HM Government

Europe 2020:

UK National Reform Programme 2014

April 2014

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Foreword

The government's long term economic plan is working. The economy is growing, the deficit is falling, and more people are in work than ever before. The UK National Reform Programme (NRP) 2014 updates on progress with economic and employment reforms, and reports on the impact of reforms implemented over the past year.

Since the UK NRP 2013 was published a year ago, growth forecasts for the UK have been revised upwards and activity has expanded across all sectors of the economy, with a marked increase in both business investment and confidence. The performance of the UK labour market has continued to improve: latest figures show a net increase of over 1.6 million jobs in the private sector since 2010, while unemployment has fallen sharply over the year. A record number of people are in work, and all nations and regions of the UK have seen an increase in employment.

However, the job is not yet done. The government has set out a credible plan to eliminate the deficit over the next 4 years. Abandoning the government's long-term economic plan and the path of fiscal credibility would represent the most significant risk to the recovery.

The National Reform Programme reports on the actions that the government is taking to address the Country-Specific Recommendations (CSR) addressed to the UK by Heads of State or Government at the European Council in June 2013, in the areas of deficit reduction, improving housing market function, skills shortages, workless households, access to finance and network infrastructure. It also reports against policies in support of the Europe 2020 Strategy priorities of employment, research and development, secondary and tertiary education, poverty reduction and energy and climate change.

The NRP is presented to the European Commission as part of the Europe 2020 Strategy for smart, sustainable and inclusive growth. As part of the European Semester process for aligning reporting and surveillance of national fiscal, economic and employment policies, the NRP is presented in parallel with the 2014 UK Convergence Programme, which reports on the UK's implementation of the Stability and Growth Pact.

The European Semester process is a means for coordinating individual Member States' structural reform programmes in an EU context, and as such has the potential to support economic growth across the EU as a whole. Comprehensively addressing the EU's growth challenge and tackling overall low productivity, lack of economic dynamism and flexibility is a challenge shared by all Member States, and one which requires decisive action to be taken at all levels.

In a context of continued pressure on public finances, it is essential to complement the actions of individual Member States with a determined effort to drive growth using EU level policy levers to enact high-impact, low-cost supply-side reforms. This has been endorsed at the highest levels by the European Council, and includes completing ambitious Free Trade Agreements, further reducing the burden of EU regulation and strengthening the Single Market by pushing for further liberalisation in services, digital and network industries. This is an agenda for the EU as a whole, and the UK will work tirelessly with other Member States in pursuit of a flexible and competitive EU economy.

1 Introduction

Context

1.1 The UK economy is recovering from the worst financial crisis in generations, one of the deepest recessions of any major economy, and a decade of growth built on unsustainable levels of debt. Across the world, recovery over the past 5 years has been slower than forecast, and the euro area was still suffering from negative growth as recently as 2013.

1.2 The government's economic strategy, set out in the June Budget 2010[1] and more recently carried out by the Autumn Statement 2013[2] and Budget 2014,[3] is designed to protect the economy through the recent period of global uncertainty and provide the foundations for recovery. This strategy is delivering results: it has restored the public finances to a sustainable path and the deficit has been reduced by a third since its peak. More specifically, the Government's plan for the economy is based on:

- fiscal responsibility to deal with debt through a credible deficit reduction plan
- monetary activism to support demand and keep interest rates low
- supply-side reform to help businesses create jobs and deliver lasting prosperity

1.3 The Devolved Administrations are also taking action to tackle structural reform challenges in areas of devolved competence:

- The Northern Ireland Executive has, through its Programme for Government,[4] its Economic[5] and Investment[6] Strategies and, more recently, in Together: Building a United Community[7] set out its priorities for sustainable growth, prosperity and building a better future. In particular, it has set twin goals of building the economy and tackling poverty and disadvantage. The Investment Strategy, which coordinates the Executive's investment plans, will provide an economic stimulus that will flow across the region and into the wider economy, helping to keep people in productive employment and maximising the positive impact on jobs. The new strategy Together: Building a United Community reflects the Executive's commitment to improving community relations and continuing the journey towards a more united and shared society.
- The Scottish Government's Government Economic Strategy (GES)[8] sets out how the Scottish Government will continue to make full use of the levers currently devolved

[1] http://cdn.hm-treasury.gov.uk/junebudget_complete.pdf
[2] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/263942/35062_Autumn_Statement_2013.pdf
[3] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/293759/37630_Budget_2014_Web_Accessible.pdf
[4] http://www.northernireland.gov.uk/pfg-2011-2015-final-report.pdf
[5] http://www.northernireland.gov.uk/draft-economic-strategy.pdf
[6] http://www.sibni.org/investment_strategy_for_northern_ireland_2011_-_2021.pdf
[7] http://www.ofmdfmni.gov.uk/together-building-a-united-community-strategy.pdf
[8] http://www.scotland.gov.uk/Topics/Economy/EconomicStrategy

to the Scottish Parliament in order to accelerate recovery, drive sustainable growth, reduce inequalities and develop a more resilient and adaptable economy. The framework provided by the GES is focussed on improving performance against the key drivers of sustainable economic growth – Productivity, Competitiveness and Resource Efficiency, Participation in the Labour Market and Population Growth – and the delivery of the Scottish Government's desired characteristics of growth – Solidarity, Cohesion, and Sustainability.

- The Welsh Government's Programme for Government,[9] which is reviewed and updated on an annual basis, sets out a plan of action that is designed to achieve priority objectives such as creating sustainable jobs, stimulating growth and reducing poverty in line with the goals outlined in the Europe 2020 strategy. A progress report was published in June 2013 in which the First Minister of Wales reaffirmed the Welsh Government's commitment to addressing these priorities and instructed the Welsh Civil Service, and the wider public sector in Wales, to line up squarely behind delivering these aims.

UK National Reform Programme 2014

1.4 As part of the Europe 2020 strategy for smart, sustainable and inclusive growth, Member States submit National Reform Programmes to the Commission outlining their structural reform plans to promote growth and employment. In parallel, under the Stability and Growth Pact, Member States submit Stability Programmes (euro area Member States) or Convergence Programmes (non-euro area Member States) reporting on budgetary and fiscal policies. In this way, the European Semester aligns reporting cycles for Europe 2020 and the Stability and Growth Pact.

1.5 The National Reform Programme (NRP) is presented in accordance with Council recommendation 2010/410 on broad guidelines for economic policy. The parts of the NRP relating to Country Specific Recommendations (CSRs) on skills and workless households comprise the UK's report to the Council and Commission on employment policy measures, in light of the guidelines for employment under Article 148 of the Treaty of the Functioning of the European Union (TFEU).

1.6 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 2014 Convergence Programme document
- actions taken to address the 6 CSRs addressed to the UK by the European Council in June 2013
- the UK's approach to national monitoring and actions taken in support of the 5 headline Europe 2020 targets agreed by the European Council in June 2010

1.7 The NRP 2014 draws on publicly available information, including the Autumn Statement 2013, Budget 2014 and other relevant documents and announcements. Further details are available in the original documents, which are referenced throughout.

1.8 The NRP 2014 emphasises reporting on the implementation of existing structural reform commitments. As such, it sets out recent actions taken by the UK as a whole, including those by the UK Government and by the Devolved Administrations of Scotland, Wales and Northern

[9] http://wales.gov.uk/about/programmeforgov/?skip=1&lang=en

Ireland, where policies are devolved. This distinction is made clear throughout the document. These actions are consistent with the Europe 2020 Integrated Guidelines (made up of the Broad Economic Policy Guidelines and the Employment Guidelines) presented under Articles 121 and 148 of the Treaty of the Functioning of the European Union.[10] They also follow the broad orientations for structural reforms provided by the European Commission's 2014 Annual Growth Survey and the March 2014 European Council conclusions.

1.9 The parts of the NRP reporting on improving the employability of young people, as well as on supporting low-income households, also serve to complete multilateral surveillance in the EU Employment Committee (EMCO) which carries out the Council's examination of Member States' employment and labour market policies, in the light of the Employment Guidelines in the procedure specified in Article 148 TFEU.

1.10 The Devolved Administrations have contributed fully to the development of the UK National Reform Programme 2014. In addition, the Scottish Government has produced its own distinct National Reform Programme,[11] which is intended to complement the UK NRP, in order to help provide the Commission with more detail on the Scottish Government's approach in supporting the delivery of the Europe 2020 ambitions. This is in line with the Devolved Administrations' commitment to engage positively with the EU Institutions and represent regional interests.

Stakeholder engagement

1.11 Substantial engagement with national Parliaments and the wider public is critical to the success of Europe 2020. The government consults widely on policy development as a matter of course. The governing principle is proportionality of the type and scale of consultation to the potential impacts of the proposal or decision being taken, and thought is given to achieving real engagement rather than merely following bureaucratic process. Consultation forms part of wider engagement, and decisions on whether and how to consult should in part depend on the wider scheme of engagement. Since the NRP does not contain any new policy announcements, it is not subject to formal consultation.

1.12 The government has engaged closely with Parliament on the European Semester more broadly. In particular, the House of Commons debated the 2013 Country-Specific Recommendations addressed to the UK, as well as the UK's 2013-14 Convergence Programme (30 April 2014). The House of Lords debated the UK's 2013-14 Convergence Programme (9 April 2014).

1.13 In the context of preparing the NRP 2014, stakeholder events were held by the Scottish Government in Edinburgh on 28 February 2014 and by the Welsh Government in Cardiff on 13 March 2014. These events were attended by representatives from the UK Government, the European Commission, Devolved Administrations and other interested stakeholders.

1.14 The focus of the NRP 2014 is on implementation and delivery of existing reform commitments. Given the key role that non-governmental organisations play in delivering structural reforms, this document is illustrated with examples of how stakeholders are involved in translating policies into concrete outcomes.

[10] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0047:0200:en:PDF

[11] The report is available from the Scottish Government website at: http://www.scotland.gov.uk/Topics/Economy/Publications

2 Macroeconomic context

2.1 This section sets out the independent Office for Budget Responsibility's (OBR) economic forecasts for 2012-18. This includes forecasts for aggregate Gross Domestic Product (GDP) growth, the components of GDP, inflation and the labour market.

Table 2.A: Summary of the OBR's central economic forecast[1]

	Percentage change on a year earlier, unless otherwise stated						
			Forecast				
	2012	2013	2014	2015	2016	2017	2018
GDP growth	**0.3**	**1.8**	**2.7**	**2.3**	**2.6**	**2.6**	**2.5**
Main components of GDP							
Household consumption[2]	1.5	2.3	2.1	1.8	2.5	2.7	2.4
General government consumption	1.6	0.9	1.2	-0.5	-1.2	-1.8	-0.9
Fixed investment	0.7	-0.5	8.6	8.2	7.8	7.9	6.8
Business	3.9	-1.2	8.0	9.2	8.1	8.7	7.7
General government[3]	0.6	-6.4	10.7	1.0	2.2	0.8	-0.5
Private dwellings[3]	-3.5	4.3	9.0	10.0	10.0	9.5	8.1
Change in inventories[4]	-0.2	0.3	0.1	0.0	0.0	0.0	0.0
Net trade[4]	-0.7	0.1	-0.2	0.1	0.0	0.0	-0.1
CPI inflation	**2.8**	**2.6**	**1.9**	**2.0**	**2.0**	**2.0**	**2.0**
Employment (millions)	**29.5**	**29.9**	**30.4**	**30.6**	**30.9**	**31.2**	**31.4**

[1] All figures in this table are rounded to the nearest decimal place. This is not intended to convey a degree of unwarranted accuracy. Components may not sum to total due to rounding and statistical discrepancy.
[2] Includes households and non-profit institutions serving households.
[3] Includes transfer costs of non-produced assets.
[4] Contribution to GDP growth, percentage points.
Source: Office for Budget Responsibility.

Growth forecast

2.2 UK annual GDP growth was 1.8% in 2013, exceeding the Office for Budget Responsibility's (OBR) Autumn Statement forecast of 1.4%, and significantly higher than GDP growth of 0.6% forecast at Budget 2013.[1] GDP growth in the year to the fourth quarter of 2013 was broad-based across the main sectors of the economy: the services sector grew by 2.7%, the production sector grew by 2.2% and the construction sector grew by 3.4%.

2.3 Reflecting increased momentum during 2013, the OBR has revised up its forecasts for UK GDP growth in 2014 from 2.4% to 2.7% and in 2015 from 2.2% to 2.3%. The OBR forecasts GDP growth of 2.6% in 2016, 2.6% in 2017 and 2.5% in 2018. The OBR forecasts that GDP will return to its pre-crisis peak in the third quarter of 2014.

[1] All UK economy data from the Office for National Statistics (ONS) unless otherwise stated

Employment forecast

2.4 The OBR has revised down its forecast for unemployment, and expects a rate of 6.8% in 2014, falling to 5.4% in 2018. It has revised up its forecast for employment, and expects it to rise by 1 million over the forecast period from 30.4 million in 2014 to 31.4 million in 2018. Youth unemployment is falling, including for those who are long-term unemployed. Youth unemployment fell 48,000 in the fourth quarter of 2013 and 58,000 in the year. Long term youth unemployment fell 25,000 in the fourth quarter of 2013 and 20,000 in the year.

Inflation and average earnings forecast

2.5 The OBR expects CPI inflation to be below target in 2014 at 1.9% and then stay at the 2.0% target for the rest of the forecast period. The OBR forecasts average earnings to grow 2.5% in 2014. It expects average earnings to grow faster than inflation through the forecast period, rising to 3.8% in 2018. The OBR also expects growth in real household disposable income to rise through the forecast period, from 1.2% in 2014 to 2.2% in 2018.

Table 2.B: Detailed summary of forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2012	2013	2014	2015	2016	2017	2018
UK economy							
Gross domestic product (GDP)	0.3	1.8	2.7	2.3	2.6	2.6	2.5
GDP level (2012=100)	100.0	101.8	104.5	107.0	109.7	112.6	115.4
Nominal GDP	2.0	3.4	5.0	4.0	4.4	4.6	4.5
Output gap (per cent of potential output)	-2.8	-2.2	-1.4	-1.1	-0.7	-0.3	0.0
Expenditure components of GDP							
Domestic demand	1.2	1.9	2.9	2.2	2.5	2.6	2.5
Household consumption[1]	1.5	2.3	2.1	1.8	2.5	2.7	2.4
General government consumption	1.6	0.9	1.2	-0.5	-1.2	-1.8	-0.9
Fixed investment	0.7	-0.5	8.6	8.2	7.8	7.9	6.8
Business	3.9	-1.2	8.0	9.2	8.1	8.7	7.7
General government[2]	0.6	-6.4	10.7	1.0	2.2	0.8	-0.5
Private dwellings[2]	-3.5	4.3	9.0	10.0	10.0	9.5	8.1
Change in inventories[3]	-0.2	0.3	0.1	0.0	0.0	0.0	0.0
Exports of goods and services	1.1	0.8	2.6	4.7	5.0	5.0	4.7
Imports of goods and services	3.1	0.4	3.0	4.3	4.8	4.8	4.7
Balance of payments current account							
Per cent of GDP	-3.7	-3.6	-2.3	-1.9	-1.7	-1.5	-1.5
Inflation							
CPI	2.8	2.6	1.9	2.0	2.0	2.0	2.0
RPI	3.2	3.0	2.6	3.2	3.6	3.8	3.9
GDP deflator at market prices	1.7	1.6	2.3	1.6	1.8	1.9	2.0
Labour market							
Employment (millions)	29.5	29.9	30.4	30.6	30.9	31.2	31.4
Wages and salaries	2.8	2.9	3.8	4.1	4.6	4.7	4.5
Average earnings[4]	2.0	1.5	2.5	3.2	3.6	3.7	3.8
LFS unemployment (% rate)	7.9	7.6	6.8	6.5	6.1	5.7	5.4
Claimant count (millions)	1.59	1.42	1.20	1.13	1.06	0.98	0.94
Household sector							
Real household disposable income	2.3	-0.1	1.2	1.8	1.5	2.3	2.2
Saving ratio (level, per cent)	7.2	5.0	4.1	4.2	3.6	3.3	3.2
House prices	1.6	3.5	8.5	7.8	5.0	3.7	3.7
World economy							
World GDP at purchasing power parity	3.1	2.9	3.8	3.9	4.1	4.2	4.2
Euro area GDP	-0.7	-0.4	1.0	1.4	1.7	1.9	2.0
World trade in goods and services	3.0	3.2	5.2	5.8	6.0	6.1	6.1
UK export markets[5]	2.0	2.1	4.7	5.2	5.3	5.4	5.4

[1] Includes households and non-profit institutions serving households.
[2] Includes transfer costs of non-produced assets.
[3] Contribution to GDP growth, percentage points.
[4] Wages and salaries divided by employees.
[5] Other countries' imports of goods and services weighted according to the importance of those countries in the UK's total exports.

3 UK Country-Specific Recommendations

3.1 The Country-Specific Recommendations addressed to the UK by EU Heads of State or Government at the June 2013 European Council, are to:

1. Implement a reinforced budgetary strategy, supported by sufficiently specified measures, for the year 2013-14 and beyond. Ensure the correction of the excessive deficit in a sustainable manner by 2014-15, and the achievement of the fiscal effort specified in the Council recommendations under the EDP and set the high public debt ratio on a sustained downward path. A durable correction of the fiscal imbalances requires the credible implementation of ambitious structural reforms which would increase the adjustment capacity and boost potential growth. Pursue a differentiated, growth-friendly approach to fiscal tightening, including through prioritising timely capital expenditure with high economic returns and through a balanced approach to the composition of consolidation measures and promoting medium and long-term fiscal sustainability. In order to raise revenue, make greater use of the standard rate of VAT.

2. Take further action to increase housing supply, including through further liberalisation of spatial planning laws and an efficient operation of the planning system. Ensure that housing policy, including the Help to Buy scheme does not encourage excessive and imprudent mortgage lending; and promote greater supply to avoid higher house prices. Pursue reforms including to land and property taxation to reduce distortions and promote timely residential construction. Take steps to improve the functioning of rental markets, in particular by making longer rental terms more attractive to both tenants and landlords.

3. Building on the Youth Contract, step up measures to address youth unemployment, for example through a Youth Guarantee. Increase the quality and duration of apprenticeships, simplify the system of qualifications and strengthen the engagement of employers, particularly in the provision of advanced and intermediate technical skills. Reduce the number of young people aged 18-24 who have very poor basic skills, including through effectively implementing the Traineeships programme.

4. Enhance efforts to support low-income households and reduce child poverty by ensuring that the Universal Credit and other welfare reforms deliver a fair tax-benefit system with clearer work incentives and support services. Accelerate the implementation of planned measures to reduce the costs of childcare and improve its quality and availability.

5. Take further steps to improve the availability of bank and non-bank financing to the corporate sector, while ensuring that the measures primarily target viable companies, especially SMEs. Reduce barriers to entry in the banking sector, lower switching costs and facilitate the emergence of challenger banks through a divestiture of banking assets. Effectively implement the Financial Policy Committee's

recommendations on prudent assessment of bank capital requirements and on addressing identified capital shortfalls.

6 Take measures to facilitate a timely increase in network infrastructure investment, especially by promoting more efficient and robust planning and decision-making processes. Provide a stable regulatory framework for investment in new energy capacity, including in renewable energy. Improve the capacity and quality of transport networks by providing greater predictability and certainty on planning and funding and by harnessing the most effective mix of public and private capital sources.

Fiscal consolidation

Recommendation 1

Implement a reinforced budgetary strategy, supported by sufficiently specified measures, for the year 2013-14 and beyond. Ensure the correction of the excessive deficit in a sustainable manner by 2014-15, and the achievement of the fiscal effort specified in the Council recommendations under the EDP and set the high public debt ratio on a sustained downward path. A durable correction of the fiscal imbalances requires the credible implementation of ambitious structural reforms which would increase the adjustment capacity and boost potential growth. Pursue a differentiated, growth-friendly approach to fiscal tightening, including through prioritising timely capital expenditure with high economic returns and through a balanced approach to the composition of consolidation measures and promoting medium and long-term fiscal sustainability. In order to raise revenue, make greater use of the standard rate of VAT.

3.2 The government's long-term economic plan has protected the economy through a period of uncertainty, and provided the foundations for the UK's recovery which is now well established. In order to safeguard the economy for the long term, the government is continuing to take decisive action through: monetary activism and credit easing, deficit reduction, reform of the financial system, and a comprehensive package of structural reforms.

3.3 Chapter 2 of the UK's 2014 Convergence Programme provides further details of this strategy.

3.4 Fiscal policy is reserved to Parliament under the devolution settlements.

Fiscal framework

3.5 As announced in the June 2010 Budget, the government's fiscal strategy is underpinned by a forward-looking mandate to guide fiscal policy decisions over the medium term, ensuring that the government sets plans consistent with a reduction in the structural deficit. The fiscal mandate is based on:

- a cyclically-adjusted aggregate, to allow some fiscal flexibility at times of economic uncertainty and to allow the automatic stabilisers to operate
- a rolling 5-year forecast period, to ensure that fiscal consolidation is delivered over a realistic and credible timeframe
- the current balance, to protect the most productive public investment expenditure

3.6 The Office for Budget Responsibility's (OBR) March 2014 **Economic and fiscal outlook** concluded that the government remains on course to meet the fiscal mandate. The OBR's forecast is for the fiscal mandate to be achieved a year early, in 2017-18.

3.7 The government's fiscal mandate is supplemented by a target for public sector net debt as a percentage of Growth Domestic Product (GDP) to be falling at a fixed date of 2015-16. The OBR has forecast that public sector net debt as a percentage of GDP will be falling in 2016-17. This is a year earlier than forecast at Budget 2013, and a year later than the supplementary target for debt.

3.8 The UK's fiscal policy framework requires the government to set out its fiscal policy objectives and fiscal mandate before Parliament in the **Charter for Budget Responsibility**. As set out in the Charter, the fiscal mandate lapses at the end of the current Parliament. At Budget 2010 the government committed to revisit the future of the fiscal framework once the public finances were closer to balance. Over the course of 2014 the government will therefore carry out a review of the current fiscal framework, which will be reported the following year. Its outcome will inform an updated **Charter for Budget Responsibility** which will be presented to Parliament alongside Autumn Statement 2014.

3.9 The government has set out a plan to eliminate the deficit over the next 4 years, but further difficult decisions are required. High levels of public debt impose significant burdens now and in the future through higher interest rate payments, and increase the UK's vulnerability to future shocks. In light of the importance of fiscal discipline, Budget 2014 was fiscally neutral despite lower borrowing across the forecast period, with an overall reduction in tax funded by a reduction in spending, including:

- confirming that departments remain ahead of their consolidation targets: the OBR forecasts that departments will underspend by £7 billion in 2013-14, and will continue to underspend until the end of this Parliament
- reducing spending in the next Parliament by locking in spending reductions announced at Autumn Statement 2013 for future years
- ensuring that employers are meeting the costs of public service pension schemes, and confirming that pay awards for most public sector workers covered by the recent Pay Review Body recommendations will be limited to 1% in 2014-15, and that the intention is to limit awards to 1% in 2015-16

3.10 In addition, Budget 2014 also set the level of the welfare cap from 2015-16 to 2018-19 at the OBR's forecast of spending in scope.

3.11 The government's fiscal strategy has been effective in supporting the economy, with stability in the government's consolidation plans providing protection against a challenging backdrop of global uncertainty and fiscal vulnerabilities. This has restored fiscal credibility, allowing activist monetary policy and the automatic stabilisers to support the economy.

3.12 Implementation of the government's fiscal consolidation plan is on course. Around 70% of the planned fiscal consolidation for this Parliament has been achieved, with around 60% of the spending and all of the tax consolidation in place. 80% of the total consolidation in 2015-16 will be delivered by lower spending.

3.13 The government has also made significant progress in reversing the unprecedented rise in borrowing between 2007-08 and 2009-10:

- public sector net borrowing as a percentage of GDP has fallen by a third over the 3 years from 2009-10
- public sector net borrowing is forecast to have halved by 2014-15, from 11.0% of GDP in 2009-10 to 5.5% of GDP in 2014-15

3.14 In line with previous policy, Budget 2014 confirmed that the fiscal assumption, expressed in terms of Total Managed Expenditure (TME), will continue to fall in 2016-17 and 2017-18 at the same rate as it has over this Parliament. As set out in Autumn Statement 2013, the fiscal assumption expressed as TME will be held flat in real terms in 2018-19.

3.15 The government's programme of structural reform is creating the right environment for businesses to invest, export and grow. Corporation Tax will fall to 21% in April 2014 before reaching 20% in April 2015 – the joint lowest rate in the G20. The introduction of the £2,000 Employment Allowance in April 2014 will also support businesses to grow and create jobs. Budget 2014 announced further reforms to capital allowances, energy and housing to support investment and a sustained recovery across the UK. These measures are detailed in the relevant policy area sections of this document.

Reforming the housing sector

Recommendation 2

Take further action to increase housing supply, including through further liberalisation of spatial planning laws and an efficient operation of the planning system. Ensure that housing policy, including the Help to Buy scheme does not encourage excessive and imprudent mortgage lending; and promote greater supply to avoid higher house prices. Pursue reforms including to land and property taxation to reduce distortions and promote timely residential construction. Take steps to improve the functioning of rental markets, in particular by making longer rental terms more attractive to both tenants and landlords.

3.16 The government is taking decisive action to revive the housing market, boost construction and support families, developers and institutions to invest in new homes. The government is committed to making the vital reforms needed to address structural issues in the housing market. This includes measures to support home ownership, increase housing supply and reform the planning system.

3.17 House building has been critical to the UK's economic recovery and the package of measures announced at Budget 2014 and Autumn Statement 2013 complements existing measures introduced to stimulate economic growth and improve housing market stability. This section covers the new measures announced at Budget 2014 and Autumn Statement 2013 together with those previously introduced.

3.18 These measures are taking place within a strengthened regulatory framework that the UK has put in place following the financial crisis. Regulations to protect the consumer in mortgage lending have been strengthened through the introduction of a Mortgage Market Review. These rules will require all lenders to undertake detailed affordability assessments, including applying an interest rate stress test to ensure that the loan will remain affordable if interest rates rise. In addition the government has introduced a new system of macro-prudential regulation, with the Financial Policy Committee (FPC) at the centre, to monitor risks across the market and take action where appropriate to prevent such risks materialising. These include the power to adjust sectoral capital requirements.

3.19 The Bank of England has the responsibility to monitor overall debt levels and also to take the necessary action to deal with asset bubbles if they arise and threaten the economy's stability.

3.20 The housing market is recovering, like the rest of the economy, having suffered a severe downturn following the financial crisis. As confidence across the economy improves, increased activity in a number of sectors including the housing market can be expected.

3.21 Planning law, the operation of the planning system, and various aspects of property taxation are devolved responsibilities in Northern Ireland, Scotland and Wales. Some policies announced by the government – for example the Equity Loan element of Help to Buy – apply in England only, with the devolved administrations receiving funding to permit them to develop schemes which best fit local priorities.

Increasing housing supply

3.22 There are encouraging signs of a recovery in housing supply. New construction orders for housing increased by around 5% in the fourth quarter of 2013, with new orders at their highest level since the third quarter of 2007. In the fourth quarter of 2013, planning permission was granted for around 52,000 new homes, representing the highest quarterly total since the first quarter of 2008. Housing starts in 2013 rose by 23% compared to 2012.

3.23 To continue driving this growth forward, the government announced ambitious measures on housing and planning at Autumn Statement 2013 and Budget 2014.

3.24 To help a further 120,000 households purchase a new-build home and continue to support house building as the market improves, the government announced at Budget 2014 that it would extend the Help to Buy: equity loan scheme from April 2016 to March 2020, with total funding for the scheme over 2013-20 reaching £9.7 billion.[1]

3.25 Also at Budget 2014, a new £525 million loan scheme was introduced to kick-start stalled housing sites held by SME builders. The government will provide loans/equity, to sites with capacity for 15-200 units, where the bidder can demonstrate a lack of access to finance. The scheme will deliver 15,000 units.

3.26 For people who want to build their own home, the government will consult on a new 'Right to Build', giving custom builders a right to a plot from councils, and a £150 million repayable fund to help provide up to 10,000 serviced plots for custom build. The government will also look to make the Help to Buy: equity loan scheme available for custom-builds.

3.27 This builds on previously announced measures. At Autumn Statement 2013 the government announced a £1 billion, 6 year investment programme to fund infrastructure to unlock new large housing sites. This will support the delivery of around 250,000 homes.

3.28 The government will support a new Garden City at Ebbsfleet which will have capacity for up to 15,000 new homes, based on existing brownfield land. In order to drive this forward the government will form a dedicated Urban Development Corporation for the area, in consultation with local MPs, councils and residents, and will make up to £200 million of infrastructure funding available to kick start development.

3.29 The government also announced that it would establish a £150 million fund to kick-start the regeneration of large housing estates through repayable loans, helping to boost housing supply.

Planning

3.30 In order for more homes to be built, a planning system which works proactively to support growth is needed. The introduction of the National Planning Policy Framework has been a major step forward. As a result of its positive influence, accelerated plan-making and more positive decision-taking from Local Authorities is taking place. For example, planning approvals are now at their highest level since 2008 with 88% of applications approved in the fourth quarter of 2013.

3.31 The government announced a package of measures at Autumn Statement 2013 to speed up planning decisions, and Budget 2014 announced further measures to make it easier for commercial buildings to change to residential use.

Supporting home ownership

3.32 The government is committed to supporting people to realise their aspiration of home ownership. Following the financial crisis, a key barrier for many has been the lack of availability of high loan-to-value (LTV) mortgages. This meant that many creditworthy households have been locked out of home ownership because, while they could afford a mortgage, they struggled to save up for the large deposits required by mortgage lenders.

[1] See also in the Supporting Home Ownership section

3.33 There are signs that the state of UK housing market is improving, reflecting in part, the positive impact of the **Funding for Lending Scheme** (FLS) on household credit conditions. For that reason, from January 2014 the FLS has been refocused away from broad support to the housing market towards incentives for business lending. However, despite the improvements in the mortgage market, high LTV lending remained constrained. In the fourth quarter of 2013 the number of first time buyers was 79,400, 21% below the long-run average.

3.34 The **Help to Buy: mortgage guarantee**[2] opened in January 2014. It provides lenders with the option to purchase a guarantee on mortgages where the borrower has a deposit of between 5% and 20%. This guarantee will provide lenders with some protection against losses if the mortgage defaults. By reducing the risk of this type of lending, the scheme has encouraged many lenders to reintroduce mortgages at higher loan-to-values.

3.35 As of the end of January 2014, 82% of completions under the scheme had gone to first time buyers, illustrating how the scheme benefits credit-worthy first time buyers who have struggled with the higher deposit requirements by mortgage lenders in the wake of the financial crisis.

3.36 The scheme includes a number of features designed to ensure that lending is responsible. First, borrowers must provide at least 5% deposit themselves, and the loan must be on a repayment basis. Second, the guarantee does not cover lenders for all their losses, so that they retain a stake. Third, the scheme includes requirements for lenders to undertake affordability tests in line with the new Mortgage Market Review rules, in advance of their wider introduction by the Financial Conduct Authority (FCA) in April 2014.

3.37 The government published the final scheme rules for the Help to Buy: mortgage guarantee in October 2013, from which time UK mortgage lenders have started to join the scheme and offer mortgages supported by Help to Buy. As of the end of January 2014, 2,572 households had purchased a home under the scheme. Scheme data shows that the scheme is supporting responsible lending:

- outside London, on average households are looking to buy homes worth £135,000 which remains below the UK average house price of £254,000
- in London, on average households are looking to buy homes worth £287,000 which remains below the London average house price of £458,000

3.38 **Help to Buy: equity loan** – this 3 year scheme was launched in April 2013 and is providing £3.7 billion of investment to help at least 74,000 households purchase a new-build home, as well as providing a boost to the construction sector. The scheme provides an equity loan worth up to 20% of the value the home, interest free for the first 5 years, to be repaid on sale or when the mortgage is repaid. After 10 months, over 25,000 reservations for new homes had been made through the scheme, including 14,800 completed sales.

3.39 To help a further 120,000 households purchase a new-build home, the government announced at Budget 2014 that it would extend the equity loan scheme to March 2020 with an extra £6 billion in funding.

3.40 The government has made changes to the discounts on council tax for empty homes. Since 1 April 2013, local authorities have had the power to charge an 'empty homes premium', up to an additional 50% of the council tax, on property left unoccupied and unfurnished for more than 2 years. Further, owners of empty homes no longer qualify for a 6 month exemption from

[2] Currently, Aldermore, Barclays, Halifax, Bank of Scotland, HSBC, Lloyds, NatWest, RBS, Santander, Bank of Ireland and Virgin Money are offering mortgages supported by the scheme. Lenders representing more than 65% of the UK mortgage market are offering loans supported by the mortgage guarantee scheme.

council tax; instead Local Authorities are able to charge up to 100% council tax on property left unoccupied and unfurnished.

3.41 The government believes that residential properties should not be held in corporate 'envelopes', if they are not used for a commercial purpose such as being rented out. It is therefore creating new bands for the Annual Tax on Enveloped Dwellings (ATED) and extending the 15% rate of Stamp Duty Land Tax (SDLT) and the ATED-related Capital Gains Tax (CGT) charge. ATED and CGT will apply to residential properties worth more than £1 million from April 2015 and to residential properties worth more than £500,000 from April 2016. The 15% higher rate SDLT charge will apply to residential purchases for more than £500,000 from 20 March 2014.

3.42 Together with changes to the council tax treatment of empty homes and the introduction of CGT on non-residents disposing of UK residential property, this represents significant action to tackle homes bought for investment and left empty or unoccupied.

Improving the functioning of rental markets

3.43 The private rented sector offers a flexible option to millions of people looking to rent good quality homes. Increasing the supply of good quality, well designed homes for rent will give tenants more choice over where they live and lead to a more balanced rental market.

3.44 The government is committed to using the private rented sector housing debt guarantee scheme to lever in private investment, kickstarting the rented sector to meet demand for high-quality rented homes. The guarantee scheme supports the building of new homes for the private rental sector across the UK, offering housing providers a government guarantee on debt they raise to invest in completed new-build homes for private rent. The Scheme will use the government's fiscal credibility to help reduce the cost of borrowing for up to £3.5 billion of debt, plus a share of an additional £3 billion held in reserve, increasing investment in new homes for private rent.

3.45 The £1 billion Build to Rent Fund will stimulate development, by offering a range of off-the-shelf investment opportunities in new homes for rent. The Build to Rent fund is designed to help developers build large scale, quality homes specifically for the private rented sector. The government is on track to have work underway to deliver up to 10,000 newly built homes for private rent by 2015.

3.46 The UK has an overall well functioning private rental sector, housing 3.8 million households in England (17% of overall housing stock). In October 2013, the government announced a comprehensive package of proposals to further protect and support England's private tenants. The package included development of a model tenancy agreement to help landlords and tenants understand their rights and obligations and which landlords could use to offer longer tenancies of three years or more to help provide extra security and stability for tenants.

Devolved Administrations

Northern Ireland

3.47 The Northern Ireland Executive is committed to delivering social and affordable housing and has set out a comprehensive package of measures. In the 2012-13 financial year, 2,336 social and affordable homes were achieved against a Programme for Government target of 2,165, with 1,775 to be delivered in 2013-14.

3.48 Following publication in 2012 of the Housing Strategy **Facing the Future**[3] and a full public consultation[4] on the strategy's proposals, the Department for Social Development published an Action Plan[5] in July 2013 to deliver on the commitments in the strategy. The Action Plan contains 33 actions designed to support the 5 themes in *Facing the Future*: ensuring access to decent, affordable, sustainable homes across all tenures; meeting housing needs and supporting the most vulnerable; housing and welfare reform; driving regeneration and sustaining communities through housing; and getting the structures right. The Executive has not yet taken a decision in relation to how Welfare Reform will be taken forward.

Scotland

3.49 The Scottish Government's housing strategy **Homes Fit for the 21st Century**[6] aims to deliver a substantial increase in the number of homes across all tenures: at least 30,000 affordable homes over the 5-year term of the Scottish Parliament, including 20,000 social homes of which at least 5,000 will be council homes. This is currently on track: In the first 2 years 12,891 new affordable homes, including 9,926 social homes, have been delivered.

3.50 The Scottish Government is working with the entire housing sector to increase the supply of affordable homes, create new opportunities for those who want to own a home and deliver vital support for construction and house building companies of all sizes throughout Scotland. As part of that package of action, the Scottish Government increased subsidy rates for social housing by £16,000, set out plans to invest over £1.3 billion in affordable housing over the 4 year period between April 2012 and March 2016 and put in place a range of schemes to support private sector activity. That includes the £235 million Help to Buy (Scotland) shared equity scheme, which was launched in September 2013, and the New Home Initiative which is helping credit worthy buyers access 90-95% loan to value mortgages for new-build homes.

3.51 The Scottish Government has pioneered new forms of investment and partnership. Additional investment for affordable housing through innovative financing approaches using guarantees, loans, grant recycling, new sources of private funding and new forms of partnership between the public, private and non-profit sectors is substantial and growing. Over 2,200 new affordable homes are to be delivered in communities across Scotland using innovative approaches, such as the National Housing Trust initiative. The Scottish Government has also invested £10 million in a ground-breaking Charitable Bond initiative, which provides £8.6 million in loan funding for social housing development by a Registered Social Landlord to build around 150 new affordable homes in 2014-15, and generates over £1 million of grant funding to benefit regeneration work.

Wales

3.52 The Welsh Government's Housing (Wales) Bill was introduced into the National Assembly for Wales in November 2013. It contributes to the Welsh Government's three strategic priorities for housing: more homes, better homes, and better services. The Bill will notably:

- improve the private rented housing sector by introducing a mandatory registration and licensing scheme for landlords and letting and management agents
- introduce a strengthened duty on local authorities to take reasonable steps to prevent and alleviate homelessness and take steps towards ending family homelessness

3 http://www.dsdni.gov.uk/index/hsdiv-housing/hsdiv-publications/hsdiv-facing-the-future.htm

4 http://www.dsdni.gov.uk/housing-strategy-consultation.pdf

5 http://www.dsdni.gov.uk/facing-the-future-action-plan.pdf

6 http://www.scotland.gov.uk/Resource/Doc/340696/0112970.pdf

- provide local authorities with a discretionary power to charge a higher rate of council tax on empty homes that have been unoccupied for more than twelve months

3.53 The Mobile Homes (Wales) Act 2013 was passed by the National Assembly to help improve conditions on mobile home sites and protect the rights of residents. The full provisions of the Act will come into force on 1 October 2014.

3.54 The Welsh Government is also proposing to improve and simplify the law for renting homes in Wales. The proposals are based on recommendations published by the Law Commission but will be tailored to meet the needs of Wales. The Renting Homes White Paper was published in May 2013 and a summary of the responses published in December 2013. Over 90% of respondents supported the proposals, which will be taken forward through a Bill to be introduced in 2015. The Renting Homes Bill will introduce 2 model rental agreements. One will be a 'secure contract', based on the local authority secure tenancy, which will be used mainly for long term housing by councils and housing associations. The second 'standard contract' will be modelled on the current assured shorthold tenancy and will be used for all types of shorter term renting in both the private and public sectors.

3.55 The Welsh Government has amended its target for increasing the number of affordable homes in Wales from 7,500 to 10,000 during the term of this government. Whilst a substantial proportion will be delivered via the normal Social Housing Grant programme, the Welsh Government is working with the housing association sector in Wales to deliver as many affordable homes without grant as possible. The Welsh Government has also introduced a long term revenue stream, the Housing Finance Grant, to help fund over 1,000 new homes in the short term, is supporting intermediate rent via the Welsh Housing Partnership and is investing £40 million in delivering 1 and 2 bedroom homes.

3.56 As well as continuing to support those in greatest need of housing, the Welsh Government also operates the Help to Buy – Wales initiative which will provide a boost to the housing industry by supporting the construction of 5,000 new homes across Wales.

Continue to improve the employability of young people

Recommendation 3

Building on the Youth Contract, step up measures to address youth unemployment, for example through a Youth Guarantee. Increase the quality and duration of apprenticeships, simplify the system of qualifications and strengthen the engagement of employers, particularly in the provision of advanced and intermediate technical skills. Reduce the number of young people aged 18-24 who have very poor basic skills, including through effectively implementing the Traineeships programme.

3.57 The government continues to implement its strategy to reduce youth unemployment with action in 3 key areas to help young people by:

- equipping them with education and skills relevant to the labour market
- supporting them to secure existing labour market opportunities
- creating new opportunities for them by supporting new job creation

3.58 Following the government's response, youth unemployment has fallen from its peak of 1,039,000 (22.2%) in September to November 2011 to 917,000 (19.9%) in October to December 2013, a fall of 127,000 (2.3 percentage points decrease).

3.59 The government supports the aim of the recommendation, which is to reduce youth unemployment, and many of its actions in this area are aligned to the broader guidance included in the recommendation. However, the government has chosen to take a different approach which it believes better suits the national specificities and circumstances faced by young people in the UK.

3.60 Many aspects of education and skills policies are devolved responsibilities in Northern Ireland, Scotland and Wales. As the welfare system operates across Great Britain, with a commitment to seek to maintain parity in Northern Ireland, there are links between devolved and non-devolved policy choices taken by the government and the Devolved Administrations in this sphere.

Table 3.A: Labour market situation of young people aged 16-24

Employed in FTE[7]	823,000
Employed not in FTE	2,900,000
Unemployed in FTE	284,000
Unemployed not in FTE	628,000
Inactive in FTE	1,900,000
Inactive not in FTE	663,000
Source: Labour Market Statistics: March 2014 Office for National Statistics	

3.61 At the end of January 2014, 82% of those aged 16-24 were in education, training or employment. Of this age group, 51% were in employment and 42% in full-time education, with 11% in both. There are 912,000 unemployed people aged 16-24 according to the International Labour Organization (ILO) definition, a fall of 29,000 on the quarter. Excluding from the figure those

[7] Full time education

in full time education gives a total of 628,000 unemployed, down 16,000 on quarter and representing 8.7% of young people in this age group. The number of young people who are not in work or in full-time education fell 63,000 on year to 1.29 million, or 17.9% of the age group. Since this group includes those in part-time study, the level of those who are not in work or any education and are classified as not in education, employment, or training (NEET) is lower at 1 million.

Employability

3.62 The Youth Contract, launched in April 2012, is a package of support to help young unemployed people prepare for work and find long term sustainable employment. Provision under the Youth Contract includes:

- wage incentives worth up to £2,275 each for employers who recruit an 18 to 24 year old who has been on benefit 6 months or more from Jobcentre Plus or through the Work Programme
- an extra 250,000 work experience places or places in sector-based work academies over 3 years, taking the total to at least 100,000 a year
- a further 20,000 incentive payments to encourage employers to take on young Apprentices, taking the total number to 40,000 in 2012-13
- additional support through Jobcentre Plus by way of more adviser time and more frequent attendance
- an opportunity to be referred for a careers interview with the National Careers Service

3.63 As part of the Youth Contract, the government is investing £150 million over 3 years (£126 million of it in England) to support the most disengaged and disadvantaged 16-17 year olds. This provides support to help them to get back into education, an apprenticeship or a job with training.

3.64 The Youth Contract is producing results. It has already provided over 200,000 opportunities for young people:

- from April 2012 up to and including December 2013 there have been 65,470 wage incentive job starts
- from January 2011 to November 2013, 148,570 18-24 year olds have started a work experience placement
- from August 2011 to November 2013, 46,280 18-24 year olds have started sector-based work academy pre-employment training

3.65 Announced at Autumn Statement 2013, the abolition from April 2015 of employer National Insurance contributions for young people aged under 21 years and earning £813 per week or less will reduce the cost of employing young people and provides an incentive for businesses to consider taking on more under 21s – providing valuable employment opportunities. This measure will also support jobs for almost 1.5 million young people currently in employment.

3.66 For those closer to the labour market Jobcentre Plus (JCP) focuses on engagement in real work with employers, and keeping people active in their job search. JCP Work Coaches can now offer young claimants a comprehensive menu including:

- access to job search support, skills provision and advice on apprenticeships
- work experience offering young people a few weeks with a local employer

- sector-based work academies offering pre-employment training and work placements in growth industries with a guaranteed job interview
- new Enterprise Allowance support for self-employment, volunteering, and work and enterprise clubs

3.67 Where Work Coaches feel that a young person would benefit from a short period of activity, they are able to refer them to a Mandatory Work Activity placement of 4 weeks activity of benefit to the local community.

3.68 The Work Programme[8] is available for young people who need extra help and support. Most young people claiming Jobseeker's Allowance are referred to the Work Programme after 9 months on benefit (compared with 12 months for claimants aged 25 or over) and 18 year olds who have been not in education, employment, or training (NEET) for the preceding 6 months are referred after 3 months. Work Programme providers have the freedom to provide the help that they consider necessary to support young people into a job. Providers are paid on the basis of the results they achieve, and are paid more for supporting the harder to help into work. There are encouraging results for young people: while the age group 18-24 accounts for 27% of all referrals to the Work Programme, it also accounts for 36% of all Job Outcome payments paid to providers.[9]

Apprenticeships

3.69 The government believes that apprenticeships are central to raising skills and delivering strong returns for the economy, for employers and for apprentices themselves, and so is keen to ensure that they become more rigorous and responsive to the needs of more employers. The aim is for it to become the norm for young people to go into an apprenticeship or to university, or both in the case of some higher apprenticeships.

3.70 In England the government is increasing the availability and take-up of apprenticeships, which are central to developing talent and also improving career chances and lifetime earnings for individuals. At the same time it is strengthening the role and engagement of employers, so that apprenticeships can better match needs and opportunities in the labour market.

3.71 More than 250 different Apprenticeships Frameworks are available (each comprising several qualifications and other units of learning) in over 1,400 job roles covering an extensive range of skill levels and occupations.

- apprenticeship participation for 2012-13 was up by 7.7% on 2011-12 to 868,700
- participation in Intermediate Level Apprenticeships was down by 0.9%, but participation in Advanced Level Apprenticeships was up by 18.9% and participation in Higher Apprenticeships was up by 127.6%

3.72 Most starts were at Intermediate level, reflecting demand in key sectors. By age, apprenticeship participation was up on 2011-12 by 8.2% for age 19-24 and by 14.0% for age 25 and older.

3.73 In July 2013, the Apprenticeship Grant for Employers (AGE) for SMEs recruiting those aged 16-24 years old was extended to December 2014. AGE provides grants of £1,500 to employers with up to 1,000 employees recruiting 16 to 24 year olds, to encourage them to develop their business and take on new apprentices. The £1,500 is in addition to the training costs of the Apprenticeship Framework which are met in full for young people aged 16 to 18, and 50% for

[8] For more details, please refer to the section of this document, under Target 1 of the Europe 2020 Agenda

[9] Work Programme Official Statistics to December 2013, published 20 March 2014

those aged 19 to 24. Provisional data shows 49,300 apprenticeship starts for which a payment was made through the AGE scheme between February 2012 and October 2013.

3.74 The government has taken extensive measures to safeguard and improve the quality of learning through Apprenticeships. From August 2012 minimum durations were introduced, with Apprenticeships expected to last for between 1 and 4 years. **The Future of Apprenticeships in England: Implementation Plan**[10] published on 28 October 2013 sets out the plan to deliver important and radical apprenticeships reforms to meet the needs of both large and small employers.

3.75 The government supports the key aim of giving employers more control over funding for Apprenticeships. Following consultation in summer 2013 on how to deliver a reformed funding system, Autumn Statement 2013 announced that HM Revenue & Customs (HMRC) systems would be used to route government funding for Apprenticeships direct to employers. The new funding mechanism should be to be in place by 2016, with all new apprentices to be undertaking their Apprenticeships based on new standards by 2017-18. In the meantime, it is planned to test the funding principles on Apprenticeships based on the first new standards prior to the mechanism being operational.

Box 3.A: Stakeholder focus: Trailblazer projects

The government wants employers to be closely involved in creating new apprenticeship standards that will deliver the skills that businesses and learners need. Groups of companies have come together to give industry the power to lead the design of these new apprenticeships: these companies, both large and small employers, are known as Trailblazers.

Partnership with employers is central to the government's plans to strengthen and improve Apprenticeships. Employers and professional bodies that are leading the way in implementing the reformed Apprenticeships belong to Phase 1 Trailblazers: they are in charge of designing the new Apprenticeship standards and assessment processes, to ensure that Apprenticeships meet employers' needs and are delivered in a way that works. They are now in the process of finalising their draft Apprenticeship standards.

Trailblazer activity will take place throughout 2013-14 and 2014-15, and the delivery of new Apprenticeships is expected to begin in 2014-15. The aim is that all new Apprenticeship starts will be based on the new standards.

Skills

3.76 The government is committed to offering young unemployed people the opportunity to access high quality, labour market relevant training so that they can gain the skills they need for sustainable employment and progression in learning and work.

3.77 Through the skills system in England, all adults aged 19 years and over are eligible for fully funded basic literacy and numeracy provision. Young adults aged between 19 and 23 inclusive are eligible for training up to a first full National Vocational Qualification (NVQ) level two (equivalent to five General Certificates of Secondary Education (GCSEs) at grades A*-C) and are also eligible for fully-funded training up to a first full level three qualification (equivalent to two A levels).

[10] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/253073/bis-13-1175-future-of-apprenticeships-in-england-implementation-plan.pdf

3.78 Jobseeker's Allowance claimants, unemployed Universal Credit claimants and those in the Work Related Activity Group of Employment and Support Allowance (and partners where relevant) are eligible in England for fully-funded training to help them into work if their lack of skills has been identified as a barrier to finding work.

3.79 In August 2011 the Department for Business, Innovation and Skills announced that colleges and providers in England would be given further flexibility to offer fully-funded training to people on a wider range of benefits as long as the training was linked to getting the individual back into work.

3.80 The age to which all young people in England must continue in education or training is increasing. This means that pupils who left school at age 16 in summer 2013 need to continue in education or training for at least a further year until 27 June 2014 and pupils at age 16 or below in September 2013 will need to continue until at least their eighteenth birthday.[11]

3.81 Other measures include:

- from the beginning of the 2013-14 academic year, all pupils who fail to achieve a C or better in English or maths GCSE must continue to study these subjects in post-16 education until they get these qualifications
- the government decided to expand higher education places in England of up to 30,000 in 2014-15 and the removal of controls in publically funded institutions in 2015-16 (announced in the Autumn Statement 2013)
- there is a statutory duty[12] on Local Authorities to engage with 16 and 17 year old NEETs, and funding for a programme to help disengaged 16 and 17 year old NEETs make a sustainable move into full-time education, an apprenticeship or work with training

Traineeships

3.82 From August 2013, new Traineeships are available for jobless young people in England aged 16-23 (expanding to cover ages 16-24 from 2014-15). This is an education and training programme with work experience, focused on giving young people skills and experience to help them compete for Apprenticeships or other jobs.

3.83 Traineeships can last a maximum of 6 months and providers and employers will have the freedom to bring these elements together in the best way to engage and support individual trainees.

3.84 The core content is:

- work preparation training; mathematics and English (for those without a GCSE grade A-C)
- a high quality work experience placement with an employer

3.85 Eligible claimants voluntarily choose to participate in a Traineeship, and their benefit can continue while they are taking part in the Traineeship.

3.86 Traineeships are jointly funded by the Department for Education and the Department for Business, Innovation and Skills. The exact size of the programme will depend on demand from employers and young people.

[11] 94.2% of 16-17 year olds in Quarter 4 2013 were in education or training, an increase of 1.0% against the same quarter of 2012

[12] following the Education and Skills Act 2008

Devolved Administrations

Northern Ireland

3.87 **Pathways to Success**[13] is the Northern Ireland Strategy to help young people who are not in education, employment or training (NEET). Adopted in May 2012, the Strategy comprises a package of measures, including:

- the Community Family Support Programme[14] focused on the needs of disadvantaged families to enable young people to re-engage with education, employment or training
- a Collaboration and Innovation Fund[15] to enable community, voluntary and educational organisations to improve the employability of over 6,000 disadvantaged unemployed young people
- a Pathways Allowance[16] for eligible young people participating in European Social Fund projects, Collaboration and Innovation Fund projects and who benefit from the Local Employment Intermediary Service

3.88 The **Youth Employment Scheme**[17] introduced in July 2012, offers a new range of measures to address youth unemployment. The focus is on early intervention for young people aged 18 to 24. Measures include Work Experience placements, Skills Development Programmes and an Enhanced Employer Subsidy. The scheme engages directly with employers who are interested in assisting and supporting young people. By the end of December 2013, the scheme had achieved 108% of its target to date and provided 5,822 opportunities across all strands of the scheme.

3.89 **First Start**, introduced in November 2012, provides supported employment for up to 26 weeks for young people aged 18-24 year old. Employers receive a weekly waged subsidy of £120 per week for 18-20 year olds or £155 per week for 21-24 year olds. Participants must be claiming Jobseeker's Allowance and have been unemployed for a minimum of 26 weeks. It offers waged opportunities within either the private, public or community/voluntary sector. Young people employed via First Start will receive at least the National Minimum Wage and will become an employee of the business for the period of employment. First Start will deliver 1,700 job opportunities by March 2015. At the end of December 2013, 915 young people had secured jobs through First Start.

3.90 The **Going for Growth Strategic Action Plan**,[18] published in April 2013 by the Agri-Food Strategy Board, has targeted the creation of 15,000 new jobs in the agri-food and ancillary industries, as part of the sustainable growth of the Northern Irish agri-food sector.

Scotland

3.91 The Scottish Government is making Scotland's education system connect young people to the world of work. The Curriculum for Excellence is helping young people develop vital skills for life and work, while colleges are being reformed to ensure the skills people develop will help them find work and grow the economy. Alongside this, the Scottish Government is helping

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13 http://www.delni.gov.uk/del-pathways-to-success-v6.pdf

14 http://www.delni.gov.uk/index/key-external-strategies/community-family-support-programme.htm

15 http://www.delni.gov.uk/index/finding-employment-finding-staff/collaboration-and-innovation-fund.htm

16 http://www.nidirect.gov.uk/pathways-for-young-people-education-maintenance-allowance

17 http://www.nidirect.gov.uk/yes

18 http://www.dardni.gov.uk/going-for-growth.pdf

young people remain and succeed in education. There are 230,950 students in Scotland's universities (representing 850 more students than in 2006-07).

3.92 The Scottish Government has also retained the Education Maintenance Allowance (EMA) in Scotland to provide financial support to eligible 16-19 year olds from the lowest-income families to enable them to stay in education and learning beyond the school leaving age (16). In academic year 2012-13, £27.8 million of funding was provided to support 35,515 young people. 34% of all school pupils in Scotland received an EMA payment, with 25.6% of all EMA recipients living in Scotland's most deprived areas.

3.93 The Opportunities For All programme provides a guaranteed offer of a place in education or training for all 16-19 year olds not already in work, education or training. In 2011-12, 89.5% of participants sustained positive destinations (i.e. they were participating in learning, training or work) 9 months after leaving school compared with 87.2% in 2010-11. Sustained positive destinations have continued to rise year on year to the current proportion from 84% in 2007-08.

3.94 The Scottish Government's Modern Apprenticeship (MA) programme is designed to be responsive to employers' needs. There were 25,691 new MA starts in 2012-13, which exceeded the Scottish Government's target for provision of 25,000 MAs per year. This represents an increase in the number of MA new starts by 52% since 2006-07 (16,913). Employers are highly satisfied, with 96% saying that MA participants are better able to do their jobs after they completed the MA programme.

3.95 Almost £90 million is being invested in helping Scotland's young people into work and supporting small business growth. This investment package, launched in June 2012 and comprising the £50 million Youth Employment Scotland Fund and the £37.85 million SME Growth Programme, is funded through a combination of Scottish Government, local authority and European funding. It is expected to support up to 10,000 young people Scotland-wide into work, particularly in small businesses. An additional 3,000 jobs are expected to be created in small businesses around the country for workers of all ages.

Box 3.B: Stakeholder focus: The Business Gateway Plus

Scotland's Business Gateway Plus programme is designed as part the SME Growth Programme to help small and medium sized businesses to recruit staff. The programme was set up in 2013, and support through the programme is worth £12.2 million, with funding being provided by Scottish local authorities and ERDF (under the 2007-13 programme).

The programme is being used to enhance the delivery of a range of support activities provided by the Business Gateway service to small businesses across Scotland. It has been developed to support growth and help create employment in small, particularly, micro businesses.

The Business Gateway Plus projects include:

- human resources support to assist with job creation
- provide support for early stage growth
- advisory support/expert help for SMEs

Over the life of the programme it is anticipated that these services will engage over 800 companies in entrepreneurial support, increase the turnover of those companies supported by over £86 million, provide e-commerce support for over 1,400 businesses and help create 1,400 jobs.

Wales

3.96 The Welsh Government's Programme for Government sets out some key measures to prevent young people from disengaging from learning and help support them with entry to the labour market.

3.97 The Jobs Growth Wales Programme, launched in April 2012, gives unemployed young people aged 16-24 job opportunities. It provides valuable work experience highly valued by employers, for a 6 month period, with the intention that the job is sustainable after the 6 months. This is paid at, or above, the National Minimum Wage for a minimum of 25 hours per week. The programme aims to create 16,000 jobs over 4 years (it achieved its year 1 target, creating over 4,000 job opportunities for young people). As at January 2014, over 8,000 job opportunities had been filled.

Box 3.C: Stakeholder focus: Jobs Growth Wales

Jobs Growth Wales is a Welsh Government initiative designed to tackle youth unemployment in Wales. Part funded by the European Social Fund, it is addressing a key barrier that young people face in their search for work, namely, how they can secure the relevant work experience employers require when they are recruiting.

Jobs Growth Wales caters for young people that are ready to work but have had difficulty securing employment. The Programme provides unemployed young people aged 16-24, with a job opportunity for a 6 month period paid at national minimum wage or above for a minimum of 25 hours per week. The jobs created are additional and not replacements for positions that would otherwise be filled. The aim is that all of the job opportunities will be sustained by the host employer after the six months has been completed.

Since its launch in April 2012, Jobs Growth Wales has created 11,059 placement opportunities with 8,693 young people filling these jobs. At the end of their 6 month job placement, 80% of young people in the private sector strand of the programme progressed into employment, an apprenticeship or further learning.

An example of the results that Jobs Growth Wales has achieved is demonstrated by Newport based Bisley UK, a supplier of office furniture. The company used Jobs Growth Wales to recruit five employees who, at the end of the 6 month period, were all retained on apprenticeships with the company. As a result, the recruits have been able to develop the essential knowledge, skills and experience for future employment whilst simultaneously helping Bisley UK to grow.

3.98 The Traineeships Programme (for 16-18 year olds), which commenced in August 2011, supports young people to gain sustained employment by helping them with their confidence and motivation, and looks to address barriers to learning – all of which may prevent a young person moving into employment or learning at a higher level. The programme seeks to improve skills levels in their chosen occupational area. In its first year of operation 63% of leavers from the Traineeship programme had a positive progression (i.e. to employment or learning at a higher level).

3.99 The employability programme, Work Ready, aimed at adults aged 18 and above, is a newly established programme to replace the Steps-to-Employment adult programme and aims to support the development of adults, by building confidence, improving employment skills and offering valuable work experience with a view to the individual entering sustained employment. The latest data (2011-12) for the Work-Ready predecessor programme (Steps-to-Employment) showed that 50% of learners leaving the programme had a positive progression (i.e. to employment, including self employment or voluntary work, or learning at a higher level).

Low-income households, child poverty and childcare

Recommendation 4

Enhance efforts to support low-income households and reduce child poverty by ensuring that the Universal Credit and other welfare reforms deliver a fair tax-benefit system with clearer work incentives and support services. Accelerate the implementation of planned measures to reduce the costs of childcare and improve its quality and availability.

3.100 The government is clear that the root cause of families or households being in poverty is worklessness or low earnings. As part of its long-term plan to build a stronger, more competitive economy and a fairer society, the government's approach is to tackle these causes by:

- raising incomes by helping people get into work and making work pay
- supporting the living standards of low-income families
- raising the educational outcomes of poorer children

3.101 Some aspects of employment and labour market policy as they relate to the welfare and social security systems remain reserved responsibilities of the UK Government. However, most policy relating to economic development, with the obvious link to employment and skills policies, is a devolved responsibility. Details of the policies being implemented by the Northern Ireland Executive, Scottish Government and Welsh Government are included in this section.

Jobless households

3.102 The Working and Workless Households 2013 Statistical Bulletin recorded that the number of households where all adults were out of work has decreased to 17.1% of households. This is down 0.8 percentage points from the year before, and the third consecutive annual fall. The proportion of households in which no adult has ever worked is also down on the year to 1.5% (or 1.1% of households if one excludes student households).

3.103 Worklessness in one parent households with dependent children continues to fall from some 52% of lone parent households in 1996 to 36.3% in 2013. 4.8% of households consisting of couples with dependent children were workless. More than 60% of lone parents with dependent children were in employment. Overall, there has been a general decline in the number and percentage of children living in workless households since 1996. A total of 1.59 million children live in workless households, a fall of some 160,000 on the year.

3.104 Of all households with dependent children, 12.2% were workless compared with 20.2% of households without dependent children. For women in a couple, the employment rate for those with dependent children was higher than for those without: 72.2% compared with 65.7%. Similarly, a greater percentage of people with dependent children were employed than those without: 78.4% compared with 68.0%, in part reflecting age differences and retirement.

Universal Credit and reforms

3.105 The introduction of Universal Credit is a major part of the government's strategy to help families and households increase their incomes through work.

3.106 Universal Credit provides a new single system of means-tested support for working-age people who are in or out of work. It aims to make work pay and provide an effective route out of poverty, reducing the number of workless households by cutting the financial and administrative barriers to work that exist in the current system of benefits and tax credits.

3.107 Universal Credit was successfully launched in four sites in the North-West of England in spring 2013, and progressive national expansion started in the autumn. The full transition from the current system of benefits and tax credits to Universal Credit will be gradual and carefully managed. The next stage will be taking claims from couples in summer 2014. The current planning assumption is that over the next two years Universal Credit will expand in scope and scale. During 2016 all new benefit claims will be for Universal Credit instead of for those benefits it replaces such as Jobseeker's Allowance or Housing Benefit. The vast majority of remaining claimants will then move onto Universal Credit during 2016 and 2017. Final decisions on these elements of the programme will be informed by the ongoing development and evolution of the IT systems.

3.108 Universal Credit will also bring about a cultural transformation with improved access to digital services across the public employment service – Jobcentre Plus – and ensuring that jobseekers become used to online transactions. At the same time, the other components, such as the Claimant Commitment, and enhanced jobsearch support are being implemented progressively across the country.

3.109 It is anticipated that the equivalent of up to 300,000 more people are likely to be in work as a result of Universal Credit, through improved financial incentives, increased conditionality and the simplicity of the system. Moreover Universal Credit will give those already in work support and the incentive to look to increase their income, as people will be able to keep a higher proportion of their earnings than under the current system. It is expected that claimants already in work will increase the total number of hours worked by between 0.5 and 2.5 million hours a week.

3.110 Universal Credit includes help with childcare costs through which working families can claim 70% of childcare costs, representing an investment of an extra £200 million in childcare support. This means that, for the first time, those working less than 16 hours a week are eligible to receive childcare support. Taken together these measures are expected to help 100,000 additional families. From 2016, childcare support will increase within Universal Credit to provide up to 85% of childcare costs for all families on Universal Credit. Further details will be set out at Autumn Statement 2014.

3.111 The Social Justice strategy, published March 2012, aims to tackle the root causes of disadvantage and the pathways to poverty including worklessness. An Outcomes Framework was published in October 2012. This set out what the government wants to achieve and how it will measure success. The indicators have been designed to help the Social Justice Committee within government to shape future policy by highlighting priorities, identifying good progress and outlining where more work is needed e.g. by aiming to reduce the proportion of claimants who have received working-age benefits for at least 3 out of the past 4 years, when they are capable of work or work-related activity. On 24 April 2013, the Government published Social Justice: Transforming Lives One Year On,[19] a progress report that highlights the progress made since the publication of the Strategy.

Child poverty

3.112 The government is committed to its goal of ending child poverty in the UK by 2020, and is determined to tackle the root causes of poverty.

[19] https://www.gov.uk/government/publications/social-justice-transforming-lives-one-year-on

3.113 In response to the first annual report from the Social Mobility and Child Poverty Commission (SMCP), a public body established by government, the government launched on 27 February 2014 a public consultation on its draft Child Poverty Strategy for 2014-17. This sets out how the Government intends to improve the life chances of children by:

- raising the incomes of families by helping them get into work and making work pay
- supporting the living standards of low-income families
- raising educational outcomes for poor children

3.114 The consultation on the draft strategy will run until 22 May 2014. The government will publish the final strategy once responses have been considered.

3.115 Alongside its strategy, the government published an in-depth evidence review that identifies what leads families to be in poverty and what leads poor children to become poor adults (children are three times as likely to be in poverty if they are in a workless family).

3.116 There are signs of good progress in tackling the root causes of child poverty. Employment has increased by 1.3 million since the beginning of the decade, unemployment is falling – down by some 160,000 in the past year – and the number of children under 16 in workless households has fallen to its lowest recorded level.

Childcare services

3.117 The government is clear that for some families assistance with childcare is essential to help them out of worklessness and to allow them to progress once in work. A range of government help is available with the costs of formal childcare, including the following:

- The childcare element of the Working Tax Credit gives low to middle income parents help towards covering the cost of up to 70% of formal childcare. The government spends around £2 billion per year on childcare support in the tax credit system and the relevant income allowances in Housing Benefit and Council Tax Benefit.
- New help with the costs of childcare will be given to parents through a Tax-Free Childcare scheme available to around 1.9 million families from autumn 2015. The scheme will be available to working families with children under the age of 12 years (up to age 16 for children with disabilities) where both parents are in work and each earn less than £150,000 a year (and where parents do not already receive support through tax credits or universal credit). For every £0.80 eligible families pay in, the government will contribute £0.20, in respect of total childcare costs up to £10,000 a year per child. This will give support of up to £2,000 per child per year.
- The government proposes to increase the support available to lower income families, as part of Universal Credit so that up to 85% of childcare costs is provided for households qualifying for the Universal Credit childcare element.[20] Further details will be set out at Autumn Statement 2014.
- From September 2013, all looked-after 2-year-olds and 2-year-olds from families who meet the criteria for free school meals are entitled to 15 hours a week of early education. This entitlement was extended to around 130,000 2-year-olds in England from September 2013. In October 2013 it was estimated that around 92,000 2-year-olds were already accessing a place. Detailed take-up statistics will be

[20] See also under the "Universal Credit and reforms" section

available for the first time in summer 2014. The entitlement will be extended from September 2014 to reach around 260,000 2-year-old children in England, including those from low income working families, those who are adopted, or those who have a special educational needs or disabilities.

Devolved Administrations

Northern Ireland

3.118 The Programme for Government 2011-15[21] seeks to ensure that at least one year of pre-school education is available for every family that wants it. Over £56 million is currently invested annually in the pre-school education programme.[22] This is targeted at children in their final pre-school year and the settings follow pre-school curricular guidance and are inspected by the Education and Training Inspectorate.

- Pre-school providers are required by law to prioritise children from socially disadvantaged circumstances during the pre-school admissions process.
- Currently around 92% of parents who are eligible to apply for a funded place choose to do so. In terms of admissions for the 2013-14 school year, 99.8% of children whose parents engaged fully with the process were offered a funded pre-school place.

3.119 The Department for Employment and Learning and the Department for Enterprise Trade and Investment have been tasked by the Programme for Government 2011-15 to develop and implement a new strategy to address economic inactivity in Northern Ireland through skills development and job creation. Measures taken forward under the strategy will focus on re-engaging those currently facing barriers to employment, and identifying preventative measures to prevent at-risk individuals from disengaging from work. A draft Strategic Framework[23] was agreed by the Executive in December 2013 and a public consultation exercise[24] was launched in January 2014. Following consultation, the measures agreed in the Strategy will be implemented in late 2014 or early 2015. The goal of the final strategy is to contribute towards a stable and competitive employment rate of over 70% by 2023 through a reduction in the proportion of the working age population classified as economically inactive.

Scotland

3.120 At the heart of the Scottish Government's GES (Government's Economic Strategy) is the objective of ensuring that shared and sustainable growth provides the most disadvantaged areas and people in society with the opportunity to prosper.

3.121 In March 2014 the Scottish Government published a revision of the Child Poverty Strategy[25] for Scotland. It confirms Ministers' approach to tackling child poverty by seeking 3 key outcomes: maximising household resources, improving children's life chances and developing well designed, sustainable places. It sets out a series of intermediate outcomes that contribute to these overall indicators, as part of an outcomes framework.

3.122 In September 2012, Scottish Ministers launched Working for Growth – a refreshed employability strategy for Scotland, which builds on the principles of the previous framework published in 2006. Working for Growth emphasises that employability policy and investment

[21] http://www.northernireland.gov.uk/pfg-2011-2015-final-report.pdf
[22] http://www.nidirect.gov.uk/funded-pre-school-education
[23] http://www.delni.gov.uk/economic-inactivity-strategic-framework.pdf
[24] http://www.delni.gov.uk/economic-inactivity-strategy-consultation.pdf
[25] http://www.scotland.gov.uk/Publications/2014/03/5304

across Scotland should have the twin purpose of supporting economic recovery and ensuring that those who struggle most in the labour market are not left behind in the competition for jobs. Since its launch, a new governance structure for employability in Scotland has been implemented, and a newly constituted Scottish Employability Forum (SEF), chaired jointly at a senior political level by Scottish, UK and local Governments has agreed a series of priorities for action. Research to develop recommendations on two of these priorities (considering how employability resources are allocated and improved performance measurement) is underway and will be completed by June 2014.

3.123 The Children and Young People (Scotland) Act received Royal Assent on 27 March 2014. This will deliver a range of measures, including increased and more flexible early learning and childcare of 600 hours per annum for 3 and 4 year olds, and for around 15% of the most vulnerable 2 year olds from August 2014 (this includes those who are looked after; under a kinship care order; have a parent appointed guardian; or, are from workless or job seeking households). These measures will be further expanded to 27% of 2 year olds based on free school meal eligibility, from August 2015.

3.124 Getting it right for every child (GIRFEC)[26] is a national programme that aims to improve outcomes for all children and young people in Scotland. It puts the child at the heart of the decision making process and is rooted in supporting and improving the well-being of the child as measured by various indicators (being: safe, healthy, active, nurtured, achieving, respected, responsible, included). The programme principle is to work in partnership with the child and parents and families, promoting early intervention (before issues escalate). Key aspects of GIRFEC, such as the identification of a Named Person for every child to act as point of contact for families if they need advice and support, or for anyone with concerns about the child's wellbeing, have been embedded in legislation through the Children and Young People (Scotland) Act.

3.125 Improving the early years' experience in Scotland is key to address some of the most entrenched problems in terms of poverty, poor health, poor attainment and antisocial behaviour. The Early Years Collaborative (EYC) was launched in October 2012 and supports the delivery of evidence based approaches. The objective of the EYC is to accelerate the conversion of the high level principles set out in the GIRFEC programme and the Early Years Framework into practical action. All Community Planning Partnerships from across Scotland have been engaged in the EYC. There are 40 pioneer sites leading improvement work on key changes such as early support for pregnancy and beyond, a child health review for every 27-30 month year old, and developing parents' skills.

Wales

3.126 Affordable, accessible quality childcare is prioritised in **Building a Brighter Future**, the Welsh Government's Early Years and Childcare Plan published in July 2013.

3.127 The Welsh Government is currently working with sector stakeholders to develop policies and activities to support the childcare sector. The Out of School Childcare Grant[27] supports local authorities in providing 'wrap-around' childcare out of school hours and in school holidays.

3.128 In relation to the workforce the Welsh Government is developing an Early Years, Childcare and Play 10 Year Workforce Plan. This has the three high level themes of: raising skills and standards across the existing workforce; attracting high quality new applicants; and further

[26] http://www.scotland.gov.uk/Topics/People/Young-People/gettingitright

[27] 16 January 2012 Deputy Minister for Children and Social Services Decision
http://wales.gov.uk/publications/accessinfo/drnewhomepage/dr2012/janmar/cyp/5741165/?lang=en

development of leadership within the sector. This will continue to raise the quality of the workforce to bring about better outcomes for children in Wales.

3.129 Free, high quality, part-time childcare for 2 to 3 year olds is also provided through Flying Start. The programme delivers support for families with children under 4 years of age, in some of the most disadvantaged areas of Wales. It also encompasses parenting support, an enhanced health visitor service and help for early language development. Flying Start has a key role to play in tackling poverty and is beginning to have a real, positive impact on children. The Welsh Government aims to double the number of children, and their families, benefiting from Flying Start, from 18,000 to 36,000 by 2016.

3.130 A refresh of the **Tackling Poverty Action Plan**[28] was published in July 2013. The Action Plan sets out key milestones and targets that support the delivery of better outcomes for families living in poverty. The plan includes actions to help improve the educational attainment of children from low income families, actions to reduce the number of workless households, a new target to reduce the number of young people who are not earning or learning, and ambitions to improve people's health. The Welsh Government is monitoring progress against the targets and milestones set out in the Tackling Poverty Action Plan, and will publish a progress report in summer 2014.

[28] http://wales.gov.uk/topics/people-and-communities/tacklingpoverty/publications/taking-forward-tack-pov-plan/?lang=en

Access to finance

Recommendation 5

Take further steps to improve the availability of bank and non-bank financing to the corporate sector, while ensuring that the measures primarily target viable companies, especially SMEs. Reduce barriers to entry in the banking sector, lower switching costs and facilitate the emergence of challenger banks through a divestiture of banking assets. Effectively implement the Financial Policy Committee's recommendations on prudent assessment of bank capital requirements and on addressing identified capital shortfalls.

3.131 The government remains committed to making the UK one of the best places in Europe to start, finance and grow a business. Encouraging further private investment in business finance, particularly for SMEs and high growth businesses, is central to the delivery of a sustainable and balanced economic recovery. To support this commitment and build on previous achievements, the government continues to take action on access to finance across a number of policy areas, including:

- access to bank and non-bank finance
- competition in the banking sector
- implementation of Financial Policy Committee recommendations

3.132 Access to finance is a reserved power to Parliament under the devolution settlements. However, the Devolved Administrations promote access to finance under the banner of economic development. Details of policies being implemented in Northern Ireland, Scotland and Wales are included in this section.

Access to finance

3.133 The **British Business Bank** is being established as a state-backed economic development bank to ensure that finance markets for small and medium sized businesses work effectively, allowing those businesses to prosper, grow and expand UK economic activity. Programmes are being delivered through private sector partners, working with the market, rather than replacing it, in order to generate longer term impacts.

3.134 British Business Bank programmes are already making a major impact. A total of £660 million reached SMEs in 2013, an increase of 73% on 2012. 25,000 businesses were benefitting from British Business Bank programmes at the end of 2013. Over the next 5 years, the Bank aims to unlock up to £10 billion of financing for viable smaller businesses. The programmes also play a significant role in developing a more diverse and competitive landscape in business finance markets by supporting a range of new and emerging alternative finance provider models.

3.135 British Business Bank programmes include a number of initiatives across start up, venture capital finance and lending, such as:

- **Enterprise Capital Funds**: commercially focused funds that bring together private and public money to make equity investments in high growth businesses. 15 Enterprise Capital Funds have been established since the launch of the programme. The scheme has facilitated £210 million of investment in SMEs since its inception.
- **Investment Programme**: makes commercial investments into providers of debt finance, including via alternative lending channels, which stimulates at least the

same amount of investment from the private sector. The programme addresses long-standing gaps in the finance market for smaller business, promoting greater choice in their supply of lending. The Programme has awarded £85 million to alternative finance providers since its launch in April 2013; this will unlock up to a further £525 million of finance to smaller businesses, including the private sector co-investment.

- Enterprise Finance Guarantee (EFG): encourages lending institutions, including banks, to lend to viable smaller businesses that would otherwise be declined for lacking adequate security. The EFG supported £90.6 million of lending in the fourth quarter of 2013; total lending had increased by 17% for 2013 compared to 2012.

Box 3.D: Stakeholder focus: The Start Up Loans Company

The Start Up Loans programme is a government funded initiative that forms part of the British Business Bank portfolio, providing start up support in the form of a repayable loan together with a business mentor for entrepreneurs across the UK. The programme, founded by Lord Young and chaired by businessman James Caan, was designed to help solve the problem of supporting entrepreneurs who have a feasible business idea but no access to finance.

The Start Up Loans Company is a public company limited by guarantees, and operates through a network of Delivery Partners across the country (many of which are Community Development Financial Institutions), who support entrepreneurs in all industries and sectors. They also receive support from Corporate Partners, who offer business benefits to the entrepreneurs involved.

Over 11,000 businesses have benefited from the Start-Up Loans programme; £17.4 million of start-up loans were supported in the fourth quarter of 2013 alone. As of February 2014, when the scheme was extended to Scotland, start-up loans are now available across the whole of the UK.

Export finance

3.136 Budget 2014 announced that UK Export Finance's direct lending facility (DLF) will be doubled to £3 billion and the interest rate charged will be lowered to the Commercial Interest Reference Rate (CIRR): the lowest level allowed by international agreements and EU State Aid rules. Some lending constraints on the scheme will also be removed, such as minimum and maximum loan sizes, and it will be delivered in partnership with banks. These reforms will make it easier for businesses to access the UK Export Finance's direct lending facility.

Improving transparency

3.137 The UK's major high street banks have agreed to put in place an Independent Appeals Process, which allows any business with a turnover of up to £25 million, which is declined any form of lending, to appeal that decision to the participating bank concerned. Results show that in the two years that the Appeals Process has been running, 40% of appeals have resulted in a lending agreement which both parties were satisfied with. The banks have put forward further proposals to raise awareness of the Independent Appeals Process, which will be assessed by the independent reviewer of the Appeals Process.

3.138 At the Autumn Statement 2013, the government announced that it would consult on proposals to require banks to share more information on their SME customers with other lenders through Credit Reference Agencies. The problem of a lack of available credit data has been highlighted as a potential barrier to competition in the SME banking market and SME lending in particular by a range of informed comment. The proposals are intended to improve the ability of banks that do not offer business current accounts (challenger banks) and alternative finance providers to conduct accurate SME credit scoring and, by levelling the playing field between providers, make it easier for SMEs to seek a loan from a lender other than their bank.

3.139 The government is also requiring the major banks to publish the level of lending in the UK across nearly 10,000 postcodes. This data makes the British banking industry the most transparent in the world, will promote greater competition, and will enable smaller lenders – both banks and non-banks – to see where there is unmet demand and pursue new business in these areas.

Funding for Lending

3.140 Funding for Lending Scheme 1 (FLS1) was launched in August 2012 to make loans cheaper and more easily available, and therefore boost lending to the real economy. The scheme has been successful; since the FLS was introduced, bank funding costs have fallen to historic lows. Data released on 3 March 2014 shows considerable improvement in the volume of net lending; FLS participants have increased their net lending by £10.3 billion since the scheme was launched.

3.141 The scheme extension (FLS2) was announced in April 2013 to strengthen banks' incentives to lend to SMEs. This extended the scheme to January 2015, and in November 2013, the Bank of England and HM Treasury refocused FLS on supporting SMEs. 34 banks and building societies signed up to FLS2, of which 28 will receive Initial Allowances totalling £32.7 billion. Of these, more than £17 billion are associated with positive SME lending. Overall, there has been a clear turnaround in SME lending in 2013; gross lending to SMEs was 13% higher in 2013 than in 2012.

Competition in the banking sector

3.142 The government requested in 2012 that the former financial services regulator, the Financial Services Authority (FSA) review regulatory barriers to entry and expansion in the banking sector. The FSA published the report on this work in March 2013, which detailed significant improvements to make it easier for new banks to entry the market. These changes have been implemented by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). They include significantly lowering capital and liquidity requirements for new banks, and an improved authorisation process. The FCA and PRA have committed to publish a follow-up review of this work in spring 2014, which will include details of how they intend to treat 'off-the-shelf' banking solutions which have the potential to lower barriers to entry.

3.143 Through the Financial Services (Banking Reform) Act 2013, the government has legislated to create a new and independent Payments Systems Regulator (PSR). The new regulator will assume its powers in 2014, becoming fully operational by spring 2015, and will ensure fair and transparent access to payments systems, including for new and smaller banks. Budget 2014 confirmed that strong competition powers for the PSR will be switched on a year early in April 2014, enabling it to undertake a market study over issues relating to ownership of the payment systems by the big banks sooner should it wish to.

3.144 The government has given the financial regulators strong statutory responsibilities regarding competition. The FCA has a primary objective to promote effective competition, and the Financial Services (Banking Reform) Act 2013 has provided it with strong competition powers to be exercised concurrently with the competition authorities. The PRA also has a secondary objective to facilitate competition alongside its primary responsibility regarding financial stability.

3.145 A new Current Account Switching Service (CASS) launched in the UK in September 2013. The service covers nearly 100% of the personal current account market, and allows customers to transfer their account to a new provider within 7 working days. The service is free to use, has a guarantee to protect consumers against financial loss, and redirects any payments mistakenly made to the old account for 13 months. In the fourth quarter of 2013 – the first quarter of the service being operational – switching levels increased by 17% on the same period in the previous year. The FCA is due to conduct a review of the CASS in September 2014.

3.146 The government will also legislate this year to facilitate cheque imaging, allowing people to pay in cheques by mobile phone.

Challenger banks

3.147 The government is making progress in facilitating the emergence of challenger banks through divestments from the state owned banks. The TSB brand has been separated from Lloyds Banking Group and was re-launched with 631 UK branches in September 2013, with an IPO planned for the middle of 2014. The exercise of separating Williams & Glyn from RBS, creating a standalone challenger bank with a national network of 314 branches, is already well underway.

Financial Policy Committee recommendations

3.148 In March 2013, the Financial Policy Committee (FPC) recommended to the Prudential Regulation Authority (PRA) that the major UK banks should meet a 7% core equity tier 1 capital ratio[29] by end 2013, once capital positions had been adjusted to reflect a bank by bank assessment by the PRA of:

- expected future losses on existing loans
- future conduct costs
- the impact of a more prudent calculation of risk weights

3.149 The FPC recommended that the PRA should ensure that major UK banks and building societies meet these higher capital requirements by issuing new capital or restructuring balance sheets in a way that does not hinder lending to the economy.

3.150 UK banks have made substantial progress in implementing plans agreed with the PRA to reduce capital shortfalls identified in work following an FPC recommendation in March 2013. At the time of the November 2013 Financial Stability Report (FSR), banks had filled around three quarters of the shortfall identified in the exercise and work was continuing to address remaining requirements.

3.151 This has coincided with improved market confidence in bank resilience, as reflected in falls in the cost of Credit Default Swap (CDS) protection. UK banks have also substantially reduced reliance on wholesale funding compared with before the financial crisis.

Devolved Administrations

Northern Ireland

3.152 The Northern Ireland Executive is taking steps to ensure the availability of financing to SMEs.

[29] on a Basel 3 basis

3.153 An Access to Finance Implementation Panel, recommended by the Economic Advisory Group (EAG), was established in October 2013. The Panel is working closely with banks and business organisations to implement the recommendations outlined in the EAG's **Review of Access to Finance for NI Businesses**[30] report to help improve the finance environment for SME businesses.

3.154 Invest Northern Ireland has put in place a £140 million Access to Finance Initiative[31] to ensure that companies with high growth potential are not held back because they cannot access finance. Through the suite of funds Invest NI is able to offer a continuum of funding for businesses seeking between £1,000 and £2 million. The Access to Finance initiative consists of 6 separate funds totalling more than £140 million. This suite of support will ensure that SMEs on the full spectrum of the development cycle have access to financial support through a range of equity investment and debt financed models. All 6 of the funds are live and operating in the market. The final additions to complete the funding continuum were two Development Funds which operate in the space of £450,000 to £2 million deal sizes. The Funds have gained good traction in the market place and including private leverage have invested circa £30 million in SMEs.

Box 3.E: Stakeholder focus: PathXL

PathXL is an early stage company with a focused management team and strong technology in cancer detection using digital pathology – an emerging growth market. To fund its specialised product development and international go-to-market activities, PathXL attracted external funding support from a number of sources in several investment rounds. External funders, primarily venture capitalists, also brought specialist advice and market connections.

In 2008, a venture capital fund (Crescent Capital) led the first funding round, which enabled the building of a base product and management team platform for the company. In 2012, plans were developed to build and launch an entirely new product suite, which automatically identifies and annotates cancer tumours from digital pathology images (this is the first such application in the world in a commercial setting). This funding round was led by Par Equity, based in Edinburgh, and its involvement significantly widened the range of connections and experience available to the Board and executive team. The Par Equity investment was able to access the NI co-investment fund, which invests alongside sophisticated investors on an equal footing basis.

For PathXL, early stage funding supported the initial company development, and a significant number of high profile UK clients were then secured. Subsequent rounds have enabled recruitment of more experienced commercial leadership into the company; with business traction into Europe, USA and internationally. The story of PathXL shows how venture capital investment can bring funding, experience and expertise to an early stage business.

[30] http://www.eagni.com/fs/doc/publications/eag-review-of-access-to-finance-for-ni-businesses-final-report.PDF

[31] http://www.boostingbusinessni.com/jobs/access-to-finance/

Box 3.F: Stakeholder focus: GoReport

GoReport is an innovative onsite reporting software for field based professionals who carry out any type of report writing, inspection reports or assessment on a regular basis. With their Cloud based iPad and Web App, GoReport enables the site professionals to capture data on site and generate professionally formatted reports.

GoReport was founded by an experienced multi-sector engineer, and the company was incorporated in 2011. The founder used his own personal funds to carryout extensive market research around his business concept. The company then received a £10,000 Northern Ireland Spin Out (NISPO) Proof of Concept grant which helped fund development of a prototype. The company thus successfully completed beta testing of the prototype.

Later, the company participated in the NISPO Accelerator programme – an initiative that provided selected companies to pitch to the NISPO Invest Growth Fund (IGF) for seed stage funding. Following this, the company went on to receive £70,000 investment from the IGF which was matched by £30,000 from a local Northern Irish private investor. The investment enabled the company to bring the innovative solution to the market (in January 2013 the product was fully launched) and the company is now revenue generating.

Scotland

3.155 Access to finance remains a challenge for some viable SMEs across Scotland, especially businesses with growth ambitions or exporting. The Scottish Government remains committed to encouraging lenders to increase the supply of affordable finance to support the financing needs of viable Scottish businesses with good prospects.

3.156 The latest figures released by the British Bankers Association (BBA) in December 2013 showed that the total value of bank lending to SMEs in Scotland at end-June 2013 was £7.7 billion. The data published by the BBA also showed that, as at the end of June 2013, 8% of total lending to SMEs in Great Britain by the 6 major UK banks was to Scottish businesses.

3.157 The Scottish Government published its banking strategy, **Sustainable, Responsible Banking; a Strategy for Scotland**[32] in May 2013. This sets out the Scottish Government's view that greater diversity in the Scottish banking market will help to achieve a more responsible, sustainable and competitive banking service that offers genuine choice to personal and business customers.

3.158 The Scottish Government is already working directly with existing banks to improve the supply of finance. Advisory support is being made available through Scotland's Enterprise Agencies (Scottish Enterprise and Highlands and Island Enterprise) and Business Gateway, to help companies improve their chances of securing funding. Within this, Scottish Enterprise have aimed to help between 350 and 400 companies secure growth finance by improving their financial readiness in 2013-14. The Scottish Business Portal also now includes an advisory Finance Hub in order to assist companies with their financial preparedness.

3.159 Another initiative has been the establishment of the Scottish Investment Bank (SIB) which delivers risk capital and debt finance support to new innovative technology based companies and growth and exporting SMEs. It works with the wider investment community, in particular Business Angel syndicates. As a result of this combined support, Scotland has the most active angel investment environment not only within the UK, but across Europe. In 2012-13 the SIB

[32] http://www.scotland.gov.uk/Publications/2013/05/3325

invested £32.3 million in 106 companies, attracting additional investment of £60.4 million from private sector. The Scottish Loan Fund, administered by the SIB, aims to provide loan finance to growth and export-oriented companies. By March 2014, the fund, valued at £113 million, had distributed £26.7 million to 15 companies.

Wales

3.160 Finance Wales plc, a Welsh Government subsidiary, provides debt and equity funding to Welsh businesses with robust business plans and often leverages additional money into those businesses by partnering in investments with the private sector. Finance Wales offers 5 main programmes (the statistics quoted are for the period up to 31 December 2013):

- The £150 million Wales Joint European Resources for Micro to Medium Enterprises (JEREMIE) Fund, part funded by the EU. Finance Wales has invested £120 million in more than 500 businesses and it is proving to be the best performing fund of its type in the UK.
- The £40 million Wales SME Investment Fund, which caters for large and strategically important sections of the SME market that are not eligible for support under JEREMIE. This fund has invested £9.7 million in 38 businesses.
- The up to £100 million Life Sciences Fund specifically targets high growth potential businesses in the sector in Wales. The fund made its first investment in May 2013.
- The £6 million Micro Business Loan Fund supporting the growth of micro businesses, set up in direct response to the report of the Welsh Government's Micro-Business Task and Finish Group. This fund has invested £1.46 million in 73 businesses.
- The Wales Property Development Fund, which became fully operational in September 2013. It has been created in response to strong demand from small and medium-sized construction companies, which are unable to access finance from traditional sources. This fund has invested £530,000 in 2 businesses.

3.161 During 2013-14, alongside these Finance Wales Funds, the Welsh Government offered up to 13 business funding programmes to Welsh businesses. This ranged from Business Finance (main programme to help fund projects delivering job creation) through support for Innovation, to specific sector funding programmes such as the Digital Development Fund, and the 2013 round of the Wales Economic Growth Fund,[33] a non-repayable grant fund worth £30 million.

[33] The Wales Economic Growth Fund was set up to encourage business and social enterprise, by supporting projects that will stimulate economic growth and create and/or safeguard employment, and business to develop and bring forward projects, which will have an economic impact and benefit for Wales. The first phase for 2013 saw 124 offers of support made to businesses, worth £9.36 million.

Network Infrastructure and new energy capacity investment

Recommendation 6

Take measures to facilitate a timely increase in network infrastructure investment, especially by promoting more efficient and robust planning and decision-making processes. Provide a stable regulatory framework for investment in new energy capacity, including in renewable energy. Improve the capacity and quality of transport networks by providing greater predictability and certainty on planning and funding and by harnessing the most effective mix of public and private capital sources.

3.162 Since 2010, the UK has made significant progress in facilitating network infrastructure investment and efficient planning. The extensive infrastructure that the UK has built up over the last 150 years forms the backbone of the economy, and future improvements to its capacity and quality will be fundamental in facilitating future economic growth. In this context, the government is committed to providing certainty for investors, including via a stable regulatory framework.

3.163 Certain infrastructure investment powers are devolved to governments in Northern Ireland, Scotland and Wales. Each Administration has developed its own infrastructure plans which were discussed in the UK's National Reform Programme 2013 publication.[34] Each of the Devolved Administrations has differing levels of responsibility for infrastructure provision and regulations, with Northern Ireland having responsibility for most of its own infrastructure, and Scotland and Wales sharing responsibilities in some areas with the UK Government. Since 2010, investment decisions taken by the UK Government during the annual Budget and Autumn Statement processes have resulted in proportionate additional capital funding being allocated to the Devolved Administrations to invest in line with their own priorities.

3.164 To ensure that there is a stronger focus on the UK's long-term infrastructure priorities, and that private sector investment is facilitated over the longer term, Infrastructure UK (IUK) was established within HM Treasury in 2010. IUK is made up of a cadre of Commercial Specialists, recruited from industry, with the expertise to support the delivery of growth enhancing infrastructure projects. This cadre has played a central role in supporting the government's work on developing a new cross-cutting approach to the planning, prioritising and enabling of investment in infrastructure; as well as providing direct support to infrastructure projects where there is capital investment from the private sector.

3.165 In June 2013 the Government published **Investing in Britain's Future** which set out the United Kingdom's long term infrastructure ambitions. It also contained further commitments to invest in over £100 billion of capital in specific projects in the next Parliament and included a commitment to provide long-term funding settlements in key infrastructure sectors. Investing in Britain's Future complements the government's **National Infrastructure Plan** (NIP), the latest version of which was published in December 2013. The 2013 version of the NIP sets out the government's long-term plan to ensure that the government can deliver the investment required to meet Britain's infrastructure needs to 2020 and beyond.

[34] Europe 2020: UK National Reform Programme 2013, p.43-45

Box 3.G: Stakeholder focus: National Infrastructure Plan Strategic Engagement Forum

Launched in October 2012, the National Infrastructure Plan Strategic Engagement Forum (NIPSEF) is a collaboration between government and the Infrastructure Alliance, designed to ensure that industry experience and expertise from throughout the infrastructure community is fed directly into the heart of government. This engagement provides an avenue through which government can better understand and overcome barriers to the delivery of UK infrastructure, and drive forward the National Infrastructure Plan.

Co-chaired by the Chief Secretary to the Treasury, and Dr Nelson Ogunshakin OBE of the Association for Consultancy and Engineering, NIPSEF brings together insights and perspectives on infrastructure delivery from key stakeholder groups representing investors, the supply chain, asset-owners and the business community. Through 2014, NIPSEF will support the government in addressing issues including skills planning and further developing understanding of how UK infrastructure will be financed.

Dr Nelson Ogunshakin OBE, NIPSEF industry chair, has supported this action, saying "the National Infrastructure Plan is the government's most important strategic programme to deliver infrastructure, the core driver to UK economic growth. Delivering such an ambitious programme of infrastructure expansion on this scale means bringing government and industry together to successfully achieve this goal. This National Infrastructure Plan Strategic Engagement Forum places the expertise of industry at the heart of government to make that happen."

Facilitating Network Infrastructure Investment

3.166 The government has been undertaking a range of work to improve the delivery of infrastructure across the United Kingdom. This includes introducing new legislation to fix inefficiencies in the regulatory and planning systems, and improving the way that government departments engage with the private sector on important infrastructure projects.

3.167 The successful passing of the Growth and Infrastructure Act in April 2013 will stimulate economic growth and job creation by reducing the bureaucratic barriers that British businesses have to work through. The act clarifies a section of the Gas Act 1986 which was creating a regulatory barrier to the proposed £160 million Electricity Network Innovation Competition. It also gives developers of large scale business and commercial developments the option to fast-track major projects through the planning process, whilst retaining appropriate community consultation. The Act also introduced legislation that will speed up the rollout of high speed broadband to local homes and firms.

3.168 The Energy Act 2013 received Royal Assent on 18 December 2013. The Act placed the interim Office for Nuclear Regulation on a statutory footing as the body to regulate the safety and security of the next generation of British nuclear power plants. The Act also allows the Office of Gas and Electricity Markets to extend its licence regime to third-party intermediaries such as websites that facilitate the switching of energy providers.

3.169 In 2013 the government established a Major Infrastructure Tracking team within Infrastructure UK. This team will allow the government to monitor progress on all significant infrastructure projects, both in the public and private sectors, and use the detailed information it collects to take early action to address any obstacles to delivery that arise. Over time, the data that the Major Infrastructure Tracking team collect will be used to produce a range of performance metrics and benchmarking that will help identify future targets for investment.

3.170 The 2013 version of the National Reform Programme set out the details of the UK Guarantee Scheme[35] that has facilitated new private sector investment in infrastructure by sharing project risk through the use of sovereign-backed guarantees. In the government's Spending Round 2013, it was announced that private sector infrastructure constructers would be able to apply for Guarantees until December 2016; extending the scheme by an additional two years. The scheme has already been successful in facilitating the development of significant infrastructure projects such as the extension of the Northern Line of the London Underground (railway) to Battersea and a new bridge at the Mersey Gateway.

3.171 The UK Government's new Green Investment Bank has begun operating. With committed Government funding of £3.8 billion by April 2015, the Green Investment Bank is investing in innovative, environmentally-friendly areas for which there is currently a lack of sufficient support from private markets. Since starting operations, the bank has made 22 transactions totalling £734 million, which has leveraged £2.1 billion total funding from private infrastructure investors.

Providing a stable regulatory framework for investment in new energy capacity

3.172 The United Kingdom operates a liberalised energy market, in which decisions on investment in energy infrastructure are made and delivered by the private sector. The United Kingdom is currently seeing record levels of energy investment, with £20 billion of major generation projects achieving development consent between November 2012 and November 2013. However, without intervention, the market would be unlikely to deliver the further investment in electricity infrastructure on the scale required and within the time frame needed. The Government therefore took powers through the Energy Act 2013 to implement Electricity Market Reform (EMR), to incentivise up to £110 billion of further investment needed over the coming decade to replace the UK's ageing energy infrastructure with a more diverse and low-carbon energy mix. EMR introduces two key mechanisms to stimulate investment in new energy capital; the Capacity Market and Contracts for Difference.

3.173 The Capacity Market provides a steady retainer payment to capacity providers. It is anticipated that the gap between peak demand and the UK's generating capacity will have shrunk by the end of the decade as existing power stations are replaced with new generation sources that are more intermittent (e.g. wind) and less flexible (e.g. nuclear). The Capacity Market provides insurance against future blackouts by using retainer payments as an incentive to invest in new generating capacity.

3.174 Contracts for Difference (CfD)[36] are long-term, legally binding private-law contracts that encourage investment in low-carbon generation technologies such as renewables, nuclear and carbon capture and storage. The contracts provide greater certainty to generation plant owners about future revenues by protecting them from fluctuations in the wholesale electricity price. This in turn encourages investment in new electricity generation, as the certainty reduces risk and therefore helps lower the cost of capital.

Improving the capacity and quality of transport networks

3.175 The National Infrastructure Plan divides transport infrastructure into distinct sectors, reflecting the differing divisions of responsibility between government and the private sector. The strategic road network is managed by the Highways Agency, an Executive Agency of the Department for Transport. The rail network is managed by Network Rail, a company limited by guarantee and funded through a mixture of revenue and Government grants. Regional Rail

[35] Europe 2020: UK National Reform Programme 2013, p.41

[36] More details available in the Target 5 section of the document

Franchises manage the rolling stock. Aviation infrastructure is mainly owned by the private market and overseen by an industry regulator, the Civil Aviation Authority.

Roads

3.176 The government is committed to developing and maintaining a road network that will meet the needs of the British public and help drive economic growth. In particular the government is addressing road quality, increasing capacity and ensuring that the network provides critical connections to other transport infrastructure.

3.177 To achieve these aims, the Spending Round 2013 announced the largest programme of road investment since the 1970's, which means that by 2021 the government will have trebled its spending on enhancing the strategic road network compared to 2010. This extra spending includes £15.1 billion to redress previous under-investment, £12 billion on maintenance of existing strategic road infrastructure and a total of £900 million of capital investment to support the uptake of low emission vehicles. The government will also be exploiting innovative technologies that can increase the capacity of UK roads such as developing smart motorways which use variable speed limits, and signs that provide up to date information to drivers, to improve traffic flow.

3.178 Through this investment, the government will be able to build at least 52 major road projects by 2021, add over 750 lane miles of capacity to the busiest UK motorways and trunk roads, and resurface over 80% of the strategic road network.

3.179 Long-term uncertainty regarding whether particular road projects will be approved has had a detrimental impact on investment in roads infrastructure. To address this problem, the government has committed to transform the Highways Agency into a government-owned strategic highways company, providing it with greater day-to-day independence and commercial flexibility. These changes also include new legislation to provide funding certainty for committed upgrades through a new Roads Investment Strategy, similar to the system that already guarantees rail investments.

Rail

3.180 The privatised rail network in the United Kingdom is also receiving significant investment. Between 2014 and 2019 the government will be investing more than £16 billion in the existing rail network. When contributions from the train operating companies and borrowing is taken into account, the total spending envelope for 2014-19, set out by the Office of Rail Regulation, will reach £38 billion. This will allow Network Rail, the owner, operator and infrastructure manager of Britain's main railway network, to undertake all the necessary maintenance and network operations activity required, and make over £12 billion of enhancements to improve rail services. This investment will support the rail industry's programme and strategy of rolling out electrification, allowing the industry to meet forecast demand growth, support economic growth and secure better environmental outcomes.

3.181 The government is also directly funding a new high speed railway, High Speed Two (HS2), which will connect the capital with Birmingham (the UK's second largest city) by 2026. In 2013 the government announced plans for a second phase to the project which will extend the line to Leeds, Sheffield and Manchester (the UK's third, fifth and seventh largest cities respectively) by 2032; and a consultation on the exact route the line will take will begin in 2014. With the existing West Coast Line approaching its full capacity, High Speed Two is a key strategic investment for the national transport network over the medium to long term. It will provide 20% of the UK population with new connections and capacity on Britain's north-south rail lines and promote sustainable economic growth across the United Kingdom.

Aviation

3.182 The United Kingdom's main aviation objective is to ensure that the country remains one of the best connected in the world. The aviation sector is crucial to the economy and improving air links, in particular to emerging markets, is essential if the UK is to compete successfully for economic growth opportunities. The government's Aviation Policy Framework, published in March 2013, sets out the government's commitment to facilitating a privately owned competitive aviation market within a proportionate international and domestic regulatory framework, and to ensure that the regulatory framework is sufficiently stable to underpin long-term planning and investment.

3.183 Beyond 2020, the government recognises that there will be a capacity challenge at all of the largest airports in the South East of England. London Heathrow is already operating at full capacity, while London Gatwick is operating at 85% capacity. On 17 December 2013 the Airports Commission, an independent body chaired by Sir Howard Davies and made up of leading academics and aviation experts, published an interim report examining the scale and timing of any requirements for additional capacity to maintain the UK's position as Europe's most important aviation hub.

3.184 Following the Airports Commission's recommendation of an optimisation strategy, the government committed to taking forward a package of measures including; committing £50 million towards redevelopment of the railway station at Gatwick, and expanding airport-rail connectivity across London airports generally. The government has also been supporting regional airports as a catalyst for economic growth, with recent developments including an extension to the runway at Birmingham International Airport and the building of improved road connections to Manchester Airport.

Devolved Administrations

Northern Ireland

3.185 The Northern Ireland Executive has recognised the importance of improving the capacity and quality of Northern Ireland's transport network through a number of long term measures. During the current budget period a balanced programme of improvements on the strategic road network continues to be progressed; including the A5, A8, A2 and A26 dual carriageway projects. These schemes will provide improved access across the region and better connectivity to gateways. The Programme for Government (PfG)[37] commits the Executive to investing over £500 million to promote sustainable modes of travel by March 2015, including on projects such as accessible transport schemes and the Belfast on the Move initiatives. Finally, a New Approach to Regional Transportation was launched in 2012, which seeks to refocus and rebalance transportation priorities and introduces a new policy prioritisation framework mechanism to assess 'policy fit' of proposed actions to deliver better informed decision making on transportation investment.

3.186 The Northern Ireland Executive in its **Programme for Government and Economic Strategy**[38] promotes further investment in economic infrastructure, including new energy networks. The NI Executive is providing up to £32.5 million to support a major extension of the natural gas network to the west of Northern Ireland. The overall project is expected to cost around £200 million and will provide natural gas as an alternative fuel for up to 40,000 business and domestic customers. A licence competition was launched by the Utility Regulator in February 2014, with a licence award

[37] http://www.northernireland.gov.uk/pfg-2011-2015-final-report.pdf

[38] http://www.northernireland.gov.uk/draft-economic-strategy.pdf

expected in autumn 2014, and work to provide the new gas pipelines anticipated to commence during 2015.

3.187 Also, a new north-south high voltage electricity link, consisting of a new 275/400kV substation and 33.9km of 400kV overhead transmission line from the new substation to a crossing point on the Armagh/Monaghan border is going through the planning process. The interconnector project is a commercial investment, jointly promoted by Northern Ireland Electricity and EirGrid, the Transmission System Operators in Northern Ireland and the Republic of Ireland respectively. Delivery of the project is critical to management of long term security of supply in Northern Ireland and to achievement of the Executive's commitment to increasing the use of renewable generation for the delivery of electricity.

Scotland

3.188 The **Scottish Government's Infrastructure Investment Plan** (IIP)[39] sets out the priorities for infrastructure investment in Scotland up to 2030. The Plan sets out four criteria for prioritising investment: delivering sustainable economic growth; managing the transition to a low carbon economy; supporting delivery of efficient and high quality public services; and supporting employment and opportunity across Scotland. A progress report,[40] published in March 2014, highlights that significant progress has been made since the publication of the Plan: over 2013, 20 projects, totalling over £400 million completed construction and are now operational. In addition, a further 4 projects completed construction in 2013 and will become operational in 2014. These are the NHS Greater Glasgow and Clyde's New Possilpark Health Centre, the Scottish Crime Campus, HM Prison & Young Offenders Institution Grampian and Glasgow School of Art.

3.189 As set out in the budget plans for 2014-15, the Scottish Government will support infrastructure investment of more than £8 billion in 2014-15 and 2015-16 through the capital budget, the Non Profit Distributing (NPD) pipeline, rail investment through Network Rail's Regulatory Asset Base (RAB), and allocating some resource funding to capital assets.

3.190 In order to continue to prioritise capital investment the Scottish Government is pursuing a range of innovative financing approaches. On 1 April 2014, a further £1 billion of support for infrastructure investment was announced by extending the current NPD programme through to 2019-20. This additional investment will build on the success of the current programme, boost Scotland's infrastructure and support the economy. Further details will be provided to the Scottish Parliament in 2014 Autumn Draft Budget.

3.191 The Scottish Government's vision is for Scotland to have world class digital connectivity by 2020. The infrastructure investment in the Digital Scotland Superfast Broadband Programme is an important step towards achieving this. This £410 million infrastructure programme involves two[41] of the largest and most complex broadband infrastructure projects in Europe and will deliver next generation access to areas where the market will not go. Alongside commercial coverage, the Digital Scotland Superfast Broadband Programme will extend access to superfast broadband infrastructure to 85% of premises across Scotland by 2015-16 and 95% by 2017-18.

3.192 Community Broadband Scotland (CBS) was established in 2012 and is a complementary initiative to the Digital Scotland Superfast Broadband Programme. CBS is targeted at

[39] http://www.scotland.gov.uk/Publications/2011/12/05141922/0

[40] http://www.scotland.gov.uk/Publications/2013/02/5866

[41] The Highlands and Islands project involves laying 800km of new fibre on land and 400km of sub-sea cables to provide 19 crossings to remote islands. The total project value is around £146 million, with the public sector investing around £120 million. The Rest of Scotland project is to deliver fibre broadband to over 600,000 homes and businesses in 130,000 postcode areas. Alongside around £157.6 million of public sector funding, BT is also investing £106.7 million in the project.

communities which are least likely to benefit from a next generation broadband solution under the Superfast Programme.

Wales

3.193 The Wales Infrastructure Investment Plan (WIIP) for Growth and Jobs, published in 2012, forms the catalyst for delivering Wales' major infrastructure investments. Since its launch, the WIIP has had notable success, not only boosting investment in Welsh infrastructure by over £2 billion, but also in strengthening the way that the Welsh Government prioritises and invests in infrastructure across all sectors. In addition, the development of the Wales infrastructure investment pipeline, which reflects both Welsh Government and Local Authority investments, has significantly improved visibility and collaboration across Wales.

3.194 On 18 November 2013, the government published the response to the Commission on Devolution in Wales report that will result in the devolution of many new financial and borrowing powers to the Welsh Government. This package of powers will allow the Welsh Government to invest in key transport projects including the M4 motorway and the North Wales Expressway.

3.195 The Welsh Government published Written Statements on transport priorities and rail priorities in July 2013. A new Wales Transport Plan, which will set out longer term priorities, will be developed during 2014.

3.196 Energy Wales is the Welsh Government's strategy for delivering a sustainable, low carbon economy for Wales. It aims to position Wales at the forefront of key Research & Development and innovation in the areas of greatest potential. In light of the large number of potential new connections to the electricity grid into Wales over the next 10 years, in 2014 the Welsh Government is considering a grid connection strategy for Wales.

3.197 The Welsh Government and British Telecom (BT) are working in partnership through the Superfast Cymru programme to bring the benefits of fibre broadband to areas outside the planned commercial footprint in Wales. This is the largest investment of its kind currently in the UK and will ensure that, when combined with commercial roll-out, 96% of premises across Wales will have access to fast fibre broadband. The Welsh Government, UK Government and EU funded programme, together with BT's overall investment in Wales, will see £425 million invested. Roll-out is commencing in 14 local authorities across Wales in 2013-14, expanding to all 22 local authorities by 2015-16. The programme is progressing well with over 100,000 premises given access to fast fibre broadband thus far.

3.198 The Welsh Government's Broadband Support Scheme, which ended on 30 September 2013, helped over 5,200 homes and businesses experiencing consistently low speeds to obtain a basic broadband connection.

3.199 The Access Broadband Cymru scheme, launched on 1 October 2013, complements the roll-out of the Superfast Cymru programme. The scheme is available for enterprises, residents, third sector organisations and communities which cannot achieve broadband speeds of greater than 2Mbps by supporting them to obtain a broadband connection using the most appropriate technology.

4 Performance and transparency

Introduction

4.1 The government aims to be the most open and transparent government in the world. At the Spending Review 2010, 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.

4.2 The framework replaces traditional bureaucratic accountability with democratic accountability. It contains no new targets or top-down performance management systems and avoids intervention in frontline public service providers, focusing instead on the changes that are within departments' control.

4.3 The government supports the aims of the Europe 2020 Strategy, of encouraging a return to strong and sustainable economic and employment growth across the EU. However, in line with the Public Services Transparency Framework, the government has moved away from setting top-down targets as a performance management tool. The government has therefore not set any new targets under the Europe 2020 Strategy.

4.4 The following section reports the UK's approach to the national monitoring and actions taken in support of the five headline 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, and the Integrated Guidelines
- the government's objective
- the actions the government and the Devolved Administrations are taking towards meeting the objective

4.5 The levels of performance, against the objectives set by each target, are indicated in Annex A.

Transparency

4.6 In November 2010, the government, for the first time, published business plans for each of the main government departments. The business plans set out how each department aims to implement the reforms set out in the Programme for Government,[1] including specific actions and deadlines and the key indicators and other data they will publish to show the cost and impact of public services. The plans have been updated each year, and the latest version of the business plans, covering 2013-15, was published on 26 June 2013. The public is able to track implementation progress online via the Prime Minister's website.[2] The Cabinet Office plan also includes actions, indicators and progress against the objective to increase transparency in the public sector.

[1] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/78977/coalition_programme_for_Government.pdf

[2] http://transparency.number10.gov.uk/

4.7 A report on departmental progress against transparency commitments is published every quarter.[3] Other tools are also available to help the public understand spend on public services, such as the Government Information Spending Tool.[4] Detailed data on transactional spend is also made available through Spend Reports.[5]

4.8 The government has also created a National Information Infrastructure,[6] which identifies the data[7] held by government which is likely to have the broadest and most significant economic and social impact if made available and accessible outside of government. The first iteration was made available in October 2013.

Devolved Administrations

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

Northern Ireland Executive

4.10 The Northern Ireland Executive's Programme for Government 2011-15 is managed through a multi-layered delivery framework, which supports effective management of specific activities and projects contributing to the Programme, and also strategic management of the overall Programme. The delivery framework makes provision for accountability for delivery to the Executive, to the Northern Ireland Assembly and to the public, and reports on progress against commitments in the Programme are made public on a regular basis.

Scottish Government

4.11 The National Performance Framework (NPF)[8] sets out the Scottish Government's vision for Scotland and supports delivery of the Scottish Government's purpose and priorities. The NPF captures a wide range of economic, social and environmental indicators which cover the target areas identified in Europe 2020. Progress is monitored through Scotland Performs,[9] the Scottish Government's online tool for reporting on progress.

Welsh Government

4.12 In Wales, the Welsh Government's strategic plan, the Programme for Government,[10] sets out a plan of action that is designed to achieve priority objectives such as creating sustainable jobs, stimulating growth and reducing poverty. It also contains details of how the administration will measure progress. A progress report[11] was published in June 2013 setting out current performance on the full range of indicators identified in the Programme for Government as well as delivery against its priority commitments. This includes information on growth, sustainable jobs and reducing poverty. The Programme for Government is updated on an annual basis.

[3] http://data.gov.uk/search/everything/per cent22WMSper cent20REPORTper cent22 per cent20QWMSper cent20 per cent22WMSper cent20Writtenper cent20Ministerialper cent20Statementper cent22?f[0]=bundleper cent3Aresource&solrsort=score

[4] http://www.gist.cabinetoffice.gov.uk/

[5] http://data.gov.uk/data/openspending-report/index

[6] https://www.gov.uk/Government/publications/national-information-infrastructure

[7] http://data.gov.uk/data/search?core_dataset=true

[8] http://www.scotland.gov.uk/About/Performance/purposestratobjs

[9] http://www.scotland.gov.uk/About/Performance/scotPerforms

[10] http://wales.gov.uk/about/programmeforgov/?skip=1&lang=en

[11] http://wales.gov.uk/docs/strategies/130604fullv2en.pdf

Employment

June 2010 European Council conclusions:

Aiming to raise to 75% 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 Treaty on the Functioning of the EU, Integrated Guideline 7.

Government objective

4.13 The government continues to maintain the environment for enterprise and economic growth to help create sustained jobs and businesses. The overall aim of the government in the labour market is to encourage flexibility, efficiency and fairness, with measures to help the unemployed quickly into work and to addressing longer-term detachment from the labour market, tackling barriers to getting, keeping and progressing in a job for all groups.

4.14 Employment is a reserved power to the Parliament under the devolution settlements. However, some related policies, for example skills policies are a devolved matter. Details of the policies being implemented in Northern Ireland, Scotland and Wales are included in this section.

Policy context

4.15 The overall policy aim is to maintain a dynamic and resilient labour market. Low levels of taxation and a carefully balanced approach to labour market regulation mean that firms can adapt to change and have incentives to create new jobs alongside new business opportunities while protecting workers. In addition, employers can offer flexible working arrangements to workers, which helps with recruitment and retention, particularly for women and people with disabilities, as well as improving productivity for the company.

4.16 The government aims to improve overall employment rates, sustainability, retention and progression into more and better work. It facilitates the smooth and effective functioning of the labour market with a programme of measures speeding up job-matches and addressing mismatches in supply and demand. Policy focuses on:

- strengthening work incentives whilst maintaining appropriate levels of income protection by withdrawing benefit at a transparent, constant rate as earnings are increased, especially through the implementation of Universal Credit
- activation strategies, including conditionality of benefit payment on activity to maintain labour market attachment
- provision of free job broking support for employers and jobseekers, improving transparency and speeding up matches and increasing mobility and flexibility, including through the Universal Jobmatch online vacancies service
- implementing active labour market policies to improve the employability of disadvantaged groups by providing work focused skills provision and employability support to equip individuals to compete and take up available opportunities, for example through wage incentives or through the Work Programme

- encouraging job creation by supporting entrepreneurship, including through the New Enterprise Allowance and Start Up Loans
- increasing labour market skills and improving the match with employer skills demands, including through Traineeships and reform of the Apprenticeship system
- working with FTSE 350 companies to improve the diversity of senior management and board directors

4.17 Employment (16-64 year olds) continues to increase, and stands at 72.3% for November 2013 to January 2014.

- full time employment is up 430,000 over 12 months
- the employment rate for women has increased to 67.2%,[12] the rate for all 50-64 year olds is 68.3% and youth employment (age 16-24 not in full-time study) is up 44,000 this quarter to 2.87 million (rate up 0.6 percentage points to 69.0%)

4.18 According to the 2012 Eurostat released data (latest available) on employment rates in EU Member States, the UK employment rate[13] is 5.7% above the EU-27 average.

4.19 The total number of workforce jobs rose, with an increase in private sector jobs of 473,000 in the year and a fall of 13,000 in the public sector.

4.20 International Labour Office (ILO) unemployment fell on year to 7.2%, down 0.7 percentage points, as did the inactivity rate, down 0.2 percentage points to 22.1%.

- youth unemployment has fallen over the year, and stands at 912,000, a fall of 81,000 on year and down by 127,000 on its peak in 2011
- At the end of January 2014, 82% of those aged 16-24 were in education, training or employment. Of all young people, 36% were inactive, of which three quarters were in full time education. Of the 13% of young people who were unemployed, almost a third were in fulltime education.

Actions to achieve objective

4.21 Measures are in place to increase participation and employability. These aim to facilitate the recruitment of unemployed people with services to employers to enhance and speed up their recruitment, and to improve individuals' readiness for work. There is also extra tailored support to individuals who are less able to help themselves. The introduction of Universal Credit is central to this programme, both as an instrument of activation and to encourage and support sustained employment and individual progression – whether in hours worked or earning potential – for those who have already found some work.

4.22 In addition the government is looking at what more can be done to build on the recent progress in women's employment rate.

Increasing participation and the jobseeking regime

4.23 Access to out-of-work benefits and labour market support is regulated by a series of contact points with Jobcentre Plus that seek to influence claimant behaviour in order to encourage the quickest possible return to work. At the heart of the Jobcentre Plus regime is a

[12] Growth in female employment is likely to be in part due to the gradual upward equalisation of state pension age for women and increased opportunities and activation measures being focused on lone parents.
[13] For 20-64 year old.

personal adviser, responsible for helping an unemployed person become an effective jobseeker and developing with them a plan to return to work as soon as possible, also identifying what extra support might be needed. As a consequence of the dynamism of the UK labour market, a large number of individuals receive out of work benefits for short durations, maintaining sufficient attachment to the labour market to return quickly to employment: the majority have left benefits by 6 months into a claim, and 90% by 12 months. Additional active labour market measures are then targeted selectively on those individuals at greatest risk of becoming long-term unemployed, rather than spreading resources indiscriminately across those who are likely to be able to help themselves.

The Work Programme

4.24 The Work Programme[14] is designed to help those at risk of becoming long term unemployed. Its aim is to support people into employment and to keep them there. The Work Programme offers people tailored support to help them find work. It is a payment by results programme, where providers are free to design support based on individual and local needs. The Government pays providers primarily for supporting claimants into employment and helping them stay there, with higher payments for supporting the hardest to help.

4.25 The latest published figures show that since the Work Programme was launched in June 2011, nearly half a million people have now started a job, with an increase of over 54,000 during the period between October 2013 and December 2013.

Youth employment and unemployment

4.26 Thegovernment is successfully reducing unemployment among young people through a strategy for equipping them with education and skills relevant to the labour market, supporting them in taking up existing labour market opportunities and by creating new opportunities by supporting business. A comprehensive programme of short, medium and long term measures gives effect to this strategy. These include, work experience and employer incentives under the Youth Contract, the tailored support available under the mainstream activation schemes Jobcentre Plus and the Work programme, special measures to engage young people who are NEET, and a step-up in apprenticeships and considerable extra skills provision through the traineeships programme. The government will reduce the cost of employing young people by abolishing from April 2015 employer National Insurance contributions in respect of people aged less than 21 years and earning less than £813 per week.

4.27 Following the government's response, youth unemployment continues to fall from its peak of 1,039,000 (22.2%)[15] to stand at 912,000 (19.8%) in January 2014.

Universal Credit

4.28 Universal Credit[16] provides a new single system of means-tested support for working-age people who are in or out of work. It aims to reduce the number of workless households by reducing the financial and administrative barriers to work that exist in the current system of benefits and tax credits. It is payable in and out of work, removing the perceived risk and uncertainty of switching to in-work benefits, and improving work incentives by allowing individuals to keep more of their income as they move into work. Universal Credit allows people who work to keep some of the money that they earn before it has any impact on the amount of Universal Credit they receive. This amount is called a Work Allowance. The Work Allowances are

[14] This is also referred to under the section on improving the employability of young people of this document.

[15] in September – November 2011.

[16] More details are also available under the section on supporting low-income households of this document.

generally more generous than the amounts disregarded in the current system, in particular for families with children and disabled people. Once a person is earning more than their work allowance, their Universal Credit is reduced to take account of their earnings. The taper is the rate at which benefit is reduced to take account of earnings. Universal Credit has a single taper rate of 65%.

4.29 Once they are in work and can increase earnings the effect on their benefit is smoother and more transparent than under previous in-work benefit regimes. Financial support is reduced at a consistent and predictable rate and people can generally keep a higher proportion of their earnings, serving the aim that work should pay, and visibly so. It is anticipated that up to 300,000 more people are likely to be in work as a result of Universal Credit, through improved financial incentives, increased conditionality and the simplicity of the system.

Devolved Administrations

Northern Ireland

4.30 For the period April to December 2013, the Northern Ireland Employment Service had assisted 31,226 working age benefit clients into employment, against a target of 24,000 by March 2014.

4.31 **Steps to Work**,[17] a flexible approach to tackling individuals' barriers to employment, is the Northern Ireland Executive's main adult return to work programme. From September 2008 to March 2013, Steps to Work helped over 34,900 participants into unsubsidised employment; this represents 35% of participants who left the programme within that period. Of this total, over 28,400 sustained that employment for 13 weeks or more which represents 29% of all leavers. The target for Steps to Work is 25% of leavers to find employment (within 13 weeks of leaving the programme) and to sustain that employment for a full 13 weeks.

4.32 In February 2013 was announced a review of apprenticeships and youth training policy in Northern Ireland.[18] The primary aims of the review are to assist the growth and rebalancing of the economy by providing employers with an appropriately skilled workforce. The review was open for consultation until 7 April 2014.

4.33 An integral part of the strategy is the Skills Solutions[19] service. This aims to provide employers in Northern Ireland with a learning and skills service that identifies and helps meet the training needs of those organisations. In the 2013-14 financial year 281 projects have been proposed to increase the skill levels of over 2,000 existing employees were completed under Skills Solutions at a cost of £1.2 million.

4.34 Assured Skills[20] 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 2012-13 financial year, the programme contributed to the creation of 726 jobs with a financial Department for Employment and Learning commitment of just over £2 million.

Scotland

4.35 The Scottish Government is committed to helping more unemployed individuals achieve their full potential in the labour market. In accordance with **Working for Growth**, the employability

[17] http://www.delni.gov.uk/stepstowork

[18] http://www.delni.gov.uk/interim-report-review-of-apprenticeships.pdf

[19] http://www.delni.gov.uk/index/successthroughskills/skillssolutions/skills-solutions-overview.htm

[20] http://www.delni.gov.uk/index/successthroughskills/skills-and-training-programmes-2/assuredskills.htm

framework for Scotland, the Scottish Government aims to support those groups who are most disadvantaged and who are less work-ready, including those with specific barriers including drug and alcohol misusers. Specific work is underway or in planning for equality groups including women, disabled people and those from a black or ethnic minority background.

4.36 Scotland's youth unemployment rate was 18.8% in December to February 2014. The Scottish Government is taking direct action to tackle unemployment and ensure that people who are out of work or under-employed – particularly young people – have access to the right training, skills and education opportunities.

4.37 As well as establishing a dedicated Minister for Youth Employment in December 2011, the Scottish Government has set up a suite of policy measures to address youth unemployment. This includes delivering 25,000 Modern Apprenticeship opportunities[21] in each year of the current Parliament, and **Opportunities for All**,[22] which ensures that every 16-19 year old not already in work, education or training is offered a learning, or training opportunity.

Box 4.A: Stakeholder focus: Community Jobs Scotland

The Community Jobs Scotland (CJS) Programme is delivered by the Scottish Council for Voluntary Organisations (SCVO) in partnership with the Scottish Government. It is aimed at helping long-term unemployed young people aged 16-24 into employment and has, to date, delivered over 4,000 placements through 565 third sector employers across all 32 Local Authorities in Scotland. The CJS programme began in 2011, and is now entering its fourth Phase, with up to £36 million of Scottish Government funding being provided to date.

In Phase 2, 63.6% of participants achieved positive outcomes (moving into employment, volunteering or education) compared against a positive outcome rate of 57% for Phase 1. An independent evaluation report on the first two phases of the CJS[23], published in 2013, concluded that: "CJS remains a valuable programme that has been well-received by both young unemployed and employers and the Scottish Government's continued investment in the project is making a difference to the lives of young people".

The commencement of Phase 3 in April 2013 saw the CJS programme expand to include young people who have lived through, or are living with, disadvantage. The age range criterion was extended from 16 to 19 to 16 to 24 year olds, with 10% of the budget ring fenced to ensure that this could be supported. In addition SCVO are working in partnership with the Shaw Trust to provide additional help and support for CJS participants who are specifically disabled or have long term health problems, with these participants being guaranteed a CJS training opportunity at 16 hours per week for a minimum of 12 months.

Phase 4 of the CJS programme will run from April 2014 to March 2015. This Phase will see a further expansion of the programme, which will now include a pilot programme to target 100 care leavers and 100 ex-young offenders to provide the same guaranteed 6 month training opportunity with Third Sector employers.

4.38 Over the period 2012-13 to 2014-15, the Scottish Government is supporting around 23,000 young people towards and into work. This includes £30 million additional funding over 3 years to support the Opportunities for All commitment; £25 million (£15 million from the

[21] http://www.skillsdevelopmentscotland.co.uk/our-services/services-for-individuals/national-training-programmes/modern-apprenticeships.aspx
[22] http://www.skillsdevelopmentscotland.co.uk/our-services/services-for-individuals/opportunities-for-all.aspx
[23] http://www.scotland.gov.uk/Publications/2013/12/5843/0

Scottish Government and £10 million from the EU budget) through the Youth Employment Scotland wage incentive programme, for recruitment incentives to support small and medium-sized businesses, social enterprises and other third sector employers recruit up to 10,000 16-24 year olds; and £15.1 million of remaining European Regional Development Funds to support business growth by investing in young people, matched by £22.75 million worth of support from Scottish Enterprise and Business Gateway as part of the SME Growth Programme.

4.39 The Scottish Government is continuing to deploy its initiative for responding to redundancy situations, Partnership Action for Continuing Employment (PACE). Initiated in March 2000, PACE is a national strategic framework that facilitates a consistent partnership approach which is subject to continuous improvement to enhance its operation for responding to redundancy situations. Over the period April 2013 until March 2014, PACE has provided support to 11,674 individuals and 298 employers.[24]

Wales

4.40 In January 2014, the Welsh Government published a new Policy Statement on Skills focused on improving skills levels across Wales. The Statement sets out a vision for employment and skills policy over the next 10 years and the responsible action needed by all stakeholders to develop a resilient, responsive and sustainable post-19 skills system. It also recognises the tough choices ahead if Wales is to deliver the skills needed to raise productivity levels and reduce barriers into employment.

4.41 The Statement has been developed in consultation with stakeholders and will be supported by an implementation plan which will be published in summer 2014.

4.42 The Welsh Government has specific measures designed to address the employability of young people, such as the Jobs Growth Wales Programme and the Pathways to Apprenticeships Programme. Details of these programmes and other measures are outlined in the section covering Country Specific Recommendation 3.

[24] This figure covers the number of unique employers supported by PACE. The actual number of employers/sites engaged with PACE for support activities during the period April 2013 to March 2014 was 445.

Box 4.B: Stakeholder focus: LEAD Wales Programme

LEAD Wales is a programme focussed on enhancing the growth capacity of SMEs. It is a Welsh Government initiative which is financially supported by the European Social Fund, and is delivered by Swansea University's Department of Research and Innovation and Bangor University's Business School. It has been operating in the West Wales and Valleys Convergence Region of Wales since 2010.

The 5 year project centres on growing capacity via a unique, creative and evidence-based Leadership Development Programme for directors and owner-managers of SMEs which is delivered to them over a 10 month period. The programme's success is evidenced in its latest report, Leading Small Business Growth in Wales: The LEAD Wales Programme 2010-13.[25] The report provides an overview of the impact to date of LEAD Wales after 3 years of operation and is based on an analysis of the data collected from 374 participants who had completed the programme prior to August 2013. The programme is expected to exceed its original target of 700 participants by its conclusion in 2015. Over 520 business leaders/owner-managers have participated in the programme of which almost 370 have gained qualifications, while over 460 employers have been assisted or financially supported.

Rachael Wheatley, Director of Waters Creative Ltd and participant in the programme says "In business it is vital to understand yourself and how you influence your team, as a leader. I definitely feel that LEAD Wales gave me the 'time out' to look at our business in this way. We are more creative as a company as a result of this learning, and our team has grown in the last 18 months by 40%."

[25] http://www.leadwales.co.uk/en/about-us.htm

Education

June 2010 European Council conclusions

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

Relevant Treaty base: Article 165 of the Treaty on the Functioning of the EU, Integrated Guideline 9.

Government objective

4.43 The government's vision is for a highly educated society with the key priorities of quality and choice as part of building a workforce with an internationally competitive skills base and a dynamic and efficient skills system that fulfils its potential and helps individuals achieve theirs. This will enable young people to gain the knowledge they need to prepare them for adult life and work and ensure that employers have the skilled workforce that they need.

4.44 Education and skills are a devolved competence, with each of the administrations making their own policy decisions. Information on the approach taken by Northern Ireland, Scotland and Wales is included in this chapter.

Policy context

4.45 The UK education system has important strengths but is being improved to make opportunity more equal and to contribute more to growth, including by making up ground lost in global comparisons of workforce skills. Developing human capital in the UK is integral to the performance of the UK labour market so as to increase and sustain employment opportunities.

Actions to achieve objective

4.46 The government has a programme of reform underway to simplify the qualifications regime and improve its quality. These reforms will encourage schools and colleges to offer the qualifications which support progression from school to further education and university.

School Curriculum

4.47 Government reforms focus on giving more autonomy to schools within a strong framework of accountability and improving quality through the introduction of a more rigorous curriculum and qualifications system.

- greater challenge in the new maths curriculum has been introduced from the start of primary school through to age 16, so that standards are raised across the board and for all children
- The new English curriculum has a greater focus on grammar, spelling and punctuation at primary school. It includes greater stretch at secondary school with pupils studying a broader sweep of English literature.
- the new computing curriculum will ensure all pupils have practical experience of writing computer programs and can understand the fundamental principles of computer science

4.48 From the beginning of this academic year, all pupils who fail to achieve a C or better in English or maths GCSE must continue to study these subjects in post-16 education until they get these qualifications. English and maths have been embedded into all major work programmes, including apprenticeships and traineeships, and within study programmes for 16-19 year olds to ensure people understand the significance of these subjects.

4.49 The government is reforming basic skills education for all ages. Pre-school education is being extended to fifteen hours of every week to the most disadvantaged 2-year-olds. Schools are being provided with the resources and teachers with the training to deliver effective phonics teaching, to improve reading, and every child will have a new reading check after 2 years at primary school to ensure they are reading fluently.

4.50 Individual schools are being given the freedom to shape the whole curriculum according to all pupils' aspirations and priorities, while concentrating on essential knowledge and skills that will be improved through the reform of English and maths. A range of measures is also in place to improve the performance of the poorest schools, with schools able to tailor a curriculum to those who need practical learning, and free to use longer school days. The academy programme is moving forward very strongly resulting in dramatically improved performance of many pupils. 11% of all primary schools and 57% of all secondary schools are now open as academies – over 3,600 schools in total.

Adults – English and maths skills

4.51 The government helps adults (19+) to improve their English and maths and achieve even where they missed out earlier in life by fully funding GCSEs and other qualifications which help them get up to level 2. It supports a wide range of provision so that adults can learn in the way that suits them including community learning, traditional college course and online learning.

4.52 Unemployed people with very poor maths skills are required to train to bring their skills up to the level expected by employers. The government will be piloting a requirement from day 1 of a claim that 18-21 year old claimants of Jobseeker Allowance with English or maths below Level 2 improve their English or maths skills through blended online and face-to-face support, alongside looking for a job.

Higher Education

4.53 The UK does not have a specific target for participation levels in higher education, but everyone with the ability and aptitude should be able to benefit. The government is enabling more students than ever before to be able to access higher education and 2014 has had record application rates for 18 year olds, 19 year olds and people from disadvantaged backgrounds. Announced in the Autumn Statement 2013, the expansion of higher education places in England of up to 30,000 in 2014-15 and the removal of controls in publically funded institutions in 2015-16 play a key part in reaching that objective. The system ensures that eligible students can access student loans which they do not need to repay until they are in well paid jobs. Graduates are crucial to the economy and to economic growth: as they go on to rewarding careers, they are more likely to earn more and less likely to be unemployed.

Devolved Administrations

Northern Ireland

4.54 Improving employability and the level, relevance and use of skills is an objective of the Northern Ireland Economic Strategy.[26] In post-primary schools the flexibility offered by the Entitlement Framework (EF)[27] means that schools can plan their curricular offer to meet the needs of both young people and the economy, while continuing to develop the skills young people need for the world of work. Since September 2013, every pupil in every school is entitled to access a wide range of courses, both applied and general, that are economically relevant and have clear progression routes to education, training and employment.

4.55 There are specific actions being implemented from 2013-14 to improve educational outcomes in socially disadvantaged areas. These include:

- The Delivering Social Change Improving Literacy and Numeracy project[28] which provides £15.56 million over 3 years to provide employment opportunities for recent graduate teachers to enable support to be provided to pupils at risk of underachievement in their Key Stage 2 assessment and GCSE English and maths.
- A new community education initiatives programme[29] to address the high levels of educational underachievement in socially and educationally disadvantaged communities. The programme will join up community based and school activity in a coherent way and £2 million is being provided to support the programme in both 2013-14 and 2014-15.
- A professional development for teachers of English and Mathematics across Key Stages 2 and 3. The programme was initiated in 2013-14 and will be available to all post primary and primary schools over the 2014-15 and 2015-16 academic years.
- An additional £10 million has been injected directly into schools' budgets, specifically intended for schools educating higher proportions of children from socially deprived backgrounds. The revised Common Funding Scheme now ensures that increased funding is allocated to schools that face the greatest challenges in respect of social deprivation. This brings the quantum of monies allocated directly to schools for Targeting Social Need to over £70 million in the 2014-15 year.

4.56 In order to meet the Skills Strategy[30] goal of increasing the proportion of those qualifying from Northern Ireland Higher Education Institutions with graduate and post graduate level courses in Science, Technology, Engineering & Mathematics (STEM) subjects by between 25-30% in 2020,[31] and to meet the aims of the Executive's STEM Strategy,[32] an additional 233 full-time undergraduate higher education places in STEM subject areas were funded in the 2012-13 academic year, and an additional 500 in the 2013-14 academic year. Resources have been secured to ensure that an additional 1,350 places are funded by 2015-16. At postgraduate level, an additional 100 Masters places in STEM areas have been funded in the 2013-14 academic year, as well as an additional 117 postgraduate awards in areas of economic relevance. The total number of funded PhD places will rise from 495 to 846 by the 2015-16 academic year.

[26] http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf
[27] http://www.deni.gov.uk/index/curriculum-and-learningt-new/curriculum-and-assessment-2/entitlement-framework.htm
[28] http://www.welbni.org/index.cfm/do/DSCProject
[29] http://www.niesis.org/site/homepage.asp?page_area=5891&page_id=0
[30] http://www.delni.gov.uk/success-through-skills-transforming-futures.pdf
[31] from a baseline of 18 per cent in 2008
[32] http://www.delni.gov.uk/index/successthroughskills/stem.htm

Scotland

4.57 As highlighted in the Scottish Government's GES (Government's Economic Strategy),[33] the Scottish Government recognises the importance of a skilled, educated and healthy workforce to build on Scotland's comparative advantages and to deliver sustainable economic growth.

4.58 Reforming post-16 education to allow more people the benefits of remaining in positive destinations remains a key commitment for the Scottish Government. The Post-16 Education (Scotland) Act[34] provides the legislative platform to do this. It is delivering improvements to governance and accountability across colleges and universities while supporting moves to widen access to higher education and helping to identify learners at risk of dropping out of education or training. It puts in place a framework to support college reforms, helping to better align provision with the needs of learners and business.

4.59 The Scottish Government has retained the Education Maintenance Allowance (EMA) in Scotland to provide financial support to young people from the lowest income families to enable them to continue in education and learning beyond school leaving age.

4.60 The Scottish Government is also committed to providing student support. The new funding package which was introduced in 2013 includes: an annual minimum income of £7,250, through a combination of bursaries and loans, for students with a family income of less than £17,000; a student loan of £4,500 a year which all students are eligible for. These will rise to £7,500 and £4,750 respectively in 2014-15.

4.61 Part-time students with a personal income of less than £25,000 are eligible to receive tuition fees funding.

4.62 In autumn 2013 the Scottish Government announced that, in addition to an existing loan of up to £3,400 toward the cost of their tuition fees, from 2015-16 postgraduates on eligible courses will be able to apply for a loan of up to £4,500 a year to help with living costs.

4.63 The Scottish Government is continuing to invest in the learning environment, ensuring that school buildings are modern learning facilities that meet the needs of education, benefiting pupils, teachers and the local economy. By March 2018 the Scottish Government's £1.25 billion Schools for the Future Programme[35] will see the construction of 67 new high quality schools built for over 46,000 pupils. In partnership with local authorities, the schools will be built in every part of Scotland to ensure that all communities share the benefits of education.

Wales

4.64 GO Wales the Graduate Opportunities Wales Programme (January 2009 to December 2014) is a programme for graduate employability. The programme matches students and graduates with paid and unpaid work experience opportunities and provides support for their training and development. As such, it delivers strong and measurable outcomes. To date it has supported 7,057 higher education students and graduates; financially supported 2,120 employers (exceeding the target); organised 3,694 ten week paid placements and 2,125 short unpaid work experience opportunities; provided 389 places on Graduate Academy (combining management training and work experience); and provided 1,425 match funded opportunities for graduates employed in SMEs to undertake training.

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[33] http://www.scotland.gov.uk/Publications/2011/09/13091128/0

[34] http://www.scotland.gov.uk/Topics/Education/post16reform/bill

[35] http://www.scotland.gov.uk/Topics/Education/Schools/Buildings

4.65 **Employment and Skills delivery approach 2014-20.** The Welsh Government is currently developing a new approach in relation to employment and skills delivery that will roll out from 2014. The new delivery model will deliver a more integrated employment and skills offer from 2014 onwards. The Welsh Department for Education and Skills (DfES) will focus on providing leadership and direction, adopting more of a strategic commissioning role as opposed to a direct delivery role, with a view to creating a more coherent and integrated portfolio of programmes at national, regional and local level.

4.66 DfES will set the national strategic priorities which, through joint working with other Welsh Government departments, will also reflect the need for contribution to wider potential outcomes in areas such as regeneration, economic development and tackling poverty through employment and skills interventions. DfES will develop a small number of strategic projects alongside existing delivery arrangements such as apprenticeships and Jobs Growth Wales.

Box 4.C: Stakeholder focus: Regional Learning Partnership, South West and Central Wales

Since its formation in 2007, the main aim of the Regional Learning Partnership (RLP) is to ensure that publically funded learning providers and associated organisations work collaboratively, effectively and efficiently across the areas of education and regeneration to meet the needs of learners and the regional economy in South West and Central Wales.

The RLP has been recognised as a 'transformation partnership' by the Welsh Government's Department for Education and Skills for its commitment to education, regeneration and skills with a focus on regional strategic planning and local delivery. Since its initial conception, and with the support of the European Social Fund, the RLP has grown both in size and reputation working to bring together those with the common interest and a desire to improve opportunities for learners. Partners within the RLP include Further and Higher Education, Local Government, Third Sector, Training Providers, Private Sector and employment support organisations including JobCentre Plus and Careers Wales.

The RLP is currently facilitating the development of a Regional Delivery Plan for Employment and Skills which will inform the future application of European Structural Funds alongside domestic funding within the region to maximise learner benefits and positive progression outcomes. The benefit of this approach includes a strategic 'buy in' from regional deliverers with a commitment to identifying innovative approaches to address the region's skills challenges.

Through the support of the European Social Fund the partnership directly facilitated 8 collaborative agreements between public sector bodies and facilitated 37 information dissemination activities to support regional stakeholders. The impact of these arrangements has meant that there has been a significant reduction in the level of duplication and reduction in administrative costs which has in turn enhanced the number of opportunities for progression available for individuals who require assistance and improved learner outcomes.

Social exclusion and poverty reduction

June 2010 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 Treaty on the Functioning of the EU, Integrated Guideline 10.

Government objective

4.67 The government remains committed to abolishing child poverty by 2020. As part of its long-term plan to build a stronger, more competitive economy and a fairer society, the government's approach is to tackle these causes by:

- raising incomes by helping people get into work and making work pay
- supporting the living standards of low-income families
- raising the educational outcomes of poorer children

4.68 The government's programme for welfare reform, in particular Universal Credit, promotes work as the best route out of poverty.

4.69 The government is responsible for policies in this area in England and when policy areas are reserved to Parliament in the devolution settlements, for example the welfare system is only devolved in Northern Ireland. The Devolved Administrations are responsible for their own policy direction in all other areas, for example education.

Policy context

4.70 As employment levels continue to increase the government continues to tackle barriers to inclusive employment, with targeted measures for those who face particular difficulty in improving their situation through work. In response to recommendations and advice from the Social Mobility and Child Poverty Commission the government has set out a child poverty strategy for the years 2014-17.

Actions to achieve objective

4.71 Welfare reforms with the introduction of Universal Credit[36] will make work pay; and improve the lives of some of the poorest families, making around 3 million households better off. Universal Credit is intended to improve work incentives and to encourage people into the labour market. It provides a new single system of means-tested support for working-age people in and out of work and will replace the majority of working age means tested benefits and tax credits, simplifying the existing complex system including in-work benefit provision. This will improve work incentives and make it clearer to individuals how the move into work, and

[36] More details are also available under the CSR4 and Target 1 sections of this document

subsequent increased earning, will benefit them. Implementation of Universal Credit is now underway on a progressive basis.

4.72 The government is also committed to supporting one-parent families to overcome particular barriers they may face in getting into work and out of poverty. Measures to be introduced in 2014-17 will include:

- treatment of earnings under Universal Credit on a basis more generous than the current system
- a wide variety of special advice and support through employment services
- from April 2014 work preparation activity when the youngest child turns 3 to improve employment prospects once that child starts school

Box 4.D: Stakeholder box: Social Mobility and Child Poverty Commission

The Social Mobility and Child Poverty Commission monitors the progress of government and others in improving social mobility and reducing child poverty in the United Kingdom. It publishes an annual report setting out its views on progress made, seeks to influence policy with its independent advice, and acts as an advocate for social mobility beyond government by challenging employers, the professions, universities, and others, to play their part in improving life chances.

The Commission published its first report on 17 October 2013. In response, on 27 February 2014, the government opened public consultation on its draft Child Poverty Strategy for 2014-17, which outlines the actions government will take to tackle child poverty, focusing on work, living standards and educational attainment. The consultation will end on 22 May 2014, and the final Strategy will be published thereafter.

4.73 The government's Troubled Families Programme began in April 2012 with a budget of £448 million. It is a cross-departmental programme committed to turning around the lives of the 120,000 troubled families in England by 2015. This means significantly reducing crime and anti-social behaviour, getting adults on the path to work, and children back into school. Interventions are delivered through local authorities on a payment by results basis. In June 2013 the government announced an extension of the Programme to help an additional 400,000 families with a £200 million investment in 2015-16 (the first of an intended 5 year programme). In the Budget 2014, the government announced that the highest performing areas would have the opportunity to start working with up to 40,000 of these families in 2014-15 (i.e. one year early).

4.74 Further information on low income households and families with children can be found in the section on Country Recommendation number 4.

Devolved Administrations

Northern Ireland

4.75 The Programme for Government 2011-15 includes a commitment to help individuals and families who are facing hardship and includes a £13 million fund (2012-13 to 2014-15) to deliver the Tackling Rural Poverty and Social Isolation Programme[37] which will provide support to vulnerable people in rural communities and target the root causes of social isolation. It also

[37] http://www.dardni.gov.uk/index/rural-development/rural-poverty-and-social-isolation.htm

includes a Social Investment Fund[38] through which £40 million will be invested to improve pathways to employment, tackle systemic issues linked to deprivation and increase community services, while a further £40 million will be used to address dereliction.

4.76 Delivering Social Change[39] is the Executive's comprehensive delivery framework to deliver a sustained reduction in poverty and associated issues across all ages, improve children and young people's health, well-being and life opportunities and break the long-term cycle of multi-generational problems.

4.77 In January 2014 a public consultation for a proposed new strategy under the Framework Delivering Social Change for Children and Young People,[40] was launched. The consultation document builds on the outcomes based approach of the Child Poverty Outcomes Framework[41] that was developed by the National Children's Bureau in 2013.

Scotland

4.78 The Scottish Government's approach seeks to reduce inequalities whilst ensuring public services are financially sustainable. This approach rests on four evidence-based pillars; a decisive shift towards prevention; partnership between public services at a local level; greater investment in the people delivering services; and a sharp focus on performance.

4.79 As one pillar of the wider approach to public service reform, the Scottish Government is committed to overseeing a shift towards prevention across Scotland's public services. To provide a catalyst towards preventative spend at a local level, the Scottish Government has invested over £500 million in three Change Funds to support public services over the Spending Review period.

4.80 The second Child Poverty Strategy Annual Report[42] was laid in Scottish Parliament in September 2013 and highlighted a range of actions the Scottish Government and others had taken over the previous year. The report sets out what the government has been doing in key areas in relation to the measures in the strategy which all contribute towards meeting the income based targets in the Child Poverty Act, and to the three key aims around pockets, prospects and places.

4.81 The remit of the Ministerial Advisory Group on Child Poverty[43] is to provide Scottish Ministers with advice on priorities and actions relating to Child Poverty. The group act as the advisory body for the Child Poverty Strategy, a revised version of which was published in March 2014. It also provides a forum for the discussion of evidence, dissemination of good practice and the development of new thinking to support the delivery of the strategy.

4.82 In Scotland, from 31 December 2012 all unintentionally homeless households are entitled to settled accommodation. Local authorities and their partners now have a focus to prevent homelessness happening in the first place wherever possible. This is being done through the adoption of a housing options approach which means that the local authority works with the household to prevent homelessness or achieve the most sustainable outcome for them. This approach to prevention has led to a 10% reduction in households being assessed as homeless between 2011-12 and 2012-13.

[38] http://www.ofmdfmni.gov.uk/strategic-paper-on-the-social-investment-fund.pdf

[39] http://www.ofmdfmni.gov.uk/delivering-social-change

[40] http://www.ofmdfmni.gov.uk/dsc-children-young-people

[41] http://www.ncb.org.uk/media/1076520/child-poverty-outcomes-framework-september-2013.pdf

[42] http://www.scotland.gov.uk/Publications/2013/09/2212

[43] http://www.scotland.gov.uk/Resource/Doc/344949/0114783.pdf

Wales

4.83 The Welsh Government remains committed to its overarching target of eradicating child poverty by 2020.

4.84 The Children and Families (Wales) Measure 2010 placed a duty on the Welsh Assembly Government to publish a Child Poverty Strategy for Wales. The Welsh Government published its first Child Poverty Strategy in February 2011[44] setting out its strategic objectives to reduce the number of children living in workless households, to improve the skills of parents and carers, and to reduce the inequalities that exist in health, education and economic outcomes. The Welsh Government published its first Child Poverty Strategy for Wales progress report[45] on 29 November 2013.

4.85 Building Resilient Communities: Taking Forward the Tackling Poverty Action Plan[46] was launched in July 2013. It sets out how the Welsh Government has aligned its strategies and plans to reduce child poverty. This revised Plan sets out the milestones and specific targets for the period leading up to 2020. The report also highlights a number of key developments in Wales:

- the percentage of children living in workless households has been decreasing since 2009 (from 20% in 2009 to 17.7% in 2012)
- the percentage of working age adults with no qualifications has reduced each year since 2006 (from 15.7% in 2006 to 10.6% in 2012)
- there has been a small reduction in the education attainment gap between those eligible for free school meals and those not eligible between 2009-10 and 2011-12

44 http://wales.gov.uk/topics/childrenyoungpeople/poverty/newcpstrategy/?lang=en
45 http://wales.gov.uk/about/cabinet/cabinetstatements/2013/childpovertystrategyprogressreport13/?lang=en
46 http://wales.gov.uk/topics/people-and-communities/tacklingpoverty/publications/taking-forward-tack-pov-plan/?lang=en

Research and development and innovation

June 2010 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% of GDP; the Commission will elaborate an indicator reflecting R&D and innovation intensity.

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

Government objective

4.86 The government aims to promote excellent universities, research and increased business innovation.[47] To succeed in the global innovation economy, the government recognises that the UK must improve both the commercialisation of emerging technologies, and the capture of linked value chains. The private sector will play a central role, but the government is key to ensuring that entrepreneurs, financiers and innovators have the best possible environment in which to operate.

4.87 To this end the government aims:

- to ensure both support for curiosity driven research in universities, and the wider knowledge base that will foster scientific and technological breakthroughs
- to nurture innovation in all its forms by encouraging stronger links between entrepreneurs, researchers and experts in design
- to establish an open environment that promotes open innovation, rewards the most promising ideas, and makes data and research findings widely available

4.88 The government is responsible for Research and Development policy, consulting Devolved Administrations as necessary.

Policy context

4.89 At Autumn Statement 2013, measures were announced in key areas to secure the UK's science base and take the lead in cutting-edge science and technology. The government is also driving innovation by supporting technologies that have the potential to provide major benefits to UK businesses and citizens.

4.90 The government's intention to develop an industrial strategy was announced in September 2012[48] and was accompanied by an underpinning sector analysis.[49] Through the industrial strategy, the whole of government is working in partnership with industry to set the long term direction needed to give businesses the confidence to invest – creating more opportunities, more skilled jobs and making the UK more competitive so that British businesses can thrive and compete with rising economies.

[47] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/31960/12-p58-bis-2012-business-plan.pdf
[48] https://www.gov.uk/Government/news/cable-outlines-vision-for-future-of-british-industry
[49] http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/i/12-1140-industrial-strategy-uk-sector-analysis

4.91 The UK's 8 great technologies were identified in the 2013 publication launched by the Minister of State for Science and Universities.[50] Recognising that helping the UK become a world leader in certain technologies through supporting expertise in specific areas of research and development could help boost exports and drive economic growth, it sought to identify what the role of government might be in making the most of the UK's comparative and competitive technological advantages.

4.92 The key policy document in support of Research and Innovation remains the **Innovation and Research Strategy for Growth** (IRS)[51] published in December 2011. In the Autumn Statement the Government announced it will publish a new Science and Innovation Strategy in autumn 2014.

Actions to achieve objective

4.93 The government's ambitious programme for research and development and innovation is therefore based on the measures relating to:

- industrial strategy
- the eight-great technologies
- Innovation and Research Strategy implementation
- science and innovation-spend
- the European Research Area framework
- R&D Tax Credits
- international engagement

4.94 Horizon 2020 is an EU-level mechanism instrumental in helping the UK achieve its Research & Development and innovation aims. Analysis of the grants awarded under the predecessor FP7 in 2012 and 2013 shows that UK participants are the leading financial beneficiaries for those years, with UK participants involved in more grant agreements than those of any other Member State.

Industrial strategy

4.95 The industrial strategy has 5 main strands: technologies, access to finance, skills, procurement and sectors, all of which have implications for innovation policies.

4.96 There has been strong progress in the industrial strategy:

- British Business Bank[52] programmes are already making a major impact. A total of £660 million reached Small and medium enterprises (SMEs) in 2013, an increase of 73% on 2012.
- In April 2013 the government published **Rigour and Responsiveness in Skills.**[53] This identified 6 areas where the government will improve the skills-system, and introduced reforms to make public-sector procurement more accessible to SMEs. The government also published 11 sector-strategies.[54]

[50] http://www.policyexchange.org.uk/images/publications/eightper cent20greatper cent20technologies.pdf
[51] http://www.bis.gov.uk/assets/biscore/innovation/docs/i/11-1387-innovation-and-research-strategy-for-growth.pdf
[52] See more details under the CSR5 section of the document
[53] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/186830/13-960-rigour-and-responsiveness-in-skills-amended.pdf
[54] https://www.gov.uk/Government/collections/industrial-strategy-Government-and-industry-in-partnership

Eight Great Technologies

4.97 Actions in support of the Eight Great Technologies have been developed in partnership with the UK Research Councils, Technology Strategy Board and Foresight projects conducted by the Government Office for Science. These areas were clearly supported by HM Treasury in the allocation of capital funds in the Autumn Statement 2012.[55]

Innovation and Research Strategy implementation

4.98 The UK's Annual Innovation Report reports on progress implementing the Innovation and Research Strategy. Areas of notable progress include:

- The first 7 Catapults[56] are now open for business (High Value Manufacturing; Cell Therapy; Offshore Renewable Energy; Satellite Applications; Connected Digital Economy; Future Cities; and Transport Systems). Two further Catapults are under development, Energy Systems and Precision Medicine, and are due to open in 2015.
- The Biomedical Catalyst has now awarded almost £150 million of grant funding to support more than 180 projects, leveraging more than £75 million of private finance.
- The Innovation Vouchers programme was formally launched in September 2012. The Technology Strategy Board awarded over 1,000 Innovation Vouchers by December 2013 in the Agri-food; Built Environment; Cyber Security; Open Data; Energy; Water and Waste priority sectors; and, from January 2014, this was extended to the Space and High Value Manufacturing sectors.
- The UK Research Partnership Investment Fund (UKRPIF)[57] was established to provide funding to universities, alongside private co-investment, for large long-term capital projects and build on a strong record of research excellence. The government announced an extension to UKRPIF to 2016-17, making available £100 million each year in 2015-16 and 2016-17 to leverage private investment in research infrastructure.
- The Small Business Research Initiative (SBRI) enables small businesses to compete for government contracts to develop products and services to help tackle public sector challenges. The use of SBRI has been expanded by 6 government departments and the target for the value of contracts is set to increase from £40 million in 2012-13 to £100 million in 2013-14 and to £200 million in 2014-15.
- TSB Launchpad competitions that provide funding for business innovation to support the development and strengthening of clusters of high-tech companies have been extended.

Science-and innovation spend

4.99 In the **Spending Round 2013 publication**[58] the government announced it would maintain resource funding for science in cash terms at £4.6 billion in 2015-16 and increase capital funding in real terms from £0.6 billion in 2012-13 to £1.1 billion in 2015-16. The government also set a long-term capital budget for science in the next Parliament, which will grow in line with inflation through to 2020-21.

[55] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/221550/autumn_statement_2012_complete.pdf

[56] https://www.catapult.org.uk/

[57] https://www.hefce.ac.uk/whatwedo/rsrch/howfundr/ukrpif/

[58] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/209036/spending-round-2013-complete.pdf

4.100 To ensure the UK stays ahead in key sectors, Budget 2014 announced additional funding[59] for the science and research base to take advantage of emerging opportunities:

- a £106 million investment in new Centres for Doctoral Training, which will train more than 750 new students
- an investment of £74 million in the Catapult Network, £55 million to create a large scale manufacturing facility for late stage cell therapy products and £19 million to provide SMEs with access to the cutting edge equipment necessary to develop innovative graphene products, are to ensure that the UK can remain at the forefront in graphene and cell therapy industries
- a £42 million investment in the creation of a Turing Institute – a world-class research institute specialising in Big Data science (the term for a complex collection of data sets, so large that it becomes difficult to process)

The European Research Area

4.101 The UK has already made significant progress in the 5 priority areas identified for implementing the European Research Area (ERA). In the Commission's First ERA Progress report, published in September 2013, the UK is widely recognised as having an effective national research system, with an open labour market for researchers from the EU and beyond. On transnational co-operation, the UK is now participating in all 10 Joint Programming Initiatives, with a leading role in at least 3 of these. In addition much of the progress on research infrastructures (e.g. 2 European research infrastructures awarded European Research Infrastructure Consortium (ERIC) status with many others launched or in the pipeline) has been the result of initiatives, policies and practices proposed by the UK.

R&D Tax Credits

4.102 R&D tax credits continue to be the largest single source of government support for business R&D. In the financial year ending March 2012 R&D tax credits provided almost £1.2 billion of relief to over 12,000 companies, supporting around £11.9 billion of expenditure. This supported an estimated two-thirds of all business R&D revenue expenditure, reducing the cost of the qualifying expenditure by around 25% for SMEs and around 8% for large companies.

4.103 From 1 April 2013 companies can apply for a lower rate of Corporation Tax (CT) on profits earned on patented inventions and certain other innovations. This scheme is being introduced progressively over 5 years.

4.104 In Budget 2014 the government announced that it was increasing the rate of the payable credit for loss makers under the SME R&D tax credit scheme from 11% to 14.5% from April 2014.

International engagement

4.105 The UK is highly internationally connected with its research base and institutions having strong overseas links, and with much of its research and development activity benefiting from foreign investment. In 2011, the UK attracted as much overseas investment in its R&D activity as Canada, Finland, Japan, China, and Russia combined. The Times newspaper recently published a list of the 100 most international universities and 42 of these are UK universities.

4.106 The government recently announced a new 5 year £375 million Newton Fund for programmes that will focus on supporting the development of 15 of the emerging economies.[60]

[59] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/293759/37630_Budget_2014_Web_Accessible.pdf

These will provide resources to support capacity building around science and innovation in these countries and to support targeted R&D collaborations that will deliver breakthroughs in key areas of development-related challenges.

Devolved Administrations

Northern Ireland

4.107 Northern Ireland investment in Research & Development (R&D) continues to rise. In 2012 total R&D expenditure was £624 million, which represented a 10% increase from 2011. As a proportion of gross value added (GVA), total R&D expenditure now stands at 1.4%. Encouragingly, the increase in R&D expenditure has been driven by business with Business Expenditure in Research & Development (BERD) increasing by 19% on 2011 figures.

4.108 To build on the R&D success, the Northern Ireland Executive has committed to supporting increased investment in R&D, in particular from the private sector. A suite of interventions is in place to support this, an important part of which has been investment in Competence Centres. In 2013 two new competence centres, with a combined investment of over £11 million were created in strategically important areas of growth for Northern Ireland. These were in Sustainable Energy and Advanced Engineering.

4.109 Significant progress has been made into enhancing the support available to Northern Ireland researchers to collaborate on an international basis. As part of this a new network of experts, across the Grand Societal Challenges[61] identified in Horizon 2020, is now fully operational. It has been working directly with companies and researchers with their applications.

Scotland

4.110 The Scottish Government has a portfolio of supporting actions to support innovation including:

- Launching the new framework for Entrepreneurship and Innovation in November 2013. **Scotland Can Do** sets out Scotland's priorities to become a world-leader in entrepreneurship and innovation. This includes a commitment of £3 million for projects to accelerate economic growth.

- The establishment of a Single Knowledge Exchange Organisation (SKEO)[62] launched under the banner 'Innovation Scotland' in October 2013. This is being led by the Scottish Funding Council (SFC) in collaboration with Scottish Enterprise and Highlands and Islands Enterprise. SFC have reallocated £4.15 million over 4 years (AY2013-14 to 2016-17), from existing budgets, to deliver Innovation Scotland. Total strategic funding provided in support of knowledge exchange for the 2013-14 academic year will be £17.8 million.

- Continued support of Interface,[63] the free, national service which match-makes businesses with research resources in Scotland's universities and research centres. Now in its eighth year, Interface has supported over 1,000 companies, identified around 1,400 opportunities and brokered over 450 business-led collaborative projects with Scotland's academic institutions. A report compiled by Biggar Economics and Interface (2013) estimates that collaboration between businesses

[60] China, India, Brazil, Turkey, South Africa, Colombia, Chile, Mexico, Egypt, Kazakhstan, Indonesia, Malaysia, Vietnam, Thailand, Philippines.

[61] http://ec.europa.eu/programmes/horizon2020/h2020-sections

[62] http://www.sfc.ac.uk/news_events_circulars/Consultations/2012/Consultations_SFC012012C.aspx

[63] http://www.interface-online.org.uk/

and academia will be worth £79.9 million GVA annually and a total of 2,399 jobs within the next three-five years. Interface will also administer the newly introduced Horizon 2020 SME Engagement Scheme. This initiative will provide up to £5,000 per application to support Scottish based SMEs in exploring opportunities within Horizon 2020 and help them apply for particular schemes or calls under it, with the assistance of a Scottish Higher Education Institute.

- Supporting the establishment of a number of Innovation Centres[64] where businesses and universities can work together to drive innovation in and across Scotland's key sectors. Four Innovation Centres have already been launched, with further Centres being announced throughout 2014. The Scottish Funding Council (SFC) has allocated £34 million to support Innovation Centres during 2014.
- The current Spending Review, covering the period 2012-13 to 2014-15, committed a minimum of £45 million annual expenditure in each year to SMART: SCOTLAND.[65] This £45 million sum comprises funding for innovation through a number of programmes delivered through the Scottish Government, the enterprise agencies, and the SFC.
- Supporting inventors through Bright Idea Scotland. This new service, launched in 2013 provides support for early stage inventors through a range of surgeries, workshops and online resources to help maximise the commercial economic returns of new business ideas.

[64] http://www.sfc.ac.uk/newsinformation/Circulars/2012/SFC0612.aspx

[65] http://www.scottish-enterprise.com/fund-your-business/innovation-and-rd-grants/smart-scotland.aspx

Box 4.E: Stakeholder focus: Scottish EU Research and Innovation Steering Group

The Scottish EU Research and Innovation Steering Group was established in 2010 to help support increased participation in European research and innovation programmes. Membership of the group comprises representatives from innovation, science, academic research and European policy teams from the Scottish Government, the Scottish Funding Council, Scottish Enterprise, Highlands and Islands Enterprise, Scotland Europa and Enterprise Europe Network.

One of the aims of the Steering Group is to ensure that businesses, the academic community and those in the public sector and research and technology organisations are fully informed about and able to respond to the opportunities within Horizon 2020 – the EU's research and innovation programme for 2014-20. During 2013, the Steering Group worked in collaboration with other public and private sector stakeholders to hold a series of awareness-raising and partner-building events throughout Scotland. Over 800 participants from academia, businesses and the private, public and third sectors attended these events.

In addition to these events, the Steering Group also contributed to the development of a new Horizon 2020 SME Engagement Scheme that provides expert knowledge and assistance for SMEs looking to explore the opportunities within Horizon 2020. The Steering Group was also a key contributor in developing and articulating Scotland's approach to Europe's Smart Specialisation Strategy.

The Steering Group is now looking at the next phase of activities to support engagement with Horizon 2020 among Scotland's academic and business communities. These activities may include hosting project development workshops and projects clinics, proposal writing Master classes and additional support to develop project ideas or proposals.

Wales

4.111 The Welsh Government's strategy, Science for Wales, set a target for Welsh universities to increase their share of UK Research Council funding from 3.4% to 5%. The strategy announced investment through the £50 million Sêr Cymru (Stars of Wales) programme to attract world-class scientific talent to Wales and to generate critical mass in key areas of scientific research through the creation of 3 new National Research Networks in the Grand Challenge areas.

4.112 Wales' R&D and innovation grant support scheme for business, Smart Cymru, complements the Smart scheme run by the Technology Strategy Board at UK level. Smart Cymru is primarily aimed at SMEs already operating in Wales. Business finance is offered to help businesses carry out research and development work that will lead to technologically innovative products or processes. To date 151 projects are currently either underway or completed, with more than 38 products, processes or services launched and a further 91 projects in the immediate pipeline.

4.113 The current European Regional Development Fund (ERDF) funded Academia for Business (A4B) programme which provides funding to academia to engage with industry in collaborative R&D and commercialise academic intellectual property, has been extended for an extra year, now to end in 2015. The programme has provided support for 316 projects with a total value of £47.2 million, which have in turn delivered 920 Collaborative R&D Projects and 392 new or improved products, processes or services launched against targets of 625 and 245 respectively.

4.114 In July 2013 Innovation Wales[66] was launched. The strategy was produced according to the principles of 'Smart Specialisation' promoted by the European Commission and underwent international peer review by members of the Smart Specialisation Platform at a meeting in Brno in July 2013.

4.115 The Small Business Research Initiative (SBRI) Catalyst Fund has been introduced to promote and support the use of the SBRI mechanism by problem owners in the public sector. Working in partnership with the Technology Strategy Board, Wales initiated four SBRI competitions in 2013 with public sector bodies ranging from University Health Boards to local Government and Natural Resources Wales.

4.116 The Welsh Government's Business Innovation Programme provides advice and specialist support for manufacturing, design and new product introduction. The programme is supported by a team of Innovation and Intellectual Property Specialists who facilitate and promote Innovation and R&D in Business. The programme has supported 865 projects which have resulted in the launch of 420 products/processes or services, protected 322 Intellectual assets thorough IP support, and created 203 technical jobs. The programme has also supported 300 businesses with Innovation Voucher funding.

[66] http://wales.gov.uk/topics/businessandeconomy/innovation/innovation-strategy-wales/?lang=en

Climate change and energy

June 2010 European Council conclusions

Reducing greenhouse gas emissions by 20% compared to 1990 levels; increasing the share of renewables in final energy consumption to 20%; and moving towards a 20% increase in energy efficiency.

Relevant Treaty base: Article 121 and 191 of the Treaty on the Functioning of the EU, Integrated Guideline 5.

Government objective

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

4.118 Energy policy is generally a reserved matter in Great Britain and generally devolved to Northern Ireland; and various aspects of climate change policy are devolved in Scotland, Wales and Northern Ireland.

Policy context

4.119 The government aims to make significant progress towards decarbonising the UK economy, while maintaining energy security and maximising the opportunities for businesses to take advantage of the growing market for low carbon goods and services. The **Annual Energy Statement 2013**[67] summarises the government's achievements so far in achieving its energy-related objectives.

4.120 The Department of Energy and Climate Change has been working in partnership with the Department for Business, Innovation & Skills and UK industry to produce 3 outward-facing energy sector strategies as part of the government's industrial strategy. These strategies cover oil and gas, nuclear and offshore wind and are some of the first to be launched as part of the industrial strategy. The nuclear strategy[68] and the oil and gas strategy[69] were published in March 2013. The offshore wind sector strategy[70] was launched in August 2013.

Actions to achieve objective

Greenhouse Gas Emissions

4.121 The 2008 Climate Change Act (CCA)[71] established the world's first legally binding framework for reducing greenhouse gas emissions. It requires the UK to reduce greenhouse gas emissions by at least 80% (from the 1990 baseline) by 2050. The UK is also committed to taking its share of responsibility for reducing global greenhouse gas emissions by reaching an agreement on an international climate change agreement for the post 2020 period by 2015.

67 https://www.gov.uk/Government/publications/annual-energy-statement-2013
68 https://www.gov.uk/Government/publications/nuclear-industrial-strategy-the-uks-nuclear-future
69 https://www.gov.uk/Government/publications/uk-oil-and-gas-industrial-strategy-business-and-Government-action-plan
70 https://www.gov.uk/Government/publications/offshore-wind-industrial-strategy-business-and-Government-action
71 http://www.legislation.gov.uk/ukpga/2008/27/contents

4.122 The **Carbon Plan**[72] published in December 2011, sets out the UK's approach to achieving its first four carbon budgets. The document sets out sectoral plans and scenarios for reducing emissions from buildings, transport, industry, electricity, agriculture, land use, forestry and waste. It sets out how the UK intends to meet each 5 year carbon budget period and outlines the commitment to a 50% reduction in emissions by 2027. This was in line with the recommendations by the independent Committee on Climate Change (CCC). The CCC was set up under the CCA and is required to report to Parliament each year on the UK's progress in meeting its carbon budgets.

4.123 The EU Emissions Trading System (ETS) plays a key part in ensuring the UK complies with its legally binding carbon budgets. The legal framework for the EU ETS is set out in the EU ETS Directive and the UK Greenhouse Gas Emission Trading Scheme Regulations.[73] The UK has around 1,100 EU ETS participants. The 'traded sector', i.e. sectors covered by the EU ETS, will account for over 50% of the emissions reductions needed to meet UK targets between 2013 and 2020.

4.124 Electricity Market Reform, set out in the Energy Act 2013,[74] is designed to deliver a low carbon, secure and affordable electricity supply. The Act, which gained royal assent in December 2013, introduces policies to attract the estimated £110 billion of capital investment needed in the electricity sector over the next decade. This investment will be critical in increasing the proportion of electricity provided by low carbon sources.

4.125 The Act also includes provisions for an Emissions Performance Standard[75] (EPS) to act as a regulatory backstop on the amount of carbon emissions new fossil fuel power stations can emit. This limit is set at 450g/kWH operating at baseload. The EPS will help deliver the government's commitment to ensuring that any new coal fired power station is constructed and operated in a way consistent with the UK's decarbonisation objectives.

4.126 In April 2013 the government established a Carbon Price Floor (CPF),[76] which sets a minimum price for carbon dioxide by 'topping-up' the EU Emissions Trading System (EU ETS) price through a tax (Carbon Price Support – CPS) on fossil fuels used in electricity generation. By taxing fossil fuels used for electricity generation, it is designed to incentivise investment in low-carbon electricity generation now. The Budget 2014 announced a cap on the CPS rate at £18 from 2016-17 until 2020 (rates are already legislated up to 2015-16) in response to lower than expected EU ETS prices. This means that the price of carbon in the UK electricity generation sector will not be more than the EU ETS price plus £18 from 2016 to 2020. The government will review the CPF trajectory for the 2020s, once the direction of travel on EU ETS reform is better known.

Carbon Capture and Storage

4.127 The UK is also supporting the development of Carbon Capture and Storage (CCS), an essential technology to decarbonise fossil fuel power generation and industrial sources of CO2. The CCS Roadmap,[77] published in April 2012, set out a comprehensive package of measures designed to take the UK to cost competitive CCS in the 2020s. The key components are a CCS commercialisation programme with £1 billion in capital funding; a £125 million, 4-year, co-ordinated research, development and innovation programme; commitments to work with industry to overcome barriers; and an international engagement programme focussed on

[72] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/47613/3702-the-carbon-plan-delivering-our-low-carbon-future.pdf
[73] http://www.legislation.gov.uk/uksi/2012/3038/pdfs/uksi_20123038_en.pdf
[74] http://www.legislation.gov.uk/ukpga/2013/32/contents/enacted/data.htm
[75] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/266882/EPS_Policy_Brief_RA.pdf
[76] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/179259/carbon_price_floor.pdf.pdf
[77] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/48317/4899-the-ccs-roadmap.pdf

sharing knowledge from the UK programme and learning from other projects around the world. Future CCS projects will also benefit from the wider Electricity Market Reform currently being made. In March 2014, the government announced the commitment of an additional £60 million to fund innovative CCS technologies.

4.128 In October 2013 the government published a response to the CCS Cost Reduction Task Force[78] and an update on key policy developments since the 2012 CCS Roadmap. The report set out a vision of three possible phases of CCS development in the UK. The competition projects represent the first phase and a second phase of projects could come forward in parallel to these, with a third and final phase of projects (taking advantage of the advances from the previous phases) completing the transition to fully commercial cost-competitive CCS operating in the 2020s.

4.129 Two projects have been taken forward into the detailed engineering and design phase in the government's CCS Competition, with £100 million funding for this stage. On 24 February 2014, the government awarded a Front End Engineering and Design (FEED) contract to Shell for their Peterhead CCS project. The proposal represents the world's first full-chain CCS project on a gas fired power station. This followed the earlier award of a FEED contract to Capture Power Limited for their innovative White Rose coal CCS project in December 2013. If both projects are taken forward, they will capture around 3 million tonnes of CO2 per annum, provide enough clean electricity to power over 1 million homes and support over 2,000 jobs in Scotland and Yorkshire during construction.

Nuclear Power

4.130 Nuclear represents a significant part of the £110 billion of investment in the electricity sector that is required over the next decade. The government has continued efforts to ensure that the conditions are right for investment in new nuclear power in the UK through a package of reforms and regulatory measures that remove barriers to investment. As a result of this, in October 2013, the key terms of an investment contract were agreed for Hinkley Point C in Somerset; paving the way for construction of the first new UK nuclear power station in a generation.

4.131 Hinkley Point C will generate enough low carbon electricity to power the equivalent of nearly six million households, providing roughly 7% of the UK's electricity, making it one of the largest power stations in the UK. Once built, Hinkley Point C will provide a clean source of energy saving approximately 9 million tonnes of carbon dioxide a year. The plant will bring 900 permanent jobs to the area and create around 25,000 jobs during construction.

4.132 The UK's new nuclear programme is also advancing positively with 2 other projects being taken forward by NuGen and Horizon Nuclear Power. Along with the Hinkley Point C project, these three have the potential to develop around 16GW of new nuclear power in the UK.

Renewable energy

4.133 Increasing the amount of energy the UK gets from low-carbon technologies such as renewables will help the government to: insulate the UK from volatile fossil fuel prices; reduce UK greenhouse gas emissions; and stimulate investment to support jobs and businesses.

4.134 Electricity Market Reform (EMR) has set out a framework for encouraging investment in low carbon electricity generation (an estimated £110 billion of capital investment will be needed in the electricity sector over the next decade). Measures introduced include:

[78] https://www.gov.uk/Government/publications/ccs-in-the-uk-Government-response-to-the-ccs-cost-reduction-task-force--3

- Contracts for Difference (CfDs)[79]: to reduce risk barriers to investment in low carbon technologies. The first **Electricity Market Reform Delivery Plan**[80] issued in December 2013, set out the final decision on strike prices for CfDs for renewable technologies.

- Investment contracts: to avoid an investment hiatus as the UK moves to EMR, the UK Department of Energy and Climate Change (DECC) is issuing Investment Contracts (an early form of CfD) to a number of projects in advance of the EMR CfD regime being established. The first early investment contracts are expected to be signed in spring 2014, and the first CfDs under the enduring regime in the latter half of 2014. The first capacity auction will take place at the end of 2014, for delivery of capacity in winter 2018-19. The timetable for CfDs and the Capacity Market is subject to State Aid approval.

4.135 Existing support for renewable energy includes:

- Renewables Obligation (RO) – introduced in 2002, provides incentives for large-scale renewable electricity generation by making UK suppliers source a proportion of their electricity from eligible renewable sources. The Renewables Obligation Certificates (ROCS) will help deliver £20-25 billion of additional investment in renewable electricity between 2013 and 31 March 2017, when the scheme will close to new generators.

- Feed-in Tariffs (FITs) scheme – introduced in April 2010, this scheme pays energy users who invest in small-scale, low-carbon electricity generation systems for the electricity they generate and use, and for unused electricity they export back to the grid. By the end of January 2014 518,516 installations (2.5 Giga Watt capacity) had been registered on either the Central Feed-in Tariff Register, the Microgeneration Certification Scheme or both.

- Renewable Heat Incentive (RHI) – launched in November 2011, the RHI pays commercial, industrial, public, not-for-profit and community generators of renewable heat for a 20-year period. As of end of February 2014, there have been 3,408 accreditations to the scheme with 652 Mega Watt of installed capacity. From spring 2014 the scheme will be made available to homeowners, private and social landlords and people who build their own homes.

- Renewable Heat Premium Payment (RHPP) – this gives one-off payments to householders, communities and social housing landlords to help them buy renewable heating technologies like solar thermal panels, heat pumps and biomass boilers. The scheme has supported over 17,000 renewable heat installations in private and social housing since its launch in August 2011. It ran until March 2014.

- Renewable Energy Roadmap[81] – this sets out a plan for accelerating the use of onshore wind, offshore wind, marine energy, solar photovoltaics, biomass electricity and heat, ground source and air source heat pumps, and renewable transport.

- Renewable Transport Fuel Obligation – this came into effect in April 2008, with an obligation that 2.5% by volume of suppliers' fuel should be from biofuels. The obligation level increased each year to a maximum of 5% in 2013-14. Renewable

[79] This is also detailed in the section on network infrastructure and new energy capacity investment
[80] https://www.gov.uk/Government/publications/electricity-market-reform-delivery-plan
[81] https://www.gov.uk/Government/publications/uk-renewable-energy-roadmap-second-update

transport is on track to meet the interim transport target, as defined by the Renewable Transport Fuel Obligation, of around 5% by 2013-14.

4.136 Further progress was made in the area of renewable energy deployment during 2013, with the share of electricity generation from renewable sources a record 14.8%. Total renewable electricity generation was 52.8 TWh in 2013, an increase of 28% from 2012. This generation increase coincided with a capacity increase of 25%, reaching 19.4 GW at the end of 2013. Since 2010, £31 billion worth of private sector investment in renewable electricity has been announced with the potential to support over 35,000 jobs across the UK. Total solar PV capacity grew by 1.0 GW between December 2012 and December 2013, representing a 58% increase and bringing total installed capacity to 2.7 GW.[82]

Energy efficiency

4.137 The Carbon Plan states that if the UK is to cut its greenhouse gas emissions by 80% by 2050, energy efficiency will have to increase across all sectors to the extent that energy use per capita is between a fifth and a half lower than it is today.

4.138 The Energy Efficiency Directive (Article 3) requires Member States to establish indicative national energy efficiency targets by 30 April 2013. The UK notified the European Commission of its Article 3 target on 30 April 2013. The UK's target was set at the level of 129.2 million tonnes of oil equivalent (MTOE) for final energy consumption on a net calorific value basis. This represents an 18% reduction in final energy consumption relative to the 2007 business as usual projection (equivalent to a 20% reduction in primary energy consumption). The 2013 Energy and Emissions Projections[83] suggest the UK is currently on track to meet its target, with final energy consumption in 2020 projected to be 20% below the baseline.

4.139 The Energy Efficiency Strategy;[84] published in November 2012, sets out the government's ambition for realising the energy efficiency opportunity in the UK, reducing consumers bills, enhancing business productivity and cutting carbon emissions cost-effectively.

4.140 In December 2013 the government published an update[85] to the Energy Efficiency Strategy, which sets outs the significant progress made over the last year:

- Energy consumption in the UK is continuing to fall; it has now fallen for 7 of the last 8 years.
- The UK energy efficiency sector continues to support growth in the economy. It was worth £18 billion, supported 136,000 jobs, and had exports worth £1.85 billion in 2011-12. The government has expanded choice and support for households by introducing the world first Green Deal and the Energy Company Obligation. Since their introduction the Green Deal and ECO have seen around 540,000 measures installed in around 457,000 homes.
- The government is taking action to remove the overlaps between business energy efficiency policies, such as the CRC Energy Efficiency Scheme and Climate Change Agreements. The savings to industry as a result of these changes are estimated to be around £2.4 million for CCAs and a 55% (£275 million) reduction in CRC administrative costs up to 2030.[86] Later in 2014, the government will introduce the

[82] https://www.gov.uk/Government/publications/renewables-section-6-energy-trends
[83] https://www.gov.uk/Government/publications/updated-energy-and-emissions-projections-2013
[84] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/65602/6927-energy-efficiency-strategy--the-energy-efficiency.pdf
[85] https://www.gov.uk/Government/publications/energy-efficiency-strategy-2013-update
[86] Energy Efficiency Strategy Update.

Energy Saving Opportunities Scheme which will support businesses to make informed energy efficiency improvements to their operations.

- And the government has taken steps to connect energy efficiency measures with finance to support take up, through the introduction of the UK Green Investment Bank. Over the first half of 2014 the government will continue to work towards rolling out the Electricity Demand Reduction Pilot.

Box 4.F: Stakeholder focus: Community ownership of a hydro energy scheme in Oxfordshire

Project name: Osney Lock Hydro (OLH) scheme (Capacity: 49 kW).

The OLH scheme is a community hydro scheme in West Oxford, which will generate electricity using the power of the river Thames. Solar panels will to be installed on the roof of the building to maximise the generating capacity of the project.

By May 2013, OLH had raised over £530,000 in equity shares from local people, allowing the installation to proceed. OLH also has support from the Low Carbon Hub Community Interest Company, under an Intelligent Energy Europe grant programme led by Oxford City Council. The Low Carbon Hub draws together experienced local community energy practitioners to help bring community energy to scale in Oxfordshire.

The electricity generated will be sold, with the scheme aiming to generate over £2 million during its forty year lifetime. This money will be used to fund energy demand reduction programmes and support biodiversity in West Oxford.

Devolved Administrations

Northern Ireland

4.141 The Northern Ireland Executive's aim, as set out in the **Strategic Energy Framework 2010**,[87] is to achieve a competitive, sustainable future for energy in Northern Ireland and includes objectives for 40% renewable electricity consumption and 10% renewable heat by 2020. It also provides for further development of the natural gas network.

4.142 In November 2013, the Executive published the Onshore Renewable Electricity Action Plan 2013-20[88] which considered the potential for a range of onshore renewable technologies and identified a number of supporting actions. This Plan, along with a similar offshore plan[89] published in 2012, will contribute to the 40% target.

4.143 During the year, the Executive continued to work with the UK Government to ensure that the Electricity Market Reform measures introduced in the Energy Act take account of the different market arrangements for generators in Northern Ireland.

4.144 In February 2011, the Executive approved a Northern Ireland Greenhouse Gas Emissions Reduction Action Plan,[90] which examined relevant policies and actions across the Northern Ireland Government Departments, identifying the projected impact on emissions and the economy and thereby providing an overall indication of how Northern Ireland emissions will look

[87] http://www.detini.gov.uk/strategic_energy_framework__sef_2010_-3.pdf
[88] http://www.nigridenergysea.co.uk/wp-content/uploads/2013/12/ONSHORE-RENEWABLE-ELECTRICITY-ACTION-PLAN-2013-2020-2.pdf
[89] http://www.detini.gov.uk/ni_offshore_renewable_energy_strategic_action_plan_2012-2020__march_2012_.pdf
[90] http://www.doeni.gov.uk/northern_ireland_action_plan_on_greenhouse_gas_emissions_reductions.pdf

in 2025. One of the actions identified in the Action Plan was for a Cross Departmental Working Group on Climate Change to provide annual reassurance to the Executive that appropriate progress is being made in terms of greenhouse gas emission reductions. The second Annual Progress report was presented to the Executive in May 2013.[91]

Scotland

4.145 The transition to a low carbon economy provides an opportunity to take advantage of Scotland's comparative natural advantages, as well as decoupling trends in emission levels from trends in economic growth.

4.146 **Low Carbon Scotland, Meeting the Emissions Reduction Targets 2013-27, the second Report on Proposals and Policies (RPP2), published in June 2013**,[92] details a package of measures aiming to deliver Scotland's climate change targets up to 2027. By 2011, Scotland was more than halfway to meeting the 2020 target of cutting greenhouse gas emissions by 42%. The RPP2 shows how Scotland will step up its effort to deliver even greater emissions reductions, with plans including a new target to cut carbon emissions from electricity generation by 2030; a commitment to deliver the equivalent of at least 100% of gross electricity consumption from renewables by 2020; a National Retrofit Programme to transform older and colder homes into energy efficient homes; and a £50 million Warm Homes Fund providing grants and loans for renewable energy measures to heat homes.

4.147 The Scottish Government's **2020 Routemap for Renewable Energy in Scotland** sets out the collective actions needed to achieve the target to meet the equivalent of 100% of Scotland's electricity demand from renewable energy by 2020, together with equally important targets for renewable heat and an increase in the community and local ownership of renewable projects. The December 2013 update reported good progress towards targets, as well as details of significant investment in electricity grid networks and export capacity, and investment in port and harbour infrastructure to enable the manufacturing and deployment of offshore renewables.

4.148 Through **Skills Development Scotland**, the Scottish Government is refreshing the Skills Investment Plan for the Energy Sector, first published in March 2011, to better understand the skills needs of employers and target its skills activity accordingly. Support for the sector can be seen through the commitment to ring-fence 500 Modern Apprenticeship starts each year of the current parliament for energy employers. Additionally the Scottish Government remains committed to supporting businesses to develop their own solutions to meet their skills and workforce needs, including the Nigg Skills Academy[93] developed by Global Energy Group which provided 100 Modern Apprenticeship starts in 2012-13. The Low Carbon Skills Fund (LCSF)[94] has provided over 2,000 training places for SME businesses across Scotland since 2010, allowing them to up skill their existing workforce in low carbon areas.

4.149 The **Resource Efficient Scotland**[95] programme provides support to businesses, third sector and public sector organisations to reduce overheads through improved energy, material resource and water efficiency. It has simplified the energy and resource efficiency advice and support landscape and is helping organisations across Scotland to realise potential annual savings in the region of £25 million through the implementation of resource efficiency measures. It was operational from April 2013.

91 http://www.doeni.gov.uk/cdwgcc_second_annual_progress_report.pdf
92 http://www.scotland.gov.uk/Topics/Environment/climatechange/scotlands-action/lowcarbon/meetingthetargets
93 http://www.skillsdevelopmentscotland.co.uk/media/6786/NeilClaytonGlobalEnergyGroup.pdf
94 http://www.skillsdevelopmentscotland.co.uk/our-services/services-for-employers/training/low-carbon-skills-fund.aspx
95 http://www.resourceefficientscotland.com/

4.150 The Scottish Government published a draft Heat Generation Policy Statement for consultation on 4 March 2014, which sets out the Scottish Government's approach to largely decarbonising the heat system by 2050, diversifying sources of heat, reducing pressure on household energy bills and maximising the economic opportunities of the transition to a low carbon heat sector.

4.151 The Scottish Government has created the Home Energy Efficiency Programmes for Scotland (HEEPS), using Scottish Government funding to lever in additional investment to improve the energy efficiency of housing and tackle fuel poverty. The Scottish Government has allocated a £74 million budget to tackle fuel poverty and reduce emissions through HEEPS in 2013-14, and £79 million for each of the two following years.

Box 4.G: Stakeholder focus: Aberdeen Hydrogen Bus Project

The Aberdeen Hydrogen Bus Project, led by Aberdeen City Council, will see ten hydrogen buses – the largest fleet of hydrogen buses in Europe – operate on routes within Aberdeen and Aberdeenshire.

A range of public and private sector partners are contributing to this initiative. Of the project budget of £19 million, Aberdeen City Council are contributing £2 million, the Technology Strategy Board are contributing £2.4 million, while the Scottish Government and Scottish Enterprise are each contributing £1.7 million. Stagecoach and First Group are contributing £2 million, while the European Union is contributing £8.3 million of funding.

First Group and Stagecoach will begin to operate services later in 2014 and the fleet will be refuelled at Scotland's first large hydrogen refuelling station, which will also be able to fuel hydrogen powered cars and vans. The station will be the first of its kind in the UK – producing 'green hydrogen' made by splitting water with electricity. This technology can also help make best use of Scotland's renewable energy resources through producing and storing hydrogen at times of peak wind availability. This can then be used to fuel vehicles or for other uses such as heating, or even turning back into electricity for the grid using fuel cells, at times of peak demand.

Wales

4.152 The Welsh Government's Climate Change Strategy (2010) set the ambition of a 3% per annum reduction in greenhouse gas emissions in areas of devolved competency, leading to a reduction of 40% in greenhouse gas emissions by 2020 against a 1990 baseline.

4.153 In 2013 Wales' second annual report, which summarises the action taken, outlined the positive progress made against targets. For the 3% annual emissions target in devolved areas, Wales have exceeded the target with a reduction of 10.1% and for the wider target to reduce all emissions by 40% by 2020, the report shows a reduction in emissions by 20.6% against the 1990 baseline. The report breaks down emissions by sectors and highlights that most sectors have shown good progress in contributing to the 3% emissions reduction target. The following sectors have seen significant reductions: Transport (6.8%), Resource Efficiency and Waste (8.8%), Business (13.3%) and Residential (16.5%). The sectoral breakdown also highlights the very good progress made in the Public Sector, which has taken a lead role in reducing emissions with a reduction of 18.7% in 2011.

4.154 Over the next 12 months the intention is to refresh the Climate Change policy in Wales and work closely with others to deliver the practical action required to meet this shared challenge and secure a prosperous future for Wales.

A Measuring progress against objectives: indicators

Employment

Indicator	Current level	Reference period
Employment rate UK	72.3	November 2013 – January 2014 [1]

England

Indicator	Current level	Reference period
Employment rate England	72.4	November 2013 – January 2014 [1]

Northern Ireland

Indicator	Current level	Reference period
Employment rate (population aged 16-64)	67.4%	September – November 2013

Scotland

Indicator	Current level	Reference period
Employment rate (population aged 16-64)	73.3%	December – February 2014

Wales

Indicator	Current level	Reference period
Employment rate (population aged 16-64)	70.8%	October – December 2013

Education

England

Indicator	Current level	Reference period
Outcome of Education.	86% of young people recorded as being in a sustained education destination in the year after Key Stage 4. 62% of young people recorded as being in a sustained education destination in the year after they took their A Level of equivalent (Key Stage 5)	2010-11. Source: SFR31-2013 Destinations of key stage 4 and key stage 5 pupils by characteristics: academic year 2010 to 2011

Number of Government-funded learners participating in Further Education (FE) International comparison of the qualification levels of the working age population in the UK.	81% achieving at least upper secondary (UK Level 2) and 39% at least tertiary (UK Level 4)	Quarter 4, 2012. Source: Education and Training Statistics for the UK, 2013, Table 3.4
Total achievements in full Level 2 or 3 FE of people of academic age 19 years and over.	Full level 2 qualifications 557,800 Full level 3 qualifications 201,700	2012-13. Source: SFR: DS/SFR22, Table 1.2

Northern Ireland

Indicator	Current level	Reference period
Per cent of school leavers achieving 5 or more GCSEs at grades A*- C (or equivalent) including GCSE English and Maths	62%	2011-12
Per cent of school leavers entitled to Free School Meals achieving 5 or more GCSEs at grade A*-C (or equivalent) including GCSE English and Maths	34.1%	2011-12

Scotland

Indicator	Current level	Reference period[1]
Proportion of 18 to 24 population who are early leavers from education and training	12.6%	2012
Percentage population aged 30-34 having completed tertiary education	52.9%	2012
Percentage youth aged 20-24 having attained at least upper secondary level education	83.0%	2012

Wales

Indicator	Current level	Reference period
The percentage of 15 year olds achieving the level 2 threshold (5 or more A*-C GCSEs or equivalent) including English and/or Welsh first language and mathematics	52.7%	2012-13

[1] Data for 18-24 and 30-34 indicators are from Eurostat – Labour Force Survey (average of the four quarterly LFS datasets). Data for 20-24 indicator is from Annual Population Survey January-December 2012. UK result for Eurostat indicator was 77.8%, whereas corresponding APS result was 80.2%)

Attainment at age 19 – percentage having achieved: Level 1 Level 2 Level 3	 Level 1: 95% Level 2: 78% Level 3: 53%	2010-11
International comparison (within the OECD) of the qualification levels of the working age population	77% achieving at least upper secondary (UK level 2) and 35% at least tertiary (UK Level 4)	2011

Social exclusion and poverty reduction

England

Indicator	Current level	Reference period
Children in Workless Households (ONS)	13.6%	2013
Children in relative income poverty (HBAI)	17% (Before Housing Costs)	2011-12
Children in absolute income poverty (HBAI)36	19% (Before Housing Costs) *[2]	2011-12
Children in combined relative income poverty and material deprivation (HBAI)	12% (Before Housing Costs) *	2011-12
Children in persistent poverty (Series to be confirmed) – Figures are for the UK	12% (Before Housing Costs)	2005-08

Northern Ireland

Indicator	Current level	Reference period
per cent of children in relative poverty	22% (95,000 children)	2011-12
per cent of children in absolute poverty	25% (109,000 children)	2011-12
per cent of children falling below thresholds of low income and material deprivation[3]	12% (50,300 children)	2011-12

Scotland

Indicator	Current level	Reference period
Solidarity target: 'To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017'	14.1%	2011-12

[2] *A change in methodology means this figure cannot be compared to that in last year's NRP: in order to measure absolute low income in line with the Child Poverty Act 2010, and to keep the absolute measure more in line with contemporary living standards, the UK now measures absolute low income against the median in 2010-11 adjusted for inflation for all groups of the population. This change has a large effect on the proportion and number of people identified as in absolute low income. The changes in historical data up to 2010-11 do not reflect a real change in the living standards of those who now fall below the rebased poverty line, nor is it a correction to the previous estimate or a worsening situation in the UK economy than previously estimated – it is a reclassification of 'absolute low income'. For more information see: https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/200691/statistical_notice_16_05_2013.pdf

[3] A child is defined as poor on this measure if the household in which they live has an income below 70% of the contemporary UK median household income and has a material deprivation score of 25 or more reflected by enforced lack of adult and child goods and services.

National Indicator: 'Reduce the proportion of individuals living in poverty'. This is measured in terms of the percentage of people living in relative poverty (below 60% of median income before housing costs).	13.8%	2011-12

Wales

Indicator	Current level	Reference period
Improving the Skills of young People and Families: per cent of working age adults achieving NQF 2,3 and 4 +	NQF 2: 75% NQF 3: 54% NQF 4: 33%	
Improving the Skills of young People and Families: per cent of 16-18 year olds who are not in employment, education or training	10.2%	2012
Improving the Skills of young People and Families: per cent of working age adults achieving NQF 2,3 and 4 +	NQF 2: 75% NQF 3: 54% NQF 4: 33%	
Improving the Skills of young People and Families: per cent of 16-18 year olds who are not in employment, education or training	10.2%	2012

Research and development and innovation

England

England Indicator	Current level	Reference period
UK share of top 1% cited research-papers corrected by field.	15.9%[4]	2012
Expenditure on research and development at HEIs.	£7.2B[5]	2011

Northern Ireland

Indicator	Current level	Reference period
Total R&D expenditure	£624 million	2012 (BERD results for 2012 –most recent figures available)
per cent firms that are Innovation Active	27%	2010 (next Innovation Survey results will not be available until summer 2014 – these will show the update @ 2012.

[4] http://www.bis.gov.uk/ukresearchbase2011
[5] http://www.ons.gov.uk/ons/dcp171778_355583.pdf

Scotland

Indicator	Current level	Reference period
Gross Expenditure on Research and Development	1.58% of Scottish GDP (£1.92 billion)[6]	2012
Proportion of innovation active firms in Scotland	33.3%	2008-10

Wales

Indicator	Current level	Reference period
Gross expenditure on R&D	£556 million	2011
Higher education bodies' expenditure on R&D	£267 million	2011

Climate change and energy

United Kingdom

Indicator	Targets	Current level	Reference period
Reduction in total emissions of greenhouse gases from the UK in comparison with 1990 levels. (No allowance for Emissions Trading)	34% reduction by 2020 on 1990 levels	-26.5%[7]	2012
Energy consumed in the UK that has been produced from renewable sources.	15% of energy to come from renewable sources by 2020	4.2%[8]	2012
Energy Efficiency Directive National indicative 2020 energy efficiency target	UK to reduce final energy consumption by 18%[9]	-20%[10]	2007 baseline *projection* for 2020

Northern Ireland

Indicator	Current level	Reference period
To continue to work to towards a reduction in greenhouse gas emissions of at least 35% by 2025 on 1990 levels.	17%	2011 (the latest available figure)

[6] http://www.scotland.gov.uk/About/Performance/scotPerforms/indicator/research

[7] DECC final 2012 emissions release (February 2014)

[8] https://www.gov.uk/Government/publications/renewable-sources-of-energy-chapter-6-digest-of-united-kingdom-energy-statistics-dukes

[9] The EU level target requires the EU as a whole to reduce primary energy consumption by 20 per cent in 2020 relative to a 2007 baseline. The UK notified the European Commission of its indicative national target for 2020 in April 2013. The target set represents an 18 per cent reduction in final energy consumption, equivalent to a 20 per cent reduction in primary energy consumption.

[10] https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/266187/2901415_EnergyEfficiencyStrategy_acc.pdf

40% of electricity consumption from renewable sources by 2020.	17.35%	2013
10% of heat demand from renewable sources by 2020	1.7%	2010 (most accurate and up-to-date figure available at this juncture. An analysis of the heat market in NI is planned for 2015-16)

Scotland

Indicator	Target	Current level	Reference period
Greenhouse Gas Emissions	Reduce emissions by at least 42% by 2020 and at least 80% by 2050, compared to a 1990 base year	1990-2011 fall in total Greenhouse Gas emissions (including International Aviation & Shipping) of 25.7% (after taking account of ETS)	2011
Indigenous Renewable Energy Sources	Generate the equivalent of 100% of gross electricity consumption from renewable sources by 2020.	40.3%	2012
Heat Demand	11% of Scotland's heat demand from renewables by 2020	2.6%	2011
Energy Efficiency	Reduce final energy end-use consumption by 12% by 2020 (against a 2005-07 average baseline)	9.2% lower than baseline	2011

Wales

Indicator	Target	Current level	Reference period
Greenhouse Gas Emissions.	Reduce emissions in areas of devolved competence by 40% from 1990 levels by 2020.	Emissions in Wales have declined from the base year to 43.84 $MtCO_2e$ in 2011. The annual average decline in emissions is 1.03% per year since 1990 which represents a 20.6% reduction in total emissions.	2011
Greenhouse Gas Emissions	Reduce emissions within areas of devolved competence by 3% each year from 2011, against a baseline of average emissions over the period 2006-10.	Emissions were 29.26 $MtCO_2e$ which equates to a decrease from the baseline of 10.1%	2011

Energy efficiency installations	The Welsh Government's ongoing Arbed 2 ERDF project is targeted to make improvements to 4790 homes by March 2015. Over the next 3 years, Welsh Government investment in its Nest scheme is expected to help around 15,000 households per annum, with around 4,000 households receiving a package of energy efficiency improvements.	In 2013-14, it is expected that approximately 3000 properties will receive measures under this programme. In 2013-14, it is expected that approximately 4900 properties will receive measures under this programme.	March 2010-March 2015 (Arbed) April 2011-March 2016 (Nest)

HM Treasury contacts

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If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

E-mail: public.enquiries@hmtreasury.gsi.gov.uk

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