Europe 2020: UK draft National Reform Programme 2010

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1 Introduction

1.1 As part of the Europe 2020 strategy for smart, sustainable and inclusive growth,[1] Member States will submit a National Reform Programme outlining their structural reform plans in April every year. This, alongside Member States' Stability and Convergence Programmes, will align reporting on fiscal and structural policies as part of the new EU surveillance structure known as the EU Semester.

1.2 As a transitional measure, this year Member States are also submitting draft National Reform Programmes in November to assist the Commission in the preparation of its Annual Growth Survey for the Spring European Council. This document, drawing on publicly available information, sets out the UK's economic prospects and plans including:

- the Office for Budget Responsibility's (OBR's) medium-term macroeconomic forecast;
- five key "bottlenecks" or obstacles to growth agreed by the EU's Economic and Financial Affairs Council;
- action taken by the Government, including at the June Budget and Spending Review, to address these challenges; and
- the UK's approach to national monitoring in line with the five headline European targets agreed by the European Council in June.

1.3 The Government will now consult the UK Parliament, stakeholders, the European Commission and the Council of Member States, and continue to work with the Devolved Administrations before submitting a full National Reform Programme containing a revised medium-term macroeconomic forecast, further details of its actions to promote strong, sustainable and balanced growth and its approach to the headline targets in April 2011.

1.4 The Government strongly supports the Europe 2020 strategy's focus on higher employment and faster growth. As Europe and the UK emerge from the deepest recession since World War II the Government is determined to promote strong, sustainable, and balanced growth based on a flourishing private sector, higher net exports, greater investment, and enterprise. To support this, the June Budget[2] and the October Spending Review[3] announced action to support private sector growth and investment while restoring the UK's fiscal credibility by achieving a balanced structural current budget and falling national debt by 2014-15.

1.5 With prosperity in every Member State so closely tied to the prospects of the EU as a whole, this Europe 2020 is a shared responsibility. All Member States must tackle the microeconomic, macroeconomic, and financial barriers that have the greatest impact on national growth. EU institutions including the Commission, European Parliament, and Council must also prioritise

[1] Europe 2020, http://ec.europa.eu/europe2020/index_en.htm
[2] Budget, June 2010, http://www.hm-treasury.gov.uk/2010_june_budget.htm
[3] Spending Review, October 2010, http://www.hm-treasury.gov.uk/spend_index.htm

actions that will have the greatest effect at an EU level: strengthening the Single Market, promoting global trade, and advancing the smart regulation agenda.

1.6 Working together, EU partners can deliver the growth needed to ensure the sustainability of Europe's public finances, reduce unemployment, enhance social cohesion, and allow the EU to meet the challenges and seize the opportunities of the global economy of the future.

2 Macroeconomic scenario

2.1 The Office for Budget Responsibility's (OBR's) June Budget forecast[1] set out forecasts for 2010-2015, including for aggregate GDP growth, its components, along with labour market forecasts for employment, and wages and salaries. More detail can be found in table 1 below.

GDP growth

2.2 The OBR's June forecast predicts that UK GDP growth will rise from 2010, reaching 2.9 per cent in 2013 (see table below). Growth is assumed to ease in 2014 and 2015 as demographic changes reduces the growth of the potential labour supply, though actual growth will remain above trend.[2] In 2010 as a whole GDP is forecast to rise by 1.2 per cent followed by 2.3 per cent in 2011 (against 1.3 per cent and 2.6 per cent in the pre-Budget forecast). From 2012 onwards GDP growth is forecast to recover as prices and wages adjust and monetary policy continues to support demand. Compared with the pre-Budget forecast, growth is stronger from 2013 onwards as the economy adjusts back towards potential output.

Components of GDP growth

2.3 Consumption growth will rise in the forecast to rates of over 2 per cent from 2013, but it will remain below the rate of growth of GDP.

2.4 Business investment is forecast to pick up during 2010, though in the year as a whole it will rise by only 1.5 per cent. The recovery is forecast to be maintained in 2011, although it will take until 2013 before investment returns to its prerecession peak. From 2011 onwards business investment will rise at rates between 8 and 11 per cent annually.

2.5 Net trade is forecast to subtract from growth in 2010, as relatively robust import growth outweighs still-sluggish exports. As the recovery in UK export markets strengthens and sterling's past depreciation boosts UK export volumes, net trade is forecast to contribute positively to growth.

Labour market forecasts

2.6 The OBR expects a modest recovery in employment in the second half of 2010. From 2011, as GDP growth gathers momentum and demographic factors boost the population of working age, employment is forecast to rise more rapidly, reaching 30 million by 2015. In the near term the increase in employment will not be enough to offset the rise in the population of working age with the result that the ILO unemployment rate will continue to rise, reaching a peak of 8.1 per cent by the end of the year. Thereafter, the more rapid increase in employment will be sufficient to lower unemployment, so that the ILO unemployment rate falls to 6 per cent in 2015. Claimant count unemployment will continue to fall throughout the forecast period.

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[1] Budget Forecast June 2010, Office for Budget Responsibility, http://budgetresponsibility.independent.gov.uk/d/junebudget_annexc.pdf

[2] For more details of the trend growth assumptions used in the Office for Budget Responsibility's June Budget forecast, see Pre-Budget Forecast June 2010, Office for Budget Responsibility, Annex B, http://budgetresponsibility.independent.gov.uk/d/pre_budget_forecast_140610.pdf

Wages and salaries growth is forecast to rise gradually throughout the June Budget forecast, reaching 5.5 per cent in 2014.

Table 1 – detailed summary of OBR June Budget central economic forecast

	Percentage change on a year earlier, unless otherwise stated						
		Forecasts					
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
World economy							
World GDP at purchasing power parity	-0.8	4.0	4.2	4.5	4.5	4.6	4.6
Euro Area GDP	-4.0	0.7	1.4	1.7	1.9	2.3	2.4
World trade in goods and services	-11.0	6.1	6.2	7.2	7.3	7.3	7.4
UK export markets[2]	-11.5	4.1	4.7	6.4	6.6	6.5	6.4
UK economy							
Gross domestic product (GDP)	-4.9	1.2	2.3	2.8	2.9	2.7	2.7
Expenditure components of GDP							
Domestic demand	-5.3	1.6	1.4	1.9	2.2	2.2	2.3
Household consumption[3]	-3.2	0.2	1.3	1.7	2.1	2.2	2.2
General government consumption	2.2	1.7	-1.1	-2.0	-2.3	-3.0	-2.1
Fixed investment	-14.9	-0.5	3.9	7.9	8.8	8.0	6.9
Business	-19.3	1.4	8.1	10.0	10.9	9.5	8.2
General government	15.7	-4.9	-19.0	-8.5	-6.6	0.6	2.0
Private dwellings	-19.7	-6.5	5.6	8.2	8.5	7.1	6.6
Change in inventories[4]	-1.2	1.2	0.4	0.0	0.0	0.0	0.0
Exports of goods and services[5]	-10.6	4.3	5.5	6.3	6.1	5.9	5.7
Imports of goods and services[5]	-11.9	5.6	2.1	2.7	3.6	4.0	4.2
Balance of payments current account							
£ billion	-18	-25	-28	-22	-15	-9	-2
Per cent of GDP	-1.3	-1.7	-1.8	-1.4	-0.9	-0.5	-0.1
Inflation							
CPI (Q4)	2.1	2.7	2.4	1.9	2.0	2.0	2.0
RPI (Q4)	0.6	3.7	3.2	3.2	3.3	3.4	3.5
Terms of trade[6]	-0.8	-0.9	-2.4	-1.0	-0.1	0.0	0.0
GDP deflator at market prices	1.3	3.2	2.1	2.1	2.6	2.7	2.7
Labour market							
Employment (millions)	29.0	28.8	28.9	29.2	29.5	29.8	30.1
Wages and salaries	-1.0	1.2	2.3	3.1	4.9	5.4	5.4
Average earnings[7]	1.0	2.1	1.9	2.3	3.8	4.4	4.4
ILO unemployment (% rate)	7.6	8.1	8.0	7.6	7.0	6.5	6.1
Claimant count (Q4, millions)	1.6	1.5	1.5	1.4	1.3	1.2	1.1
Household sector							
Real household disposable income	3.2	0.2	1.2	1.3	1.5	1.7	1.8
Saving ratio (level, per cent)	7.0	6.9	6.8	6.4	6.0	5.6	5.4
House prices	-7.8	5.9	1.6	3.9	4.5	4.5	4.5
Nominal indicators							
Nominal GDP	-3.6	4.4	4.4	5.0	5.6	5.4	5.5
Non-oil PNFC profits[8]	-5.1	1.5	9.0	10.1	9.3	7.6	8.7

[1] *All growth rates in this table are rounded to the nearest 1decimal place. This is not intended to convey a degree of unwarranted accuracy.*

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

[3] *Includes households and non-profit institutions serving households.*

[4] *Contribution to GDP growth, percentage points.*

[5] *Trade levels are distorted by MTIC fraud.*

[6] *Ratio of export to import prices.*

[7] *Wages and salaries divided by employees.*

[8] *Private non-oil non-financial corporations' gross trading profits.*

3 Bottlenecks to growth and policies to frontload reforms

3.1 EU Economics and Finance Ministers (ECOFIN) agreed on 8 June a series of potential "bottlenecks" or obstacles to growth for each Member State. The European Council then agreed on 17 June that Member States would identify their main bottlenecks to growth and would indicate, in their NRPs, how they intended to tackle them. The UK Government agrees with the bottlenecks proposed by ECOFIN, which are consistent with other analyses of the UK economy, including by the OECD[1] and IMF[2]. They are:

- reducing significantly the general government deficit;
- ensuring a well-functioning and stable financial sector;
- rebalancing the economy towards net exports;
- facilitating an increase in private investment; and
- improving the contribution of the education system to human capital formation including through a broader skills base.

3.2 The Government believes that the process of identifying national bottlenecks, and then being held accountable for tackling them, has the potential to be a valuable way of encouraging reform, without sacrificing national ownership.

3.3 The following section outlines UK policies designed to tackle these five bottlenecks to growth.

[1] Economic Policy Reforms, Going for Growth 2010, OECD, http://www.oecd.org/dataoecd/19/36/44652687.pdf

[2] 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."

"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.[3]

Policies to frontload reform:

3.4 The Government believes that healthy public finances are an essential basis for growth and jobs, and has set out a comprehensive set of policies to restore the public finances, with the June Budget setting out plans for a total consolidation of £128 billion per year by 2015-16. Reducing the deficit will underpin private sector confidence and reduce competition for funds for private sector investment, supporting growth and job creation over the medium-term. The consolidation will set debt on a sustainable downward path and will restore spending as a share of the economy to a level closer to its historical average, thereby addressing the structural imbalance in the public finances.

3.5 The Government's 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.

3.6 The Spending Review has therefore prioritised spending that promotes long-term economic growth, including the introduction of structural reforms to enable a private sector led recovery. It set out £81 billion of spending reductions by 2014-15, to deliver the Government's fiscal consolidation plan. This includes £11 billion of welfare measures from the June Budget and £7 billion net savings from further welfare measures.

3.7 By 2015-16, 77 per cent of the total consolidation will be delivered through spending restraint rather than tax increases. This approach is consistent with OECD and IMF research, which suggests that fiscal consolidation efforts that largely rely on spending restraint promote growth.

3.8 The day after the Spending Review, OECD Secretary General Angel Gurría stated that *"the timing and scope of the measures balance concerns for near-term growth with the need to stop the snowballing of debt and to preserve credibility."*

3.9 The path set for fiscal policy in the June Budget is consistent with the UK meeting its recommendation under the EU's Excessive Deficit Procedure to reduce the Treaty deficit below 3 per cent of GDP in 2014-15 and placing the Treaty debt ratio on a downward path from 2013-14.

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[3] Broad Economic Policy Guidelines (which contain Integrated Guidelines 1-6), 13 July 2010, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:191:0028:0034:EN:PDF

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

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.

Policies to frontload reform:

3.10 The recent crisis shows that price stability alone is not sufficient to ensure wider economic and financial stability. During the years preceding the crisis, there was no single body or organisation with responsibility for addressing the build-up of systemic risks in the financial sector. The Government is therefore introducing a new system of regulation, which will give the Bank of England control of macro-prudential regulation and oversight of micro-prudential regulation. This new regulatory structure will ensure that there is clear responsibility for monitoring and acting upon the build-up of systemic risks, thereby reducing the risk of potential instability.

3.11 The Government will therefore abolish the tripartite structure and the Financial Services Authority (FSA) will cease to exist in its current form. The Government intends to create:[4]

- a Financial Policy Committee (FPC) in the Bank of England to improve the resilience of the financial system and protect financial stability in the UK. The Banking Act 2009 gave the Bank a statutory objective for contributing to the maintenance of financial stability, established a new Financial Stability Committee (FSC) and assigned the Bank lead responsibility in the newly created special resolution regime. The Government will also legislate to put the Bank of England in charge of macro-prudential regulation, by creating a strong FPC within the Bank. The FPC will be responsible for protecting financial stability, improving the resilience of the financial system and enhancing macroeconomic stability by addressing imbalances through the financial system;
- a new Prudential Regulation Authority (PRA) to supervise and regulate all firms and persons currently subject to prudential regulation by the FSA. Its objective will be to promote the stable and prudent operation of financial firms. It will also implement the FPC's decisions on the use of macro-prudential tools in relation to firms. It will operate under the auspices of the Bank of England as a subsidiary, with a board chaired by the Governor, and a chief executive who will also occupy the newly created post of Deputy Governor of the Bank for prudential regulation. This will ensure that the day-to-day operations of firm-specific regulation will be undertaken by the new PRA, rather than falling to the Bank. In addition, the creation of a new Deputy Governor post will increase the capacity and breadth of the Bank's senior management; and
- a consumer protection and markets authority (CPMA) with a primary statutory objective to ensure confidence in financial services and markets, with particular focus on protecting consumers and ensuring market integrity. The CPMA will be responsible for regulating the conduct of all financial firms in their dealings with

[4] See for instance the Chancellor's Mansion House speech, June 2010, http://www.hm-treasury.gov.uk/speech_chx_160610.htm

retail consumers, and for market conduct regulation, with the objective of ensuring confidence in financial services and markets.

3.12 The Government intends to introduce primary legislation to implement these reforms by mid-2011.

3.13 The June Budget announced that a levy based on banks' balance sheets will be introduced on 1 January 2011. The levy is intended to encourage banks to move to less risky funding profiles, which will improve stability in the future. The Government also made a joint announcement with France and Germany on the introduction of bank levies[5]. The Government is taking forward its Budget announcement and published draft legislation on 21 October, following consultation on the detailed design of the levy over the summer[6]. Once fully in place, the Government expects the levy to generate around £2.5 billion of annual revenues. That is an appropriate contribution that balances fairness with the competitiveness of the UK banking sector.

3.14 In June 2010 the Government also established the Independent Commission on Banking. The Commission has been asked to look at the structure of banking and consider how to promote financial stability and competition. The Commission published an Issues Paper[7] in September 2010 inviting views on what it should examine further. A subsequent 'options' paper is expected in spring 2011, outlining key proposals for consideration and inviting a second round of consultation. The Commission is due to deliver its report to the Government by the end of September 2011.

3.15 The Government strongly supports the commitments made by G20 countries to strengthen global financial regulation and supervision, and enhance international cooperation,[8] and is fully committed to implementing these reforms in the UK. These reforms are vital to safeguard future financial stability, while common regulatory standards internationally are crucial to minimise the risks of regulatory arbitrage and the fragmentation of international financial markets.

3.16 This set of reforms includes more and better quality bank capital, and for the first time internationally agreed liquidity standards and a leverage ratio. The improved capital standards will ensure banks are able to survive losses and continue to lend to the real economy, enhanced liquidity in the financial system will protect banks from shocks in the funding markets, and the leverage ratio will prevent a system wide build-up of excessive leverage, as was the case in the lead up to the crisis.

[5] Joint statement by the French, UK and German Governments on bank levies, June 2010, http://www.hm-treasury.gov.uk/d/junebudget_joint_statement.pdf

[6] More detail can be found on the HM Treasury website: http://www.hm-treasury.gov.uk/fin_bank_levy.htm

[7] Issues Paper, Call for Evidence, Independent Commission on Banking, September 2010, http://bankingcommission.independent.gov.uk/bankingcommission/wp-content/uploads/2010/07/Issues-Paper-24-September-2010.pdf

[8] G20, http://www.g20.org/index.aspx

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

"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.

Policies to frontload reform:

3.17 The Government supports the rebalancing of the economy towards sustainable, private sector-led growth, including through promoting net exports. The Prime Minister in a speech to the CBI on 25 October 2010 argued that trade is a key Government priority[9].

3.18 The OBR outlined in its Budget forecast in June that "the depreciation of sterling has boosted exporters' profits as firms have not passed all of the fall in sterling through to prices. This should encourage existing firms to strive to increase exports and new firms to enter the UK export market and export volumes to rise as a result. The corporate tax measures and release of resources from the government sector should support this supply-side response".

3.19 On corporate tax, the Budget on 22 June announced a major package of reforms, with the aim of creating the most competitive corporate tax system in the G20. This included measures to: reduce the main rate of corporation tax from 28 per cent to 24 per cent over the course of four financial years from April 2011 – this will mean by 2014 the UK will have the fifth lowest in the G20 and will maintain its current position of having the lowest corporation tax rate in the G7; and reduce the small profits rate to 20 per cent, instead of the planned increase to 22 per cent, from April 2011.

3.20 At the same time, the Budget announced an accelerated plan to reduce the deficit and place debt as a percentage of GDP on a downward path, which should underpin business confidence and provide the conditions for sustainable growth in the private sector including an increase in exports.

3.21 Internationally, the Foreign & Commonwealth Office (FCO) will increase its focus on championing British companies to win exports and secure jobs at home, working closely with UK Trade & Investment and the Devolved Administrations to increase business links and market information for UK exporters and to attract significant investment into the UK.

3.22 A Government Trade White Paper, to be published in January 2011, will outline further measures to-boost the UK's international competitiveness, leading to an increase in UK exports from their current levels. The White Paper will set out a strategy to enhance trade with new partners as well as deepening liberalisation with existing partners, using analysis of the UKs current trading position, the changing global environment and the outcomes of the Government's call for evidence on future trade policy. It will set out how the UK will continue to play a role in shaping a multilateral trade agreement by working with the EU, WTO, and G20.

[9] Available on the Number 10 website, http://www.number10.gov.uk/news/speeches-and-transcripts/2010/10/creating-a-new-economic-dynamism-56115

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

"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.

Policies to frontload reform:

3.23 The Government recognises that it cannot create private sector growth, but it can create the conditions that enable UK businesses to be successful. The Government will therefore ensure business has an environment that enables it to compete and invest by reducing the tax burden and creating a stable regulatory environment.

3.24 The Budget on 22 June contained measures to support business and restore the UK's competitiveness, including a major package of reforms to corporate tax, as set out in the net export section. As the OBR outlined in its Budget forecast in June, reforms to corporation tax will have a positive effect on investment, as they are estimated to reduce the cost of capital faced by firms by around 3 per cent.

3.25 The Spending Review on 20 October set out how the Government will reduce the deficit and describes the decisions the Government has taken to prioritise public spending to support a private-sector led recovery, including protection for research, schools, transport infrastructure, and a Regional Growth Fund.

3.26 The Government will ensure that the stability and certainty of independent economic regulation that is key to ensuring investor confidence is preserved:

- reviewing and reforming the water regulator Ofwat, the energy regulator Ofgem, and the Civil Aviation Authority, to ensure that their structure and duties enable the sectors that they regulate to deliver the investment required in these sectors through private sector finance;
- delivering a White Paper on Water next spring, setting out Government's strategy for improving the efficiency of the water and wastewater sector and addressing that challenges it faces from demographic shift and climate change;
- investigating the opportunities to improve the UK's major airports without expanding runway capacity; and
- continuing to investigate opportunities for more efficient delivery of digital and telecommunications infrastructure, for example through sharing infrastructure with other utilities.

3.27 The Government on 25 October published the UK's first ever National Infrastructure Plan[10] setting out the infrastructure Britain needs and how the Government will support some £200 billion worth of public and private sector investment over the next five years to deliver it. This estimate is based on aggregating individual planned investments that have been publicly declared in both the public and private sectors. The majority of investment will be in transport and energy, with investment in the energy sector almost doubling between 2010 and 2015.

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[10] HM Treasury & Infrastructure UK, National Infrastructure Plan 2010, October 2010, http://www.hm-treasury.gov.uk/d/nationalinfrastructureplan251010.pdf

3.28 The Spending Review confirmed the Government's commitment to establish a UK-wide Green Investment Bank, which will promote private sector investment in green infrastructure, aiming to facilitate the entrance of new types of investor so that the impact on the finance gap for low carbon investment is many times the scale of the public contribution. The Government will initially capitalise a new institution with £1 billion of Departmental Expenditure Limits (DEL) funding together with additional significant proceeds from the sale of Government owned assets, subject to a final design which meets the tests of effectiveness, affordability and transparency.

3.29 The amount of new investment needed in the electricity sector is significant and is driven by the need to deliver around 30 per cent of electricity in 2020 from renewable sources (largely onshore and offshore wind) to meet the legally binding EU target that renewable energy should meet 15 per cent of energy needs, and by the need to replace a quarter of the existing number of power plants by 2020. They are aging and will not meet environmental regulations. This combination will require around £110 billion of new investment this decade, which is double the rate of investment over the previous decade. The Energy Market Review will create the right incentives for participants in the electricity market to deliver the secure low carbon electricity mix that is required.

3.30 The Government committed in its Local Growth White Paper[11] of 28 October to: establishing the right conditions to draw in housing investment through its proposals for reforming the planning system; providing incentives for local authorities and communities for unlocking land for development; de-regulation of the private rented sector; and supporting demand through support for the mortgage market.

3.31 This will tackle house building investment that has for decades been constrained by the lack of land supply, over regulation, a volatile (and hence uncertain) market for builders that also encourages unhelpful land speculation, and the lack of house building-enabling infrastructure. Given the highly constrained position of housing supply in England policy reforms to relax these constraints and unleash investment, including from international investors, in housing output could result in significant dividends – using our economic resources more efficiently by allowing investment in the economy to rebalance to where the returns are highest.

[11] HM Government, Local growth: realising every place's potential, October 2010, http://bis.gov.uk/assets/biscore/corporate/docs/L/PU1068%20-%20Local%20growth

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

"Weakness in the lower and intermediate skills segment of the labour force make the broadening."

Relevant Treaty base: Article 121 of the TFEU, Integrated Guideline 8.[12]

Policies to frontload reform:

3.32 The UK Government's priorities are to build an internationally competitive skills base, encourage a more highly skilled and productive workforce and further reform the skills system to respond more efficiently to help employers and individuals secure the skills they need.

3.33 In July the Government issued a new consultation document *Skills for Sustainable Growth*,[13] outlining an approach to skills policy to fulfil ambitions for growth and social mobility. The Government also signalled a vision around freeing colleges and providers from centrally driven targets so that they are able to respond to what customers (including learners and employers) want. Following this consultation, a Skills Strategy will be published later this year.

3.34 As part of the Spending Review the Government announced measures to:

- strengthen skills at technician level by increasing the number of Apprenticeships and improving progression routes to level 3 and beyond; focussing on qualifications that have the most value for employers and learners; preventing young people from becoming persons who are not in employment education or training (NEET) and helping those who already are;
- preserve the entitlement to fee remission for full level 2 and full level 3 courses for young people;
- help people who are unemployed and on active benefits to address any skills needs preventing them from getting and keeping work and enable providers to respond with a flexible skills offer that meets their particular needs;
- provide independent careers guidance to enable people to make better choices about their future;
- increase annual funding for adult apprenticeships by up to £250 million a year. By 2014-15, there will be sufficient funding in place for 75,000 more adult Apprenticeship places;
- simplify the skills system by reducing the number of intermediary bodies. It will also significantly streamline the two remaining skills arms length bodies - the UKCES (responsible for high level employer engagement and sector reach) and the Skills Funding Agency, which funds post 19 learning, including apprenticeships;
- free colleges and training organisations from unnecessary burden and bureaucracy. The Government will simplify the landscape;

[12] Employment Guidelines (which contain Integrated Guidelines 7-10), October 2010, http://register.consilium.europa.eu/pdf/en/10/st14/st14338.en10.pdf
[13] Department for Business, Innovation and Skills, Skills for Sustainable Growth – consultation on the future direction of skills policy, July 2010, http://www.bis.gov.uk/Consultations/skills-for-sustainable-growth-consultation

- introduce Lifelong Learning Accounts which give high quality information on options and clearly set out prospective students' entitlements;
- support literacy and numeracy provision – individuals must continue to get the chance to gain basic numeracy and literacy skills if they missed out first time round;
- protect and reform spending on adult and community learning, refocusing adult and community learning on the most disadvantaged as this provides a critical way back in for those who are most disengaged;
- shift the balance of funding from the taxpayer towards the individuals and employers who benefit, including though the introduction of student loans for advanced FE courses with repayment on an income contingent as in HE;
- create a £2.5 billion pupil premium that supports the education of disadvantaged children. This additional funding will provide a real incentive to good schools to take pupils from poorer backgrounds and ensure that extra funding is targeted at those deprived pupils that most need it; and
- introduce free schools, set up by charities, businesses, teachers or parents, in response to parental demand; this follows strong international evidence of their positive effect on standards, especially for disadvantaged children.

3.35 In Higher Education (HE), following publication of Lord Browne's Review of Higher Education Funding & Student Finance on 12 October[14], the Government will bring forward a set of wide reforms in order to support a world class HE sector. Subject to Parliamentary consent, universities will be able to increase graduate contributions supported by government loans, with a broadly offsetting reduction in the teaching grant, from the 2012-13 Academic Year.

3.36 The Government's reforms move the balance of contributions towards the graduate, who benefits the most from HE, and a new system of graduate contributions will ensure that students will only pay once they have finished their studies and can afford to do so. The graduate contribution system will be progressive and protect the lowest earning graduates.

3.37 The Government will continue to support students from low income and disadvantaged backgrounds, including through the establishment of a new National Scholarship fund to support students from disadvantaged backgrounds, reaching £150 million a year by 2014-15.

Northern Ireland

3.38 It is recognised within the region that there is much to do in terms of building the local skills base to meet the current and future needs of business in Northern Ireland. A revised and updated draft Skills Strategy for Northern Ireland, known as *Success through Skills 2*,[15] was published for consultation on 1 June 2010. The Strategy looks at Northern Ireland's current skills base and examines the skills Northern Ireland will need in the future to grow its economy. To address this bottleneck it is recognised that the region has:

- an increased need for higher level skills;
- an increased need to up-skill the existing workforce including a focus on the skills required for the workforce of the future;
- a need to address existing subject imbalances;

[14] An Independent Review of Higher Education Funding and Student Finance, October 2010, http://hereview.independent.gov.uk/hereview/

[15] Department for Employment and Learning, Success through Skills 2: The Skills Strategy for Northern Ireland – consultation document, http://www.delni.gov.uk/successthroughskills2

- a need to increase management and leadership skills within the workforce; and
- a need to attract a moderate level of appropriated skilled people to the region.

3.39 In order to deliver transformational change a number of actions will need to be taken forward to meet the Strategy's strategic goals. These can be seen to broadly fall into five themes:

- understanding the demand for skills;
- improving the quality and relevance of education and training;
- improving productivity by increasing the skill levels of the workforce;
- tackling the skills barriers to employment and employability; and
- engaging stakeholders.

3.40 It is expected the strategy will be finalised early in 2011. It will be viewed as the overarching strategy for skills development in Northern Ireland over the next decade. It is also recognised that there is a need to focus on innovation, creativity and entrepreneurship in the school curriculum. In this regard the region's Department of Education is working to increase the number of students achieving 5 or more GCSEs at grades A*-C (or equivalent) including English and Maths.

Scotland

3.41 The Scottish Government has a central objective to 'create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth'. The development of skilled workforce, which matches the needs of successful and growing businesses and where skills are applied effectively, is a priority. In 2007, *Skills for Scotland* set out the Scottish Government's approach to skills development. A refresh of the *Skills for Scotland* Skills Strategy was published recently in October 2010.[16] It set out a new, flexible partnership approach to meeting Scotland's skills needs, at a crucial point in the recovery of the Scottish economy. The Strategy is structured around four themes:

- empowering people to ensure they have the opportunity to access the right advice, support and opportunities to acquire the skills and attributes to both contribute to and benefit from future economic success;
- supporting employers by better understand and assess the skills they need for future success, and ensuring that the supply of skills, training and qualifications can be responsive to this;
- simplifying the skills system to ensure that it is more coherent and easy to understand for individuals and employers; and
- strengthening partnerships and collective responsibility between public, private and third sectors to help improve skills and the contribution they make towards achieving Scotland's social and economic aspirations.

3.42 The Scottish Government has also prioritised activity which will have a direct impact on economic growth over the short, medium, and longer term:

- a focus and investment on early years education will ensure that opportunities to contribute to long term success exist across society;

[16] Scottish Government, Skills for Scotland: Accelerating the Recovery and Increasing Sustainable Economic Growth, October 2010, http://www.scotland.gov.uk/Publications/2010/10/04125111/0

- investment to support the implementation of 'Curriculum for Excellence',[17] which will ensure that our young people will have the capacity to flourish in the labour market of the future;

- significant financial support for those continuing in education after school will ensure that Scotland's already highly skilled labour force will be further enhanced; and

- rapid deployment of flexible support for those experiencing or at risk of unemployment will help ensure that no one is left behind as the economy grows.

Wales

3.43 Broadening and deepening the skills base is one of the five priorities in the Welsh Assembly Government's *Economic Renewal: a new direction* policy, published in July 2010.[18] The Assembly Government is working in partnership with employers and targeting its investment where it will generate the biggest impact: making young people ready for the world of work; promoting apprenticeships; and developing skills to help adults enter and remain in long-term employment.

3.44 The European Social Fund (ESF) programmes in Wales reflect Welsh Assembly Government policies and have a specific aim to raise the skills base of the workforce and help support progression in employment through addressing basic and intermediate level skills needs. Flagship projects include:

- the £67 million (£39 million ESF) *ProAct Skills Growth* projects, which have supported 250 companies and over 10,500 workers. The projects originally supported companies to provide additional training for employees who would otherwise be put on short-time working or made redundant; since April 2010 the projects have been re-focussed on growing businesses;

- the £98 million (£56 million ESF) *Modern Apprenticeships – World Class Skills* project has already benefited some 29,710 participants, of which over 18,260 have gained qualifications and 1,440 have entered into further learning; and

- the £17 million (£10 million ESF) Basic Skills in the Workplace projects which aim to support 31,723 participants, and help 16,126 of these to achieve qualifications, in order to help reduce the numbers of adults in the workplace who have poor basic literacy & numeracy skills.

[17] Curriculum for Excellence, http://www.ltscotland.org.uk/understandingthecurriculum/whatiscurriculumforexcellence/index.asp
[18] Economic Renewal: a new direction, July 2010, http://wales.gov.uk/docs/det/report/100705anewdirectionen.pdf

4 Performance and transparency

4.1 The Government has replaced the UK's previous top-down performance management system of Public Service Agreements with a new transparency framework. This framework will provide information on performance and spending to allow the public to form their own view of whether they are getting value for money. Each Government department has published a business plan setting out the details of its reform plans[1], including its:

- 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 it will publish data to show the cost and impact of public services and departmental activities.

4.2 The impact indicators described in departments' business plans, coupled with datasets measured through departments' information strategies (which make available a wide array of data to ensure improved transparency), and wider public information form the core of the UK's contribution to greater transparency on progress against the EU-level targets described in the Europe 2020 strategy.

4.3 The information strategy and indicators have been published for comment by Parliament and stakeholders to ensure that this section of the Business Plans contain the most relevant and timely information and technically robust indicators. Final business plans will be adopted in April 2011.

4.4 The following section describes these indicators, datasets, and wider information. Further information will be provided in the full NRP in April 2011.

4.5 The Devolved Administrations have in some instances a different approach to performance and transparency. Where this is still being finalised, it will be reflected in the full NRP in April 2011.

[1] Departmental business plans, http://transparency.number10.gov.uk/transparency/srp/ and individual departmental websites

EU headline target: employment.

"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.

UK contribution:

- number of sustained job entries through the Work Programme;
- number of people on out of work benefits;
- rate of people moving from out of work benefits into employment; and
- Labour Force Survey.

As part of its own monitoring framework, the Welsh Assembly Government will track progress in Wales on the:

- employment rate; and
- economic activity rate.

EU headline target: R&D and innovation.

"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.

UK contribution:

- Gross Domestic Expenditure on R&D (GERD), collected by the Office for National Statistics;[2]
- monitoring direct outputs of R&D processes in the forms of scientific publications and patents;[3]
- monitoring of non-R&D innovation expenditure, via the UK Innovation Survey[4] which is part of the Community Innovation Survey;[5] and
- monitoring innovation outputs in the forms of sales of new and significantly changed products, and the implementation of new processes with data derived from the UK work on the Community Innovation Survey.

As part of its own monitoring framework, the Welsh Assembly Government will track progress in Wales on the:

- share of UK R&D performed by businesses in Wales; and
- percentage of businesses in Wales which are innovation active.

[2] GERD, ONS, http://www.statistics.gov.uk/statbase/product.asp?vlnk=418

[3] International comparative performance of the UK research base, http://www.bis.gov.uk/policies/science/science-funding/science-budget/uk-research-base and Higher education-business and community innovation survey, http://www.hefce.ac.uk/econsoc/buscom/hebci/

[4] UK Innovation Survey, http://www.statistics.gov.uk/cci/article.asp?id=2374

[5] Community Innovation Survey, http://www.bis.gov.uk/policies/science/science-innovation-analysis/cis

EU headline target: climate change and energy.

"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 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.

The core of the package comprises four pieces of complementary legislation:

- a revision and strengthening of the Emissions Trading System (EU ETS), which is a market mechanism for reducing GHG;
- an 'Effort Sharing Decision' governing GHG emissions from sectors not covered by the EU ETS, such as transport, housing, agriculture and waste;
- binding national targets for renewable energy which collectively will lift the average renewable share across the EU to 20 per cent by 2020; and
- a legal framework to promote the development and safe use of carbon capture and storage (CCS).

UK contribution:

- the Climate Change Act 2008 requires that by 2020 the UK reduce carbon dioxide emission by 34 per cent below 1990 levels. The Department of Energy and Climate Change (DECC) will also publish the total emissions of greenhouse gases from the UK as an annual impact indicator;
- the Renewables Directive requires that the UK ensures 15 per cent of energy is derived from renewable sources by 2020. DECC will also publish the percentage of energy consumed in the UK that has been produced from renewable sources as an annual impact indicator and
- DECC publishes statistics for final energy consumption on an annual basis as part of its normal energy statistics reporting cycle[6].

As part of its own monitoring framework, the Scottish Government will track progress in Scotland on the:

- Climate Change (Scotland) Act 2009, which requires that emissions in Scotland reduce by at least 42 per cent between 1990 and 2020, and at least 80% by 2050. Annual targets for greenhouse gas emissions for the period 2010-22 were subsequently passed by the Scottish Parliament in October 2010.

[6] DECC timetable for statistical releases, http://www.decc.gov.uk/assets/decc/Statistics/publications/37-decc12monthstatscalendar.pdf

As part of its own monitoring framework, the Welsh Assembly Government will track progress in Wales on the:

- commitment to greenhouse gas emissions reductions of 3 per cent per year from 2011 in areas of devolved competence (against average emissions between 2006-10), and the commitment to achieving at least a 40 per cent reduction in emissions by 2020 (against a 1990 baseline). The Assembly Government has also set specific targets for the transport, residential, business, agriculture and land use, public and waste sectors.

EU headline target: education.

"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.

UK contribution:

- attainment at age 16;
- attainment at age 19; and
- international comparison (within the OECD) of the qualification levels of the working age population in England.

As part of its own monitoring framework, the Welsh Assembly Government will track progress in Wales on the:

- percentage of working age adults qualified to NVQ level 4+;
- percentage of 16 – 19 year olds who are NEET; and
- number of HE qualifications obtained by Welsh domiciles.

EU headline target: social exclusion.

"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.

UK contribution:

- the proportion of children living in workless households; and
- the Child Poverty Act 2010 committed UK governments to ending child poverty by 2020.

The Government has commissioned an independent review of poverty and life chances across the UK. A key aspect of the review is to look at how we measure poverty in the UK. This review is due to report to the Prime Minister in December.

As part of its own monitoring framework, the Welsh Assembly Government will track progress in Wales on the:

- percentage of workless households in Wales; and
- proportion of children in workless households.

HM Treasury contacts

This document can be found in full on our website at:
hm-treasury.gov.uk

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