CBI
THE VOICE OF BUSINESS

Lisbon strategy

UK progress report 2003

www.cbi.org.uk
www.unice.org

Contents

1. Introduction

Background

In March 2000, the fifteen leaders of the EU Member States set the Union the challenge of becoming the most “competitive and dynamic knowledge-based economy in the world”. This report is produced in advance of the 2003 review of progress in achieving this goal, taking place at the March European Council Summit in Brussels.

The CBI is the premier organisation speaking for companies in the UK and represents a direct corporate membership that employs over 4 million and a trade association membership that represents over 6 million of the UK workforce. The CBI has consistently given its support to the Lisbon Agenda and the achievement of the goals set out in 2000.

In December 2002, UNICE, the European body representing the CBI and 33 partner business federations, issued a report on the progress of the Lisbon Strategy. The report, ‘Lisbon Strategy – Status 2003’, warned that time is running out for the Strategy. The failure to meet key deadlines, for example on the Community Patent, combined with proposals for new legislation, for example the discussions taking place regarding the working conditions of temporary agency workers, pose a serious risk of derailing the Strategy well before its 2010 completion date.

This additional CBI report highlights the UK Government’s progress on the Lisbon objectives, as well as recommending action on areas where progress is lacking or where there is danger of slippage. Along with similar national reports by the business federations of the 14 other EU Member States, it will be submitted to the European Commission and the other national Governments. Together with the UNICE report it will provide a compelling national and European business manifesto for the March 2003 Brussels European Council.

The UK Government’s view of Lisbon

In its recently published report[1], the UK Treasury notes that Lisbon represents as much of a challenge for the UK as for other EU Member States. Despite achieving success on the Lisbon and Stockholm employment targets[2], the report identifies that the UK still needs to raise its productivity levels (UK productivity remains lower than that of France and Germany) and improve its skills base.

The Treasury’s report acknowledges that, despite the creation of five million jobs across Europe since the launch of the Lisbon Agenda, many EU Member States have not still effectively addressed all the barriers to job creation. Whilst the UK has done well in achieving progress in employment there are still areas of concern. Notably, overly prescriptive implementation of EU legislation and the lack of a clear strategy for research and development remain key areas for improvement.

Continued and sustained effort to reach the 2010 objectives is therefore still as vital for the UK as for other Member States, and on this basis we would support the UK Government’s headline priorities for the Brussels Summit. Addressing all the barriers to progress is vital for the UK Government, both at home and on the European stage.

[1] The European Commission’s spring 2003 Communication on the Lisbon Agenda notes that the UK is already achieving the 70% overall employment target set for 2010.
[2] ‘Meeting the Challenge: Economic Reform in Europe’ - HM Treasury: February 2003

The UK Business view of Lisbon

Each section of this report addresses a key Lisbon Agenda heading, providing an assessment of the environment in the UK as well as offering recommendations for Government action and a more detailed analysis of UK progress on key Lisbon objectives.

For business, the key priorities for the UK Government must be to address the overall regulatory burden on business and to ensure that the tax system is structured to support investment. This investment is vital for education and training, for employment and for research and development – all vital areas in the drive to ensure that the UK is working with and not against Lisbon.

Corporate Governance, although not directly referenced in the Lisbon Agenda, is an important and pressing UK regulatory issue. The CBI supports the promotion of good practice in the boardroom, and supports the majority of recommendations in Higgs Report[3], particularly the continuation of the existing 'comply or explain' philosophy, begun by the Cadbury Report[4] in 1992, as opposed to the legislative approach taken by the US in the Sarbanes-Oxley Act.

Finally, the CBI would encourage the UK Government to stand firm in ensuring that its successes are not compromised by actions at the European level. In a recent letter to the European Commission, CBI Director-General Digby Jones raised UK businesses' concerns that the Commission seems to be actively working against Lisbon, for example with its proposals for a directive on 'Working Conditions for Temporary Workers'.

For UK businesses, progress in securing the Lisbon objectives at the national level must be bolstered at the European level, to ensure that the UK's hard won progress is not compromised or lost.

[3] The Higgs Report on non-executive directors was published in January 2003 and is part of a systematic review of corporate governance being undertaken by the UK following corporate failures in the US.

[4] The Cadbury Report on the Financial Aspects of Corporate Governance was published in December 1992. Its recommendations were subsequently made into a Code of Best Practice for company boards.

2.Single Market Progress

Recommendations

- ➤ UK Government must continue to support the liberalisation of key markets.
- ➤ The Postal service market needs to be liberalised more in-line with the approach being taken by other EU Member States to ensure fair and free competition.
- ➤ UK Government must ensure that improvements and investments in the UK's transport infrastructure are made as a matter of urgency.
- ➤ UK Government must continue to actively support SMEs in their commercial use of the Internet.

Assessment

The UK has one of the most liberalised economies of the 15 Member States. Excluding postal services, business access to what were previously 'state monopolies' has been completed. In transport, whilst the market has been liberalised, there remains a state investment gap in key areas of infrastructure and a lack of commitment to effecting a coherent transport strategy. SME access to online markets has stabilised but is at a level well in advance of other Member States. UK Government's online Public Procurement pilots have been successful, achieving well over their set targets.

UK Progress on Lisbon Objectives

Acceleration of opening up of telecommunications, energy, postal services & transport

Telecommunications

- The UK has had one of the most liberal and open telecommunications markets worldwide for some time. With the creation of a new regulator, 'Ofcom', the broadcasting industry and other electronic communications networks will be regulated by the same body, which should encourage further market liberalisation by the fostering of competition across previously separate sectors.

Energy Markets

- The UK gas and electricity markets have been fully open to competition since May 1998 and May 1999 respectively. Competition has developed well in industrial, commercial and domestic energy markets and, in fact, 2002 marked a sizeable move toward full deregulation (with, for example, the removal of all remaining price controls in the electricity and gas markets). Having met both existing and proposed targets for EU liberalisation, the focus of the UK Government and the energy regulator has been on separating out and introducing competition to those elements of energy businesses that are not naturally monopolistic (for example, metering and connections).

Postal Services

- Following agreement on the Postal Services directive, the UK is now opening up its postal services market. There are approximately 4,000 companies operating in the express mail market but competition in the letter market is currently restricted. The UK postal services regulator, 'Postcomm', is responsible for implementing liberalisation via a licensing system. Postcomm wishes to retain its powers to licence mail within the liberalised area (licences for mail under 350 grams in 2003 and also in 2006, by which time the directive will allow further competition over

50 grams). This will lead to a significant difference of approach within the single market in 2007, when the UK will be licensing services that have been liberalised at EU level.

Transport

- The UK Government's 'Transport Investment Plan' was published in July 2000 and set out a £180bn ten-year investment programme. Although 2002 saw progress in establishing the foundations for future improvements, 2003 will be critical for the future of UK transport policy. Key challenges for the plan are:
  - The need for increased detail, including key dates, milestones, and intermediate targets to be set.
  - For approvals to be effected during the next 6-12 months, this is vital if they are to contribute to the Plan's targets.
  - For UK Government to make clear how increased cost pressures and new commitments will be funded. These could increase the cost of delivery by between £10-15 billion.

Easier SME Access to online markets

- The UK Government reached its target of 1.5 million SMEs online in 2000, two years earlier than its target of 2002. This increased again in 2001, but there has been some reduction in 2002, and it appears that SMEs are adopting more cautious e-commerce strategies

No of SMEs online (From 1-250 Employees)

1997	1998	1999	2000	2001	2002
320,000	350,000	600,000	1,700,000	1,900,000	1,530,000

Expansion of online public procurement

- The UK Government has expanded its online public procurement through a series of pilot projects and managing the rollout of a Government Procurement Card (GPC). The pilots were a success and £340m of business was conducted using the GPC in contrast to the original projection of £300m

3. Finances & Investment

Recommendations

- UK Government must continue in its efforts to make the UK (and the EU) attractive to investment from non-EU issuers, to ensure continuing lower costs of capital and higher liquidity.
- UK Government must continue work to ensure that the Financial Services Action Plan (FSAP) measures achieve their stated aims.

Assessment

The UK financial markets are open to investors and capital from all over the world and they are thus truly liberalised. The UK government does not see its role as preventing foreign take-overs. By contrast, barriers remain for those UK companies wishing to take-over companies in other Member States. Any reduction (or removal) of such barriers will depend on the content of the proposed Take-over Directive.

These open markets, with strong professional and wholesale markets, ensure cheaper costs of capital, that a great variety of financial products are available to different investors and that there is greater liquidity for companies resulting from the economies of scale that are thus possible.

London remains one of the dominant financial markets within the EU. As such, London should be regarded as an EU asset and not a purely national one, just as the New York Stock Exchange is considered as one of the two major US capital markets rather than as a New York State asset.

Many of the measures under the EU Financial Services Action Plan (FSAP) have yet to reach national implementation stage since the EU legislative processes have not yet been completed. UK Business will be concerned to see that these are implemented in a workable way, without over-regulation at the UK level. Companies must also wait to see whether the individual measures of the Financial Services Action Plan once implemented, will lead to a genuinely improved business environment and to a reduction in their costs. Flexibility and consideration of the differing needs of non-EU issuers will be essential to ensure the continuing success of London and other EU financial centres as against the US and Far Eastern markets.

'Short termism' of the markets remains a concern of many UK companies. Whilst this is a behavioural, rather than a structural / regulatory problem, these pressures are only likely to be increased by the EU proposals for quarterly reporting.

In respect of regulation, UK business welcome the formation of the Financial Services Authority as a single UK financial services regulator, on the basis that this unified structure should ensure more consistency of approach across the financial sector. However, there are concerns at the overall costs of financial regulation in the UK, currently said to be running at 5% for financial services firms.

UK Progress on Lisbon Objectives

A more competitive environment for business activity

- The Financial Services Authority (FSA) was created by the Financial Services and Markets Act 2000 as a single regulator for financial services and has had full powers for a little over a year.

The FSA consults industry well (over 170 consultation papers since the FSMA) although there is sometimes the danger of consultation fatigue.

Integration of securities & financial markets

- There are approximately 100 EU-owned banks in London, employing nearly 30,000 people and with assets over $1,000 billion, conducting half of all EU investment banking and related business. EU Member States are responsible for around a third of UK turnover in international banking, international equities, bonds, corporate finance and derivatives while over two fifths of foreign exchange trading involves the Euro[5].
- Many of the measures under the EU Financial Services Action Plan have yet to reach national implementation stage. It will be important for them to contribute to competition, economies of scale and financial stability.

Easier access to risk capital

- Access to risk capital for large and medium sized companies remains good on the UK's competitive and liquid markets. Much risk capital for smaller companies, which may be the innovative large companies of tomorrow, typically comes from banks and the private equity capital market. There is a need to encourage more direct private investment in smaller quoted companies as highlighted in the CBI's 2001 report "A bigger share: encouraging growth in smaller quoted companies", which made recommendations for improvements to tax and regulatory systems. The AIM market in particular has been a great success and it will be important to preserve its distinction from the main stock exchange.
- Greater access to capital should be generated by the creation of a single EU market, which is at the heart of the FSAP. The dangers are that a high regulatory approach will be costly and counter-productive.

[5] Figures taken from the Corporation of London January 2003 report on "The City's importance to the EU economy".

4. Tax & Public Finances

Recommendations

- ➤ Continued progress must be made on the simplification and rationalisation of the UK business tax systems.
- ➤ Regressive tax measures, which increase the cost of business and impact unduly on employment levels, must be reviewed and removed whenever possible.
- ➤ Given past tax and cost increases, there must be no further rise in any business tax. To head off any 'need' for this, in the face of current weak revenues and future promised spending, borrowing should take the strain for now, with reforms to improve public sector efficiency driven through.
- ➤ For 2003, pension funding and business insurance costs must be addressed, with tax change to support productivity and enterprise.

Assessment

The announcements in UK Government’s 2002 Budget and Comprehensive Spending Review represented a watershed in the Government's approach to fiscal policy. From a relatively cautious position, the UK Government has announced a significant rise in expenditure over the next three years, requiring both higher taxation and an increase in the budget deficit. In addition, the Chancellor of the Exchequer has become less prudent in his background economic assumptions underlying the tax projections giving a higher risk of deficit overshoot.

The April 2002 Budget had been highly significant, with substantial additional Government spending to be paid for partly by extra growth and partly by a significant rise in taxes. Although in this round some extra tax has been levied directly on individuals, past experience of tax increases means that concerns remain for future tax increases being taken mainly or wholly from business. The most important single measure was a 1% rise in rates of National Insurance Contributions (NICs) for employers, employees and self-employed, to take effect in April 2003. The impact is partly offset for the personal sector by new tax credits. For business, 'pro-enterprise' measures will cost Government some £1.5bn pa, but this is more than offset by the £4bn pa cost of extra employer NICs. Several other tax rises, for example extra tax on oil profits were targeted on business.

Since the Chancellor set out his tax, spending and borrowing plans, the UK’s economic performance has fallen short of the forecast underpinning them. With economic growth disappointing, the Treasury was forced in November to revise down its forecasts for tax revenue by £6bn (1.5%) for 2002/3 and by £11bn (2.5%) for 2003/4. Its new projections show public borrowing peaking at 2.2% of GDP in 2003/4, rather than the previously planned 1.2%. (This aspect of the Treasury forecast appears realistic, though its projections for a swift improvement in the economy and finances beyond that may still be too optimistic.)

UK Progress on Lisbon Objectives

Sustainable public finances

- The UK Government has announced a step-up in the rate of increase in its expenditure, to be financed partly by a revised assumption about the economy's underlying growth rate, partly by higher taxation, and (looking further out) by a small discretionary increase in Government borrowing. In the meantime, upward pressure has also been placed on government borrowing by slower-than-envisaged economic growth.

- The CBI has reservations about the steepness of the public spending increases, about the use of higher taxes on employment to help fund those increases, and about the reliance on a more optimistic assessment of economic prospects than previously. Nevertheless, we do not see the Government's plans as a threat to the sustainability of public finances, and would not urge action to mitigate the increase in government borrowing at this fragile stage of the economic cycle.

Reform of the administrative environment

- In recent years frequent change, greater complexity and the shifting of administrative burdens onto the private sector have dogged the UK tax system. Corporations, entrepreneurs and private individuals have all been affected, albeit in different ways. Employers have been specifically affected by the need to administer various new personal tax credits and charges through the pay-as-you-earn system, in addition with the necessity of compliance with the existing business tax system.

More targeted use of public resources to promote growth and employment

- Though the CBI has reservations about the overall government spending plans, which are to rise as a share of GDP, business is satisfied that the allocation of new resources to certain areas will be conducive to growth, notably education, training and scientific research. The 'ten year' plan set out two years ago, to step up investment in the transport infrastructure, was also welcome, but we have since become concerned that more resources will be needed to address particular problems.

Lower tax pressure on employment

- The UK Government took a significant step backwards in this area, with the announcement of a 2% extra levy on income from employment - in the form of a 1% rise in employees' NICs and a further 1% rise in employers' NICs.

5. Innovation

Recommendations

- ➤ Government must deliver and support an investment-friendly tax system.
- ➤ Government must deliver the funds necessary to support and improve the university teaching and research infrastructure.
- ➤ Government must develop a strategy for R&D, which will link together national, regional and direct government support for both science and innovation. The strategy must also place business at its core, so that investment can be more closely linked to economic activity and potential.

Assessment

The overall picture for innovation in the UK is reasonable, but could certainly be improved. In the CBI's most recent innovation survey only 36% of companies were rated as 'innovation stars'. The rest could be described as either moderate, erratic or lacklustre innovators depending on the extent to which their internal culture was supportive of innovation. Work still needs to be done to raise awareness of the importance of innovation in these companies and how culture change can lead to improvements in productivity and competitiveness.

At the more tangible end of the innovation spectrum, investment in research and development (R&D) and new technologies is also important. Currently the bulk of the productivity gap between the UK and the US is thought to arise from under investment in these areas in the UK. The new R&D tax credit system coupled with increased funding for the science base by the UK Government should start to make an impact on these factors over the next few years. However, the innovation survey also noted that 43% of the UK's largest companies had either cut back, postponed or cancelled R&D spending over the last twelve months as a consequence of difficult economic conditions."

The UK conducts around 6% of the world's R&D. We have an excellent science base producing world class research, but the UK could still do much better at exploiting this work and turning it to commercial advantage. With a clear science and innovation strategy, the UK could identify priority areas for investment that would be of direct benefit to the economy; building on what we are good at and building up areas where the UK must be good to compete successfully in the future.

UK Progress on Lisbon Objectives

Better co-ordination between national & European research programmes

- Co-ordination between UK and European research programmes remains poor despite the UK Government’s support for the 6th European Framework Programme (FP6).

Development of private investment in research

- There have been good moves on the setting up of an R&D tax credit that all companies can now access. The credit rate was also set higher than anticipated after business lobbying. The CBI is now working with UK Government to improve and rationalise the system.

More partnership between schools, training centres, companies & researchers

- UK Government published a Science and Innovation White Paper in July 2000. This was followed by a reorganisation of the DTI, which placed innovation as a core activity. In 2002, the Government completed a major cross-departmental review of science and technology ahead of the Spending Review. The CBI welcomed the 2000 White Paper and the support it gave for the science base, regional innovation activities and initiatives to link industry with the academic sector. The key to success is for the new DTI strategy boards and other stakeholders to work together to champion innovation and maximise returns on investment. In the CBI’s Spending Review submission, we called for:
  - further investment in new areas of science and technology such as genomics, e-science and sustainable energy.
  - knowledge transfer initiatives to be rationalised and properly supported.
  - additional funds to support university teaching and research infrastructure.

Greater mobility of students, teachers, trainers & researchers

- Reforms to teachers' pay and progression, including appraisals and a more effective career ladder, have been introduced in the last three years and should enhance teachers' mobility.

Improve protection for intellectual property

- UK business supports the establishment of a Community-wide patent system, to operate alongside existing more limited European patent system and national patents. However, following disagreement between Member States, the issue remains stalled at the European level.

6. Labour Market Improvement

Recommendations

- ➤ UK Government should focus on consolidating and raising awareness of current rights, encouraging them to bed down, rather than introducing a raft of new employment rights
- ➤ A flexible labour market is essential to ensuring UK business remains competitive. The Government must ensure that businesses are able to adapt when necessary, for example by varying working time or employing agency temps or undertaking restructuring.
- ➤ A light-touch implementation of the Information and Consultation Directive would ensure that businesses have the flexibility to use consultation methods that are appropriate to their firm's size, structure and ethos. Over-proscriptive implementation of the Directive to create 'one-size-fits-all' legislation would risks seriously damaging UK productivity.

Assessment

The current UK labour market is in relatively good shape, but is vulnerable to being easily undermined. A recent CBI/MORI poll showed that excessive employment regulation is a key business concern – with 80% of chief executives finding the increase in employment regulation damaging to their business. The pivotal reason for UK businesses' continued strength in world markets is the comparatively flexible UK labour market. However, unnecessary increases in employment protection could threaten this, making the UK a less attractive place to do business and deterring potential inward investors.

UK Progress on Lisbon Objectives

Better employability & a match between supply & demand for labour

- The New Deal is the cornerstone of the UK Government's Welfare to Work initiative – an 'active' labour market strategy which seeks to help long-term unemployed people (six months or over) obtain sustained employment. New Dealers are assigned a personal adviser who works with them to identify obstacles to employment and develop solutions. The Government launched the New Deal for Young People (NDYP) nationally in April 1998 with the initial target of finding jobs for 250,000 long-term unemployed young people, which was achieved in September 2000.

  The Government has now extended the New Deal to other groups such as: the long-term unemployed over 25, the over-50s, the disabled and lone parents. The Government has also recently established 'Jobcentre Plus', which brings together the Employment Service and the Benefits Agency. Around 1.8 million people, including 400,000 young people have now found work through the New Deal.

- The match between supply and demand at a local level is to be tackled through Strategic Area Reviews of all training provision, based on local Labour Market Information. These Reviews will be carried out by each of the 47 local Learning and Skills Councils (LSCs) in England, the government bodies which fund such provision.

- A new network of employer-led Sector Skills Councils are being set up to define employers' sector skill needs and ways to reduce skill shortages and gaps

Qualification programmes for the unemployed

- UK Government has introduced two key programmes to address this target;
  - Work Based Learning for Adults (WBLA)
  - Basic Skills and English

  Both programmes operate on a voluntary basis and are accessible to individuals through Jobcentre Plus, with a specific focus on attracting the long-term unemployed.

Reduction of long-term unemployment

- The UK Government's 'New Deal' initiative is the key active programme for getting people back into employment. Whilst UK business is supportive of its overall achievement in getting people back to work (1.8 million people have been through the New Deal) many employers are concerned about the job-readiness of the New Dealers, e.g. lack of 'soft skills' and the low level of post-placement support services.

Development of employment in the services sector

- The services sector is already a significant provider of employment in the UK economy. In 2001 the service sector accounted for 77.5% of the employment in the UK, an actual figure of over 22.8 million workforce jobs. This compares favourably with other Member States.

Equal opportunity

- UK Government with CBI/TUC support has introduced legislation that has given employees the right to request flexible working. The arrangements for promoting family friendly and flexible working practices need to be balanced with the practical commercial realities of running a business.
- The National Childcare Strategy has provided expanded childcare help and has been supported by increased levels of maternity leave payments.
- UK Government has instituted reforms of the Equal Pay Tribunals, streamlining the process to help cut unnecessary paper work and legal costs and thus benefiting claimants and employers.

7. Social Protection

Recommendations

- ➤ UK Government must continue to ensure that its pension reforms reflect the needs of both employees and employers.
- ➤ Legislation designed to address issues of social concern must take account of the need for labour market flexibility in the face of global economic uncertainties.

Assessment

The Government estimates that approximately 3 million people are seriously under-saving for their retirement (or planning to retire too soon). Furthermore, they estimate that a further group of between 5 and 10 million people may want to consider saving more or working longer.

UK Progress on Lisbon Objectives

Adaptation of social protection to reflect the ageing of the population

- The UK Government has a number of initiatives that are aimed at tackling the difficulties that face people over 50 in relation to accessing and remaining in the labour force:
  - For those seeking employment, the New Deal for the over-50’s offers a range of advice, training and support for those who are unemployed and has been enhanced this year by financial support offered by working tax credits.
  - The Skills for Life programme and the University for Industry provide learning and training opportunities for adults already in employment.

Better access to pension funds

- The UK Government has introduced a number of new initiatives over the last few years to facilitate improved access to pensions and tackle the savings gap. It has sought to build on this approach in its recent Green Paper on Pensions and in the Inland Revenue’s consultation document on pension taxation.
- Stakeholder pensions were introduced to help those on lower-middle incomes, typically those earning between £12-20,000 per annum, to start their own pension. The intention was to provide a good value alternative pension for those without access to an occupational pension scheme. Employers were required to provide access for most employees who did not have access to an employer sponsored pension scheme. However, the take up of stakeholder pensions has been lower than expected and contribution levels may, in many cases, prove insufficient to secure a ‘reasonable’ retirement income

Fight against social exclusion

- Disaffected young people have been a particular target of the UK Government's policy. In particular:
  - The Connexions Service has been set up to offer all young people (but particularly the most disaffected 10%) an integrated advice and guidance service covering careers, crime, counselling and drugs advice.

- The Excellence in Cities programme is the Government's key initiative for redressing educational disadvantage and poor performance in schools in deprived urban areas of England. The programme is designed to encourage schools in these areas to work together to offer Learning Mentors, Learning Support Units, City Learning Centres, specialist provision and encourage them towards becoming Beacon Schools.

8. Education & Training

Recommendations

- ➤ Government should make a commitment to eradicate basic skills problems among young people. This should include targets for 11, 14, and 16 year-olds.
- ➤ Reducing adult literacy and numeracy must remain a priority.
- ➤ Government should continue to build on the successful Investors in People Standard to help more small firms link staff development with business objectives. It should also ensure that firms can access training where, when and how they want it.
- ➤ Government must drive increased use of broadband in the public sector, to create an environment that is conducive to innovation and investment.

Assessment

The UK is in the vanguard in its actions on improving access to education and training. Addressing low skills in the adult workforce, in particular poor literacy and numeracy, remains a priority. 'Skills for Life' - the National Literacy and Numeracy Strategy - is beginning to show results and targets have been set for 1.5 million adults to improve basic skills by 2007. Given that there are an estimated 7 million adults with poor literacy and numeracy in England, much remains to be done.

Considerable progress has been made in schools, particularly through the literacy and numeracy strategies in primary schools. However, there are still too many young people leaving compulsory education without the right foundation for further learning or for employment. Just under half of 16 year-olds do not achieve a GCSE Grade C or above in maths, and 40% do not do so in English.

While there are some short-term shortages in high level IT skills, far fewer employers report shortages in basic computing skills. Learndirect has now established about 90 Learning Hubs and over 1500 Learndirect centres, e.g. in local libraries and businesses. The majority of its learners take IT courses and Learndirect has been reasonably successful at reaching those previously not engaged in learning.

Overall, whilst the UK strategy is heading in the right direction, the Government must sustain its support and maintain a clear focus on the objectives. The UK's problems are deep-rooted, and there is a real danger that the plethora of initiatives could easily distract from the core priorities, achieving real improvements in the capabilities of the young and the low skilled.

UK Progress on Lisbon Objectives

Increase investment in human resources

- UK Government has increased the budget of the Learning and Skills Council, the body responsible for funding all post-16 education and training provision in England, except higher education, from £5.5 billion in 2001/2 to £8.1 billion in 2003/4.
  - The total Schools budget for England will rise from £34 billion in 1999/2000 to £49 billion in 2003/4.
  - The new higher education proposals will increase total funding for the sector from £7.6 billion in 2002/3 to £10 billion in 2005/6.

- UK Employers have significantly increased their investment in training and development (the latest figure is £23.5 billion per year, compared to £10.6 billion in 1993). Following CBI and TUC's joint recommendation for additional funding for the Investors in People (IiP) Standard of workforce development, £30 million is to be invested to increase its take-up among small firms. The IiP Standard now covers employers that employ 40% of the workforce.

Adapt education & training to technological & IT change

- The Government-backed University for Industry recruited 240,000 learners of all ages in 2001/2 to vocational e-learning courses ('Learndirect'). Over 120,000 of these are 'new to learning'. Many of the courses are free for the learners. £100 million will be paid to schools each year from 2003-6 in the form of 'e-learning credits'. Schools can use these credits to purchase free learning materials and Internet access.
- Total public funding for ICT in schools is set to rise to £920 million per annum by 2005-6. Teacher training is also key; over 100,000 teachers now have access to a laptop through the 'Laptops for Teachers' scheme and online professional development materials are available in a range of subjects.

Redefinition of the future objectives of education systems

- Education is split into three main phases, the objectives of which broadly tie in to the Objectives Process:
  - 5-11 year olds: objectives of this phase include: basic literacy and numeracy skills with some ICT and science.
  - 11-14 year olds: basic and more advanced literacy and numeracy skills, ICT and science.
  - 14-19 year olds: all pupils taught English, maths, science and ICT. The new 14-19 strategy emphasises a broader curriculum with more opportunities to move between academic and vocational courses and more work-based learning.
- UK Government is taking forward the recommendations of the Howard Davies Review of Enterprise and the Economy in Education, to improve young people's business awareness, attitude and knowledge and understanding of enterprise.

Promote mobility among the young, teachers & researchers

- Reforms to teachers' pay and progression, including appraisals and a more effective career ladder, have been introduced in the last three years, which should enhance teachers' mobility.
- Modern Apprentices are required to take key skills and a technical certificate as well as their National Vocational Qualification. This provides them with access to both higher education and increased job opportunities.

Prioritise life-long learning, & promote agreement on work based training programmes

- Lifelong learning is a key objective of the Learning and Skills Council's (LSC) budget and has continued to attract funding increases. Employers and Apprentices are now registered with the relevant LSC and sign a joint agreement on the work-based training programme. The LSC funds Apprenticeship Agents to facilitate employment opportunities for potential Apprentices.

- An Individual Learning Account for Wales is to be launched shortly - with a maximum of £200 available to those with no/low qualifications (not qualified at level 2), no restrictions on the type of learning and 100% course costs for those on Income Support or Job Seekers Allowance. A shortened Apprenticeship that is specifically designed for older workers is also to be launched.

Develop employability

- The UK already meets most of the employment targets set by the Commission. However, in those areas where the UK is lacking, the Government is addressing the gaps on a number of levels, with key targets being attached to specific groups, e.g. young people and low-skilled adults;

  Young people: several targets to improve standards, including

  - 55% of 16 year olds to gain 5 GCSEs at A-C grades by 2004 (*51% achieved in 2002*)
  - 85% of 19 year olds to gain a level 2 qualification by 2004 (*75% achieved in 2002*)
  - 55% to reach level 3 qualification by 2004 (*51% achieved in 2002*)

  Low-skilled adults: targets include

  - Reduction of 1.5 m in the numbers with low basic skills by 2007.
  - Reduction by 40% the number in the workforce without a first level 2 qualification by 2010.

Provide local cheap Internet access with better training

- UK Government has set specific targets for achieving increased low cost Internet access:
  - £120 million each year between 2003-6 to be used to provide all primary and secondary schools with broadband Internet access by 2006.
  - £14 million will be invested in high tech learning for adults through UK Online Centres, in 2005/6.
- The CBI has been working as part of the Broadband Stakeholder Group (BSG), a group founded in April 2001 to advise the Government on strategy for the development, rollout and exploitation of broadband across the UK. The BSG has issued a number of recommendations to which the Government has responded positively.

Development of Internet access for all

- The number of households using the Internet has been growing positively since 1998, with only short-term seasonal dips. At the end of 2002, 22 million adults in the UK were using the Internet regularly, however differences in take-up remain, especially between income groups, regions and age groups. In 2002 the gap between the highest and lowest income bands was 69 percentage points in comparison to 29 percentage points in 1999.

9. De-regulation

Recommendations

- UK Government should act further on its' commitment to 'think small first', otherwise it risks failing to meeting its target to make the UK the best place to start and grow a business by 2005. It is crucial that SMEs are given help in implementing new regulations.
- The use of Regulatory Impact Assessments (RIAs) should be improved. Although over 700 have been produced, they have failed to stem the flow of regulations. The Government should fully explore non-regulatory solutions prior to the implementation of new regulations. In certain cases non-regulatory solutions are able to meet Government targets better than regulatory solutions.
- UK employment legislation should be announced on a single date, and introduced on a single date. This would make the system more transparent, and reduce the number of SMEs unaware of changes on legislation, and therefore liable to prosecution.
- UK Government must ensure that the transposition process for European Directives does not unduly burden businesses and that the processes involved are transparent and accessible.
- UK Government must ensure that accurate and concise guidance is issued as a matter of course during the transposition of EU regulations. The guidance must also be issued in a timely manner, preferably preceding the issuing of any legislative texts.

Assessment

The UK Government has undertaken a number of initiatives to strengthen systems to control regulatory burdens, including the establishment of a Ministerial Panel for Regulatory Accountability and the enactment of a Regulatory Reform Act to facilitate the disposal of outdated legislation.

In conjunction with the Better Regulation Task Force (set up in 1997) these initiatives are designed to ensure that there is cross Government impetus to ensure that regulations and their enforcement are transparent, accountable, proportional, consistent and targeted. Regulatory Impact Assessments are also published, which look at the need for regulation and compares various possible options for dealing with an issue, as well as providing business impact costs.

However, despite these measures the overall regulatory burden on UK business has grown substantially. The number of new regulations feeding through is impacting negatively on the competitiveness of UK businesses, particularly those in the SME sector.

UK Progress on Lisbon Objectives

An environment & culture conductive to enterprise

- The Global Entrepreneurship Monitor (GEM) 2002 study[6], identified that entrepreneurial activity in the UK contracted by nearly a third between 2001 and 2002. Although some of this can be attributed to the global economic downturn seen over this period, the UK was rated 23rd out of 37 countries measured in the survey. This fall virtually wipes out the rise in activity experienced during 2000,

[6] See - http://www.gemconsortium.org/

for the UK to match entrepreneurial levels seen in North America and parts of Northern Europe, activity would have to nearly double.

- Whilst the OECD SME Outlook 2000 report identified that barriers to entrepreneurs setting up in business in the UK are relatively low, 'fear of failure' remains a major obstacle for new start-ups. The GEM 2002 survey found that over one third of the UK adult population would not start up in business for this reason.
- There are significant concerns about regulation. The regulatory system is felt by many entrepreneurs to be unfair and unreasonable. This feeling has been compounded over the past couple of years as the burden of regulations, particularly employment regulations has increased. To combat this, the UK has strengthened systems to control regulatory burdens:
  - The Ministerial Panel for Regulatory Accountability has been established.
  - A revised guide to regulatory impact assessment has been launched.
  - A Regulatory Reform Action Plan has been issued.
  - The Regulatory Reform Act has been enacted, enabling outdated legislation to be got rid of.
  - Ministers for Regulatory Reform have been appointed.
- Efforts have been made to improve the relationship between banks and small businesses, and to improve access to finance for many growing firms:
  - Eligibility for the Small Firms Loan Guarantee Scheme has been extended. However, the amount of the loan guaranteed by the Government is to be cut to 75%, a reduction for many currently eligible firms. This will reduce appetite for the scheme.
  - The UK High Technology Fund was developed to increase the finance available for technology-focused businesses.
  - Regional Venture Capital Funds are being set up in each of the English Regions to improve the access to finance for SMEs.
- 'Enterprise Areas' have been created in 2,000 regeneration areas. These make special provision for reducing business cost and regulatory burdens, with additional measures to encourage investment and innovation.
- £75m was announced in the last UK Government Pre Budget Report to promote enterprise in schools. The encouragement to young people to be enthused and aspire to setting up their own business will help build further entrepreneurial spirit in the future.

Simplification of laws & regulations, with new & more flexible approaches

- The November 2002 OECD report 'Regulatory Reform in the United Kingdom: challenges at the cutting edge' stated that while, "the UK is at the forefront of regulatory reform in the OECD, it has already made major improvements and has planned more" there continued to be a steady increase in regulation and a lack of exigency in dealing with it. The report urged that the UK Cabinet Office Regulatory Impact Unit (RIU) takes a stronger line with other Government Departments in its challenges to their regulatory demands.
- The RIU is encouraging government departments to undertake thorough RIAs of all proposed legislation. The Department of Trade and Industry has prepared new

guidance for policy makers on the preparation of RIAs. However, there is still great variability in the quality and thoroughness of the assessments that are being made.

Simplification of relations with Government

- The UK Department of Trade and Industry (DTI) is working on simplification of the existing plethora of business support. The Small Business Council was set up in 2000 as an advisory Non-Departmental Public Body. It is mainly made up of small business owners, and seeks to influence and educate Ministers about the concerns of small businesses. It also works to ensure that procedures are established that mean policy makers always consult small businesses when proposing a change that will affect businesses.

Better transposition of European directives

- The UK Government's implementation of EU directives is too often dependent upon the agency charged with transposition. In those areas in which the UK is well represented, e.g. Health And Safety, transposition is effected well (notable exceptions being the Chemical Agents directive and the Dangerous Substances and Explosives Atmospheres directive). Other agencies frequently lapse in ensuring that the necessary measures are taken to ensure full business consultation is effected or that requisite guidance documentation is made available in a timely manner.

- Frequently, guidance on transposed directives is released at the same time as the legislation becomes effective, or in some cases after. This has been a key concern for UK business in respect of the recent implementation of European waste directives (e.g. the Landfill Directive and the End of Life Vehicle Directive). The consequential lack of certainty fails to provide the necessary basis for business to present a case to financial institutions for capital to invest in the improvements that are needed for compliance.

  With specific reference to the Landfill Directive, UK Government ineptitude in managing the transposition process has meant that UK waste operators have only recently been able to assess the true business costs of running hazardous or non-hazardous landfill site. This has resulted in large numbers of waste producers being unable to determine if their existing current waste disposal routes would remain available, or if their wastes would meet the new waste acceptance criteria.

10.Reconcile Sustainable Development with Competitiveness

Recommendations

- UK Government must adopt an approach that places competitiveness at the heart of its drive toward a low carbon economy. Ambitious targets adopted by the UK Government must be matched by commensurate effort by international partners to avoid damaging the competitiveness of UK business. The adoption of new measures, for example the EU emissions trading scheme, must take into consideration the investments already made by business under existing policy measures, for example the UK emissions trading scheme and the climate change agreements. Early action by business must not be penalised and the transition of sectors must be managed.
- UK Government must address anomalies in the existing package of climate change measures. For example, eligibility for reductions from the climate change levy must be extended to plastics and china clay producers, and other sectors whose competitiveness is unfairly compromised by the levy.
- UK Government must act to get the 10 Year Plan for transport back on track. There are currently a number of barriers to delivering transport improvements, which, if not addressed urgently, will threaten the Plan's objectives. Key problems include a lack of key decisions and rising costs.
- UK Government must provide more detail on costings and timescales for the Strategic Rail Plan and the development of key regional rail enhancement projects must be progressed as a matter of urgency.
- UK Government must address business concerns over the UK waste strategy, specifically regarding market imperfections, the poor design and implementation of the regulations, the lack of sufficient waste management capacity and the use of taxation.
- UK Government should increase the use of positive incentives to encourage business to reduce waste, and increase the re-use and recovery of products.

Assessment

The CBI believes that the UK Government's newly released energy policy white paper represents an important step towards establishing the competitive low-carbon economy that business wants. However, we are concerned that while the objectives of the energy white paper are clear, the route to achieving them is often built on faith. The big dilemma for energy policy remains how to achieve a low carbon economy without damaging competitiveness, given that international agreement may not be forthcoming. If the UK and the EU states press ahead unilaterally, the effect of higher energy prices on industries located in Europe could be devastating.

Business also remains concerned about anomalies in the existing package of climate change measures, in particular those which have unintended implications for competitiveness. For example, the design of the climate change levy has arbitrarily resulted in certain sectors (such as, plastics manufacture) being excluded from the discount arrangements, while competitors (for example, paper, glass and can manufacture) are eligible; and hence placed them at a competitive disadvantage.

The UK 10 Year Plan for transport promised to reduce congestion which consequently deliver environmental benefits - the Plan anticipated a saving of 1.6 Million tonnes of carbon (MtC) by 2010 and will also contribute to lower emissions of Nitrogen Oxides (NOx) and particles with diameters less than 10 microns (PM10). However, the Plan has run into serious difficulties. A lack of major decisions, especially from the multi-modal studies, means many key schemes are unlikely to be built within the lifetime of the Plan. The Strategic Rail Authority (SRA) published its first annual review of its Strategic Plan in January 2003. Its revised Plan sees many major projects now deferred or reduced in scale as rising industry costs eat into available funding. It is also unlikely many cities will have congestion charging schemes operational by 2010. All of these measures would have contributed to congestion reduction but, as the Government recently admitted, it is estimated that congestion will be 11-20% higher in 2010 than in 2000, although it would be substantially higher still without the Plan.

The CBI has urged ministers to take swift decisions on recommendations from the multi-modal studies. We have welcomed the commitment to streamline the planning process for major projects, and although progress on this has been generally slow, there is reason to believe that new procurement practices in the Highways Agency will speed up the delivery of some major road schemes. Our message on rail has been that, whilst we welcome the new realism within the SRA, that business will only put up with delays in improving the network for so long. We have also emphasised that the SRA must work with the industry to restore good private sector disciplines to the railways and make a case for additional money after 2004

UK Business is concerned that EU initiatives combined with the lack of Government focus do not provide a cohesive strategy for waste management in the UK. The recent Cabinet Office initiative on waste represents a start by attempting to bring all the strands together, waste streams, waste treatment, recycling and disposal arrangements and economic incentives and taxation. In our response to this study, the CBI recommended the need for an industrial waste strategy/database, for an expansion in the recycled products markets and for the urgent reform of the planning process. On other proposals, such as for a significant increase in the rate of landfill tax, we have argued that there should be no change until Government has undertaken a proper cost/benefit assessment. We have also urged Government to act with caution over proposals to impose a levy on goods deemed to cause environmental harm (such as batteries).

Current UK waste strategy, driven by EU policy, has a particular focus on targets aimed at reducing waste to landfill, increasing re-use and recovery of products. One of the main challenges to making significant progress towards achieving waste targets is the lack of good data, not just on current performance with regard to resource use or waste arisings/recovery, but also on recent trends. The effectiveness of any policies and measures adopted will be compromised in the absence of such data. The framing of specific regulations in the UK has also acted in a way that perversely, prevents or actively discourages waste from being reused/recycled. For example, in some instances Environment Agency application of the definition of waste can inhibit the re-use of a product and may result in it being sent to landfill. The sheer volume of waste regulation will continue to put significant pressure on the resources of businesses and policy makers alike. Effective transposition of EU regulation is critical. Government must ensure that the UK is adequately prepared, in terms of data and information flow, guidance, funding and infrastructure, to implement both UK and EU initiatives on waste.

UK Progress on Lisbon Objectives

Measures to counter climate change – implementation of Kyoto, renewable energies

- As part of its sustainable development strategy the UK Government has an objective to continue to reduce its emissions of Greenhouse Gases now and plan for greater reductions in the longer term. Since the strategy was launched in 1997, emissions of the “basket” of six Greenhouse gases fell by 5%. However there was no change between 1999 and 2000 and non-Government estimates suggests that emissions have risen slightly over the past two years.

- In addition to its agreed Kyoto target, the UK Government has committed to cut carbon dioxide by 20% below 1990 levels by 2010. To meet its targets, the UK has implemented a Climate Change Programme, which includes a raft of measures aimed at reducing both emissions and business energy use. These measures include the CCL and Emissions Trading.

  The CCL was introduced on 1st April 2001 and is a tax on businesses' use of coal, gas and electricity, designed to encourage greater energy efficiency. In order to retain tax neutrality, the revenues raised by CCL are recycled back to businesses by a 0.3% reduction in National Insurance Contributions (NICs). To protect the competitiveness of the most 'energy-intensive' sectors of industry (defined as those regulated by the EU's IPPC Directive), the levy includes an 80% discount for those sectors provided they enter into agreements to meet challenging energy efficiency targets. To-date forty-four sectoral agreements have been entered into covering around 13,000 individual facilities.

- Other measures were introduced alongside the CCL to help business tackle energy use. These include: Enhanced Capital Allowances (ECAs) which provide tax relief on low energy technologies, the 'Action Energy' programme which provides online advice and support as well as site surveys and interest free loans, and support for the use of electricity generated by renewables or 'good quality' CHP, in the form of a complete exemption from the CCL.

- In the recently released Energy White Paper, the UK Government has made a commitment to put the UK on a path to cut its carbon dioxide emissions by some 60% by 2050, with a medium term goal to cut carbon by 15-20 MtC below that committed under current policies by 2020. In addition to existing measures under the UK climate change programme, the UK's strategy for future emissions reductions will focus on improving energy efficiency across all sectors of the economy. The EU emissions trading scheme will be a central plank to achieving the UK's medium to long term emission reduction goals and the UK will focus on integrating the existing climate change programme with the EU scheme. In addition, the UK Government has set an aspirational target to meet one fifth of Britain's electricity from renewables by 2020.

Adaptation of transport to environmental requirements – social cost, infrastructures, alternatives to road.

Road Transport

- As part of its sustainable development strategy the UK Government has the objective of decoupling road traffic and economic growth, with targets on reducing road traffic volume and road traffic density. While road traffic volume increased, road traffic density decreased by 4% between 1998 and 2001, showing some decoupling between road traffic and economic growth.

- The Transport Act 2000 gave local authorities the ability to introduce congestion charging or workplace parking levies to tackle congestion and other problems in towns and cities. This would not apply to trunk roads, except where it would complement a local charging scheme. The 10 Year Plan anticipates that there will be 20 major English schemes outside London in operation by 2010 (8 congestion charging and 12 workplace parking levy schemes).

Rail Transport

- The SRA published its 10 year rail strategy in January 2002. The strategy sets out how the SRA will support and develop the railways in meeting the key targets of 50% growth in passenger services, 80% growth in rail freight and reduced overcrowding over the 10 Years of the Government's Transport Plan. £60bn was earmarked for rail over the decade, around £34bn to come from the public sector and the rest from private sector investment. The strategy is divided into short term priorities - concentrating on developing a new structure for the industry, improving performance and delivering committed projects; medium term priorities - focusing on additional projects needed to meet the 10 year plan commitments and for the longer term - enhancement projects to be delivered after 2010. The Strategy is to be reviewed and updated annually.

Promotion of natural resources – biodiversity, ecosystem, industrial waste

- The UK Sustainable Development Strategy has an objective to 'move away from disposal of waste towards waste reduction, reuse, recycling and recovery'. Due to the lack of reliable data on waste it is difficult to give a precise picture on UK performance in reducing waste to landfill. However, provisional data illustrates a downward trend of industrial/commercial waste to landfill. In 1996 industrial/commercial waste to landfill amounted to 80%, the Environment Agency estimate that this was further reduced to 47% in 1998/99. In comparison, municipal waste to landfill remains high, with 83% being disposed in 1998/1999.
- UK Government published its Waste Strategy for England and Wales in 2000. The strategy seeks to establish a co-ordinated approach on how industrial and domestic waste will be managed in the UK, in part to comply with the requirements of the Landfill Directive. The Waste Summit of November 2001 reviewed the UK’s ability to meet the Waste Strategy and concluded that the CO should undertake a study to evaluate how the Strategy can be delivered. The CO Strategy Unit ‘Waste Not, Want Not’ report was published in November 2002.

Access to the national Lisbon strategy reports 2003 of the industrial and employers federations of the EU Member State and the UNICE report can be found at www.unice.org/lisbon

The Confederation of British Industry (CBI) is a member of UNICE, the leading independent organisation representing European business.

UNICE's members are 35 central industrial and employers federations from 27 European countries, speaking for more than 16 million companies, the vast majority of which are small and medium sized enterprises.