apprenticeships. This funding includes £75 million to support small employers set up an additional 10,000

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[32] http://wales.gov.uk/topics/statistics/headlines/post16education2011/110217/?lang=en

[33] 16-19 Funding Statement (YPLA 2010) : http://www.ypla.gov.uk/news/latest/16-19-Funding-Statement-and-Statutory-Guidance-Arrangements-for-16-19-Funding-of-Education-and-Train.htm

[34] Department for Education: http://www.education.gov.uk/16to19/qualificationsandlearning/apprenticeships/a0064399/apprenticeships-key-facts-and-figures

Advanced Level and Higher Apprenticeships over the next four years, helping them put in place training arrangements with other businesses, including large companies in the supply chain. Overall and taking account of these new measures announced at Budget 2011, the Government will deliver at least 250,000 more apprenticeships over the next four years, compared to the previous government's plans. The Government will also create up to 100,000 work experience placements for young people, helping them develop key work skills and get on to the employment ladder.

Higher education

4.44 The Government is committed to reforming higher education to make it sustainably financed, ensure the quality of teaching remains world class and that universities remain accessible to anyone who has the talent to succeed. To achieve this, the Government will take forward the recommendations of Lord Browne's *Independent Review of Higher Education*[35], published on 12 October 2010.

4.45 From autumn 2012, universities in England will be able to charge up to £9,000 a year for courses, but will need to meet much tougher conditions on widening participation set by the Office for Fair Access (OFFA). The Government is committed to fairness within its higher education funding reforms, therefore no undergraduate student will be expected to pay these charges up front, as subsidised loans will cover these costs. Repayment of student loans will only commence when students have completed their learning and are earning a salary of £21,000 or more (increased annually in line with earnings from 2016) and any outstanding repayments will be written off after 30 years.

4.46 The Government is also putting in place a more progressive maintenance package, with an increased Maintenance Grant worth £3,250 for all those from households with an income up to £25,000 and increased loans for living costs of up to £5,500 (or up to £7,675 for students living away from home and studying in London).

Stakeholder focus: Farnborough College of Technology

For the last three years, Farnborough College of Technology has been delivering an innovative employer led programme to train aircraft maintenance engineers with a consortium of local aerospace employers. The College has significantly expanded this provision to include a new partnership with British Airways. British Airways propose to recruit 90 apprentices a year from September 2011 (30 of whom will be from Farnborough). This new development has provided excellent career opportunities for local young people as well as opening up opportunities for further growth in this area with other aerospace companies.

In addition, the College has worked with British Airways to meet their training needs and deliver training for a new cohort of 15 Business Administration apprentices, and a significant number of Train to Gain NVQs in Team Leading and Warehousing.

[35] The Browne Report: http://www.independent.gov.uk/browne-report

Devolved Administrations

Northern Ireland

4.47 A key priority for the Department of Education, Northern Ireland is to raise standards overall and address underachievement. The Department's policy framework seeks to address a range of barriers to learning and help young people to develop the knowledge, skills and attitudes that young people need to do well in life and at work. The Department has a range of inter-connected policies aimed at raising educational standards in schools, particularly in the areas of literacy, numeracy and ICT. These include *Every School a Good School*[36], the Department's over-arching school improvement strategy (April 2009); *Count, Read: Succeed*[37], a strategy to improve Literacy and Numeracy (March 2011); the revised curriculum and *Entitlement Framework*[38] which provide greater choice, flexibility and opportunity for young people to follow a broad and balanced range of courses that are relevant to their futures and to the future needs of the economy; and work to promote Science, Technology, Engineering and Maths (STEM).

Scotland

4.48 The Scottish curriculum, the *Curriculum for Excellence*[39] , is designed to provide all children and young people from ages 3-18 with the knowledge and skills attributes they need for learning, life and work. It enables schools and their partners to build a flexible system that offers personalisation and choice for young people, wherever their learning is taking place. *16+ Learning Choices* helps young people to stay in learning post-16 and gives priority to those young people who need more choices. It supports the transition from compulsory education and then from subsequent episodes of learning broadly up to 18, to ensure that all young people achieve positive and sustained destinations. Scotland is protecting its Education Maintenance Allowance (EMA), which offers a financial incentive of £30 per week to young people from low-income families to remain in learning post-16.

4.49 Priorities for the Scottish higher education sector include maintaining student numbers at current levels, protecting excellence in research and protecting access to higher education. The Scottish Government recognises that people and their skills are Scotland's most valuable resource. Tuition fees for Scottish and EU students studying for a first undergraduate degree at Scottish institutions are therefore paid by the Scottish Government. The Scottish Government also aims to increase participation to entrants to higher education from the 20 per cent most deprived areas, which continue to be under-represented. The Scottish Government has been tackling this issue by funding specific initiatives through the Scottish Funding Council and introducing fairer means testing to ensure that support is targeted where most needed.

Wales

4.50 The *Youth Engagement and Employment Action Plan*[40] for 2011-15 outlines the Welsh Assembly Government's 18 point approach to preventing children and young people from disengaging from learning and supporting them with entry to the labour market. The overall aim of the plan is the reduction of the number of young people who are, or at risk of becoming, not in education, employment or training in Wales.

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[36] Every School a Good School: http://www.deni.gov.uk/index/85-schools/03-schools_impvt_prog_pg/03-every-school-a-good-school-a-policy-for-school-improvement.htm

[37] Count, Read: Succeed: http://www.deni.gov.uk/index/85-schools/03-schools_impvt_prog_pg/schools_-_school_improvement_programme-03-count-read-succeed-a-strategy-for-improving-outcomes-in-literacy-and-numeracy.htm

[38] Entitlement Framework: http://www.deni.gov.uk/index/22-new-arrangements/22-ppa-ka-cef-pg.htm

[39] Curriculum for Excellence: http://www.ltscotland.org.uk/understandingthecurriculum/whatiscurriculumforexcellence/

[40] Youth Engagement Action Plan: *http://wales.gov.uk/topics/educationandskills/publications/guidance/yeeap/;jsessionid=QJy9NQKpLYYwy7STmhWTvc1nNfZStF0WGG2ztZ2GrDgtdHmQH1gQ!1452112521?lang=en*

4.51 To support higher level learning, Welsh university students currently pay a contribution of £3,290 a year in fees (plus any inflationary uplift). The Welsh Government will provide a tuition fee grant or waiver to cover the difference in university fees. Students will also be able to access subsidised loans to help with the cost of going to university, and if eligible, a means tested Assembly Learning Grant[41] of up to £5,000 will be available to help pay for studies.

[41] Assembly Learning Grant *http://www.studentfinancewales.co.uk/portal/page?_pageid=56,1835674&_dad=portal&_schema=PORTAL*

EU headline target: social exclusion

European Council conclusions: "*Promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion*."

"The population is defined as the number of persons who are at risk-of-poverty and exclusion according to three indicators (at-risk-of poverty; material deprivation; jobless household), leaving Member States free to set their national targets on the basis of the most appropriate indicators, taking into account their national circumstances and priorities."

Relevant Treaty base: Article 156 of the TFEU, Integrated Guideline 10.

Annual Growth Survey: not applicable.

Government objectives

4.52 The Government is committed to carrying out wide-ranging social reforms, including transforming children's life chances, reforming welfare systems, improving education, increasing social mobility and tackling child poverty.

Current level of performance against objectives

Indicator[42]	Target	Current level	Reference period
Relative low income - proportion of children living in households where income is less than 60 per cent of median household income before housing costs for the financial year.	Less than 10 per cent by 2020-21	22 per cent	2008-09
Absolute low income - proportion of children living in households where income is less than 60 per cent of median household income before housing costs in 2010-11 adjusted for prices.	Less than 5 per cent by 2020-21	Not defined until baseline year. Current measure uses 60 per cent of 1998-99 income adjusted for prices – 12 per cent	2008-09
Low income and material deprivation - proportion of children who experience material deprivation and live in households where income is less than 70 per cent of median household income before housing costs for the financial year.	Less than 5 per cent by 2020-21	17 per cent	2008-09
Persistent poverty - proportion of children living in households where income is less than 60 per cent of median household income before housing costs for the financial year in at least 3 out of the previous 4 years.	To be defined in regulations by 2015.	12 per cent	2005-08

[42] http://research.dwp.gov.uk/asd/index.php?page=hbai

Northern Ireland

A bespoke monitoring and reporting framework will be developed during 2011-12 to support the *Northern Ireland Child Poverty Strategy*[43] developed under the Child Poverty Act.

Indicator	Current level	Reference period
Relative income Poverty: Percentage of children living in households below 60 per cent of UK median household income before housing costs are deducted from net household income[44]	25 per cent	2008-09
Absolute income poverty: Percentage of children living in households whose income before housing costs are deducted is less than the 1998-99 relative income poverty level adjusted year-on-year for inflation[45]	17 per cent	2008-09
Combined low income and material deprivation poverty: Percentage of children living in a household whose income before housing costs are deducted is below 70 per cent of UK median household income and experiences material deprivation reflected by enforced lack of adult and child goods and services[46]	20 per cent	2008-09

Scotland

The targets and indicators within the Scottish Government's *National Performance Framework*[47] measure levels of poverty and income inequality in Scotland. The most relevant of these are:

Indicator	Current level	Reference period
The 'Solidarity' target: "*To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017*"[48].	13-14 per cent	2008-09
National Indicator: "*Decrease the proportion of individuals living in poverty*". This is measured in terms of the percentage of people living in relative poverty (below 60 per cent of median income before housing costs)[49].	17 per cent	2008-09

[43] http://www.northernireland.gov.uk/final_child_poverty_strategy_-_agreed_by_executive_-_22_march_2011.pdf
[44] Relative Income Poverty: change over time in relation to relative income poverty in Northern Ireland is monitored primarily through the relative income poverty measure reflecting the proportion of children, adults, pensioners and whole population living in households whose income is 60% or less of United Kingdom median household income on a Before Housing Costs Basis: http://www.dsdni.gov.uk/index/stats_and_research/stats-publications/stats-family-resource/households/hbai-2008-09.htm
[45] http://www.ofmdfmni.gov.uk/annex_3_lifetime_opportunities_monitoring_framework_oct_2010_pdf.pdf
[46] http://www.ofmdfmni.gov.uk/annex_3_lifetime_opportunities_monitoring_framework_oct_2010_pdf.pdf
[47] http://www.scotland.gov.uk/Publications/2007/11/13092240/9
[48] http://www.scotland.gov.uk/About/scotPerforms/purposes/solidarity
[49] http://www.scotland.gov.uk/About/scotPerforms/indicators/poverty

Wales

The *Child Poverty Strategy for Wales*[50] in February 2011 set out a balanced approach to measure progress including the following key indicators. The Welsh Assembly Government intends to review the full range of indicators to ensure that the data collected are consistent and appropriate for future monitoring of the UK Child Poverty Strategy.

Indicator	Current level	Reference period
Percentage of children living in households below 60 per cent of median[51]	32 per cent	2006-07 to 2008-09
Percentage of children living in workless households income after housing costs[52]	19.9 per cent	2009
Percentage of learners eligible for free school meals who achieve the Level 2 threshold including English/Welsh and mathematics at Key Stage 4[53]	20.1 per cent	2009

4.53 The *Child Poverty Strategy*[54] sets out a suite of new measures to help the Government track progress, which captures a broad understanding of both the causes and results of poverty.

4.54 The Government's new indicators, which are in addition to those in the *Child Poverty Act*, will continue to recognise the importance of income, but will also capture a broader understanding of both the causes and the results of poverty. They cover family resources, supporting family circumstances and children's life chances. In addition to the *Child Poverty Act* targets, family resources includes a new measure of severe poverty (living in a household where income is below 50 per cent of median before housing costs and also experiencing material deprivation) which will help track the impact of policy on the very poorest. Other indicators will help monitor progress on the key effects or drivers of poverty including growing up in a workless household, family structures, outcomes in health, the early years and education alongside risky behaviours such as teenage pregnancy and young offending.

4.55 Consistent with the Government's approach to measurement, the Government will not be setting targets for these measures. The Government nevertheless remains committed to the pre-existing UK wide targets in the *Child Poverty Act* as set out in the table below.

Policy Context

4.56 Welfare and education reform aspects of the Government's approach to tackling social exclusion are covered in more detail in the employment and education target sections of this National Reform Programme. The following section therefore provides relatively more coverage of child poverty aspects of the Government's overall approach.

[50] Child Poverty Strategy for Wales: http://wales.gov.uk/docs/dsjlg/policy/110203newchildpovstrategy2en.pdf
[51] http://www.statswales.wales.gov.uk/TableViewer/tableView.aspx?ReportId=14283
[52] http://www.statswales.wales.gov.uk/TableViewer/tableView.aspx?ReportId=14037
[53] http://www.statswales.wales.gov.uk/TableViewer/tableView.aspx?ReportId=28557
[54] Child Poverty Strategy: http://www.education.gov.uk/publications/eOrderingDownload/CM-8061.pdf

Actions to achieve objectives

England

4.57 At the heart of the Government's approach to tackling child poverty are the principles of work, fairness, responsibility and support for the most vulnerable. It require a radical reform of the welfare state, increasing children's life chances, a greater emphasis on early intervention, and a concentration on whole-family and whole-life measures. To achieve this aim, the Government has produced the *Child Poverty Strategy*, which fulfils obligations under the *Child Poverty Act 2010*[55] to set out a comprehensive three year plan for tackling poverty from 2011-14 and provides a framework for ending child poverty by 2020.

Child Poverty Strategy

4.58 Through the *Child Poverty Strategy*, the Government will ensure that there is a stronger focus on policies that benefit children, and policies that prevent skewed or unintended consequences. The Government is clear that, particularly in the current fiscal environment, evidence-based practice and services that can genuinely transform lives must drive local prioritisation. The Government has freed up policy delivery to target local need because it believes that imposing solutions from above stifles innovation and detracts from local priorities. Therefore power is being devolved from central to local government, communities, voluntary groups and private investors who help families to struggle to make their voice heard.

4.59 The Government set up a Social Justice Cabinet Committee in June 2010, which has driven forward at a Ministerial level action to tackle the underlying factors that trap people in situations of poverty and social exclusion, with the aim of stabilising the lives of the particularly vulnerable and breaking the intergenerational cycle of poverty. The Committee does not look at poverty solely as a financial issue, but also at aspiration, opportunity and stability. It also looks at why people are trapped in poverty, including worklessness, addiction, debt, family breakdown and educational failure.

Welfare Reforms

4.60 The Government will help to tackle the causes of poverty through a welfare system for the whole United Kingdom that recognises work as the primary route out of poverty, by aiming to reduce the number of children in workless households. With the simpler welfare system that will be introduced by the new Universal Credit (see the employment target section for detail), households will be more likely to claim their full entitlement to support. This measure aims to lift some 950,000 individuals including 350,000 children and 600,000 working age adults out of poverty[56]. Overall, it is estimated that 27 million households will have a higher entitlement, with one million receiving over £25 per week more[57].

4.61 The new Work Programme (see the employment target section for further detail) will introduce changes which will simplify the number of existing employment programmes to deliver a coherent package of integrated support, which will ensure that those not in employment receive the support they need to access the working environment and lift themselves out of poverty.

[55] Child Poverty Act: http://www.legislation.gov.uk/ukpga/2010/9/contents/enacted

[56] Based on modelling from the DWP Policy Simulation Model, using data from 2008/09 Family Resources Survey).

[57] Universal Credit – Impact Assessment: http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf

Early Intervention

4.62 The independent *Frank Field Review on poverty and life chances* of December 2010[58] and independent *Graham Allen Review on early intervention* of January 2011 [59] have reaffirmed the importance of early intervention to improve life chances. The Government has committed to provide enough funding through the Early Intervention Grant (see below for detail) to retain the national network of Sure Start Children's Centres, which provide a variety of support for all parents and carers, while also ensuring that they deliver proven early intervention programmes to support families in greatest need.

4.63 There are also a number of educational initiatives including a Fairness Premium, for England, worth over £7.2 billion between 2011 and 2015, which will provide 15 hours free nursery care to the most disadvantaged 2 year olds, and a Pupil Premium which will give schools an extra £430 for each pupil that they take whose parents have an annual income of less than £16,000 from April 2011. This will be worth £2.5 billion a year by 2014-15[60]. The Government is also creating a new Early Intervention Grant (EIG) for local authorities in England. This substantial new funding stream replaces a number of disparate centrally-driven grants and will not be ring-fenced, providing significant extra flexibility and freedom at a local level. The EIG can support a range of services for children, young people and families and will be worth £2.2 billion in 2011-12[61].

4.64 The Government's *Social Mobility strategy*[62] will raise children's aspirations and narrow the gaps in attainment which play such a crucial role in defining children's future lives. There is a very strong link between deprivation and underachievement and the Government is therefore introducing a £110 million Education Endowment Fund from April 2011, which will give money to local authorities, academy sponsors, charities and other groups that bring forward innovative proposals to improve performance in underperforming schools. This will help ensure that the poorest children, wherever they live, and whatever their gender or ethnic group are able to receive additional support to help raise attainment.

Devolved Administrations

Northern Ireland

4.65 The Northern Ireland child poverty strategy is set out in the document *Improving Children's Life Chances*[63] launched in March 2011. The Strategy sets out the key areas that are believed to be crucial in addressing the causes and consequences of child poverty and to meet Northern Ireland's statutory obligations under the Child Poverty Act. There are two key strands of work emerging relevant to the causes and the consequences of child poverty. Strand one is adult centred and focuses on supporting parents into work (and into better paid work). Strand two attempts to tackle the cyclical nature of child poverty by increasing the future prospects for children. Some of these key areas will focus on delivering results over the longer term. The Executive is also developing a robust delivery plan detailing key initiatives and signature projects to progress the priorities identified in the strategy. The delivery plan will be published for consultation as soon as possible in the next administration.

[58] Frank Field Report: http://webarchive.nationalarchives.gov.uk/20110120090128/http://povertyreview.independent.gov.uk/media/20254/poverty-report.pdf
[59] Graham Allen Report: http://www.dwp.gov.uk/docs/early-intervention-next-steps.pdf
[60] Spending Review: http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf
[61] Early Intervention Grant: http://www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/a0070357/early-intervention-grant-frequently-asked-questions/
[62] Social Mobility Strategy: http://download.cabinetoffice.gov.uk/social-mobility/opening-doors-breaking-barriers.pdf
[63] Improving Children's Life Chances: http://www.northernireland.gov.uk/final_child_poverty_strategy_-_agreed_by_executive_-_22_march_2011.pdf

4.66 Over the course of the next administration, in recognition of the critical role this issue plays to the economy, there are a number of key immediate actions that will be taken to support existing provision and help support childminders, childcare and the creation of increased and affordable provision such as start-up packages for child-minders. A budget provision of £3 million per annum will help support a range of new childcare measures therefore reducing barriers to employment and encouraging and supporting economic activity in line with the priorities of growing the economy and reducing deprivation and poverty. In its budget for the next four years, the Northern Ireland Executive has also made provision of £100 million in total to support two funds: a Social Investment Fund to help tackle the problem of disadvantage and a Social Protection Fund to assist those most in need within the wider community.

Scotland

4.67 *Achieving Our Potential*[64] outlines the approach of Scottish Government and its partners to tackling poverty and income inequality. Broadly, this framework aims to: tackle income inequality; take long term measures to tackle poverty and inequality; and support those experiencing poverty.

4.68 The Scottish Government has signed up the UK Child Poverty Act 2010 and is committed to stepping up efforts to end child poverty by 2020. The new *Child Poverty Strategy for Scotland*[65] launched on 15 March 2011, sets out the Scottish Government's approach to tackling child poverty, which builds on the strategic direction set out in *Achieving our Potential*. Amongst a range of activity supporting the aims of *Achieving our Potential* and the *Child Poverty Strategy*, the Scottish Government funds and supports advice and information infrastructure in Scotland to promote financial inclusion; is taking forward a programme to transform education in Scotland (*Curriculum for Excellence* - see education target section); and is implementing the Early Years Framework in an effort to break inter-generational transmission of poverty.

Wales

4.69 The Welsh Assembly Government's child poverty strategy 2011-14 gives a clear account of what can be achieved in helping to reduce poverty, particularly in the areas of improving health, education and economic outcomes for children in low income families. The *Child Poverty Strategy for Wales*[66] sets out three new objectives for tackling child poverty: to reduce the number of families living in workless households; to improve the skills of parents and young people living in low income households; and to reduce inequalities that exist in health, education outcomes of children and families by improving the outcomes of the poorest.

[64] Achieving our Potential: http://www.scotland.gov.uk/Publications/2008/11/20103815/0

[65] Child Poverty Strategy for Scotland: http://www.scotland.gov.uk/Resource/Doc/344949/0114783.pdf

[66] http://wales.gov.uk/docs/dsjlg/policy/110203newchildpovstrategy2en.pdf

EU headline target: R&D and innovation

European Council conclusions: "*Improving the conditions for research and development, in particular with the aim of raising combined public and private investment levels in this sector to 3 per cent of GDP; the Commission will elaborate an indicator reflecting R&D and innovation intensity*."

Relevant Treaty base: Article 121 of the TFEU, Integrated Guideline 4; and Article 173 of the TFEU.

Annual Growth Survey: not applicable.

Government objectives

4.70 The Government will improve the framework conditions for research and innovation to facilitate greater private sector investment over the period.

Current level of performance against objectives

UK

Indicator	Current level	Reference period
Number of citations of UK academic papers to show the strength of the UK's research base	14.4 per cent	1999-2008

Northern Ireland

Indicator	Current level	Reference period
Business expenditure on R&D[67]	£323.7 million	2009
Higher Education expenditure on R&D[68]	£143.0 million	2009

Scotland

Indicator	Current level	Reference period
Gross expenditure on R&D[69]	£1.92 billion	2009
Scotland's share of citation impact in top 1 per cent by citations count[70]	1.9 per cent	1999-2008

[67] http://www.detini.gov.uk/deti-stats-index/stats-surveys/stats-research-development.htm
[68] Ibid
[69] http://www.scotland.gov.uk/Publications/2011/03/GERD09
[70] http://www.scotland.gov.uk/Topics/Business-Industry/science/research-1/ResearchReport

Wales

Indicator	Current level	Reference period
Business Expenditure on R&D[71]	£321 million	December 2010
Higher Education Expenditure on R&D[72]	£261 million	March 2010

Policy context

4.71 The Government recognises the contribution of research and development, innovation, and science to achieving strong, sustainable and balanced growth that is more evenly shared across the country. Government policies seek to establish an environment that helps generate ideas which could feed into innovation, and provides help and support for innovators, both directly and through creating a market framework conducive to innovation.

4.72 The Government will set out a broader vision and strategy for innovation in summer 2011. This will focus on how the Government will support innovation activity across the most important sectors of the UK economy, in particular those that offer the greatest scope for boosting growth and productivity. In order to assess the impact of its innovation policies, the Government continues to sponsor the development of an innovation index[73]. Results show that UK investment in intangibles underpinning innovation, which include design and software development, stood at £137 billion in 2008[74]. The Government looks forward to the outcome of the European Commission's ongoing work to develop an indicator to measure innovation activity.

Actions to achieve objectives

4.73 This section details Government action in support of meeting the above objective, and is focused on: protecting and promoting excellence and supporting higher investment levels; creating and innovation friendly environment; and bridging the gap between public and private innovation activity. It also covers action taken by the Devolved Administrations.

Protecting and promoting excellence and supporting higher investment levels

4.74 The UK research base ranks among the top two in the world in many areas, such as bioscience, business, clinical, environmental sciences, health and medical, humanities and social sciences[75]. The Government at the 2010 Spending Review prioritised science and research programme funding within a flat-cash, ring-fenced settlement of £4.6 billion per year for 2011-15. This compares to significant real terms cuts in most departments, for example with the Department for Business, Innovation and Skills receiving a 25 per cent real terms cut in resource spending over the same period.

4.75 Building on the £514 million allocated to research capital in 2011-12, Budget 2011 announced an additional £100 million in 2011-12 for science capital development to provide facilities for the commercialisation of research, accommodation for innovative SMEs, and new

[71] http://www.statswales.wales.gov.uk/TableViewer/document.aspx?ReportId=10579
[72] Ibid
[73] http://www.nesta.org.uk/library/documents/Annual_Innovation_v29.pdf
[74] http://www.nesta.org.uk/library/documents/Driving_Ecc_Growth_Web_v4.pdf
[75] Source: Evidence Ltd International comparative performance of UK Research Base 2009

research capabilities. This will be invested in existing campuses and clusters including the Norwich Research Park, Babraham Research Campus in Cambridge, new instruments at the ISIS research centre, and development of the International Space Innovation Centre in Oxfordshire.

4.76 The R&D tax credit is the biggest single funding mechanism provided by Government to support business investment in R&D. The latest R&D tax credit data shows that the schemes supported almost £11 billion of R&D investment in 2008-09 by UK companies. An estimated £980 million of support was provided to around 8,350 companies undertaking qualifying R&D activity that year. The Government published a consultation[76] on the schemes in November 2010 that closed in February 2011, and has committed to publishing a full response by May 2011. The Government also announced a series of related reforms at Budget 2011, including an increase in the rate of the SME R&D tax relief to 200 per cent in 2011 and 225 per cent in 2012, subject to state aid approval. Budget 2011 also announced that the Government would consult on proposals to make the R&D tax credit easier to use by small firms and on changes to ensure relief is available when R&D project work is contracted out.

Stakeholder focus: Ceravision

Ceravision develops high efficiency plasma lighting systems powered by microwave energy. Based in Bletchley Park, Buckinghamshire the company has grown from 3 research staff in 2004 to 35 R&D staff in 2010 and as production expands total staff numbers are expected to double to 70 in 2011. Company CEO Tim Reynolds says: "This would not have been possible without the support of the R&D Tax Credit scheme, since the qualifying tax rebate is used to underwrite the employment cost of specialists, allowing the company to offer market competitive salaries and attract and retain experienced, talented staff."

Creating an innovation-friendly environment

Intellectual property

4.77 The Prime Minister in November 2010 announced an independent review of how the Intellectual Property (IP) framework supports growth and innovation[77]. The review aims to identify barriers to growth within the IP framework, which consists of the rules and regulations covering how IP is created, used and protected in this country. The review will issue its report around spring 2011 and the Government will respond to the review in due course.

4.78 Budget 2011 announced that the Government would publish a further consultation on the introduction of a Patent Box in May 2011, setting out details of how the regime will operate, followed by draft legislation in autumn 2011. The Patent Box will provide a reduced 10 per cent corporate tax rate for profits from patents, which will encourage UK businesses to retain high-value jobs associated with commercialisation of patents and to invest further in innovation.

4.79 The Government will publish a strategy on the UK's international approach to intellectual property in summer 2011. This will set out the Government's approach to achieving an intellectual property system that enables the economy and society to benefit from knowledge and ideas.

4.80 The Government is also pressing for the creation of a European patent system that provides real benefits for businesses, consumers and the economy. Key elements of a business-friendly

[76] Consultation on R&D tax credits: http://www.hm-treasury.gov.uk/consult_randd_tax_credits.htm

[77] IPO Review: http://www.ipo.gov.uk/ipreview.htm

system are an EU (unitary) patent covering the broadest range of Member States possible, and an effective European patent court.

Broadband

4.81 The Government launched its *Broadband Strategy*[78], on 6 December 2010, which expands on the vision for the UK to have the best superfast broadband network in Europe by 2015. The Government is committed to ensuring the rapid roll-out of superfast broadband across the country and would like remote areas to benefit from this at the same time as more populated areas.

4.82 The Strategy outlines how Broadband Delivery UK (BDUK) will use the £530 million available in this Spending Review period to support broadband rollout, and describes measures intended to stimulate further private sector investment. It sets out the goal of delivering a fibre point in every community in the UK by the end of this Parliament, bringing superfast broadband within reach of both urban and rural communities, and commits to ensuring that homes and businesses right across the UK are able to access a decent level of connectivity, even in the most remote areas.

Bridging the gap between public and private innovation activity

4.83 The Government in October 2010 announced investment of over £200 million in a network of elite Technology and Innovation Centres (TICs)[79]. These will help commercialise new and emerging technologies and bridge the gap between universities and business. The first TIC in the area of High Value Manufacturing[80] was announced in March 2011. It will be formed from a consortium of seven research and technology centres to provide an integrated capability that embraces most forms of manufacture using metals and composites, in addition to process manufacturing technologies and bio-processing. Budget 2011 also announced that the second TIC would focus on the area of Cell Therapy.

4.84 Centres for Innovative Manufacturing, funded by the Engineering and Physical Sciences Research Council (EPSRC), will support emerging science in areas of strategic opportunity for manufacturing. These Centres will feed new ideas and discoveries through to business and TICs, helping to open up new industries and markets in growth areas. Alongside Budget 2011, EPSRC announced it will invest a further £45 million to establish nine new EPSRC Centres in areas such as biological pharmaceuticals, novel composite technologies, and intelligent automation.

4.85 Budget 2011 also announced that the Government would use government procurement to drive innovation and support innovative SMEs, committing £20 million over the next two years to the Small Business Research Initiative, including £10 million from the Department of Health on specific competitions to address healthcare challenges.

Devolved Administrations

Northern Ireland

4.86 The Northern Ireland Executive's Sub Committee on the Economy in January 2011 issued a consultation document on a proposed framework for the region's new *Economic Strategy*[81]. The document recognises the need to rebalance the Northern Ireland economy by growing the

[78] Broadband Strategy: http://interactive.bis.gov.uk/comment/bduk/broadband-strategy

[79] TICs: http://www.bis.gov.uk/policies/innovation/tsb/technology-and-innovation-centres

[80] Available at: http://www.bis.gov.uk/news/topstories/2011/Mar/technology-and-innovation-centres

[81] Northern Ireland Economic Strategy: http://www.detini.gov.uk/northern_ireland_economic_strategy_-_initial_consultation_paper__priorities_for_sustainable_growth_and_prosperity.pdf

private sector. One of the key priority themes of the proposed strategy will be to stimulate innovation, R&D and creativity.

4.87 To help drive forward the commercialisation of innovation and R&D particularly in public private sector collaborations, Invest Northern Ireland launched in March 2009 a Competence Centre Programme as a new innovative concept, designed to provide collaborating businesses with the opportunity to establish and 'contract out' higher-risk, longer term research programmes focusing on emerging market opportunities. Following a call for Expressions of Interest in April 2009, three proposals were invited to the next stage of providing a detailed expression of needs. Subsequently three letters of offer were issued to: a Connected Health Centre in March 2011; an Agri-Food Competence Centre in November 2010; and a Sustainable Energy Centre in January 2011. In addition to this Programme, between 1 April 2008 and 31 December 2010, Invest Northern Ireland supported 297 companies to engage in R&D for the first time (against a three year target of 300 companies) and has secured £296 million of R&D investment, exceeding its target of £120 million.

Scotland

4.88 Scotland has a strong research base. In 2011-12, the Scottish Government has maintained the Research Excellence Grant in cash terms at £213 million, and refocused its research funding to protect in real terms the highest quality of research. Combined research and knowledge exchange funding for Scottish higher education institutions will be £294 million. Scottish institutions are world leaders in health, biological and clinical sciences, informatics and low carbon technologies. The Scottish Government has particular focus on those industries set to drive the global economy, as set out in the Digital[82] and Low Carbon[83] *Economic Strategies*. The low carbon economy presents significant opportunities for Scotland to build its world leading reputation and act as a major catalyst for innovation activity.

4.89 The Scottish Government has launched the £10 million Saltire Prize, the largest innovation prize for marine renewable, and on 20 March 2011 announced a £6.9 million package of support from the European Regional Development Fund for renewable energy and low carbon economy projects[84]. Scottish Enterprise's new International Technology and Renewable Energy Zone (ITRZ) will position Scotland as world leaders in renewables research and development. A new £89 million state of the art technology and innovation centre at the University of Strathclyde will be an integral part of ITREZ and will bring together industry and academia in the fields of energy and engineering.[85]

4.90 A key priority for Scotland is to strengthen business engagement, particularly SMEs, in research and innovation and to improve knowledge exchange from the research base. The Scottish Government works with its public sector partners (Scottish Enterprise, Highlands and Islands Enterprise, Business Gateway and the Scottish Funding Council) to achieve this and runs several successful knowledge exchange programmes. For example, Interface connects businesses to world class knowledge and research facilities available in all Scotland's universities and research institutes. To date over 800 companies have been supported, the majority of which are SMEs, and over 330 collaborative projects have been established. Interface also administers Innovation Vouchers which offer universities match funding of up to £5,000 to meet 50 per

[82] Digital Economy Strategy: http://www.scotland.gov.uk/Publications/2011/03/04162416/0

[83] Low Carbon Economy Strategy: http://www.scotland.gov.uk/Publications/2010/11/15085756/0

[84] Available at: http://www.scotland.gov.uk/News/Releases/2011/03/21084745

[85] Available at: http://www.scotland.gov.uk/News/Releases/2011/03/11115216

cent of the costs of any collaboration with a Scottish SME. This has created more than 100 business/academic partnerships.

Wales

4.91 Support for businesses in Wales is focused on six key sectors: life science, energy, advanced materials & manufacturing, creative industries, financial & professional services and ICT. There is now a stronger focus on IP and commercialisation along with support for design, manufacturing, new product development and Innovation Vouchers. A new repayable funding offer to support R&D is also being developed with support from European Structural Funds with a total cost of £28.9 million. The Programme will increase expenditure on R&D in businesses.

4.92 The Welsh Assembly Government continues to invest in the provision of specialist facilities to accelerate the growth of technology and knowledge based businesses including through its Academic Expertise for Business (A4B) programme which has also been refocused on key sectors. Wales is examining current areas of strength in Research Council, Technology Strategy Board and EU Seventh Framework Programme funding areas to help focus engagement with external funders.

4.93 An announcement on the future of the Technium network of business incubators was made on 18 November 2010[86] and a review of the network was carried taking into account factors such as business incubation, performance, number of net jobs created, number of patents registered, number of new products commercialised and running costs for each Technium. Four of the buildings will be retained to support business incubation and start-up companies.

[86] Available at: http://www.technium.co.uk/press_release_english.pdf

EU headline target: climate change and energy

European Council conclusions: "*Reducing greenhouse gas emissions by 20 per cent compared to 1990 levels; increasing the share of renewables in final energy consumption to 20 per cent; and moving towards a 20 per cent increase in energy efficiency*."

Relevant Treaty base: Article 121 of the TFEU, Integrated Guideline 5; and Article 191 of the TFEU.

In January 2008 the European Commission proposed binding legislation to implement the 20-20-20 targets. This climate and energy package was agreed by the European Parliament and Council in December 2008 and became law in June 2009.

Annual Growth Survey: priority 10 – creating cost-effective access to energy.

Government objectives

4.94 In line with the EU Climate and Energy package adopted in June 2009, the UK will reduce greenhouse gas emissions by at least 34 per cent compared to 1990 levels, and in line with the EU Renewables Directive will increase the share of renewable energy to 15 per cent by 2020. Over the period, the Government will also act to enhance the energy efficiency of homes, business and transport.

4.95 In Northern Ireland climate change, heat, energy and energy policy is devolved. In Scotland, climate change policy, heat and non-regulatory energy efficiency policy is devolved; energy policy and energy efficiency by regulation and prohibition is reserved. In Wales, climate change policy and non-regulatory energy efficiency policy is devolved; energy policy and energy efficiency by regulation and prohibition is not devolved. Details of policies being implemented in Northern Ireland, Scotland and Wales are at the end of this section.

Current level of performance against objectives

England

Indicator	Target	Current level	Reference period
Total emissions of greenhouse gases from the UK as an annual impact indicator	34 per cent reduction by 2020 on 1990 levels	27.9 per cent	2009
Energy consumed in the UK that has been produced from renewable sources as an annual impact indicator	15 per cent of energy to come from renewable sources by 2020	3.0 per cent	2009
Energy efficiency installations	N/A	10.6 million homes with cavity wall insulation in the UK (estimated) 12.9 million homes with loft insulation of at least 125mm (estimated)	January 2011

Northern Ireland

Indicator	Target	Current level	Reference period
Greenhouse gas emissions[87]	25 per cent reduction by 2025 on 1990 levels	11 per cent	2008
Indigenous renewable energy sources[88]	40 per cent of electricity from renewable sources by 2020	11.6 per cent	February 2011

Scotland

Indicator	Target	Current level	Reference period
Greenhouse gas emissions[89]	42 per cent reduction by 2020 on 1990 levels	21.2 per cent	2008
Indigenous renewable energy sources[90]	80 per cent of Scotland's electricity from renewable sources by 2020	27 per cent of electricity consumption from renewables	2009
Heat demand from renewables[91]	11 per cent of Scotland's heat demand from renewable by 2020	2.8 per cent of heat demand from renewables	2010

Wales

Indicator	Target	Current level	Reference period
Greenhouse gas emissions	3 per cent annual reduction in greenhouse gases in areas of devolved competence	N/A	2013 (interim reports based on earlier data in 2011 and 2012)

87 http://www.doeni.gov.uk/index/information/csrb/csrb_statistics.htm
88 http://www.detini.gov.uk/strategic_energy_framework__sef_2010_-3.pdf (pages 14 and 18)
89 http://www.scotland.gov.uk/Publications/2010/09/06092729/3
90 http://www.scotland.gov.uk/Topics/Statistics/Browse/Environment/seso/sesoSubSearch/Q/SID/132
91 http://www.scotland.gov.uk/Resource/Doc/917/0115248.pdf

Policy Context

4.96 Over the period, the Government aims to make significant progress towards decarbonising the UK economy, while maximising the opportunities for businesses to take advantage of the growing market for low-carbon goods and services.

4.97 On 23 March 2011, the Government set out its *Plan for Growth*, which includes a *Low Carbon review*, setting out the key actions required to put the whole economy on a low-carbon, resource efficient path. The review focuses on the need to: encourage investment in low carbon power (through the implementation of a carbon price floor); support infrastructure development (through the creation a Green Investment Bank); promote the development of new markets in green goods and services (for example, through measures such as the Green Deal and Renewable Heat incentive); cap the costs of policies funded through energy bills (through a new framework to cap the impact of levy-funded support). The review also sets out arrangements for the funding of Carbon Capture and Storage (CCS) demonstration pilots.

Actions to meet objectives

4.98 Details of policies supporting the *Low Carbon review* are contained in the section below, which is focused on: carbon emissions; renewables; and energy efficiency. It also details action taken by the Devolved Administrations.

Carbon emissions

4.99 The *Climate Change Act*, announced in 2008[92], establishes a long-term framework to tackle climate change in the UK using statutory carbon budgets, which limit total emissions over five year periods to 2050, and require that emissions are reduced by 80 per cent by 2050.

4.100 On 8 March 2011 the Government published its *Carbon Plan*[93]. This is a Government-wide plan of action on climate change, including domestic and international activity, which sets out department by department actions and deadlines for the next five years. Quarterly updates on progress against actions within the Plan will be published on the Prime Minister's website[94]. The plan focuses in particular on efforts needed to decarbonise the power sector, improve the energy efficiency of buildings and reduce emissions in the transport sector.

4.101 As a result of the 2010 Spending Review, the Government announced it would support demonstration projects for commercial scale CCS technology in the UK. The Government has committed to public sector investment in four CCS demonstration projects, with up to £1 billion of capital funding being made available for the first CCS such project. At Budget 2011, the Government announced that the remaining three CCS demonstration projects would be supported through general taxation.

Renewables

4.102 The UK's *National Renewable Energy Action Plan*[95] sets out the UK's plans for how it will meet its 15 per cent target for renewable energy as part of the Renewables Directive[96]. The Renewables Obligation (RO), which places an obligation on electricity suppliers to source a

[92] Climate Change Act: http://www.decc.gov.uk/en/content/cms/legislation/cc_act_08/cc_act_08.aspx
[93] Carbon Plan: http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/carbon_plan/carbon_plan.aspx
[94] Prime Minister's Office: http://www.number10.gov.uk
[95] National Renewables Plan:
http://www.decc.gov.uk/assets/decc/what%20we%20do/uk%20energy%20supply/energy%20mix/renewable%20energy/ored/25-nat-ren-energy-action-plan.pdf
[96] Renewables Directive: http://ec.europa.eu/energy/renewables/transparency_platform/transparency_platform_en.htm

specified proportion of their electricity from renewable sources, is currently the UK's main financial incentive for large scale renewable electricity.

4.103 The UK's current Electricity Market Reform (EMR)[97] process is looking at ways to reform the Renewables Obligation as part of a wider set of measures to support low carbon generation, security of supply, and renewables and to promote fair competition. The EMR proposes four interlocking policy instruments, a carbon price floor; a long-term 'contract for difference' Feed-in-Tariff; a Capacity Mechanism; and the use of an Emission Performance Standard. At Budget 2011, the Government announced that it would introduce a floor to the carbon price for electricity generation from April 2013. This will start at around £16 per tonne of CO^2 and move to a target price of £30 per tonne in 2020. A White Paper, with legislative proposals to implement the remaining elements of the electricity market reform, will be launched in late spring 2011.

4.104 The UK's pursuit of renewable energy is also supported by the Renewable Heat Incentive (RHI)[98], announced on 10 March 2011, which provides support for homes and businesses installing renewable heat. The RHI scheme, representing £860 million over the period until 2015, will be introduced in two phases. In the first phase, from summer 2011, long-term tariff support will be targeted in the non-domestic sector. Under this phase there will also be support of around £11 million for households through the Renewable Heat Premium Payment.

Stakeholder focus: Hoval Boilers

The Renewable Heat Incentive (RHI) has directly impacted on Hoval Boilers by giving the company the confidence to invest in skilled headcount and product development. The business had plans pre-RHI to invest in additional manpower of up to around 5 persons in direct sales and technical support. However, with the confirmation of the RHI the business will add a minimum of 15 positions immediately to this number, creating jobs in product manufacture, project engineering, installation engineering, technical support and Research and Development. The company also has plans to increase investment in R&D in biomass combustion to improve emissions and efficiencies.

4.105 The Government is also establishing a Green Investment Bank (GIB) to provide funding for investments in low carbon infrastructure. The bank will tackle the risk that the market currently cannot adequately finance and will catalyse further private sector investment. In the Budget 2011, an initial capitalisation of £3 billion was announced. The Bank will begin operation in 2012-13, and will have borrowing powers from 2015-16, once the target for debt as a percentage of GDP has been met[99].

Energy efficiency

4.106 The Government is committed to improving energy efficiency in the UK and will continue to measure final energy consumption by sector on an annual basis. In 2009 energy consumption in the domestic sector was 43,590 ktoe, in services 17,106 ktoe, in transport 56,512 ktoe and in industry 26,671 ktoe. The Government will improve energy efficiency through the Green Deal and Energy Companies Obligation, and has sought to reduce central government carbon emissions by 10 per cent within 12 months. The Green Deal[100] is an innovative financing

[97] Electricity Market Reform: http://www.decc.gov.uk/en/content/cms/consultations/emr/emr.aspx
[98] Renewable Heat Incentive: http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/energy_mix/renewable/policy/incentive/incentive.aspx
[99] Defined in the UK as public sector net borrowing
[100] Green Deal: http://www.decc.gov.uk/en/content/cms/what_we_do/consumers/green_deal/green_deal.aspx

mechanism which allows consumers to pay back the cost of energy efficiency improvements through their energy bills. It enables private firms to offer consumers energy efficiency improvements to their homes, community spaces and businesses at no upfront cost, and recoup payments through a charge in instalments on the energy bill. The programme is expected to roll out from autumn 2012.

4.107 The Government at Budget 2011 announced that the Climate Change Agreements (CCAs) with energy intensive industry would be extended to 2023 and the Climate Change Levy discount on electricity for CCA participants would be increased from 65 to 80 per cent from April 2013. Under the Climate Change Agreements eligible sectors of industry receive this reduction in the Levy in return for meeting ambitious energy efficiency or carbon-saving targets. The Carbon Reduction Commitment is a mandatory scheme for large public and private sector organisations not already covered by the EU Emissions Trading Scheme (ETS) or Climate Change Agreements. These organisations are responsible for 10 per cent of total Greenhouse Gas emissions in the UK. Budget 2011 confirmed that 2011-12 allowances would be priced at £12 per tonne of CO2.[101]

Stakeholder focus: London Fire Brigade

The introduction of the Carbon Reduction Commitment (CRC) has already increased attention on energy efficiency amongst large public and private sector organisations. The London Fire Brigade began preparing for the CRC early. Its efforts to cut energy waste have seen it make substantial savings for the taxpayer. Last year it saved £260,000 in energy costs with green measures including movement sensors on lighting, thermostatic controls on radiators, and installation of meters, and over the last five years it has saved £1 million in total. This has led to a 20 per cent cut in the carbon emissions from its estates on 1990 levels, despite the growth in the Brigade. It is building on this record of success with an ambitious plan to make nearly £1 million in further savings over the next decade through more energy saving schemes including replacing inefficient lighting, installing sensor lighting, replacing old inefficient heating systems and adding extra loft and wall insulation.

4.108 The Government announced on 30 March 2011 an overall strategy and timetable for the installation of 53 million smart meters[102] providing real time information on energy consumption to help control energy use. Meters will be installed in 30 million homes and businesses across Great Britain, estimated to have a net benefit to the nation of £7.3 billion over the next twenty years.

Devolved Administrations

Northern Ireland

4.109 The Northern Ireland Executive published its *Greenhouse Gas Emissions Reduction Action Plan*[103] in February 2011, highlighting how departments will achieve the Northern Ireland Programme for Government target to reduce greenhouse gas emissions by 25 per cent below 1990 levels by 2025[104]. This sets out specific measures in all sectors that will help to deliver this target but notes that the key driver will be the Strategic Energy Framework (SEF) 2010. The SEF target is for 40 per cent of electricity consumption to be from renewable sources by 2020 and

[101] Price of Carbon: http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/crc/policy/policy.aspx
[102] Smart meters: http://www.decc.gov.uk/en/content/cms/news/pn11_032/pn11_032.aspx
[103] http://www.doeni.gov.uk/northern_ireland_action_plan_on_greenhouse_gas_emissions_reductions.pdf
[104] Plan to on GHG emissions: http://www.doeni.gov.uk/northern_ireland_action_plan_on_greenhouse_gas_emissions_reductions.pdf

for a 10 per cent contribution from renewable heat by 2020. Current projections indicate that this will reduce power generation's percentage of emissions in Northern Ireland from 22 per cent in 2008 to 10 per cent in 2025.

4.110 The Northern Ireland Executive's budget for 2011-15 contained details of the Green New Deal. This is an investment programme (£4 million per annum for the three years commencing 2012-13) which will leverage in significant amounts of private sector funding to deliver energy efficiency measures, and create several thousand jobs over a three year period. This scheme aims to reduce waste, cut bills for participating households, sustain employment through the recession and modernise the housing stock.

Scotland

4.111 The report *Low Carbon Scotland: meeting the emissions reduction targets 2010-2022*[105] was published on 14 March 2011 and sets out policies and proposals that will be taken forward. These specifically focus on energy supply, homes and communities, business and the public sector, transport, rural land use and waste. In addition, and to compliment part 4 of the Climate Change (Scotland) Act 2009 which places statutory duties on public bodies in relation to emissions reduction and adaptation, the *Public Bodies Climate Change Guidance*[106] has been produced to recognise the crucial role of the public sector in driving forward action on climate change and to focus efforts in meeting their statutory obligations[107].

4.112 *Conserve and Save*, Scotland's energy efficiency action plan[108] sets out the framework for a comprehensive approach to energy efficiency and micro-generation while the *Low Carbon Economic Strategy for Scotland* of November 2010[109] puts a greater focus to the opportunities for business and society from the transition to a low carbon economy. Other key pieces of work include the *Low Carbon Scotland Public Engagement Strategy* of December 2010[110], which meets the requirement to engage and inform the public on climate change measures, and the draft *Electricity Generation Statement* of November 2010[111], which sets out an analysis of the policies needed to meet 80 per cent of electricity demand from renewables by 2020 and efforts to enable Scotland to meets its overall objective of decarbonising the electricity supply by 2030.

Wales

4.113 The *Climate Change Strategy* and its *Emission Reduction Delivery Plan* were published in October 2010, and set out measures that will be taken in Wales. These include replacing the Home Energy Efficiency Scheme with Nyth / Nest, the new all-Wales Fuel Poverty Programme, which is aimed at improving energy efficiency for those living in the least energy efficient homes who are most in need of support. Arbed, Wales' Strategic Energy Performance Improvement Programme, has improved the energy performance of over 6,000 homes in some of Wales' most deprived communities in its first phase. In October 2009, the Welsh Assembly Government announced £34 million for the creation of the Low Carbon Research Institute Energy programme to carry out cutting edge research to secure a low carbon future for Wales.

[105] Low Carbon Scotland: http://www.scotland.gov.uk/Publications/2011/03/14112038/0

[106] Public Body Climate Change Guidance: http://www.scotland.gov.uk/Publications/2011/02/04093254/0

[107] Available at: http://www.scotland.gov.uk/Publications/2011/02/04093254/0

[108] Conserve and Save: http://www.scotland.gov.uk/Publications/2010/10/07142301/0

[109] Low Carbon Economic Strategy Scotland: http://www.scotland.gov.uk/Publications/2010/11/15085756/0

[110] Low Carbon Public Engagement Strategy: http://www.scotland.gov.uk/Publications/2010/12/23134226/0

[111] Draft Electricity Generation Statement: http://www.scotland.gov.uk/Publications/2010/11/17094217/0

4.114 The Welsh Assembly Government is developing a Climate Change Engagement Strategy for publication in summer 2011, which will set out a plan to enable people to live more sustainably. *A Low Carbon Revolution: Wales' Energy Policy Statement*[112] sets out the Welsh Assembly Government's aim that by 2025, Wales should generate 200 per cent more electricity from renewable resources than at present. The *National Energy Efficiency and Saving Plan*[113] sets out the immediate, practical actions that the Welsh Assembly Government is taking to promote energy efficiency in Wales.

[112] Energy Policy Statement: http://wales.gov.uk/topics/environmentcountryside/energy/renewable/policy/lowcarbonrevolution/?lang=en

[113] National Energy Efficiency and Saving Plan: http://wales.gov.uk/topics/environmentcountryside/energy/efficiency/efficiencyplan/plan/?lang=en

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ISBN 978-1-84532-877-1