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Department
for Business
Innovation & Skills

MINISTERIAL TOPICAL BRIEFING PACK.

Thursday 26th June 2014

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Export Licences: Iraq

Issue

- You may be asked about UK export licensing decisions for Iraq, given the recent emergence of the Islamic State of Iraq and the Levant (ISIL)* and the consequent changed circumstances in that country.
- *Although this group has been referred to as 'ISIS', the FCO generally refers to it as 'ISIL'.

Key Facts

- The recent events in Iraq have shown that the Iraqi Security Forces & the country face a very real threat from ISIL.
- The Government supports the Iraqi government in its efforts to combat terrorism, including through commercial sales of defence and security equipment.
- We have reviewed extant licences to Iraq and judge that they remain consistent with our obligations under the Consolidated EU and National Arms Export Licensing Criteria.

Elephant trap

Why are export licences being issued for Iraq when there is an arms embargo under UNSCR 1546?

- These are permitted exemptions to the arms embargo. These include the sales of arms and equipment required by the Iraqi government, sales to diplomatic missions in Iraq, and entities contracted or subcontracted to the government of Iraq.

How are export licence applications for Iraq assessed?

- All export licence applications are carefully assessed on a case-by-case basis against the Consolidated EU and National Arms Export Licensing Criteria, taking into account circumstances prevailing at the time of application. This includes the clear risk of internal repression and of diversion.

Isn't there a danger that UK equipment could end up in the hands of ISIL?

- There is currently no evidence to suggest that equipment exported from the UK has fallen into the hands of undesirable end users. We will continue to review the situation closely and will revoke licences that are no longer compatible with the Consolidated EU and National Arms Export Licensing Criteria.

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Export Licences: Egypt

Issue

You may be asked whether the recent jailing of three Al-Jazeera journalists in Egypt should prompt the UK to revoke export licences for that country, on the basis of an argument that this sentencing signals a move towards internal repression in Egypt.

Key Facts

- All export licence applications are assessed against rigorous internationally-agreed Criteria, including whether there is a clear risk that goods might be used for internal repression. A licence would not be granted if to do so would be a breach of the Criteria.
- Our assessments take full account of the situation in the recipient country. We keep all existing export licences under review in light of changing circumstances.
- In July last year we revoked 5 export licences in light of the deteriorating situation in Egypt;
- A further 48 were suspended in August following agreement by the EU Foreign Affairs Council to suspend licences for equipment that might be used for internal repression. A further review took place in October and 16 licences remain suspended.
- We have no current plans for any further suspension/revocations. Any change in licensing policy towards Egypt would be announced to Parliament.

Elephant trap

If not now, what would prompt the Government to revoke further export licences for Egypt?

- Our export licensing system allows us to respond to changing facts on the ground. We will continue to review the situation closely and will revoke further export licences if they are no longer compatible with the Consolidated EU and National Arms Export Licensing Criteria.

Will your assessment of new applications take these events into account?

- Our assessment of applications for export licences to Egypt will continue to take full account of events taking place in the country. The longstanding UK position is clear: we will not grant export licences where we judge there is a clear risk the goods might be used for internal repression, provoke or prolong conflict within a country, be used aggressively against another country, or risk our national security.

Does the Government stand by its claim that the UK has one of the most stringent arms export control systems in the world?

- Yes. The UK Government takes its defence exports responsibilities extremely seriously and aims to operate one of the most robust export

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control systems in the world. All exports of arms and other controlled military and dual-use goods to Egypt are assessed thoroughly on a case-by-case basis against stringent, internationally recognised criteria (the Consolidated EU and National Arms Export Licensing Criteria).

UK Coal

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Issue

What is Government doing to secure the future of UK Coal's deep mines and does the offer of a £10m loan from HMG remain on the table?

Key Facts

- We have been working closely with UK Coal since January to help it overcome the challenges it faces and prevent an immediate closure of its deep mines.
- The exceptional offer we made of a Government loan of £10m to the private sector led consortium that was leading the plan for a managed closure remains on the table despite the withdrawal of Hargreaves, the lead partner, earlier this month.
- UK Coal directors have been urgently exploring alternative options; the Government will continue to co-operate fully with other parties and to explore all viable options

Top Government Actions (since May 2010)

1. In addition to the extensive support the Government continues to provide to UK Coal in dealing with its current challenges, we supported the company through the course of corporate restructurings in 2012 and again in 2013. This included £5m to meet the costs of statutory redundancy and facilitating flexibility in the payment of certain sums owed to HMG and its agencies and the assumption of some exceptional liabilities.
2. The Government also announced in November 2013 that it would meet the concessionary fuel liabilities for all those who lost the entitlement following the Daw Mill fire. (£48m over the lifetime of the scheme)

Elephant traps

Will the Government support the mines to 2018?

- Government expenditure has to represent value for money. A clear Vfm assessment can only be made on the basis of a sufficiently detailed plan presented by a credible sponsor and which had undergone thorough due diligence and assessment of feasibility.
- To date, the only plan presented and supported by the Board of UK Coal is the 18 month managed closure plan which my officials have been extensively involved in for the last few months.
- We have not been provided with a plan which envisages the operation of the mines beyond 2015.

Why can't the Government use some of the £700m it received from the Mineworkers Pension Scheme to fund the mines until 2018?

- The Government cannot decide unilaterally to hypothecate receipts in one area to fund expenditure in another.
- The principal drivers in determining what, if any, role we might have in assisting in a solution for UKC are legality, propriety and demonstrable value for the taxpayer.

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The Government is providing insufficient support for those staff being made redundant

- The managed closure plan will provide more time for the staff affected by the eventual closure of the mines to find alternative sources of employment and if necessary re-train.
- The Job Centre Plus has been working closely with the company and Unions since 23 April offering the full support of its Rapid Response Service to all staff affected by the announcement.
- This support is ongoing with further events scheduled for July

Will HMG take on the concessionary fuel liability?

- The position in relation to those remaining UK Coal employees with a concessionary fuel entitlement is part of the ongoing discussions with UK Coal management. We cannot comment further at this stage.

SME Bank Lending

Key Facts

- Applications for finance continue to be muted, with many SMEs discouraged from applying. One in ten SMEs applied for funding in the past 12 months,

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and the majority were successful (seven out of ten of new overdraft applicants and six out of ten of loan applicants).

- Bank of England statistics show that net lending to SMEs rose in April 2014 by £743m (22% increase on 2013) and banks approved more than £4. billion of loans to SMEs. Repayments however do continue to be high, with £4.5bn of repayments in the same period, so Net Lending will continue to oscillate between negative and positive.
- Credit conditions continue to recover although some sectors, particularly start ups and micro businesses, continue to struggle to access bank finance. Banks are continuing to look for security and evidence of good track record from applicants, and good cash flow is now increasingly important.
- The major banks have established an independent appeals process which is now in its third year. Around 36% of appealed a lending declines have their decline overturned; and more businesses should be aware of and use this facility.
- Business investment intentions remain subdued and businesses are hoarding cash – although confidence is returning. At the end of During 2013, SMEs held over over £127 billion of deposits in the largest seven banks.

Top Government Actions (Since May 2010)

- We have established the Business Bank with £1bn of new money and consolidating an additional £2.4bn of existing schemes. We have already launched a £300 million co investment programme to provide diverse sources of funding for SMEs. It will aim to address long standing, structural gaps in the supply of finance to businesses and bring together the Government's business finance interventions.
- Last year, Government and the Bank of England extended and enhanced the Funding for Lending Scheme (FLS), allowing banks and building societies to borrow at cheaper rates from the Bank of England for periods of up to four years creating strong incentives for banks to increase lending to UK businesses. Changes announced in November have increased and focussed the FLS solely on support for SMEs and businesses where it is most needed. Total outstanding drawings under the scheme has totalled over £43bn according to the latest figures. The scheme has been good for competition, with some of the top users of the scheme for SMEs being challengers like Santander, Aldermore and Shawbrook.
- Government is continuing to enhance and develop the Enterprise Finance Guarantee scheme to reach more businesses.
- Delivering transparency and fairness through appeals processes, industry surveys, postcode level lending data and supporting the development of mentoring networks; working with the banks.
- We have worked closely with HM Treasury and the FCA to ensure that SMEs are provided redress for interest rate swap mis-selling.

Small Business Bill Measures and Referrals:

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- The Government is also introducing legislation to improve the ability of challenger banks and alternative finance providers to conduct accurate SME risk assessments and, by levelling the playing field between providers, make it easier for SMEs to seek a loan from a lender other than their bank, and has recently consulted on whether to mandate that lenders refer SMEs they reject for finance to alternative lenders.

Elephant Trap

- Business investment is down, confidence is improving but still subdued, as is demand for finance is subdued, even among large companies who are sitting on large piles of cash (more than £700 billion). Our role is to kick-start business investment, and ensure that the supply of finance is there. That's why we have put in place mechanisms to lower the costs of funding for lenders, and that's why we have announced significant investments in infrastructure.

Banking Competition

Key Facts

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- The divestment of TSB from Lloyds has created a new challenger on the High Street with over 600 branches.
- Williams and Glyn's will create further competition, alongside new challengers like Metro Bank.
- The Banking Reform Act contains measures to boost competition, by setting up a payments regulator and giving the PRA a new competition objective.
- The Current Account Switching Service launched in September – early figures from the Payment Council show over 300,000 people switched in the last quarter (a 17% rise year-on-year).
- The new CMA is undertaking a programme of work into banking competition – it will decide in Autumn whether a market investigation is needed..

Top Government Actions (since May 2010)

3. Regulators have reformed the authorisation system for banks to make it easier for new entrants, boosting the prospects for competition. More than 20 applications are in the pipeline.
4. Government is legislating to introduce full utility-style regulation of the payments system, to ensure a focus on competition and innovation that will help 'challenger banks' to grow.
5. Government has worked with the banks and Europe to secure the divestment of over 900 branches from Lloyds and RBS, creating two new challengers.
6. HMT are currently consulting on measures to improve access to credit information, making it easier for new providers to lend to small businesses.
7. Both the new regulators have specific competition objectives, making sure the market remains under constant scrutiny.

Elephant trap

Why not break up the banks now?

- Simply splitting up our large banks would be extremely complex, and would not necessarily fix the real issues, like increasing business lending.

Cap on market share

- Effective competition is about more than arbitary market share figures, as the Governor of the BoE has made clear. That's why the Government has taken action to reduce barriers to entry and help new challengers compete on a level playing field.

Business Bank

Key Facts

- The British Business Bank is being established to make finance markets work better for smaller businesses, allowing them to prosper, grow and support the UK economy

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- It is operating in shadow form within BIS, pending state aid approval, expected in autumn 2014, which will allow the Bank to become operationally independent
- The British Business Bank brings together the management of existing lending and investment programmes into a single, commercially minded institution. Business Bank programmes supported £782 million of new lending and investment in 2013/14. This represents more than a doubling of activity on the previous year.
- It is not a bank in a conventional sense: it will not finance businesses directly, nor will it have a high street branch network. Instead, it will provide funds and guarantees to private sector partners allowing them to finance more and different smaller businesses.

Top Government Actions

- To date, total commitments made under the Investment Programme stand at £85m, which together will help to support over £550m of new lending capacity for smaller businesses.
- The Bank has recently launched its innovative Wholesale Guarantees programme, which aims to make lending to smaller businesses more attractive to banks by increasing their capital efficiency. A full Board for the Bank has now been appointed and the first full board meeting took place in Sheffield on 24th June (and was attended by the Secretary of State).

Elephant Traps

Why is it taking so long to set up the Bank?

- Business Bank programmes are already delivering significant lending and investment to smaller businesses - £782m during 2013/14. Setting up an institution such as this requires State aid approval. We expect to receive this by the end of 2014. In the interim, the Bank is operating out of BIS in shadow form.

Why have you not invested your £1bn of additional funding yet?

- Business Bank programmes are already making a significant difference and continuing to increase its activity. Over the next five years, the Bank aims to unlock up to £10 billion of financing for viable smaller businesses. Our programmes are longer term so they can help change the market structure, and funding allocations for a number of years. Programmes run through private sector partners, and funding is provided in the same way as standard practice in the private sector, over a number of years.

You only support businesses in London and South East?

- All of our programmes are available across the United Kingdom and we work with over 80 delivery partners throughout the country.

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Enterprise Finance Guarantee (EFG)

Key Facts

- EFG is a loan guarantee scheme designed to facilitate additional lending to viable SMEs lacking adequate security or proven track record for a commercial loan.
- It is a demand led scheme operating at the margins of commercial lending. It is complimentary to commercial lending – not a replacement. EFG facilitates between 1% and 2% of total lending to SMEs.

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- EFG lending was at its peak in 2009/10 during credit crunch - would not want to set that level of support as the bench mark.
- Funding committed until 2014-15, guaranteeing, subject to demand, up to £2.2 billion of additional lending.
- EFG is open to viable small businesses with an annual turnover of up to £41 million, seeking loans of between £1,000 and £1.2 million, repayable over a period of 3 months to 10 years.
- Since May 2010 over15400 EFG loans have been offered to SMEs with a total value of over £1.6 billion.
- The Government provides a 75% guarantee to the lender on a portfolio of individual loans, with liabilities limited by a cap on defaults equal to 20% of the lenders annual EFG loan portfolio.

Top Government Actions (since May 2010)

- From April 2012, the scheme's maximum claims limit for lenders was extended from 13% to 20% - to incentivise lenders to make use of the finance available.
- In January 2012, we extended the scheme to businesses with up to £41 million turnover – allowing up to 3,800 more firms to have access to the scheme, and replaced the £1 million maximum lifetime limit on EFG loans with rolling 3-year £1.2 million limit [maximum permitted to comply with state aid rules].
- From April this year the £1m maximum, lifetime limit has been increased to £1.2m for loans up to 5 years duration. For loans up to 10 years a limit of £600,000 has been introduced [complying with state aid rules from 1st April]
- Government commissioned Durham Business School to evaluate economic impact of the EFG scheme. This concluded that:
- EFG benefited the economy by over £1.1 billion (net of costs) over the first years of operation
- Businesses in receipt of EFG loans have created or saved almost 19,000 jobs.
- EFG extended to facilitate increased business to business trade credit with the backing of a Government guarantee. Pilot launched in April 2013 initially available to customers of Kingfisher plc via their B&Q and Screwfix brands. . Participation has subsequently been widened and there are currently five organisations offering trade credit. To date, over 2,900 businesses have been provided with new or increased credit limits with a total value approaching £18m. Initial patterns of use have primarily seen the scheme facilitating increased credit limits to existing customers who have to date generally made relatively modest use of those limits.
- New providers, primarily in the construction sector, with a mix of national and regional coverage are joining the pilot over the summer. This is part of providers.

Elephant trap

- Despite the changes made to the EFG scheme, lending is significantly lower than the peak in 2009. Perception that EFG is not delivering.

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Key points

- EFG lending is directly linked to SME lending. Whilst net SME lending has declined, EFG lending has remained constant at around £350 million for the last two years.
- EFG facilitates 1%-2% of total SME lending and has consistently performed at this level since launched.
- EFG as designed does not address loan affordability and failed credit scores, which are the major reasons for loan declines.

Parliamentary Commission On Banking Standards / Banking Reform

Key Facts

- The PCBS published its final report on 19 June. The Government responded on 8 July, accepting most of the main recommendations.
- These include: a new Senior Persons Regime for senior bank staff; a new banking standards regime for other bank staff; the introduction of a criminal offence for reckless misconduct; asking the PRA to consider whether it

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needs new powers to clawback remuneration; and asking the new payments regulator, once established, to urgently examine account portability and payments system ownership.
- The Chancellor previously announced that HMT would review the case for a 'good bank/bad bank' split of RBS, and that the OFT would bring forward a market study of competition in SME banking.
- The Government rejected the recommendations to abolish UKFI, for changes to the governance of the Bank of England, and for a wider review of options for the future of RBS separate from the OFT's competition work
- The Banking Reform Act, which recently gained Royal Assent, will implement the necessary legislative changes.

Top Government Actions (since May 2010)

8. Introducing the Banking Reform Act to establish a ring-fence and end 'too big to fail', creating the framework for a more stable banking system
9. Creating a new, judgement-led regulatory system for financial services through the creation of the PRA and FCA.
10. The PRA's Remuneration Code has restructured pay to significantly reduce cash bonuses and ensure up to 80% of bonuses are deferred and paid in shares, improving alignment of pay with risk and performance.
11. Regulators have reformed the authorisation system for banks to make it easier for new entrants, boosting the prospects for competition.
12. Government is legislating to introduce full utility-style regulation of the payments system, to ensure a focus on competition and innovation that will help 'challenger banks' to grow.

Elephant trap

Implementation of ring-fence

- The Government intends to have all legislation to implement the ring-fence in place by the end of this Parliament.

Leverage ratio

- The Financial Policy Committee of the BoE is currently conducting a review of the leverage ratio within the capital framework. The Government want to see a safer banking system and we await the outcome of this review.

Flooding

The Government response to the flooding December 2013- Spring 2014

Key BIS Messages

- BIS introduced the £10m Business Support Scheme for small businesses flooded and severely affected by floods. Administered by Local Authorities. All the funds allocated. Amounts published on GOV.UK

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- Local Authorities have an allocation based on an average of £2,500 per business for clean up and return to businesses costs. The Local Authority has the freedom to allocate this money as they see fit.

Why is Flood Re not available to small businesses

- Business insurance policies are already priced to risk, as opposed to the household insurance market where a cross-subsidy has historically been in place.
- Government will continue to work with the Insurance industry and business representative bodies to monitor the insurance market for small businesses and keep the issue under review.

Spend on Flood defences

- Environment Agency announced 54 projects begin this year protecting 42,000 households
- Long term 6-year commitment to increased levels of capital investment, more than £370 million in the financial year 2015 to 2016 and then the same in real terms each year, rising to over £400 million in the financial year 2020 to 2021. We are on course to improve the protection to at least 165,000 households by 2015 and a further 300,000 by 2021.

Key Facts

- 10,400 properties flooded.
- 3,050businesses flooded

Headline details of other Schemes

Wider Government schemes include:

- Business Rate/Council Tax rebate 100%
- Repair and Renew Grants of up to £5,000 make buildings more resilient to floods (Domestic and commercial)
- Tourism package – £2m broadly marketing for tourist areas
- Farmers Recovery Fund - up to £5,000 emergency payments.
- Fishermen – up to £5,000 for lost or damaged gear eg crab pots also quota flexibilities
- HMRC & Companies House relaxing rules for flood hit businesses eg time to pay
- Banks have announced a £750m package of schemes.
- Citizens Advice Bureau funded £250k for extra advisers
- HMRC and Companies House giving relaxations where businesses cannot meet deadlines.

Better Regulation

Issue

- The Coalition government have set out an ambitious agenda to reduce the overall burden of domestic regulation over the course of this Parliament.

Key Facts

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- The One-in, One-out (OIOO) rule introduced by this Government, was the first of its kind anywhere in the world and in January 2013 it moved to an ambitious One-in, Two-out (OITO), where Departments will now have to find double the savings.
- Published 7 Statements of New Regulation (SNR) (the 7th was published on 17 December 2013), which demonstrates the effectiveness and progress of OIOO and OITO. The rule has so far cut the costs of domestic regulation by £1.2 billion.
- The World Bank ease of doing business report placed the UK at 10th for the overall ease of doing business. The UK has remained in the Top 10 for the past 7 years.
- The World Bank specifically highlights our wide-ranging work on deregulation as a good example to follow (particularly the One-in, One-out rule and the Red Tape Challenge).
- We are completing the work of the Red Tape Challenge to remove or improve 3,000 regulations over the lifetime of this Parliament
- Over 900 changes have been implemented to date, saving business over £500 million per year.
- And the reform is expected to deliver savings of over £850 million per year once all measures are implemented
- We have introduced a strict scrutiny and challenge approach to how we implement EU law in the UK to prevent “gold plating”. Between July 2011 and December 2012, no proposals assessed under our new Guiding Principles placed additional burdens on UK business as a result of gold-plating.
- Since then, there has been only one instance of “gold plating” (implementing the Consumer Rights Directive) which placed extra burdens on business. This was at minimal cost and ensures greater protection for UK consumers.
- Primary Authority was introduced to address business’ concerns about how local authorities apply environmental health, licensing and trading standards legislation, including contradictory advice, duplicated efforts, and the lack of effective dispute resolution when councils disagree. These are legally binding agreements that give businesses assured advice, driving consistent, proportionate and effective enforcement of regulation. Primary Authority Partnership now has almost 1500, spread over 124 local authorities.
- The new framework for regulatory delivery – the Regulators’ Code – was published and will come into statutory effect on 6 April 2014 under the Legislative and Regulatory Reform Act 2006, replacing the Regulators’ Compliance Code. It provides a clear, flexible and principles-based framework for how regulators should engage with those they regulate
- Over 3000 frontline regulators across 330 local authorities have been using the common approach to regulatory competency to ensure their knowledge and skills facilitate business support for growth. In addition, a network of 30 topic groups nurtures high quality dialogue between business, regulators and government on how to comply.

Top Government Actions (since May 2010)

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- Running the Red Tape Challenge to scrap or simplify regulations that are ineffective, unnecessary or obsolete.
- Introduced the “One-in, One-out” rule (and now moved to One-in, Two-out), a world-leading initiative which caps the cost of regulation to business. The aim of these rules are to encourage government departments to use regulation only as a last resort. In January 2013 the One-in, One-out rule moved to an ambitious One-in, Two-out whereby Departments now have to find double the savings if they want to introduce new regulations.
- Any government department that introduces new regulation has to consider the impact it will have on small business. To strengthen and build on the success of the micro business moratorium, we announced the introduction of a Small And Micro Business Assessment, which will come into effect from 1 April this year. Now, new regulations will only be extended to small business (up to 50) if they are essential, justified and proportionate.
- In the Queens speech on 4 June we announced that the Small Business, Enterprise and Employment (SBEE) Bill will require a target to be published for the removal of regulatory burdens in each parliamentary term, and for government to report transparently against it.
- This will mean that future Governments remain committed to reducing burdens, enabling small firms to grow and get on with doing business
- In October 2013, the European Commission’s Regulatory Fitness (REFIT) Communication announced new, fitness checks and withdrawals. We are pressing for further action, particularly on burdens for SMEs.
- In Autumn 2012, we secured support for our 'Ten point plan for EU Smart Regulation' from 12 other Member States. Italy has since backed the plan, making 14 countries visibly like-minded. The Commission addressed six of those ten demands as it launched its REFIT programme
- In June 2013, the Prime Minister established a Business Taskforce, to propose reforms to EU rules to boost competitiveness. Their report, “Cut EU Red Tape” puts forward 30 recommendations to reform specific rules, some of which are longer term challenge. It also proposes a series of lawmaking principles (known as the COMPETE principles), to ensure that proposals are pro-innovation and pro-growth.
- Since the report's publication in October 2013, we have already completed nine of the thirty recommendations. There is growing recognition of the COMPETE principles among business groups and the European Parliament.

European Structural and Investment Funds

Key Facts

- The European Structural and Investment (ESI) Funds are:
    - European Regional Development Fund (ERDF);
    - European Social Fund (ESF);
    - European Agricultural Fund for Rural Development (EAFRD);
    - European Maritime and Fisheries Fund (EMFF).

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- The Department for Business, Innovation and Skills (BIS) leads for the UK Government on policy for the European Structural Funds (ERDF and ESF). 'Managing Authority' (MA) responsibility for delivering the European Structural Funds within England in 2014-20 will rest with the Department for Communities and Local Government (DCLG) (for 2007-13 DWP was the MA for ESF). Defra is the MA for EAFRD and EMFF. The Devolved Administrations are responsible for delivering the Funds in their own nations.
- The value of the Structural Funds to the UK for the 2014-2020 funding period is €10.8billion.

Top Government Actions (since May 2010) in England

- Government announced in 2013 that it will bring ERDF, ESF and part of the EAFRD allocation together into a single 'EU Structural Investment Funds (ESIF) Growth Programme'.
- Government confirmed that the ESIF Growth Programme's top priorities will be:
    - innovation and research and development;
    - support for small and medium-sized businesses;
    - low carbon;
    - skills;
    - employment and social inclusion.
- Government announced that the large majority of the funds in the ESIF Growth Programme will be notionally allocated to LEP areas. The breakdown of the allocations of ERDF and ESF by LEP area over the next 6 years was announced in April 2014.
- Government has ensured that LEPs will have a key strategic role in delivering economic growth in their area. Each LEP has worked with local partners to develop a strategy for the investment of its notional allocation of these Funds.
- The draft UK Partnership Agreement which sets out the Government's priorities and management arrangements for the ESI Funds across the UK for 2014 to 2020 was formally submitted to the European Commission on 17 April 2014. It will be subject to negotiation with the Commission over the coming months.
- Government is working with partners to finalise the detail of how the programme will be delivered and subject to when the funding documents are agreed with the European Commission, we are aiming for the programmes to launch at the start of 2015.

Elephant traps

<u>Judicial Review</u>

- On 7 February 2014 the original allocation decisions to both the Devolved Administrations and to LEPs in England were subject to Judicial Review. This was brought by stakeholders in Merseyside and South Yorkshire.

Allocations were quashed by the High Court on the sole ground that BIS had not met its Public Sector Equality Duty as part of the decision-making process. The High Court upheld the Government's methodology used to make the allocations.

- Having now fully considered the potential implications of the Public Sector Equality Duty, the Government is now satisfied that the original allocations are still appropriate, as is the methodology on which such allocations relied.
- An appeal is due to be heard on 30 June/1 July 2014. As legal proceedings are ongoing, the Government is unable to comment further at present.

Cornwall

- The proposed delivery arrangements for the funds have been developed in close consultation with local partners with the Government sharing their desire to be effectively involved in the design and delivery arrangements for the Funds. The role of LEPs in co-ordinating local membership of ESI Funds partnership groups to support delivery of ESI Funds Strategies in each LEP area, as well as the role of these committees in agreeing which projects should be supported, is clearly stated in the UK Partnership Agreement.
- The arrangements reflect discussions between Government and a wide range of local partners, including consultation with the ESI Funds Growth Programme Board – on which Cornwall and the Isles of Scilly is represented – on the UK and England chapters of the UK Partnership Agreement.
- The approach in favour of national Operational Programmes for each Fund does not diminish local involvement, but it does streamline and reduce bureaucracy. Government does not propose to establish separate Operational Programmes at sub-national level or for separate categories of region.
- Government has decided to maintain the position set out in July 2013, that no new Intermediate Bodies will be established for mainstream delivery of the ESI Funds in England. GLA will be an Intermediate Body for delivery of ERDF and ESF in London.

BIS IT – Evolve

Issues following introduction of new IT system

(See also separate defensive briefing on Export Control Organisation – issues not yet in the media)

Issue

- BIS has installed a new IT system replacing an inflexible and outdated 15 year old PFI contract. There was disruption to email and internet connections to staff as data was migrated and the new system was stabilised but the situation is now much improved. The roll out of up to date software and a laptop based service will allow staff to work more flexibly, efficiently and shorter contracts will allow us to benefit from innovation.

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Key facts

- The new IT system replaces an outdated 15 year old PFI technology contract with Fujitsu that ended on May 2014
- BIS, along with the Department for Energy, was the first large Government department to move to shorter, more flexible contracts with multiple suppliers, in line with Government strategy. All procurements were undertaken through various government framework agreements negotiated by Cabinet Office which heads up procurement across Government.
- Successful companies include major suppliers in addition to SMEs
- There was disruption to email and internet connections to staff as data was migrated and the new system was stabilised. The situation is now much improved.
- BIS rolled out 3,600 new laptops to replace desktop computers and replaced 1100 BlackBerries with Window 8 smartphones. The roll out of up to date software and laptop based services allows staff to work more flexibly and efficiently and to innovate.
- The situation is improving. Stability issues experienced since launch have been addressed and performance improvements have been and continue to be implemented. Internal surveys have shown that the user experience has improved significantly. We expect the majority of issues to be resolved by the end of this month.
- Our suppliers are fully focused on working together to resolve the problems. The services lack maturity and greater effort is required to join them together than expected. The difficulties of migrating, en masse, from one contract to multiple contracts had been underestimated particularly where staff were being moved from one service to another rather than a completely new service installed.

Q&A

What has gone wrong and why?

- We have established that the services lack maturity and greater effort is required to join them together than was expected. The difficulties of migrating, en masse, from one contract to multiple contracts was underestimated particularly where people were being moved from one service to another rather than a completely new service installed.
- There was disruption to email and internet connections to staff as data were migrated and the new system was stabilised but this was temporary and the situation is now much improved. Staff made every effort to minimise any impact on businesses, MPs or others.

How long will it take you to fix it?

The situation is improving. The service is more stable and the user experience has improved significantly. We hope to have the majority of IT issues resolved by the end of the month.

What is the scale of the problem? How many staff were affected?

All staff have experienced a range of problems since they migrated. This

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includes email outages, intranet/internet outages, and in some cases data migration problems.

What impact has it had on departmental business?
Staff have used a range of technologies to keep the department working. This includes Outlook Web Access and new Smartphones.

What are you doing to fix it?
We have already started rolling out a new solution to laptops. This is leading to a noticeable improvement in performance. The suppliers are working together to help resolve wider issues.

Businesses and members of the public are the real victims here – being unable to access important help and support from the department. Where are the problems? How big is the backlog? What are you doing to clear the backlog and how long will it take?

There has been an impact on some services including those provided by our enquiry unit and on accessing a mailbox for Departmental correspondence. These issues however have been resolved and service was back to normal within 48 hours of the problem being identified.

The **Export Control Organisation** had some delays in processing export licence applications which are handled online. Exporters were proactively alerted and urgent applications are being prioritised. There is no evidence of exporters losing business. Our key target is 70% in 20 working days and we are meeting the target in 22 working days. This equates to around 80 licences overdue but the figure will fluctuate each day depending on demand. We anticipate that the service will be fully back to normal within four weeks.

What have these problems cost the department in terms of
Teams have worked hard and used a range of technologies to keep the department working. They have reprioritised tasks to limit financial implications on the department.

Whose fault is this?

There have been issues with most suppliers. The suppliers are working together to help resolve the issues.

Suppliers

Whose fault is this?
There have been issues with most suppliers. The causes are still under investigation, and we are working with DECC and Cabinet office on lessons learned. The suppliers are working together to help resolve the issues.

Who is / are your IT supplier/s?

Common suppliers for both departments:

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- CGI (Service Integration and management of end user devices and service desk)
- FCOS (office productivity, internet services, filestore)
- Level 3 (wide area network under PSN)
- Automated Intelligence (data migration services)
- Fujitsu (Service exit & transition, interim local area network support)
- Fivium (line of Business application services - under separate contracts for each department)

DECC only suppliers also include:

- Automated Intelligence (EDRM / Collaboration with FCOS as a subcontractor)
- Fordway (Hosting Services)
- HP (Hosting Services)
- Triad intranet migration and management
- BIS only suppliers also include:
- Zaizi (EDRM / Collaboration)
- Skyscape (Hosting services)

How much did the new IT system cost the taxpayer?
£54m over five years. It is estimated the new IT will reduce costs by circa 40% on annual budgets.

This has been really badly managed and there are still no guarantees that it will be fixed soon. Are you firing your IT suppliers / getting compensation / holding them to account?
We are in daily contact with the suppliers at the highest level to resolve the IT problems. At present, the focus of discussions with suppliers is to correct the IT. Supplier performance is regularly reviewed and there are commercial penalties for failure.

What was the procurement process?
All procurements were undertaken through various government framework agreements. These were the Public Sector Network agreement, Information Technology Managed Services (ITMS) agreement and G Cloud agreement.

Security issues

How many staff have been forced to use personal emails / IT to carry out official business?
There is no total bar on using personal equipment in the right circumstances: there are rules about what is proper in what circumstances and we expect staff to adhere to this in all aspects of their work.. Security training was provided in advance of rollout about protecting information.

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Surely this has huge security / data protection implications. What are you doing about this?
Same answer as above.

Have there been any data security breaches as a result of these problems?
None reported.

Export Licences: Delays Due to IT

Issue

- BIS introduced a new IT system in May to deliver higher quality at lower cost. Some teething problems with the new system have led to temporary short term delays in processing of export licence applications.

Key Facts

- The Export Control Organisation (ECO) has experienced reduced levels of performance from its online export licensing system as the Department's new IT system beds down.
- ECO is fully maintaining the rigour of its export control checks.

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- ECO is still handling the majority of licence applications within published target times and there is no evidence of exporters losing business.
- ECO has diverted additional resources to bring performance back on track and has asked exporters to contact them if there is any danger of losing an export. Urgent licence applications are being prioritised.

Elephant trap

When will the export licensing service return to normal performance levels?

- We anticipate that this will take up to four weeks to be completely back to normal but typically exporters are only experiencing delays of a few days. In the meantime we are working hard to minimise the impact on exporters.

Q&A

What problems are you experiencing with the export licensing system?

- BIS recently introduced a new desktop computer system, to deliver higher quality at lower cost. We have experienced some short term performance issues as the new IT beds down, which have temporarily slowed down processing times for our online export licensing service.

What does this means for exporters?

- The majority of export licences are being issued within our key target – 70% within 20 working days – and we are fully meeting this target within 22 days. We are hitting 98% against our secondary target to issue 99% of licences issued in 60 working days.

Are exporters losing business because of reduced performance in licence?

- No. There is no evidence of exporters losing business because of the reduced performance of the licensing system.

What are you doing to minimise the risk to exporters?

- We have proactively contacted exporters and we are fast-tracking licence applications if there is a danger of exporters losing business. We have also diverted additional resources to export licensing.

What is the backlog you are experiencing?

- Our target is to issue 70% of licences in 20 working days. We are hitting 73% at 22 days. This equates to around 80 licences overdue but the figure will fluctuate each day depending on demand.

Why do we have export controls?

- The Government controls a range of military and so called “dual use” technologies that have both military and civil uses in order to promote global security while continuing to facilitate responsible exports. Exporters require

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a licence to export these goods. However, the vast majority of exports from the UK are not subject to these controls.

Have export controls or checks been compromised in any way?

- No. We continue to make the full range of rigorous checks using the Consolidated EU and National Arms Export Licensing Criteria to ensure that exports do not contribute to human rights abuses or regional conflicts, or risk being diverted to improper end uses.

When will the export licensing service return to normal performance levels?

- We anticipate that this will take up to four weeks to be completely back to normal but typically exporters are only experiencing delays of a few days. In the meantime we are working hard to minimise the impact on exporters.

What is the Control List Classification Advice Service and why has it been suspended?

- The Control List Classification Advice Service enables exporters to enquire about whether their goods are subject to licence. This is a non-statutory service and has been suspended to enable us to focus our resources on urgent licence applications. In the meantime exporters may use a variety of online tools to make their own assessments.

Farnborough Airshow 14 – 20 July 2014

Export Licensing And Russia

Changes to export controls to discourage Russian exhibitors from attending the Farnborough International Airshow.

Key Facts

- On 18 March the Foreign Secretary announced a unilateral suspension of extant export licences and processing of new export licences for exports of equipment to the Russian armed forces or other state agencies which could be used against Ukraine.
- The suspension covers direct exports to Russia and exports to third countries for incorporation into equipment for export to Russia.

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- The UK has suspended 28 export licences for Russia to the value of £37 million and continues to apply the suspension to new licence applications.
- The UK Government has no immediate plans to widen the scope of the restrictions on a unilateral basis but encourages other European countries to take similar steps.
- The Government continues to keep the operation of the suspension under review to ensure its effectiveness and, in the light of the continuing suspension of military cooperation with Russia, the Export Control Organisation added Russia to the list of prohibited destinations for the Open General Export Licence (Export After Exhibition or Demonstration: Military Goods) with effect from 11 June 2014.

Elephant trap

Why are Rosenbornexport or other Russian state owned defence companies being allowed to exhibit at the Farnborough International Airshow 2014?

- The FIA is a commercial event run by Farnborough International Ltd. The Government plays no part in determining which companies are invited to exhibit. It is a commercial matter for the organisers to whom they sell exhibition space.

What is an Open General Export Licence (OGEL)?

- OGELs are pre-published licences that permit the export of specified controlled goods to a specified range of "non-sensitive" destinations. Exporters able to meet the terms and conditions can sign up for these licences on line for immediate use.

Why are you prohibiting exporters from using the post-exhibition OGEL to return military goods to Russia?

- Due to Russian actions in Ukraine, and in the light of the continuing suspension of military cooperation with Russia, HMG has taken the decision to remove Russia from the list of countries eligible to use post-exhibition OGELs. This decision has been taken ahead of this year's Farnborough Airshow (FIA) next month, in order to discourage Russian attendance at FIA.

Does this alter the Government's policy about UK companies trading with Russia?

- No. The Government will continue to offer UK companies support and advice. Commercial decisions are ultimately for companies to make themselves on the basis of commercial risk, bearing in mind the increased risk that high-profile business engagement might be exploited by Russia for political reasons.

Why didn't you take this step back in March?

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- We have kept the suspension of export licences under review since March. We have decided that to ensure its effectiveness we will make further changes to Open General Export Licences.

Does this mean that Russian exhibitors will not be able to return military goods to Russia?

- Exhibitors may apply for a Standard Individual Export Licence to return military exhibits to Russia.

How will these licence applications be assessed?

- Licence applications will be assessed to ensure they meet the terms of the current suspension and are consistent with the EU and National Arms Export Licensing Criteria.

Is it possible that an exhibitor might be refused a licence?

- This is possible. In line with the licensing suspension we would need to consider whether the goods could be used against Ukraine once they are returned to Russia.

How does this affect Russian military exhibits at the Farnborough International Airshow?

- This applies to all events in the UK, including the Farnborough International Airshow, where Russian military equipment is exhibited.

Has Russia been invited to FIA?

- Due to Russian actions in Ukraine, no representatives from the Russian government have been issued with an HMG HMGinvitation to attend FIA 2014. No foreign government representatives attending FIA 2014 as guests of HMG will be escorted around the Russian Pavilion by officials.

What are you doing to stop Russian attendance at FIA 2014?

- Farnborough International Airshow is a commercial event run by Farnborough International Ltd. The Government plays no part in determining which companies are invited to exhibit. It is a commercial matter for the organisers to whom they sell exhibition space.

Will Russian military aircraft be participating?

- There will be no Russian military participation in the static or flying display at FIA 2014.

Is Roscosmos attending the event?

- The Russian Space Agency, Roscosmos, is primarily a civil organisation and will be exhibiting non-military equipment in the Space tent at Farnborough.

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The UK and European partners continue to cooperate with Russia on civil space projects.

Growth

Issue

The Government has taken decisive action to protect the economy in this period of global uncertainty and is united around returning the public finances to a sustainable position. Deficit reduction and active monetary policy are fundamental for growth, but so is longer term structural change.

Key Facts.

- UK GDP grew by 0.8% in 2014Q1 maintaining the momentum seen in 2013 when GDP grew by 1.7% on an annual basis.
- In the 3 months to April 2013, the employment rate rose to 72.9%, while the unemployment rate fell to 6.6%.

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- Annual CPI Inflation fell 0.3ppts to 1.5% in May, more than reversing a 0.2ppts rise in April.
- Business investment grew in each quarter of 2013, but still fell by 1% 2013 – however, the improved quarterly growth has been maintained and on a preliminary basis it grew by 2.9% in 2014Q1.

Top Government Actions (since May 2010)

1. Government has set out its Industrial Strategy, a long-term, whole-of-government approach, working in partnership with business to support economic growth and has published 11 sector strategies. We are also taking action on four cross-cutting themes: technologies, access to finance, skills, and procurement.
2. The Government published its Plan for Growth alongside Budget 2011, setting out the four ambitions for growth: to create the most competitive tax system in the G20; to make the UK the best place in Europe to start, finance and grow a business; to encourage investments and exports; and to create a more educated workforce that is the most flexible in Europe.
3. The Government is reforming the banking sector, to make banks more resilient to shocks and easier to fix when they get into difficulties.
4. Corporation tax is the lowest in the G7. A further one per cent cut in the main rate from April 2014 has reduced it to 21%. From April 2015 the rate will be 20% - the joint lowest in the G20.

Elephant traps

Are the government's plans to create growth failing?

- No. The Government's strategy is working and we are creating the right conditions to achieve strong sustainable, balanced growth for all. Implementing our growth strategy is a priority across Government.
- All parts of the economy are growing: the deficit is down by a third as a percentage of GDP since its peak; Since March 2010 2.6 million private sector jobs have been created, more than offsetting the loss of 0.9 million public sector jobs.
- Globally, recovery has been slower than forecast due to persistent inflation from commodity prices, and the euro area crisis. Despite the ongoing impact of the financial crisis on financial conditions the UK is on the rise, many risks remain but the country is on the path to prosperity – the Government's credible long term economic plan is working for all.

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Heseltine Review

Issue

Lord Heseltine's Review produced a powerful report with 89 recommendations across a wide range of areas. On 18 March 2013 the Government **published a full response to Lord Heseltine's report**, *No Stone Unturned in Pursuit of Growth*.

Key Facts

- The report covers a range of issues including: Whitehall capability, local government, growth strategy, the role of government as an 'enabler', private sector capability, and education and skills. There are 89 recommendations in total.

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- The Government has accepted either in full or in part 81 recommendations. 5 have been rejected, and the response document sets out why. 3 relate to the Single Local Growth Fund, and were addressed as part of the Spending Round announced in July.
- In respect of Lord Heseltine's core local proposition, the Government:
- guaranteed the Local Growth Fund which will amount to £2 billion in 2015/16 and will include funding from transport, skills and housing;
- ensured that as a starting point, the Local Growth Fund will continue to be at least £2 billion a year in the next Parliament; giving Local Enterprise Partnerships (LEPs) responsibility to decide how the €6.2billion (£5.3 billion) EU Structural and Investment Funds for 2014/20 will be spent in their local areas;
- asked LEPs to develop a long-term economic strategy for their area which will be the starting point for a negotiation with central Government; (All LEPs have now submitted the Strategic Economic Plans to Government and the process of assessment and Growth deal negotiation is now underway, with the aim of announcing final growth deals by recess).issued guidance for LEPs, on the process for negotiating Growth Deals.
- Increased the resources under the strategic direction of local areas to at least £20 billion until 2020/21.
- In respect of the non-local recommendations, the Government:
- is delivering on its Industrial Strategy by working in partnership with business and have published strategies in 11 key sectors;
- has enrolled 76 companies across 16 sectors to UKTI's Strategic Relationship Management programme.
- has launched the Focus on Enforcement initiative for regulation to remove unnecessary burdens on business;
- is reviewing the application and enforcement of immigration rules for highly skilled migrants;
- is continuing to deregulate and reform the FE and skills system, including putting control over funding directly in the hands of employers and trainees.

Top 5 Government Actions Since May 2010

The Government agreed to take forward a number of the recommendations from the report. These include:

- devolving a greater proportion of growth related spending into the Local Growth Fund for local areas to bid for;
- asking LEPs to develop new strategic economic plans;
- giving LEPs a new strategic role in skills policy;
- improving the enforcement of how regulations that affect businesses of all kinds;
- and doubling the number of companies who will be managed the Strategic Relationship Management initiative.

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Sir Andrew Witty's report *Encouraging a British Invention Revolution* was published in October 2013. The Government response was published on 14 March 2014. It stated that the Government will:

- Make a long term commitment to supporting universities in a third mission to deliver economic growth;
- Draw our national successes through to the local level by strengthening Local Enterprise Partnerships and helping universities to support the SME agenda.
- Take forward Sir Andrew's Arrow Projects concept to secure the potential of the technologies of the future;
- Align Government's delivery partners and connect the judgements about support for different scientific fields with the priorities that are developed for technologies and sectors in the context of the Government's Industrial Strategy.

Q and A

Why is the Government rejecting 5 of Lord Heseltine's recommendations?

- The Government is setting out a different approach in five areas:

1. *The creation of unitary authorities outside London -* The Government will support areas that would like to voluntarily adopt this approach but believes that this could be a distraction and authorities should focus more on coming together to achieve greater efficiencies.
2. *Clarify urgently the preferred solution to airport capacity in the south east -* The Government has asked the Airports Commission to present an interim report by the end of 2013, which will set out its assessment of the nature, scale and timing of steps needed to maintain the UK as a global hub.
3. *An enhanced legal status for the local Chambers of Commerce -* The Gov. recognises the important part local chambers play in representing businesses and the provision of business advice at a local level but the Gov. believes LEPs are best placed to aid the creation of locally based private sector support networks for business, working with chambers and other bodies.
4. *Using a Public Interest test to prevent foreign takeovers on industrial strategy grounds -* The Government does not believe foreign ownership should be singled out. Britain is open for business and the third largest destination for FDI in the world.
5. *Thames Gateway Development Corporation* - The Government has localised the strategic leadership of the Thames Gateway and closed down the Thurrock UDC and the Thames Gateway Development Corporation. The Government believes responsibility should be in the hands of democratically elected bodies, the Mayor of London and the relevant local authorities.

You have taken a very liberal interpretation of the word 'accept'

- The Government has responded positively to the challenge set down by Lord Heseltine and is taking forward the spirit of Lord Heseltine's recommendations wherever possible. Where we have not been able to

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accept all aspects of a recommendation we have accepted it in part and been transparent in this.

Are Ministers really prepared to hand over this cash and lose control of how it is spent?

- Yes. Government has made a clear and consistent commitment to decentralisation. This means empowering people who are best placed to act in the interests of local areas, whether than means improving schools or healthcare, or driving economic growth. The creation of a Single Local Growth Fund builds on the work we have done over the last three years.

Where is the money coming from? What have you cut in order to put funding in the single pot?

- The money for the single pot comes from existing funding streams across Departments. Funding is being moved rather than cut in order to build the single pot.
- [If pressed: the levels of funding that are being transferred are consistent with meeting Department's savings targets and overall resource and capital envelopes]

How much resource will be up for grabs through the competitive element of the pot (as opposed to capital)?

- The Guidance sets out the resource/capital split and the amount subject to competition through Growth Deals. The competitive element is capital.

Why are you holding a competition? What is Government appetite for winners and losers?

- As the guidance makes clear, the Government believes that competition drives better investment, collaboration, commitment and innovation. We have been clear throughout that more money will be available to the LEPs with the best plans

How do Growth Deals fit with EU structural funds?

- In both cases, LEPs will be in the driving seat when it comes to establishing priorities for investment. The detailed Guidance sets out the specific requirements of each. We expect that LEPs will see Growth Deal and EU SIF priorities coming together in their Strategic Economic Plans.

Could an area end up with nothing?

- No. All areas will get something, but those with the best plans will get more.

How do City Deals and Heseltine fit together?

- City Deals are the trailblazers for greater devolution of economic development responsibilities and funding from 2015 onwards. The

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Government's response to the Heseltine review will build on the success of City Deals.

Industrial Strategy

Key Facts

- Through industrial strategy, the whole of Government is working with industry to set the long term direction needed to give business the confidence to invest.
- We have identified several areas for early action in: technologies, access to finance, skills, procurement and sectors.

Sectors

- We are offering flexible support to all sectors of the economy to help increase global competitiveness, support innovation and maximise export potential. As part of this, we have published 11 sector strategies where our analysis has shown that Government can have the greatest impact:
    - 'Life Sciences One year On'; Aerospace; Nuclear; Oil and Gas; Information Economy; Construction; Professional and Business

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Services; Automotive; Agri-tech; International Education; and Offshore Wind.

Technologies

- We are investing in emerging technologies, where the UK has the depth of research expertise and the business capability to exploit these.
- £200 million to establish a network of Catapults to commercialise new and emerging technologies. The first seven centres are now operational: High Value Manufacturing, Cell Therapy, Offshore Renewable Energy, Satellite Applications, Connected Digital Economy, Future Cities and Transport Systems. We also announced £185 million additional funding for the TSB in SR 2015-16. Part of this will be used to expand the Catapult network with new Catapults in Energy Systems and Precision Medicine.
- £600m for to support eight great technologies:
    - Space; Big Data and energy-efficient computing; Robotics and Autonomous Systems; Regenerative Medicine; Synthetic Biology; Agri-tech; Advanced materials and Nanotechnology; and Energy Storage.
- We are investing £270 million in quantum technologies over five years.

Access to finance

- The British Business Bank will bring together public and private sector funds to create more efficient finance markets for small and medium sized businesses.
- Over the next 5 years, it will use its resources together with the private sector to unlock up to £10 billion of additional finance and to increase the range of competition available.
- £782m of total new lending and investment supported in financial year 2013/14 - more than double the level the government supported in 2012/13.

Skills

- In a modern economy, the capacity of businesses to innovate and grow is critically dependent on the knowledge and skills of their workforces, and on how effectively that expertise is deployed.
- We have accepted Doug Richard's recommendation that there is too little clarity about what someone completing an apprenticeship programme should be able to do; and that this should be determined and enforced by employers. The first 11 new Apprenticeship "trailblazer" standards were published in March and will underpin apprenticeship programmes in those areas from September. A second phase covering 29 sectors was launched in March.
- We have announced £200 million for STEM teaching capital for high cost subjects such as engineering – matched by private funding and requiring a commitment to equality and diversity.
- We are investing £18 million in a new facility in the Manufacturing Training Centre in Coventry and creating a new HS2 College to provide the very best training in rail engineering, environmental science and construction.

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- We are establishing a dedicated skills fund, the Employer Ownership Fund, valued at £100m per year, to support projects to grow skills in key areas of the economies and changing technologies.

Procurement

- We are ensuring we get the most out of procurement; and working to support supply chains.
- This year, we will introduce reforms to create a simpler, fairer and more transparent procurement system to open up public sector spending to small businesses. Our aim is that 25% of Central Government spend will go to SMEs by 2015.
- We published in December 2013 updated procurement pipelines covering 19 sectors, worth nearly £177 billion.

Budget 2014

- £42 million in the creation of a Turing Institute – a world-class research institute specialising in Big Data Science
- £74 million in the (£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).
- We are doubling the to £3 billion and cutting interest rates to the lowest permitted levels to provide competitive financing that helps UK firms win contracts and expand overseas.
- Additional £85 million to extend the to fund more than 100,000 additional incentive payments for employers.
- £20 million for , delivering the technical skills that some businesses need, and steps to identify and remove the barriers to accessing postgraduate education.

Elephant trap

Why have you formed strategic partnerships with 11 sectors and not others?

- From our engagement with industry, we know that we can most effectively support different sectors in different ways.
- As part of this spectrum of support, we have developed strategic partnerships with 11 sectors where our detailed a has shown that Government can have the greatest impact

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Boosting Trade & Investment

Issue

The Government is looking to increase the number of UK exporters in an effort to double UK exports to £1 trillion by 2020

Key Facts

- For FY 2013/14 UK Trade & Investment (UKTI) is on target to supported over 40,000 businesses, helping them to achieve over £20bn of business wins.
- UKTI on target to double to 50,000 the number of SMEs it supports by 2015.
- UKTI has supported some £10 billion of major project wins since 2011 inception of the High Value Opportunities programme and secured £11.5 billion of defence and security exports in 2012.
- Overall, British exports of goods have increased under this Government: to China: by 107%; To India: by 55%; To Brazil: by 41%.

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- The UK benefited from 1,559 inward investment projects in 2012/13 with UKTI having an involvement in 1,332 of all UK inward investment projects.
- These projects created or safeguarded more than 170,000 jobs in the UK of which some 60,000 were new jobs.
- The UK is Europe's number-one destination for inward investment, according to Ernst & Young's European attractiveness survey 2013.

Top 5 Government Actions (since May 2010)

1. UKTI has launched 'Britain Open for Business: The Next Phase', a refresh of its 2011 trade and investment strategy. It focusses on seven key themes: some of which include transforming the contribution of mid-sized businesses; enhancing marketing to small companies; securing more export-focused foreign direct investment; delivering overseas, focusing on high-growth markets and helping businesses benefit from Free Trade Agreements; and increasing UKTI's impact by working together across government and with partners.
2. High Value Opportunities (HVO) - Increased to 100 the number of projects being actively pursued by UKTI's HVO programme with the top 20 now having Ministerial engagement. £10bn wins since 2011 inception.
3. Following the 2012 Games, UKTI has driven work focussed on high value opportunities which has delivered £11 billion of Olympics economic benefit.
4. Defence & Security Exports – Last year UKTI helped Augusta Westland seal a £1bn deal to supply 16 helicopters to the Norwegian Air Force, safeguarding 3,000 jobs across their Yeovil plant and many more across the UK SME supply chain.
5. Inward Investment - UKTI has embarked on a dynamic and transformational programme of work to enhance or establish support for investment operations in emerging and high potential markets including India, China, Russia and the Gulf. We are replicating the success of our Life Sciences and Tech City Investment Organisations across additional sectors while maintaining alignment with BIS industrial sector strategies.

Elephant Trap

Is it true that the Government has abandoned hope of achieving the 2020 £1tr exports target?

- No. This is, rightly, a challenging and ambitious target that we will continue to work towards.

How will you get export levels to the 2020 £1tr target?

- We are developing a cross-Government economic strategy to identify those projects and actions that will help the UK meet the £1tr target and we will draw on this to inform our priorities for the future.

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2014-2020 Assisted Areas Map

Issue

Government and the European Commisison have agreed the 2014-2020 Assisted Areas Map, which is due to come into effect on 1 July 2014. This replaces the 2007-2013 Map, which expires on 30 June 2014. Secondary legislation for the 2014 Assisted Areas Order was laid in parliament on June 10th. No MP has yet prayed against the Order and the 40 day praying period ends on July 19th.

Key Facts

- The European Commission's Regional Aid Guidelines allow Member States to offer regional aid to companies to incentivise investment in some less advantaged local economies known as Assisted Areas.
- Assisted Area status does not automatically confer any funding, instead offering eligibility for regional aid.

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- Regional aid is typically offered as capital investment in plant and machinery, though sometimes as employee wage costs.
- Regional aid is one of many forms of state aid used by the Government to support UK businesses. All other forms of financial support can be granted both inside and outside of Assisted Areas.
- The 2014-2020 Assisted Areas Map seeks to support a broad range of businesses and development sites to encourage economic growth through sectoral and geographical rebalancing.
- Manufacturing is considered particularly relevant to the granting of regional aid, given its capital intensive nature and its deep, sometimes local, supply chains.
- Some tax allowances are predicated on Assisted Areas status:
- Business Premises Renovation Allowance (BPRA) gives an incentive to bring derelict or unused properties back into use, by giving an initial allowance of 100% for expenditure on converting or renovating unused business premises in a disadvantaged area.
- The Enhanced Capital Allowances permitted at some Enterprise Zones are reliant on Assisted Area status.

Top Government Actions (since May 2010)

- Evidence and argumentation presented by the UK Government to the European Commission in 2012 and 2013 helped to relax the constraints the Commission had originally proposed on giving regional aid to large enterprises in some Assisted Areas ("c" areas).
- BIS consulted on the draft 2014-2020 Assisted Areas Map from 18 December 2013 until 7 Feb 2014. LEPs were given a lead role in collating local responses in England; local authorities did likewise in Scotland and Wales.
- Government proposed Assisted Areas based on a combination of i) the potential to use regional aid to encourage economic growth in that locality by levering-in private sector investment; ii) economic need, and iii) the rules set by the European Commission.
- The Stage 2 consultation on the draft Map built on the Stage 1 consultation, which ran from July to September 2013. At Stage 1, respondents evidenced which wards should be included on the draft Map to support economic growth in less advantaged local economies.
- Due to Government's localised approach and thus the local priorities received in Stage 1, the draft Map offers a more economically effective and equitable spread of coverage than the current 2007-2013 Map.
- The Commission gives the UK a finite amount of Assisted Area Coverage – Government cannot therefore award AA status to all areas that seek it.
- BIS published the Map it submitted to the Commission on April 30th, which generated significant interest in the media, particularly local news.
- BIS received approval for the 2014-2020 Assisted Areas Map from the European Commission on 21 May 2014. The Map is due to come into force on 1 July 2014.

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Elephant traps

- Assisted Area status does not automatically confer any funding, instead offering eligibility for regional aid.
- Regional aid is a state aid exemption – there is no fixed pot of regional aid.
- Drawing on different state aid exemptions, RGF and AMSCI funding can be offered both inside and outside Assisted Areas.
- LEPs were not given allocations of Assisted Area coverage – decisions were made at the ward level.
- In the medium-term the UK Government has agreed to continue to provide 100% Assisted Area population coverage to Northern Ireland due to the unique challenges Northern Ireland faces. This was agreed as part of the wider economic package for Northern Ireland launched on 14 June 2013. In the longer term, Northern Ireland's Assisted Area population coverage could be reduced.
- Government will not decide until after the General Election whether a mid-term review of the Map will be conducted in 2016.

Industrial Strategy: Agri-Tech Strategy

Issue

Government has developed a long-term Agri-Tech Strategy in partnership with Industry focussed on ensuring the outcomes from the UK's world class science base are translated into benefits for society and the economy at home and abroad. The strategy is part of Government's Industrial Strategy. It is being jointly led by BIS and Defra, with DFID closely engaged.

Key Facts

- Security of global food supplies is threatened due to population growth and climate change. It is estimated that by 2050 global agricultural output needs to increase by 70% from current levels to meet these demands.
- OECD predicts that by 2030 biotechnology will contribute 2.7% of Gross Value Added (GVA) across OECD countries. This is equal to over $1 trillion GVA of which $381 billion will come from primary production (agriculture).

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- Public sector R&D spend on agriculture and food was £450 million in 2011/12, the Biotechnology and Biological Sciences Research Council (BBSRC) formed the largest portion with over £190 million (in 2011/12).

Lines to take

- The Government recognises that global food security is threatened by population growth and climate change, but we also recognise there are opportunities from addressing these issues. The agri-food sector is the UK's biggest manufacturing sector, worth up to £96bn. The opportunities for growth are significant.
- The UK agri-tech sector is effectively a sector of sectors, highly diverse and fragmented, and in need of coordination. The Strategy is being driven by a newly-established Leadership Council, which brings together government departments, farming and industry representatives as well as the agricultural science community and research funders.
- Funding: Government has committed £160million, which will be co-invested with industry to address agri-tech challenges. These include:
- The first eleven Catalyst projects worth £4m were announced on 28 March and will address issues such as precision agriculture and livestock disease. Further announcements of the first round of the Catalyst will be made in the summer. The second round of the Agri-tech Catalyst is currently open for applications.
- The next key area for the Strategy will be the Centre for Agricultural Informatics and Metrics of Sustainability. The first stage of the commissioning process for the Informatics Centre opened on 30 April 2014. We intend to announce the winning Consortia to run the Centre by the end of 2014.
- We intend to announce the process for the remaining Centres this summer.
- Other actions of the strategy will focus on inward investment, exports and skills.

Why is progress so slow? When will we see things happening?

- We have actually achieved a lot in quite a short space of time. We launched in late July 2013. Less than 3 months later we opened the Catalyst and in March 2014 we announced the first joint awards between business and academia.
- The Centres are more complex as we are developing something completely new. We have developed the first one that will be focussed on informatics and metrics. The first stage of the commissioning process for the Informatics Centre opened on 30 April 2014 with the process for the remaining Centres starting this summer.
- Whilst these headlines inevitably focus on the Government's investment, we also have a new and effective Leadership Council. The Strategy is not just focussed on R&D, but on opportunities in skills, venture capital and inward investment and exports.

Is all of this funding new money?

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- BIS was awarded £120 million of new money at the Budget. BBSRC has contributed a further £30 million and DFID £10 million, giving us a total Government commitment of £160 million. In line with other Industrial Strategies, we are working with industry to form public-private partnerships and unlock long-term, sustained investment into this sector.

Isn't this picking winners?

- The Government is co-investing with industry to bring to market innovations derived from the UK's world-class research base. The Government is not picking winners, but it is enabling industry to drive the emergence of winners in the UK. A boost in investment is required to bring our performance in line with our major competitors, and will help make the UK a global leader in one of the fastest growing sectors world-wide.

Elephant traps

Possible criticism that the strategy is not comprehensive, as it focuses on primary production rather than the technologies that underpin food and non-food processing and manufacturing.

- Inevitably we need to provide a focus for the strategy, and for Government investment. We are actively engaging with stakeholders throughout the food supply chain as the strategy will address challenges which have specific impact on them, and on their ability to operate efficiently, to trade competitively and to deliver growth.

Risk that the strategy is jeopardised by the GM debate.

- The Government's GM policy remains unchanged. The strategy will look at GM in the context of a range of potential tools to address the long term challenges of global food security and climate change, providing that they are used appropriately and responsibly.

Background

- £70 million for a new Agri-Tech Catalyst that bridges the 'valley of death' between the lab and marketplace by supporting industry-led 'proof of concept' development of near-market agricultural innovations..
- £90 million to establish world class Centres for Agricultural Innovation to support the wide scale adoption of innovation and technology, developing skills and capability in the food and farming supply chain.

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Automotive

Key facts

- In 2013 the UK automotive industry announced more than £2.5bn of investment, forecast to create over 5,000 new jobs. [Source: SMMT]
- UK automotive industry turnover in 2013 exceeded £60 billion, an all-time record, and 9% up on 2012
- UK car production exceeded 1.5 million in 2013, up 3% on 2012, and with 80% exported
- SMMT is forecasting that UK car and light commercial vehicle production will increase to over 2 million units by 2017.
- Automotive manufacturing employment in December 2013 was 135,000, an increase of 3,000 over December 2012We have more than 40 companies manufacturing vehicles in the UK as well as a world class automotive design engineering sector. And we have some of the most productive plants in the world.

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- 8 out of the 11 Formula 1 racing teams are based in the UK. The UK's Motorsport sector is worth £9bn to the UK economy.
- UK Automotive exports totalled £31.5 billion in 2013, 9% up on 2012. This was an all-time record, and accounts for 6.3% of UK's entire exports of goods and services.

Elephant Traps/Issues

HONDA on rescaling

- Honda has assured us they are committed to the long-term success of the plant in Swindon and the 3,000 employees who will continue working there. The company are also offering a Voluntary Release Programme to try and reduce the need for compulsory redundancies.
- It will nevertheless be a bitter blow to the workforce and the local area and we will be working with local partners to minimise the impact of the job losses.
- Times are tough in the European market but the automotive industry remains a major success story for the UK. Global manufacturers announced over £2.5 billion of investments in this country last year and in December automotive employment was 135,000 - an increase of 3,000 over 12 months.

Circuit of Wales and use of public funding

- Funding for economic development is a devolved matter. Nevertheless any government funding for business, whether in Wales or elsewhere in the UK or the EU, must be in line with European Union State Aid rules which are intended to preserve fair competition within the EU internal market. The Heads of the Valleys Development Company has received funding of £2m towards the project under the Welsh Assembly Government's (WAG) property development grant. No further applications for funding have been received by the UK or Welsh Governments - any additional grant application would need to be considered under GBER (regional aid), given that the project is located in a category 'A' assisted area.

Top Government actions (since May 2010)

- In July 2013 we published our Automotive Industrial Strategy. Government and industry will invest around £1 billion over the next 10 years in an Advanced Propulsion Centre (APC) to research, develop and commercialise the next generation of low carbon technologies. This investment has the potential to secure up to 30,000 jobs. The APC's senior team is now in place and the first 4 APC projects were announced on 23 April 2014, following a £75 million open competition launched in December. An expression of interest for the location of the APC hub was issued in January, the final decision is expected to be made in July.
- On 30 April, the Government announced a £20 million employer ownership fund for the automotive sector. It will provide a simple and flexible mechanism to help employers in the auto sector to address skills issues that cannot be supported through mainstream funding and which supports the

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Growth Agenda and the Industrial Strategy. Co-financing by Government and business is at its heart. The fund opened for 12 weeks on 6 May.

- The Automotive Investment Organisation (AIO), with up to £3million funding over the next two years, is leading the campaign to attract inward investment as part of the industrial strategy. Established in summer 2013, the AIO aims to double the number of jobs created or secured in the automotive supply chain through Foreign Direct Investment over the next three years to 15,000. The Automotive Council has identified at least £3 billion a year of potential new supply chain business opportunities for UK based companies.
- The automotive sector is receiving £217 million from Rounds 1-4 of the Regional Growth Fund. This support has, for example, helped to support the reshoring of the production of the Aston Martin Rapide S to the UK from Austria. Alongside this, £56m support for automotive projects under the Advanced Manufacturing Supply Chain Initiative (AMSCI) is creating and safeguarding over 7,616 jobs. JLR's £500 million investment in a new engine plant at Wolverhampton, creating 1,400 jobs is also being supported by a Grant for Business Investment of £10m.
- In September 2013, the Government launched: 'Driving the future today - a strategy for ultra low emission vehicles in the UK'. Major strands include: Supporting the early market; Shaping the required infrastructure; Securing the right regulatory and fiscal measures; Investing in the UK's automotive capability; and Preparing the energy sector.
  Government has made a £400 million commitment over this Parliament to make the UK a leading market for ultra-low carbon vehicles, and in July 2013 announced an additional £500 million of capital funding for the period 2015 to 2020. A call for evidence by the Office for Low Emission Vehicles inviting industry views on how best to target this support closed on 10 January 2014. On 29 April 2014 Government announced the key elements of our comprehensive support package for ULEVs out to 2020 (all elements subject to securing the necessary State Aid approvals). The package included £100 million for research and development.
- The recent National Infrastructure Plan announced that Government will invest £5million during 2014-15 in a large scale electric vehicle readiness programme for public sector fleets, demonstrating clear leadership by the public sector to encourage future wide-spread acceptance. The scheme is currently in development and we will announce further details in Summer2014.

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Business Support Landscape

Lines to Take

- We are making it easier for businesses to start and grow, by ensuring business support is simpler, more joined up and more accessible with reforms completed by April 2015.
- There is a wide range of tools and information for people who want to start or grow a business available on GOV.UK/business. The Business is Great website provides sources of business support from the public and the private sector, providing advice, inspiration and practical help to encourage and support small businesses to grow.

Key Facts

- Research shows SMEs that use advice are more likely to achieve growth and more likely to make business improvements.

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- SME employers who sought external advice or information in the last 12 months were more likely to be aiming to grow their business over the next 2-3 years (76%), than those who had not sought advice (61%) (Small Business Survey 2012).
- Research shows the use of business support, whether public or private sector, is low – less than half of all SME employers (45%) sought external advice or information last year. The main barriers to take up are businesses finding it difficult to value the benefits of advice, concerns over trustworthiness or capability of external advisors and not knowing how to access external advice.
- Only 6% of SMEs used a business mentor in the last year – this means that 4.5 million UK SMEs are not using a business mentor.

Top 5 Government Actions

1. The GREAT Britain campaign celebrates British business and the Business is GREAT website sign-posts companies to sources of advice and guidance. Over time, other government departments will link their marketing activity to small businesses under the GREAT banner.

2. The Mentorsme website provides a single point of access to over 115 mentoring organisations and through them to around 27,000 business mentors. Over 9 out of 10 business people who have used a mentor have seen a benefit. The Government has invested £1.9 million in the Get Mentoring initiative, delivered by the Small Firms Enterprise Development Initiative (SFEDI), which has trained 15,000 volunteer business mentors who are accessible through the mentorsme website. Over 17,000 SMEs have benefitted.

3. The Business Support Helpline continues to be made available to those looking to start a business for the first time, new start-ups and existing businesses wishing to improve and grow their operations. Businesses can get up one hour of free advice to help them resolve business issues.

4. For businesses ready to take it to the next level there is GrowthAccelerator - a £200m programme for up to 26,000 high growth potential SMEs, providing them with the expertise, and networks they need to achieve sustainable growth. Since its launch, over 15,500 firms have joined the programme. 98% have already made significant progress to achieving their growth objectives, including raising over £20m of external funding.

5. The Government wants to encourage more firms to seek external advice as those that do are more likely to grow than those who do not. The Government has launched a £30 million Growth Vouchers programme in England to test the different ways to encourage firms to seek advice and to identify what type of advice makes a difference to business growth. The programme has allocated almost £4 million worth of vouchers to small businesses since its launch on 27th January 2014.

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To note: Incubation and Government Space for Growth.

- In February 2012 the PM announced government's empty and underused space would be made available to entrepreneurs as business incubators. The number of users registering with the Scheme to date has been modest, reflecting the low key marketing and soft launch.
- The PM was disappointed by the outcome of the pilot and as consequence the initiative was revisited and repurposed earlier this year. The initiative was refocused to provide a simpler offer of 'free' bookable no frills desk space.
- This refocusing included rebranding of the initiative as Space for Growth (SfG), led by the Cabinet Office, to distinguish it from the incubators pilot. SfG was soft launched in May 2013. During the summer and early autumn BIS ran a low key marketing campaign focused on raising awareness using social media and other channels targeting key local and national influencers and stakeholders.
- 78 SfG locations offering around 1600 workstation spaces are available to users of the scheme or organisations prepared to take over whole spaces. 4 Incubators opened during the summer and have, to date, helped 39 enterprises and local business.

Civil Aerospace

Key Facts

- The UK aerospace industry is No1 in Europe (No2 in the world, behind USA).
- Key strengths in the most complex parts of aircraft – wings, engines, and advanced systems; also one of the few nations that can design/build advanced helicopters.
- Over 100,000 direct jobs; salaries over a third higher than national average.
- Annual turnover of around £24 billion and75% is exported.
- Since 2009 Q3 Aerospace has contributed 2.5% of the real GVA growth in the economy. When you consider aerospace makes up only 0.6% of the economy it is certainly "punching above its weight.
- Around 30,000 take offs (and landings) by large passenger planes a day with British built wings
- Half the world's advanced passenger jets are flying on wings made in Britain.
- At any moment, around 400,000 people are flying on aircraft powered by Rolls Royce engines; and every 2.5 seconds a Rolls-Royce powered aircraft takes off or lands.

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- Huge growth prospects – 29,000 new large passenger aircraft worth around $4.5 trillion needed by 2032.
- Over the past two years (2012/2013) UK Export Finance has supported almost £3billion aerospace exports.

Top Government Actions (since May 2010)

- Created joint industry/Government Aerospace Growth Partnership (AGP) to tackle barriers to growth, boost exports and grow high value jobs. AGP launched the UK's Aerospace Industrial Strategy in March 2013. As part of this we have created a UK Aerospace Technology Institute (ATI) at Cranfield - which will assist with managing a strategic programme of research to keep UK at forefront of technology, backed with just over £2billion funding by Government and industry over seven years, from 2013 to 2020.
- ATI funding from HMG and industry being put to good use: we've recently announced:
- £60m investment in a new aerospace facility at the Manufacturing Technology Centre at Ansty (Coventry); and £7m titanium casting research at the Advanced Manufacturing Research Centre in Sheffield.
- £15m investment to improve research capacity of wind tunnel facilities at seven universities and at the Aircraft Research Association.
- £105m investment in a range of new collaborative R&D projects spanning all four pillars of the ATI (wings, engines, aerostructures and advanced systems) – supporting UK companies of all sizes, and collaborations with universities and Catapult centres.Expect to announce, shortly, results of an open competition for R&D funding run through the Technology Strategy Board last autumn.
- Launched a National Aerospace Technology Exploitation Programme (NATEP), as part of AGP, to help small and mid-sized companies develop innovative technologies and increase their ability to win new business with higher tier companies anywhere in the world. HMG is investing £23million through the Advanced Manufacturing Supply Chain Initiative, which is expected to lever £17million from industry. First 5 projects underway involving 10 funded partners working with 7 different higher tier companies.
- Created UK Centre of Aerodynamics, which will now form part of the ATI. £60million Government funding was committed to the centre – including support for five research and technology projects which are underway.
- To help the aerospace sector develop the high-level skills it needs to compete globally, we have created 500 additional Masters level postgraduate places for aerospace. Industry and Government are contributing £6million over three years. Over 100 bursaries were awarded last year, with 15% going to women. The remaining bursaries will be awarded this year and next

Defensive Lines

AgustaWestland/Finmeccanica bribery allegations re sale of helicopters to India

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- This is a matter for the Company and the Italian and Indian authorities. Need to allow the investigation to take its course.
- AgustaWestland produce world class helicopters for both the UK Armed Forces and export markets, including a recent £1 billion contract to supply 16 helicopters plus support and training to the Norwegian government.
- The UK has one of the world's toughest anti-bribery laws.

***Serious Fraud Office (SFO)* investigation into allegations of bribery and corruption at Rolls-Royce**

- Rolls-Royce has made it clear that it will not tolerate improper business conduct of any sort. It is cooperating fully with the Serious Fraud Office, and we await the outcome of that process.
- The UK has one of the world's toughest anti-corruption laws, and HM Government takes any allegations of bribery/corruption extremely seriously.
- Investigations are on-going, and the allegations remain unproven. The Government continues to work with Rolls-Royce as usual to deliver important UK capabilities.
- The investigation into Rolls-Royce is a matter for the SFO, and it would not be appropriate for the Government to comment on the investigations.

Ratification of the Cape Town treaty

- The UK is committed to ratifying the Cape Town treaty which aims to facilitate asset based aircraft financing transactions. BIS published a response to the call for evidence on 06 December setting out the intention to ratify the treaty. A consultation on options for implementation opened on 16 June.

Defence

Key Facts

- UK's defence industry is a significant part of the UK's economy, contributing more than £22 billion of annual revenues.
- UK exports totalled £8.8 billion in 2012, maintaining our position as the second largest exporter of new defence products and services (after the US).
- The UK defence industry directly employs 155,000 people and a further 145,000 indirectly, based on last available MOD statistics (2007/08).
- Recent export successes included AgustaWestland securing £1billion Norwegian Search & Rescue contract, providing 16 AW101 helicopters plus a support and training package. Thales announced in January 2014 it had won a £100million export contract to supply Forceshield Integrated Air Defence System and Starstreak short range air defence missiles to the Indonesian MoD.

Top Government Actions (since May 2010)

- Created the Defence Growth Partnership (DGP), bringing Industry and Government together to tackle barriers to growth, boost exports and grow high value jobs. The DGP Strategic Vision was published in September

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2013, with a full Implementation Plan to be delivered by July 2014. It sets out how the UK will build on our strengths in Air Capabilities and Intelligent Systems, develop the technology of the future and improve International Business, alongside increasing skills and competitiveness throughout the value chain.

- Ministers across Government including the Prime Minister are committed to supporting UK defence and security exports.
- We continue to have the one of the largest Defence budget in the world and have put in place a fully funded and affordable forward equipment programme which means that industry can plan better. MOD will continue to make significant spend on defence equipment and support: over £150bn over the next ten years.
- We are implementing the 'National Security Through Technology' White Paper published in February 2012 set out significant changes to improve defence acquisition to deliver the outcomes of the 2010 Strategic Defence and Security Review. It set out how Government would promote defence and security related exports, encourage SMEs to fulfil their potential and prioritised investment in science and technology with a commitment of over £400 million per year.

Elephant trap

Apache CSP (Capability Sustainment Programme)

- The UK currently operates the Apache WAH64, a variant of the US Apache AH64D Block 1. Action is required to address critical obsolescence, reduce operating costs and maintain operational capability in order to sustain the UK's Apache capability in service until 2040.
- The options for the Apache Capability Sustainment Programme are still with Ministers for consideration. The procurement strategy is a key consideration alongside its value for money to the taxpayer and Ministers will take into account the potential industrial and regional implications of large investment decisions as part of this process.
- We anticipate the next phase of the acquisition programme being formally launched before the end of the year.

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<u>Construction</u>

Key Facts

- Construction accounts for around 7% of GVA and supports around 3 million jobs - construction made up 8.8% of the economy in 2007. This has declined each year to 2010 (when it made up 6.4%) and is estimated to make up 6.7% in 2012.
- In 2007 and 2008 turnover in the construction industry was around £300 billion. Turnover in 2009 and 2010 was around £250 billion. In 2011 it was slightly improved at £255 billion and is estimated to have improved further to £261 billion in 2012.
- Latest preliminary construction figures published in November 2013 from the Annual Business Survey (formerly Annual Business Inquiry), run by the ONS show that in 2012 in the Construction Contracting and Construction Products/ Services (based on SIC 2007) show:
- Enterprises - 277,679
- Turnover - £261,378 million
- Gross Value Added - £90,990 million (6.7% of whole economy)
- Net Capital Expenditure - £5,132 million

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- The volume of new construction orders fell by 6.3%% on the quarter in 2014Q1. Construction output fell by 0.1% in the three months to April compared to the previous three months (Nov to Jan)

Top Government actions (since May 2010)

1. The Industrial Strategy for Construction was published in July 2013 it sets out a vision and a plan for long-term strategic action by government and industry to continue to work together to promote the success of the UK construction sector.
2. The Industrial Strategy for Construction commits to develop a construction supply chain payment charter, which was published on 22 April. The Charter sets out 11 "Fair Payment Commitments" including a commitment to reduce payment terms to a supply chain to 30 days from January 2018. The Leadership Council will encourage construction businesses from across the whole supply chain to comply with it.
3. The Construction Leadership Council is also looking for new opportunities for growth including through the green economy; more effective use of ICT by the sector and in overseas markets.
4. Government is also helping the construction industry through its support for the house building industry, and
5. infrastructure development and improvement – The National Infrastructure Plan (NIP) sets a vision for infrastructure needs it identifies a pipeline of over 500 projects, committing an additional £3bn on infrastructure from 2015-16 and making £40 billion worth of guarantees available.

Employee Ownership

Key Facts

- Employee ownership is where employees have both a voice in how the business is run through employee engagement and a significant and meaningful stake in the business. There is no set rule as to what constitutes a significant and meaningful stake.
- In July 2012, Graeme Nuttall reported on the barriers to greater up-take of employee ownership and made 28 recommendations.
- Government responded to the Nuttall review in October 2013 and has made significant progress in taking forward all the recommendations, as set out in the One Year On report published in November 2013.
- The Employee Ownership Association estimates the combined annual turnover of businesses that have employee ownership is at least £30 billion per annum. (Note: further work is required to substantiate this estimate.)
- Evidence shows employee ownership can offer many benefits to employees, businesses, and the wider economy. These include: providing a catalyst for greater employee commitment; reducing absenteeism, staff turnover and

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accidents in the workplace leading to higher business productivity and profitability; giving a business greater resilience through times of economic difficulty.

- The Employee Ownership Index compiled by Field Fisher Waterhouse LLP tracks the share price performance of listed companies that are at least 10% owned by employees. The Employee Ownership Index has outperformed the FTSE All Share by an average of 10% annually since 1992 (FFW, 2012).
- In January 2014 the London Stock Exchange launched the FTSE calculated Employee Ownership Index, which tracks the share price of listed companies that are at least 3% owned by employees. Results to date show consistently higher out-performance by employee owned companies than firms in the all-share index. Q2 figures will be released on 9 July.
- [Note: Employee ownership should not be confused with "employee shareholder status" which relates to employees giving up rights in return for shares and is completely different.]

Top Government Actions (since May 2010)

- On 4 July 2012, the Deputy Prime Minister hosted a Summit on employee ownership and BIS published, “Sharing Success: The Nuttall Review of Employee Ownership”1. The Review contained a series of recommendations to overcome three main barriers to the sector’s growth: lack of awareness; lack of resources; and legal and regulatory complexities.

- On 30 October 2012, the Government published its response to the Nuttall Review and to the Call for Evidence on a ‘Right to Request’ employee ownership, together with an action plan. The Government accepted or supported, wholly or in part, all of the 28 recommendations from the Nuttall Review.
- On 4 July 2013, the Sector held the UK’s first national Employee Ownership (EO) Day, to help raise awareness of employee ownership as a strong and balanced business model. The day included a Conference in London at which three Government Ministers spoke and over 100 events in businesses across the country. EO Day also saw the launch of a number of guidance documents on moving to an employee ownership structure, for company owners, employers and advisors.
- In Finance Bill 2014, the Government set out how it will implement the promised tax relief of £75 million annually from 2014-15, to incentivise growth of the employee ownership sector. Details include:
- No income tax on bonus payments of up to £3,600 annually, for employees of companies controlled by an employee ownership trust
- Capital gains tax relief on the sale of a controlling interest in a company into a qualifying employee ownership structure.
- No inheritance tax on transfer of shares to employee ownership trusts

[1] Graeme Nuttall is a partner in the law firm Field Fisher Waterhouse LLP and the Government’s independent adviser on employee ownership.

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- In increase in the maximum annual value of shares that an employee can acquire under the Share Incentive Plans to £3,600 a year for 'free' shares and up to £1,800 a year for 'partnership' shares.
- On 19 November 2013 the Government published its One Year On Report detailing progress against each of the 28 Nuttall Review recommendations. The report was launched by BIS Minister Jo Swinson. The Minister also launched a Call for Evidence on further ways to reduce the complexity of employee ownership, which closed on 19 February 2014. Government's response will be issued shortly. . Since there was insufficient evidence received in support of further change, the recommendation is that this issue will be set aside until evidence does become available.
- Although the Nuttall Implementation Group, chaired by Minister Jo Swinson, ended in 2013, we have convened, a new EO sector advisory group for 2014 which BIS will Chair until December.

Executive Remuneration Reforms

Government Actions:

- The Government has taken decisive action to restore the link between top pay and performance.
- In October 2013 new laws comprehensively reforming the governance of company directors' pay came into force, boosting transparency so that shareholders have adequate information, and giving them the power to hold companies to account.

Impact:

- It is too soon to form firm conclusions about the impact of the UK reforms.
- There have however been some positive signs of pay restraint, in particular:
- The latest 2013 Manifest survey shows that median total remuneration awarded to FTSE100 CEOs went up just 1% in 2012[2]
- A more recent study[3] by Deloitte, showed that one third of FTSE 100 companies did not awarding any salary increase to their CEO. The median

[2] Manifest/ MM&K, The Executive Director Total Remuneration Survey 2013, June 2013
[3] Deloitte, The new remuneration report: second impressions – disclosure in FTSE 100 companies, May 2014

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salary increase was 2.5% for executive directors and only 2% for CEOs from 2013 to 2014.

<u>Next Steps</u>:

- Following the Government's reforms the Financial Reporting Council (FRC) is now introducing changes to the Corporate Governance Code from October 2014.
- The Government is monitoring the impact of the reforms and will be taking stock after the current voting season is over.
- We will also complete a full post implementation review in 2017.
- It is time for companies and investors to show they can act responsibly – ensuring that executive pay is better aligned with companies' long-term performance.
- We have made clear that this policy area remains under review: the Government will consider further measures if necessary.

<u>Detail of reforms</u>:

- UK comprehensive reforms to the governance of directors' remuneration came into force on 1 October 2013 after a process of extensive consultation with stakeholders. They are widely supported by both investors and companies.
- Under the new reforms, companies are now required to provide two parts to their directors' remuneration report: the directors' remuneration policy and the annual remuneration report. The remuneration report will, therefore, look to both the future and the past.
- Companies are required put their remuneration policy to shareholders, at minimum, every three years. This is be subject to a binding vote, and must include information on:
  - how each director will be paid;
  - how that is linked to different levels of performance; and
  - the company's policy on recruitment and exit payments.
- Companies are also required to set out how pay and employment conditions of employees were taken into account when setting the policy for directors' remuneration and whether and if so how the companies consulted with employees.
- In addition to the directors' remuneration policy, companies are required to produce an Annual Remuneration Report setting out what directors have been paid in the past financial year.
- Companies are now required to be much clearer about how much directors have been paid. Specifically they must:
  - report the pay of each director in a single figure;
  - set out clearly how the actual payments relate to performance; and
  - provide contextual information, including details of the fees paid to remuneration consultants and a comparison of the change in pay for the chief executive and the wider company workforce.

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- Shareholders continue to have an annual advisory vote on the remuneration report. However, where a company's shareholders reject the annual remuneration report, the company will be required to re-submit their remuneration policy to a binding vote at the AGM the following year.

Response from companies and institutional investors:

- With our encouragement, the GC100 and Investor Group has produced industry guidance, helping public companies and investors implement the new regulations.
- There has been a broadly positive response to the reforms – with signs of improved company-shareholder dialogue based on shareholders setting clear expectations.
- The National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI) have updated their principles of remuneration in response to our regulations, encouraging the adoption of simpler pay structures, better aligned to long-term company success.
- However, there have also been concerns about some examples of insufficient information initially being provided by companies, or also about whether pay always has been clearly linked with performance.
- We have started to see a more positive engagement between companies and investors, with companies withdrawing or changing their remuneration policies after listening to shareholders' concerns.
- Investors have proven they are willing to use the tools provided by Government, including voting against disproportionate remuneration policies where appropriate.

Updates to the Corporate Governance Code:

- Following the Government's reforms the FRC is now introducing changes to the Corporate Governance Code from October 2014.
- These changes will make clear that:
    - greater emphasis be placed on ensuring that remuneration policies are designed with the long-term success of the company in mind, and that the lead responsibility for doing so rests with the remuneration committee;
    - companies should put in place arrangements that will enable them to recover or withhold variable pay when appropriate to do so;
    - companies should further consider the appropriate vesting and holding periods for deferred remuneration – including payment in shares;
    - companies should explain when publishing AGM results how they intend to engage with shareholders when a significant percentage of them have voted against any resolution – including on directors pay.

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Health Life Sciences

Issue

The UK has one of strongest and most productive life sciences sectors in the world generating turnover of over £50 billion. Government's Strategy for UK Life Sciences is delivering success by harnessing and building on the UK's unique strengths. Industry will play a key role in building a sustainable economic recovery.

Key Facts

- Nearly 5000 companies in UK health life science sector (including non-manufacturing & service companies), employing est. 175,000 people.
- In 2012, £4.21 billion was spent on pharmaceutical R&D in the UK. This accounts for 25% of total expenditure on R&D by UK businesses.
- Life Sciences account for 6.6% of GVA in the UK manufacturing sector.
- Pharmaceutical output contributes more than £13 billion a year to the UK economy. (Source ONS National Accounts)
- £2 billion in industry and private sector investment in the UK announced since the strategy launched in December 2011.
- In England, the NIHR Clinical Research Network (CRN) recruited 20,500 patients onto commercial contract studies in 2012/13, a 19% increase on the previous year.
- In March 2014, a pioneering public-private research initiative between GSK, the European Bioinformatics Institute and the Wellcome Trust Sanger Institute was announced. This will harness the power of 'big data' and genome sequencing to improve the success rate for discovering new medicines.
- AstraZeneca has selected the Medical Research Council as their partner of choice in an exciting new collaboration to understand the mechanisms of human disease. This will lead to the creation of a joint research facility at AstraZeneca's new research and development centre in Cambridge.

Top Government Actions

- The Government invested almost £1 billion in health life sciences research through UK research councils in 2012.
- In December 2012, PM announced a £100million initiative to sequence 100,000 whole genomes over the next 3 to 5 years. Genomics England is taking this important initiative forward to enable the UK to play a world-leading role in the genomics biomedical revolution. Genomics England will work with Cancer Research UK to sequence the DNA of 3,000 cancer patients, to help understand which treatments will be most effective.
- Patent Box provides 10% Corporation Tax rate on profits from patents.
- To date, 226 awards totalling £170 million from the Biomedical Catalyst matchedby an additional £97 million of private investment.

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- To date, across all rounds, nearly £60 million of RGF funding has ben awarded to 21 projects in the life science sector expected to leverage over £385 million of additional private investment.
- Almost £123 million of UK Research Partnership Investment Fund has been allocated to 11 life sciences projects to date.
- To date, Life Science sector secured £37 million to four projects through AMSCI expected to leverage almost £80 million of private sector funding.
- Supported by the Technology Strategy Board, we have established a Cell Therapy Catapult and secured funding for a National Biologics Manufacturing Centre and a Cell Therapy Manufacturing Centre.
- Over £33.5 million of new life science infrastructure announced at end January 2014, including £21 million Oxford Bioescalator project and £12.5m of new life science infrastructure development in Enterprise Zones.

Elephant trap – You have established an Early Access Scheme but without funding to support it?

- The "Promising Innovative Medicine" Designation step included in the scheme should create a sufficient incentive for participation, as a successful designation could be used to secure investment and confer a greater degree of credibility on the products and companies involved. Other potential benefits include greater exposure to prescribers in the UK and the opportunity to collect real world data on the profile of the medicine.

Elephant trap – Fall in Business Expenditure on Research and Development

- Government is committed to supporting business R&D efforts and has a range of measures to aid this including:
- An above the line R&D tax credit which came into force on 1 April 2013, improving the visibility and certainty of R&D tax relief in order to attract large scale investment in innovation. Budget 14 announced that the government will raise the rate of R&D tax credit payable to loss making SMEs from 11% to 14.5% from April 2014.
- Patent Box, introduced in 2013, giving a reduced rate of corporation tax on profits from patented inventions and certain other innovations.

Insolvency Issues

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- **Small Business Enterprise and Employment Bill:**
    - The Bill will strengthen our regime for director disqualification and make it more likely that creditors will get compensation.
    - It will strengthen the regulatory framework for insolvency practitioners to boost confidence. The reserve power to establish a sole regulator would only be used if the changes to the self-regulatory system do not sufficiently improve confidence.
    - Savings for creditors will be possible by allowing new decision-making processes, instead of physical meetings. Creditors will be able to require a physical meeting to be held where they think one is needed.
- **Prepacks:** Independent Graham review was published on 16 June. We have accepted all recommendations and now looking to industry to deliver the package of voluntary measures. Pre-pack sales often represent the best outcome for creditors, but will be improved through independent scrutiny of the sale and greater focus on long-term survival of the business. As recommended, the Small Business Bill includes a reserve power in case the measures are not successful.
- **IP fees/ costs of insolvency too high?** Insolvency practitioners should be paid a fair and reasonable fee for work that they properly undertake, but the fee structure should be aligned with creditors' interests as far as possible. I have met with interested parties and will set out next steps shortly.
- **Enforcement Success:**
    - 13 companies that sold carbon credits were wound up on the petition of the Insolvency Service at the end of May. Investors had lost £19m.
    - This month we achieved lengthy disqualifications for the seven members of Wolstenholmes LLP, a solicitors' practice which was being managed by non solicitors who breached rules and risked client monies.
- **(If asked) Comet - judgment:** The Insolvency Service's Redundancy Payments Service will process claims affected by the recent Tribunal judgment as quickly as possible, once it receives eligibility details**.**
- **(If asked) Comet – investigation:** The Insolvency Service is undertaking a confidential inquiry into Comet. We cannot comment further. To do so could prejudice the outcome of the investigation and any future action.
- **(If asked) Rangers:** Director disqualification proceedings were issued against Craig Whyte. I cannot comment on the case, a matter for the court.
- **(If asked) HIBU:** After engaging with the administrators, shareholders and other agencies over a number of months The Insolvency Service has concluded that, on present information, no action is appropriate.
- **Closure of Hull office:** The Insolvency Service is rationalising its estate because of falling bankruptcy and company case numbers (from some 80,000 in 2009 to 27,000 last year). Local interview facilities will maintain customer service. As a fee-funded service, costs have to be kept in line with income. If needed: In **Hull,** case numbers have seen an even greater decline than the fall in caseload nationally: with a drop in workload of 79% since 2009.

Land Registry

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Issue

- Land Registry has developed an ambitious Business Strategy to transform and modernise land registration in England and Wales.
- The Business Strategy is focused on digitisation of its core registration services, playing a wider role in the land and property market (such as taking on new registers) and maximising the reusability of property related data.
- The policy objective is to improve the ease of registering a property in England and Wales.
- Land Registry is taking forward legislation in the Infrastructure Bill to create a digitised Local Land Charges register, assuming responsibility for this service from local authorities.
- This will enable an improved service with standardised turnaround times and fees, and improve the ease of registering a property in England and Wales.
- Land Registry will also take wider powers to enable them to provide new services in future and play a greater role in the property market.
- Land Registry consulted on these proposals and the Government response was published on 16 June.
- In light of the scale and complexity of the transformation underway at Land Registry, the Department for Business, Innovation and Skills has also consulted separately on 'Introduction of a new Land Registry Service Delivery Company', and a response will be published shortly.
- No measures relating to this latter consultation have been introduced in the Infrastructure Bill.

Key Facts

- Currently, full local authority searches (which include Local Land Charges search) take from 1 – 20+ days, and fees range between £3 and £96.
- 84% of Local Land Charges data is currently held electronically in a digital but inconsistent format and 16% is held in paper format.
- The cost of providing the Local Land Charges service in 2012-13 was £60.4m. Land Registry's measures will reduce the running costs of the service and these benefits can then be passed onto customers.

Top Government Actions (since May 2010)

1. Land Registry has introduced **measures in the Infrastructure Bill** which will give Land Registry the **wider powers** necessary to provide information and register services relating to land and other property. Measures have also been introduced to allow Land Registry to take on the responsibility for Local Land Charges, and to create a streamlined and **digitised Local Land Charge** search service. Second Reading in the Lords was completed on 18 June.

Elephant traps

- There has been speculation that Government intends to privatise Land Registry. This was exacerbated by leaked draft LR Board minutes published

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in the Guardian, which were interpreted as showing that Government was developing detailed plans to bring in a private sector partner.

- Trade unions are heavily opposed to any change in Land Registry's commercial model – and strike action was conducted on 14 and 15 May in relation to this.
- The fact that Government has not yet been able to publish the consultation response on Introduction of a service delivery company means that we have not been able to dispel the speculation about privatisation entirely.
- There are also concerns, particularly from Local Authorities and personal search companies, about the Local Land Charges and wider powers measures included in the Infrastructure Bill.
- The Local Government Association have called for Local Land Charges measures to be removed from the Infrastructure Bill, and for an independent review.
- There is also criticism that LLC measures are being taken despite significant opposition to them in consultation (approx. 80% of respondents).
- The media and Opposition may view wider powers as being a step towards the 'fattening up' of Land Registry for future privatisation.

Local Enterprise Partnerships

Key Facts

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- A total of 39 Local Enterprise Partnerships are in place, with 100% coverage across England.
- Local Enterprise Partnerships are strategic business-led partnerships with civic leaders. Their activities are driven by local economic circumstances and priorities.
- From April 2015, Government will allocate funding from the Local Growth Fund through a local Growth Deal, based on Local Enterprise Partnerships' multi year Strategic Economic Plans.

Top Government Actions (since May 2010)

1. The 2013 Spending Round increased the resources under the strategic direction of local areas to at least £20 billion until 2020/21. The Government is committed to providing the economic levers needed at local level to drive growth and is committed to having a Growth Deal for every place, based on LEPs' local Strategic Economic Plans (SEPs).
2. On 22 July 2013, the Government issued guidance for LEPs, on the process for negotiating Growth Deals and the assessment of Strategic Economic Plans. Government has reviewed first drafts of SEPs and provided feedback to LEPs. LEPs submitted the final version of their SEP at end of March 2014 and Government aims to complete the Growth Deal negotiations by recess.
3. From April 2013, Government began the implementation of the delivery model for EU Structural and Investment Funds (EU SI Funds). LEPs have also submitted the final draft of their EUSI strategies. LEP investment strategies for EUSI funds should be aligned with LEPs' Strategic Economic Plans.
4. In addition to the support provided by BIS Local ,every LEP now has a lead senior Whitehall sponsor who is working with their LEP to challenge and support its strategic priorities.
5. Government made available £9 million Capacity and Start-Up funding to support LEP set-up costs and £24 million core funding for the remainder of this Parliament. Government has confirmed that for 2014/15 and 2015/16 every LEP will receive core funding of £250kpa (subject to partners' match) and a further £250k pa for the development of their local strategies.

Elephant Trap

You're reinventing RDAs – so do you regret scrapping them now?

- No. LEPs are not a reinvention of RDAs. They are and will remain business-led strategic bodies, post Heseltine. They operate across significant economic geographies not based on administrative regions, and will not become unwieldy bureaucracies.

Defensive [only if raised]

The Local Growth Fund is not big enough – Lord Heseltine said £50bn

- The Local Growth Fund is an important step-change. It delivers the thrust of Heseltine's recommendation – it puts control of the key economic levers in local hands through a competitive process. In addition to the LGF, local areas

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will have access and influence over a much wider range of resources, totalling over £20 billion.

[***if pressed****:* Lord Heseltine said £50 billion over four years. It's difficult to compare like with like: public spending overall is on a declining path, which he did not take account of; some was double counted; some included time limited funds; and in some areas Government has made the decision to retain spending at the national level, where it makes more sense to promote growth and coordination].

Manufacturing

Key Facts

- Responsible for 52% of UK exports and 2.6 million workforce jobs

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- Generated £139 billion GVA in 2013 – 10% of the UK economy, 4th largest by output behind Germany (at 22%), Italy and France
- UK exports of goods produced by the manufacturing sector totalled £263 billion in 2013.
- UK is the 7th largest exporter of high or medium-high technology goods in the OECD.
- Accounts for 72% of all business expenditure on UK R&D - £12.2 billion in cash terms 2012.
- Around a third of the 1,400 new inward FDI projects in 2011/12 were in the areas of advanced manufacturing, life sciences, ICT and environmental technology.
- Manufacturing is changing – 50% of capital expenditure in manufacturing is already in intangible assets, like brands, training and design.
- Exports of manufactured goods to the BRICs group of countries have more than doubled to £27 billion since 2007 when this figure was £12.7 billion.
- In real term manufacturing output is still 9% below its peak in 2007, prior to the downturn. But exports have recovered in 2012 and currently 9% above 2007 levels in real terms.

Top five Government actions

1. Reducing rates for business and tackling business energy costs: compensation for carbon floor price % EU ETS to extend beyond 2015-16; EIIs exempt from Renewable Obligation and Feed In Tariffs from 2016-17. Business rate discounts and enhanced capital allowances in enterprise zones will be extended for three years.

2. Budget 2014 announced a skills package that supports businesses in taking on apprentices and provides support for investment in higher level skills: an additional £85 million to extend Apprenticeship Grants for Employers Scheme; and £20 million for apprenticeships up to postgraduate level

3. Government's Advanced Manufacturing Supply Chain Initiative (AMSCI) created December 2011, making £245 million available to support the repatriation, anchoring and growth of manufacturing supply chains in England. Applications are broadening beyond the traditional automotive focus with an increased number of bids from the Construction sector and green technologies. On 9 June Vince Cable announced that companies could bid for a share of £100 million in a new round of AMSCI. 4 active national rounds alongside a regional scheme.

4. To support commercialisation of technology and innovation, Government launched the High Value Manufacturing Catapult and 16 new university-based EPSRC Centres for Innovative Manufacturing. Budget 2014 included a further

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£74m investment in the Catapult network and announced £55m to create a large scale manufacturing facility for late stage cell therapy products

5 In January, the PM announced that UK Trade & Investment (UKTI) has joined forces with the Manufacturing Advisory Service (MAS) to launch Reshore UK, a new one-stop-shop service to help companies bring production back to the UK.

Marine

Key Facts

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- The marine industries (i.e. engineering and manufacturing) employ nearly 90,000 people in 5,000 businesses across the country and contribute £3.8 billion Gross Value Added to the UK's GDP.
- The wider marine and maritime sectors (which also includes shipping, ports and maritime business services) contribute approximately £19 billion to the economy and employs 367,000 people.
- The UK has a world class reputation for building warships and submarines, and design and manufacture of leisure craft, marine equipment and marine science.
- Marine Industries Growth Strategy vision is that "greater cooperation across the marine and maritime sectors could see their value to the UK economy rise to £25 billion a year by 2020".

Top Government Actions

1. We are implementing the Marine Industries Growth Strategy through the Marine Industries Leadership Council - co-chaired by Michael Fallon and Gregory Darling Chairman of Gardline. This was the first ever strategy for the growth of the marine industries, and has established a foundation for sustainable cooperation.
2. The Council met at the beginning of November, the first meeting to be chaired by Gregory Darling. The actions include the development of the business case for a Maritime Autonomous Systems programme; the joining up of marine and maritime under a single brand to promote the sector at home and abroad; and the Council to take ownership of the marine skills agenda.
3. The Technology Strategy Board's £5 million 'vessel efficiency' collaborative research competition was launched on 6 January 2014. This follows last year's successful competition for which ten marine projects were funded.
4. UKTI is working with industry to deliver export growth to deliver the Marine Export Strategy. The strategy's eight recommendations include developing campaigns to identify and pursue export opportunities in major marine markets (for example Brazil and China) and encouraging inward investment in targeted areas.
5. RGF support for the sector includes for the Isle of Wight Marine Business Partnership, Princess Yachts and Portsmouth Naval Base Property.
6. Government and Lloyds Register have invested £116 million in Southampton University to create a Marine and Maritime Institute, which has ambitions to be a world renowned centre of excellence.

Retail Sector

Key Facts

- Retail sales totalled over £321 billion in 2013, around 20% of UK GDP. Internet sales in 2012 were £32 billion, (around 10% of total retail sales).

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- UK retail employs 2,955,000 people and is the sixth largest retail sector in the world by sales.
- 9% of all VAT-registered businesses in the UK are retailers, with the total number currently standing at 187,390.
- Retail sector pays £17.5 billion, of the 4 largest taxes (VAT, Business Rates, national insurance and Income Tax), 9% of the UK total.
- In the 3 months to April, the volume of retail sales rose by 1.8%.
- Almost a third of retail employees are under 25 years of age.
- Exports represent 1% of UK total.

Top Government Actions Since May 2010

- In spring 2013 the BIS Select Committee announced an inquiry into the UK Retail Sector, it focused on Government support for the retail sector. BIS Select Committee published its report on 4 March. BIS worked with relevant government departments on the response which was published on 13 June.
- The Autumn Statement announced the biggest package of business rates support in over 20 years, including; £1,000 discount in 2014/15 and 2015/16 for retail premises with a rateable value of up to £50,000 ;Capping the RPI increase in bills to 2% in 2014-15 Extending the doubling of the Small Business Rates Relief to April 2015. The Chancellor committed to publish a discussion paper on the reform of business rates administration in the spring.
- In December 2013 a billion pound package of support for the UK's High Streets was announced. The package includes a new multi-million pound competition, run by the Technology Strategy Board to support business-led digital town centres, which was launched on 10 January 2014.
- In October 2013 a updated strategy was published, adding new and challenging actions. "A Strategy for Future Retail" was developed in partnership and builds on the foundations of the previous strategy published in 2012. It comprises of actions to address barriers to retail growth and performance, and to help retail prepare itself for the future.
- The UKTI Retail International Action Plan was launched in March 2013. It commits Government to work with the sector to support international growth of UK companies by taking action to maximise investment in priority markets.
- In March 2012, DCLG published the Government's formal response to Mary Portas' Review of the High Street. They took immediate action implementing some of the 28 recommendations, including 'on high street' pilots. A report setting out progress since the Portas Review was published on 9 July 2013.

Women On Boards

Key Facts

- Women now account for nearly 22%of FTSE 100 and over 16% of FTSE 250 board directors (as at May 2014), up from 12.5% and 7.8% respectively since February 2011.

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- 99% of boards with female representation up from 79% within the FTSE 100 and 80.8% of boards with female representation up from 52.4% within the FTSE 250.
- Women have secured 28% of all FTSE 100 and 33% of FTSE 250 board appointments (March 2013-Feb 2014).
- Looking only at Non-Executive posts, women account for 26.9% of FTSE 100 and 20.5% of FTSE 250 appointments since 1 March 2013.
- We need fewer than 50 appointments of women to achieve our 25% target.

Top Government Actions (since May 2010)

- In February 2011, Lord Davies published the "Women on Boards" report which sets out a series of business-led measures aimed at bringing about real lasting change for the benefit of women, business and the economy. The primary recommendation is for Chairmen of FTSE 350 companies to set themselves targets for the percentage of women they aim to have on their boards by 2013 and 2015. FTSE 100 companies should aim for a minimum target of 25%.
- Launched the Voluntary Code of Conduct for Head-hunters to abide by in July 2011. All major FTSE 350 recruiters have signed up (72).
- The Financial Reporting Council has amended the UK Corporate Governance Code to require companies to report on the board's policy on boardroom diversity, including gender. The amended code came into force on 1 October 2012.
- In March 2012, Lord Davies published his first annual progress report. The report will be published annually until 2015, which is the deadline for the 25% target. He published his third annual report in March 2014.
- The Department has published regulations that require quoted companies to disclose in their annual reports the number of men and women on their board, in senior positions and in the company as a whole. The regulations came into force on 1 October 2013.

Europe

- The Commission have put forward a Directive that would set a mandatory target of 40% non-executive directors for the boards of listed companies across the EU by 2020.Member states which choose to apply the objective to both non-executive directors can apply a target of 33% female directors by 2020.
- We do not think it is right to impose a one-size-fits-all European listed companies, especially as company culture and the legal basis for the appointment of directors vary so widely across member states.
- We respect the right of others to put quotas in place, but we remain committed to self-regulation and are confident that with sustained and continued action we will meet our target of 25% by 2015.
- The Directive sets an obligation on Member States to put in place sanctions for companies failing to put policies in place. The sanctions would not apply

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to companies who had a policy in place but still failed to meet the 40% objective.

- The Directive is currently blocked in Council with 11 member states opposed to it, including the UK. The incoming Italian presidency see this topic as a priority and are exploring drafting changes in order to persuade those opposed to the directive to change their position
- All this could change in the summer, when Germany may switch from being in the blocking minority to actively supporting the measure. We also think the Czech Republic will switch, leaving the blocking minority vulnerable.

Elephant Trap

- The EU Directive does not mention quotas. The 40% objective is binding. The correct term is that the new law would impose ‘an obligation of means’ on listed companies. It is not a quota because a company that fails to reach 40% is not in breach so long as it complies with the recruitment obligations.
- [Would the UK consider quotas if voluntary measures fail] We believe voluntary measures are effective and we are committed to continuing with them. If we do not reach our targets then we would need to look at the reasons and address them at the time – we won't speculate now.
- [if pressed] We would not rule out legislative measures in all circumstances, but it is too soon to speculate on what those might be. We will be guided by the evidence. The key point is that this would be UK legislation to address the specific circumstances of UK listed companies.

Midata Programme

Issue

- As part of the Government’s consumer empowerment strategy the midata programme aims to give consumers access to the data companies hold about them in a portable, machine-readable format. This will benefit the economy by stimulating business innovation and choice for consumers.

Key Facts

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- The midata programme was launched in November 2011 as an element of the Government's consumer empowerment strategy. Twenty-six businesses and organisations signed up to voluntary principles for releasing consumers' consumption and transaction data to them in a machine-readable format.
- Following a consultation on progress in the summer of 2012 the Government took powers in the Enterprise and Regulatory Reform Act to give customers the right to request their consumption and transaction data in an electronic, portable format in four core sectors: energy, current accounts, credit cards and mobile phones (with the option to include other sectors if certain conditions set out in the power are met).
- In November 2013 the Consumer Minister, Jo Swinson wrote to CEOs in the four core sectors seeking their views on progress which will inform a decision on whether to use these powers. The results of the review will be announced shortly.
- In response to a request from the Secretary of State, Vince Cable, and the Financial Secretary to the Treasury, the CEOs of the big banks have recently committed to making consistent midata files available to their customers by the end of this year.

Top Government Actions (since May 2010)

- The midata programme was launched in November 2011 under the chairmanship of Professor Sir Nigel Shadbolt.
- The Government consulted on progress on the midata programme in 2012 on whether the initial voluntary approach should be backed up with legislation. As a result, powers to give customers the right to request their consumption and transaction data were granted through the Enterprise and Regulatory Reform Act 2013. These were focused on the energy, current account, credit card and mobile phone sectors.
- As part of the midata programme the midata Innovation Lab (mIL) was set up in July last year. It was a voluntary accelerator project led by BIS and run in collaboration with 26 partner organisations including business, consumer groups, regulators and universities. The mIL used fast prototype techniques to develop 5 prototype applications that demonstrate the potential of midata to empower consumers – these were launched in December. The Connected Digital Economy Catapult (CDEC) is currently considering taking the mIL forward.
- BIS also established working groups to look at a range of potential security and privacy issues affecting personal data. These examined the current legislative framework, in particular the Data Protection Act and practice and assessed whether midata creates the need for additional safeguards. The conclusions of this work will soon be published alongside the consclusions of the review of the midata programme
- The Consumer Minister, Jo Swinson, wrote to CEOs in November 2013 seeking information on how companies were implementing the voluntary approach as part of a review of progress. The review results will be published soon As part of this process the Secretary of State for Energy and Climate Change Ed Davey and Jenny Willott met with energy suppliers in

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June to discuss improving consumer access to key consumption data by providing automated access to third parties. All parties agreed to participate in an Implementation Group that will look at how to deliver this. The Group will deliver a report in September.

Elephant Traps

- Although we have taken steps to introduce a power to regulate in a way that could provide consumers and SMEs with a right to receive their transaction/ usage data electronically we have publicly stated we would prefer to make progress on a voluntary basis. The review will restate the aim to deliver the programme voluntarily, with a focus on delivering specific progress in the finance and energy sectors. A Written Ministerial Statement setting out the review conclusions is currently in the Cabinet clearance process and we anticipate being able to publish conclusions in late June/ early July.
- We now realise that the EU Payment Services Directive, a maximum harmonisation directive, prevents us implementing domestic legislation with a similar scope in financial services. This means that we cannot use the ERR Act powers for personal current accounts and credit cards. We should therefore avoid referring to the powers in those sectors.

Paperless Billing

Issue

- A Public Campaign called ‘Keep Me Posted ‘ wants to retain paper bills through the post rather than digital bills; and not to be charged extra for that service. There is associated discontent about charges a) for processing non direct debit payments such as cheque or cash and b) for phoning customer services with an account or service query or to pay a bill.

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- Charges for paper billing by utility companies, telecomms providers and financial services practices are claimed to be penalising the elderly and vulnerable.

Key Facts

- This is not necessarily a penalty for choosing paper. In many cases, rather than paying more than the headline price, customers are simply not receiving the discount available to those that pay by direct debit. Choosing paper bills retains an additional service for those who wish not to take a 'paperless bill discount' for surrendering that service.
- The Government would not wish to intervene to deprive those opting for paperless transactions from receiving the cost savings and deprive industry of more cost-effective and lower risk processes such as internet statements and direct debit payments.
- Discounts for paperless billing, statements and direct debits must be justified by the actual lower paper, postage, overhead and administration costs incurred. And Consumer Protection Regulations prevent traders from making a profit on charges for payment processing.
- The alternative is to look around to find a service tariff and overall price - including the cost of paper bills – at a comparable or cheaper price than a paperless contract. There are now many organisations looking to support those such as the elderly and vulnerable consumers in finding the most appropriate service level and value for money.
- To put this in perspective, these charges are typically a very small percentage of the overall cost of any service contract.

Top Government Actions (since May 2010)

Premium Telephone Lines

- Government is intervening in the related cost of premium rate customer service telephone lines. Exact details are currently the subject of consultation. Government funding has allowed Citizens Advice Consumer Service Helpline to change their premium number to an 03 this month. 03 numbers are charged at the same price as a local call (01 and 02 prefixes), and should be included in any "free minutes" allowance from landline and mobile providers.

Cost of Living

- Government is looking into costs of items such as electricity supply and petrol which are having a much larger impact on cost of living than paper bills. Government intervention is planned for energy companies to place customers on the best tariff.

Financial Services

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- The Government is committed to improving access to financial services for individuals. Access to a transactional bank account is key to enabling people to manage their money effectively, securely and confidently on a day-to-day basis.

Digital Inclusion

- A new cross-government Digital Inclusion Team based in the Cabinet Office's Government Digital Services has been established in order to co-ordinate and drive forward the digital inclusion agenda. This team will work across Government to develop a digital inclusion strategy
- UK Online Centres, which is a network of 3,800 community-based centres throughout the UK (funded by BIS and DWP) offer free digital skills training to the most marginalised groups such as the elderly, long-term unemployed and disabled. Their tutors are trained to cater for all learning abilities.

Consumer Rights Directive 2011

- From 13 June 2014, when UK Regulations implementing the CRD came into in force, suppliers should obtain consumers' express consent to any extra charges including those for paper bills. They should not use an approach that requires consumers to untick boxes in order to avoid charges.

Elephant traps

- Several separate requests from 'Keep Me Posted' for meetings with BIS Ministers were recently declined on the grounds of a heavy work schedule. A round robin invitation to SoS was not taken up. BIS has offered the campaign's president a meeting with policy officials and - so far - no response to this has been received.
- BIS took the lead in responding to the EDM and leading in this matter in the November 2013 Lords Short Debate and follow up debate in December (Lord Younger). This was because of BIS overarching consumer protection brief. However, policy responsibility and power to act is spread widely across Other Government Departments and Regulators.
- The 'Keep Me Posted' lobby group, was strongly supported by some members of the House of Lords during the debates in that House, the Lords seemingly not impressed by the prospects of digital roll out or of promised digital training for the elderly. Their point remains that – even if they could - they do not want to have to use the internet – they want choice to receive paper bills without being penalised by charges and, similarly, to pay their bills by cash, cheque or postal order.
- An associated point was that, even if the provision of a paper bill does not attract a charge, it does represent penalisation to pay high cost telephone charges to speak to a service company rather than communicate electronically.

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Pubs Code and Adjudicator

Issue

- The Government is introducing a Statutory Code of Practice to govern the relationship between pub-owning companies and their tied tenants. A new independent Adjudicator will enforce the Code. The measures will be introduced through the Small Business, Enterprise and Employment Bill.
- The measures will address the imbalance in bargaining power between pub-owning companies and the 20,000 or so tenants that run tied pubs across England and Wales, who are often sole traders and small businesses, to ensure tenants are treated fairly by their pub-owning company.
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Key Facts

- Tenant groups, the BIS Select Committee and other campaigners have been concerned about unfairness in the relationship between pub companies and their tied tenants, particularly that a lack of transparency weakens tenants' negotiating position.
- There are reports that substantial numbers of tied tenants continue to face serious hardship. CAMRA figures, based on self-reported income, suggest that 57% of tenants tied to large pub companies earn less than £10,000 pa, compared to 25% of those who are free-of-tie.
- BIS Select Committee has published five reports in ten years on pubs, consistently calling for Government action, including recommending the establishment of a Statutory Code and Adjudicator in 2011.
- The Office of Fair Trading found in 2010 that there were no competition issues in the market. Government is not intervening for competition reasons, but to ensure tenants are treated fairly.
- The Government's consultation in 2013 received over one thousand one hundred written responses and over seven thousand responses to an on-line survey conducted in parallel.

Top Government Actions (since May 2010)

- In November 2011 Government secured a commitment from the industry to build on self-regulation. Following a call for evidence on how it was working in October 2012, the Secretary of State announced to Parliament in January 2013 that while it had brought a number of improvements, self-regulation did not appear to be working well enough, and he would consult on statutory intervention.
- An eight week consultation took place between 22 April and 14 June 2013 on establishing a Statutory Code of Practice and an independent Adjudicator to govern the relationship between pub owning companies and their tenants.
- On 4 June 2014, the Government's responses to the consultation and to BISCOM's July 2013 report were published and, on 3 June 2014, the Queen's Speech announced that a Pubs Code and Adjudicator would be taken forward in the Small Business, Enterprise and Employment Bill in the 4th Session.

Elephant Traps

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Criticism for not introducing mandatory free-of-tie [the Opposition is in favour]

- Although there were calls for the introduction of mandatory free-of-tie from some tenant groups and campaigners, the responses to the consultation raised concerns that such a move would create uncertainty for pub-owning companies and have an unpredictable impact on the wider pubs sector.
- If significant numbers of tenants decided to go free-of-tie, the whole tied model might no longer be viable – because pub companies would lose their purchasing power and with it the ability to service a smaller and potentially more disparate tied estate. Even among the polarised views in the industry, there is strong support for the tied business model. What is important to us is that there are protections in place so that the tied model operates fairly.

Criticism for increasing costs to industry/capturing family breweries

- The measures are a proportionate and targeted response to the long-standing problems in the pubs sector. We are ensuring that all tied tenants have the protection of a Statutory Code and the ability to refer disputes to an independent Adjudicator, not just tied tenants of the large pub owning companies.
- Much of the Code is based on the existing voluntary industry code, to which most pub companies and breweries with tied tenants are already signed-up. Companies that are behaving responsibly should have nothing to fear.
- We are ensuring that no tied tenant is at risk of losing the protections they currently have under industry self-regulation, should those mechanisms disappear once pub-owning companies, including family breweries, are subject to the statutory regime.
- This Government has already taken a number of steps to support the industry, including scrapping the beer escalator and cutting beer duty.

Regulatory And Competition Appeals

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Issue

- On 19 June 2013, the Government launched a consultation on proposals to streamline appeals of decisions by economic regulators and competition authorities in the UK, including changing the standard of review for appeals in the communications sector, and introducing greater consistency between different sectors. The consultation closed on 11 September 2013; over 80 responses were received.

Key Facts

- There are concerns that appeals in some sectors, particularly communications, act as a drag on regulatory decision making, with negative impacts on economic growth.
- In the last five years there have been over 50 regulatory or competition appeals with an average length of nearly 10 months. The current appeals system is estimated to cost around £22 million per year.
- Appeals and the threat of litigation arguably lead to delay in taking regulatory decisions in some sectors.
- The Government's proposals are intended to focus appeals on identifying whether regulators have made material errors. But they will maintain robust appeal rights, which are vital in holding regulators to account.
- The proposals apply to economic regulators such as Ofgem, Ofcom and Ofwat, and to decisions of the competition authorities – OFT and the Competition Commission.

Top Government Actions (since May 2010)

- In 2012 the Government announced that it would be reviewing regulatory and competition appeals with the aim of making them more streamlined.
- In June 2013 the Government launched a consultation on a package of reforms relating to standard of review, appeal routes and incentives to bring an appeal.
- Government officials discussed the proposals with a wide range of stakeholders during the consultation period, including a meeting with firms in the communications industry on 16 January 2014 to discuss progress of the consultation. The Minister for Employment Relations and Consumer Affairs met with representatives from some of the six largest providers of telecommunications in the UK on 24 February to hear their concerns.

Elephant traps

- Appeals play a key role in holding regulators to account, and there is no intention to remove firms' appeal rights. The aim is to focus appeals and make them more streamlined.
- The Government in 2012 decided to retain a full 'review on the merits' for competition appeals – why are they now reconsidering the framework for competition appeals? The Government remains committed to providing for effective, robust appeals of competition decisions.

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- The Government separately consulted on changes to Judicial Review of public decisions and published its response in February 2014. This is separate from the regulatory appeals consultation, but aimed to address similar concerns about the volume, length and cost of appeals.
- Those against the proposals argue the consultation has failed to make out any case for change; proceeding with a change to the standard of review will create uncertainty for business, affecting investment decisions and impacting on growth. Government is considering the evidence submitted in response to the consultation.
- Incumbent providers argue, that if Government is "determined" to make a change, then the option of transposing the wording of Article 4 of the Framework Directive, i.e. 'judicial review duly taking account of the merits') and the change should be subject to a further IA and public consultation. Whatever decision is taken the objective is to have a system that remains fully compliant with Article 4 of the EU Directive and enables a more efficient appeals system.

Why has the Government taken so long to issue the Government Response?

- Recognise concerns that Government response has not yet been published and is
- now very late, but this is an important issue and we want to be sure that we have
- fully considered the issues
- raised in the consultation responses before coming to a
- view on the way forward.

When will the Government Response be published?

- Decisions are still being taken; we expect to publish the Government Response in the coming months.

<u>Street Trading And Pedlary</u>

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Key Facts

- The Government has consulted on proposals to ensure that the Pedlars Acts and the national street trading regime comply with the requirements of the European Services Directive (SD). One of the proposals was to repeal the Pedlars Acts of 1871 and 1881.
- The main aim of the SD is to promote trade and competition across the EU and in the context of pedlars and street traders, to remove the restrictions that they often face in selling their services in other EU countries other than their own.
- The Pedlars Act requires those wishing to peddle to obtain a pedlar's certificate from the police. However the certification process discriminates against people from other EU Member States because of the residency requirement for a Pedlars certificate. Research also suggests that the certification process is applied inconsistently across the UK
- There were strong objections to the proposal to repeal the Pedlars Acts. The Department is now considering how best to ensure that the UK's pedlary regime remains compliant with the Services Directive.
- In terms of street trading the Department is considering how best to balance the desire of Local Authorities to make their town centres attractive and safe places to for people to shop with the objectives of the Directive.

Top Government Actions (since May 2010)

- February 2011 – Issued Government Response to the Street Trading and Pedlary consultation 2009 explaining that change in interpretation of retail sale of goods meant that street trading and pedlary were now generally considered a service activity and subject to the requirements of the European Services Directive (SD).
- November 2012 – Issued consultation on proposals to amend the street trading & pedlary regimes to comply with the SD.
- February 2013 – Stakeholder meeting to discuss views to consultation
- 2011 – 2013 – Government Intervention in local authority Bills to ensure that the Bills comply with the SD.
- July 2014 – planned publication of the Government response to the consultation, [subject to Cabinet clearance and agreement from the Scottish Government and the Northern Ireland Executive]

Elephant trap

- There is opposition from a group of pedlars who have been lobbying MPs / Government as they feel removing Pedlars Acts takes away their civil liberty. In developing the Government's response to the consultation, these and the other views expressed are being taken into account.

Adult Skills Funding

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Key Facts

- Overall funding for adult FE and Skills is £4.1 billion for the 2014-15 Financial Year. Of this £3.4 billion has been granted to the Skills Funding Agency to support learners.
- Funding is prioritised where its impact is greatest. In 2014-15 full funding will continue to be available for:
- English and maths qualifications and units to help adults progress to GCSE A* to C (level 2);
- Skills training for unemployed people in receipt of benefits (up to Level 2 for all adults, and levels 3 and above for people aged 19-23);
- young adults aged 19-23 to gain entry level & level 1 learning, and a first full level 2 and level 3
- Traineeships (now extended to people aged 24, bringing them into line with wider Government interventions for young people).
- Government will continue to contribute towards the cost of:
- Apprenticeship provision for people aged 19 and over.
- Entry, Level 1 and Level 2 provision for learners aged 19 and over who do not qualify for full funding
- Level 3 and 4 provision for people aged 19-23 who do not qualify for full funding
- Advanced Learning Loans are available for those who do not qualify for full funding undertaking Level 3 or 4 qualifications.
- In readiness for the Apprenticeships reforms, and in particular the decision to route funding through employers, Apprenticeships for those aged 24 and over have been moved out of loans and are now funded through a contribution from the Adult Skills Budget and a contribution from the employer.
- We are continuing to support Adult Community Learning with funding of £210 million in 2014-15, so as to maximise the impact public funding has on the social and economic well-being of families and communities, particularly those who are most disadvantaged. Community learning providers are expected to deliver a locally determined offer and to secure additional revenue over the public subsidy via providers operating through strong local partnerships.

Top Government Actions (since May 2010)

- Supported a major expansion of Apprenticeships including a focus on quality, and ensuring Apprenticeships fit the needs of employers by giving them the lead in developing new Apprenticeship standards; as well as introducing Traineeships to provide young people with the skills and experience to progress to an Apprenticeship or other work. A consultation on Apprenticeship reforms was held in 2013, and a number of Trailblazers will lead the way in developing the new Apprenticeships and in testing the new funding model.

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- Made significant progress in reforming the skills system by: removing targets; freeing FE providers from central controls so they can respond to learner and employer demand; and introduced a single Adult Skills Budget. Skills Incentive Pilots with three LEP areas (North East, West of England and Stoke and Staffs) will test out models aimed at ensuring greater responsiveness of providers to LEP skills priorities.
- Empowered employers to develop innovative training approaches and take ownership of the Skills agenda, including through a £340 million Employer Ownership Pilot, and from 2014-15 through the Employer Ownership Fund to deliver a long term commitment to employer ownership of skills;
- Continuing to promote a shared responsibility for skills funding with Government funding focusing on young people and those without basic skills, and by making Advanced Learning Loans available to support study at Level 3 and 4, alongside an increased expectation of employers contributing to the cost of Apprenticeship training.
- Agreed a new approach to minimum standards, quality of provision and information for learners and employers as well as high quality advice, information and guidance through the National Careers Service.

18 – 21 Work Skills

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Pilot 1 – English and maths training for the young unemployed without level 2.

- In February the Deputy Prime Minister announced a pilot scheme for 18-21 year olds who do not have level 2 in English and maths. This formed part of the Cabinet Office review of all policies, funding and provision for 16- to 24 year-olds not in employment, education or training.

Key Facts

- This pilot will test innovative learning technology to help 18-21 year-old jobseekers improve their English and maths skills if these are below Level It is an opportunity for young people to increase their skills and improve their educational and employment outcomes.
- New JSA claimants aged 18-21 identified as having English or maths below Level 2 will be mandated to a provider assessment leading to maths and/or English training for up to 16 hours per week, alongside their jobsearch.
- The training provision, which is being procured by the Skills Funding Agency, will either be blended or purely online and will lead to Functional Skills or GCSE qualifications.
- The pilot will be launched in December and will be evaluated through a Randomised Controlled Trial (RCT). It will test the impact on educational and employment outcomes of systematically mandating 18-21 year-old JSA claimants to undertake this type of training at this stage of a claim.
- A total of 15,000 jobseekers in Kent, Mercia, and Devon, Somerset and Cornwall will be randomly allocated to either a blended, pure online or a control group. As part of the 'business as usual' offer, learners in the control group may be offered skills interventions from the current selection available if their JCP advisor determines that this skills gap is a significant obstacle to employment. Claimants in the two treatment groups who fail to start, participate or complete the training may receive a benefit sanction.

Elephant traps

Where's the money coming from to fund this pilot?

- The Autumn Statement announced implementing three early findings from the Cabinet Office's Review of support for young people including the associated funding.

Why the focus on English and maths?

- Being competent in English and maths can make a real difference to a person's life, both in terms of employment outcomes and their general well-being.
- This is why the Department is exploring how innovative uses of learning technology can be used to help people develop these skills for a range of different learner groups. By harnessing the advantages of learning

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technology, we will be able to find new ways to make learning more accessible, engaging and personalised.

- There are already good examples in the FE sector of how technology is being used to enhance learning and teaching. We want this best practice to become more widespread.

Isn't this duplicating existing provision?

- We want to encourage innovation and even more partnership working between providers and learning technology companies to expand an online approach. By making the best use of learning technology, young people will be helped to get the English or maths skills they need to find and stay in work, where perhaps more traditional classroom based learning may have failed them in their previous education.
- Our market testing of the pilot with providers and learning technology experts was received with great interest and many welcome an approach that recognises the differences between learners and the particular challenges these young people may face. This is why we want to give providers an opportunity to adapt existing or develop new products that will offer personalised, flexible and engaging learning material.

What happens if they don't want to do the training?

- Young people without Level 2 in English and maths find it harder to find work and have lower earnings than those with these skills. Participating in this pilot will help them compete for jobs, so those who refuse to take part should not expect to continue to receive benefit without the possibility of a sanction.

What happens if someone fails to successfully complete their course?

- Provided the claimant has started and completed their training, they will have met their conditionality requirements. However, if they would benefit from making greater progress it will be a local decision between the provider and the Jobcentre whether they continue.

How will participation be monitored?

- Providers will notify jobcentres of those participants who fail to start, participate or complete provision. DWP and BIS will investigate the merit of any additional requirement, e.g. progress reports.

<u>24+ Advanced Learning Loans</u>

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Issue

- 24+ Advanced Learning Loans are available to thousands of adults wishing to retrain.

Key Facts

- Learners aged 24 and above studying at Level 3 and Level 4 can access loan support to help meet up-front fees, removing one of the main barriers to learning.
- Loans enhance shared responsibility for skills funding, recognising that much of the benefit of advanced vocational study goes to the learner.
- Introducing loans has allowed grant funding to be focused where the barriers to learning are greatest for young people and those without basic English and Maths.
- 24+ Advanced Learning Loans went live in April 2013. To end April 2014, more than 66,000 applications have been submitted.
- Applications for courses starting from August 2014 can now be made.
- Market research shows that FE learners are positive about the terms and conditions, which are favourable compared to those in the prevailing market.
- The loans operate on the same eligibility and repayment basis as HE student loans, with nothing to repay until the learner has left the course and is earning above £21,000; and any outstanding loan amount written off after 30 years.

Top Government Actions since May 2010:

- On 19 June 2014, the Government launch the consultation 'Further Education – Future Development of Loans', seeking views on proposals to expand and simplify loans in Further Education.
- The Government confirmed in the Skills Funding Statement 2014 that Advanced and Higher Apprenticeships would be removed from 24+ Advanced Learning Loans and return to being publicly funded.
- The Government confirmed in the Skills Funding Statement 2012 that £129 million and £398 million for loans in 2013-14 and 2014-15 respectively will be available.
- On 12 July 2012, the Government announced a package of support measures, to provide additional support for vulnerable learners as loans are introduced:
- An offer to individuals who incur a 24+ loan for taking Access to Higher Education Diploma courses that on completion of a subsequent Higher Education programme, the Student Loans Company will write off the amount outstanding on the 24+ loan.
- A £50 million bursary fund over two years to help vulnerable learners, disbursed by colleges and training organisations.

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- Additional information, advice and guidance for adults who are uncertain about loans, provided by the National Careers Service and Money Advice Service.
- The New Challenges, New Chances reform plan published in December 2011 confirmed the Government's plans to implement loans from 2013/14 following a public consultation in summer 2011.

Elephant Trap

Consultation

- In line with the principles of fairness and shared responsibility, public funding is prioritised for younger learners and those with lower skills. Advanced Learning Loans were introduced in April 2013 to enable individuals to make positive decisions about how to invest in intermediate and higher skills.
- We would now like to gather views on proposals for a further expansion of loans in the Further Education sector. The proposed expansion aims to:
  - Provide access to learning for the widest possible group of people;
  - Simplify the current funding system, so it is easy to understand, and so that learners have greater control over their learning choices;
  - Strengthen incentives for learners engaging in training and skills development;
  - Widen access and strengthen alignment with Higher Education funding.

Removal of Apprenticeships

- We made the decision to include Apprenticeships in 24+ Advanced Learning Loans based on the best intelligence available at the time. Evidence from our research showed that initially Apprentices were cautious of Loans, but were much more positive once the terms and conditions had been explained.
- Employers were less supportive of Loans and felt that it would have an effect on the recruitment of Advanced and Higher Apprentices. However, many were unaware of Loans and many lacked understanding of the terms and conditions so we had taken steps give more information to employers directly and by working with sectors in the run up to the introduction of Loans.

Adult Vocational Qualifications

Issue

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The adult vocational qualifications system is designed to provide a skilled workforce with access to relevant, rigorous qualifications that employer's value, enhance social mobility and improve progression into further or higher education and employment.

Key Facts

- Vocational qualifications play an important part in supporting the development of relevant and up-to-date skills in the workforce. They match the skills, knowledge and understanding people require for entry into an occupation or progression in a career or to further training. High quality vocational education is essential to meet new demands of changing global economies and new technologies and support economic prosperity.
- The Qualifications Credit Framework (QCF) is a framework regulated by Ofqual for vocational qualifications allowing for flexible, responsive qualifications made up of credit bearing units. It has become a complex and over-prescribed system, and the benefits anticipated from the QCF are not being fully recognised.
- The Government in partnership with the UK Commission for Employment and Skills (UKCES) conducted a review (led by Nigel Whitehead) of adult vocational qualifications, which looked at the current system for vocational qualifications in England – not just those funded by Government, and identified areas that require improvement and presented recommendations for reform building on what works. The review (November 2013) recommended seven practical steps building on the Wolf Review of Vocational Education for 14- 19 year olds, the Richard Review of Apprenticeships, Tech Levels, the Commission for Adult Vocational Teaching and Learning (CAVTL) and the Further Education Learning Technology Group (FELTAG).
- For publicly-funded learners, we need to ensure that the adult vocational qualifications we support have a suitably broad content and level of rigour, and respond to learner and employer needs. As part of this process the Skills Funding Agency from August 2013 onwards has removed over 4,000 vocational qualifications with little or no demand from the scope of public funding.
- By November 2014 an additional 2,500 qualifications will be removed from public funding. Qualifications that are unlikely to attract large numbers of candidates, but do provide high value to companies and individuals in specialised or niche areas, will not lose funding.
- The Skills Funding Agency has put into place new business rules to approve qualifications submitted for funding, leading to a smaller and more relevant funded offer. A qualification will need to have recognition by business, a clear purpose and appropriate content and show that it will help a learner into a job or be a pathway to higher-level skills. The rules, implemented in February 2014, are designed to build on the principle of relevant, rigorous and recognised vocational qualifications for adults outlined in the review of Adult Vocational Qualifications and lead to a more employer driven, robust and streamlined publicly funded offer

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- The changes mean that nearly £200m of the adult skills budget will be re-directed towards the highest quality and most relevant qualifications. The business rules will sit alongside the Agency's funding policy rules.
- For adults, the QCF will remain. But Ofqual is looking at the way qualifications are regulated on the QCF to make sure that the system remains fit for purpose, and consistently produces high quality valued qualifications.
- The Government published "Getting the Job Done: The Government's Reform Plan for Vocational Qualifications" on 5 March, which builds on a series of earlier reports and studies on vocational education and training in England: Alison Wolf's on vocational education for 14-19 year olds; Doug Richard's on Apprenticeships; and Nigel Whitehead's on adult vocational qualifications. The plan brings them all together and emphasises their common features. In particular, it takes forward work on adult vocational qualifications and their funding; showing how this is consistent with our other reform programmes.
- We are now taking forward the next steps to implement the reform plan.

Top 5 Government Actions (since May 2010)

- Rigour and Responsiveness in Skills (April 2013) outlines how the Government will accelerate its reforms to the skills' system to ensure that vocational training equips adults to compete with the best in the world.
- Review of Adult Vocational Qualifications in England (November 2013) analyses the current system for vocational qualifications in England and presents a vision and strategy for adult vocational qualifications, building on other related reviews, and ensures that public funding is focussed towards high quality qualifications that can make the biggest difference to learners and respond to employer needs.
- The Government announced the removal of low and no take-up qualifications from the scope of public funding, 7 July 2013.
- New criteria for public funding of qualifications based on demand and quality - implemented February 2014.
- Getting the Job Done: The Government's Reform Plan for Vocational Qualifications in England (March 2014) outlines the reforms made so far to vocational education and training in full time education and Apprenticeships and how they can be carried through to adult vocational education.

Elephant Traps

Why is this vocational reform plan needed? What does it do?

It brings together all the work Government has done so far to reform vocational education in full-time education and Apprenticeships, and shows how this can be carried through to adult vocational education. The large number of qualifications (over 16,000) which are offered to adults by a wide range of awarding organisations mean that the system is hard to understand and learners and employers don't know what is of high quality. We believe a strong vocational education is essential if we are to meet new demands of changing global

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economies and new technologies and strengthen our economic growth. That is why we have made reform of skills a priority to create a rigorous and responsive skills system to meet the needs of both the individual and the employer.

Apprenticeships Reforms In England

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Issue

- The Government wants to place control of Apprenticeships more firmly in the hands of employers. Every Apprenticeship must be based on rigorous industry standards, defined by and meaningful to employers themselves.
- There are three key aims for our reforms:
    - put employers in the driving seat of designing Apprenticeships and give them control of Apprenticeship funding so that Apprenticeships are more responsive to the needs of business.
    - simplify Apprenticeship standards replacing the existing complex frameworks with short, simple, accessible standards written by employers in a language they understand.
    - increase the quality through higher expectations of English and maths, more end point assessment to ensure the apprentice is fully competent, raise aspiration for apprentices by introducing grading.

Key Facts

- Trailblazers led by employers and professional bodies are leading the way in implementing the new Apprenticeships. Over 400 employers are already involved, from major household firms (BAE systems, Jaguar Landrover, BT) to small businesses. They are collaborating to design Apprenticeship standards and assessment approaches to make them world-class. The first 11 standards produced by the first Trailblazers were published on 4 Mar 2014 () and a second phase is now underway in 29 more sectors. Third phase is due to start in September 2014. A full list of sectors and employers involved can be viewed in Trailblazer Guidance at
- Apprenticeship Funding Reform - We are planning to route funding for Apprenticeship training via employers in the future, to give them greater control and purchasing power over Apprenticeship training. A technical consultation closed on 1 May,1400 responses were received. All feedback will be considered, a long with evidence from stakeholder discussions, published research and survey data, before making final decisions on how Apprenticeships funding will be channelled in the future. A response to the consultation will be published in the autumn.
- We have provided Phase 1 Trailblazers with details of the amount that Government is prepared to contribute to the external training and assessment costs of Apprenticeships based on the new standards in the next Academic Year. This will consist of a basic co-investment rate with additional incentives relating to small businesses, 16-18 year old apprentices and successful Apprenticeship completion. For every £1 employers put into training and assessing an apprentice, we will provide £2.
- In total, we will provide up to £29,000 of government funding for new Apprenticeships, embedding rigour in the system and enabling our new Apprenticeships programme to be truly world leading.
- The Government aims to invest over £1.5 bn in Apprenticeships between 2014-2015.
- There were 868,700 people undertaking an Apprenticeship in the 2012/13 academic year- the highest recorded in modern history and we are on track to deliver 2m by the end of this Parliament.

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- We expect the first new Apprenticeships will begin to be delivered in 2014/15. Our aim is that from 2017/18 all new Apprenticeship starts will be on the new standards. As the new standards are developed and agreed we will cease funding Apprenticeships under former frameworks.

Key Government Actions (since May 2010)

- Richard Review into Apprenticeships was published on 27 November 2012. The aim of the review was to ensure that the Apprenticeship Programme meets the future needs of the changing economy, delivers high quality training, qualifications and skills which employers and learners demand, and maximises the impact of public investment.
- The Government's response to the Richard Review was published on 14 March 2013.
- The Future of Apprenticeships in England - The Reform Implementation Plan including the launch of the first Trailblazer project was published 28 October 2013.
- Legislative changes to enable the reforms are being made via the Deregulation Bill, which had its Second Reading in February 2014.
- Standards produced by the first Trailblazers were published 4 March 2014 .
- Apprenticeship Technical Funding Consultation was launched on 6 March 2013 and closed on 1 May 2014.

Elephant Trap

Has the Government focused too much on numbers and not enough on quality?

- The Government has already taken extensive measures to safeguard and improve the quality of learning provided through the Apprenticeships programme. We have removed poor quality provision, mandated that all Apprenticeships must be real jobs, introduced minimum durations, and replaced key skills with more stretching qualifications in English and maths. We will build upon these already significant improvements. There is already excellence in the system; the Apprenticeships Reform programme strives to bring all provision up to this standard.

<u>Careers Advice and The National Careers Service</u>

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Issue

- Matthew Hancock set out a new direction for careers advice in England to inspire young people about the world of work and to help them develop the character and resilience they need for success. The National Careers Service will work with schools, colleges and employers to take forward this new agenda.

Key Facts

- Ofsted's report, Going in the Right Direction? Careers guidance in schools from September 2012 was published on 10 September 2013. This looked at how well schools are meeting their duty to secure access to independent, impartial careers guidance for their pupils. The key finding indicated that the new duty is not being implemented well enough. Of the 60 schools visited, Ofsted identified that 12 had ensured all pupils received sufficient information to consider a broad range of career possibilities. The report made a number of recommendations on how this could be improved.
- Local authorities continue to have a legal duty to support vulnerable young people to participate in education and training.
- The National Careers Service has an online and helpline offer available to everyone; and a face to face offer for adults over 19 (or 18+ if on out of work benefits).
- From April 2012, when the service was launched, to March 2014, the National Careers Service has delivered: 1,332,218 new adult customers face to face advice sessions; 681,106 telephone advice sessions for adults; 85,710 telephone, web chat, e-mail and text contacts with young people; 369,520 unemployed 18-24 year olds received careers advice and the website received 22,712,854 hits.
- In its second year, the National Careers Service delivered; 664,948 new adult customers face to face advice sessions; 371,778 telephone advice sessions for adults; 52,150 telephone, web chat, e-mail and text contacts with young people; 186,917 unemployed 18-24 year olds received careers advice, of which 57,960 were seen within the first three months of registering with Jobcentre Plus. The website is now receiving around 1,500,000 hits a month.
- The service achieves high satisfaction levels amongst adults - 84% are very or fairly satisfied with the service. 46% of customers say they have progressed in employment and 63% in learning. Over 50% of these customers stating that the careers adviser contributed to their success. The Service operates to the matrix Standard for information, advice and guidance and all contractors were rated by Ofsted in 2013 as good.
- It operates from over 2,800 locations where it is co-located with other organisations including Jobcentres, colleges and in 116 prisons.
- BIS is providing £110.9 million in 2014-15, including £14 million ring fenced for provision in prisons and £1.4 million for the Youth Contract. A further £8.5 million is available from ESF funding for certain priority groups who meet both National Careers Service and ESF funding criteria.

Top Government actions (since May 2010)

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- On 5 April 2012 the National Careers Service was launched and 'The Right Advice at the Right Time' published providing an overview of the Government's advice services to help people of all ages improve their career prospects.
- In September 2012 a new legal duty for schools to secure access to independent, impartial careers guidance for pupils in years 9 – 11 came into force. From September 2013 the duty was extended to years 8 -13 to ensure more young people get the help they need at key transition points. An equivalent contractual requirement was placed on colleges for young people up to the age of 18.
- From 2012 as part of the Youth Contract unemployed 18 -24 year olds have access to a careers advice session within the first 3 months of registering as unemployed with Jobcentre Plus.
- The 2012 Autumn Statement and Rigour and Responsiveness set out plans for more and better use of open data and closer working between the National Careers Service and Local Enterprise Partnerships. LEPs local skills priorities are published on the National Careers Service website.
- In September 2013, Matthew Hancock published a new vision on inspiration. This describes how he envisage employers, schools and colleges working together to inspire young people about the world of work and raise their aspirations for the learning and career opportunities that are open to them.
- In September 2013 the Government published an Action Plan which set out the steps we will take in response to the Ofsted's thematic review and the National Careers Council's first report.
- In April 2014 DfE published revised statutory guidance for schools. This emphasises the need to provide pupils with direct experience of the world of work, a clear view of the labour market and a good understanding of progression routes through education, including apprenticeships and university.
- New departmental advice was published alongside the guidance, providing good practice and case studies, painting a clear picture of what good advice and guidance looks like.

Employer Ownership Fund

Issue

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Further developing the Government's ambition to give employers a leading role in the adult skills delivery through:

- Building on the lessons learned from the Employer Ownership Pilot (EOP) to deliver a new flexible way in which employers can tackle skills challenges with support provided on a match funded basis.
- Ensuring that the Employer Ownership Fund is strategic, simple and fast delivering funding to projects quickly so they can get underway.

Key Facts

- Two calls announced so far
- £20 million for skills in the automotive supply chain.
    - First £10 million announced on 30 April with application system live from 6 May
    - Second £10 million to be announced later in the year

- £30 million to support engineering skills
    - £10 million to help people progress in engineering careers which went live on 19 June
    - £10 million to develop more women engineers [DN to be announced on 23 June]
    - £10 million to help small firms tackle their engineering skills challenges to be made available later in the year

Features of the fund are:

- Funding will be provided direct to individual businesses to support training costs on a 50/50 matched basis.
- It will not be provided to intermediaries.
- The application process will deliver prjects that are compliant with State Aid regulations.
- Projects must meet a required pre-determined value for money threshold to receive funding

Top Government Actions (since May 2010)

1. Launched and supported the Employer Ownership Pilots to test the concept and appetite among employers to take ownership of the adult skills agenda .
2. Provided funding for the Employer Ownership Fund to continue to give employers a role in the delivery of adult skills ensuring that it meets their needs.

Elephant trap(s)

<u>What will be the focus of future calls?</u>

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- We are planning a series of calls to focus on strategically important areas or other areas where we may test different forms of skills delivery. These will be announced later in the year.

The Adult Skills Budget is undergoing fiscal tightening, where is the money for the EOF coming from?

- The EOF is being managed flexibly from within the Adult Skills Budget. We are mindful of the need for budgetary oversight and will only deliver calls that we can afford.

Employer Routed Funding

Issue:

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- Opponents of the reforms argue that paying providers directly for Apprenticeships works well and does not need to change. The proposed reforms put added burdens on employers and will lead to a reduction in the numbers of apprentices.

Key Messages:

- Our apprenticeship reforms will ensure that apprenticeships become more rigorous and responsive to the needs of employers. Funding is a key element of this programme.
- Routing funding to employers will help them secure the most appropriate and effective training and make providers more responsive to employer needs.
- By moving away from a provider driven system and giving employers greater purchasing power to influence quality and value of training, we are looking to deliver the best value for taxpayers' money and to drive up quality and participation in the programme.
- We will make sure that the chosen system works well for employers of all sizes, in all sectors.
- We will publish the consultation results and announce our next steps in the Autumn.

Key Facts:

- The technical funding consultation ended in May 2014.
- We received over 1,200 individual responses, and we are analysing those responses.
- We also undertook a series of wider stakeholder discussions, focus groups and met with employers to discuss the proposed models outlined in the consultation
- The consultation proposed two models for future employer routed funding – a PAYE model and an Apprenticeship Credit model.
- The earliest a new employer routed funding system will be fully operational is in 2016.

Q&A:

Isn't it true that employers already invest a significant amount in the apprenticeship programme? How is asking them to pay more fair?

- Under the present system not all employers are paying towards the cost of training, and many providers are not collecting the full employer contribution. Asking all employers to contribute directly to the costs of external training will ensure that they only pay for what they value. This will drive up the quality of the training. Government will still be making a significant contribution to costs as well.

This is yet another expense and burden for small businesses. Aren't you supposed to be eliminating red tape and burdens?

- We are working closely with small businesses and their representatives to understand the challenges they face and how these changes may impact on

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them. In designing the new system, we will ensure it is as simple and user-friendly as possible for all employers including the smallest businesses, with scope for many administrative functions to be delegated to a provider or other third party. In addition, the funding model that will be used for Apprenticeships based on new standards in 2014/15 will include an incentive payment for small business taking on an apprentice. This is in addition to the core funding available and the size of the incentive payment will depend on the funding band to which the relevant standard is allocated.

A high employer contribution will be too much of a financial burden and decimate apprenticeship participation won't it?

- We know that paying a proportion of external training costs will give employers strong incentives to demand relevant, high quality training. We have set out the initial contribution rate in the trailblazers that will be running in 2014/15.

Providers have been the main route for funding for many years and the programme has improved and expanded. There is no real need for a change, which will only disrupt this success.

- We want Apprenticeships to become even more successful and help businesses and economic growth. We can only achieve this by putting employers in the driving seat. That is why we have asked them not only to determine the new standards for individual apprenticeships but also to take control of the training that delivers those. Routing the funding through them achieves this.

You have just completed a further consultation because you did not get the answers you wanted first time around, haven't you? Employers are happy with the current system and no-one supports the principles of your proposals.

- In addition to the formal consultation, we carried out a wide range of stakeholder meetings, workshops, and consultation events providing us with rich detailed evidence and feedback of how our proposals might work on the ground. As with any change it would not be universally popular, but there is support for our proposals, as evidenced by the letter to the Daily Telegraph from 36 major employers, headed by Charlie Mayfield of John Lewis, in May. These organisations together have over half a million employers as members, from the smallest micro businesses to the largest FTSE 100 employers, and represent well over a third of the private sector workforce.

Supporting quotes

"Control over funding would give us the opportunity to work directly with training providers and build relationships which allow us to design apprenticeships which are more relevant to the needs of the British economy. A simple, proportionate government contribution to each apprenticeship is a welcome step forward, as the current arrangements have more than 100 possible funding rates, and lack transparency to the employer and apprentice. The Government has been consulting on the detail of how these changes will be delivered. It is vital they get

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this right, especially for smaller businesses. We encourage all businesses to stay involved in this process to ensure that we can realize the goal of world-class apprenticeships designed and led by employers themselves.” - Employers’ letter to the Daily Telegraph, 5 May 2014.

Engineering Skills

Issue

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- Boosting the supply of engineering skills to meet industry's needs and support growth in the economy.

Key Facts

- There are multiple pathways into engineering, including training within the workforce and conversions from those with qualifications in related subjects: Only 60% of current engineering professionals are educated to degree level.
- Less than 10 engineering professionals in the UK are women (worst in EU).
- There were well over 13,000 Engineering Apprenticeship starts in the 2011/12 academic Year. There have been around 45,000 Engineering Apprenticeship starts since May 2010.

Top Government Actions (since May 2010)

- On 12 June, Matthew Hancock announced £30 million fund to increase the supply of women engineers into the sector and to address engineering skills shortages in smaller companies. The fund will enable engineering companies to establish training programmes to develop future engineers and boost the number of women in the profession.
- On 4 November, BIS Chief Scientist, Professor John Perkins, launched his Review of Engineering Skills. It is a call to action to bring engineering employers, the profession and educators together, to address the long-term challenge of engineering skills supply. The review generated massive support and to accelerate this effort, the Government's call to action has targeted investments to:
  - employers with engineering skills shortages in sectors with specific needs
  - Trailblazer Apprenticeships in engineering at the new national training facility at the Manufacturing Technology Centre in Coventry that is developing innovation and next generation technologies such as High Speed Rail and Nuclear
  - Tommorrow's Engineers to accelerate the nationwide rollout of its employer engagement programme aimed at encouraging children in school to consider engineering careers;
  - Capital investments for teaching high cost subjects such as science, technology and engineering
  - National Careers Service to promote engineering careers in schools through an education outreach programme
  - Daphne Jackson Trust to extend and develop its fellowship model to support people returning to professional engineering jobs after a career break
  - BIS also worked with 70 partner organisations – with support from many MPs - to create the Tomorrow's Engineers Week campaign, inspiring young people, especially young women, about careers in engineering.
  - Other Government activity includes:
  - New employer-led "Trailblazer" apprenticeships including a focus on engineering - pilot sectors include aerospace, automotive, energy;

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- Extending tuition fee loans for part-time students studying engineering and technology (ELQ exemption).

Elephant trapWhat are you doing about the fact that less than 1 in 10 of professional engineers are women?

On 7 May, the Chancellor and Minister Truss launched the Your Life Campaign which is designed to motivate more young people, especially women, to consider engineering and technology as a career option.

- The STEM diversity programme works to support all underrepresented groups within STEM, including women.
- BIS funds the Royal Society and Royal Academy of Engineering to run jointly a programme of work aimed at addressing issues of diversity in the STEM workforce.
- The Royal Academy of Engineering has developed a diversity concordat which 70% of engineering institutions, representing over 90% of registered engineers, have now signed.
- Universities applying for the £200 million STEM teaching capital fund will be asked for evidence of a commitment to equality and diversity,
- Government will support the National Centre for Universities and Business' (NCUB) target of doubling the numbers of female engineering graduates by 2030 by working in partnership with industry and educators to develop a Compact, containing a set of commitments and communications activity to encourage young women into STEM careers.

What are you doing about the fact that so few women participate in Engineering Apprenticeships?

- Increasing the diversity of the Apprenticeship programme is a priority.
- The Skills Funding Agency has funded pilots to test new delivery methods to engage more individuals from under-represented groups and commissioned additional research on gender and Apprenticeships, which will be published later this year.

Further Education Workforce

Issue

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How we are supporting improvements in FE teaching workforce.

Key Facts

- The most recent available data shows around 240,000 individuals teaching in FE (around 106,000 in FE colleges). Many work on part-time and have flexible contracts. Around 80% of teachers hold a teaching qualification.

Top Government Actions

1. Following Lord Lingfield's review of professionalism in FE (2012/13) the Education and Training Foundation (Foundation) became operational on 1 August 2013. ETF's role is to raise standards in FE with a priority focus on leadership management and governance; professional standards and workforce development; and improving standards in vocational education and training. Government is providing funding of £18m in 2014-15 to support the Foundation in delivering its objectives.
2. In response to criticisms by Lord Lingfield about the quality and relevance of qualifications for FE, Government funded the design of a new suite of FE initial teacher training qualifications. These started to be delivered to new FE teacher trainees from September 2013. The new Diploma in Education and Training will become the minimum standard for teaching in FE in future. The Foundation published revised standards for Teachers in FE in May 2014.
3. In response to OECD survey (October 2013) which showed England performs badly in numeracy and literacy in comparison to other countries, Government is making major investment to improve teaching in these subjects. In addition to £15m of funding for bursaries to attract graduates to teach English, maths and support students with special education needs, Government announced on 5th February an additional £20m to fund:

- **A recruitment incentive scheme -** a bonus payment of up to £30,000 to colleges and providers who recruit specialist maths teachers
- **A maths subject knowledge enhancement scheme -** to improve the subject knowledge of graduates before they start teacher training.
- **Golden Hellos –** a bonuses of up to £10,000 for graduates who choose to teach maths in FE

4. Government is supporting the Foundation to implement the findings of the Commission on Adult Vocational Teaching and Learning (March 2013). This included 10 recommendations for getting better business engagement in FE, in particular working more closely with employers on curriculum design, development and delivery, to raise standards of teaching and better meet employer needs and makes better use of technology.

Elephant Traps

Sixth Form Colleges are not entitled to FE workforce incentives

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- The FE ITT maths incentives (bursaries and SKE) are available to pre-service FE graduate teacher trainees only, as they form part of the FE Initial teacher Training scheme provision. Sixth Form Colleges are already covered by existing schools ITT provision, which does not extend to FE colleges or independent providers. Additional FE incentives announced on 5th February (teacher Golden Hellos, provider recruitment awards) are also only for FE colleges and independent FE providers.

Localism & Skills

Issue

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Addressing the concern that the FE and skills system is not responsive enough to local needs and fails to help LEPs and cities realise growth opportunities.

Key messages

- We have already implemented reforms to the Further Education system to make it more responsive, but there is still much more to be done.
- The system is no longer driven by central targets or commissioning. We are building the system around what employers need – not just now, but for future growth
- We are putting funding directly into the hands of learners and employers following Doug Richard's review of apprenticeships and through Employer Ownership and Advanced Learning Loans for 24+. This will go further to devolve control than even Lord Heseltine's recommendations for localism.
- We have a national strategy aimed at improving the responsiveness of the system to employers' needs and focused on driving up the quality of apprenticeships and traineeships.
- National administration of some elements of the skills system such as apprenticeships is the right way to deliver on major commitments, keep bureaucracy to a minimum and drive reform in FE and skills system.
- Local Enterprise Partnerships (LEPs) are responsible for identifying local skills priorities and increasing investment in skills in line with strategic skills priorities in their areas.
- All 39 LEPs submitted their final Strategic Economic Plans on 31 March, as part of the Growth Deals process. The plans include proposals for how LEPs propose to use skills elements of the £2 billion Local Growth Fund in 2015-16 and 2016-17.

  - The Local Growth Fund includes £500 million skills funding for skills capital and matched funding for EU funds. This will give LEPs significant leverage over the skills system.

- Government is now assessing Strategic Economic Plans, with Deals expected to be announced in July. We expect LEPs to have set out their ambitions for skills, including proposals for skills capital projects in their Plans.
- The Skills Funding Agency provided technical support to LEPs as they developed their skills capital proposals and have made local skills data available to inform their overall plans.
- The Government is going further through local skills pilots to test how LEPs can increase their influence over skills delivery through approaches being developed in three LEP areas: North East, West of England and Stoke and Staffordshire. LEPs are developing details of the pilots, which will be live in the academic year 2014/15.

Key facts

- We removed central targets to allow colleges and providers freedom to respond to employer and learner demand and shape their offer in line with

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community needs. We also removed significant levels of college regulation (Education Act 2011) to let colleges respond to local growth requirements.

- New Challenges New Chances' (Dec 2011) set Government's commitment to empower learners and employers through a demand-led system and gave providers the freedom and flexibility to respond to their needs.
- Rigour and Responsiveness (April 2013) reaffirmed the Government's commitment to develop a more locally responsive skills system providing real choices to individuals and employers.
- In the Spending Round, the Government committed £500 million skills funding to the overall £2 billion Local Growth Fund. Skills elements include:
    - £330 million skills capital funding and
    - £170 million (ring-fenced within the adult skills budget) for LEPs to access as match funding for EU funds if they choose to opt into the Skills Funding Agency's matching service.
- Proposals for use of skills capital funding in the Local Growth Fund will be assessed and allocated on a competitive basis.

Q&A

What can be done to ensure providers respond to local economic needs?

- Employer-led Local Enterprise Partnerships (LEPs) have been given a clear remit to articulate the skills needs to support local economy growth. We made changes to the FE and Skills System to free colleges to respond to those needs. LEPs and FE providers should work in partnership to ensure the offer to learners and employers meets their needs and supports employment and growth. In addition, putting skills capital funding into the LGF has given LEPs an important lever over both FE colleges and other providers and signals the importance of working together to address local skills priorities.

What impact has the City Deals process had on skills and local growth?

- City Deals have provided key economic areas in England with an opportunity for dialogue with Government about how to meet their current and future skills priorities. Critically, they have highlighted the importance of building strong relationships between LEPs and providers and, where this is happening, the potential to better align existing provision with skills to support local growth.
- The City Deals are now finalised and many include agreements on skills and employment. This includes for example; increased take up of apprenticeships in priority sectors, support for young people into employment, improved coordination of careers advice and the delivery of skills provision aligned to current and future business needs.

How will you ensure that local colleges and training organisations actively engage with LEPs?

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- Colleges and other providers and LEPs are bodies with a shared interest in transforming their local economies. We have made it clear to colleges that we expect them to engage with their local partners and to consult them in developing their business plans. Increasingly it is in the interests of FE colleges and other providers to engage with LEPs as they finalise their Strategic Economic Plans including their proposals for skills and for use skills elements of the Local Growth Fund.

What is in the £2 billion Local Growth Fund in terms of money for local skills and how will it be distributed to local organisations?

- In the Spending Round, Government announced a £500 million BIS skills contribution to the Local Growth Fund (LGF). This will give LEPs control over a significant element of skills funding. The skills element of the LGF includes:
    - £330 million skills capital funding in both 2015-16 and 2016-17; and
    - £170 million ring-fenced within the adult skills budget for LEPs to match with EU funding if they opt into the Skills Funding Agency's matching service.

What is the £330 million in the Local Growth Fund for?

- £330 million skills capital funding has been put into the Local Growth Fund for each of 2015-16 and 2016-17. This is included in the £2 billion funding that has been committed each year from 2015-16 over the life of the next Parliament. We expect all of this £330 million funding to be used by LEPs to support their plans for improving the skills infrastructure and ensuring capability to deliver skills needs now and in the future.
- The skills capital element of the Local Growth Fund is not restricted to use on FE colleges and could be used to support the development of new infrastructure if this is required to meet a priority in a LEP's strategic plan. However, the £330m will be the only direct route by which Further Education colleges can access capital improvement funding from public funds so LEPs are encouraged to engage with colleges in developing their strategic approach to skills capital investment for their area.

NEET Young People

Key Facts

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- In Q1 2014, the proportion of 19-24 year olds who are NEET decreased year-on-year by a statistically significant 2.3 percentage points (105,000) to 15.9% (652,000). This is the lowest Quarter 1 figure since 2008.
- The proportion of 19-24 year olds participating in education or training increased by 0.6 percentage points from 41.9% to 42.5% in Q1 2014.
- 51.6% of those 19-24 year olds NEET are unemployed. The rest (48.4%) were economically inactive - caring for dependants, people with a disability or ill health, or waiting for a course or job to start.
- Youth unemployment levels continue to fall. In May 2014 there were 265,600 18-24 year olds in the UK claiming JSA, down 8,900 from April 2014 and down 129,600 year-on-year.
- In the three months to April 2014:
    - 677,000 (16.5%) of 18-24 year olds in the UK were ILO unemployed, down 50,000 (1.3 ppts) since the previous quarter. Of these, 528,000 were not in full-time education, down 50,000.
- 853,000 (18.5%) of 16-24 year olds were unemployed, down 59,000 (1.3 ppts) from the previous quarter. Of these, 565,000 were not in full time education, down 62,000.
- On average young people leave JSA more quickly than older age groups. Around two thirds of 18-24 year olds close new JSA claims within three months, compared to just over half for JSA claimants aged over 25.

Top Government Actions (since May 2010)

- Traineeships have been available (since August 2013) for young people aged 16 to 23. Traineeships give young people the skills and work experience they need to compete successfully for Apprenticeships and other sustainable jobs.
- There is full funding for adults aged 19 to 23 undertaking their first full Level 2 or 3 qualification, Foundation Learning (pre-Level 2) to progress to Level 2 or above, and GCSE English and maths qualifications.
- National Careers Service (NCS) launched in April 2012, offering unemployed young people aged 18 years and above with impartial one-to-one support from a qualified, careers adviser.
- For 16-24 year olds, £85m in FY14-15 and the same again in 15-16 is being made available to support the higher than anticipated demand for the Apprenticeship Grant for Employers. This will fund over 100,000 additional incentive payments of £1,500 to smaller employers to take on young apprentices.
- On the 27th February 2014 the DPM announced a new package of schemes to be introduced this year to help young people to get into training and employment, including improvements to careers guidance and a UCAS style website for young people to choose training outside university routes.
- We announced in the Autumn Statement (December 2013) the piloting of a new scheme of support for 18 to 21 year olds on Jobseeker's Allowance (JSA). Claimants without level 2 qualifications in English or maths will be required to study these subjects alongside job search; and after 6 months on

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JSA, claimants will be required to participate in a work experience placement, a Traineeship or other relevant skills provision, or community work placement.

- In April 2012, we introduced the Youth Contract with 250,000 more work experience and sector-based work academy places; wage incentives worth £2,275 each, for employers who recruit an eligible 18-24 year-old from Jobcentre Plus or the Work Programme; and extra adviser support through Jobcentre Plus for all 18-24 year olds (including access to a careers interview with the National Careers Service within the first 3 months of a Jobseeker's Allowance claim).
- We are helping young people set up their own businesses through the Start-Up Loans programme. As of 18th June 2014 14,486 loans have been drawn down under this scheme with a total value of lending of £87.1m.

Standards in Further Education

Issue

- Raising standards in Further Education.

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Key Facts

- Rigour and Responsiveness in Skills (2013) describes a strengthened intervention strategy. It makes clear that where performance is poor Government will take swift and robust action, at the heart of which is a new FE Commissioner role. Poor performance is: (i) an 'inadequate' rating by Ofsted following inspection (ii) failure to meet Minimum Standards and/or (iii) a rating of 'Inadequate' by the Skills Funding Agency for financial health or financial control.
- The FE Commissioner reviews failing colleges, acting as the single point of contact between the FE college/institution and BIS, DfE, the Skills Funding Agency (SFA) and Education Funding Agency (EFA). The FE Commissioner advises Ministers and the CEs of the funding agencies on the actions necessary to secure improvements. He is supported by a team of FE Advisers.
- Where an FE college or FE institution is unable to deliver improvement, they will be placed in Administered College/Administered Institution status and the FE Commissioner will lead a Structure and Prospects Appraisal to identify a significant way forward.
- The strengthened approach applies to FE Corporations; designated institutions; and local authority maintained FE institutions. When a sixth form college (SFC) meets the same criteria for intervention, the same suite of potential intervention actions will be considered. Intervention in individual SFC cases will be managed by the EFA, reporting to Ministers. The EFA will work with the SFA, and consult with DfE and BIS, and if appropriate the FE Commissioner, where adult provision is also concerned.
- Independent training providers funded through a contract for services with the SFA will continue to follow the assessment, escalation and intervention process set out in the contract, which would usually result in termination of contracts where performance fails.
- Ofsted is the Government's independent inspectorate. They inspect the quality of post 16-learning and skills provision that is publicly funded by the SFA, EFA and Local Authorities.
- 72% of all FE Colleges are graded 'good' or 'outstanding' by Ofsted (based on the most recent inspection grades for all colleges as of August 2013).
- In 2012/13 Ofsted carried out 360 further education and skills inspections including 101 which were brought forward because Ofsted's risk assessment indicated concerns. This brings the total number of current colleges and providers inspected by Ofsted across the whole sector to 1113. Of these 70% of GFE colleges; 78% of sixth form college's; 71% of Independent Specialist Colleges; 67 % of Independent Learner Providers; 73% of Employer and 73% of Community Learning and Skills provision was judged as good or outstanding.
- From September 2012, Ofsted redefined the benchmark for acceptable performance as at least 'Good'. Since January 2013, Ofsted has been challenging and supporting providers found to require improvement following inspection to become good by means of visits, seminars and other activities.

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From September 2013, Ofsted have been carrying out early and more frequent visits to providers found to be inadequate in order to inform intervention actions and to help the provider improve.

- Ofsted published the HMCI's Annual Report covering inspections for the September 2012 – August 2013 inspection cycle on 11 December. The report shows that quality in FE providers has improved on last year, with significant improvement in the quality of GFE and tertiary colleges inspected.
- The SFA sets Minimum Standards for the delivery of post-19 further education and Apprenticeships. DfE sets Minimum Standards for vocational and academic qualifications for 16-19 year olds delivered in all settings.
- BIS is developing a wider set of success measures for performance based on 3 core aspects: destinations (whether into employment or further learning); progression in learning (from level to level);; and earnings. We will be publishing the first set of experimental data in July 2014 and consulting on how these measures will be used for informing choice and accountability.
- The new Education and Training Foundation leads on quality improvement and the development of a well-qualified, effective and up-to-date professional workforce, supported by good leadership, management and governance. This work will support the work of the FE Commissioner and FE Advisers.

Top Government Actions (since May 2010)

- Government's strategy for improving the quality of further education published in New Challenges, New Chances (December 2011).
- Enhanced intervention strategy published in Rigour and Responsiveness in Skills (March 2013).
- Ofsted introduced a new Common Inspection Framework which places greater emphasis on quality of leadership and teaching, learning and assessment when judging quality and standards (September 2012).
- New FE Commissioners and FE Advisers to support tackling underperformance launched in May 2013. Successfully appointed five FE Advisers in August: David Williams, Lynn Forrester-Walker, Malcolm Cooper, Joanna Gaukroger and Marilyn Hawkins. The FE Commissioner, Dr David Collins CBE, was appointed in November 2013.
- The strengthened intervention process has been in place for the last nine months. To date the FE Commissioner and his team have been into ten FE Colleges: City of Bristol College, City of Liverpool College, Stockport College, K College, Barnfield College, LeSoCo, Bicton College, Weymouth College, City of Wolverhampton College and Stratford-upon-Avon College.
- 1st FE Commissioner open letter to FE sector leaders published February 2014, sharing lessons learned and focussing on governance and leadership issues
- Intervention in Further Education: The strengthened intervention process published April 2014
- 2nd FE Commissioner open letter to FE sector leaders published June 2014, focussing on financial health/control issues
- FE Commissioner summary assessments published June 2014

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Traineeships

Issue

- Traineeships have been available for young people aged 16 to 23 since August 2013. They are an important part of the Government's drive to prepare young people for employment.
- Employers consistently say they are concerned that young people applying for Apprenticeships or jobs often lack the right skills and attitudes.

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- Traineeships are an education and training programme with work experience, focused on giving young people the skills and vital experience they need to help them compete for apprenticeships or other jobs.
- The core content of traineeships is work preparation training, English and maths and a high quality work experience placement. Training providers and employers have the freedom to bring these elements together in the best way to engage and support individual trainees.

Key Facts

- Provisional data (published on 27 March) shows that Traineeships are off to a good start with 3,300 Traineeships reported in the first 6 months. [New data will be available on 26 June and supplied to the Minister directly.]
- As of 2nd April almost 4000 Traineeship opportunities are being advertised on the Apprenticeships Vacancies service.
- Hundreds of employers including household names such as Virgin Media, Siemens and the BBC are already on board and Barclays recently announced plans to offer 1200 Traineeships. To ensure a quality programme, only those providers graded 'good' or 'outstanding' by Ofsted are eligible to deliver Traineeships.

Top Government Actions (since May 2010)

- On 19 June 2014 the Government launched a consultation on how the Government's funding for Traineeships in 2015/16 can be used to deliver the best possible results for young people.
- Since 3 March 2014, Jobseekers Allowance (JSA) claimants on a traineeship are exempt from the '16 hour' rule, which constrains the number of hours of training a JSA claimant can do each week.
- We are extending Traineeships to include 24 year olds from August 2014, bringing them into line with other schemes to support young adults making the transition into work.
- From August 2014 we are giving providers greater flexibility in how they arrange work experience placements in order to ensure every trainee gets a high quality, tailored programme.
- The National Apprenticeship Service (NAS) is working with large employers and has launched a new marketing and PR campaign to promote Traineeships alongside ongoing activity through stakeholders and existing channels.
- On 16 May 2014, BIS and DfE published an updated traineeships Framework for Delivery, containing information about how the programme will work in 2014/15 and how employers, training providers and young people can get involved.

Elephant traps

- HM Opposition are quoted by FE Week arguing that traineeship numbers are too low compared to the number of young people who are NEET. Traineeships are not suitable for all young people who are NEET - they have a wide variety of needs, catered for by a range of programmes.

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- We do not have a reliable estimate of starts on the Traineeship programme at present. For reasons of transparency we have published an in-year figure of 3,300 starts but this potentially undercounts provision to date. [New figure to be published on 26 June]
- After 6 months, Traineeships have a similar number of starts compared to Access to Apprenticeships and sector-based work academies after the same period.
- There has been criticism that traineeships are a form of unpaid workfare. You should highlight that traineeships are an education and training programme for young people who are not yet work ready. Work experience in Traineeships is exempt from the National Minimum Wage. Traineeships can be designed so that young people on Jobseekers Allowance can remain on it. Eligible learners can also apply for the 16-19 Bursary fund or, for those aged 19 or over, Discretionary Learner Support.

Applications to Higher Education – UCAS Data

Issue

- Has the introduction of increased fees had a detrimental effect on full time applications to HE?

Key Facts (all refer to F/T applications)

For entry in 2014 (from latest UCAS data published 29 May 2014)

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- Clearly young people have not been put off applying to university.
- Total applicant numbers are up by 4% to 634,610, only slightly below the peak of 2011.
- Applicants from England are up by 3%.(a slightly smaller rise than last month's increase of 4%, but the same as the increases in February and March)
- Applicants from Wales by 3% and Scotland by 2%. Applicants from Northern Ireland show no change.

For entry in 2014 (based on more detailed data published on 31 January and 3 April 2014)

- Application rate for English 18 year olds has increased to the highest ever level (34.8%), even more impressive when seen in the context of the continued fall in the 18 year old population.
- Application rates for those from disadvantaged backgrounds continue to rise to a record level of 20.7%.
- There is a welcome rise in applications from English mature students (an increase of 9% compared to applications at the March deadline last year for the 35 years and over age group)
- There are increases in applications for most subject groups and large increases for STEM subjects, including a 12% increase in English applicants to Engineering courses.
- For applicants from England, there have been increases in applications to all types of institution, but there has been a larger increase to higher tariff (+4%) and medium tariff (+4%) institutions than to lower tariff ones (+3%).

Top 3 Government Actions (since Autumn 2013)

- Chancellor's 2013 autumn statement. We know there is significant unmet demand for HE (every year for the past decade around 100,000 or more applicants have not obtained a place), and that increased student numbers are good for long term economic performance as well as social mobility. We want to ensure that institutions have the freedom to meet that demand, enabling popular institutions to grow and ensuring that many more students get the university of their choice. So we will be helping the sector expand and grow further by removing the cap on student numbers by 2015-16. In 2014-15, we will significantly increase student numbers, by 30,000 for high quality provision in HEFCE-funded institutions.
- We are keen to focus these additional places on the skills we will need for high tech jobs of the future and so a key part of the HE package is extra funding of £185 million over four years for teaching high cost subjects such as science, technology and engineering reflecting the priorities of the industrial strategy.
- The new national strategy for access and student success was published on 3 April 2014 and is an important re-positioning of the work to improve outcomes for students from disadvantaged backgrounds. It focuses not just on access activity prior to entry to HE but throughout the period of study and

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on progression to further study or employment. The new strategy will help to ensure that we maximise the impact of all spending on access by Government, HEFCE and institutions ensure activities are based on evidence that has been shown to work.

Disabled Students' Allowances (DSAS)

Issue

Changes to Disabled Students' Allowances (DSAs) announced earlier this year

Key Facts

- David Willetts announced changes to DSAs on 7 April in a Written Ministerial Statement, which will come into force in academic year 2015/16 for new DSA recipients.

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- The main changes to DSAs are:
  - DSAs will no longer fund standard computers, but will continue to fund higher cost computers if they are required purely because of the student's disability.
  - Changes to funding of Non-Medical Help (NMH) support. DSAs will continue to fund NMH that is not a reasonable adjustment for Higher Education Institutions (HEIs).
- DSAs are paid in respect of essential additional expenditure that a student is obliged to incur due to their disability, whilst studying a course of higher education.
- In 2011 to 2012 DSAs provided over £125 million of additional support for over 53,000 full-time undergraduate higher education students.

Top Government Actions

1. Written Ministerial Statement in April 2014 setting out the modernisation of DSA Extensive discussions are underway with a wide range of stakeholders to help inform the Disabled Students' Allowances guidance for 2015/16, due this autumn. The guidance will set out the conditions under which DSA will apply.

Elephant traps

Universities do not have the time or finance to meet this new demand on them

- This is not a new demand. Under the Equality Act 2010 HEIs have a duty to make reasonable adjustments for disabled people to ensure they are not placed at a substantial disadvantage compared to non-disabled students. Although many universities already successfully support disabled students, this will ensure HEIs fulfil on their obligations, and ensure a consistent approach.
- The changes are not due to take effect until September 2015, and only for new DSA applicants. This gives sufficient time for universities to consider their readiness to meet their legal duties.

Disabled students will no longer get the support they need

- Disabled students will continue to be supported. We are looking at what is reasonable for HEIs to provide through their duty under the Equality Act, and what would fall to DSA. While this may change the nature of how some support is provided, students should still be supported.

You have not consulted properly on these changes!

- Although we are not obliged to consult, we routinely engage with stakeholders on issues related to provision of support for disabled students and that dialogue will continue.
- Extensive discussions are nearing completion with a wide range of stakeholders on DSA.

Is this announced policy?

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- An Equality Analysis (EA) has been undertaken to determine the impact on students with protected characteristics for DSA. This is being updated to take account of evidence from stakeholders. The Minister will have due regard to the Equality Analysis before signing the regulations.

Higher Education Funding

Issue

- Relaxation of student number controls: impact on public finances

Lines to Take

- Our reforms have enabled a paradigm shift in enabling funding of higher education to be a shared endeavour between state and student. More

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funding going into the sector and enabling universities to be world class and provide a better student experience.

- We have announced an expansion of 30,000 places in 14/15 and the removal of controls in publically funded institutions in 15/16. We estimate that this could lead to around 60,000 additional entrants per year.
- On expansion, precise costs will depend on the total number of students who take up places, and the ability of the higher education sector to respond to demand. HMT has provided £5.5 billion in student loan outlay, and additional Resource funding for this over the next five years.
- The government is committed to expanding higher education to accommodate all who can benefit from it. The graduate premium has been sustained despite rapid increases in the graduate population in the past. We will continue to monitor the system.
- There are three types of expenditure which make calls on our budgets and all are fully funded as part of the Autumn Statement announcement. These are:

1. Grants such as HEFCE teaching grant and maintenance grants for student support
2. Outlay of loans to students
3. The RAB charge (currently around 45%)

Elephant Traps

HEFCE Grant Letter

- In a tough public spending environment, Government cannot fund everything and we have been faced with hard decisions about our priorities. This grant letter is clear where our priorities lie: meeting a fair proportion of the costs of teaching high cost subjects such as science and engineering; supporting higher levels of participation in HE by those from disadvantaged backgrounds; and meeting the unavoidable costs of small and specialist institutions and provision.
- Our funding reforms have put higher education on to a sustainable basis with the resources available for teaching rising, from £7.9bn in 2011-12 to around £8.5bn in 2013-14.

Isn't it true that the RAB charge is just growing and growing. Won't your reforms just become more expensive than grants?

- In March 2011 we estimated that around 30% of the value of post-2012 loans would not be repaid. We currently estimate that around 45% of the value of these student loans will not be repaid. The RAB charge is affected by many factors but this change is partly due to an increase in the value of the £21,000 repayment threshold relating to forecast earnings. For example, if we were calculating an equivalent threshold today it would be about £19,500. This is as a result of lower than expected earnings across the economy.

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- Let's be clear, there is a strong rationale for investing in higher education. Across the world countries are increasing the number of graduates. Recent research by National Institute of Economic and Social Research (NIESR) shows the benefits to the economy. Walker and Zhu illustrate both benefits via taxation and to the individual through increased earnings (Private returns: £250k women, £165K men. State returns: £254K for men and £318K women).
- The RAB charge is an estimate based on a prediction of economic circumstances some 35 years in the future. Estimates can and will continue to change.
- We will of course monitor the overall affordability of the system. However, we believe this is the best way to use limited public funds to meet the country's long term high level skills needs.

HE Key Facts

Students

- There are almost 2 million students benefitting from Higher Education at HE Institutions in England – Of these, around 450,000 (23%) are postgraduates and around 560,000 (29%) are studying part-time.
- Over 2.3 million students at UK HE Institutions.
- The UK attracts the 2nd largest number of international students after the USA. Almost one in five students at UK HEIs come from overseas and of these over 70% are from outside the EU.

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- In 2011, the UK was ranked third out of all OECD reporting countries for first time graduation rates behind Iceland and Poland. The graduation rate was 55%, which is 16 percentage points higher than the OECD average.
- Three and half years after graduation, around 94% of graduates are in employment and / or further study and 83.5% are happy with their career.
- The 2013 National Student Survey showed that students are more satisfied with their experience at universities or colleges in England than at any time in the nine years of the Survey, with 85 per cent saying they are satisfied overall with their course (up from 84% last year).

Resources

- There are 129 HEFCE funded HEIs in England; 203 FE colleges receive direct HEFCE funding for delivering HE in England; and approximately 140 alternative providers have specifically designated courses.
- There is over 150,000 academic staff at HE institutions in England.
- The total income of UK HEIs was £29.1 billion in 2012/13. The total expenditure of UK HEIs was £27.9 billion – 55% of this is staff costs. (Compared to £12.7 billion total expenditure in 1999/2000).
- The UK's research base is world-class, third after the USA and China for numbers of citations and has the second largest share of the world's most highly cited articles after the USA.
- Universities in the UK contributed £3.6 billion to the economy in 2012/13 through services to business and community activities, including commercialisation of new knowledge, delivery of professional training, and consultancy

Top Recent Government Actions

- We have designed a system that is more affordable for students, does not require reductions in student numbers and increases the cash flowing into higher education. No eligible student pays up front for their first degree.
- We have announced the relaxation of student number controls from 2014/15 and the abolition of student number controls for HEFCE funded institutions from 2015/16 onwards.

Sale of The Student Loan Book

Issue

Government sold the remaining publicly owned Mortgage Style (MS) student loans for £160m in November 2013 and plans to conduct future sales of Income Contingent Repayment (ICR) student loans [confirmed in the 2013 Autumn Statement] with a first sale expected to complete before end Financial Year 2015/16.

Key Facts

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- Remaining publicly owned MS loans sold on 25 November 2013 to Erudio Student Loans Ltd ('Erudio') for £160m
- Outstanding loans had a face value of £890m, owed by around 250,000 borrowers
- Sale represents value for money when compared to Government's estimate value of retention
- There has been no change to loan terms and conditions, including the calculation of interest rates. Erudio's administration will differ from that of the Student Loans Company within these terms, but they are still required to operate in accordance with strict regulatory requirements and industry guidance relating to the treatment of borrowers.
- As previously announced, and confirmed by the Chancellor's Autumn Statement, the government is in the process of preparing for a potential future sale of loans from the English pre-2012 ICR loan book

Top 5 Government Actions (since May 2010)

1. Competitive bidding process for the Mortgage Style loan sale – 40 interested parties and 10 initial bids.
2. The sale delivered good value for the taxpayer from an asset with a deteriorating value
3. Borrowers' terms and conditions have not changed post sale. BIS is working with Erudio where problems have arisen since the transfer of administration.
4. Government is exploring options for future sales of ICR student loans to realise value for taxpayer and reduce public sector net debt
5. ICR loan sale would need to represent value for money for the taxpayer and ensure no detriment to borrowers as a result of the sale. Repayments will continue to be made via HMRC and SLC as now. Purchasers will have no power to amend the terms of repayment.

Elephant trap

"Erudio is trying to bully MS loan borrowers into repaying by threats of reporting to credit reference agencies and making it difficult for them to defer"

- The terms and conditions of mortgage style loans have not changed as a result of the sale. Borrowers are still able to defer repayment if they can satisfy the requirements in their loan agreements. Erudio has adopted a different approach to processing deferment applications and is therefore asking for different information.
- Erudio is regulated by the Financial Conduct Authority and must operate in accordance with the relevant regulatory requirements and industry guidance.
- Erudio has had discussions with the Information Commissioner's Office and believes that the proposed reporting of loans to credit reference agencies supports the process of responsible lending and borrowing, and is in accordance with the terms and conditions of borrowers' loan credit agreements.

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Student Funding EU Residency Checking Exercise

Issue

- In late 2013, we became concerned that a number of Europeans students studying at alternative providers may have been claiming loan, grant and maintenance support without fulfilling the necessary three years residency in the UK criteria that they need to in order to be eligible for it.
- As a result the Student Loans Company (SLC) was asked to investigate the extent of the issue and stop payments to those ineligible for support until they could supply additional information to support their applications.
- This announcement was made to Parliament via Written Ministerial Statement and we agreed to update the house once the exercise was

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completed. We are now in a position to publish the results alongside the measures we have taken, and will take, to prevent future abuse.

Key Facts

- SLC suspended payment to 11,191 students. 5,134 students were able to demonstrate their eligibility but 5,548 (50 per cent) either were not able or chose not to demonstrate their residency eligibility.
- If no action at all had been taken, the maximum amount that could have been paid to these ineligible students during the current academic year was more than £65m, in grants, maintenance loans and fee loans.
- Because of our swift and decisive action, only 1,333 ineligible students, and/or the colleges they planned to attend, received any payment, with payments in respect of the other 4,215 being suspended before any monies were paid.
- A total of just over £8m was paid to those 1,333 students, of which just over £2.5m was tuition fees loan payments, to which the student would have been entitled without a UK residency test, had they chosen to apply on that basis.
- We have already recovered approximately £2.5 million and recovery work continues, including using debt collection agencies and court action.

Top Government Actions (since May 2010)

1. Suspended payment to 11,191 students and then terminated payments to 5,548 (50 per cent) who were either not able or chose not to demonstrate their residency eligibility.
2. Introduced stringent residency evidence checks for all new applications from EU students, who must now provide three years' worth of evidence, such as bank statements, utility bills, council tax records, payslips and P60s to support their residency claims.
3. Will carry out a Fraud and Debt review which will look at: the resilience of the entire student finance system; how we respond to fraud; and the powers of the Department of Business Innovation and Skills, Student Loans Company and partners have to tackle fraud.
4. SLC will check a sample of EU students at publicly funded universities to see whether there is any evidence of abuse by these students (all Bulgarian and Romanian students at these universities have already been checked).
5. Some EU states require foreign nationals to be resident in their country for five years before they are eligible for the full package of student support. We will consult on whether student support in England should be made available on the same basis to ensure that public funds go only to those who have a genuine attachment to the UK.

Elephant traps

What steps are you taking to recover the money wrongly paid out?

- We will aim to recover overpaid tuition fee loans direct from the relevant provider, by offsetting future payments of fee loans.

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- SLC will use their systems to track each student identified as ineligible, allowing them to apply proactive and robust recovery arrangements to ensure repayment the overpaid grants and loans.
- The SLC Debt Recovery Team will contact the student and seek to agree repayment plan to recover the debt. If this is unsuccessful or the student does not adhere to the plan, the debt is passed to one or more debt collection agency. If the debt is still unpaid, the SLC may take the student to court to seek recovery.

What about those students that have now gone abroad?

- For overseas students the same process applies but the SLC uses two debt collection agencies that specialise is overseas collections.
- We will also write to governments of the nations with students involved to request their assistance in tracking any of their citizens that have returned to their home country with an outstanding student debt.

Can't these students just apply for support again next year?

- No. All students identified as ineligible during this exercise will remain ineligible for all student support in future years, unless they are able to substantiate their original claim.

How did you become aware that some European students may be abusing the system?

- Student Loans Company management information showed that an unusually large percentage of students from these nations (compared to the general student population) were claiming eligibility for maintenance support as a result of three years' UK residency. This was combined with the significant growth of students from European countries applying as UK residents, led us to investigate further

- Two sampling exercises, carried out by the Student Loans Company's Counter Fraud Services and the Department for Work and Pensions which found that 85% and 80% respectively of those sampled could not provide evidence they had lived in the UK for the required three years.

If pressed:

- In addition to this, the SLC also identified unusual application patterns, such as:
  Unusually high concentrations of specific Nationalities at an HEI (some with 80% or more Bulgarians and/or Romanians)
- Applicant demographics (unusually high number of mature students, three or four family members all applying)
- Applications submitted in bulk (sometimes up to 50 per day from same IP address)
- Applications being submitted after course start date (in bulk)

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- Multiple applications being 'monitored' by single IP address throughout the night

Is this fraud?

- If students have knowingly misrepresented the position for financial gain, they risk having action taken against them for fraud.

Was there a problem in previous years too?

- The exercise identified 328 student payments in AY12/13. These payments will now be treated as overpayments and we will seek to recover them. This suggests that this abuse only became wide spread during the current academic year, when we identified it quickly and acted swiftly to stop payments being made to those who are not eligible.

Did providers know that these students were ineligible for student support?

- Demonstrating personal eligibility for student support is the responsibility of individual students. There is no evidence to suggest that providers would have known whether these individuals met the 3 year residency criteria or not.

What action will you take action against the providers with very high numbers of ineligible students?

- We will aim to recover overpaid tuition fee loans direct from the relevant provider, by offsetting future payments of fee loans.

What action can you take against 'complicit providers'?

- We can suspend their designation, which means the provider and any student studying there will not be entitled to public funding.

- If fraud is suspected, the relevant law enforcement authorities may choose to prosecute.

What about students that dropped out after one year and disappeared with the money?

- We have no way of measuring this and it is very unlikely that these people would respond to requests for evidence. However, the activity that alerted us to this problem relates to this year.

Isn't this discrimination?

- We believe the measures we have taken are both a lawful and proportionate response. EU Member states are entitled to take steps to protect public funds from fraud and counter-fraud measures are necessarily targeted out the suspected sources of the fraud.

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Why was the exercise extended to Romanian and Bulgarian Students at Public Providers?

- The number of Romanian and Bulgarian nationals involved – 60 per cent of all EU students at alternative providers - and some of the application patterns we had seen, suggested this fraud has been community based we needed therefore to extend the exercise to A2 students at public providers too.

Why was the exercise extended to EU Students at Alternative Providers but <u>not</u> at Public Providers?

- The issue also seemed to centre on alternative providers and as there were high numbers of student support applications from new EU students at these providers – 40 per cent of total number of students compared to around 6 per cent in the public sector - it seemed prudent to extend the exercise to that group too.
- We saw no evidence to suggest anything unusual amongst EU students at public providers, so decided to await the outcome of these initial checks and analyze the evidence before making a decision on how to proceed.

These figures suggest you do have a problem with EU students more generally, what are you doing about it?

- We have asked the SLC to carry out a sampling exercise of the circa 30,000 EU students at public providers who have applied for maintenance support on the basis they are normally resident in the UK. We will decide if further action is required following the results of this exercise.

When will this sampling exercise be complete?

- The exercise will be complete before payments are made to students returning to their studies in AY14/15. The payment cycle for AY13/14 is already complete for students at publicly funded Providers,

Why did the government not have these residency checks in place before?

- Students have been asked to information about where they lived for the previous 3 years and if there were any grounds for suspicion, further checks were made. The lower educational entrance requirement for HND/HNCs and the provision of these qualifications by alternative providers has opened Higher Education many people who would not have previously been able to access it. However, this also means there is greater scope for abuse of the system.

What about all delays in reinstating payments to legitimate students?

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- Any legitimate students will have already had their payments reinstated. The SLC have dedicated resource working on the processing of any evidence received, all of which has being processed on the day of receipt and if appropriate, payments are being reinstated on the same day too.
- If the student is required to provide further evidence, they have been notified immediately.

Why have your communications with students been so poor?

- All students affected have been sent a number of communications explaining the exercise and what they need to do to have their payments reinstated. These will have been delivered to the latest address the students provided the SLC.
- The SLC has also sent briefing notes to Higher Education Providers explaining the process and what they can do to support students whilst these checks are being made.

What about students who are subsequently able to provide evidence that demonstrates their eligibility?

- Despite the exercise having concluded, any student who subsequently provides the SLC with the requisite evidence will have their ineligibility reversed and their payments reinstated.

Can you comment on a particular individual case?

- Cannot comment on individual cases but this is manual process involving many thousands of students from across Europe, so there will inevitably be some mistakes. The SLC will rectify any errors as soon as they are made aware of them.

Isn't this yet another massive failure by the SLC?

- Not at all. The SLC manage a highly complex operation advising and paying thousands of students a range of financial support on time. They operate a risk based system and their processes for more detailed financial checking..

Why didn't the SLC establish residency?

- The student support application process requires the student to show evidence of the criteria for support which includes information on identity and immigration status. In addition, if EU nationals are claiming three years' residency in the UK and Islands (in order to apply for maintenance support) they are asked to provide three years of addresses. From the academic year 2014/15 these applicants will need to supply at least three pieces of evidence to support this claim.

What is the scope of your Fraud Review?

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- We are in the processing of finalising the scope but we expect it to cover:
  - the resilience of the entire student finance system, and the external systems and processes on which it dependant, fraud;
  - how ensure fraud resilience is considered in the policy making process
  - how we respond to fraud.

Isn't this an admission your systems are broken?

- No. We recognise that is a constantly evolving delivery landscape we need to keep all of our systems and processes under review to ensure that fraud prevention measures evolve at the same pace.

When will it report?

- An exact timescale has yet to be agreed but the intention is to deliver the review at pace.

Why are you extending the residency requirement for EU nationals from three to five years in order to qualify for living cost support?

- We have not implemented any such change. It is our intention to consult on proposals to increase the residency requirements for EU nationals living in the UK from three to five years, before they can qualify for living cost support. EU nationals will still be able to apply for fee loans.

If you decide to make changes when will they be introduced?

- The consultation will take place in the Spring. Until the consultation has been completed and the views analysed it is not possible to provide such details.

Why are you considering making EU nationals wait five years until they can access living cost support?

- Given the pressures on the student support budget, it is necessary to ensure the student support package is sustainable in the longer term; and that we continue to fulfil our legal obligations to EU nationals who choose to live and study here. It is reasonable to review our rules and to consult on our residency proposals.

Why has this taken so long?

- Asking students to provide paper evidence is a time consuming process. Not all students keep the SLC informed of their most up to date contact details and often they do respond promptly to requests for information. We wanted to give students adequate time to respond and for the data to be quality assured, to ensure that the information published is accurate as possible.

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Elephant trap

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Unplanned Growth in Alternative Providers

Issue

Press reports that unplanned growth by alternative providers is out of control and may result in cuts to mainstream HE budgets. Ministers have taken urgent action to manage budgets and prioritise degree level study.

Key Facts

- There are approximately 140 alternative providers with specifically designated courses whose students are accessing financial support. Tuition fee loans of £84.9 million were paid to 25,900 students at Alternative Providers in 2012/13
- Student Number controls have been applied to alternative providers in 2014/15 and are based on the 2012/13 recruitment profiles.
- As soon as it became apparent that some alternative providers were not adhering to expectations and planning to increase recruitment in 13/14, steps were taken to manage the unplanned expansion (by 23 providers).

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- We are lifting student number controls from publicly funded providers in 2015/16. We reserve the right to retain controls on the highest risk provision. We will announce in due course the criteria for how number controls will apply to alternative providers in 2015/16.

Top 5 Government Actions (since May 2010)

- In June 2011 in the White paper "Students at the heart of the system" Ministers set out an intention to improve the choice available to students by increasing the provision of higher education through alternative providers and that providers who were designated for student finance would be subject to a number of conditions including "reformed number controls". Alternative providers will be subject to student number controls from 2014/15
- To ensure any growth is manageable the Department wrote last November to 23 providers with the most ambitious expansion plans for growth in HNC and HND courses to tell them we would not be providing any new students they recruited this year with student support.
- No new providers have been designated for HND courses in 13/14. Most of the growth in student numbers has been a rapid increase in HND provision at a small number of providers that have courses already designated.
- We enabled students at alternative providers to access loans for tuition fees to a maximum of £6,000.
- We have published guidance on specific course designation process which introduces a universal set of quality standards to all providers of HE for the first time. Key changes include a successful QAA Review; and three years audited accounts.

Elephant trap: What about European students abusing the system?

- The Government is committed to ensuring a wider range of providers can deliver higher education, whilst at the same time ensuring rigorous controls over public spending
- False claims for maintenance will not be tolerated and immediate and decisive action has been taken. Stringent new measures to prevent abuse have been introduced, around a third – or £2.5 million – of money wrongly claimed has been recovered already and recovery work continues in earnest.

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Catapult Centres

Issue

- The Government has established a network of elite Catapult Centres, through the Technology Strategy Board, to commercialise new and emerging technologies in areas where there are large global market opportunities and a critical mass of UK capability to take advantage.

Key Facts

- The first seven Catapults are now open for business (High Value Manufacturing; Cell Therapy; Offshore Renewable Energy; Satellite Applications; Connected Digital Economy; Future Cities; and Transport Systems) with total public and private investment exceeding £1.4 billion over their first 5 years of operation.
- The Chancellor announced a £185 million budget increase for the Technology Strategy Board for 2015/16 in the 2013 Spending Review and the areas set to benefit include an expansion of the Catapult network with new Catapults in Energy Systems and Precision Medicine.

Budget 2014

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- The Chancellor announced a further £74 million investment in Catapults to expand capability through construction of a Cell Therapy Manufacturing Centre and to support innovation in Graphene through the High Value Manufacturing Catapult.

Key messages

- As the initial Catapults start to show their impact, we have asked leading technology entrepreneur, Hermann Hauser, to conduct a review to advise on the medium-term strategy setting out the future scale and scope of the Catapult network. This review will report in the Autumn as part of the Science and Innovation Strategy.
- The High Value Manufacturing Catapult opened its doors for business in October 2011 and seven partners are working together to bring their expertise in different and complementary areas of high value manufacturing.
- The Cell Therapy Catapult, based at Guy's Hospital in London, is working to grow a viable and sustainable cell therapy industry in the UK.
- The Offshore Renewable Energy Catapult is headquartered in Glasgow, with an operational centre at the National Renewable Energy Centre (NAREC) in Blyth, Northumberland, and is focused on the development of commercially viable technologies applicable to offshore wind, wave and tidal power.
- The Satellite Applications Catapult is based at the science, innovation and business campus at Harwell in South Oxfordshire to help UK businesses to develop new satellite-based products and services.
- The Connected Digital Economy Catapult is based in London and aims to position UK business to lead the introduction of radically new applications and experiences across the increasing breadth of internet services.
- The Future Cities Catapult is hosted in London and will help to make cities become smarter and more forward thinking.
- The Transport Systems Catapult is hosted in Milton Keynes and will support UK industry in exploiting the massive global market for new products and services that will drive the integration of transport and its systems.

Top 5 Government Actions (since May 2010)

1. Technology areas all announced by March 2012 (High Value Manufacturing, Cell Therapy, Offshore Renewable Energy, Satellite Applications, Connected Digital Economy, Future Cities and Transport Systems).
2. Appointment of seven high profile chairs and CEOs by August 2013.
3. Commencement of operations in first seven Catapults by August 2013.
4. Announcement of two further Catapults in 2013 Spending Review.

   Hermann Hauser leading review of medium-term strategy by Autumn 2014.

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Agency Worker Regulations

Issue

- Implementation and review of the Agency Workers Regulations.

Key Facts

- The Agency Worker Regulations came into force on 1 October 2011 and are derived from the European Union directive, the Agency Workers Directive.
- The Regulations give all agency workers equal treatment entitlements in relation to access to facilities and information on vacancies from day 1. After 12 weeks with the same hirer in the same role, agency workers are entitled to the same basic working and employment conditions, including pay and annual leave, as directly recruited employees.
- The ability to have a 12 week qualifying period before equal treatment for pay applies is only possible because there is an agreement between the TUC and CBI.
- The majority of EU member states are implementing the Directive without a qualifying period, so equal pay will apply from day 1.
- The Agency Workers Regulations were identified by an EU consultation of SMEs as one of the Top 10 most burdensome pieces of EU legislation.

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Top 5 Government points

1. The Government is committed to ensuring that businesses understand regulations so that they can comply with and implement them in the simplest way possible. This is why the Government has undertaken a review of the paperwork obligations of the Agency Workers Directive. The review's findings are currently being considered.
2. The review is intended to identify the simplest form of implementing the Regulations.
3. The Department considers that the Agency Workers Regulations are compliant both with the Agency Workers Directive and the CBI-TUC agreement.
4. Pay between assignments is a derogation which is permitted in the Agency Workers Directive. It is an exemption from the equal treatment provisions on pay in the Agency Worker Regulations where a temporary agency can offer an agency worker a permanent contract of employment which pays the agency worker between assignments. Agency workers covered by this exemption are entitled to the other provisions under the Regulations. These agency workers also benefit from being employees of the temporary work agency.
5. We also believe that it is important to allow employers and people choice on the type of contracts that they sign. Pay between assignment contracts are an important part of that choice. These contracts will not be suitable for all businesses or agency workers but they will be right for some. We do not want to deprive employers or workers of this choice.

Balance of Competency

Key Facts

- Our Call for Evidence was closed in January. We have analysed the evidence and are currently drafting the report with the ambition to publish this summer.
- We received around 50 responses from a wide range of stakeholders such as business representatives, trade unions, academics and law firms.

Top Government Points

- The Foreign Secretary launched the Balance of Competences Review in Parliament on 12 July 2012, taking forward the Coalition commitment to examine the balance of competences between the UK and the European Union. The review will provide an analysis of what the UK's membership of the EU means for the UK national interest. It aims to deepen public and Parliamentary understanding of the nature of our EU membership and provide a constructive and serious contribution to the national and wider European debate about modernising, reforming and improving the EU in the face of collective challenges. It will not be tasked with producing specific recommendations or looking at alternative models for Britain's overall

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relationship with the EU. Our report is expected to be published in Summer 2014.

Scope of the Review

- It is a wide ranging review covering articles 18 and 19 of the Treaty on the Functioning of the EU (TFEU) which are about non discrimination and articles 145-161 TFEU which cover, amongst other things, employment regulation and promotion, social protection, the labour market aspects of the European Semester process and occupational safety and health (OSH). The review also deals with instances where the EU acted on the basis of alternative legal bases, but with the broad goal of furthering social or employment aims.

Early Conciliation

Issue

- Early Conciliation (EC) means that other than in specific circumstances, prospective claimants will first need to contact Acas and consider conciliation before they can lodge proceedings at an employment tribunal.

Key Facts

- The central aim of EC is to help both employees and employers resolve a dispute without the intervention of the ET. Its places a requirement to contact Acas before an individual can proceed to Tribunal.
- While the requirement to contact ACAS will be mandatory, the decision to accept the offer of conciliation will be entirely voluntary; either party will be able to decline the offer. Whether EC is declined, or is unsuccessful, will be of no relevance in any subsequent ET claim.
- EC is provided free of charge and commenced on a voluntary basis on 6 April 2014 and was mandatory from 6 May 2014. We did this to stop claimants with very little time left on their limitation period on 6 April complying with EC in a rushed manner.
- The requirement to notify Acas applies to nearly all intended tribunal claims with a small number of exceptions. For example, if the potential claimant is one of many people making a claim against the same employer and one

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person has already made a request to Acas in the same dispute, the other potential claimants may not have to.

- The primary power for EC is set out in the Enterprise and Regulatory Reform Act. There are five implementing Statutory Instruments that we laid earlier this year to commence Early Conciliation. The SIs cover the EC regulations, ET rules updates, extending time limits, transitional provisions and harmonising EC with other pieces of employment legislation.
- Acas have now published a wide range of guidance products from a leaflet called EC explained, a process guide, FAQs and their EC helpline is now up and running.
- ACAS's previous similar offering, Pre Claim Conciliation has now ceased.

Early Conciliation employee benefits: cost of going to ET is £1,800. Estimated cost of engaging in EC is £73 ***(January 2013 Impact Assessment)***

Early Conciliation employer benefits: average cost of ET is £6,200. Estimated cost of EC is £512. **(January 2013 Impact Assessment)**

Top Government Points

1. Set out the high level operating principles of Early Conciliation as part of the response to the Resolving Workplace Disputes Consultation – January 2011. Primary power taken as part of the ERR Act.
2. Presented the draft regulations that underpin Early Conciliation in January 2013.
3. The consultation was also accompanied by an Impact Assessment which estimated that the introduction of EC will reduce the number of claims to ET by approximately 18%, saving business some £40m pa. Exchequer savings of approximately £10m pa were also forecast.
4. Government published its response to the public consultation in July 2013, in which we clarified key elements of EC such the detail of accompanying documentation, exemptions from the process and some further detail of how Acas will work with parties to seek settlement.
5. EC commenced 6 April 2014. The requirement is voluntary from 6 April and mandatory from 6 May. This exists to stop claimants with very little time left on their limitation period on 6 April complying with EC in a very rushed manner with the sole purpose of only requiring a certificate.
6. Acas have now published a wide range of guidance products from a leaflet called EC explained, a process guide, FAQs and their EC helpline is now up and running. Gov.UK
7. HMCTS statistics will be monitored closely to look at the overall number of employment tribunal claims and we will use these to help access whether the 18% fewer ET cases target has been met.

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Employee Shareholder – New Employment Status

Issue

- Introduction of a new employment status 'employee shareholder'

Key Facts

- The Growth and Infrastructure Act 2013 provides for the new employment status of 'employee shareholder'.
- Employee shareholders must be given shares of at least £2,000 in the employer or employer's parent company, and the gain on the first £50,000 of shares are not subject to capital gains tax. The first £2,000 of shares do not attract income tax or national insurance liability.
- Employee shareholder is a way for companies limited by shares to hire staff and structure their work force, in addition to the existing employment statuses of employee and worker.
- Employee shareholders have all of the rights associated with employees except for:
    - unfair dismissal rights (apart from automatically unfair reasons and where dismissal is based on discriminatory grounds or for health and safety reasons)
    - rights to statutory redundancy pay;

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- certain statutory rights to request training;
- the statutory right to request flexible working (except in the 2 week period when parents return from parental leave).
- Certain notice periods for family leave- employee shareholders will give more notice to their employer of their intention to return early from maternity leave, additional paternity leave or adoption leave.

Top Government Points

1. Employee shareholders are entitled to the following protections:

- automatically unfair dismissal right if an existing employee turns down an employee shareholder contract; and
- a right not to be subjected to a detriment if an existing employee turns down an employee shareholder contract.

2. When offered an employee shareholder job, individuals must be given a written statement setting out the employment rights they would not have as an employee shareholder and the rights attached to the shares. The individual must gain relevant independent advice and consider the job offer for a period of seven days before they can accept an employee shareholder position. If the individual or employer does not follow this sequence of events the employment contract will not take legal effect.
3. Shares issued to an employee shareholder must be fully paid up and the individual must give no consideration for those shares other than agreeing to the new status.
4. Any company limited by shares will be allowed to use the status i.e. not only UK registered companies but also EU and other overseas companies.
5. The 2013 Finance Bill included measures that:

- allow gains on the first £50,000 shares issued to employee shareholders to be exempt from capital gains tax;
- ensure the new employment status is not used as a tax loophole; and
- provides that income tax and National Insurance contributions will not be payable on the first £2,000 of shares awarded to employee shareholders.

6. Companies limited by shares have been able to use the employee shareholder status since1 September 2013.
7. We are unable to collect data on the take up of the new status as companies are not obliged to tell government.

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Employment Law Review

Employment Related Law Red Tape Challenge

Issue

- Cross-Government Employment Law Review (ELR) - burdens on business

Key Facts

- The OECD rates the UK as having the fourth lightest employment law regime in the developed world, and less regulated than many emerging economies (including the BRICs). Only the US, Canada and New Zealand have less employment protection legislation than the UK.
- The 2012 CBI / Harvey Nash Employment Trends Survey published in August stated there had been a 10% point improvement in perceptions of employment law since 2011.

Latest actions

- Early Conciliation came into force on 6 April 2014
- Changes to TUPE regulations from January 31st 2014
- We held a consultation on Zero Hours contracts from December 2013-March 2014
- We ran a call for evidence into Whistleblowing from July – November 2013

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- We have made changes to Whistleblowing legislation to include all MPs as prescribed persons for the purpose of reporting wrongdoing

Other Key Government Points

1. Increased the qualifying period in April 2012 for Unfair Dismissal from one to two years, and improvements in ETs such as judges sitting alone in unfair dismissal cases.
2. Introduced a pay based cap to run alongside the overall Unfair Dismissal compensatory cap; and
3. Revised Employment Tribunals Rules of procedure, following the review by Lord Justice Underhill.
4. Introduced Settlement agreements from July 2013
5. Published an improved Employer's Charter in March 2012 to give confidence to employers about what they can already do to deal with staff issues.
6. Published annual updates on progress, most recently on 14 March 2013, as part of a broader document setting out Government's vision for Employment Law Reform, progress to date, and strategy for the remainder of Parliament.
7. Implemented changes through the Enterprise and Regulatory Reform **(ERR) Act** which includes a package of reforms to streamline and modernise the employment tribunals system – including Early Conciliation.
8. Decided against the idea of introducing compensated no fault dismissal for micro businesses.
9. Reformed the Collective Redundancy rules, including reducing the period before the first dismissal can take place from 90 to 45 days.
10. Introduced a new 'employee shareholder' employment status through the Growth and Infrastructure Act which came into effect on 1 September.
11. Working jointly with Acas, produced an online guide to the disciplinary process aimed at small businesses.

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Employment Tribunal Reform

Issue

- Encouraging the earliest possible resolution of disputes, delivering a more efficient employment tribunal system for all users and supporting growth by giving business more confidence to take on new staff

Key Facts

- Enterprise and Regulatory Reform Act reforms to the employment tribunal system will deliver estimated net benefits of more than £49 million per annum to business.
- BIS estimates that employers face average costs of £6200 (excluding effect of tribunal fees), where a case goes forward to an employment tribunal hearing – and that the exchequer faces an average cost of £3200 per case.
- Last year over 190,000 employment tribunal claims were received.

Top Lines

- The new rules will mean that the employment tribunal works more efficiently and effectively for everyone saving cost for all parties.
- The new rules are half the length of the previous ones and use plain, simple language where possible. This cuts out a level of complexity for individuals using the employment tribunal system, particularly if they are self represented.

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- The new rules give tribunals greater powers to identify weak or vexatious claims earlier and deal with them effectively through an initial sift and greater flexibility of deposit orders.

Top Government Actions (Since May 2010)

1. The Government response to the **Resolving Workplace Disputes** consultation was published in **November 2011** and the implementation of our package of reforms is well underway.
2. On 6 April 2012 the unfair dismissal qualifying period increased from 1 to 2 years.
3. The Ministry of Justice published its response to the public consultation on fee charging for employment tribunals on 13 July 2012. The new fee structure was implemented on 29 July 2013 and a review of the remissions scheme was completed in October 2013.
4. The new employment tribunal rules implementing the recommendations of the Underhill review were implemented on 29 July 2013. The new rules are expressed in a simpler language and strengthen tribunal powers to identify and deal with weak or vexatious claims. The new rules incorporate the new rules on fees and the Enterprise and Regulatory Reform Act (ERR) measures on cost and increased flexibility of deposit orders. Changes to the payment of interest on tribunal awards designed to encourage prompt payment will also come into force on this date.
5. Government conducted further research into the issue of the enforcement of unpaid tribunal awards. We published this research on 1 November 2013 alongside some of the policy proposals we are considering to address this issue, including: amending the Employment Tribunal rules on deposit orders to target those who are unwilling to pay; introducing penalties for non payment, and naming and shaming those who do not pay.

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Financial Penalties

Issue

- Set out in Section 16 the ERR Act, Financial Penalties (FPs) give discretion for the tribunal to impose a financial penalty on employers who have committed an aggravating breach of an individual's employment rights.

Key Facts

- Aggravating breaches include those that are deliberate, malicious or negligent. In other words employees who flout employment law.
- Objective of FPs is not to raise money for the exchequer; instead their aim is to deter non-compliance with employment law and avoid cases ending up at tribunal.
- Good employers have nothing to fear – business will not be penalised for inadvertent errors.
- FPs create a level playing field so that bad employers are not able to gain a competitive advantage by mistreating their staff.
- FPs will be set at half of the amount awarded to a claimant. They have a minimum threshold of £100 and an upper ceiling of £5,000. Also, the amount payable will be reduced by 50% if the employee pays with 21 days.
- The RWD IA predicts the maximum number of Financial Penalties at around 3,000 per year with an average value of £1,000 per penalty.
- FPs will be a civil penalty NOT a criminal penalty, so only standard civil enforcement levels will be required. No interest can be applied.
- Companies in insolvency will be able to present evidence to the tribunal regarding their ability to pay the FP and subsequently a judge will take this into account in deciding whether or not to impose a penalty.
- FPs commenced 6 April 2014.

Top Government Points

- Part of the Resolving Workplace Disputes Consultation that ran from January 2011- November 2011.
- The original proposal was for an automatic penalty. However, in light of business responses to the consultation – a change was made to make the penalty discretionary and only applicable for cases with aggravating features.
- It was originally envisaged that Her Majesty's Revenue and Customs would collect FPs for government. However, as the estimated value of FPs is relatively low (approx £2.8 M per annum) HMRC advised BIS to engage a Debt Collection Agency via their DCA Framework agreement.
- Therefore, BIS is currently procuring the services of a Debt Collection Agency to manage the entire money collecting process of FPs for both timely and late payments.
- The Debt Collection Agencies are from a pre approved HMRC list and we hope to award a contract before the New Year. This will be followed by a

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three month ‘on boarding’ period where the DCA will set up necessary administrative processes with HMCTS, information sharing etc.

- FPs do not require any regulations but BIS will be making some minor changes to the ET rules to account for FPs.
- BIS may devise some information products that further explain FPs prior to commencement.

Enforcement of Employment Tribunal Awards

- Government is committed to tackling the issue and there is already a lot of work underway.
- We are aware that there is no one single solution, so are instead working on a number of different measures to improve the rate of recovery and ensure people get what they are owed. They are:
  - Considering introducing a penalty that will be levied against employers who do not pay Employment Tribunal awards
  - Considering naming and shaming
  - Working with The Insolvency Service, Companies House, Redundancy Payments Service and Her Majesty’s Revenue and Customs to share information on 'phoenix' companies (companies that go insolvent to avoid debts, but then reappear trading under a different name), in order to make better use of existing company and insolvency law provisions against rogue companies.
  - Working with High Court Enforcement Officers Association (and Scottish counterparts Society of Messengers-at-Arms and Sheriff Officers) to review the current enforcement system, and to identify and overcome barriers to successful enforcement action. We are also working with Trading Standards to identify where there is crossover with consumer issues, and potential for further improvements.

Flexible Working

Issue

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- In line with the Coalition commitment to extend the right to request flexible working to all employees, consulting with business on how best to do so, the Government will extend the right to request flexible working to all employees from 30 June 2014.

Key Facts

- Approximately 9.9 million (8.1 million parents and 1.8 million carers of adults) benefit under the current right to request. Extending the right to request to all will increase the population covered under the right by 10.7 million to approximately 20.6m.
- The current right to request is limited to parents and carers only. These changes will extend the right to all employees, and simplify the process of making a request for both employers and employees.
- The extension to the right to request flexible working to all employees will come into force this month. This excludes employee shareholders who under the status of employee shareholder will not have certain employment rights. These include the right to unfair dismissal protection and the right to request flexible working, except upon return from parental leave.
- We are focusing now on promoting and raising awareness of flexible working.
- Provisions to enable the extension were included in the Children and Families Act which received Royal Assent on 13 March.

Top Government Actions (Since May 2010)

1. On the 13th November the Deputy Prime Minister announced the Governments plans to press ahead with plans to extend the right to request flexible working to all employees.
2. We want to highlight that family friendly policies and economic growth are not mutually exclusive. Flexible working really can help employers boost productivity and profits - this is critical to maintaining the UK's competitiveness in the global economy.
3. Alongside the extension of the right to request to all, we are making it easier for employers to consider requests for flexible working. We will replace the current statutory process for considering requests with a duty on employers to consider requests in a 'reasonable manner'. This is a deregulatory measure intended to facilitate the discussion between employers and employees without the process for that discussion getting in the way. Under a duty to consider the request in a reasonable manner, employers will be able to use their own informal processes for considering requests, as long as they can show that they way the considered the request was 'reasonable' for their circumstances.
4. Acas have produced a draft statutory Code to help businesses understand what a reasonable manner means. The Code is designed to offer short, practical advice to make it as easy as possible for employers to handle requests and fit them to their specific circumstances and procedures. Acas consulted on their draft Code and it was laid in both Houses of Parliament for a 40 day period of consideration on 1 April. The regulations to bring in the extension [were laid on 5 June and will come into effect on 30 June.

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5. We are working to encourage cultural change in flexible working, especially to encourage employers to think about flexible working when they recruit new employees (the right to request flexible working is designed to help employees remain in employment but does not support people into work who need flexible working arrangements in order to start employment). An employer group led by Working Families is working to make practical recommendations to business on how flexible working can be beneficial and how it can be built into employer's recruitment practices. They are currently trialling a strapline ('happy to talk flexible working'), which employers can use when advertising jobs to encourage greater discussion of flexible working at recruitment stage. This will enable businesses to attract talent from a diverse workforce.

Industrial Action

Key Facts

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- In 2013, the ONS has provisionally estimated that 444,700 working days were lost, equivalent to approximately 16 working days lost per 1,000 employees.
- Strike levels overall remain historically low when compared against the 1970s and 1980s. 7.2 million working days per year were lost on average in the 1980s and 12.9m in the 1970s.

Top Government Actions (Since May 2010)

1. Public sector pensions negotiations: The discussions with the health, education and civil service unions, led by Francis Maude and Danny Alexander, have concluded. The Public Service Pensions Act 2013 implements these agreements. Changes to other public service pension schemes are being considered and are at different stages of development.
2. Trade union facility time in the public sector: following consultation, Cabinet Office has identified best practice requirements for Departments to update facility time agreements in the Civil Service, including ending the practice of full-time trade union representatives and restricting funding for facility time to 0.1% of the paybill. Eric Pickles announced on 1 March similar arrangements for local Government, but restricting funding to 0.04%.
3. ACAS (a BIS partner organisation): Resolution of disputes is a matter for the parties, though ACAS stands ready to assist where both parties request their intervention – and did so effectively in the tanker drivers' dispute (2012)
4. The Government launched a review in March into alleged intimidation tactics used by trade unions in industrial disputes, as well as the role of employers in such disputes. The review will be led by leading industrial relations lawyer Bruce Carr QC and will make proposals and recommendations for change.

Elephant trap

Q&A

Minimum industrial action ballot thresholds: Should we agree that change is necessary, then we will take action, but Government has not yet concluded that this is the case.

Blacklisting: Evidence available to date does not call for a new inquiry. However if new evidence came to light that these practices were continuing today that would be a serious matter. Indeed the Secretary of State has asked anyone who has information about this practice going on to get in touch with the relevant authorities.

Migration

Issue

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The Prime Minister and the Home Secretary have both said publicly that they want to reduce net migration from hundreds of 1000s to tens of 1000s. This target is not part of the coalition agreement. There is some debate around the impact measures to meet this target are having on the reality and perception overseas of the UK as a good place to do business and study.

Key Facts

- The UK welcomes the contribution of skilled migrant workers to our economy.
- Migration is good for the economy; it allows international business links to form and for skill gaps in the native workforce to be filled.
- There was a net flow of 212,000 long-term migrants to the UK in the year ending September 2013, with work being the most common reason for immigrating to the UK.
- Reducing immigration to the UK could have a negative impact on tackling the deficit and the country's fiscal position would be worse.
- Migrants do not deprive the native workforce of jobs when the economy is strong, nor do they keep wages down. In fact, companies set up by migrant entrepreneurs account for 14% of jobs in the UK.

Current Government Activity

Stability – The Home Secretary that the Immigration Bill will make changes to some policy framework including policy changes relating to access to services for migrants. In relation to the visa system, the Home Office are focussing on adjustments in response to feedback from users, or to new visa requirements.

The Immigration Bill – Measures on regulating migrant's access to benefits and public services, including the NHS (see below) form part of the Immigration Bill. The Bill completed its committee stage on 19 November 2013 and is due to have its report stage and third reading on a date yet to be announced.

NHS Charging – Following consultation, the Department of Health has announced that visitors and migrants who wish to use NHS services will have to pay in an effort to clampdown on abuse of the NHS. Implementation will be carried out in four phases, starting from November 2013, with the fourth and final stage due to start from April 2015.

Immigration and visas fees - The and held consultations to look at various options for ensuring those who benefit directly from the immigration system and enhanced border services contribute appropriately to their costs in the future. The feedback is currently be analyzed.

Elephant traps

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What effect will imposing a migration cap of tens of thousands have on the UK economy?

Migration is good for the UK economy; it allows international business links to form and for skill gaps in the native work force to be filled. Introducing a cap could potentially damage efforts to reduce the deficit as most immigrants are more likely to be of working age and net contributors to the economy, contributing more in taxes and spending than claiming back in social benefits.

What is the effect of migration on jobs for the native workforce?

Work-related reasons were the most common reason for immigration for the year to June 2013, however fears that jobs are being taken away from native workers are largely unfounded. Although recent studies suggest that immigrants displace native workers during periods of recession, they also suggest that this displacement does not occur during periods of growth. Additionally there is no evidence that migration from within the EU, leads to displacement of native workers – even during a downturn.

What effect does migration have on the wages of native workers?

Some sections of the native workforce believe that the presence of migrant workers results in wages being under cut – this is not the case. National Minimum Wage legislation is in place, and is enforced robustly, to prevent this fear from becoming a reality and studies show that migration has had no impact or a small positive impact on average wages.

Do migrants make a net positive or negative net contribution to the UK?

Migrants generally arrive on these shores when they are of working age and they often leave before they retire – contributing more in taxes and spending than claiming back in social benefits. Immigrants are more likely to be net contributors to the economy.

Background

- 'Net migration' has risen by 60,000 to 212,000. Some of this is due to a 30,000 fall in emigration, which suggests that UK natives are encouraged to remain in the UK due to the improving labour market conditions.
- Immigration to the UK in the year to September 2013 was 532,000, an increase of 35,000 on the previous year. This is split between EU (131,000) and non-EU (401,000) – the most significant increase is in EU migration which almost doubled from the previous year.
- Within the non-EU cohort the largest number is students, who accounted for over 218,000 of the overall total. Work routes are next with over 80,000 visas granted, followed by workers/students family (66,000), family reunion (34,000) and investment/entrepreneur routes (c.11,000).
- The Office of Budget Responsibility has warned that restricting immigration would damage efforts to reduce the deficit as most immigrants were net contributors to the economy; giving more through taxes and consumption than taking out through benefits and public services.

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- Recent BIS/Home Office research, there is relatively little evidence that migration has caused statistically significant displacement of UK natives from the labour market in periods when the economy has been strong – there is some evidence of displacement during periods of recession however these tend to be concentrated on low skilled natives.
- Migration has no negative impact on the average wage of the native workforce and there is little evidence to show that migrant workers displace native workers in periods of growth.
- Migration is a short term solution to addressing skill gaps. Work is continuing to improve the skill set of native workforce to ensure the next generation of British workers can fill the gaps themselves.
- Migrants bring a lot of other benefits to the UK with them. They introduce new, innovative ways of work, they can aid in knowledge transfer, they can open new markets and they can be involved in the up-skilling of the native workforce.
- The latest British Social Attitudes Survey found that 77% of the public want to see a reduction in immigration and a significant increase in the number who want immigration reduced “a lot”, up from 51% in 2011 to 56% in 2013. This is despite fewer people now thinking immigration is bad for the economy compared to 2011 (47% in 2013 compared with 52%).

National Minimum Wage (NMW)

Issue

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- We are committed to increasing support for lower and middle income earners and improving the rewards to work. This Government supports the NMW because of the protection it gives low income workers and the incentives to work it provides.

Key Facts

The National Minimum Wage rates:

Category of worker	**Current rate**	Increase since May 2010	**Rates from 1 October 2014**	Increase since May 2010 (from October 2014)
Adults (21 years and older)	**£6.31**	51p	**£6.50**	70p
Youth Development Rate (18-20 year olds)	**£5.03**	20p	**£5.13**	30p
16-17 Year Old Rate	**£3.72**	15p	**£3.79**	22p
Apprentices (either under the age of 19; or aged 19 and over and in the first year of their apprenticeship)	**£2.68**	Introduced in October 2010	**£2.73**	Introduced in October 2010

Top Government Points

1. The NMW has been a success in supporting the lowest paid. Since it was introduced in 1999, it has increased faster than average earnings and prices.
2. The Government is helping raise living standards through cutting taxes and increasing employment. Our increases to the personal allowance will protect the incomes of working households that have been squeezed through high inflation and low earnings growth.
3. It is important that lower paid workers benefit from the emerging recovery. We welcome the Low Pay Commissions recent assessment that 2014 could mark the start of a new phase of higher increases in the NMW.

National Minimum Wage (NMW) Enforcement

Issue

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- The Government is committed to simple, effective NMW enforcement which supports workers and businesses by deterring non-compliant employers from underpaying their workers and removing the unfair competitive advantage that underpayment can bring.

Key Facts

- In 2012/13 HMRC identified £3.9m in arrears of wages for over 26,500 workers. This represents an increase of over 30% in the number of workers that HMRC were able to help compared to 2009/10. Also the average arrears per case identified increased by over 90% in 2012/13, compared to 2009/10.

Since 2010 enforcement has improved in a number of ways:

- The number of penalties charged, the amount of such penalties and the average per case has increased.
- We identified over 30% more workers in 12/13 than we did in 09/10
- The average workers per case has increased by over 200% and the arrears per case by over 90%
- We're doing our work faster than we did in 09/10, [by 6%]
- We have improved the incidence of finding arrears in cases by 26%

Top Government Points

1. HMRC investigates <u>every complaint</u> made to the Pay and Work Rights helpline. In addition, HMRC conducts risk-based enforcement in sectors or areas where there is a higher risk of workers not getting paid the legal minimum wage.
2. The Government is taking a tougher approach on employers that break National Minimum Wage law. We have already made it easier for employers to be named and shamed under the NMW Naming Scheme. On 28 February 2014 the Government named its first five employers. Between them they owe workers a total of over £6,800 in arrears and have been charged financial penalties totalling £3381.40. We will be naming other employers very soon.
3. The Government has also increased the financial penalty percentage that employers pay for breaking minimum wage law from 50 per cent to 100 per cent of the unpaid wages owed to workers and the maximum penalty from £5,000 to £20,000. The increase came into effect on 7 March 2014. The Government will also bring in primary legislation as soon as possible so that the maximum £20,000 penalty can apply to each underpaid worker.

<u>Posting of Workers Enforcement Directive</u>

Issue

- Implementing the Posting of Workers Enforcement Directive.

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Key Facts

- The existing Posting of Workers Directive (96/71/EC, 1996) came into force on 20 May 2014. The UK has 2 years to implement the Directive. It is a single market measure, to ensure a level playing field when businesses or agencies post workers temporarily from one Member State to provide services in another.
- The Directive entitles posted workers to minimum statutory employment rights available in the country they are posted to (e.g. national minimum wage rates, maximum work periods). Everyone who works in the UK has the same rights.
- The directive supports the freedom to provide services across the EU. Around 1 million workers are posted across the EU each year.
- Numbers sent to and from the UK are relatively low (the European Commission estimates 37k each way) but it is a significant issue for some MS (e.g. Germany and Poland)
- In negotiation, the European Parliament sought administrative requirements of business, comprehensive joint and several liability, as well as a operative measures to combat bogus self-employment and illegal working.

Top Government Points

1. The UK does not experience some of the issue faced by other Member states as it has in place a strong raft of protections for all workers, for example, the National Minimum Wage, health and safety regulations, working time restrictions and the full range of anti-discrimination measures. And the pay and work rights helpline and ACAS provide guidance and advice for everyone working in the UK.
2. The UK Government is committed to now working with stakeholders representing employers and employees to discuss how the Enforcement Directive can implemented in a way which works for the UK economy and its workers.
3. The Government supported the final text because:

- For workers it increases awareness of minimum rights and how they can be enforced and improves cooperation, collaboration and the exchange of information to support cross-border enforcement.
- For businesses, it clarifies their responsibilities and helps them avoid falling foul of employment laws in other Member States.
- For the UK economy, it provides reassurance that companies can freely operate across Europe.

Recruitment Sector Legislation

Issue

- Reforming the regulatory framework for the recruitment sector.

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Key Facts

- The recruitment sector is currently regulated by the Employment Agencies Act 1973 and the Conduct of Employment Agencies and Employment Businesses Regulations 2003 (the 'Conduct Regulations').
- The legislation is complicated and difficult for businesses and individuals to understand and was identified by the Red Tape Challenge as needing reform.
- The Government consulted on proposed reforms to the recruitment sector legislation in early 2013 and the Government response was published on the 12 July 2013.
- We intend to replace the current legislation with a new regulatory framework that removes some of the burden from business but continues to protect people who are looking for work. We also intend to remove 'job boards' from the scope of the legislation.
- The Government will be consulting further on the proposed changes in the summer. A proposal to prohibit overseas-only recruitment will form part of this consultation.

Top Government Points

1. We intend to proceed with the proposal to replace the current legislation with a new regulatory framework that removes some of the burden from business but continues to protect people who are looking for work.
2. We will carry out a further short consultation on draft legislation after it has been prepared.
3. We have moved to a more targeted enforcement regime for the recruitment sector, focusing on protecting the most vulnerable, low paid workers.
4. On the 4 November 2013 resources from the Employment Agency Standards Inspectorate (EAS) moved to HMRC's National Minimum Wage (NMW) team. They will focus mainly on enforcing non-payment of NMW in the recruitment sector.
5. A small team remains in BIS to enforce the recruitment sector legislation. Complaints will continue to be prioritised using a risk-based approach and the level of resourcing will be kept under review.

Shared Parental Leave

Issue

- In line with the coalition agreement to "encourage shared parenting from the earliest stages of pregnancy – including the promotion of a system of shared parental leave" the Government has proposed changes to ensure the law

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better supports families juggling work and family life, and help the businesses that employ them.

Key Facts

- As women's employment rights have increased their participation in the labour market has also increased. Women now make up half of the UK workforce.
- The Maternity and Paternity Rights and Women Returners Survey in 2009/2010 found that the vast majority (91%) of fathers took time off following the birth of their baby, with 73% of fathers taking some paternity leave.
- BIS consulted on proposals to redesign the UK's maternity, paternity and adoption system to introduce Shared Parental Leave. The proposals are designed to support shared parenting by enabling working parents to share leave to look after their child in the early stages. The changes will encourage both parents to take an active caring role, and help both parents retain their attachment to the workplace by allowing them to agree a pattern of leave that works for them and their employers.
- The Children and Families Act 2014, which provides the legislative vehicle for introducing shared parental leave and pay, achieved Royal Assent on 13 March. It is proposed to introduce Shared Parental Leave for babies due on or after 5 April 2015.

Top Government Actions (Since May 2010)

- Additional Paternity Leave and Pay (APL) was introduced from April 2010 as an interim first step towards this Government's commitment to develop a flexible system of shared parental leave. The right provides new fathers with a right to up to six months additional paternity leave once the mother has returned to work.
- The proposed system of Shared Parental Leave has been developed in conjunction with family and business representatives.
- This proposal gives employers the ability to recruit from the widest possible pool of talent, and helps contribute to the UK's skilled and flexible workforce.
- We aim to make the administration of parental leave as light-touch and straightforward as possible. The Government Response to the Consultation on the Administration of Shared Parental Leave and Pay was published in November 2013, setting out the final detail on how the new system of shared parental leave and pay will work in practice and the processes that will need to be followed.
- The Children and Families Act successfully completed its Parliamentary process in March.
- We are now working on the detailed regulations that will bring the provisions into effect. They will be brought in in time for babies due in April 2015, but who arrive early.
- We are now focusing on promoting and raising awareness of shared parental leave and ensuring we meet the information needs of employers and employees.

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- We are developing a number of tools, ranging from detailed fact sheets to an on-line calculator.

Elephant trap

What action have been taken so far?

- Additional Paternity Leave and Pay (APL) was introduced from April 2010 as an interim first step towards this Government's commitment to develop a flexible system of shared parental leave. The right provides new fathers with a right to up to six months additional paternity leave once the mother has returned to work.
- BIS consulted on proposals to redesign the UK's maternity, paternity and adoption system to introduce Shared Parental Leave in 2011. The proposals are designed to support shared parenting by enabling working parents to share leave to look after their child in the early stages. The changes will encourage both parents to take an active caring role, and help both parents retain their attachment to the workplace by allowing them to agree a pattern of leave that works for them and their employers.
- The Children and Families Act 2014 provides the legislative vehicle for introducing shared parental leave and pay, and regulations will be laid both before and after the Summer recess to implement Shared Parental Leave and Pay by 1 December for babies due on or after 5 April 2015.
- The proposed system of Shared Parental Leave has been developed in conjunction with family and business representatives.
- This proposal gives employers the ability to recruit from the widest possible pool of talent, and helps contribute to the UK's skilled and flexible workforce.
- We are working on a range of information and guidance materials, including online tools and proformas to help employers, employees and others understand and use the new system when it is introduced. These will be available from the summer.

What more are we looking to do?

- We will keep under review the take up by fathers/partners of shared parental leave and will look again at paternity leave at a later date. We plan to review the decision on whether to extend paternity leave and pay in 2020, using information on the uptake of shared parental leave and pay from the maternity and paternity rights and work-life balance series' of surveys.
- We have taken powers in the Children and Families Act to make legislative changes which will enable us to increase the number of weeks of paid paternity leave through secondary legislation at a later date.

Living Wage

Key Facts

- The Government is committed to improving living standards – particularly for the lowest paid.
- The Government is helping raise living standards through preventing exploitation, cutting taxes for the low paid and increasing employment.

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- To prevent exploitation of the low paid the National Minimum Wage is carefully set by the independent Low Pay Commission at a level that maximises their wages without damaging employment.
- In addition to the NMW we are raising the personal allowance allowing people to take home more of what they earn.
- There are now more people in employment than ever before. Government is improving work incentives through welfare reform and the introduction of Universal Credit.

Government Actions since May 2010

- The government is helping raise living standards through cutting taxes and increasing employment. The personal allowance increases to £10,000 from April 2014, one year earlier than planned, protecting the incomes of working households that have been squeezed through high inflation and low earnings growth.
- There are now more people in employment than ever before. Government is improving work incentives through welfare reform and the introduction of Universal Credit.
- The National Minimum Wage has been a success in supporting the lowest paid. Since its introduction in 1999, the adult rate of the National Minimum Wage has increased faster than average earnings, prices and nominal output.
- Vince Cable is keen that lower paid workers benefit from the emerging recovery. He has asked the Low Pay Commission to look at what economic conditions would be needed to allow the National Minimum Wage to rise in the future by more than current conditions allow- without an adverse impact on jobs.
- We are absolutely clear that anyone entitled to be paid the minimum wage should receive it. HMRC investigates every complaint made through the free and confidential Pay and Work Rights Helpline. Employers who fail to pay the National Minimum Wage will be named and shamed under revamped criteria. This is on top of financial penalties which employers already face.
- A mandated pay floor completely detached from an affordable level is likely to bring about job cuts. A compulsory Living Wage takes no account of the effect of the consequences of raising the cost of labour. The National Minimum Wage is a carefully calibrated instrument balancing the need to provide a fair wage whilst not damaging employment.
- The Government supports businesses that choose to pay the Living Wage where it is affordable. However, decisions on what wages to set, above the National Minimum Wage, are for employers and workers.

Key Facts

- The UK Living Wage is currently £7.65
- the London Living Wage rate is £8.80
- The personal tax allowance increases to £10,000 from April 2014

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- The personal tax allowance increases to £10,500 from April 2015 which will make a typical basic rate taxpayers £100 better off in cash terms (£62 in real terms)
- The 2014-15 allowance takes 2.7 million people out of income tax
- the 2015-16 increase will take another 290,000 low earners out of income tax,
- total number taken out of tax by this Government's PA increases since 2010 is over 3.2m.
- By April 2015, someone working full time (35 hours per week) on the (October 2014) National Minimum Wage will have seen their income tax bill reduced by over two thirds since 2010-11.
- Someone working 31hours per week on the NMW will not pay income tax.

Q&A

How much is the living wage?

- The UK Living Wage is currently £7.65 and the London Living Wage rate is £8.80.

Does the Government support the Living Wage?

- The Government supports employers that choose to pay the Living Wage. However, decisions on what wages to set are for employers and workers to agree as long as employers pay at least the national minimum wage.

Why doesn't Government implement the Living Wage?

- The Government helps the low paid through the statutory National Minimum Wage which is specifically set at the highest possible rate that will not damage employment prospects.
- A mandated pay floor completely detached from an affordable level is likely to bring about job cuts and these effects would most likely be hardest felt by the young and those who are further from the labour market.
- One in twenty employees earns the minimum wage and the majority of public sector workers currently earn above the Living Wage.

What is the cost of a pint of milk and loaf of bread?

- Average price for a loaf of bread: 90p
- Average cost for a pint of milk: 49p

Governments approach to wages and living standards.

- The Government and BIS's objective is to improve living standards – particularly for the lowest paid. Government policy on wages is one part of this.
- The general approach to improve living standards is to increase employment and to cut taxes, particularly for the low paid.

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- The National Minimum Wage has been a success in supporting the lowest paid. Since its introduction in 1999, the adult rate of the National Minimum Wage has increased faster than average earnings, prices and nominal output.
- There are now more people in employment than ever before. Government is improving work incentives through welfare reform and the introduction of Universal Credit.

Q&A - How is Government helping the low-paid?

National Minimum Wage - One key policy to support the low paid is the National Minimum Wage which is set at a level that helps as many low-paid workers as possible without damaging their employment prospects. Since its introduction in 1999, the adult rate of the National Minimum Wage has increased faster than average earnings, prices and nominal output. It has maintained wages relative to the average in the recession and combined with substantial tax cuts that have benefited the low paid, almost 40% of adult National Minimum Wage workers have seen real increases in their take-home pay.

What is Government doing to increase the National Minimum Wage at a faster rate in the future?

- There is growing desire in Government to better understand all the factors affecting low wages in the economy. We want it to be possible for wages to rise faster without damaging employment. That is why the Business Secretary Vince Cable has asked the Low Pay Commission to look at what economic conditions would be needed to allow the National Minimum Wage to rise in the future by more than current conditions allow without having an adverse impact on jobs.

What is Government doing to strengthen enforcement of the National Minimum Wage?

- We are absolutely clear that anyone entitled to be paid the minimum wage should receive it. HMRC investigates every complaint made through the free and confidential Pay and Work Rights Helpline. Since 1 October, employers who fail to pay the National Minimum Wage (NMW) will be publicly named and shamed under revamped criteria announced in August to make it easier to clamp down on rogue businesses. This is on top of financial penalties which employers already face if they fail to pay NMW.

What is Government doing to raise awareness of the National Minimum Wage?

- The Government is taking a multi-faceted approach towards enforcement and compliance of the minimum wage. This includes targeted communications to raise awareness and help employers to comply, as well as targeted enforcement action with civil and criminal proceedings reserved for the most serious cases. On 1 November we launched our Spot the

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Difference communication campaign. This will motivate employers to comply with NMW by highlighting the benefits to their businesses and drawing attention to the consequences of not paying workers what they are legally entitled to.

Government position on Living Wage

- The Government supports businesses that choose to pay the Living Wage where it is affordable. However, decisions on what wages to set, above the national minimum wage, are for employers and workers. A mandated pay floor completely detached from an affordable level is likely to bring about job cuts. For example, the National Institute of Economic and Social Research has estimated that increasing the NMW to the rates supported by the Living Wage Foundation would cause a net job loss of 160,000, with 300,000 young and unskilled employees becoming unemployed.

Elephant trap: (only if pushed)

Is BIS / the Government paying a living wage?

- The Government supports businesses that choose to pay the Living Wage.
- However, we will always award contracts on the basis of best value for money for the taxpayer – which includes the low paid.
- On the basis of fairness and current affordability, the Secretary of State for Business Vince Cable has instructed his Department to raise the wages of the lowest paid contracted staff working at BIS premises across the UK.
- This is part of the Department for Business, Innovation and Skills' overall policy to try to increase living standards for its lowest paid staff. The Government supports raising wages to the Living Wage when it is affordable to employers.
- The Government has always said that it supports the idea (brought up in the context of the Living Wage) of raising wages for the lowest paid where it is affordable. That is what BIS is doing.

<u>Trade Union Reform</u>

Issue

- Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act Part 3 - reforms to trade union administration.

Key Facts

- The Bill achieved Royal Assent on 30th January 2014.

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Opposition from Trade Unions: The measures are very unpopular with trade unions. Their challenges to Part 3 are summarised as:

- A perceived lack of rationale for the measures in the Bill, or evidence of a problem that the measures look to solve
- The perceived additional burden on trade unions to comply with the new provisions
- A (mistaken) perceived link between these measures and a union's ability to strike
- The TUC argue that the new provisions present a breach of ECHR rights to privacy and freedom of association

- However, TUC and its affiliate unions now accept that they now need to focus on the implementation of these measures. BIS Officials are working with unions to ensure a proportionate implementation that keep any burdens to a minimum. The aim is to have the measures in place by April 2015.

Top Government Points

<u>Top lines on the changes for Part 1 & 2</u>

- This is about extending transparency to give the public more confidence in the way third parties interact with the political system. These parties play an important role in the political process, helping to inform policy making and ensuring views are heard by those in Government.
- We want to ensure that we know who lobbyists lobby for; how much money is spent on third party political campaigning; and make sure Trade Unions know who their members are.

<u>Trade union administration – principles and rationale for change</u>

- The principle behind these measures is already in place - we are building on an existing obligation, this is not about making it harder for unions to operate.
- These measures will give greater confidence about the accuracy of large membership registers as a whole – not just a few individual records. When unions have accurate and up to date membership registers it is easier for them to demonstrate the democratic basis when they make decisions and take action.
- These measures are an appropriate way to give greater confidence to union members and to the public that unions know who their members are and can contact them.
- Trade union administration – reforms
- Unions that have more than 10,000 members will need to appoint an expert independent third party to provide an annual assurance regarding maintenance of their membership register.
- Unions with 10,000 members or less at the end of the reporting period will need to provide an annual self-assurance.

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- The Certification Officer will have power to investigate discrepancies and to issue declaration and enforcement orders requiring unions to remedy failures
- We will take a proportionate approach to implementation. We have sought evidence to inform the application of the measures in practice, and continue to engage unions and others, to ensure that they do not impose a disproportionate or unreasonable burden.

Elephant Traps/Defensive Q&A

There is no evidence of a problem in trade union membership records

- Membership registers lose their accuracy quickly because of changes in union membership as well as changes in the details of individual member addresses.
- The current system relies on an individual union member actively checking their details. We cannot be certain that unions are compliant with the requirement to maintain a register that is up-to-date so far as is reasonably practicable.

This is a politically motivated attack on trade unions

- This is not an attack on trade unions. Trade Unions are vital participants in the economy, working with employers to maximise employee engagement and delivering practical solutions to workplace issues.
- The new regime can't be justified on human rights grounds
- The existing duty to maintain an up-to-date membership register has been around since 1984. Having agreed that a membership register is necessary, it follows that there should be an appropriate and effective enforcement regime.

Transfer Of Undertakings (Protection Of Employment) Regulations 2006 (Tupe)

- **Issue –** Amendments to TUPE. As amended by The Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014 (SI 2004/16)

Key Facts

- TUPE is the legislation which protects employee rights when the business or undertaking for which they work transfers to a new employer. TUPE implements the Acquired Rights Directive (ARD).

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- The Government was concerned that some businesses believed the TUPE Regulations were gold plated and bureaucratic. Following a consultation as part of the employment law and under the Red Tape challenge, the Regulations have been amended.
- Our amendments will ensure that TUPE continues to provide appropriate levels of employee protection, but eliminate unnecessary gold plating and red tape so that business transfers go through as smoothly as possible.
- TUPE's service provision changes (SPC) rules have not been repealed as earlier proposed. Repeal would have created significant uncertainty in the economy, as employers struggled to determine whether a service provision change was caught by TUPE or not. However, the rules on SPCs have been clarified on the face of the Regulations, in line with case law, so that if businesses radically change the way they provide services such changes are unlikely to be caught by TUPE.
- The requirement on businesses transferring staff to disclose pre-transfer employee liability information (ELI) has been changed so that this is required 28 days before the transfer. There was a clear response from business that repeal of ELI was not desired and that the timeline should be increased.
- TUPE has been amended to allow renegotiation of terms derived from collective agreements one year after transfer, even though the reason for seeking to change them is the transfer, provided that overall the change is no less favourable to the employee. This change empowers both employer and employee, after one year of working together, to agree mutually beneficial improvements to terms and conditions. Other changes include an amendment to the protections against changes to terms and conditions and dismissal so they more closely reflect the wording used in the Directive and CJEU case law. This will reduce the risk that the current provisions in TUPE are interpreted in a way that prevents changes to contracts or dismissals in more situations than the Directive does. It will also be possible for micro-businesses to directly inform and consult affected employees about transfers when there is neither a recognised independent union nor existing appropriate employee representatives.
- An employer proposing 20 or more redundancies may have an obligation to consult about the redundancies with employee representatives (this is often called “collective redundancy consultation”). Sometimes the new employer in a TUPE transfer situation may be proposing such redundancies following the transfer. The Trade Union and Labour Relations (Consolidation) Act 1992) has been amended to provide that in certain circumstances, consultation about the redundancies which begins before the transfer takes place, can count for the purposes of the rules on collective redundancy consultation. This will provide certainty for business and employees as well as, among other things, increasing the efficiency and speed of the restructuring process and reducing administrative costs for transferee organisations, in particular where there is to be change of workplace on transfer.
- We have tried to make the TUPE rules more flexible, but recognise the real problem caused to business and the economy by the barriers in TUPE to harmonising terms and conditions of the workforce after a transfer, when groups of staff are brought together. Harmonisation would be a boost to

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business and could improve fairness for employees. However, any provision to agree a variation to terms and conditions for the purpose of harmonisation would very likely be incompatible with the Acquired Rights Directive. Therefore the Government will engage with European partners to demonstrate the potential benefits of a harmonisation framework for individuals and the economy.

Top 5 Government Actions (since May 2010)

- The Call for Evidence on the effectiveness of the TUPE Regulations was issued in November 2011. The Government's response to the Call for Evidence was issued in September 2012.
- We consulted between January 2013 and April 2013, publishing the Government response on 5 September 2013.
- Revised regulations (The Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014 (SI 2004/16) were laid in Parliament on 10 January and came into force on 31 January 2014.
- Guidance appropriate to the new framework has been prepared and is available on Gov.UK.

Defensive if raised

This is one sided/very business friendly. You've ignored the employee's rights?

- A. No. Some of our amendments will help employees. For example, the retention of employee liability information (ELI) and the extension of the time frame in which it should be given are pro-employee. The provision of information about obligations concerning pay and conditions etc helps prevent later grievances arising between employer and new employer. Additionally, allowing micro businesses to inform and consult with affected employees directly in cases where there is not a recognised independent union, nor existing appropriate representatives, rather than having to invite employees to elect representatives, will reduce bureaucracy for employer and employee alike. Generally, we have aimed for a less burdensome regime from which both employer and employee benefit.

Unfair Dismissal Compensation

Issue

- Unfair Dismissal Compensatory Award Pay Based Cap

Key Facts

- The limit on the compensatory award has risen rapidly in recent years and creates an unrealistic expectation about potential awards, given the median award (£4,560 for 2011/12) is far less than current cap (£74,200) and has been around £5,000 since 2005.
- Ending the Employment Relationship public consultation which closed on 23 November 2012, sought views on the appropriateness of the upper limit and a new 12 months' pay based limit.

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- There was broad support for introducing this pay based cap, which would link the maximum potential award to an individual's own salary, to provide more certainty for both employers and employees
- Therefore the Government Response, published 17 January 2013, recommended introducing the 12 months' cap, while leaving the overall specified cap at its existing level.
- Estimate 1 in 400 (0.25%) unfair dismissal claimants per year affected.
- 94% of awards were below £30,000 and 98% of awards were below £50,000 in financial year 2011/2012.
- Given that the basic award can be as much as £13,500, the number affected by changing the compensatory award cap is likely to be much smaller, since the median award of £4,560 represents the total average award, i.e., both basic and compensatory award.

Top Government Actions

- We need to give business more certainty about their liabilities at tribunal, and promote realism about the level of awards
- We are addressing perception. The median award figure is £4,560 – nowhere near the current overall cap of £74,200.
- We estimate only 0.25% of unfair dismissal claimants (115 per year) would be affected by the introduction of an individual cap.
- Compensatory award for dismissals on or after 29 July 2013 that are subsequently found to be unfair is limited to £74,200 or 1 years pay, whichever is the lower
- The 12 month pay cap on unfair dismissal compensatory awards came into effect from 29 July 2013.

Elephant trap

- You will be aware of the judicial review that has been served on the department by compromiseagreements.com, citing discrimination against older workers in relation to the 52 week cap. The High Court refused permission for the JR. The Claimant has appealed and won an oral hearing. If challenged about this, your line should be:
  - This matter will be reviewed by the High Court next month . It would not be appropriate for me to comment at this stage.

Unfair Dismissal Compensatory Cap Q&A

This will have a disproportionate effect on particular groups, such as older workers.

- The Equality Impact Assessment of changing the limit was published alongside our Government Response document on 17 January 2013. This assessment did not conclude that any particular group would be disproportionately affected.

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- The median award is so low it is unlikely many people would be impacted by a pay based cap. Using the available data, this analysis calculated that around 0.25% of the total number of claimants for unfair dismissal might be affected by an earnings based cap.
- In the labour market generally, the majority of people do move quickly to employment (if they want to). Of those over 50 making a new claim for Jobseeker's Allowance, 85% leave within a year.

How does this new cap apply to claims already in the system?

- Subject to approval of the regulation, the 12 month pay compensation cap would not apply to any claim for unfair dismissal lodged before 29 July 2013, even if they reach an employment tribunal after that date.
- Claims already in the system before then are unaffected.

Doesn't this cap ignore the loss of pension contributions?

- All political parties agree that there should be a cap on compensatory awards. Just because a claimant has a pension, doesn't mean that the cap on their compensatory award should be higher.
- The Employment Tribunal judges will consider the loss of pension contributions as part of their deliberations when deciding the amount of the compensatory award that's due. The cap of one year's salary only bites in cases where the tribunal was considering a compensatory amount greater than that.
- The median award figure of £4,560 inevitably includes any future pension contribution losses the tribunal assessed were due. Therefore it does not seem the 12 months' pay cap would have any real impact on people with significant pension contributions

Public Interest Disclosure Act 1998 (Pida)

Whistleblowing (Public Interest Disclosures)

Key Facts

- Public interest disclosure regime is an employment protection measure designed to protect workers from being unfairly dismissed by their employer or suffering other detriment whenever they have reported their concerns to the employer or the regulatory authorities.
- Act protects employees and workers from victimisation by their employers and co-workers if they "blow the whistle" in a responsible way.

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- The whistleblowing charity Public Concern at Work (PCaW) set up a Commission February 2013, to examine the effectiveness of existing arrangements for workplace whistleblowing in the UK and to make recommendations for change.
- On 27th November, the PCaW Commission produced a report making a number of recommendations to the Government, including but not limited to
  - the introduction of a Statutory Code of Practice on employer whistleblowing arrangements,
  - a clear procedure for regulators to deal with whistleblower who go to them,
  - the inclusion of whistleblowing in regulators annual reporting mechanisms,
  - the expansion of the provisions to include more categories of “worker” in the protections and
  - Government research into whether there needs to be a central system for the reporting of concerns.

- Government ran a call for evidence from 12 July - 1 November. We have analysed the responses to this. A Government response will be published alongside the introduction of the Small Business, Enterprise and Employment Bill, announced in the Queen’s speech.

Top Government Actions (since May 2010)

- The whistleblowing framework is designed to provide a legal remedy, via an Employment Tribunal, for workers who have suffered detriment in the workplace as a result of raising an issue of public concern regarding certain categories of wrongdoing.
- The Government made changes during the Enterprise and Regulatory Reform Act 2013 to strengthen the legislation further. The changes brought into scope more workers and widened the route for redress by introducing vicarious liability. It also introduced a public interest test to ensure whistleblowing continued to be about public interest matters.

- BIS launched a call for evidence on 12 July to explore further whether the provisions are working overall. The consultation closed on 1 November and responses have been analysed.
- A Government response is due to be published alongside the introduction of the Small Business, Enterprise and Employment Bill, announced in the Queen’s speech.
- On April 6 2014, Members of Parliament were included on the prescribed persons list. Certain disclosures to MPs previously already qualified for protection, provided the relevant conditions had been met. Adding MPs to the list means individuals can make disclosures to them and these are protected in the same way as disclosures made to other bodies on this list.

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The Working Time Directive

Issue

- Current status of the Working Time Directive (WTD) and the impact of certain Court of Justice of the EU (CJEU) judgments on the domestic Working Time Regulations (WTR)

Key Facts

- The WTD is implemented in the UK by the WTR, which include rules on:
  - Annual leave allowance
  - Rest breaks
  - Requirements for night workers
  - Maximum weekly working hours (average of 48 hours over 17-week reference period) – but the individual can **opt-out** of this element.

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- There are a number of problems with the Directive, especially following: CJEU rulings (Simap/Jaeger) around on-call time and compensatory rest (which particularly affect public services such as health)
- CJEU rulings affecting annual leave and sick leave (e.g. Stringer/Pereda)
- CJEU and UK court rulings affecting holiday pay entitlement (see below)

The Directive is currently being impact assessed by the European Commission but is not live in negotiation. Business organisations frequently cite the Directive as burdensome, whilst public services, especially health care are impacted by on-call rules.

Annual Leave

- CJEU judgments affecting the interaction of annual leave and sick leave (known as Stringer-Pereda).
- Workers accrue annual leave entitlement during sickness absence. They can also take annual leave at the same time as being absent due to sickness (Stringer);
- Workers who fall sick during scheduled annual leave can reschedule their leave within the same leave year. If they can't take annual leave due to sickness absence and are unable to take it again within the same leave year, they can take it forward into the next leave year (Pereda). The current UK WTR do not comply with this final point – but our guidance on GOV.UK does comply
- There have also been some relevant UK court cases. However Ministers have made it clear to us that they do not want us to amend the WTR at this time, because of the potential impact on business. We therefore have not formally responded to consultation that we issued in 2011.
- In its recent "REFIT" publication, and following a Europe-wide consultation of business, the European Commission acknowledged that these judgments were causing problems, especially to SMEs. It committed to considering these within its impact assessment of the Working Time Directive.

Holiday Pay

- There have been a series of cases about the issue of holiday pay entitlement for workers who regularly receive remuneration beyond their basic pay eg:
- BA v Williams in which the CJEU ruled that pilots' holiday pay must include all elements of remuneration (such as flying pay supplements), and not just basic pay.
- Lock v British Gas, in which the CJEU recently ruled that holiday pay should reflect commission linked to the performance of the tasks the worker is required to carry out under his contract, as well as basic pay.
- Neal v Freightliner, in which an Employment Tribunal has ruled that holiday pay should reflect overtime payment s and shift premiums, as well as basic pay. This decision has also been appealed to the EAT and will be heard in July.
- As some of these cases remain the subject of appeal, the law is not settled. We continue to keep the situation under close review.

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EU business task force

- The EU Business Taskforce's report, published in October 2013, included recommendations for any future EU proposal on Working Time. This included maintaining the individual's right to opt-out of the 48-hour working week.

Top Government Points

1. Our key priority remains that the Working Time Directive retains a secure economy-wide opt-out. We would also welcome more flexibility on the areas of on-call time and compensatory rest.
2. Long-term, sustainable growth must be the EU's key priority and to ensure this we need to have measures that support labour market flexibility and do not impose significant costs on Member States or burdens on business.

Defensive Line – holiday pay

The regulations are not in line with recent judgements on holiday pay. What is the Government going to do about this?

- We are aware of many recent UK court and Tribunal cases and CJEU cases about the issue of holiday pay. These include the CJEU case of BA v Williams and UK cases such as Neil v Freightliner.
- In some of these cases, courts or tribunals have ruled that voluntary non-contractual overtime that employees do can count as part of normal working hours for the purposes of calculating holiday pay.
- These are complex issues, though, and the law is not settled. Some cases are subject to appeal. We continue to keep these matters under close review.
- Employers and workers are advised to contact the ACAS helpline for free and confidential advice

Blacklisting

Issue

- The Consulting Association held details on 3,213 construction workers and traded their personal information for profit. Several companies have been accused of using such information as a 'blacklist' for workers to deny them work, for example because they belong to a trade union.

Key Facts

- The Employment Relations Act 1999 (Blacklists) Regulations 2010 make it unlawful, subject to certain exemptions, to compile, use, sell or supply 'prohibited lists' (i.e. a blacklist).
- The creation, supply or use of a blacklist is also likely to amount to a breach of the Data Protection Act 1998 (DPA) as information about an individual's membership of a trade union is sensitive personal data.
- The Trade Unions and Labour Relations (Consolidation) Act 1992 also makes it unlawful to refuse to employ a person because of trade union membership.

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- Individuals who believe they are being excluded from employment because of a blacklist should seek redress in the county courts in England and Wales, or Court of Session in Scotland.

Top Government Actions

1. Blacklisting is an unacceptable and illegal practice and we take any allegations of blacklisting very seriously. As the Secretary of State said to Parliament on 23 January 2013, if new evidence came to light that these practices were continuing today that would be a serious matter.
2. The Government introduced anti blacklisting legislation in 2010 to deal with this serious offence and increased the penalty the Information Commissioner's Office (ICO) can impose for serious breaches of the Data Protection Act to £500,000.
3. The Secretary of State met with the Information Commissioner, Christopher Graham, at the beginning of April 2013 to make sure that he is ready and able to investigate any new evidence and to use the new powers given to the Commissioner.
4. In July 2013, the Scottish Affairs Committee (SAC) contacted the Secretary of State to say they have new information that blacklisting continues. We have referred the information provided to the ICO as the appropriate body to investigate this matter.

Elephant traps/defensives

Will the Government introduce a construction industry funded scheme, to compensate victims blacklisted before the Regs come into force?

- No. There are already remedies available under existing trade union law. We understand that some complaints by workers listed by the TCA have already been made to the High Court.
- When the Blacklists Regulations came into force in 2010 they were not retrospective and were not intended to be. We see no reason to revisit this decision – nothing has changed. It would be inconsistent with that approach (and involve the passing of primary legislation) to introduce a compensation scheme for past blacklisting.

Will the Government ban blacklisters from using public sector contracts?

- Under EU procurement rules, public procurers may exclude a supplier from bidding when it has committed a criminal offence relating to its business or profession or has committed an act of grave professional misconduct in the course of its business or profession.
- Blacklisting of employees is an unacceptable and illegal practice and the Government takes very seriously any allegations. However, we have seen no evidence of this practice recurring since the introduction of the Blacklisting Regulations in 2010 made blacklisting unlawful.

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Why have you not created any criminal sanctions in the regulations, as Section 3 of the Employment Relations Act 1999 enables ?

- We believe the 2010 Blacklists Regulations constitute an effective, targeted and proportionate package of measures to combat blacklisting without the need for criminal sanctions. During the 1999 Act's Parliamentary passage, we indicated that we would use the criminal sanctions sparingly, "if at all". (Lord McIntosh, Government Minister. Lords Committee, 16 June 1999). Our approach is similar to the approach taken under other existing trade union law. However, there are criminal sanctions under provisions in the Data Protection Act 1998 which could well come into play in future blacklisting cases (as they did in the Consulting Association construction case in 2009).

What is Government doing about the SAC evidence that employees of Crossrail may have been blacklisted?

- There have been several allegations of new evidence of blacklisting, to date, but no evidence of this practice recurring. The Scottish Affairs Select Committee and Information Commissioner are both currently investigating the potential for ongoing offences, and Government continues to take a close interest in this issue.
- We have always encouraged anyone with evidence of blacklisting to come forward so that we can investigate. Despite several claims of new evidence of blacklisting, the SAC are the first to have got in touch formally (in July 2013) to say they possess new information that blacklisting continues, in relation to particular companies and individuals, which they are willing to share. We are grateful to them for doing so.
- The Secretary of State will continue to take a close interest in this matter and if evidence of blacklisting is found, perpetrators can expect to feel the full force of the law.

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Collective Redundancies

Issues

- On 6 April Government changed to the rules governing consultation on large-scale redundancies, and issued new ACAS guidance.
- BIS is currently appealing an EAT decision from 1 July 2013 which has negative implications for collective redundancy consultations.

Key Facts

- Following consultation, Government has:
    - reduced the 90-day minimum period before dismissal for 100 or more potential redundancies to 45 days;
    - excluded fixed term contracts which have reached their agreed termination point from collective redundancy consultation obligations;
- ACAS also published new guidance on 'How to manage collective redundancies'.
- BIS has permission to Appeal the EAT decision.

Top Government Points

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1. Our reforms strike an appropriate balance between making sure employees are engaged in decisions about their future and allowing employers greater certainty and flexibility to take necessary steps to restructure.
2. The 90-day minimum period delayed necessary restructuring, made it difficult for those affected to secure new roles quickly and had a significant negative impact on the morale of staff, including those who may not ultimately be directly affected.
3. The 45 days is a minimum period before dismissal. Consultations must also be completed before dismissal and we know that can sometimes take longer. We expect that to continue wherever appropriate.
4. The EAT ruled that it should remove the EU test of 'establishment' from UK law. We are appealing this judgment as we do not agree with this interpretation of the law. The Court of Appeal decision to refer the case to the European Court shows that this matter needs to be clarified.

EAT decision involving ex-Woolworths and Ethel Austin employees

- We have applied to the Court of Appeal for permission to appeal and this has been granted by the Employment Appeal Tribunal (EAT).
- The Government takes the view that how businesses with multiple sites or operations should be treated in redundancy situations depends on the facts and that this is best decided by an employment tribunal on a case by case basis, based on the facts and evidence before it (For example, the extent to which the different sites are linked in terms of management and finance structures are potentially relevant factors).
- We think the right interpretation of the law is that employers must consult employee representatives if making 20 or more redundancies at one establishment. In a dispute, it is for the employment tribunals to decide what is an establishment on the facts of each individual case.
- The Department is not appealing against the principle of payments being made to employees who have not been consulted properly. The SoS cannot make payment (from the public purse) until entitlement is determined and there is legal authority to do so.

Additional Background

- The Department is currently appealing an Employment Appeal Tribunal decision involving ex-Woolworths and Ethel Austin employees.
- The key issue from the ruling relates to the EAT's interpretation of the phrase 'one establishment' in the relevant UK legislation.' The legislation requires consultation if 20 or more redundancies are proposed within 90 days at 'one establishment'. This 'establishment' could comprise of a single site (e.g. factory). It could also comprise of multiple sites (e.g. the depots of a bus company) and in these cases the position is more complicated.
- Before the EAT judgment, whether such multiple sites formed one 'establishment' depended on the facts of the particular case. However, the EAT has changed the position in relation to these cases. It has said that the legislation should be interpreted so that in every case an employer proposing

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20 or more redundancies must consult even if the redundancies are spread across numerous sites. This represents a significant and unwelcome change, and could make consultation processes unnecessarily complex and expensive.

Green Economy

Issue

- Maximising business opportunities and maintaining industry competitiveness during the UK's transition to a green economy

Budget 2014

- Announced a £7 billion package of support for energy costs for businesses:
- Capping the Carbon Price Support mechanism at £18 per tonne of carbon
- Ensuring that the difference in price of carbon between the UK and Europe will never rise above £18.
- A package of measures designed to support energy intensive industries (EIIs), including extending the existing EII compensation scheme to 2020; introducing new compensation to protect them from rising costs of the Renewable Obligation and Feed-In Tariff to 2020; and an exemption to the carbon price floor for the electricity generated from good quality Combined Heat and Power plants.

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Key Facts

- UK share of global Low Carbon Environmental Goods & Services (LCEGS) market (worth £3.4 trillion in 2011/12) estimated to be over £128 billion in 2011/12 – the sixth largest in the world -employing 940,000 people.
- LCEGS is a growth sector – forecast to grow 5.4% in 2012-13 and 5.7% in 2014/15. This is faster than the global average.
- The wind sector (offshore and onshore and including the wider supply chain) had estimated sales of around £15 billion in 2011/12.
- The UK civil nuclear sector (inc. decommissioning, consultancy and its wider supply chain) generated estimated turnover of around £4 billion in 2011/12.
- Energy and climate change policies will impact primarily on electricity prices.

Top Government Actions (Since May 2010)

- Government has established a network of Catapult Centres to transform the UK's capability for innovation, including an Offshore Renewable Energy Catapult which opened for business in June 2013.
- Government is working with business to deliver its industrial strategy, launched in September 2012. Eleven separate sector strategies have now been published, including the nuclear and offshore wind industrial strategies in 2013, demonstrating Government's commitment to helping these industries deliver their economic potential. In March this year, the government published its industrial strategy progress report and the Green Economy Councils currently reviewing the sustainability of the sector strategies and will report on that at the end of the year (this is in fulfilment of a commitment to the Environmental Audit Committee).
- Government has recently announced that it intends to work with the nuclear industry to establish a National Nuclear College to tackle higher level skills shortages in the industry in preparation for the UK's planned nuclear power station building programme.
- The UK Green Investment Bank is operational with £3.8 billion of funding from the UK Government to invest in sustainable projects.
- We are already compensating Energy Intensive Industries (EIIs) who operate in an international market for the indirect cost of the EU Emissions Trading System and we are engaged with the European Commission with regard to our plans to compensate for the indirect costs of the carbon price floor.
- From 2014 the UK is also exempting mineralogical and metallurgical processes from the Climate Change Levy as allowed for under the Energy Taxation Directive.
- We are also developing options to exempt EIIs from the costs of Electricity Market Reform (EMR)

Current Hot Topic - Hinkley Point C

- Government will be providing a package of support to local partners in Somerset. The package includes support for brokering activities for

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businesses in the area to enable them to link up with the Tier 1 companies, and ensuring that the Nuclear Advanced Manufacturing Research Centre and the Manufacturing Advisory Service are deployed to good effect to maximise opportunities for regional growth and new jobs.

UK Green Investment Bank

Key Facts

- The UK faces huge challenges to finance its environmental objectives.
- However lack of sufficient finance is acting as a barrier to the build-out of green infrastructure.
- Since its establishment, GIB has committed £1.3 billion and has brought alongside more than £3.3 billion of additional private sector investment.

Top 5 Government Actions (since May 2010)

1. Green Investment Bank became fully operational on 29 October 2012 following state aid approval from European Commission.
2. Funded with £3.8 billion to March 2016, GIB operates at arm's length from Govt - headquarters in Edinburgh and a major transactions team in London.
3. To date the bank has committed £1.3 billion and has brought alongside more than £3.3 billion of private sector investment that would not have been invested at all, or as quickly, without GIB's involvement.

Elephant Traps

GIB facing an underspend?

- A general slow down in green sectors has meant fewer transactions in which GIB can participate. Investment activity was always liable to vary year on

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year: that is why GIB has full flexibility to carry forward funds within the current spending review period and can carry forward into next period up to £1 billion of the funds it has committed but not yet drawn down.

Borrowing - when will GIB be allowed to borrow on capital markets?

- We will continue to keep under review position on GIB borrowing from capital markets in longer term as levels of public sector debt begin to fall. In advance GIB has option of borrowing up to £500 million of its £800 million funding allocation for 2015/16 from the National Loans Fund.

Why are GIB staff paid so much?

- To run such an important institution successfully it is vital to recruit and retain a top class team. We expect the GIB to do this whilst showing leadership on the level and structure of bankers' remuneration.

Is GIB having a green impact?

- GIB's activities will have substantial direct green impact through the projects it helps finance and will also have indirect green impacts by improving overall green financing environment.

Why is HMG investment in green infrastructure necessary?

- The Bank's remit is to mobilise the additional private sector capital required to finance the UK's transition to a green economy. That investment is not happening fast enough absent HMG intervention.

Support For Energy Intensive Industries

Budget 2014

- Steps have been taken by government to offer further relief to businesses affected by the rising cost of energy. These include:
- A package of relief for Energy Intensive Industries (EIIs), such as steel and chemicals, whose competitiveness is impacted by climate change policies, through:
- compensation from the costs of the Renewables Obligation (RO) and small scale Feed in Tariff (FIT) from 2016/17.
- extending the compensation scheme from indirect costs of the EU Emissions Trading Scheme (ETS) and Carbon Price Floor (CPF) beyond 2015/16 to 2019/20.
- exempting Good Quality Combined Heat and Power (CHP) generation from the Carbon Price Floor from 2015/16.
- capping the Carbon Price Support mechanism at £18 per tonne of CO_2 – ensuring the difference in the carbon price between the UK and Europe will not go above £18.

Issue

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- Climate change and energy policy costs are creating a cost differential between the UK and other countries. This increases the risk of carbon leakage - i.e. multi national companies will still make the investment but in a more competitive country location. The bulk of these costs are on electricity.
- Government is therefore implementing measures to reduce the impact of policy on the costs of electricity for the most electricity-intensive industries. This includes £3bn compensation for electricity-intensive businesses to help offset the indirect cost of the Carbon Price Floor (CPF), the European Union Emission Trading System (EU ETS), the costs of the Renewables Obligation (RO) and small scale Feed in Tariff (FIT), subject to state aid guidelines.

Energy Intensive Industries - Government Actions

- EU Emission Trading System (EU ETS). Together with the CPF compensation, the Government made a commitment to compensate electricity intensive industries for the indirect costs of the EU Emission Trading System (EU ETS). We received state aid clearance in 2013 and to date we have paid out over £30m to 53 electricity intensive businesses who operate in an international market for the indirect cost of the EU ETS.
- Carbon Price Floor (CPF). The Government is working with the Commission to ensure that the CPF state aid case is approved as soon as possible. The Commission approved our State Aid application in May and and we hope to begin paying companies shortly.
- Electricity Market Reform (EMR). The Government is seeking to exempt EIIs from the costs of Contracts for Difference. This is subject to consultation and state aid approval. BIS and DECC are working together to define scope of, and eligibility for, the exemption. We anticipate delivering the exemption through the supplier obligation. The European Commission's revised State Aid guidelines have a bearing on which sectors could be eligible for this exemption and we will consult on this over the summer
- Mineralogical and metallurgical exemption from the Climate Change Levy. As announced in Budget 2013 we are also supporting EIIs by exempting mineralogical and metallurgical processes from the Climate Change Levy. This started in April 2014. CCL is a tax on fuels used for lighting, heating and power, by business consumers including consumers in industry, commerce, agriculture, public administration, other services.
- Renewables Obligation (RO) and small scale Feed in Tariff (FIT). As announced if Budget Government is seeking to compensate electricity intensive industries for the indirect costs of the RO and FiT. This is subject to state aid approval and will commence in 2016/17. Government is developing detailed guidance on how the schemes will be run, including on eligibility and will publish a draft for consultation over the summer
- Exempting Good Quality Combined Heat and Power (CHP) generation from the Carbon Price Floor from 2015/16. Managed by HMT this will incentivise the uptake of CHP which saves carbon emissions through energy efficiency and supports industrial competitiveness.
- Capping the Carbon Price Support at £18 per tonne of CO2. While the government remains committed to the Carbon Price Floor as a means to

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stimulate investment in low carbon infrastructure, it is capping the Carbon Price Support rate at £18.00 from 2016-17 to 2019-20 to limit any competitive disadvantage British companies face in the global race
- State Aid Rules. The European Commission has issued revised energy and environmental state aid rules. They provide a framework for the UK Government to implement the measures above.

Background - Carbon Price Floor Compensation and State Aid
- The UK pre-notified the CPF compensation scheme to the Commission in September 2012. Approval was granted in May 2014.
- State aid cases are usually approved under relevant Commission guidelines. However, the CPF scheme does not fit any of the existing guidelines, thereby making its assessment and approval more difficult. The novelty of the CPF case has been a major cause of the delay.
- The CPF compensation is business critical for companies such as INEOS ChlorVinyls, Tata Steel Europe and Celsa Steel because of their electricity intensity and pressure from international competitors.

Science Funding

Budget 2014
- Investment in our science, research and innovation base is critical to ensuring that the UK remains at the forefront of new products and markets – harnessing new technologies and leading new innovations.
- Govt announced a £106 million investment in new Centres for Doctoral Training which bring together business and academia for cutting edge research.
- The Centres will train over 750 new students who will become the future engineers, physical scientists and mathematicians we need for economic growth.
- It is critical we ensure a sufficient supply of talent to meet future demand. A failure to do so, in the face of growing international competition (that is investing heavily in developing their domestic talent), will likely impact on national R&D and consequently future growth.
- Govt announced a £42 million investment in the creation of an Alan Turing Institute, a world-class research institute specialising in Big Data science which will enable the UK to lead the way and capitalise on the benefits of Big Data.

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- The Institute, dedicated to famous British WW2 code-breaker Alan Turing, will ensure the UK is at the forefront of data-science in this rapidly moving, globally competitive discipline.
- It will be a national institute that will set a lead for researchers and potential users of data science, exploring fundamental maths and algorithms research for application across a range of academic disciplines and industry sectors

Key Facts

- Overall science funding is increasing. The science and research programme budget was protected in the 2011-15, and we continue to protect the science ring fence in cash terms for financial year 15/16.
- Capital remains outside the ring fence and while subject to BIS-wide reductions in capital budgets in 2011, will increase to £1.1 billion in 2015-16, and thereafter rise in line with inflation to 2020-21.
- The UK research base is world class: 2nd only to the USA for share of top cited articles, and the most productive in the G8 – although China's share of total citations has recently overtaken the UK, placing the UK 3rd behind China and the USA.
- The UK is also second only to the USA for numbers of universities ranked in the world's top 100.
- Universities have more than doubled their external income (from business, charity and other research users) in real terms since 2001, to £3.4 billion in 2012.

Top Government Actions (since May 2010)

- The 2013 Spending Review for 2015-16 protected the science and research programme budget at flat cash, whilst increasing the capital budget to £1.1 billion in 2015-16, and to thereafter rise in line with inflation to 2020-21.
- On top of this the Chancellor has announced additional funding in recent fiscal events including long term commitment to investment in science infrastructure of £1.1Bn in real terms to 2021 and additional funding for Quantum Technologies, collaboration with emerging powers, Turing Institute and high level skills (CDTs).
- This will bring our overall investment in science to £5.9Bn in 15/16 - an increase in overall spend compared to recent years. (combined resource and capital)
- As announced by the Chancellor of the Exchequer in November 2013, David Willetts will be leading a consultation with the scientific community to ensure we make the best use of this long-term science capital budget. This will inform a Science Capital Roadmap, to be central to a Government Science and Innovation Strategy, to be published with Autumn Statement 2014.
- Capital remains outside the ring fence and while subject to BIS-wide reductions in capital budgets in 2011, will increase to £1.1 billion in 2015-16, and thereafter rise in line with inflation to 2020-21. Within the Spending

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Review period, 2011-15, over £1.5 billion of additional capital funding for Science and Innovation has been announced since the 2010 Spending Review, including £600 million in Autumn Statement 2012 for investment in eight great technologies, as set out by the Chancellor of the Exchequer in his 9th November 2012 speech to the Royal Society - these are big data; space; autonomous robotics; synthetic biology; regenerative medicine; agri-sciences; advanced materials; and energy storage. On 24th January 2013, David Willetts elaborated further in a speech at the Policy Exchange how the UK could lead the world in the development of these technologies.

- In October 2012, the Chancellor announced £200 million for the UK Research Partnership Investment Fund (UK RPIF), to add to £100 million from Budget 2012. It will enhance the facilities for world class university research, by levering at least double co-funding from private sector and charities. Thus securing over £1 billion investment in strategic R&D collaborations between universities, businesses and charities. An additional £100 million a year for UK RPIF in 2015-16 and 2016-17 was announced in Spending Review 2013.
- The Government recommitted to the Haldane principle in (the 15/16 allocations booklet published in) May 2014,, which says that Government may set broad strategic policies for research, but the fine detail of which projects to fund is decided by experts from the community in arms-length organisations.

Post Office

Key Facts

- There are around 11,700 post office branches in the UK, with the Post Office network is at its most stable for over two decades.
- 93% of the national population (and over 99% in urban areas) live within one mile of their nearest post office branch.
- Around 18 million customers & a third of SMEs visit post offices every week.
- Government has committed nearly £2 billion to maintain a network of at least 11,500 branches and to protect and modernise the network by 2018. £1.34 billion in the 2010 Spending Review, and a further £640 million announced in November last year to cover the period 2015/16 to 2017/18.
- For 2014/15, Government is providing a subsidy of £330 million to maintain, modernise and protect the network.
- Post Office Ltd was separated from Royal Mail in April 2012, and is an independent company. It has a long term commercial agreement with Royal Mail to provide access to Royal Mail services at post office branches.

Top Government Actions (since May 2010)

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- There will be no repeat of the closure programmes of the previous Government. We have committed to maintain a network of at least 11,500 branches, and to transform the network securing its sustainable future.
- We are providing funding to modernise up to 8,300 post office branches by 2018. Two new operating models – "Main" and "Local" – will see improvements for customers. Over 3,500 subpostmasters have signed contracts to convert their branches. The BIS Committee concluded “the reforms are necessary” and “in the right direction”.
- We are ensuring where a post office is “the last shop in the community” it will continue to receive subsidy to ensure vital community services remain available. These branches also benefit from a £20 million investment fund.
- The Post Office is making good progress on its ambition to provide more services on behalf of both national and local Government – for example it was recently awarded a new cross-government framework contract which runs to 2020. DVLA and HM Passport Office have already moved their services onto this contract and the Passport Office is discussing new in-branch digital services.
  The Department for Work and Pensions and Post Office are also discussing a long term successor to the Post Office Card Account. All options under consideration conclude that access to pensions and benefits across the post office network will continue beyond March 2015. The Government supports the Post Office in its front office ambition.
- The Post Office is making good progress towards meeting its commitment to provide affordable and accessible financial services. In May 2013 it launched a current account pilot, and in January extended this to over 100 branches. Alongside this, the Post Office continues to offer an extensive range of savings, credit card and mortgage products.

Elephant trap

[If pressed about the relationship with <u>Royal Mail</u>]

- A long-term commercial agreement was agreed between Post Office Ltd and Royal Mail in January 2012. This agreement is still in place and is the same as it was before a sale of Royal Mail shares.
- The two businesses, which are separate and independent, complement each other well and are natural commercial and business partners. As the Chief Executive of Royal Mail has said previously, it is “unthinkable” that the two companies will not always work very closely together.

[If pressed about <u>Crown franchise proposals</u>]

- Eliminating the significant losses incurred by the Crown post office network by March 2015 is a key element of the strategy to make the network sustainable in the long-term. As part of this strategy, Post Office Ltd is seeking retail partners to provide post office services in up to 70 branches, and the company will be holding public consultations on any of these proposals.

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[If pressed on the future of the Post Office Card Account]

- There are ongoing commercial discussions between DWP and the Post Office. I cannot comment further at this stage. However, all options under consideration see a continuation of services across the whole Post Office network beyond March 2015.

[If pressed about the progress towards Mutualisation]

- The Government is committed to seeing clear progress being made towards mutualisation before the end of this Parliament. And considerable progress has been made by the Post Office and its stakeholders over the past 18 months; including defining and publishing the Post Office's public purpose, moving the business towards a position of financial sustainability and adopting mutual ways of working in many areas. It will be important for the Post Office and its stakeholders to maintain this strong momentum going forward.

[If pressed about the Second Sight review into the Horizon system]

- An independent report, published in July 2013, explicitly confirms that there is "no evidence of system-wide problems with the Horizon software". Horizon successfully handles six million customer transactions every day, and tens of billions since its national rollout in 1999.
- The report makes no comment about the safety or otherwise of any conviction of a subpostmaster for fraud, theft or false accounting.
- A review and mediation scheme, overseen by an independent Chair, has been established to address subpostmasters' concerns in individual cases.

Royal Mail

Royal Mail policy

- HMG's overarching objective is to secure the long term future of the UK's universal postal service – the six day delivery and collection of letters at uniform and affordable prices.
- The Royal Mail sale of shares allows the company the future access to fast, flexible private capital that it needs to invest in its future and compete in a rapidly changing market.

Competition

- Government policy is clear on competition in the UK postal market - competition is beneficial but it should not undermine the provision of the universal postal service.
- Under the Postal Services Act 2011, Parliament gave Ofcom the primary statutory duty to secure the provision of the universal service and ensured that Ofcom has the regulatory powers and tools it needs to intervene if the provision of the universal service is ever at risk.

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- Ofcom also has a duty to promote competition where that benefits consumers, though the protection of the provision of the universal service in the UK is Ofcom's primary statutory duty and that will always take precedence in the interests of postal users.
- Ofcom has set out its guidance on intervening in response to a material threat to the universal service and has made clear that if its monitoring regime, [which allows for any new evidence from Royal Mail], does not prompt the need for any earlier assessment, it will as a matter of course carry out a full review on the effects of competition on universal service provision towards the end of 2015.
- Based on current evidence, Ofcom's view is that there is no serious risk to the provision of the universal service.
- It is for Ofcom, as an independent regulator, to determine how it uses its regulatory powers in support of its statutory duties.

NAO Report

- The NAO report shows that the Government achieved its primary objectives in the privatisation of Royal Mail.
- The transaction was successfully accomplished.
- We have protected taxpayers from the risk of needing to offer on-going support whilst safeguarding the vital six day a week service we all rely on.
- The alternative – a failed sale and retaining Royal Mail in public ownership – would have been the worst outcome for the taxpayer.
- The Government rightly took a measured and balanced approach.
- A more aggressive approach to pricing would have introduced significantly greater risk. The advice that we received was unambiguous.
- We had no evidence to suggest that we could have achieved a higher price without introducing unacceptable risks to our overall objective of delivering a sale to safeguard the future of the universal postal service.
- Royal Mail is now well placed to move forward as a private company, with freedom to raise capital for new investment.

Sale of Shares

- The IPO raised gross proceeds of £1.98billion for the Exchequer.
- HMG has retained a 30% stake of Royal Mail to ensure that the taxpayer will share in any future increase in the value of Royal Mail.
- 17% of the shares in the company were made available to members of general public through a "retail offer".
- 10% of the shares were given free to eligible Royal Mail employees.
- "Gentleman's' agreement" with the banksMore than 500 potential investors in Royal Mail were approached in the lead up to the sale. A number of long term institutional investors who knew the company gave us the confidence to press ahead with the IPO, and were some of the larger investors on day one. This is standard practice for any flotation. We did not seek to lock them in as they would have paid less for a stock they could not trade.

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- There were no meetings between Ministers or Officials and these investors. There was no agreement - gentleman's or otherwise."

Valuation

- We are focused on the long-term success of this company. It's not just about proceeds received on day one. We are focused on getting good value for the initial stake, good value for the residual stake that we still hold, and leaving the Company in a strong, sustainable position capable of accessing the capital markets in the future.
- The price range was based on extensive analysis and engagement with a range of solid, long-term, high-quality investors. Ministers took advice from UBS and Goldman Sachs as well as from the Government's independent adviser Lazard.
- HMG has retained a meaningful stake of 30% to ensure that the taxpayer will share in any future increase in value.

If pressed:

- We could not have placed 600m shares at today's price.
- We considered alternative sale routes and advisers were clear that price achieved through a private sale would have been significantly lower.

Valuations by banks bidding to be members of Syndicate selling shares

- The NAO report comprehensively demolishes the argument that the government should have paid attention to the valuations of some banks who were pitching for work.
- It says: " The Department was correct in placing little reliance on this information (3.14)"

Demand and Allocation

- Approximately 85% of the shares allocated to institutional investors were placed with well informed, stable investors (e.g. pension funds).
- All members of public who applied for up to £10,000 received 227 shares (equivalent to £749.10). Almost 95% of applicants (over 690,000 people) received all or some of the shares they applied for.
- Those who applied for over £10,000 received no allocation (c.5%), which is in line with previous over-subscribed privatisations.

Lazard Asset Management profiting from sale

- The relationship between the advisory and asset management arms of banks is overseen by the Financial Conduct Authority (FCA). The asset management arms of the banks must be separated from their advisory arms by information barriers, in line with the FCA's rules on conflicts of interest. A breach of the FCA rules is serious and the FCA has both civil and criminal prosecution powers.

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- During its review of the Royal Mail IPO, the Public Accounts Committee took evidence from the FCA on 28 April and Martin Wheatley, Chief Executive of the FCA, said "we have had no issues raised with us about either that there was inappropriate management of conflicts in the process".

Sale of Residual Stake

- There are no current plans to sell all or part of the Government's 30% residual shareholding in Royal Mail. Like any commercial shareholder, we will keep the position under review.

Adviser Fees

- HMG appointed its advisory banks after a highly competitive tender process and has taken an aggressive approach on fees, which compare very favourably with precedent fee levels to ensure value for the UK taxpayer.
- Lazard received a fee of £1.5m for their role as independent adviser.
- The Syndicate banks have shared a total fee of £12.7m, with a further potential discretionary fee of £4.2m.
- The underwriters' maximum fee of 1.2% of the institutional proceeds compares with 2.5% for the previous Government's flotation of QinetiQ.
- No decision has been taken on the discretionary fee.

Property

- Stripping out Royal Mail's surplus property would have reduced the company's value and required us to notify the European Commission under State Aid rules, jeopardising the sale timetable. Instead we chose full disclosure to investors in order to ensure it was reflected in their valuations. There was no 'hidden value' here.
- As the NAO report acknowledges, six of the seven analyst research reports reflected the surplus property and these reports where used by investors to inform their valuation decisions. This was the right course of action to deliver value for the taxpayer. We and our advisers are clear that the alternatives – stripping out or clawback arrangements – would have had a detrimental impact on value and the sale process.
- The value of £1bn that was quoted in the press during the IPO had no evidential basis and was far above the market value of £200m identified in the NAO report. Our policy of disclosure ensured that the surplus property portfolio was considered by analysts, reflected in their reports and taken into account by investors when valuing the company and hence reflected in the value achieved.