

UNITED KINGDOM

Trend growth in GDP per capita has slowed and the sizeable income gap vis-à-vis the best performing countries is wide, reflecting low productivity levels.

Policy priorities

Further reform disability benefit schemes

Challenge and recommendations: To reduce the number of disability-related benefit recipients, it was recommended that the interview-based Pathways to Work programme – which facilitates access to back-to-work programmes and benefits – be extended to the stock of existing claimants on a mandatory basis; the monitoring of the health status of people reaching the end of sickness pay and benefits be improved; and the medical assessment of claims be brought forward.

Actions taken: The Pathways to Work programme will be made mandatory for all new claimants and offered to existing claimants on a voluntary basis by April 2008. New welfare legislation will replace the current system of incapacity benefits with a simplified disability employment allowance at the end of 2008.

Improve the education achievement of young people

Challenge and recommendations: To raise the skill level of young people, it was recommended that the emphasis on the acquisition of core literacy and numeracy skills for young people be continued, so as to improve prospects for further education achievement beyond lower-secondary school; and that work be undertaken with universities to ascertain how the skills and competencies acquired via the new vocational diplomas would compare with those obtained from following a more traditional academic path.

Actions taken: The recently introduced Education Maintenance Allowance, which pays a small allowance to 16 and 17-year-olds from poor families who continue in education, has helped to raise education participation. New vocational diplomas are being developed. The government is raising the age for leaving education or training from 16 to 18.

Improve public infrastructure, especially for transport

Challenge and recommendations: To raise productivity growth, it was recommended that road congestion be reduced and rail system reliability be improved by maintaining investment in transport infrastructure at least at levels envisaged in spending plans and by continuing with preparations for a national road pricing scheme.

Actions taken: Spending on transport infrastructure has picked up, but remains lower than envisaged by the government's Ten Year Plan for Transport. An independent review of long-term business infrastructure and transport needs (the Eddington Transport Study) has argued in favour of extending road pricing and for better targeting spending on key strategic growth areas.

Improve work incentives for low-paid lone parents and second income earners

Challenge and recommendations: To improve incentives for lone parents to work longer hours or to up-skill, it was recommended that the tax and benefit system be modified to lower marginal effective tax rates. Also, to encourage labour force participation of low-skilled second earners, it was recommended that the barrier posed by high child-care costs be reduced.

Actions taken: The 2007 Budget announced an increase in the threshold for the Working Tax Credit which should reduce the marginal effective tax rate for those moving into work. The government has also initiated public consultations on a proposal to introduce more stringent work testing for lone parents receiving out-of-work benefits.

Improve public sector spending efficiency

Challenge and recommendations: To ensure that higher expenditure results in higher standards of service delivery in health and other publicly funded services, it was recommended that performance targets be more carefully designed and incentives to achieve them strengthened.

Actions taken: After years of strong public sector spending increases, the 2007 Comprehensive Spending Review projected a small decrease in total public spending as a per cent of GDP and further efficiency gains are being sought over the coming three years through improved performance management.