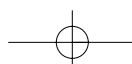
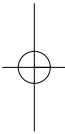
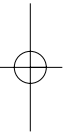


TUC
Comprehensive Spending Review
2007

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Executive summary

The current Government can list many successes in the field of economic and social policy. These include economic stability, high employment and the introduction of a successful National Minimum Wage, to name but three. However, a number of challenges that existed in 1997 are still with us today. Two of the most important are child poverty and social inequality.

Furthermore, the Government must also consider new threats and opportunities, which could not have been foreseen at the time of the last Comprehensive Spending Review ten years ago. Chief among these are terrorism and security, along with the pace of globalisation and the scale of the environmental challenge.

Meeting these challenges would have been difficult in any circumstances. However, the currently tight public finances make this even harder to achieve. In the light of this, the TUC's submission to the Comprehensive Spending Review 2007 (CSR 2007) will focus on our priorities, which fall into three broad categories: responding to globalisation; social justice; and sustainability. We also consider the Government's value for money agenda.

Central to the UK's response to globalisation is the need to increase productivity, as the Treasury itself recognises. In order to achieve this, we focus on skills and innovation, the value of science, industrial strategy and regional policy. We also believe CSR 2007 provides an opportunity for the Chancellor to pursue an economic model like those of other more productive European economies, which offer civilised working hours and holidays, as well as protection against insecurity.

Without a good primary and secondary education, achieving higher skill levels later in life is almost impossible. We therefore support the aspiration of the Chancellor for spending per pupil in the maintained school sector to match the funding of pupils in the independent sector. We seek an update regarding the timescale within which this might be achieved.

The TUC has welcomed the objectives of the final report of the Leitch review of skills, to virtually eradicate low skills among the adult working age population by 2020 and also to significantly increase intermediate and higher level skills. That has implications for the scale of government investment in adult skills. However, there must be shared responsibility on skills involving all stakeholders, not just government. We doubt that such a far-reaching change in employer behaviour will be achieved within a new employer-led skills system and seek an institutional framework that gives a significant voice to employees and unions.

The TUC welcomes the significant increase in funding for the science and engineering base since 1997, but is concerned at the axing of world-class science facilities. We seek a requirement on the Office of Science and Technology to exercise effective powers of scrutiny over proposals to close research institutes or facilities.

Government efforts to improve the UK's innovation performance should focus on poor skills, management capacity, access to finance and new technology. The TUC also calls for a modern

industrial strategy, allowing government support to companies in strategic sectors that either need to restructure or face short-term difficulties but have long-term potential.

The TUC seeks a smarter procurement policy for specific areas of manufacturing, based on the successful Defence Industrial Strategy. We support the work of the Regional Development Agencies, but whilst we believe there must be a major role for business on RDA boards, we would like to see more trade union representation and greater diversity.

Britain is a very unequal society and one that became so quite recently. As well as thousands of families having been forced into poverty, this translates into unequal life chances, as people who grow up in poverty are on track for second-class citizenship. The TUC fully supports the Government's commitment to halving the number of children living in poverty by 2010 and ending child poverty by 2020, and we celebrate the progress made in achieving this goal. However, without new interventions, the target will be missed. We therefore seek substantial resources for improved tax credits and benefits in CSR 2007.

The TUC believes that the proposed budget of £70 million for the new Commission on Equality and Human Rights (CEHR) falls short of the funding required for it to become an effective body. This should be closer to £120 million and an extra amount should be made available to deal with transitional costs.

Pension reform is a huge challenge for any government in the light of big demographic changes, which mean both a rise in the total number of retired people and significant increases in the number of years they will, on average, spend in retirement. Pensions priorities, which should be addressed in CSR 2007, include restoring the earnings link for the basic State Pension, increasing the value of the basic State Pension and reform to improve pensions for women and carers. The TUC remains opposed to an increase in the state pension age.

CSR 2007 will play a crucial role in the pace and direction of the Government's climate change and energy strategy. Central to the UK's response must be the need to address the 'market failures' that have driven global greenhouse gas emissions towards crisis point. We focus on two key policy issues: the need to develop clean coal technology allied to carbon capture and storage; and accelerating trade union engagement in energy efficiency/green workplace initiatives.

If the main drivers of energy policy are climate change and security of supply, energy market interventions need to be designed to achieve these objectives, in the national interest. It is essential to specify what our objectives are in terms of carbon pricing, CO₂ emissions targets, securing energy supplies, securing renewable and low carbon energy supplies and eradicating fuel poverty.

CSR 2007 should set out a balance sheet of environmental taxes and expenditure. An assessment is needed of the implications of reaching the 1% target of GDP dedicated towards climate change mitigation and adaptation policies, as set out in Sir Nicholas Stern's report, *The Economics of Climate Change*.

CSR 2007 must address the linked challenges of supporting clean coal fired power stations, allied to the exploitation of the UK's indigenous coal reserves and to the successful deployment of carbon capture and storage (CCS) technology. The successful deployment of CSS technology offers the UK unique, global industrial and employment opportunities.

The TUC believes CSR 2007 should prioritise sufficient resources in departmental budgets to secure employee engagement in the Energy Performance Commitment and civil society initiatives. We also believe that environmental technology provides an important opportunity

for the development of a green manufacturing strategy in the UK and have called on the Government to lead such a strategy.

An effective transport system is integral to the efficient functioning of the economy. The TUC urges the Government to maintain the consistency between the Stern report on the economics of climate change and Sir Rod Eddington's report, *Transport's Role in Sustaining the UK's Productivity and Competitiveness*; in particular, the full environmental impacts of the different modes of transport should be fully reflected in decision-making.

The TUC is in favour of public service reform, but this must be done in discussion with providers and users about what constitutes an improvement in public services. Thus far, the reform agenda has been approached in a way that is alienating and demoralising the staff who deliver public services. It is also remote from large parts of public opinion.

Sir Peter Gershon's review of public sector efficiency is currently being implemented over the 2004 spending review period. Of central importance to Gershon was the principle that reductions in headcount lead to no loss of quality in the service provided by the civil servants affected. However, this is proving a forlorn hope and we are deeply concerned that this is a situation that will only worsen as departmental budget cuts are implemented.

It is alarming that the Government seems increasingly keen to push beyond the Gershon Review. Even Sir Peter Gershon himself recognised the serious threat such an initiative might pose. The TUC believes it is vital that empirically based modelling is developed to understand the impact of the efficiency programme so far, on public service productivity, service quality and sustainability, before going any further.

There is still an unacceptable gender pay gap, which has to be eliminated in order to achieve the Government's stated policy objectives on equal pay. One key outcome of CSR 2007 must be specific, ring fenced funding from central Government for equal pay settlements in the public sector.

In July 2006, the Chancellor published his letter to the Public Sector Pay Review Bodies, proposing that public sector pay settlements should be founded on a 2% target. Since then, a staged settlement of less than 2% has been proposed. The justification for both the staging and this target is that higher pay in the public sector would take unnecessary risks with the UK's low, but rising, rate of inflation. However, it is high oil and food prices, not public sector pay, that has caused inflationary pressures. A pay increase resulting in a fall in real earnings is clearly not the best way to recruit, retain and motivate a high quality workforce, particularly in an environment of uncertainty and change.

Section one Introduction

- 1.1** The TUC is the voice of Britain at work. Representing nearly 6.5 million workers in 67 unions, our overall objectives are to raise the quality of working life and promote equality for all. The TUC is pleased to contribute to the national debate that will precede and help shape the 2007 Comprehensive Spending Review (CSR 2007).

Government successes

- 1.2** The current Government can list many successes since 1997. Among them, in the field of economic and social policy, we will name but three:
- **Economic Stability:** as Budget 2007 makes clear, “The UK economy is currently experiencing its longest unbroken expansion since quarterly records began, with GDP now having grown for 58 consecutive quarters.”¹
 - **Unemployment:** According to Budget 2007, employment in the UK reached 29 million in 2006 for the first time. This is the highest figure since comparable records began in 1971. The International Labour Organisation (ILO) unemployment rate is 5.5%, down from 7.2% in 1997;
 - **National Minimum Wage:** from a modest beginning in 1999, the rate of the UK’s National Minimum Wage is now the third highest in the world. Every time the minimum wage has been increased, it has benefited more than one million low paid workers and the majority of the beneficiaries have been women.

Remaining challenges

- 1.3** However, a number of challenges that existed in 1997 are still with us today. Two of the most important are child poverty and social inequality.
- 1.4** According to the Institute for Fiscal Studies (IFS), by 2004–05, child poverty had fallen by 700,000 since 1998–99 (measuring incomes after housing costs [AFC] or before housing costs [BFC]), and it is now at its lowest level since the 1980s. However, the Government fell 400,000 children short of meeting its target, measuring incomes AFC.²
- 1.5** This means that, to meet the target to reduce child poverty to half the level of 1998–99 by 2010–11, child poverty now has to fall by about one million between 2004–05 and 2010–11.

¹ “Budget 2007: Building Britain’s Long-Term Future: Prosperity and Fairness for Families”, HC 342, HM Treasury, p.2.

² “Poverty and Inequality in Britain 2006”, commentary No. 101, Institute for Fiscal Studies.

- 1.6** Meanwhile, between 1996–97 and 2001–02, income inequality rose on a variety of measures, to reach its highest ever level (at least since comparable records began in 1961), as measured by the Gini coefficient. Since then, income inequality has fallen, and it is now at a similar level to that of 1996–97: the net effect of ten years of Labour Government has been to leave inequality effectively unchanged.³

New challenges

- 1.7** Not only must the Government continue to address those challenges that have not yet been met, it must also consider new threats and opportunities which could not have been foreseen at the time of the last Comprehensive Spending Review ten years ago.
- 1.8** Most obviously, the attacks of September 11th 2001 and July 7th 2005 have massively increased the priority of tackling terrorism in the UK and throughout the world.
- 1.9** Furthermore, while the spread of globalisation was predictable ten years ago, the pace of change has taken many by surprise.
- 1.10** Similarly, while we have been aware of the environmental challenge for many years, both the scale of that challenge and the urgency of addressing it is only now being realised by some.

The public finances

- 1.11** Meeting these challenges would have been difficult in any circumstances. However, the current shape of the public finances makes the challenge even greater.
- 1.12** Economic growth is expected to move back above its long-term average over the next three years. As it does so, it will improve the UK's current budget balance, which measures the difference between current receipts, mainly taxation, and current expenditure. The Chancellor's famous 'golden rule', on which, in large part, his economic credibility is based, allows him to borrow to pay for investment so long as the current budget is kept in balance or surplus over the course of the economic cycle. The Treasury is confident that the golden rule will be met over this cycle, which began in 1997–98 and is expected to end in 2008–09. However, the annual average surplus on the current budget would be 0.1% of GDP. In other words, the Treasury expects to meet the golden rule by a whisker.
- 1.13** After years of relatively high spending, the Government is about to tighten its belt in the years covered by CSR 2007. Budget 2007 confirmed overall spending limits in the three years beginning 2008–09, which will see current spending increase by an average of 1.9% per year in real terms. This is lower than the projected rate of economic growth, thereby allowing Government borrowing to fall. This in turn makes it more likely that the Chancellor will meet his fiscal rules going forward.
- 1.14** However, such low spending will have a major effect on Government departments. To put this in perspective, over the period from April 1999 to March 2008, total public spending is set to grow by an average of 4.1% a year in real terms – which is more than twice the rate of increase planned for the period to be covered by CSR 2007.

³ *ibid.*

1.15 It is possible, perhaps necessary, that a wider discussion takes place on both public spending limits and where Government money has been spent. Some believe it is time to look again at the amount of taxation paid in the UK and whether this is enough to meet the demands of people in a mature western democracy. Others question some of the UK's international commitments and whether they are all desirable, politically and economically.

1.16 The TUC does not dismiss the value of these debates; but this submission is written as a specific response to the challenges facing the CSR. It is in order to influence the debate over those challenges that we submit this paper.

TUC priorities

1.17 The Government has major commitments on health, cutting child poverty and overseas aid – commitments that are strongly endorsed by the TUC.

1.18 These pledges are extremely important. For example, the commitment to meet the UN target of 0.7% of GNI on overseas aid by 2013, as well as the pledge to improve the predictability of aid through long-term commitments, will enable countries to plan ahead for their development initiatives. The pledge to increase spending on education by £1 billion by 2010 is also most welcome. These and other elements of the 0.7% pledge will reduce poverty and injustice in the global south and will also help end imbalances in the global economy. In this CSR, it is vitally important, for the UK and the world, to make substantial progress towards the 0.7% pledge.

1.19 However, if these commitments are to be met while sticking to the golden rule, other areas of Government spending will face pressure to restrict growth or even shrink.

1.20 It is in this political context that the TUC makes this submission. We will not set out details of what spending should be increased, frozen or cut in every area although, given our role as the voice of Britain at work, there are some specific workplace issues that we will highlight. Instead, we will set out the kind of society, economy and world that we wish to see, in order that decisions can be taken about major spending priorities. Those priorities fall into three broad categories.

- Responding to globalisation: this will describe the political interventions that are necessary, in such areas as skills development, innovation, industrial policy and regional policy.
- Social justice: the TUC remains committed to the principle of equality, between men and women, between races and religions, irrespective of sexual orientation or disability. Our belief in social justice supports our call for an assault on child poverty to be a centrepiece of CSR 2007. It also underpins our belief in proactive policies to reduce and then eliminate inequality in employment.
- Sustainability: The scale of the threat to the planet caused by CO₂ emissions is finally being realised. Sir Nicholas Stern has described the economic, as well as the environmental, damage that would result in our not taking further action to safeguard our world. Sustainability is the third major TUC priority.

1.21 Finally, we will consider the Government's value for money agenda and will discuss the damage that is resulting from the loss of thousands of civil service jobs.

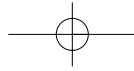
Section two Responding to globalisation

- 2.1** The most widely accepted economic definition of globalisation is increased flows in trade, capital and labour across national boundaries.
- 2.2** Trade has certainly grown substantially in recent years. The International Monetary Fund calculates that world trade grew by an average of 7.0% per annum between 1988 and 1997, and is heading for an average of 6.4% for 1998–2007.⁴
- 2.3** There is little doubt that the drivers of this activity are trade liberalisation, rapidly falling transport and communication costs, higher productivity in tradable sectors and an acceleration in specialisation between high labour cost and low labour cost economies.
- 2.4** The role of China and India is and will remain central to the globalisation phenomenon. As the Chancellor told the TUC's 2005 Congress, China now produces 30% of the world's TVs, 50% of the world's cameras and 70% of the world's photocopiers. It also consumes 10% of the world's oil.
- 2.5** Furthermore, neither China nor India is content to confine themselves to low value-added goods and services. India now produces 260,000 engineers a year and China around 2 million graduates each year (compared to 250,000 in the UK). Rapidly developing emerging economies such as China and India are increasingly investing in technology and research and development. For example, the Chinese Government aims to develop China into a major player in biotechnology.
- 2.6** Central to the UK's response to globalisation is the need to increase productivity, as HM Treasury recognises:
- “This challenge remains critical because in the long-run productivity growth is the only way to deliver sustained increases in prosperity. This challenge is greater in an increasingly globalised world. Globalisation can help promote productivity growth – increasing competitive pressures and allowing countries to specialise further in areas where they have a greater advantage – but it also presents challenges for the UK, particularly as developing economies move up the value chain investing in skills and research and development (R&D).”⁵
- 2.7** The UK's productivity has historically lagged that of other major industrial countries. In spite of recent progress, our output per worker gap with France is still 11%. We have maintained the productivity pace of the US, but a gap of 27 percentage points persists.⁶ Closing that gap is set

⁴ *World Economic Outlook*, IMF, 2006, table 20.

⁵ “Productivity in the UK 6: Progress and New Evidence”, HM Treasury, March 2006.

⁶ *ibid.*



out in a HM Treasury/DTI Productivity PSA Target: “Demonstrate progress by 2008 on the Government’s long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial comparators”.

- 2.8** If increasing productivity is a major economic priority, the UK must consider whether it wishes to pursue a model like that of the US or a model similar to that of other, more productive European economies. This dilemma is sometimes posed as the Anglo Saxon versus the European Social Model (although that is a misnomer, since European models vary a great deal). This is a political as well as an economic choice. The US economy may be productive, but it is also characterised by long hours, few holidays and high insecurity.
- 2.9** This Comprehensive Spending Review is an opportunity for the Chancellor to state firmly that he supports an economic model that offers civilised working hours and holidays, protection against insecurity, while also delivering high levels of productivity.
- 2.10** The Government’s productivity framework identifies five drivers that underlie long-term productivity. These are: skills; innovation; competition; investment; and enterprise. This submission will focus on skills and innovation. It will also consider the importance of science, industrial strategy and regional policy.

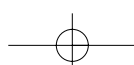
Skills and education

- 2.11** The contribution of skills and education to improving UK productivity is already significant. Latest estimates indicate that around one fifth of the UK’s productivity gap with countries such as France and Germany can be attributed to “the relatively poor skills of workers.”⁷ And the final report of the Leitch Review has also highlighted that raising skill levels will become an even greater priority in the changing global context because “the comparative advantage of the UK must lie in the skills of its people rather than on low labour costs alone”⁸
- 2.12** There are welcome signs that the Government is committed to prioritising skills and education. It is clearly essential that children and young people benefit from high quality education while at school. Early years education is particularly important; if education is poor at this stage, it can be difficult for children that fall behind to catch up. Furthermore, without a good primary and secondary education, achieving higher skill levels after leaving school is almost impossible.
- 2.13** Budget 2006 sets out a very worthwhile aspiration when it states:
- “The Government’s long-term ambition is for all pupils to have access to the same level of support and opportunities that are currently available to pupils in the independent sector. The Government will therefore aim – over time, and adjusting for inflation – to increase funding per pupil towards today’s private sector day school levels.”⁹
- 2.14** Budget 2007 provides a progress update when it announces an early CSR 2007 settlement for the Department for Education and Skills, which will see education spending in England rise by 2.5% a year in real terms, on average, between 2007–08 and 2010–11. It says:

⁷ *Prosperity for All in the Global Economy*. Final report of the Leitch Review, 2006.

⁸ *ibid.*

⁹ *A Strong and Strengthening Economy: Investing in Britain’s Future*, Budget 2006, HC 968, HM Treasury.



“The settlement allows the Government to take a significant further step towards meeting its ambition that all pupils have access to the levels of support and opportunity currently available in the independent sector – with total schools resource and capital funding rising from under £2,500 per pupil in 1997-98, to £4,800 in 2005-06, £5,550 in 2007-08 and over £6,600 in 2010-11 (equivalent to £5,800 in 2005-06 prices).”¹⁰

- 2.15** The TUC fully supports this aspiration and we seek an update from the Chancellor regarding the timescale within which it might become a reality.
- 2.16** In his Pre Budget Report 2006 (PBR 2006) speech, the Chancellor clearly endorsed the challenging new skills targets for 2020 set out in the final report of the Leitch Review of Skills. He also set out plans for significant spending on capital investment in schools and colleges up to 2011 and signed his speech off saying, “Education our number one priority, education first now and into the future.”
- 2.17** The TUC has welcomed the objectives in the final report of the Leitch Review, to virtually eradicate low skills among the adult working age population by 2020 and also to significantly increase intermediate and higher level skills. In particular, it is welcome that the Chancellor confirmed in his Pre-Budget speech that “after 2010 a new statutory entitlement to skills may be required” if employers fail to voluntarily upskill their employees to Level 2 (i.e. five good GCSEs or the vocational equivalent) by then.
- 2.18** An underpinning principle of Lord Leitch’s recommendations is that there needs to be a much greater focus on meeting the skill needs of the existing workforce over the next fifteen years. 70% of the 2020 workforce has already left compulsory education and demographic trends will result in fewer younger people flowing into the labour market during this period. The TUC has welcomed the clear recognition in the final report of the need for increased investment by Government and employers in adult skills in order to achieve a world-class skills base by 2020. The TUC also takes the view that our approach to meeting future skill needs must be multi-layered, to take into account the various needs of different ethnic communities. One size will not necessarily fit all.
- 2.19** If Lord Leitch’s plans for the workforce are to be achieved the Government will need to consider carefully the scale of investment in the major programmes it delivers to support adult skills in the workplace. For example, the very welcome aim of doubling Apprenticeship places to half a million by 2020 and extending this support to adult employees will require a gradual build-up in provision beginning now. And the laudable aim to radically boost training support for adult employees without a Level 2 qualification will have a major knock-on impact on the planned scale of the Train to Gain programme over the coming years. There are other recommendations in the Leitch plan that will also require additional resources, including accelerating the rollout of Learner Accounts and developing an adult careers service.
- 2.20** However, Lord Leitch has also quite rightly concluded that Government cannot be wholly responsible for the additional investment required to address the UK’s skills deficit. He recommends that there must be a national consensus on a new concept of *shared responsibility* on investment in skills, involving all interested parties and that this needs to achieve sustained increases. For example, he recommends that the additional annual investment in skills up to

¹⁰ *Budget 2007: Building Britain’s Long-Term Future: Prosperity and Fairness for Families*, HC 342, HM Treasury, p.157.

Level 3 will need to rise to £1.5 – 2 billion by 2020. Under this scenario of *shared responsibility*, employers will be expected to significantly boost investment in intermediate and higher level skills, whilst Government commits to increase investment to tackle ‘market failure’ by fully funding achievement up to Level 2 and also providing targeted support at other skill levels.

- 2.21** The TUC has welcomed the broad thrust of this analysis, but remains concerned about the likelihood of such a far-reaching change in employer behaviour within the new employer-led skills system advocated by Lord Leitch. The commitment to introduce a statutory right to access workplace training by 2010, if employers do not deliver on a ‘voluntary pledge’, is a significant measure. However, this new right would not oblige employers to make a major financial investment, as this training would by and large be paid for, and delivered, via the Train to Gain programme. In addition, Lord Leitch has recommended that the use of regulatory levers (e.g. Licence to Practice, training levies etc.) to drive up employer investment in training at all other levels should only be invoked if a majority of employers agree to this under the auspices of the relevant Sector Skills Council.
- 2.22** The TUC is calling on the Government to set out a framework to give employees and trade unions a significant voice in the new institutional skills framework that will be established as a result of Lord Leitch’s recommendations. In particular, unions will need to have a major stake in the new national Commission for Employment and Skills and also increased representation on the relaunched Sector Skills Councils (SSCs). In the absence of such a framework, it is difficult to see how the new Commission and the newly empowered SSCs will take the necessary and difficult decisions on regulatory approaches that will be necessary to achieve the scale of ambition on skills set out by Lord Leitch.
- 2.23** The Leitch Review also recognised “how vital education for young people is to the new ambition” for skills and in particular over the longer term. The TUC has welcomed the recommendation by Lord Leitch to establish compulsory education and training up to age 18 once the new Specialist Diplomas are properly established and apprenticeships are even more widely available. Building high quality and popular vocational pathways for young people is essential if the Government is going to achieve its aim to raise the post-16 staying on rate from 75% today to 90% by 2015. And the Chancellor’s commitment in his pre-Budget speech to prioritise school education is also welcome, especially as global challenges beyond the timeframe analysed by Lord Leitch will require even higher levels of education and skills among the working population.
- 2.24** Trade unions have an essential role to play in the delivery of the skills needed for the UK to meet the challenges of globalisation. Without the trade union contribution, it is doubtful that we will achieve the necessary increase in our skills base.
- 2.25** The Leitch Review recognised how effective the Union Learning Fund has been since its establishment in 1998. The DfES-commissioned evaluation of its impact between 2001–2005 found that it had been used by unions to develop important elements of the lifelong learning agenda, resulting in 153,000 new learning opportunities. It is set at £15.4 million and is planned to continue at this level up to 2008–09.
- 2.26** Representatives of the TUC General Council, at a meeting with the Chancellor of Exchequer in 2006, pressed for a commitment in the CSR to continue this level of funding. The Chancellor underlined his pledge made when he launched unionlearn last May that priority for union learning would be held over the next few years in any difficult decisions the Government might have to make on public spending. Responsibility for the Fund transferred from the Learning and Skills Council to unionlearn in April 2007.

- 2.27** Unionlearn was established as an organisation within the TUC to provide a stronger and more coherent framework for union-led activity on trade union education and union learning as a whole. It has been partly funded through a grant agreement between the DfES and the TUC. The grant took the form of £1.5 million for 2006–07 and £3 million for 2007–08. Unionlearn's budget has been based on the assumption that a further £3 million, together with an additional element to allow for inflation, will be granted again in 2008–09. The TUC hopes that this is reflected in the CSR outcome.

ESOL

- 2.28** The TUC and unions are deeply concerned about the decision by the the Government to remove the existing entitlement to free English as a Second Language (ESOL) provision up to level 2. This is an important issue for the unions supporting employees with English language needs, including migrant workers. The implications of these changes range from capacity for vulnerable workers to avoid exploitation, to social cohesion and the impact on union efforts to support migrant workers and workers with English language needs from settled communities.
- 2.29** The changes to ESOL funding mean that for many people with ESOL needs, the cost of paying for courses will shift from the public purse to individuals, unless employers make a contribution. While free ESOL will be available for those in receipt of means tested or income related benefits, in reality very few people with ESOL needs access these benefits even if they are eligible. For example, only 3% of workers from European Union Accession States receive tax credits, despite approximately 80% earning between £4.50 and £5.99 an hour. As there are currently no statutory rights to collective bargaining on training, the capacity of unions to engage employers – and to protect those workers most in need – is constrained.
- 2.30** The TUC is seeking a shift in the Government's position on ESOL, in particular that there should be a free entitlement to fee remission for ESOL either through proof of receipt of tax credits or through an alternative means of demonstrating low pay, such as pay slips. The TUC would like to see a delay in the implementation of the changes, as well as Government facilitated dialogue between the social partners on these issues, and pilots to assess employer willingness to pay for ESOL.

Science

- 2.31** The link between the quality of science and improvements in productivity and innovation are well documented. However, less is said about the nation's core scientific capability, which is now under threat. In the TUC's view, the case for publicly funded science is most effectively made by looking at the high quality of science undertaken in the public sector.
- 2.32** Such science includes research work in key areas like DNA viruses, therapeutic compounds in plants, links between diet and cancer prevention, and genetic engineering to produce medicinal products. For example, identifying pre-symptomatic infections could enable doctors to identify the onset of disease in their patients at a stage when treatment is likely to be more successful.
- 2.33** Public sector science includes basic and strategic research aimed at understanding environmental processes, such as global warming, that underpin policy decisions and require action. Public sector scientists have also invented a range of technologies that have enjoyed successful commercial and medicinal application, including carbon fibre, liquid crystal display, uncooled infrared thermal imaging technology and magnetic resonance imaging.

- 2.34** The TUC welcomes the significant increase in funding for the science and engineering base since 1997. The DTI's announcement in March 2005 of a further £10 billion investment over three years is a further positive sign of Government commitment. However, this package needs to be judged in terms of its impact on ongoing work and scientific capability. In fact, the Government has heralded large boosts in science spending while, at the same time, axing world-class scientific facilities.
- 2.35** Furthermore, headline figures do not tell the whole story. Expenditure on science by civil departments has risen by a modest 12.7% over the ten years from 1994–95 to 2004–05. By the end of the current spending review period, some departments will have suffered significant cuts. For example, the Department for International Development will spend one-third less in real terms by 2006–07 than it spent in 2003–04, despite enhanced public and political interest in international development issues and the potential of appropriate science and technology to deliver practical and sustainable improvements to living standards in poorer countries.
- 2.36** The Government has stated that expertise lost through cuts in Government research will transfer to the university sector. This assumption is dangerously complacent. In fact, there is more inter-disciplinary research going on in research council institutes than in individual universities or between them. A good example is the joint work done by the Institute of Food Research and Dunn Nutrition (an institute of the Medical Research Council) on cancer prevention. Research on prevention rather than treatment accounts for only about 2% of cancer research funding and institutes are useful for such work because of their access to a wide range of skills, including microbiology, biochemistry, cell biology, animal and human studies, epidemiology, statistics and post-genomic technologies.
- 2.37** By contrast, the former chief executive of the Higher Education Funding Council for England, Sir Howard Newby, has commented that: "There are only five or six world class research universities in the UK with top researchers across the board", and that it is both inevitable and desirable that "universities would close more pure science departments as they updated '19th century' subject categories."¹¹
- 2.38** The Government's 'Ten Year Framework for Science and Innovation' demonstrated a welcome appreciation of the essential role of science and technology in underpinning economic success and national well-being. However, without proper care and maintenance, the UK's science base will depreciate.
- 2.39** **The TUC calls for CSR 2007 to include a requirement, placed on the Office of Science and Technology (or a successor body), to:**
- **exercise effective powers of scrutiny over proposals to close research institutes or facilities and publish its findings on a timely basis;**
 - **establish and maintain a database of public sector scientific capability; and**
 - **collate and analyse annual returns from all Government departments, agencies and non-departmental public bodies of scientists in employment, their location and areas of expertise.**

¹¹ Quoted in "Who's Looking after British Science?" Prospect, March 2006.

Innovation

- 2.40** Innovation – the successful exploitation of new ideas – is one of the main drivers of economic growth and structural change. As the Treasury notes, innovation can occur through investment in research and development, through adopting new technologies from other firms or other countries, or through trying different ways of working.¹²
- 2.41** UK innovation performance is historically disappointing, as the DTI itself admits:
- “... across measures, covering R&D, patents and indicators drawn from innovation surveys, UK innovation performance is around average – or below average – of other advanced economies. Performance worsened during the 1990s, although business expenditure on R&D as a percentage of GDP stabilised after 1998. UK based firms, particularly larger firms, spend less on technological innovation compared to their major competitors and consequently receive less in the way of outputs. As a group, UK owned firms appear to be less creative and less able to introduce workplace change because they lack skills and appear to place less emphasis on developing a learning culture. In some areas, the UK lags in the adoption of new business best practices. The data show the potential for improved innovation performance and higher levels of productivity across, and within, all sectors.”¹³
- 2.42** Some factors determining innovation performance suggested by the DTI, including the capacity to exploit knowledge, access to finance and new technological knowledge, are clearly very important. Others, such as the UK’s regulatory framework and the competition regime, are less convincing.
- 2.43** To take research and development, for example, as noted in the latest R&D scoreboard from the DTI, the top 1,250 R&D active companies in the world invested £249bn in R&D in 2005–06. 82% of this took place in firms from five countries: USA, UK, Japan, Germany and France. 5.3% of this activity took place in UK firms, marginally lower than France (5.7%), nearly half as much as in Germany (10.3%), only a quarter of the amount in Japan (19.5%) and about one-eighth of the amount in the US (41.3%).¹⁴
- 2.44** As Professor Michael Porter told us in 2003, “The UK has the lowest level of product and labour market regulations in the OECD”.¹⁵ This means that our lower level of R&D, compared to France and Germany, is not a result of excessive burdens on business. Government effort should be focused on the true cause, i.e. poor levels of skills, management capacity, access to finance and new technology.

Industrial strategy

- 2.45** Industrial strategy has become the policy that barely speaks its name. Until 1979, the economic and political orthodoxy recognised the importance of industrial policy, alongside economic stability and competition policy. The value of Government making an intervention in the market in support of a strategic industry was not questioned. The Thatcher experiment changed the terms of the debate and industrial policy became synonymous with Government “picking winners” and “propping up lame-duck industries” – with British Leyland being the

¹² “Productivity in the UK 6: Progress and New Evidence”, HM Treasury, March 2006, p.48.

¹³ *Competing in the Global Economy – The Innovation Challenge*, DTI Economic Paper No. 7, November 2003.

¹⁴ “The R&D Scoreboard”, DTI, October 2006.

¹⁵ “UK Competitiveness: Moving to the Next Stage”, DTI, 2003.

most commonly quoted example of how such an approach can go wrong. Government successes, such as the intervention that saved Rolls Royce in the 1970s, were conveniently forgotten.

- 2.46** Yet France, Germany and Sweden, not to mention the United States and China, have clear industrial policies. The TUC calls for a modern industrial strategy for the United Kingdom.
- 2.47** Central to this is our belief that Government support should be available to companies in strategic sectors who either need to restructure in order to meet the challenge of globalisation or who face a short term difficulty but have long term potential. Such Government support should be available to companies which:
- provide high value to the UK economy;
 - provide capabilities that, if lost, would be difficult to recreate in the future;
 - make a major impact locally, demonstrating a high number of quality UK jobs and how these benefit a local or regional economy;
 - demonstrate a long-term business plan which clearly specifies how the company seeks to develop in the future and why a 'one off' injection of Government support is necessary;
 - work with its trade unions, where they are recognised, to develop such a business plan.
- 2.48** Definitions of 'high value' and 'quality UK jobs' must be clearly arrived at, in order that delivery of Government support is not determined by a subjective interpretation of what those terms mean. Furthermore, this policy must be inclusive and encompass those strategically important SMEs, which form an essential part of the supply chain to major companies, as well as the major companies themselves.
- 2.49** It is longstanding TUC policy to call for UK state aid to match the average of the EU-15 and for a proportion of UK state aid to be dedicated to sectoral, rather than horizontal, support. We call for a proportion of this increase to be dedicated, over time, to a strategic industry support fund, to be used in pursuit of the above objectives.

Smarter procurement

- 2.50** *Britain is Working*, by Labour's National Policy Forum from 2004, included the following quote: "Labour will promote a procurement strategy that safeguards UK jobs and skills as permitted by EU rules to ensure that British industry can compete fairly with the rest of Europe".
- 2.51** A model for such a procurement policy can be found in the Defence Industrial Strategy. This strategy co-ordinates the needs of the Ministry of Defence with the capabilities of UK manufacturers, by setting out the UK's defence procurement needs in advance and allowing manufacturers to plan for those needs. It is not a Buy British policy, which would be illegal under EU rules, but it does recognise the importance of Britain's defence manufacturing capacity. There is no reason why the UK could not develop similar procurement policies for other areas of manufacturing, including pharmaceuticals and other equipment for the NHS and rolling stock for the major rail operating companies.
- 2.52** The Manufacturing Forum has been considering TUC industrial policy and UK procurement procedures in recent months. Whilst these policies go wider than manufacturing, it is essential that a body such as the Manufacturing Forum continues to exist to pursue these and other

projects. **We call for protection for the funding of the Manufacturing Forum to be included in CSR 2007.**

Regional policy

- 2.53** The TUC has made a separate submission to the HM Treasury review of sub-national economic development and regeneration. In that submission, we make it clear that we share the Government's commitment to improving productivity and employment in every part of the UK.
- 2.54** However, it is particularly important to reduce the gap between the best and worst performing regions. Table One demonstrates the divergence of working age employment levels and rates in the nations and regions of the UK.

Table one: Working age employment levels and rates in the nations and regions

Region	Employment level	Employment rate %
South East	4,121,000	78.4
South West	2,471,000	77.7
East	2,730,000	77.0
Scotland	2,515,000	76.3
East Midlands	2,103,000	75.9
United Kingdom	28,982,000	74.3
West Midlands	2,520,000	73.2
Yorkshire and Humber	2,374,000	73.2
North West	3,156,000	72.1
Wales	1,348,000	72.0
North East	1,164,000	71.1
London	3,712,000	69.9
Northern Ireland	767,000	69.6

Labour Market Statistics, April 2007, table 18(1)

- 2.55** The TUC strongly supports the Government's long-term aspiration to achieve an employment rate equivalent to 80% of the population. However, since the best performing regions are already close to this target, the priority must be to increase employment in those regions and nations in the bottom half of the above table. A uniform increase would see the economy in the south and east overheating, which in turn would result in the Bank of England raising interest rates, thereby choking off the recovery.
- 2.56** In November 2006, the UK Competitiveness Index was published by Robert Huggins Associates and the Work Foundation. This showed a narrowing of the gap between north and south. According to this analysis, some of the traditionally least competitive regions, including Northern Ireland, Yorkshire, Wales and the North East, showed the biggest improvements in their competitiveness. This appears to demonstrate that the work of the Regional Development Agencies (RDAs) is bearing fruit.
- 2.57** The figures in the UK Competitiveness Index were not all good. The North West and the West Midlands did not see improvements. The North West saw a fall in productivity since 2003 and the West Midlands saw a drop in business investment in Research and Development. Both regions probably suffered disproportionately from the decline in manufacturing, which makes the industry strategy discussed above, along with regional policy, even more important.
- 2.58** The TUC strongly supports the work of the RDAs. By operating at the regional level, the inevitable competitive self-interest of local authorities can be overcome. Furthermore, some interventions

are optimally made and implemented at the regional level, notably those relating to transport infrastructure. By identifying the region as the spatial point of economic intervention, as opposed to smaller, competing local authorities, the intervention can be bigger and more effective, such as the strategy for success in the North East, which is a high-level driver of innovation at the regional level, focusing on three key strengths of the regional economy.

- 2.59** That is not to say that RDAs are perfect. In particular, they suffer from an excessive belief in the need for them to be business-led. In some RDAs, there is a lack of high quality candidates from the business community. In others, there is often a tendency for business board members to focus narrowly on economic growth, rather than the range of PSA targets, and to focus on their own sectoral background.
- 2.60** The TUC supports a major role for business in RDAs, but believes there are grounds for widening board membership. We would like to see a greater role for trade union representation. In our view, rather than an employer-led approach, as at present, an employment-led approach offers more potential. We would also like to see the encouragement of greater diversity among RDA board members.
- 2.61** The TUC believes there is a strong case for RDAs to be leading regional drivers for equality and diversity, alongside any regional perspective from the new Commissioner for Equality and Human Rights. In our view, there must be a powerful regional body to drive social inclusion, which is linked to, but is not always the same as, economic inclusion. This is particularly important for the Midlands, where Birmingham and Leicester edge towards becoming the first majority black cities in the United Kingdom.
- 2.62** **In order to deliver this vision, the TUC calls for the budgets of the Regional Development Agencies to be protected in CSR 2007.**

Summary

- 2.63** The challenge of globalisation is fundamental to the long-term prospects for the UK economy. CSR 2007 must take bold decisions designed to strengthen UK competitiveness in the light of new, sometimes uncertain, economic realities.
- 2.64** The Government has got much right. Its recognition of the vital role of skills, innovation and R&D points to a vision of a UK economy which plays to our strengths and understands, as the TUC has continually pointed out, that the UK must compete at the high end, rather than taking a low-road, bargain-basement approach to competitiveness. All players in industry – Government, employers and unions – must take responsibility for delivering the high value economy that the UK needs. Leitch has made it clear, through the concept of shared responsibility, that employers have a greater role to play in skills than is currently being played. The Government must take whatever action is necessary to make sure that that happens.
- 2.65** Other economic fundamentals are also important and are described above. The value of science is self-evident and must be recognised. In the modern world, regional policy, allowing economic interventions to be built around the specific needs and talents of different parts of the UK, is becoming more important. Whilst industrial policy should not be used as either a blunt instrument or an excuse for Government handouts, a modern, intelligently applied industrial strategy is essential if the UK is to compete with France, Germany and the United States, let alone China and India. All of these issues should be Government priorities for CSR 2007.

Section three Promoting social justice

Why poverty is so important

- 3.1** For unions, social justice is the keystone of citizenship; it is the practical recognition of our common humanity and our equal worth. As the TUC General Council said in its 1999 statement on Welfare Reform, “the mark of a civilised society is how well it treats those in need or hardship, whatever the cause of that might be. Without social protection, change would be a threat, not an opportunity, and the sight of fellow citizens excluded from society’s central goods would destroy all sense of community.”
- 3.2** For unions, common citizenship has to be built, it cannot be assumed or declared into existence. Unions are strong supporters of the Government’s decision to make paid work the centrepiece of its social inclusion policies. Employment is a right, and for those who are able to get jobs it is also an obligation. The task of building a citizenship that can last in modern conditions means more than this, however. Citizenship also means equal respect for those whose contribution is through care giving or other voluntary work, for those who want but cannot get a paid job and for children and retired people who have a right to full citizenship even though employment is not a feature of their life.
- 3.3** Common citizenship will be built by making it possible for human needs to be met in a way that promotes the dignity of all. But this is not possible in a society where life chances are as unequal as they still are in Britain today.
- 3.4** The advances of science and technology, the development of the public realm and the powerful engine of economic growth have given some people life opportunities for self-realisation that were literally unimaginable even half a century ago. Modern media and the ease of travel make it easier than ever before to educate oneself about other people’s lives, and thus develop one’s faculty of empathy. Even the science fiction writers failed to consider the prospects for the development of virtue a virtual life can open. Human flourishing, the development of intellectual and moral capacities, is a realistic possibility for millions of people. Unfortunately, however, not for all.

Poverty and inequality

- 3.5** Britain is a terribly unequal society, and one that became so quite recently – the Gini coefficient (a common measure of inequality) rose from 0.25 in 1979 to 0.33 in 1997.¹⁶ Rising inequality is not just a line on a chart, thousands of families have been forced into poverty: in 1979, 14% of children were poor, but by 1997 this had more than doubled to 35%.¹⁷ In practice,

¹⁶ *Living Standards, Inequality and Poverty*, IFS, 2005, fig. 5.

¹⁷ “Households Below Average Income”, DWP, 2005, table H2.

this means serious deprivation for many:¹⁸

- three quarters of a million children don't have essential clothing (such as a warm waterproof coat or new properly fitted children's shoes) because of poverty;
- lack of money excludes a million children from social activities like visiting friends or family or having celebrations on special occasions;
- more than one million children live in squalid, temporary or crowded accommodation.

3.6 This translates into unequal life chances: people who grow up in poverty are on track for second-class citizenship. The Fabian Commission on Life Chances and Child Poverty revealed how in one walk of life after another, disadvantage in childhood translates into weaker chances for a good life:

- Babies whose parents work in routine and semi routine jobs are twice as likely to die before their first birthday as those whose parents have managerial and professional jobs.¹⁹
- Mothers in social class I are 60% more likely to breastfeed their babies than mothers in social class V.²⁰
- Children whose parents work in 'higher professional' jobs are still more than twice as likely as those whose parents work in routine manual jobs to get five GCSEs at grades A to C.²¹

Young people aged 16 – 19 whose parents have higher professional jobs are nearly 50% more likely to be in full-time education than those whose parents have lower supervisory or routine manual jobs.²²

3.7 Although a million pensioners have been lifted out of poverty since 1997, there is a long way to go before we can be satisfied with the picture of pensioner poverty – by 2005 there were still 1.8 million pensioners in poverty.²³ Thus, poverty must be a continuing priority for CSR 2007 if we want to build a society of equal citizens, where everyone has the chance to develop their talents.

Jobs, tax credits and benefits

3.8 Fortunately, the Government has recognised the significance of the issue, committing itself to halve the number of children in poverty by 2010, and to end child poverty altogether by 2020. This is a marvellously egalitarian goal; it is very ambitious, but a great deal of progress has already been made:

- In 1996–97 3.4 million children (27%) lived in low-income households, and by 2005–06 this had come down to 2.8 million (22%).²⁴

¹⁸ "Poverty and Social Exclusion in Britain", David Gordon et al, JRF 2006; Million Children Campaign, Shelter, 2006.

¹⁹ *Narrowing the Gap*, Fabian Society, 2006, fig.4.

²⁰ *ibid*, p.72.

²¹ *ibid*, table 1.

²² *ibid*, p.107.

²³ Poverty defined as living in a household with an income below 60% of the equivalised median after housing costs, "Households Below Average Income" (HBAI) 1994/95–2004/05, DWP 2006, Chapter 6, Opportunity for All indicators.

²⁴ Poverty defined as living in a household with an income below 60% of the equivalised median before housing costs, figures rounded to the nearest 100,000. "Households Below Average Income" (HBAI) 1994/95–2005/06, DWP 2007, Chapter 4, Opportunity for All indicators.

- In 1997 the employment rate for people facing some disadvantage in the labour market (over 50s, ethnic minority people, lone parents, disabled people and people with few qualifications) was 72.6%; by 2006 it had risen to 74.4%. The gap in employment rates separating them from the rate for the rest of the population had shrunk for all these groups except the low qualified.²⁵
 - In 1998, 2.8 million vulnerable households (20%) lived in fuel poverty; by 2004 this had fallen to one million (6%).²⁶
- 3.9** This progress is important (the belief that no-one can do anything about poverty is one of the myths that stifles progress) but there is still a long way to go. In 1999, the Government adopted the goal of ending child poverty by 2020; to be on target, the number of children in poverty should have been brought down to below 2.4 million. The actual figure is 2.8 million.
- 3.10** The Department for Work and Pensions has recognised the significance of this moment, and in June 2006 commissioned Lisa Harker to report on *Delivering on Child Poverty*.²⁷ Ms Harker's report made a number of operational recommendations that will be very important in the coming years, but here we will concentrate on the strategic issues she highlighted.
- 3.11** The Government's strategy is based on the principle of 'work for those who can, security for those who cannot'. There have been increases in benefits (including the largest-ever increase in Child Benefit) and the tax credits are much more generous than the Family Credit they replaced,²⁸ the focus of the Government's anti-poverty efforts has been on making work pay for people at the bottom end of the labour market and on moving people from benefits into employment.²⁹ This is a significant change of direction for a Labour Government – although previous Labour Governments worked to cut unemployment, until 1997 the anti-poverty mechanisms they highlighted were direct income transfers.
- 3.12** As we have noted above, the Government has already achieved a great deal through their welfare-to-work policies. The shrinking employment rate gaps between disadvantaged groups and the rest of society indicate that it is the people who need most help who have gained most from this policy. And, as Donald Hirsch has noted, abandoning this policy and relying on tax credits and benefits alone to get the child poverty rate down below 5% would cost an extra £28 billion a year, nearly 2% of GDP;³⁰ substantial tax increases would be necessary. More importantly, as Ms Harker notes, "relying solely on benefit/tax credit increases to reduce child poverty would be undesirable since, for many families, an income through paid employment offers a more effective and sustainable route out of poverty."³¹
- 3.13** The TUC agrees with Ms Harker that increasing the returns to employment for low paid workers and helping people from worklessness to employment must continue to be the

²⁵ DWP Opportunities for All website.

²⁶ *ibid.*

²⁷ "Delivering on Child Poverty – What Would it Take?", Lisa Harker for DWP, 2006.

²⁸ As the Pre-Budget Report 2006 noted, a low-income family with two children now receives over £5,000 a year in tax credits and child benefit, twice as much as in 1997; benefits for families will increase again in 2009 when child benefit is extended to cover the last three months of pregnancy. "Investing in Britain's Potential: Building Our Long-Term Future", HMT, 2006, paras 5.09–5.11.

²⁹ See, for instance, HM Treasury's 2004 "Child Poverty Review", para 6.1.

³⁰ "What Will it Take to End Child Poverty?", Donald Hirsch for JRF, 2006, p.13.

³¹ "Delivering on Child Poverty – What Would it Take?", Lisa Harker for DWP, 2006, p.12.

keystone of the anti-poverty strategy. The new strategic message in her report is the recognition that paid work alone is not enough. Although the Treasury implicitly recognised this when the tax credit rates were increased in an attempt to meet the target of cutting child poverty by a quarter by 2005, this has never been made explicit. Ms Harker's report is therefore a turning point, and deserves to be quoted at some length:

- 3.14** *"At the same time, the 2010 and 2020 targets cannot be met by increases in employment alone. For example, if we relied solely on employment to halve the number of children in lone-parent families living in poverty, we would need to reach a lone-parent employment rate of around 86% by 2010 (which would require the UK to leap from having one of the lowest to one of the highest lone-parent employment rates in Europe).*
- 3.15** *"Even if the current 70% lone-parent employment target was reached by 2010, the percentage of dual-earner couple families would need to rise from 57% to 65% and couple unemployment would need to fall from 5% to 4% if the 2010 target is to be met. Although such changes in employment rates appear small, they would represent a dramatic shift in recent trends ... and assume that all the increase in the couple employment rate benefits poor couples. In other words, it would require a 20% increase in the employment rate of poor couples with children and one or no earner in just four years.*
- 3.16** *"It is therefore obvious that a combination of a higher employment rate and enhanced benefit/tax credit support will be necessary. The key question is therefore: what balance of employment support and benefit/tax credit support would maximise the chances of meeting the 2010 and 2020 targets?" (pp 13–14)*
- 3.17** The TUC strongly agrees with this analysis. Ms Harker's report concentrates on employment measures, especially those that could help parents to get or keep jobs, and we support her proposals. 60% of children in households where at least one of the adults has a job are poor, but only 8% of those in households where all the adults have jobs are poor.³² This strongly suggests that employment support for non-employed parents in couples could make a major difference to poverty levels and to the number of children at risk of poverty – having two jobs can be a form of insurance against one of them being lost.

A crucial test

- 3.18** These are important longer-term reforms, but there are other matters which need to be addressed directly by the Comprehensive Spending Review. The expansion of childcare to help more mothers to get and keep paid work is such a matter, and is addressed below. The other issue that must be addressed by the CSR is the rates of tax credits and benefits.
- 3.19** We have noted Ms Harker's explanation of why the 2010 and 2020 goals cannot be met by increases in employment alone. An important recent report has noted, "it takes around four years for the bulk of any reform to feed into employment behaviour on the ground".³³ The Pre-Budget Report 2006 was therefore the last chance to introduce new employment measures on the scale necessary to affect the achievement of the 2010 target, and no such reforms were announced. Modelling for the Joseph Rowntree Foundation by Mike Brewer, James Brown and Holly Sutherland looked at the results of continuing with current policies (as the PBR 2006

³² "Households Below Average Income" (HBAI) 1994/95–2005/06, DWP, 2006, table 4.5.

³³ "Welfare to Work Policies and Child Poverty: A Review of Issues Relating to the Labour Market and Economy", Paul Gregg, Susan Harkness and Lindsey Macmillan, JRF, 2006, p.7.

indicated) – already existing welfare-to-work programmes, continuing to increase the child element of Child Tax Credit (CTC) in line with earnings, uprating most out-of-work benefits in line with prices and freezing the family element of CTC. The modelling predicted that:

“Even if current policies succeed in expanding employment as well as putting more in real terms into the Child Tax Credit, child poverty will not continue on its steady downward trend of the past few years. There will be a small numerical fall in the number of children in poverty, but this will fall far short of meeting Government targets. ... By 2020 child poverty will have fallen by 8%, compared to the 78% fall needed.”³⁴

- 3.20** The Rowntree study investigated various packages of reforms and found that a package involving an increase in the child element of the CTC from £37 to £48.50, and an increase in the family element of £20 for third and subsequent children could make it possible for the 2010 target to be hit at a cost of £4.3 billion a year. A slightly different package, relying on universal Child Benefit more than means-tested Child Tax Credit, could achieve the same result at a cost of £4.7 billion, but without the negative impact on work incentives inherent in means-testing.

Invest further resources in childcare

- 3.21** When the Government established the National Childcare Strategy in 1998 it was the first national programme for delivering childcare or early years' education in the UK. The Government clearly recognised that quality affordable childcare was the key to improving the life chances of children from all backgrounds but especially those in disadvantaged families, and for enabling women who wanted to, to return to paid employment or enter training and education after having children. Since 1997, the Government has invested £17 billion in early years' and childcare services³⁵ and this has resulted in a significant increase in the number of childcare places available: in 1998, when the National Childcare Strategy was first introduced, there was one childcare place for every eight children aged 8 and under in England and Wales; by 2006 this had been reduced by just over half so that now there is a childcare place for one in every 3.5 children aged 8 and under.³⁶
- 3.22** Current funding for childcare is set out until 2008, but the Government has made it clear that this Comprehensive Spending Review will determine future funding. The TUC is of the view that quality and affordable childcare, early years and extended school care provision is vital for children. It is also essential for enabling parents, especially women, to work: the struggle to balance paid work with family life continues to have a negative impact on women's working patterns and consequently their life-time earnings.
- 3.23** Funding for childcare needs to be substantial to provide a quality service and a highly trained and well-paid workforce. Funding must also be sustainable, so that childcare and early years' providers can give children the type of ongoing care that enables them to settle and flourish, and parents can rely on the care over a period of time to enable them to maintain long-term links with paid employment.

³⁴ “What Will it Take to End Child Poverty?”, Donald Hirsch for JRF, 2006, pp 53–4.

³⁵ “Choice for Parents, the Best Start for Children: Making it Happen; An Action Plan for the Ten Year Strategy: Sure Start Children's Centres, Extended Schools and Childcare”, p.16, DfES and DWP 2006.

³⁶ 2005 *Childcare and Early Years Providers Survey*, DfES, May 2006.

- 3.24** The TUC believes that the Government's investment in childcare must be seen as part of its priorities for tackling child poverty and addressing the ongoing gender pay gap as well as part of the process of moving people out of poverty and into work.

Housing

- 3.25** The Government has said that social housing will be a priority in CSR 2007. Whilst we welcome the Government's intent, and indeed the measures set out in PBR 2006, it is important to note both the scale of the current housing shortage, and the impact that this has on affordability. This makes greater investment a necessity, if we are to avoid significant imbalances and constraints, affecting not just economic growth, but also our public services and the Government's commitment to tackling child poverty.
- 3.26** A range of figures demonstrate the sheer scale and impact of the current shortage. Shelter estimates that around 1.6 million children in Britain are either homeless, trapped in temporary accommodation or living in overcrowded or unfit housing.³⁷ The 2006 Halifax Key Worker housing survey suggests that 65% of towns in the UK have become unaffordable for many public sector workers. In the South East and Greater London the figure rises to 95%, in the South West the figure is 100%.³⁸ A recent parliamentary answer revealed that there are currently 1.63 million on the waiting list for social housing.³⁹ Nationwide estimate that overall house prices rose by 10% in 2006.
- 3.27** The PBR 2006 signalled that shared equity housing will form a significant component in the Government's response to the housing shortage. Whilst this is welcome, we note that the Government has to get the balance right. Such schemes will be good news for some first time buyers, and free up some social lets for those in housing need. However, there are many who will never be able to afford even a share of their homes at current prices, and as a consequence we propose that such schemes should be complemented by an additional 20,000 more social rented homes, over and above existing plans, each year between 2008 and 2011.

Social care

- 3.28** The Government has set ambitious goals for the future of social care, including early intervention, health prevention, community well-being, ensuring dignity and improving the life chances for children in care.
- 3.29** The main challenges facing social care in responding to this agenda include:
- a funding gap of £1.8bn for English councils between Government provision for social services and what authorities spend;
 - significant cost pressures such as funding shortfalls in funding for unaccompanied asylum seeking children;
 - ever rising eligibility criteria to ration social care spending, resulting in significant and growing levels of unmet need;

³⁷ "Against the Odds", Shelter, November 2006.

³⁸ "Halifax Key Worker Review", July 2006.

³⁹ *Hansard*, 12 December 2006.

- Growing public disquiet about the mismatch between their expectations of social care services and what is actually provided – especially at the boundary between free and means-tested care;
 - Accelerating demand from demographic trends, medical advances and better safeguarding procedures.
- 3.30** General grant funding from central Government for local authority services (i.e. excluding schools and other ring-fenced funding) has risen by just 14% in real terms since 1997–98 compared with 90% for the NHS. Over the same period local Government spending on care for older people has increased by 65% in real terms.
- 3.31** The recent Government Green Paper, *Care Matters*, set out an ambitious programme for improving outcomes for children in care, but the resource implications have yet to be assessed and will need to be funded.
- 3.32** According to LGA research⁴⁰ rationing of care means that in over two-thirds of councils in England people with low to moderate needs are no longer eligible for services which could prevent them accelerating into higher levels of need. The LGA projects that by 2009 this will be the case across the board. The Commission for Social Care Inspection (CSCI)⁴¹ notes that: “the options for people who do not meet the criteria set by their local council are limited.”
- 3.33** The number of people aged 65+ is expected to rise by 25% over the next decade and those aged 85+ to rise by 38%. The Wanless Social Care Review (2006) projected that over the 20 years to 2025, there would be a 53% increase in older people with some need and a 54% increase in those with a high level of need.
- 3.34** Wanless estimates that against that rise in demand, an increase in spending from 1.1% to 1.5% of GDP by 2026 would be required to maintain the current crisis-led model of care. Providing a care system which delivers a more universal model with broader eligibility criteria and which could start to deliver on some of the well-being and social inclusion aspirations would require an increase to 2.0% of GDP.
- 3.35** In 2007 alone, the difference between the current crisis-led model and the more ambitious one modelled by Wanless will amount to £3 billion.
- 3.36** Invest to save principles need to be applied in social care. Homecare services provide a powerful example of this. Underfunding has led to rationing of homecare services to those with the most intense needs. The proportion of older people receiving home care is low by international standards. The CSCI report on home care *Time to Care*⁴² notes that: “Intensification of homecare is resulting in missed opportunities to prevent crises and to promote the well-being of older people living in the community. “ This results in an escalation whereby people whose needs are not met at an earlier stage progress to needing more expensive social care and health services later on, which could have been avoided.

Funding the Commission on Equality and Human Rights

- 3.37** The TUC believes that the proposed budget of £70 million for the new Commission on Equality

⁴⁰ 06/07 Social Services Finance Survey: LGA, ADSS, Treasurers’ Societies, 2006.

⁴¹ “The State of Social Care in England 2005–06”, 2006.

⁴² *Time to Care*, CSCI, 2006.

and Human Rights falls far short of the funding required for the CEHR to be an effective body, helping employers in the public and private sectors to deliver the important diversity goals and targets set by the Government.

- 3.38** Societies tell an important story about themselves through the institutions they cherish. The TUC believes it is important that Britain should continue to develop laws, traditions and norms of behaviour that promote equality, mutual respect and dignity. An effective and well-respected CEHR should be part of this institutional framework, and the support the Government offers it will be taken as one measure of Britain's commitment to equality, non-discrimination and human rights. These are important ideals in themselves, and they will increasingly have an instrumental value as well.
- 3.39** In the next few years this country's security will be one of the electorate's first concerns, and the Government must not only ensure that its response respects human rights and is applied equally, it will have to show that this is the case. Success or failure will influence popular support for the Government in this country and materially affect the UK's 'soft power' abroad. Race and faith have a new salience in these debates, and a strong CEHR can help influence the outcome in favour of equality and liberty.
- 3.40** The new Commission will also make a contribution to important policies across Government. It is difficult to imagine the Equalities Review, investigating the causes of persistent discrimination and inequality in British society, maintaining its momentum without the support of a strong well-funded CEHR. The Government has recognised that inequality lies at the heart of poverty, and the Commission's input to policies to eliminate child poverty will help address the multi-dimensional and dynamic nature of this problem.
- 3.41** For the TUC, labour market inequalities are at the top of the agenda we want the CEHR to adopt and it must be equipped to do the job. The new Commission has been given strong guidance and enforcement tools but it needs sufficient funding to use them effectively. The CEHR must be capable of providing first class information and assistance to employers and unions on good practice development and able to use its enforcement powers effectively. It must also have national and regional structures able to deliver local advice provision and work with communities to promote equality.
- 3.42** Although the proposed £70 million budget is a little higher than the combined budgets of the three existing commissions, most informed estimates (especially those of the EOC and DRC and pro rata comparisons with similar bodies in Northern Ireland and elsewhere) suggest that this is too low; these estimates point to a budget of up to £120 million.
- 3.43** We should remember that this body will be expected to take on a good deal more than the total workload of the existing Commissions. The CEHR will have responsibility for three additional equality strands, the promotion of human rights and the enforcement of the new disability and gender public sector duties. Furthermore, the new equality areas will need to develop legal strategies, commission research and initiate investigations in relatively new areas of law. It is increasingly apparent that some of the transitional costs of moving to the new structure will fall to the CEHR – staff assimilation will not be completed by October 2007, and any costs arising after that date will fall to the new Commission.
- 3.44** **The TUC believes that the CEHR's permanent budget should therefore be closer to £120 million than £70 million, and that an extra amount should be made available to deal with transitional costs.**

Redundancy pay

- 3.45** The TUC welcomed the Government's manifesto commitment, reiterated in *Success at Work*, to increase the weekly limit on statutory redundancy payments in the course of this Parliament, following CSR 2007. The TUC believes that there is a clear and strong case for an initial and substantial increase in the level of the statutory limit followed by further measures aimed at reinstating the full original value of the limit in the medium term.
- 3.46** The Government's policy of increasing the statutory limit in line with the Retail Price Index since 2000 has been widely welcomed. However, as *Success at Work* acknowledged, the statutory limit of £290, which rose to £310 on 1 February, is still substantially less in real terms than when the payments were first introduced in 1965. Had the statutory limit on a week's pay kept pace with inflation since 1965, it would now be over £500 (£518.04). If the statutory limit had kept pace with the growth in earnings since 1965 it would be over £1,000 (£1008.84).
- 3.47** The declining relative value of the statutory limit undermines the objectives of redundancy payments to provide adequate resources to cover the cost of retraining and to compensate employees for loss of employment. The low level of statutory redundancy payments also disproportionately penalises those on medium to higher earnings. In April 2005, the statutory limit of £280 only represented 66% of mean gross weekly pay for all employees (£440.10). When the statutory redundancy payments were introduced in 1965, the statutory limit of £40 was far higher than mean male earnings, which were reported to stand at £19.60.
- 3.48** According to the Labour Force Survey, Autumn 2006, only 45% of UK employees have gross weekly earnings of £310 or less. As a result, under the statutory scheme, 55% of the UK working population would not be effectively compensated for loss of earnings if made redundant. The level of UK statutory redundancy pay entitlements is also far lower than that provided in some other EU member states.
- 3.49** The TUC would ask the Government to consider adopting a three-stage approach with a view to reinstating the full value of the statutory limit. First, we believe that the limit for calculating statutory redundancy pay should rise to £500 in April 2007 or soon thereafter. This increase would have the effect of ensuring that 70% of UK employees would receive the equivalent of their weekly earnings under the statutory scheme if made redundant.
- 3.50** Secondly, from April 2008, we propose the statutory limit should be set annually in line with earnings, as opposed to the Retail Price Index. Thirdly, we would ask the Government to consider planning for future step change increases in the level of the statutory limit. In addition, we believe that the 20-year cap on the number of years' service should be removed. The existing cap fails to recognise the importance of staff loyalty or to reward employees who have offered long service to their employers.
- 3.51** The increased cost to the Exchequer of a higher statutory limit would not be at all significant. DTI reports reveal that in 2004–05, £217.3 million was paid out from the National Insurance Fund by the Insolvency Services, in circumstances where employers were insolvent and unable to pay statutory redundancy payments, rising to £289m in 2005–06. It has been estimated that in 2007–08, £255m will be paid out from the National Insurance Fund to cover statutory redundancy payments in insolvent organisations. The increased cost to employers would also not be significant. Research suggests that UK employers, particularly in larger organisations, already tend to pay in excess of the statutory minimum. The 2002 Survey on redundancy by the CIPD found that 72% of employers paid redundancy payments above the statutory minimum.

Research conducted for the DTI by IFF Research Ltd in 2001, cited in the DTI Partial Regulatory Impact Assessment on Statutory Redundancy Pay, found that 48% of employers provided redundancy payments which exceed the statutory minimum.

Increasing protection for atypical workers

- 3-52** In UK employment law a distinction is made between *workers* and *employees*. This distinction is a significant one, as it determines access to important employment rights. Whilst all those classified as workers are covered by a floor of rights (for example to be paid the NMW, to receive four weeks paid annual leave and to have the right not to work more than 48 hours per week) only those who are classified as employees qualify for additional employment protection rights, such as the right to a written statement of terms and conditions of employment, the right to claim unfair dismissal and redundancy payments on termination of employment and parental rights to leave and to request flexible working. Certain groups of worker, such as agency workers and homeworkers, find it particularly difficult to demonstrate that they are employees (even though the reality of their situation is that they are economically dependent). As a result, they are excluded from these important employment rights.
- 3-53** The division of the UK labour market into a 'two-tier' system of employment rights is a cause for concern especially where many workers end up in categories that they have not positively chosen. For example, Labour Force Survey data reveals that in 2006, 45% of agency workers were temping because they could not find a permanent job. Only 29% said that they were temping as a positive choice. Similarly, in the banking, finance and insurance sector, an increase in self-employment in the early 2000s reflected a trend for those made redundant in the sector becoming freelance or self-employed. Again, it is questionable to what extent this reflected a positive choice on the part of the workers involved and to what extent the self-employment is genuine or a sham where the principle or sole client remains the former employer. A similar process is happening in the construction sector, where there is growing evidence of workers, particularly migrant workers, being required or duped into taking on self-employed status.
- 3-54** Even where agency work, homework or self-employment is a positive choice, it is doubtful whether workers are knowingly trading in their employment rights in order to work on this basis. The current legal distinction between *employees* and *workers* is not only confusing to workers; employers and the judiciary also struggle to make sense of employment status as recent Employment Appeals Tribunal decisions on agency workers have shown.
- 3-55** In November 2006, the EU Commission published its Green Paper *Modernising Labour Law to Meet the Challenges of the 21st Century*. The Green Paper seeks to initiate an important debate on how labour law should evolve in the EU to respond to the challenges of increased globalisation and to support the Lisbon Strategy's objective of achieving sustainable growth in good quality employment. The TUC will submit a full response, which will welcome the recognition in the green paper of the need for increased protection for the growing proportion of workers across the EU in precarious forms of employment, whilst disputing the arguments advanced in the paper that improved employment levels and labour market dynamism and innovation is dependent upon the increased use of atypical forms of employment and a weakening of employment protection, in particular dismissal protections. Experience from the UK labour market and from other member states demonstrate that these arguments are based on assertion, as opposed to evidence. The TUC will argue that measures designed to clarify

employment status and to extend employment rights to all workers would not restrict the abilities of employers to use more flexible contracts. However, it would ensure that those employed on flexible contracts are treated fairly, making non-standard forms of employment more attractive. The TUC urges the Government to use the CSR as an opportunity to reconsider its stance on employment status, which it set out in its response to the 2002 DTI Employment Status Review.

Pensions reform

- 3.56** A basic State Pension set at a level that affords dignity in retirement should be the foundation of the UK's pension system. Building on that foundation, the TUC believes that workplace pensions are one of the best ways of saving for retirement. The TUC welcomed many of the proposals contained in the Pensions White Papers published in May 2006 and December 2006. We particularly welcome the proposals to establish a national scheme of personal accounts and we fully support the introduction of a minimum compulsory employer contribution. In addition, the TUC supports the reforms to the credit system for carers and the reduction on the number of qualifying years required to gain a full basic State Pension.
- 3.57** The TUC has submitted detailed comments to the Pensions White Paper *Security in Retirement: Towards a New Pension System* and to the most recent White Paper, *Personal Accounts: A New Way to Save*. Pension reform is a huge challenge for any Government in the light of the big demographic changes that mean both a rise in the total number of retired people and significant increases in the number of years they will, on average, spend in retirement.
- 3.58** However, the TUC still believes there are a series of pensions priorities which should be addressed in the CSR.

Restoring the earnings link for the basic State Pension

- 3.59** The TUC has argued for a more generous basic State Pension (BSP) and improved pensions entitlement for the low paid, especially women and carers with interrupted contributions records. So the Government's intention to index the basic State Pension to earnings is welcome. Restoring the link with earnings is the fairest way to ensure that all pensioners share in national prosperity. This step should be taken as soon as possible and we urge the Chancellor to make a firm commitment in CSR 2007 to do this by 2010 at the latest.

Increasing the value of the basic State Pension

- 3.60** In addition, while the Government's proposals are looking to the future, more needs to be done for today's poorest pensioners. The TUC recognizes that the Government has done much to help today's pensioners. The Government now spends £10.5 billion a year (nearly 1% of GDP) more on pensioners than it would have done if it had simply continued the policies it inherited in 1997, but too many remain on unacceptably low incomes and stand to gain nothing from the proposals put forward by the Government so far. We call for an immediate increase in the basic State Pension to £114.05 per week.

The State Pension Age

- 3.61** The Pensions Bill 2006 contains proposals to increase the age at which the State Pension is payable from 2024. The Government believes this will signal the need for a behavioural change towards working longer as we live longer. This gives the TUC serious cause for concern. We are

opposed to an increase in the State Pension Age. In evidence to the Pensions Commission, the TUC argued that differences in life expectancy mean that an across the board increase in the pension age would affect the poor the most.

Reforms to improve the pensions for women and carers

- 3.62** The TUC welcomes the proposed reforms to improve the position of women and carers. In particular, we welcome the proposal to reduce the number of qualifying years required to gain entitlement to a full BSP. While we welcome this reform we remain concerned that some women over the age of 45 will still not qualify for a full BSP. We urge the Government to consider applying this reform retrospectively to all women over the age of 45.

The Financial Assistance Scheme

- 3.63** On the Financial Assistance Scheme, the TUC welcomed the announcement of additional funding and the extension of funding to cover an extra 30,000 scheme members. However we believe that further funding is required to provide 100% compensation for all those affected. Despite the additional funding, tens of thousands of members will receive no pension. As the Government aims to re-build trust in pensions, we believe all workers who lost pension rights through no fault of their own should be offered 100% compensation.

Summary

- 3.64** Britain remains a very unequal society. As Labour seeks to build on its achievements after ten years in office, under a new Prime Minister, the TUC calls for equality to be given a central priority. We strongly support the Government's commitment to halving the number of children in poverty by 2010 and ending child poverty completely by 2020. Whilst we fully endorse the decision to make paid work the centrepiece of social inclusion policy, we note that the child poverty targets cannot be met by employment alone. If the Government is serious about meeting those targets, a substantial increase in resources for improved tax credits and benefits must be included in the CSR.
- 3.65** Government investment in childcare is also a priority for meeting the child poverty targets and attacking the ongoing gender pay gap, all well as being part of the process of moving people off benefits and into work.
- 3.66** If it is to deliver the success that is hoped for it, the Commission on Equality and Human Rights must have a permanent budget closer to £120 million than £70 million, with an extra amount made available for transitional costs.
- 3.67** The TUC has submitted detailed comments to the most recent Pensions White Paper. We welcome the Government's intention to index the basic State Pension to earnings and call on the Chancellor to make a firm commitment in CSR 2007 to do this by 2010 at the latest. We also call for an immediate increase in the basic State Pension to £114.05 per week.

Section four Protecting the environment

Introduction

- 4.1** This Comprehensive Spending Review will play a crucial role in setting the pace and direction of the Government's climate change and energy strategy. The Government publishes its Energy White Paper and Climate Change Bill in 2007. Hopefully, these measures will reflect the "strong, early action" on climate change called for in the Stern Review *The Economics of Climate Change*. Actions we take now and in the next 10 years or so will have profound global effects on the climate in the second half of the century and beyond.
- 4.2** Central to the UK's response to climate change is the need to address the "market failures"⁴³ that have driven global greenhouse gas emissions towards crisis point. We therefore concentrate on the questions of carbon pricing and the need for a long-term energy market framework working in the national interest. Inevitably, the CSR has to address a viable objective for cutting global carbon emissions, translated into national targets. Stern argued that nations need to commit about 1% of GDP towards climate change mitigation and adaptation policies: we ask what this means for the UK.
- 4.3** We then focus on two key policy issues: the need to develop clean coal technology allied to carbon capture and storage; and accelerating trade union engagement in energy efficiency/green workplace initiatives. The Government's Commission on environmental markets points to the kind of social partner body that the TUC believes is essential if we are to develop a green manufacturing strategy, supported by a sustainable transport network. Finally, we focus on the serious negative impact of climate change on developing nations, and the need to integrate Millennium Development Goals and climate change initiatives.
- 4.4** The Government's analysis for CSR 2007 identified climate change as presenting challenges as well as opportunities: "Increasing pressures on our natural resources and global climate require action by Governments, businesses, and individuals to maintain prosperity and improve environmental care."⁴⁴
- 4.5** The Stern Review argued that climate change represents a unique challenge for economics: "it is the greatest and widest-ranging market failure ever seen".
- 4.6** To respond to this failure, the CSR needs to address pricing carbon emissions and establishing a long-term energy market framework to incentivise investment in low carbon/carbon free technology.

⁴³ Stern Review *The Economics of Climate Change*, 2006.

⁴⁴ "Long Term Opportunities and Challenges for the UK: Analysis for the 2007 Comprehensive Spending Review", HM Treasury, November 2006.

Carbon price

- 4.7** In economics, greenhouse gases (GHGs) are an “externality”: those who are producing GHG emissions are imposing costs on the world and on future generations. But they do not face the full consequences of their actions themselves.
- 4.8** Stern argues for carbon pricing – through tax, trading or regulation – so that people and businesses are faced with the full environmental cost of their actions. The TUC supports this approach – carbon pricing underpins the EU Emissions Trading Scheme (EU ETS), the Government’s proposed Energy Performance Commitment for high energy using organisations across the service sector, and tentative proposals for individual carbon allowances. However, it is vital that the UK works with our European partners to ensure that there is a level playing field across environmental policies to avoid damage to British businesses.
- 4.9** Stern’s influence is already apparent, toughening the European Commission’s approach to its Member States’ carbon allocation plans for the next phase of the EU ETS from 2008. Most EU nations are struggling to meet their shared Kyoto commitment of an 8% cut in carbon emissions – in 2004, their total greenhouse gas reductions were just 0.9% below 1990 levels.⁴⁵
- 4.10** Securing a tighter carbon regime is fundamental to a firm long-term price for carbon within the EU ETS. It must therefore be a high priority for the CSR. Indeed, the Stern Review sees the EU ETS as evolving into a future global carbon market.
- 4.11** Indeed, the EU ETS is already the world’s largest carbon market. Establishing a carbon price within a long-term energy market framework is an essential foundation for climate change policy. It is vital that the Government seeks early decisions on the structure of the third phase from 2012. Key issues include the overall EU emissions limits, allocation criteria, bringing in other sectors such as aviation, and the proportion of allowances to be auctioned on the carbon market. Once clarified, these parameters will shape a very long-term, clear vision to put the scheme at the heart of future European energy and global carbon markets.
- 4.12** A significant proportion of the UK’s power generation capacity – between a quarter and 40% – will have to be replaced or renewed by 2016. Currently, the EU ETS is neither sufficiently long-term to cope with the multi-decade time scales of major energy capital projects (nuclear new build; carbon capture and storage technology), nor, at present, sufficiently robust.⁴⁶ Uncertainty creates a financial incentive⁴⁷ to delay investment while investors gain more information that would allow a more optimal choice. Carbon capture and storage technology is highly sensitive to the future price of carbon. Investor caution and Government hesitation are combining to delay much needed initiatives.
- 4.13** The TUC’s Budget Submission 2006 argued that: “A new approach is needed that retains the advantages of the current market based system but addresses some of the underlying weaknesses around security of supply; promotes long term investment in new low carbon energy capacity; and recognises the need to ensure a continued well balanced mix of coal, renewable and nuclear power generation, particularly drawing on indigenous energy sources.”

⁴⁵ *Progress Towards Achieving the Kyoto Objectives*, European Commission, November 2006.

⁴⁶ *The Energy Challenge: Policy Framework for Nuclear New Build*, Prospect, October 2006.

⁴⁷ *Impact of Climate Change Policy Uncertainty in Power Investment*, International Energy Agency, October 2006.

- 4.14** If the main drivers of energy policy are climate change and security of supply, then energy market interventions need to be designed to achieve these objectives, in the national interest. It is essential to specify what our objectives are in terms of carbon pricing, CO₂ emissions' targets, securing energy supplies, securing renewable and low carbon energy supplies and eradicating fuel poverty.

Carbon stabilisation – but at what level?

- 4.15** Greenhouse gas (GHG) emissions are driven by economic growth. Stern suggests that stabilisation of GHG concentrations is both feasible and consistent with economic growth, provided that “urgent, effective action” is taken to decarbonise economies.
- 4.16** With the Government admitting that it is likely to fall short of its Manifesto commitment of a 20% cut in carbon dioxide emissions by 2010, the TUC believes that a step change in policy is needed.
- 4.17** We welcome the Government's commitment⁴⁸ to put into statute in the forthcoming Climate Change Bill its long-term goal to reduce carbon dioxide emissions, currently 60% by 2050. The good progress we are making towards our Kyoto commitments for all GHGs masks much slower progress in cutting the dominant pollutant, CO₂, which has fallen by just 5.6% since 1990. In October 2006, the Government proposed that the EU commits to new targets to reduce greenhouse gas emissions by 30% by 2020.
- 4.18** There is a need to strengthen public conviction of the Government's intentions. Staged targets, supported by the principle of statutorily binding annual reductions, perhaps averaged over a three or five-year rolling period, will send out strong signals to the public and to energy markets that we have a shared common purpose of tackling climate change. The TUC welcomes the Government's decision to adopt this approach through the Climate Change Bill now being introduced into Parliament.

Committing sufficient resources

- 4.19** Stern estimates the annual cost of GHG stabilisation to be around 1% of global gross domestic product by 2050 – a “level that is significant but manageable”. Without effective global action, the overall costs and risks of climate change will be equivalent to losing at least 5% of global GDP each year, and could cost up to 20% of GDP.
- 4.20** In the UK, 1% of GDP broadly equates to £12 billion of expenditure dedicated to the challenges of climate change – both in mitigation initiatives at home and in adaptation programmes at home and in development programmes.
- 4.21** At present, the Government's climate change “balance sheet” is unclear. Government revenue from its total take of “environmental taxes”⁴⁹ in 2005 was £35 billion. There does not appear to be a unified budget for climate change-related expenditure.

⁴⁸ Oral statement, David Miliband, 30 October 2006.

⁴⁹ An environmental tax is defined as, “a tax whose base is a physical unit, such as a litre of petrol, or a proxy for it, such as a passenger flight, that has a proven negative impact on the environment”, Office for National Statistics, October 2006.

- 4.22** Environmental taxes are justified by the “externalities” argument: from society’s perspective, too much pollution is generated by those who do not take into account the effects of their actions on others.
- 4.23** The main environmental taxes are:
- new taxes for environmental ends, such as the Climate Change Levy;
 - general taxes with environmental consequences, such as fuel duty;
 - taxes altered to include an environmental objective, such as VAT; and
 - non-tax incentives to reduce emissions, such as the EU ETS.
- 4.24** Environmental taxes have been falling as a proportion of GDP,⁵⁰ from 3.5% in 2000 to 2.9% in 2005. Around 90% of environmental taxes come from fuel duties, VAT, and vehicle excise duty (VED). The main reasons for this decline are the abandonment of the fuel duty escalator in 1999, the slow growth in VED, and the cut in Air Passenger Duty in 2000.
- 4.25** Increases announced in PBR 2006 to double the rate of Air Passenger Duty (APD) from 1 February 2007 will add an additional £1 billion to total environmental taxes in 2007–08, However, HM Treasury tends not to refer to APD as an environmental tax, although “it is designed to help the aviation industry pay external costs it imposes on society”.⁵¹ Budget 2007 also announced increases in VED and road fuel duties of around £700 million.
- 4.26** In 1997, the Government’s Statement of Intent on Environmental Taxation committed it to shifting the burden of taxation from “goods” to “bads”, under the polluter pays principle, a clear commitment to alter the balance of tax revenues.⁵² Early on, various positive measures were brought in, such as the Climate Change Levy and Aggregates Levy. Since 1999, the overall policy has gone into reverse. The proportion of revenues from environmental taxes is at its lowest level for a decade.

Table two: Government revenues from environmental taxes, 1995–2005

	1995	2000	2003	2005
Fuel duty	15,360	23,041	22,476	23,346
VAT on duty	2,688	4,032	3,933	4,086
Climate Change Levy	–	–	828	744
Fossil Fuel levy	1,306	56	–	–
Vehicle Excise Duty	3,954	4,606	4,720	4,809
Air Passenger Duty	339	940	781	909
Landfill tax	–	461	607	733
Aggregates Levy	–	–	340	328
Total environmental taxes	23,835	33,178	33,729	34,965
Green taxes as % of total taxes	9.3%	9.3%	8.5%	7.7%
Green taxes as % GDP	3.3%	3.5%	3.0%	2.9%

“UK Environmental Taxes: Classification and Recent Trends”, Ian Gazley, Economic Trends 635, October 2006

- 4.27** Environmental taxes as a proportion of total taxes and social contributions have also decreased steadily since 2000 (9.3%), falling to 7.3% in 2005. If we accept the Treasury’s classification of

⁵⁰ “UK Environmental Taxes: Classification and Recent Trends”, Ian Gazley, *Economic Trends* 635, October 2006.

⁵¹ *The UK Tax System and the Environment*, Andrew Leicester, Institute for Fiscal Studies, October 2006.

⁵² *Pre-Budget 2005: Tax, Economic Analysis and Climate Change*, para. 36, Environmental Audit Committee, 2006.

environmental taxes, (Climate Change Levy, Aggregates Levy, Landfill Tax), then the proportion of total taxes made up of environmental taxes was 0.4% in 2004.⁵³

- 4.28** Environmental taxes are clearly insufficient at present to discourage activities that emit CO₂.
- 4.29** There does not appear to be a unified budget for climate change-related expenditure. Research, development and demonstration programmes include: £320 million Technology Programme (spread over three years to 2008); £25m (2006–2010) for carbon abatement technology; £15m for hydrogen fuel cells; £50m marine technology fund (managed by The Carbon Trust); £5 annually for low carbon vehicles; and £32m for waste projects. Other initiatives include support for The Carbon Trust and Energy Saving Trust; recycling the Landfill Tax to support resource efficiency; and measures to mobilise private finance.
- 4.30** CSR 2007 should set out a balance sheet of environmental taxes and expenditure. An assessment is needed of the implications of reaching Stern's 1% target of GDP dedicated towards climate change mitigation and adaptation policies.
- 4.31** As developed nations (Annex 1 countries to the Kyoto Protocol) are sharing the burden of CO₂ cuts, on the same principle of shared but differentiated responsibility, presumably they should also support Stern's challenge of allocating 1% of their collective GDP's towards tackling climate change.

Environment Transformation Fund

- 4.32** The TUC welcomes the Government's decision to set up an Environment Transformation Fund (ETF)⁵⁴ in 2008. Its remit appears to be "to support renewable energy, biofuels and other non-nuclear, low carbon technologies, including CCS".
- 4.33** The Government has signalled that the ETF will be funded at least in part through the auctioning of a percentage of the UK's emissions allowances. The UK's allocation is likely to be 238 million allowances a year during the second phase (2008–2012). If, as has been suggested, 7% of allowances are auctioned,⁵⁵ this will generate a small annual revenue sensitive to the forward price of carbon, of perhaps £200 million.
- 4.34** These resources are likely to be spread very thinly over a wide range of energy technologies seeking Government backing. Unless the ETF receives significant cash injections from other sources, it will not be capable of financing the suite of low carbon technologies, particularly CCS, that urgently need to get to demonstration stage.

Climate change policies

- 4.35** Our economic growth has progressively decoupled from energy consumption – for a variety of reasons: the dash for gas, mine closures, loss of manufacturing, but also effective energy policy. Between 1990 and 2002, greenhouse gas emissions in the UK were reduced by 12%, while over the same period the economy grew by 35%, and population grew by 3.5%.⁵⁶ Energy intensity (energy consumed per unit of output) has decreased by 19.0% between 1990 and 2003.⁵⁷

⁵³ *Pre-Budget 2005: Tax, Economic Analysis and Climate Change*, para. 37, Environmental Audit Committee, 2006.

⁵⁴ Pre-Budget Report, 2006 (para 7.32).

⁵⁵ December 2006 forward price of carbon is 19 euros a tonne.

⁵⁶ *Long-term Opportunities and Challenges for the UK: Analysis for the 2007 CSR*, para. 2.28, HM Treasury, 2006.

⁵⁷ *Environmental Accounts*, Autumn 2005, ONS.

- 4.36** Since 1997, the Government has taken various steps to curtail emissions and promote sustainable economic growth:
- The Climate Change Levy (CCL) and associated climate change agreements (2001) encourage business to reduce energy demand.
 - Enhanced capital allowances for energy-saving technologies and funding for the Carbon Trust were also introduced as part of the CCL package, to help business improve energy efficiency levels. This package has already saved over 28 million tonnes of carbon (MtC) since it was introduced.
 - The EU Emissions Trading Scheme (EU ETS) was introduced in 2005 to deliver emissions reductions at least cost. In June 2006 the UK announced that its contributions for the second phase of the EU ETS would be 8 MtC a year below business as usual between 2008 and 2012.
 - Renewables – a target has been set for renewable energy to supply 10% of UK electricity by 2010, through the Renewables Obligation.
 - Internationally – the UK has taken the lead internationally on climate change and championed this issue, through its G8 and EU presidencies during 2005. The publication of the Stern Review was designed to drive forward multilateral action.
 - PBR 2006 announced increases in Air Passenger Duty, likely to save an estimated 0.75 million tonnes of carbon (MtC) a year by 2010, and fuel duty increases that are likely to save 160,000 tonnes of carbon.
- 4.37** To make further rapid progress, policy to reduce emissions should be based on three essential elements: clean coal allied to carbon capture and storage; energy efficiency; and developing a green industrial strategy.

Clean coal

- 4.38** The TUC, through the work of its Clean Coal Task Group (CCTG) has prioritised the development of clean coal technology allied to the exploitation of the UK's indigenous coal reserves, and to the successful development of carbon capture and storage.⁵⁸
- 4.39** The TUC welcomed the Government's decision in its Energy Review to set up a Coal Forum of generators, coal producers and trade unions "to help them to find solutions to secure the long-term future of coal-fired power generation and UK coal production".
- 4.40** Coal is secure, affordable and long-term. Clean coal power generation, with an important role for indigenous coal, will meet all of the Energy White Paper objectives, set an environmental example to global markets (where coal use is set to grow massively) and offer substantial manufacturing and employment opportunities.
- 4.41** High-level endorsement for clean coal in Britain, as part of a diverse generation portfolio, is essential to signal the Government's intentions. The TUC believes that the Government's ambition should be to maintain at least the current coal-fired generation capacity in the UK (29 Gigawatts) whilst at the same time moving the whole coal fleet to clean coal technology and, ultimately, near-zero emissions.

⁵⁸ "A Framework for Clean Coal in Britain", TUC Clean Coal Task Group, 7 June 2006.

- 4.42** This ambition can be achieved by a combination of new build and retrofits (11GW of power generation in total over the next ten years) to replace plants scheduled to close by 2015. This includes up to 4GW with carbon capture and storage (CCS) and around 7GW of capture-ready plants.
- 4.43** Once all of these plants have CCS fitted and operating, the CO₂ savings will be 25 to 43 mt CO₂/year, dependent on which plants they displace.
- 4.44** Action is needed by the Government to remove the barriers to Clean Coal power plants, including:
- urgent adjustment to the UK ETS proposals for New Entrants to remove perverse disincentives for clean coal versus existing coal and gas;
 - a support mechanism for the first Carbon Capture & Storage (CCS) projects which will demonstrate the full range of technologies for capture, transport and storage in the UK environment; and
 - within 2–3 years, the legal infrastructure for CO₂ storage needs to be established and planning in place for a CO₂ gathering and distribution network.

Carbon capture and storage

- 4.45** The Stern Review predicted that about 50% of global energy would still derive from fossil fuels in 2050, even with maximum drive for renewables and energy efficiency. It was only possible to avoid dangerously high densities of greenhouse gases with Carbon Capture and Storage (CCS): “Carbon capture and storage is essential to maintain the role of coal in providing secure and reliable energy for many economies.”
- 4.46** Coal overtook oil in 2003 as the leading contributor to global energy-related CO₂ emissions and is due to consolidate this position as far ahead as 2030.⁵⁹ In general, developing nations use more coal and less gas. According to the International Energy Authority (IEA), China alone is responsible for 39% of the increase in global emissions forecast for 2030 if no effective action is taken, driven by strong economic growth and heavy reliance on coal.
- 4.47** The TUC welcomes the announcement in Budget 2007 of a competition to develop the UK’s first full-scale CCS demonstration. We believe that it is essential that this project embraces a full suite of CCS projects involving carbon capture, transport and safe storage underground. At least eight CCS projects are awaiting signals from HM Treasury to go ahead.
- 4.48** It is vital that the CSR addresses the three linked challenges of supporting clean coal fired power stations, allied to the exploitation of the UK indigenous coal reserves and to the successful deployment of carbon capture and storage technology. The successful deployment of CCS technology offers the UK unique, global industrial and employment opportunities.

Generation gap

- 4.49** In the UK, the CCTG estimates that there will be a 20GW generation gap by 2016, representing between 26% and 39% of present generation capacity, and this has to be built in 10 years.

⁵⁹ *World Energy Outlook*, International Energy Authority, 2006.

Table three: Generation gap 2016

Generating capacity	Loss
Coal closures	8GW
Oil closures	3GW
MAGNOX closures	2.3GW
Growth at 1% pa	7GW
Total	20GW

Source: Clean Coal Task Group

- 4.50** The capacity gap widens by a further 9GW if AGR nuclear plant do not receive operating life extensions. Failure to address the growing energy crisis in the UK⁶⁰ could result in peak-time energy gaps of as much as 23% by 2015.
- 4.51** Although the TUC, in its submission to the Government's nuclear power consultation, has argued in support of urgent action to ensure the right energy market, planning and licensing frameworks to encourage new nuclear power proposals, we recognise that new nuclear capacity will not come on stream in this time period. And the gap is too large to be met by all but the most ambitious renewable energy programmes
- 4.52** If no action is taken to ensure a balanced development of clean coal and renewable energies in this 10-year period, then gas will fill the gap.

Energy efficiency: greening the workplace

- 4.53** The DTI revealed the considerable scope for energy efficiency improvements in a study⁶¹ showing that, in manufacturing, the most productive firms produce 23 times more output per kilowatt hour than the least productive.
- 4.54** The World Energy Organisation estimates that global CO₂ emissions can be reduced by 16% below "business-as usual" scenarios with simple energy efficiency policies that more than pay for themselves.⁶²
- 4.55** A key strand of TUC policy has been to build union engagement and capacity in "sustainable workplaces" through its GreenWorkplaces Projects. Our programmes cover a range of joint union/employer energy saving initiatives in manufacturing, public and private services and the voluntary sector.
- 4.56** Government proposals for an Energy Performance Commitment will seek mandatory cuts in energy use from the UK's 5,000 largest energy users in the service sector (public and private). These organisations emit about 15 million tonnes of carbon (MtC) a year, and could cost-effectively save at least 0.5 MtC by 2015. The TUC welcomes this initiative. It represents a major challenge and opportunity for the TUC and affiliates, as many of these employers recognise trade unions. Energy saving initiatives are likely to feature as a significant addition to many joint consultations.
- 4.57** The CSR should prioritise sufficient resources in departmental budgets to secure employee engagement in the Energy Performance Commitment and similar civil society initiatives. The

⁶⁰ *Mind the Gap – The Black Hole at the Heart of the UK's Energy Supply*, LogicaCMG, 2006.

⁶¹ DTI Occasional Papers No. 5, April 2006.

⁶² International Energy Agency statement to UN Framework Convention on Climate Change, November 2006.

challenge of climate change is an opportunity to engage with the concerns of younger workers, who are particularly aware of the threat it poses. Stronger rights for workplace environmental reps are an important part of this process. The TUC has argued for appropriate enabling amendments to the ACAS Code of Practice, Time off for Trade Union Duties and Activities.⁶³

Green manufacturing strategy

- 4.58** The Government's Pre-CSR report restates the Government's commitment to continuing macro-economic stability and securing sustainable economic growth. Environmental care is consistent with economic growth. We said in response to the Energy Review 2006⁶⁴ that, "Whilst UK manufacturing has been losing 100,000 jobs a year, there is nevertheless abundant evidence of the emerging strength of the UK's low carbon economy". These arguments have been developed both through the Trade Union Sustainable Development Advisory Committee (TUSDAC) Policy Group and the TUC Manufacturing Task Group.
- 4.59** We also called on the Government to lead a green manufacturing strategy, and therefore welcome its decision to set up a Commission on environmental markets and economic performance (CEMEP).
- 4.60** There are in effect two distinct industrial opportunities:
- Provision of environmental goods and services – including traditional markets driven by the demand for essential commodities – such as water supply, waste collection and recycling.
 - New markets generated by new environmental policy and legislation including low carbon energy technologies – renewables, nuclear and clean coal.
- 4.61** These markets will expand massively over the next 20 years. In the UK, they already have a turnover of £25bn and employ 400,000 people. In the EU-25, the estimated total turnover of both pollution and resource management activities is 227 billion euros,⁶⁵ with a total direct and indirect employment of 3.4 million.
- 4.62** The CEMEP therefore has a major opportunity to help shape the policy framework required to develop the UK's green manufacturing sector.
- Many thousands of jobs will follow the successful development, manufacture, installation and maintenance of large-scale wind, wave and tidal technologies.
 - Microgeneration could reduce carbon emissions by up to 15% by 2050, or sooner with the right package of support.
 - A new biofuels industry should emerge from the Renewable Transport Fuel Obligation (RTFO) for 5% of all UK fuel sold on UK forecourts to come from a renewable source by 2010.
 - Investment in all lower-carbon generation technologies, including renewables, nuclear and clean coal, to secure new generation capacity, will create new, high quality, highly-skilled employment.

⁶³ *Greening the Workplace*, TUC, 2005.

⁶⁴ *A Sustainable Energy Policy for the UK*, TUC, 2006.

⁶⁵ *Eco-Industry, Its Size, Employment, Perspectives and Barriers to Growth in an Enlarged EU*, Final report, European Commission – DG ENV, September 2006.

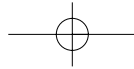
- 4.63 With the right balance of Government support through sustainable public procurement,⁶⁶ intelligent regulation, a crosscutting skills and training strategy,⁶⁷ investor support and public financing, these and other sectors have massive employment potential.

Transport and communications

- 4.64 An effective and efficient transport system is integral to the efficient functioning of the economy. It helps create sustainable communities, promoting social cohesion and tackling exclusion. Sir Rod Eddington was asked to advise the Government on the long-term links between transport and the UK's economic productivity, growth and stability, within the context of the Government's commitment to sustainable development.
- 4.65 In his report, *Transport's Role in Sustaining the UK's Productivity and Competitiveness*, Eddington has not championed specific transport projects – Crossrail, a third runway at Heathrow, quality bus contracts – but focuses Government thinking on the economic and environmental factors that should underpin future transport strategy.
- 4.66 He argued that a comprehensive and high-performing transport system “is an important enabler of sustained economic prosperity” – a 5% reduction in travel time for all business and freight travel on the roads could generate around £2.5 billion of cost savings – some 0.2% of GDP.
- 4.67 From both an economic and environmental perspective, the full environmental impacts of each mode of transport should be fully reflected in decision-making. In particular, it is important to include the full contribution of aviation to the UK's emissions inventory. Getting the prices right across all modes offers a very real prize. In particular, road pricing offers potential benefits of up to £28 billion each year in 2025 (around £15 billion of which are direct GDP benefits). Getting the environmental price (i.e. “externalities”) right across all modes makes strong economic as well as environmental sense.
- 4.68 The Eddington study argues for a sophisticated policy mix in response to these challenges, based on “targeted new infrastructure”:
- urban transport networks – improved bus services; walking and cycling options; targeted capacity on commuter rail; strategic road improvements;
 - “international gateways” – investments in ports and airports and their surface access routes; and
 - inter-urban rail, which will face increasingly severe capacity pressures, under the current fares policy.
- 4.69 The TUC urges the Government to maintain the consistency between the Stern and Eddington analyses, in particular, that the full environmental impacts of each mode of transport should be fully reflected in decision-making, as the Government addresses both major transport investment decisions and the many smaller schemes that will relieve bottlenecks in the current network.

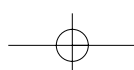
⁶⁶ The Sustainable Procurement Task Force proposes a National Action Plan to tackle the 20 million tonnes of CO₂ emissions attributed to public procurement activities.

⁶⁷ *The Energy Challenge: Policy Framework for Nuclear New Build*, Prospect, October 2006.



Developing nations – supporting adaptation

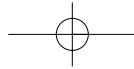
- 4.70** Climate change threatens the basic elements of life for peoples around the world. Its impacts will not be evenly distributed – the poorest nations will suffer earliest and most. Stern argued that, “Climate change is the gravest threat to the developing world and a major obstacle to continued poverty reduction”.
- 4.71** Developing regions – notably in Africa and South East Asia – are at a geographic disadvantage. They are already warmer and experience variable rainfall. They are heavily dependent on agriculture and suffer from inadequate health provision and low quality public services. Their low per capita income and economic vulnerability ill equip them to adapt to climate change, whose impacts are already being felt; witness the southward shift of the Sahel or the flooding of Bangladesh. At higher global temperatures, developed nations also face growing risks of large-scale shocks from extreme weather events.
- 4.72** The costs are likely to run into tens of billions of dollars. Sustainable development itself brings diversification, flexibility and enhanced human capacity to adapt. Decisions at the 2006 UN conference on climate change in Nairobi reflected a growing awareness that the negative consequences of climate change on weak African economies would overshadow development stimulated by the Millennium Development goals. Developed countries must honour their existing commitments – made most recently at Gleneagles in 2005 – to double aid flows by 2010. A challenge for the CSR is to ensure that adaptation strategies are integrated into development policy at every level.



Section five The value for money agenda

Background to the 2007 Comprehensive Spending Review

- 5.1** The concept of better performance management is not new to the Labour Government. As far back as the Comprehensive Spending Review of 1998 (CSR 1998), the Government introduced a systematic, transparent, outcome-based performance management system for public services. This was enshrined in the Public Service Agreements (PSAs) framework. CSR 1998 also set fixed, three-year budgets for all departments, separated into resource and capital spending. This removed the previous bias against investment and supported the efficient planning of expenditure over the medium term.
- 5.2** The Labour Government's wider approach to public service reform has been based on the following principles:
- establishing clear goals, national standards and accountability for performance;
 - devolving decision-making to the front-line and improving the capability and capacity of public servants;
 - the introduction of competition and contestability into the provision of public services;
 - engaging public service users and communities in the design, delivery and governance of public services; and
 - empowering users, including through the exercise of choice.
- 5.3** The Government argues that, since CSR 1998, huge social, economic and technological changes have transformed the environment in which public services operate. An ageing population, changing patterns of work and family life, and the pace of globalisation are just three changes that have created new and rising demands on public services. Furthermore, as real incomes have grown, so have people's expectations of public services, as they become more accustomed to greater choice and control over their lives.
- 5.4** Of course, the TUC does not, and has never, opposed public service reform. In fact, we are in favour of reform, but we believe this must be done in discussion with providers and users about what constitutes an improvement in public services. Our concern is that, thus far, the reform agenda has been approached in such a way that it is alienating and demoralising the staff who deliver those public services. It is also remote from large parts of public opinion.
- 5.5** In our view, public service reform should be guided by the following six principles:
- full and early involvement of staff and unions in the decision-making process;
 - sufficient time for reforms to bed in, before further changes are implemented;
 - change founded on a sound evidence base and a properly discussed business plan;



- adequate resourcing, with proper funding for equality-proofed pay schemes;
- democratic accountability in the provision of all services, including those delivered privately;
- respect for the public service ethos and the staff commitment that underpins it.

5.6 However, as has been pointed-out above, a key aim of the CSR is to continue with the drive for public service improvements while simultaneously restricting growth in public spending. It is now clear that the Government intends to do this by driving forward the so-called efficiencies of the Gershon Review, going beyond those efficiencies, imposing cuts in departmental budgets and holding down rises in public sector pay.

5.7 This paper will not deal with the cuts to departmental budgets in detail aside from those specific areas that directly concern the trade union movement. However, the TUC is deeply concerned that these cuts, combined with the impact of the Gershon Review and the real terms reductions in public sector pay and jobs, will exacerbate a situation of declining service standards and a demoralised workforce.

The impact of the Gershon efficiency drive

The Gershon Review

5.8 Sir Peter Gershon's review of public sector efficiency, commissioned by HM Treasury, is currently being implemented over the 2004 spending review period. In accepting Gershon's recommendations, the Government has committed to the following:

- so-called efficiency gains across the public sector of 2.5% a year over the 2004 spending review period, resulting in annual "efficiencies" worth in excess of £20 billion a year by 2007–8, across central and local government;
- a gross reduction of over 84,000 civil service posts by 2007–08;
- the relocation of 20,000 other posts away from London and the South East by 2010.

5.9 According to the Treasury document, *Releasing the Resources to Meet the Challenges Ahead: Value for Money in the 2007 Comprehensive Spending Review*, published in July 2006, Government departments reported a gross reduction in over 45,500 civil service posts by March 2006.

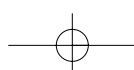
5.10 These figures were updated in Budget 07. The new figures break down as follows:

Table four: Workforce reductions across departments

	Gross reduction	Net reduction
DWP	28,065	21,398
Ministry of Defence	12,421	12,421
HMRC	11,540	8,504
Other departments	8,565	8,565
Total	60,591	50,888

"Budget 2007: Building Britain's Long-Term Future: Prosperity and Fairness for Families", HC 342, HM Treasury, p. 146

5.11 Of central importance to Gershon, in setting out the case for the efficiency programme, was the principle that reductions in headcount lead to no loss of quality in the service provided by



the civil servants affected. The Foreword to the Gershon Review took the form of a letter to the Prime Minister and Chancellor of the Exchequer. Sir Peter Gershon said he was mindful of two considerations, one of which was:

“... the need to ensure that savings are not delivered at the expense of impacting on service delivery: to go further or faster than the savings set out in my review during the period 2005–06 to 2007–08 would put at risk the delivery of public services.”

5.12 In “Releasing the Resources to Meet the Challenges Ahead”, the Treasury develops this point, speaking of:

“... a strong emphasis on service quality to ensure that the original vision of Sir Peter Gershon’s review is met – that efficiencies are delivered in such a way that service quality does not decline. Each initiative has in place service quality checks to ensure this is the case. In many cases, the reforms generate efficiency gains and service delivery improvements in tandem.”

However, the TUC believes that this is proving a forlorn hope. The efficiency programme is having an adverse impact on service quality. And we are deeply concerned that this is a situation that will only worsen as departmental budget cuts are implemented. To illustrate this, the paper will detail four areas of concern which reveal where problems in service quality are already emerging: the Department for Work and Pensions; ACAS; Equal Pay; and the Health and Safety Executive.

1. Department of Work and Pensions

5.13 In evidence that we submitted to the Work and Pensions Select Committee in December 2005, we highlighted many instances of how cuts among DWP staff are affecting Jobcentre Plus’s ability to assist unemployed people.

5.14 In London, the New Deal for young people has effectively been reduced to one option. There are also serious cuts in the North East. As a result, TUC Unemployed Workers Centres across the country are reporting a serious deterioration in the quality of service to jobseekers since staffing cuts began.

5.15 The most worrying development has been the fate of Building on New Deal (BOND). BOND was to be the next generation of New Deal, empowering staff and personalising and localising support to enable Jobcentre Plus to help the unemployed people who need it most, those with the greatest disadvantages and the most serious obstacles to employment. BOND is, however, more expensive than the first generation of New Deal and the Government has failed to implement or develop the initiative for over a year.

5.16 Pathways to Work, introduced in October 2003, is the very successful programme for helping Incapacity Benefit claimants into employment. 2004’s *Opportunity for All* report described Pathways as “a cutting-edge, joined-up approach... early evidence shows that thousands have already been helped into work” and promised, “we will develop the Pathways to Work pilots.”⁶⁸ However, the Government now only promises that ‘Pathways to Work-style’ support will be extended nationwide, raising inevitable questions about whether this will match the quality of the earlier pilots.

⁶⁸ *Opportunity for All*, Department for Work and Pensions, 2004, pp. 9–10.

- 5.17** More generally, DWP job cuts are having an impact on workload levels, causing stress, backlogs and delays, with a consequent impact on service quality. Pressure to meet performance targets inevitably means that corners are being cut and the quality of work is suffering. Benefit waiting times are up and access to public services restricted, with people forced to travel up to 30 miles to get face-to-face help in getting back to work.
- 5.18** A House of Commons Public Accounts Committee report found that 21 million calls to the Department of Work and Pension's contact centres were going unanswered and that only one half of calls to Jobcentre Plus Direct were returned within 24 hours. In another report, by the House of Commons Work and Pensions Select Committee on the efficiency savings programme in Jobcentre Plus, its contact centres were described as a "catastrophic failure" due to the efficiency programme. The committee stated that too much had been done too quickly, leading to damage to services, and recommended that the pace of headcount reductions should be slowed down.
- 5.19** The Child Poverty Action Group (CPAG) found that the move away from face-to-face contacts towards the use of contact centres, carried out in the name of efficiency, had several major failings, particularly for the most vulnerable members of society. The new system did not make adequate provisions for those with special needs, including language difficulties due to poor literacy or limited knowledge of English, or those with physical and mental health difficulties. It ignored the fact that many claimants with low incomes do not have a landline phone and have to rely on mobile phones or no phone at all. The system relying on callbacks means that many have to pay a high price to pick up voicemail messages. There are further examples of claims being lost and delayed, and claimants being denied crisis loans at local offices. The CPAG report concluded: "... claimants have paid a heavy price for the Government's decision to deliver the benefit service by reducing staff and centralising records and delivery."⁶⁹
- 5.20** It is of particular concern to trade unions that, despite previous assurances from the Government, core frontline services in the DWP are being privatised. For example, after the closure of Jobcentre Plus Action Teams (which were previously praised for their high performance), the Government announced that their replacement would provide employment services exclusively from the private sector. No in-house bids were allowed.
- 5.21** The TUC was always sceptical, whatever the words of Sir Peter Gershon, that thousands of officials, from DWP and elsewhere, could be removed without the services offered by those departments suffering deeply. These examples from Jobcentre Plus, BOND and Pathways to Work, programmes which support some of the most vulnerable in our society, together with changes to the way the benefit system is managed, appear to confirm our fears.

2. ACAS

- 5.22** The Government has just embarked on an important review of workplace dispute resolution procedures. There is a view across business and the public sector, both among unions and employers, that the current procedures are too cumbersome and are not achieving their laudable intention, which was to ensure that as far as possible, workplace disputes should be resolved in the workplace, rather than via expensive individual litigation in the courts and tribunals.

⁶⁹ "Jobcentre Plus: Changes to Service Delivery", Child Poverty Action Group, September 2006.

- 5.23** The key institution that brings the parties together, in both individual and collective workplace disputes, is ACAS. ACAS is trusted and respected by employers and unions alike as a neutral resolver of problems. It is always difficult to quantify a negative – it is not possible to say with any real accuracy how much public and private money has been saved each year as a result of ACAS intervention. It is also difficult to quantify loss of productivity caused by collective and individual disputes. The TUC is in no doubt, however, that if ACAS were not able to function to existing capacity, there would be a marked increase in workplace disputes, and the ensuing litigation, with a significant increase in the number of cases going to the Employment Tribunals.
- 5.24** The ACAS Council has recently agreed a mission statement setting out their objectives for the next three years. This is “to improve organisations and working life through better employment relations”. ACAS is an organisation which has devised a programme of work which will be invaluable in ensuring that the Government delivers its key policy objectives for employment relations. Much of this will be jeopardised by a reduction in resources and place ACAS at risk of terminal decline. Despite this, ACAS has been told that their income for the year 2007–08 is to be 10% less than it will be for 2005–06.
- 5.25** If the 10% reduction is to be imposed, the ACAS Council will be in the invidious position of having to decide how and where to reduce the planned activities of the organisation. The three significant blocks of work undertaken by ACAS are: individual conciliation, the Helpline, and advice and training, mainly for employers, particularly small firms, but also for employee representatives. The role of ACAS in preventing and resolving collective disputes is no longer such a significant area of activity but nonetheless it is an activity which no other organisation could successfully undertake and one which is clearly much appreciated by the public. There is no suggestion that this activity would cease but in order to maintain it under a reduced budget, other services would have to be reduced, either in quality or in quantity.
- 5.26** As reported elsewhere, there is a major problem in the public sector now with equal pay litigation. Apart from the serious issues that we raise in a subsequent section of this submission, there are significant implications for ACAS now and in coming months and years. ACAS has a statutory duty to offer conciliation in all such disputes between employers and employees. If the number of equal pay claims continues to rise, and all indicators suggest that it will, ACAS will simply not have the resources to provide conciliation. This will put huge pressure on the Employment Tribunals and do nothing to achieve conciliated out-of-court settlements.
- 5.27** ACAS has recently developed its work on equality and diversity, which is one of the greatest drivers of change in the world of work today. ACAS provides practical help and support to employers and unions who are grappling with complex new legislation, such as the new regulations on age discrimination. They plug the gap between understanding the legal requirements and applying them in practice in a way that will add value to the organisation. It will be important too for ACAS to work closely with the new Commission on Equality and Human Rights, part of whose statutory remit will be to encourage alternative dispute resolution.
- 5.28** It is of serious concern to the TUC that ACAS has been subjected to a significant cut in public funding recently. Cuts of this magnitude could have a damaging effect on the ability of ACAS to continue to provide such a comprehensive and highly valued service to employers, employees, unions and the public. In the long term it is unlikely to save very much, as worsened

employment relations, or less ability to provide conciliation, will inevitably lead to a rise in litigation, longer running disputes and ultimately less happy and less productive workplaces. The TUC is certain that the public support expenditure on such important services to employers and working people.

3. Equal pay

- 5.29** The TUC believes that there is still an unacceptable gender pay gap which has to be eliminated in order to achieve the Government's stated policy objectives on equal pay.
- 5.30** Between 1997 and 2006 the gender pay gap between women and men's average full time earnings reduced by 3.5% but the gap between men's full time average earnings and women's part time average earnings did not reduce at all in that time. The current Government can be lauded for the emphasis it has placed on tackling the causes and consequences of the gender pay gap – not since Barbara Castle introduced the Equal Pay Act in 1970 has so much attention been paid to tackling it – but the Government has shied away from taking the necessary action that could substantially reduce it. While the TUC accepts that the causes of the gender pay gap are complex, it believes that the CSR provides the Government with an opportunity to take the necessary steps to meet the key objective of closing the gap.
- 5.31** In order to do this, the TUC believes that the Government should take two immediate steps: introduce mandatory pay reviews in the public and private sector so that sex discrimination in pay systems can be clearly identified, and fully fund the outcome of those reviews to ensure equal pay in the public sector. However, the Government's current message seems to be that in the context of the CSR, no extra money can be made available for such funding.
- 5.32** It is clear that many local authorities are reluctant to conduct reviews of their pay systems because there is no extra money from central Government to fund any anomalies that are uncovered. Combined with Government pressure to make annual efficiencies and improve service delivery, lack of funding for equal pay is the single most important barrier to achieving it. The current situation in which local authorities, trade unions and the workforce finds themselves is divisive, damaging to employment relations and unfair to service users.
- 5.33** The local authority employers have told the Government that the back pay liabilities alone will cost them £3 billion. The true figure may be nearer to £5 billion. This is on top of the 4–5% increase in the pay bill that implementation is costing on average. Under the terms of the 2004–07 NJC Agreement for Local Government Services, Councils were required to implement single status and achieve equal pay by 31st March 2007. On the most optimistic interpretation of the current position, it seems that no more than half of all local authorities will have complied with this. This is likely to result in further litigation of the sort that is already widespread, which has significant implications for negotiated agreements.
- 5.34** In addition to making funding available from central government, local authority employers would be greatly assisted by a relaxation of the stringent rules on capitalisation to help them to negotiate pay and grading reviews which are "equal pay proofed" and thereby not subject to litigation. In this context, the TUC welcomes the fact that the Government has now agreed to raise the threshold on capitalisation. The Local Government employers have also argued for a relaxation of taxation and NI clawback on locally agreed settlements, which would help to minimise the costs. The TUC supports this proposal.
- 5.35** The TUC believes that the numerous lengthy individual equal pay cases will also place further demands on the already overstretched tribunal and conciliation services and thus have an

impact on these services. The resources of ACAS have been significantly reduced recently and are now stretched to the limit in helping to conciliate these cases. The Employment Tribunals are also severely stretched; one way to ease the pressure on the Employment Tribunals would be to allow representative actions.

- 5.36** One key outcome of CSR 2007 must be specific, ring fenced funding from central government for equal pay settlements in the public sector.

4. The Health and Safety Executive

- 5.37** “Releasing Resources to Meet the Challenges Ahead” by HM Treasury⁷⁰ includes the following quote:

CSR 2007 will allow for a widening of the scope of value for money considerations to include a number of other, smaller areas where significant savings can be made. For example, DWP will be looking at ... the work of the Health and Safety Executive, focusing on five main themes: delivery; working with others; procurement; freeing up time and making the best use of science.

- 5.38** The TUC would welcome the DWP looking at the work of the Health and Safety Executive (HSE). The best place to start would be to consider the effects of the real terms budget cuts since 2002. The 2004 Spending Review settlement has meant that huge cuts are being made to stay within budget. The latest cuts announced in August 2006 mean a further 250–350 posts are to be lost by 2008 via natural wastage. By 2008, HSE will have lost around 17% of the staff it had in 2002, when comparing like with like.

- 5.39** What does that mean? In practice, around 85% of major injuries reported to HSE are never investigated (and there are known to be large numbers that are never reported). This is because, with just approximately 500 inspectors in HSE’s Field Operations Directorate, there is a limit to what can be achieved. Yet poor health and safety results in 340 fatal workplace injuries, 10,000–20,000 deaths from occupational diseases, and a further 1,000 deaths on the road of people at work each year. Figures including a factor of underreporting, as revealed by research, show that each year also brings 39,000 major injuries and 200,000 injuries keeping people off work for more than three days.

- 5.40** **The TUC therefore calls for an increase in the resources made available to the HSE, to ensure that it can continue to reduce injuries in the workplace, address occupational ill-health, promote safe working conditions and enforce legal standards on health and safety.**

Going beyond Gershon?

- 5.41** In the context of these areas of concern, it is alarming that the Government seems increasingly keen to push beyond the Gershon Review. Even Sir Peter Gershon himself recognised the serious threat such an initiative might pose. He stated “to go further or faster than the savings set out in my Review during the period 2005–06 to 2007–08 would put at risk the delivery of public services.”

- 5.42** Despite this, in “Releasing the Resources to Meet the Challenges Ahead”, HM Treasury states that:

⁷⁰ “Releasing the Resources to Meet the Challenges Ahead: Value for Money in the 2007 CSR”, CM 688g, HM Treasury, July 2006, p. 48

“Building on the achievements of the SR 2004 efficiency programme, the Government is developing a more ambitious and far-reaching value for money programme for the CSR 2007 years, to release the resources needed to sustain the momentum of public service improvement and meet the global challenges of the decade ahead. As part of this programme, the Government is ... deepening the Government-wide efficiency programme in the operational areas established by the Gershon Review, harnessing the benefits of greater collaboration across organisations and engaging with frontline professionals to identify opportunities for service improvements.”

- 5.43** It may well be that this new goal to go beyond Gershon is a euphemistic way of describing the wider departmental budget cuts to be introduced as part of the CSR. Either way the TUC has seen no evidence that it is possible to make further savings while maintaining service levels, let alone improvements. Indeed, given the examples above, the evidence points to the opposite: that such an approach would do even more damage to service delivery.
- 5.44** It is vital, therefore, that empirically based modelling is developed to understand the impact of the efficiency programme so far, on public service productivity, service quality and sustainability before going any further.
- 5.45** A new Government report, *Service Transformation: a Better Service for Citizens and Business, a Better Deal for the Taxpayer*, produced by Sir David Varney and published on 6th December 2006, also claims to identify ways to push beyond Gershon. The report includes proposals for public service contact centres to save 25% of their costs in the CSR 2007 period through efficiency improvements driven by innovations in ICT.
- 5.46** Varney argues that “compared to 1997, the Government is now providing more services online or through comprehensive telephone contact centres – allowing citizens and businesses improved ways to access Government.” However, more needs to be done to keep pace with “the best of private sector service delivery, particularly in the use of new technology and 24-hour, seven days a week services”.
- 5.47** The TUC is deeply sceptical that either the degree of efficiency improvement suggested by Varney or the level of savings he proposes can be delivered by ICT innovations alone. The numerous IT failures are well-known and the National Audit Office report, *Progress in Improving Government Efficiency* recognises the over-dependence on ICT as a problem in the efficiency programme.⁷¹ Furthermore, many vulnerable people – the people most in need of Government services – are more likely to find ICT less accessible and difficult to use.
- 5.48** It is often claimed that these so-called “efficiencies” only affect back-office staff. The inference is that such staff are less important. The TUC rejects the distinction between client-facing and back-office roles. Client-facing staff can often operate efficiently only because they have back-up support. Without it, they are likely to be drawn away from clients to undertake tasks for which they may not have the skills on the one hand, or are over-qualified on the other. Neither of those scenarios is efficient.
- 5.49** It seems highly likely that were Varney’s recommendations to be followed, service quality will decline further and staff morale will plummet as another wave of cuts begins to bite.
- 5.50** The Government seems intent on driving through a series of significant spending restrictions for public services partly driven by efficiency and partly driven by the need to meet the ‘golden rule’ for public finances. It claims to be able to do this while

⁷¹ *Progress in Improving Government Efficiency*, National Audit Office, February 2006, paragraphs 1.23 to 1.24.

simultaneously maintaining current levels of service quality and even making major improvements in this quality. The areas of concern outlined above show that this is already proving to be a highly problematic mission.

- 5.51** This is not a situation without precedent. The TUC fears that the recent problems that have bedevilled the NHS will be reproduced across the public sector as the twin goals of spending reductions and re-organisation are chased. For the last two years, the NHS has been subject to accelerated drives to cut Trust deficits and implement reorganisation in the name of service improvement. As a result of the deficit drive, there have also been significant job losses in the NHS – a factor which has led to service quality problems. The failure of the Department of Health and NHS management to consult widely with unions, staff and patients on the speed and nature of these changes has led to a severe decline in staff morale and an increasingly vociferous protest from local communities, the media and opposition parties. In response, the Department of Health has re-established structures of consultation with the unions and other stakeholders but whether this will be effective at this late stage at stemming the problems and the protests has yet to be seen.
- 5.52** It is vital that the Government does not repeat the same mistakes over the coming year with the CSR. The evidence shows that reducing spending *and* delivering service improvement through reorganisation simultaneously is extraordinarily difficult in practice, no matter how compelling it may look on paper. Careful consideration of the options based on evidence, rather than dogma, buttressed by serious negotiation with key stakeholders leading to a detailed and strategic approach to change is the only way to deliver better services safely. This may lack the rhetorical appeal of speedy, radical reform or the simplicity of cuts across the board, but the TUC hopes the Government can see that it does possess the virtue of common sense.

Public sector pay

- 5.53** In July, the Chancellor published his letter to the Public Sector Pay Review Bodies, proposing that public sector pay settlements should be founded on a 2% target. The justification for this target is that higher pay in the public sector would take unnecessary risks with the UK's low but rising rate of inflation.
- 5.54** Public sector pay was discussed in the PBR 2005. This stated that public sector pay levels should be fair, comparable with the wider economy wherever possible and set at sustainable levels which do not cause inflationary pressures.
- 5.55** However, Budget 07 contained the following contradictory statement:
- “Consumer price inflation picked up during 2006, almost entirely attributable to the combined effect of higher energy and food prices, the former driven by higher oil and wholesale gas prices, and the latter by the unusually hot summer weather ... Inflation averaged 2.75% during the fourth quarter of 2006, slightly higher than expected at the time of the Pre Budget Report, mainly reflecting developments in the prices of seasonal foods. As expected, the contribution of energy prices to CPI inflation remained high at close to 1 percentage point. Despite inflation having picked up, there have been no signs of second round effects on earnings growth, which has remained subdued. The Government has continued to emphasise the need for pay settlements to be consistent with the achievement of the inflation target of 2%.⁷²”

⁷² “Budget 2007: Building Britain’s Long-Term Future: Prosperity and Fairness for Families”, HC 342, HM Treasury, p.249

- 5.56** Budget 07 puts the blame for the rise in inflation clearly on energy prices and seasonal food. For good measure, it categorically points out that there have been no secondary round effects on earnings. It then, inexplicably in the light of that evidence, argues the need for a below inflation pay increase for public sector workers.

Table five: Inflation: August 2006 – October 2007, % change over 12 months

	CPI	RPIX	RPI
August 2006	2.5	3.3	3.4
September 2006	2.4	3.2	3.6
October 2006	2.4	3.2	3.7
November 2006	2.7	3.4	3.9
December 2006	3.0	3.8	4.4
January 2007	2.7	3.5	4.2
February 2007	2.8	3.7	4.6
March 2007	3.1	3.9	4.8

Source: ONS. RPIX = all items RPI excluding mortgage interest payments

- 5.57** Inflation levels in the latter half of 2006 and early 2007 are set out in Table Five. On all levels, inflation has been higher than 2.4% throughout this time. By restricting public sector pay increases to 2%, the Chancellor is calling for real terms decreases in purchasing power for public sector workers, in spite of no evidence that pay has contributed to higher inflation.
- 5.58** Furthermore, CPI inflation does not reflect the financial pressures that many people face in the real world. The TUC believes that the all-item RPI is the best measure of the overall cost of living, enjoys widespread public confidence and remains the basis for most wage negotiations. Since most working people have mortgages and pay council tax, it is unrealistic to ask them to base year-on-year wage increases on a measure of inflation that does not take these and other associated housing costs into account.
- 5.59** In its pay and reward principles, agreed between Government Ministers, public sector employers and public service trade unions in 2005, the Public Services Forum states that:
- “Delivering public service improvement requires a productive workforce with the right skills in place. Investing in skills and development across the workforce will support the drive to improve services. The employment and reward package should be sufficient to recruit, retain and motivate this workforce.”
- 5.60** A pay increase resulting in a fall in real earnings is clearly not the best way to recruit, retain and motivate a high quality workforce, particularly in an environment of uncertainty and change.

Local and regional pay

- 5.61** Budget 2006 states: “The [new Public Sector Pay Committee] PSPC will review progress on local pay. The terms of reference in remit letters to the Pay Review Bodies (PRBs) require them to have regard to regional/local labour markets and their effects on recruitment and retention ... In addition, civil service remit guidance instructs Departments to fully consider local pay.”
- 5.62** The TUC is opposed to moves to create local and regional pay structures. In our view, these would erode and undermine the genuine efforts being made to introduce pay systems based on equal pay for work of equal value in the public sector. Not only would they undermine the integrity of existing national pay review bodies, but they would also introduce significant inefficiencies into the public sector, by replacing unified, national bargaining arrangements with many hundreds of local negotiations.

- 5.63** In 2003, the Local Government Pay Commission dismissed locally and regionally differentiated pay as an inappropriate and simplistic response to recruitment and retention difficulties. Furthermore, there are matters of principle to be considered: the issue of regional and local pay is beginning to be discussed in the Fire Service, yet fire fighters do the same job, undergo the same training and face the same risks in all parts of the UK.
- 5.64** The TUC remains committed to national pay bargaining and we seek confirmation in CSR 2007 that national structures will be maintained.

Alternative routes to efficiency savings

- 5.65** The TUC supports the concept of efficiency in public services. Our members, in the public and private sectors, are taxpayers and it is right that their money is spent well. However, we distinguish between a cuts agenda, which actually damages real efficiency, and an agenda of positive efficiency designed to use government resources more successfully.
- 5.66** When the Gershon Review was published, the TUC estimated that no more than 5–10% of the savings would come directly from job cuts across the public services. The rest would come from a far more constructive agenda of improvements in public procurement, new technology and work organisation, as set out by Sir Peter Gershon. In other words, we predicted that the Government could achieve most of the efficiency gains without imposing arbitrary job cuts across the civil service and other parts of the public sector.
- 5.67** Nothing has happened since Gershon was first published to change that prediction. Indeed, the PBR 2006 described some of the positive efficiency successes achieved:
- “Solid progress has been made, with departments and local authorities reporting annual efficiency gains of £13.3 billion by the end of September 2006, more than halfway towards the target of over £21 billion by 2007–08. These include:
- The Ministry of Defence (MOD) launched the People, Pay and Pension Agency in April and forecasts a reduction of 40% against the previous cost of providing HR services, delivering savings of over £300 million;
 - The Department of Health has secured a further £300 million reduction in the costs of reimbursing pharmacists for drugs dispensed, achieved as part of the annual negotiation of the pharmacy contract;
 - The Home Office has delivered efficiency gains in asylum support costs totalling £445 million, in part by renegotiating accommodation contracts and using more economical pre-planned accommodation rather than expensive emergency accommodation; and
 - Local authorities have achieved a total of around £1.9 billion of efficiency savings by the end of March 2006, and are expected to achieve a further £1.3 billion in 2006–07, surpassing the 2007–08 target for local authorities of around £3 billion one year early.”
- 5.68** It should be recognised that imaginative efficiency gains could not have been achieved without the hard work and co-operation of public sector workers. This positive agenda of seeking efficiency is totally at odds with the job cuts agenda which is both unnecessary and proving damaging to service users.
- 5.69** PBR 2006 does not break down the savings into those achieved through positive efficiency and those achieved by cutting jobs. We predict that the job cuts will have achieved no more than 10% of the savings. We call on the Government to provide such an analysis of where the

savings are being achieved, so that interested parties can properly assess the value of the cuts agenda.

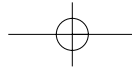
Government use of consultants

- 5.70** In addition, there is one other area of potential efficiency savings that must be addressed. Central Government spent around £1.8 billion on consultancy in 2005–06, according to figures published in December 2006 by the National Audit Office.⁷⁵ Total public spending on consultants across the public sector has risen by 33% between 2003–04 and 2005–06, largely because of increased spending in the NHS.
- 5.71** However, according to the NAO: “It is not possible to make an overall assessment of the benefits that have resulted from the money spent on consultants, partly because departments rarely collect information on what has been achieved”. The NAO found that departments, for the most part, do not:
- Make a proper assessment of whether internal resources could have been used instead of consultants;
 - Collect adequate information on their use of consultants, such as performance reviews, to improve their buying decisions and understand better the benefits they bring;
 - Actively engage with key consulting firms to understand how they work;
 - Regularly plan for and carry out the transfer of skills from consultants to internal staff to build internal capabilities.
- 5.72** The NAO considers that efficiency gains of around £270 million in the first year, rising to £540 million in the third year, against the current baseline, could be made by better use of consultants by central government. This could be achieved through making more use of in-house staff, negotiating better contracting terms, and getting improved results for the money they spend.
- 5.73** In the TUC’s view, it beggars belief that, with so much emphasis placed on efficiency, and when the sacking of civil servants is perceived to be the answer, the Government is spending so much on private sector consultants while such gaps appear in the efficiency of those consultants. We can only assume that they are not held to account in the way that public servants are because of the Government’s dogmatic faith in the benefits of the private sector, benefits that so often prove to be illusory.

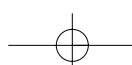
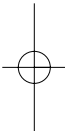
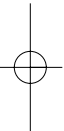
Summary

- 5.74** The TUC does not oppose public sector reform, but believes that any such reform must fully involve staff and unions in the decision-making process. Reforms should be founded on a sound evidence base, resourced properly, protect democratic accountability and the public service ethos and have sufficient time to bed in, before further changes are implemented.
- 5.75** The Gershon Review fails on just about all of the above principles. The TUC has provided compelling evidence that the cuts resulting from Gershon are hurting public services. The Department of Work and Pensions has been particularly badly hit.

⁷⁵ “Central Government’s Use of Consultants”, National Audit Office, HC 128 2006–07, 15 December 2006.



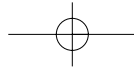
- 5.76** Restrictions in ACAS funding threatens its ability to promote alternative dispute resolution, running the risk that employers and unions will be forced into expensive Employment Tribunals instead. The current, unacceptable gender pay gap must be eliminated in order to achieve the Government's stated objective on equal pay. Ring fenced funding from central Government for equal pay settlements in the public sector is necessary as a priority.
- 5.77** The Government is intent on going further than Gershon, despite evidence of the problems caused by the Gershon Review and Sir Peter Gershon's own warning that going further and faster would threaten public services. This risks a repeat of the mistakes that have caused so many difficulties in the NHS, as the twin goals of spending reductions and reorganisation are simultaneously chased.
- 5.78** Public sector pay settlements must be decided in the context of the pay and reward principles agreed by the Public Services Forum, rather than based on spurious suggestions that settlements above 2% may push up inflation.
- 5.79** The TUC welcomes the efficiencies achieved through the positive side of Gershon, including smarter procurement, effective use of technology and better work organisation. These achievements, delivered by public sector workers, demonstrate that the job cuts agenda included in Gershon is divisive and unnecessary.



Section six Conclusions and recommendations

- 6.1** CSR 2007 will be one of the most important – probably the most important – policy statements in 2007. With a change of Prime Minister due in June, its political significance may become lost to the personality politics that often dominate newspaper headlines. Yet irrespective of the change in political leadership in the UK, themes of continuity and change are bound to be prevalent as the Government marks ten years in office.
- 6.2** CSR 2007 offers the Government an opportunity to build on its successes thus far while allowing a new Prime Minister to renew the Government's project – in short to provide the space to deliver continuity with change. This document has tried to point out both big themes and specific policies that enjoy great support from the TUC. It will come as no surprise to anyone that we welcome the National Minimum Wage, the UK's adoption of the Working Time Directive and the Employment Relations Act. In some of its big ambitions – ending child poverty in the UK, making equality a reality for women, meeting the challenges of globalisation and climate change, acting to end global poverty – we are very happy to support and applaud the Government.
- 6.3** However, the efficiency programme is not working. Other bodies, not just the TUC, are beginning to question the credibility of the job reduction figures announced as a result of the Gershon programme, yet this misses the point. Evidence collated by the TUC and set out in this paper demonstrates that it is simply not possible to take thousands of people out of the civil service workforce and deliver the same level – let alone a higher level – of service. Neither is it possible to try to cut back office staff and rely on client facing personnel, as if back office staff have not been performing a necessary function. Meanwhile, the Varney report makes the mistake of assuming that information technology can take the place of people to a far greater degree than is actually possible. Anyone that has relied on IT in a large, busy organisation knows the limits of this approach.
- 6.4** The failure of the efficiency programme matters. As a trade union movement, of course it matters to the TUC because we wish to protect our members whose jobs are being lost. Yet it matters for wider reasons as well. It matters because thousands of the most vulnerable people desperately need the services provided by the Government Departments that are being cut. It also matters because the Government's economic and social aspirations – aspirations which are so laudable and represent a step-change from the “no such thing as society” approach inflicted on the UK in the 1980s – are in danger of falling by the wayside without the investment needed to make them work.
- 6.5** In other areas, the Government's progressive agenda is threatened by restrictions on spending. Without Government support, equal pay for women will remain a pipedream. Child poverty targets, already falling behind, will be missed. The 80% employment aspiration, requiring the very workers who need DWP support to enter the world of work, will not be possible. The gap between the haves and the have-nots will get even wider. Alternative dispute resolution will fall by the wayside and more expensive Employment Tribunal cases will take its place.

- 6.6** The absence of an active industrial strategy will leave British businesses trying to compete with the might of China, India and the US with one hand tied behind their backs. Lack of a strategy for green manufacturing will allow others to steal a march on the UK in one of the most important industries of the twenty-first century. We may never know the lost potential resulting from continued cuts in the science budget. Failure to fund a sustainability programme properly threatens the very future of the world we live in.
- 6.7** This paper has been written as a direct response to the questions and concerns raised by the Government's process of determining the CSR. However, the TUC believes that as part of the Government's progressive mission, a debate on the wider context of the public finances should be launched. The TUC recognises the political importance for Labour of economic credibility. Past Labour Governments have fallen amid allegations of economic mismanagement. The ability of the Thatcher Governments to paint the Labour Oppositions as being unable to manage the economy, whatever their good intentions, was a major factor in Conservative electoral success in the 1980s. Gordon Brown has ensured that no such charge can be made against this Labour Government's economic record. He was right to do so.
- 6.8** Yet we are about to enter a period of very tight finances that will involve a great deal of pain. It may blow this Government off course. For many it will seem strange that while previous Labour Governments had to make major adjustments to public finances because of economic under-performance, this one is making difficult adjustments while the economy continues to grow. The fiscal rules the Chancellor abides by set the context for this tight CSR but those same rules have also been a major factor in delivering the long-term economic success we have enjoyed. So while we would not criticise the fiscal rules themselves, we must wonder about the wider conditions which have required the Chancellor to take this action to meet his own rules.
- 6.9** In particular, the TUC would welcome a debate on tax. There are clearly questions to be asked about the size of the tax base in the UK and whether it is large enough to sustain a modern, progressive economy. This need not mean an automatic presumption of higher income tax – an extensive debate could raise many innovative proposals around green taxes and other policy driven approaches to government revenue. Equally there are growing concerns about the degree of tax avoidance in the UK by the very wealthy and the effect this is having on public finances. According to the Centre for Economic and Business Research, tax avoidance is becoming so acute that it will soon lead to the Treasury breaking its sustainable investment rule, which requires public sector net debt to remain below 40% of gross domestic product. Furthermore, lawful tax avoidance by the wealthiest is no longer an irrelevance, but is a growing burden on the majority who pay their fair share of tax.
- 6.10** The CSR and its aftermath may prove the most testing time for the Government yet. The TUC is sincere in its hopes that the combined task of maintaining Labour's progressive mission, driving forward efficiencies and service improvements, managing public spending and maintaining credibility at a time of heightened electoral volatility will not damage the Government. We are convinced, however, that this challenging project will be far less dangerous for the new Prime Minister if reasoned negotiation with stakeholders, designed to identify sustainable and non-contradictory reform programmes, is placed at the heart of the process to implement the CSR. Under these conditions, the TUC and the wider union movement will remain supportive partners in the Government's mission to transform British society.



Recommendations

Productivity

CSR 2007 should state that the UK will seek, over time, to reduce the historic productivity gap, measured on an output per hour basis, between the UK and its competitors in France, Germany and the United States. It will do this by playing to the UK's strengths, using an economic, industrial and employment approach based on the successful European Social Model, rather than pursuing the so-called Anglo Saxon Model.

Education and skills

CSR 2007 should prioritise education and skills. A target date for the achievement of the aspiration, set out in Budget 2006, that money spent on children in the maintained sector should match that of the private sector, should be announced.

Additional resources must be made available if the very important recommendations of the Leitch Review, to achieve a world class skills base by 2020, are to be achieved. A framework to give employees and trade unions a significant voice in the new skills infrastructure, to be established as a result of Lord Leitch's recommendations, is required. CSR 2007 should also provide funding certainty for the Union Learning Fund and unionlearn.

The TUC is seeking a shift in the Government's position on English as a Second Language (ESOL), in particular that there should be a free entitlement to fee remission for ESOL either through proof of receipt of tax credits or through an alternative means of demonstrating low pay, such as pay slips.

Science

The TUC calls for CSR 2007 to include a requirement, placed on the Office of Science and Technology (or a successor body), to:

- Exercise effective powers of scrutiny over proposals to close research institutes or facilities and publish its findings on a timely basis;
- Establish and maintain a database of public sector scientific capability; and
- Collate and analyse annual returns from all Government departments, agencies and non-departmental public bodies of scientists in employment, their location and areas of expertise.

Industry

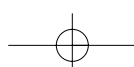
We call for protection of the funding of the Manufacturing Forum to be included in the Comprehensive Spending Review.

Regional policy

The TUC calls for the budgets of the Regional Development Agencies to be protected in the Comprehensive Spending Review.

Child poverty

The Government commitment to halve the number of children living in poverty by 2007 can only be achieved with substantial resources for improved tax credits and benefits in the CSR.



Childcare

The importance of childcare, in tackling child poverty, in reducing the gender pay gap and in helping to move people off benefits and into work must be reflected in CSR 2007.

Housing

The Government should plan for an additional 20,000 more social rented homes, over and above existing plans, each year between 2008 and 2011.

Commission on Equality and Human Rights

The CEHR's permanent budget should be closer to £120 million than £70 million, with an extra amount available to deal with transitional costs.

Statutory redundancy pay

Action should be taken to increase the value of redundancy pay, by increasing the limit for calculating SRP and by setting the statutory limit annually in line with earnings, rather than the Retail Price Index.

Improving protection for atypical workers

The Government should reconsider its stance on employment status, which it set out in its response to the 2002 DTI Employment Status Review.

Pensions

Funds must be made available in CSR 2007 to restore the earnings link between the basic State Pension and earnings by 2010 and to increase the basic State Pension to £114.05 per week.

Climate change and market failure

CSR 2007 should address pricing carbon emissions and establishing a long-term energy market framework to incentivise investment in low carbon/carbon free technology.

CSR 2007 should set out a balance sheet of environmental taxes and expenditure. An assessment is needed of the implications of reaching Stern's 1% target of GDP dedicated towards climate change mitigation and adaptation policies.

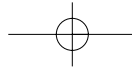
Energy policy

It is vital that CSR 2007 addresses the three linked challenges of supporting clean coal fired power stations, allied to the exploitation of the UK indigenous coal reserves and to the successful deployment of carbon capture and storage technology.

CSR 2007 should prioritise sufficient resources in departmental budgets to secure employee engagement in the proposed Energy Performance Commitment and similar civil society initiatives.

Sustainability and international development

A challenge for CSR 2007 is to ensure that strategies to enable poorer countries to adapt to sustainable development are integrated into development policy at every level.



Gershon Review

CSR 2007 should announce an in-depth study of the effects of the Gershon Review on public service delivery. No further civil service job cuts should be made until that study has reported.

ACAS

The 10% cut in the ACAS budget in the year 2007–08 should be reversed.

Equal pay

CSR 2007 must provide specific, ring fenced funding from central government for equal pay settlements in the public sector.

Health and Safety Executive

The TUC calls for an increase in the resources made available to the HSE, to ensure that it can continue to reduce injuries in the workplace, address occupational ill-health, promote safe working conditions and enforce legal standards on health and safety.

Local and regional pay

CSR 2007 should commit the Government to maintaining national pay bargaining structures.

