



HOUSE OF LORDS

European Union Committee

5th Report of Session 2010–2011

**The EU strategy for
economic growth
and the UK
National Reform
Programme**

Report with Evidence

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The European Union Committee

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Oral Evidence

*Lord Sassoon, Commercial Secretary to the Treasury and Alex Skinner,
Team Leader, European Economic Reform Team, HM Treasury*
Oral Evidence, 30 November 2010

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References in footnotes to the Report are as follows:

Q refers to a question in oral evidence

The EU strategy for economic growth and the UK National Reform Programme

Introduction

1. “Europe 2020” is the new EU strategy for economic growth, agreed by the European Council on 17 June 2010. It focuses on “smart, sustainable, inclusive growth”, defined by five headline goals:
 - aiming to raise to 75% the employment rate for women and men aged 20–64, including through the greater participation of young people, older workers and low-skilled workers and the better integration of legal migrants;
 - improving the conditions for research and development, in particular with the aim of raising combined public and private investment levels in this sector to 3% of GDP, with further work on an indicator reflecting R&D and innovation intensity;
 - reducing greenhouse gas emissions by 20% compared to 1990 levels; increasing the share of renewables in final energy consumption to 20%; and moving towards a 20% increase in energy efficiency;
 - improving education levels, in particular by aiming to reduce school drop-out rates to less than 10% and by increasing the share of 30–34 years old having completed tertiary or equivalent education to at least 40%; and
 - promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion.
2. It includes seven “flagship” policies: see Box 1.

BOX 1

Europe 2020 flagship policies

- Smart growth
 - (i) Digital agenda for Europe
 - (ii) Innovation Union
 - (iii) Youth on the move
- Sustainable growth
 - (iv) Resource efficient Europe
 - (v) An industrial policy for the globalisation era
- Inclusive growth
 - (vi) An agenda for new skills and jobs
 - (vii) European platform against poverty

3. Europe 2020 is the successor to the Lisbon Strategy. This was launched in 2000 and expires in 2010.
4. Aspects of Europe 2020 are under scrutiny by several of our Sub-Committees. The Sub-Committee on the Internal Market, Energy and

Transport has scrutiny responsibility for the Europe 2020 strategy, the broad economic guidelines, and the employment guidelines. The Sub-Committee on Economic and Financial Affairs and International Trade launched an inquiry into economic governance shortly before the summer recess. With innovation and knowledge lying at the heart of Europe 2020, the Sub-Committee on Agriculture, Fisheries and Environment is conducting an inquiry into innovation in EU agriculture. Europe 2020 is important to the work of the Sub-Committee on Social Policies and Consumer Protection as three of its five headline targets relate directly to the work of the Sub-Committee, specifically raising employment; improving education; and promoting social inclusion.

5. Member States will each produce a National Reform Programme (NRP), in April each year, setting out their plans to achieve the goals. For this first cycle, Member States have produced draft programmes, to inform preparation for the Spring European Council.
6. The Government published the UK draft programme on 22 November 2010¹. On 30 November we took evidence about it from Lord Sassoon, Commercial Secretary to HM Treasury. The transcript of that hearing is published with this report.
7. **We make this report for debate alongside the UK NRP** (see para 30 below).

Evidence

No surprises, no panacea, but still worth doing

8. The draft NRP describes itself as “drawing on publicly available information”. The Minister **explained** that it draws in particular on the Comprehensive Spending Review published on 20 October 2010 and departmental plans published on 8 November—which is why the NRP was submitted a few days late².
9. The NRP is evidently a statement of existing policy, not new policy. The Minister said, “This is just a reinforcement of what the Government is anyway focused on doing ... I would be disappointed if we were using the NRP as a driver of policy”³.
10. We put it to the Minister that the history of documents called “national plans” was not encouraging. He accepted our “health warning”. But he defended the NRP process as “a basis off which we can have productive and constructive discussions with other countries” and “a way of galvanising action”⁴.

The EU and Member States

11. The Minister told us how he saw the division of competence and responsibility for delivering the Europe 2020 goals between the EU and Member States. The Government looked to the EU for action on the single market, particularly in financial and other services, and on smarter regulation. In other areas, “The EU cannot force reform on national governments in areas of

¹ http://www.hm-treasury.gov.uk/int_eu_index.htm

² QQ 1–2.

³ Q 18.

⁴ QQ 25–27.

national competence, but it can facilitate peer reviews of best practice and encourage governments to stick to their reform plans. That is where the NRPs come in”⁵. The June 2010 European Council was particularly emphatic that education remained a matter for Member States.

Preparing the plan

12. The Minister told us the draft NRP was prepared by an official working group led by HM Treasury. The devolved administrations were involved. It was, he said, a genuinely government-wide exercise, presided over by the Cabinet Committee on European Affairs and the Treasury’s European Economic Reform Team, whose head gave evidence alongside the Minister⁶. Its form was prescribed by the Commission⁷.
13. The draft NRP is now publicly available, and stakeholders will be consulted. The Minister said, “National ownership is an absolutely key part of the process”⁸. But he admitted that engagement with the NRP requires “a certain amount of pre-existing knowledge”; so he did not envisage a full public consultation⁹.
14. We suggested consulting local authorities. The Minister agreed that they would have views, particularly on issues with a regional element such as export promotion and human capital formation (i.e. skills¹⁰). We suggested consulting business organisations and trade unions; and NGOs, particularly in relation to the EU’s new overall poverty target. The Minister said that all these groups were under consideration¹¹.
15. The Government say they wish Parliament to be involved in drawing up the NRP. We asked Lord Sassoon how, and he put the question back to us¹². This report is our reply.

Monitoring and accountability

16. The division of competence and responsibility for delivering the Europe 2020 goals between the EU and Member States raises the question, how national governments will be held to account for performance against their programmes.
17. The Government’s answer to this question is in part 4 of the NRP, which gives performance indicators for each headline target. These derive from departmental business plans. Performance against these plans will be published; and the annual NRP update each April will give performance data. The Minister described this as an integrated approach¹³.
18. We suggested that there was a role here for independent analysis, along the lines of the “Lisbon scorecard” reports produced each year by the Centre for European Reform¹⁴. The Minister agreed¹⁵.

⁵ QQ 1, 28.

⁶ QQ 10–12.

⁷ Q 17.

⁸ Q 3.

⁹ QQ 5–9.

¹⁰ QQ 14–15.

¹¹ Q 16.

¹² Q 13.

¹³ Q 21.

¹⁴ http://www.cer.org.uk/econ_finance/publications_econ_finance.html

¹⁵ Q 22.

19. There will also be accountability at EU level. The NRPs will be “peer reviewed” in the ECOFIN Council every January, in the Commission’s annual growth survey, and at the Spring European Council. We suggested that Member States tend to be gentle with each other in such settings, and prone to collective complacency. The Minister agreed, but suggested that the current economic crisis would make governments “more honest, open and candid”, and that the UK would give a lead in this respect¹⁶.
20. We drew the Minister’s attention to the work of the OECD in assessing structural reform. He acknowledged its importance, but expressed concern about a prescriptive approach to assessment at national level¹⁷. He was similarly cautious about the role of the Commission; he was keen to preserve Member States’ “ownership” of progress against their plans¹⁸.

Role of national parliaments

21. National governments are responsible to national parliaments. What is the role of national parliaments in relation to NRPs?
22. We considered this in the context of the Lisbon Strategy in 2006. We recommended that the UK National Action Plan should be presented to Parliament, and that the Agenda should be regularly debated.¹⁹
23. Our Chairman raised the same question more recently at the Conference of European Affairs Committees (COSAC) on 31 May–1 June 2010. In response, COSAC included the following in its “Contribution” addressed to the EU Institutions:
- 3.2 COSAC supports the commitment of the European Union towards a renewed strategy for sustainable growth and employment, as set out in the Europe 2020 Strategy put forward by the European Commission and supported by the European Council. National Parliaments are urged to follow up on EU 2020²⁰.
24. COSAC debated the issue at its next meeting, on 24–26 October, and included the following in its Contribution²¹:
- 1.3 COSAC calls on national Parliaments and the European Parliament to take political ownership of the EUROPE 2020 Strategy by actively monitoring its implementation.
- 1.6 Finally, in the framework of the follow up of the EUROPE 2020 Strategy, COSAC invites national Parliaments to reflect on their future role with regard to National Reform Plans.

Motions under s.5 of the European Communities (Amendment) Act 1993 (“Maastricht motions”)

25. Article 121 of the Treaty on the Functioning of the EU²² requires Member States, for the purpose of collective monitoring of economic developments, to “forward information to the Commission about important measures taken

¹⁶ Q 22.

¹⁷ Q 28.

¹⁸ Q 29.

¹⁹ *A European Strategy for Jobs and Growth*, 28th Report 2005–06, HL Paper 137.

²⁰ The Commission consultation, COM(2009)647 of 24 November 2009, was called EU 2020. The strategy itself is called Europe 2020.

²¹ For full text see <http://www.cosac.eu/en/documents/contributions/>

²² Originally Art. 103 TEC; Art. 99 between the Treaty of Amsterdam 1997 and the Treaty of Lisbon.

by them in the field of their economic policy and such other information as they deem necessary”. This provision was introduced by the Maastricht Treaty of 1993. Under the Stability and Growth Pact of 1997, for Member States outside the eurozone, the information takes the form of an annual Convergence Programme.

26. The European Communities (Amendment) Act 1993 enabled the Government to ratify the Maastricht Treaty. In the course of memorable proceedings in Parliament, the House of Commons inserted into the bill for that Act a new Clause, now section 5, requiring the Government, before submitting the required information, to “report to Parliament for its approval an assessment of the medium term economic and budgetary position in relation to public investment expenditure and to the social, economic and environmental goals set out in Article 2 [of the Treaty]”²³. This provision gives rise to regular debates; between 2004 and 2009 these have taken place once a year on the Pre-Budget Report, which forms the basis of the Convergence Programme. The most recent debate, on 4 February 2010, was explicitly about the Convergence Programme, but it comes to the same thing.

European semester

27. From 2011 Member States’ reporting obligations under Europe 2020 and the Stability and Growth Pact will operate to a common timetable known as the “European semester”²⁴. The Minister called this an important detail and “a positive development in economic governance”, making for coherence, consistency and a more holistic approach²⁵, though again it would not be a panacea²⁶.
28. Currently the Convergence Programme must be updated by 1 March each year. The UK’s last one was submitted on 28 January 2010²⁷. Under the European semester, the Convergence Programme and the NRP will be submitted together in April.

Conclusions

29. The Minister said, “The Lisbon Strategy, designed to promote economic growth, regrettably did not achieve its aim”²⁸. In our view this was partly because it had a low public and political profile and therefore ownership by Member States was limited. The EU Institutions are giving a high profile to Europe 2020, and in our view the Government and Parliament should do the same.
30. The Government want to involve Parliament in drawing up the NRP, and the Minister asked us how this should be done. **We recommend that the production of the Convergence Programme and the NRP should be synchronised, and that the annual debate on the Convergence programme under the European Communities (Amendment) Act**

²³ HC Deb 4 May 1993 col. 86.

²⁴ Commission Communication Enhancing economic policy coordination for stability, growth and jobs—Tools for stronger EU economic governance, COM(2010) 367, 30 June 2010. Agreed by the Economic and Financial Affairs Council, 7 September 2010.

²⁵ Q 24.

²⁶ Q 32.

²⁷ http://ec.europa.eu/economy_finance/sgp/pdf/20_scps/2009-10/01_programme/uk_2010-01-28_cp_en.pdf

²⁸ Q 1.

1993 should also, in this House, cover the NRP. We do not recommend that the NRP should be presented for approval; this would require primary legislation, and would be unnecessary, since the NRP does not contain new policy. We recommend only that it should appear on the Lords Order Paper²⁹ and should form part of the material for the debate. This would fit the logic of the European semester approach, and would require no additional parliamentary time.

31. **For 2011, we recommend that the House should debate this report and the NRP together, before the Spring European Council.**
32. The Committee continues to work in this area. We will report on the Single Market in February 2011, on EU economic governance in March and on the EU Financial Framework from 2014 in April³⁰.

²⁹ The Minister could perhaps move a second motion, to take note of the NRP, tabled straight after the Maastricht motion and debated together with it.

³⁰ The Single Market is under inquiry by the Sub-Committee on the Internal Market, Energy and Transport, economic governance by the Sub-Committee on Economic and Financial Affairs and International Trade, and the Financial Framework by the Select Committee itself.

Minutes of Evidence

TAKEN BEFORE THE SELECT COMMITTEE ON THE EUROPEAN UNION
(SUB-COMMITTEE A)

TUESDAY 30 NOVEMBER 2010

Present:	Lord Roper (Chairman)	Lord Maclennan of Rogart
	Lord Dear	Baroness O’Cathain
	Lord Dykes	Lord Richard
	Lord Hannay of Chiswick	The Earl of Sandwich
	Lord Harrison	Lord Teverson
	Baroness Howarth of Breckland	Lord Tomlinson
	Lord Jopling	Lord Trimble
	Lord Liddle	Baroness Young of Hornsey

Examination of Witnesses

Witnesses: LORD SASSOON, Commercial Secretary to the Treasury and ALEX SKINNER [Team Leader, European Economic Reform Team, HM Treasury].

Q1 The Chairman: Minister, we welcome you to your first appearance before this Committee, together with Mr Skinner, who I understand is the team lead on the European Economic Reform Team. I should remind you that this session will be in public. A transcript will be taken. You will have the opportunity to make minor amendments to the transcript, but it will be published online in an uncorrected form first and this meeting will be webcast. I should remind my colleagues to declare any relevant interests and I understand, Minister, that you would like to make an opening statement.

Lord Sassoon: Well thank you Lord Chairman. Yes, if I might briefly introduce our approach to the UK’s National Reform Programme. I welcome this opportunity to discuss it with the Committee. Clearly the NRP is an important document in which the Government sets out the UK’s structural reform programme and plans. It’s important because we all know that Europe desperately needs economic growth. At a time when the EU’s potential growth in 2014 is forecast by the Commission to be just 1.7%, we need to do whatever we can to make sure that that potential growth is increased. We also know that the Lisbon strategy, designed to promote economic growth, regrettably did not achieve its aim.

As you know, in June the EU heads agreed the new Europe 2020 strategy, which seeks to make better progress than Lisbon did and to promote smart, sustainable, inclusive growth. The Government supports those objectives. Yet, of course, it’s not the EU strategies that themselves deliver growth; it’s implementing the right strategies, and, while some important action is needed at the EU level on the single market on trade and smarter regulation, and the UK will be a driving force behind progress in those

areas, much of the action that’s required is at the national level. The EU cannot force reform on national Governments in areas of national competence but it can facilitate peer reviews of best practice and encourage Governments to stick to their reform plans. That is where the NRPs come in.

The peer reviews that Member States conduct of the policies they set out in their NRPs should help with mutual learning. In the NRPs this year, for the first time, countries identify bottlenecks to growth and we believe that that’s a valuable innovation. So Member States identify the obstacles to growth and then will be held accountable for progress or lack of it that they make. That’s a process that can be carried out without in any way compromising national ownership. The bottlenecks suggested by ECOFIN for the UK, with which the Government agrees, are: number one, reducing the deficit; then ensuring a well-functioning and stable financial sector; rebalancing the economy towards net exports; facilitating an increase in private investment; and improving human capital formation. The NRP sets out the steps we’re going to take to address these obstacles to growth.

As you know, this month’s NRP is a draft one because in some ways it is a trial run as we transition to the new EU timetable for the surveillance processes. It comes out very shortly after the Spending Review and draws very heavily on that. The Government will consult widely in Parliament and more broadly for views on this draft before drawing up a full NRP in April, so I very much welcome the opportunity to hear this Committee’s initial views on the draft.

Q2 The Chairman: Thank you very much indeed. Perhaps we can begin with one slightly small but none the less important question. The Commission

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requested that the draft National Reform Programmes be completed by 12 November. We understand that the UK's draft NRP was not submitted on time. Was there any particular reason for this delay?

Lord Sassoon: We got the NRP in on the 22nd, so 10 days after the deadline. The reason for it was that there was a very tight turnaround between the Spending Review on 20 October and departmental plans being issued on 8 November. Between that and 12 November, we'd actually given the European Commission warning about that, and they were comfortable with the likelihood of possible delays given the domestic constraints.

Q3 Lord Richard: I am interested in the processes by which you actually produced the draft review. Did you consult widely or was it basically an internal document? Was it a Treasury document? Did it go around Whitehall? The usual sorts of questions, but I'd be grateful for the unusual sorts of answers.

Lord Sassoon: Let me try. I doubt there will be any surprises in my answer, but there was a Treasury-led working group at official level that took the ownership of the production of the UK NRP. It had representatives from across Government and from the devolved administrations of course. The group had regular email, phone contact and regular meetings. The draft is based on guidance that was issued by the Commission. There was regular contact with officials from across the Commission as we worked up the plans; for example, at the visit of the Commission to the UK on 25 October. The plan itself was cleared by the Government's European Affairs Committee, which includes senior Ministers from across Whitehall. That has been the process to date. In producing the full NRP for April 2011, we of course need to involve a wider process of stakeholder engagement because national ownership is an absolutely key part of the process.

Q4 Lord Richard: But the production of the draft was basically an internal Government thing? You didn't go out and consult?

Lord Sassoon: No, it was central Government and devolved administrations.

Q5 Lord Richard: On producing the final draft, are you going to go out and consult?

Lord Sassoon: Yes, we are. The official group is currently considering which stakeholders we should address and how to go about that. The NRP is of course already accessible to the public on the Treasury website, and I'd be interested in any particular views the Committee has on thoughts about the form of parliamentary engagement. I think we may come on to that on a subsequent question. We also, of course, welcome parliamentary

engagement as part of the further engagement. Then there will be ECOFIN discussions as well in the time up to the final draft.

Q6 Lord Richard: Is the consultative process you were just talking about going to be public, in the sense that you're going to make an appeal for evidence? Are you going to pick people to go and talk to them? What are you going to do?

Lord Sassoon: We've only just got the draft out and we're now working up a plan to seek views. The fact that this is already a public document certainly means that anyone who wishes to is able to let us have their views, and I'm sure we'll get a lot of views in, but we want to see how we structure the discussions in a way that makes it more effective.

Q7 Lord Richard: But it is a public document that is basically a Government document? That's the point I'm making.

Lord Sassoon: Yes.

Q8 Lord Richard: Is the Government going to get it into the public domain? Are you going to ask people at public institutions what they think of it and what they think the Government should do?

Lord Sassoon: Indeed.

Q9 Lord Hannay of Chiswick: Minister, don't you think that perhaps the basic problem is that if you went out there and asked the great British public whether they knew what Europe 2020 was, they would look at you with blank amazement and would not be aware of what it's about and how it relates to our own national wellbeing? Does the Government not think that getting people to understand why we're doing 2020 at all, and why it is in our interests to have an NRP, is a really important precursor to asking people what their views on it are? At the moment, I would say the ignorance is almost total.

Lord Sassoon: I certainly agree that, for the reasons that you give, we are unlikely to decide to go through a full, formal consultation route. I completely agree that it requires a certain amount of pre-existing knowledge about the purposes of the document and the constraints in which it is constructed. I think it's more likely that our approach to stakeholders will be on a more proactive basis to make it a more cost-effective and productive exercise. There is a wider question about educating the public about Europe 2020 and the wider European project that we don't have plans to use the NRP process to be a plank of.

Lord Hannay of Chiswick: I have to say that the purpose of my question was not to say that I agreed with a more restrictive form of consultation but to ask you what you were doing about having a broader form of consultation, but I think you've answered that too.

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Q10 Lord Dear: Good afternoon, my question is about co-ordination. As I think we all know, Europe 2020 talks about cutting right across all sectors. I wonder if you can help us in that regard. Particularly, what plans do you have for really meaningful cross-cutting over sectors, how were those plans formulated and broadly how will they take effect?

Lord Sassoon: I think probably the key to this is making sure that there is top-level Government engagement of Ministers right across the key sectors that are affected. I think critical to answering that is that the Government's European Affairs Committee, which has the relevant seniority and spread across Government, is being seen to take leadership of it. It means that the official process across Whitehall and the devolved administrations does mean to say that everybody is brought in. Crucially, Mr Skinner and his colleagues at the Treasury have a dedicated team focused on European economic reform. This is absolutely central to their business, to bring it together across Government. This is not being brought together in some sort of ad hoc way. We have a dedicated team at the centre that are really making sure that this is all stitched together.

Q11 Lord Dear: I'm sure that that may well happen, but can you reassure me on one thing? My experience of cutting across sectors—involving other sectors, disparate groups or whatever—is that frequently the top-down approach, in the end, ignores the views of those beneath it. In other words, some of the sectors could be marginalised in that decisions are taken that would bear down upon them, but they have not been fully involved in the discussions beforehand. Are you satisfied that that will not happen?

Lord Sassoon: What I've described is essentially a top-down process, yes, that has gone bottom-up, as I've described so far, across official levels at Departments very widely. Now we have to make sure that nothing has fallen between the cracks in the stakeholder engagement process, but I think this issue of top-level Government buy-in to it is very important. I see it as a feature of the way that the new Government goes about its business. The approach of Cabinet Committees, with Ministers taking them very seriously, officials being energised by the fact that Committees will come back, rather than the Committee process being in any sense a formality, is something that in a lot of processes, not just relevant to the NRP, is galvanising much better across Government co-ordination in a very productive way. I think this applies to the NRP, as to lots of other things.

Q12 Lord Dear: So long as those upon whom it is being visited feel that they have been consulted adequately and that their views have gone forward.

Lord Sassoon: Indeed.

Lord Dear: I think we're on common ground on that.

Lord Sassoon: Absolutely, yes.

Q13 Lord Jopling: I shall begin by declaring an interest as a recipient of funds under the Common Agricultural Policy. Minister, you made it clear, as I think I heard you, you'll be consulting Parliament before you submit the final NRP to the Commission. Could you tell us how you're going to do that? Are you going just to talk to a Committee like this one and the other one in the other place? Are you going, for instance, to ask the business managers in each House to have a debate on the NRP? Can you go into detail as to how you're going to consult Parliament? Also, let's not forget the devolved administrations: have you consulted them so far? Afterwards, again, before you submit the final one, are you going to consult them again and how?

Lord Sassoon: Well, let me deal with the easy bit, which is the last bit of your question. Yes, the devolved administrations were fully engaged in the process of producing the draft and absolutely they'll continue to play an important role in producing the full NRP, both at an official and at a ministerial level. On the question of broader parliamentary engagement, I regard this as the first important step in that process. I'm rather new to these processes and I would very much welcome your Lordships' views on what might be the most effective way of doing it. Of course, it's not that UK parliamentary approval for the NRP is required, so it is a question I think of what's the most efficient way of engaging with this Committee and the other Committee. I would really be interested on your views on that.

Lord Jopling: Maybe you'd think about what I suggested, asking the business managers to put on a debate in Government time in each House, so that all members of each House can make a comment.

The Chairman: If I could say from the Chair, Minister, although we are considering it today, the National Reform Programme is not something that would normally be scrutinised by this Committee. We scrutinise documents that come from Europe, that then become European legislation. It might therefore be more appropriate to think of other Committees, both in this House and in the Commons, that would be dealing with the substance of these issues, rather than the relationship with Europe.

Q14 Baroness Howarth of Breckland: Just following on from that and this continued debate about how stakeholders become involved, usually stakeholders own something, when they've been involved in defining it. I can't see practically at the moment how that's going to happen with this document. I wondered what role you think local authorities in particular might have in defining elements of the

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NRP. In the document, the private sector is mentioned several times but there isn't a great focus on local authorities, who are very influential in their communities in carrying these things forward. I wondered how you'd ensure their continued engagement once you have their attention.

Lord Sassoon: Well I think it is very useful to be reminded of the role of local authorities. We don't forget the role of local authorities of course, and in the time available to produce the draft, we didn't have a chance to consult with them. I think bringing up this question today is a useful prompt that we need to consider how to engage them. There are many other strands of policy that have more direct or a greater burden of delivery that falls directly on the local authorities than frankly a lot of the streams do in this plan. I don't think we want to overburden the local authorities but, as I say, I think your bringing up this question today will be a useful prompt to make sure they get their proper place in the stakeholder engagement that we've been discussing.

Q15 *Baroness Howarth of Breckland:* They have as much to do with their local communities, who might be ordinary folk. We often talk in this Committee about how you help ordinary folk to understand European issues that may be very conceptual but hard in practical application. I just wondered if you'd thought through how local authorities might help with some of that.

Lord Sassoon: I think that's right, although we must bear in mind, looking back to the key focus of the NRP, getting rid of the bottlenecks. For example, probably asking the local authorities some of the big questions about reducing the deficit, in which they share the burden of course, wouldn't be productive. When it comes to some of the issues that have very much a regional element, such as promoting exports or issues around human capital formation, I'm sure they'll have views. I think the thing is not to get over-focused on them as a stakeholder group but to recognise that, yes, they play a role and that we must allow them to put in any thoughts.

Q16 *Lord Liddle:* Just following on from that, I wondered if we could have an assurance that maybe the business organisations and the trade unions are going to be brought into this process of stakeholder consultation and also NGOs. I think that in particular NGOs would be very interested that for the first time the European Union has set an overall target on poverty. A lot of NGOs, like the Joseph Rowntree Foundation and all these sort of people, are very interested in these issues. Will the Government be trying to engage them on that?

Lord Sassoon: We are considering all these groups absolutely in the plan over the next five or six months, or whatever we now have—four months.

Q17 *Lord Harrison:* Could I just register a bit of a disappointment, Minister? You are right that the NRP replies to the five questions put to it by the Commission, but when I read them, I was surprised that they weren't shaped towards the process that's going to happen, which is they are going to be presented within the fold of the European Union. There might have been more effort made about how we reform the United Kingdom vis-à-vis, say, the single market. I just thought that more might have been shaded that way to acknowledge those who are going to receive the programme.

Lord Sassoon: Well, we very much followed the guidelines for producing the document that the Commission has set out. As I described before, we had discussions with the Commission as we were working out the plans. We believed that we produced the document in a form that meets their expectations for the way it would be presented. We certainly didn't have a free hand to present the document. I don't say we would have produced it radically differently, but we didn't have a free hand to produce it in a context independently. We had to produce a document alongside the other 26 within guidelines. I don't know if Mr Skinner might like to add something?

Alex Skinner: If I could just add that this is one part of the Europe 2020 process. The other part is that the Commission is publishing seven flagships. That includes the single market and others. There is currently a consultation on the Single Market Act and we're looking to reply to that. There are other flagship policies on industrial policy, skills and other areas. We will obviously be replying to those. We're fully engaged in that process and we will be taking that forward. Yet, as the Minister said, unfortunately the Commission was quite prescriptive about what we could put in here, and unfortunately the only thing we could say was in the introduction because that is the only place where we had the freedom to make the point.

Lord Harrison: That's very helpful.

Q18 *Baroness O'Cathain:* In fact I was just about to say the same thing because they are sort of seamlessly together at the moment. All these three major issues—the 2020, the single market and the NRP—are all sort of melding together in a lot of places. My question was about Europe 2020 outlining five headline targets. What role do you envisage for the private sector in meeting these targets? When you actually look into the five targets, I find it very hard to get my head around any company or any part of the private sector being able to do anything much to meet these targets because they are national targets, as opposed to a particular sector of the national economy. I just wonder how you view that. For example, just taking one out of it, such as the fourth of these five headline targets, which is that early

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school leavers will be less than 10% of the population and that 40% of the 30 to 34s would have tertiary education or equivalent. What's the role? How can we actually do that?

Lord Sassoon: I think you're absolutely right. Clearly in some of the priority areas, the private sector has a much greater role of delivery than in others but, even in those areas, the policy is generally going to be set by Government. An example that is perhaps more directly focused on the private sector would be the question of bottlenecks to growth, and so the bottleneck on facilitating an increase in aggregate fixed private investment. That really has private sector at the heart of it, and that is on pages 12 to 13 of the draft NRP. If you take one like that, it is very much the responsibility of Government to facilitate the conditions under which we can expect the private sector investment to grow. That's where it comes back to deficit reduction, tax policies and reducing regulations. We need the private sector to have broad buy-in to this plan as being consistent with the suite of Government policies. We want to make absolutely sure that there is nothing in this plan that somehow additionally gets in the way of private sector investment. I think this is just a reinforcement of what the Government is anyway focused on doing. In a way, I would be disappointed if the cart was put before the horse here. It is important that our fellow Member States in the European Union through the NRP are able to see in a focused way that the UK is delivering greater private sector investment, for example. Yet, I would be disappointed if we were using the NRP as a driver of policy in this or other areas.

Q19 Lord Tomlinson: Minister, it has been suggested that the broad economic policy guidelines that purported to be the backbone of co-ordination have been consistently ignored by national policymakers. Arising from that I have three interrelated questions. Are the guidelines well conceived and could they have become a basis for better surveillance of macroeconomic imbalances? Secondly, what has been made of them in the United Kingdom? Thirdly, should the power to issue policy warnings and recommendations to Member States whose policies are not consistent with the broad economic policy guidelines be used more extensively?

Lord Sassoon: Well, let me try and disentangle a bit of that, recognising—

Lord Tomlinson: In two minutes!

Lord Sassoon: —that some other noble Lords may have a few more questions. I think in essence, clearly the number of guidelines under the old Lisbon strategy was probably too many, not focused well enough and didn't really work. Now we have a narrower focus of the guidelines, and we've come down from 24 to 10 between the BEPGs and the EGs,

the broad economic policy guidelines one to six and the three employment guidelines, so the focus has come down much more narrowly. I welcome that. You mentioned integrated guideline two, which is the one addressing macroeconomic imbalances, and guideline three, which talks about reducing imbalances within the euro area. I do think those guidelines are going to be a useful part of the monitoring toolkit because these clearly are some critical areas. I think now that they are not buried within 22 others, they could be useful.

The UK's approach has very much focused on tackling the bottlenecks to growth because we think that is where the practical impact for the UK will be most evident to other Member States and where hopefully the peer group process can suggest to other EU countries where they can focus their own structural reform. We've made clear which of the integrated guidelines applies to each bottleneck. We've knitted the guidelines and the bottlenecks to growth together.

On the question of policy warnings and exceptional policy recommendations, we think those should only be used in extreme circumstances. I don't see those as being part of the normal process but being something that is there to be used very infrequently to back up what should be a process that goes with rather easier peer group discussion.

Q20 Lord Tomlinson: If I could just follow that very briefly, Lord Chairman. Maybe the warnings and recommendations should be used very infrequently, but are they perhaps more useful in the context of more focused guidelines?

Lord Sassoon: Absolutely. The essential point is the focused guidelines. One hopes the process should go via peer group pressure and assessment. We have this process for the Commission and ultimately the Council, if absolutely necessary, to intervene. I think that's perfectly proper but I hope it won't have to be used at all frequently.

Lord Tomlinson: I'm gratified that we've got peers in the European Union.

Q21 Baroness Young of Hornsey: Minister, could you tell us how frequently and by what method the UK will be measuring progress in relation to the NRP, including headline targets for Europe 2020 and any other targets that are set out in the NRP? Could I just insert a question there about your mention earlier that you found the peer review process to be beneficial in terms of exchanging best practice? I was wondering whether perhaps that process might also feature in terms of looking at progress of reaching targets. Finally, could you say what role you see for Parliament in monitoring our achievement of the national targets set out in the document?

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Lord Sassoon: The first thing that you may have seen from looking at the draft NRP is that we have linked our approach to the business plans and the indicators that are in each departmental business plan. That is very much so that we can measure progress in a transparent way, as part of the very widely advertised and freely available access now to departmental business plans. So the judgement we've taken is that the best approach for the UK to make sure that this isn't something that's off on the sidelines is to integrate the NRP process with the normal and important transparency of departmental reporting. The public will be able to regularly track progress against the key information and data. The NRP will be updated annually each April. That will include specific updates on performance and there will be a transparency section on that. Obviously the public and Parliament will be able to monitor it through the year on the individual departmental and Number 10 websites. The business plans have already been published, of course, for comment by Parliament and wider stakeholders. That should be the start of a regular process that goes much wider than the NRP. As far as ECOFIN is concerned, there will be a peer review process on the drafts in January through ECOFIN and then this will feed into the Commission's annual growth survey, which will be discussed at the Spring European Council, and that will be the start of a process. I could go on with further steps but it will then link into the further steps in the annual calendar of the EU.

Q22 Lord Hannay of Chiswick: Following up that point Minister, two things occur. I think one of the things that went wrong with the Lisbon Process was that when you conduct these peer group reviews in ECOFIN or somewhere like that, everyone is actually extremely cautious about what they say about other Member States because they think, "There but for the grace of God," etc. There is therefore a limit to the usefulness of it. Will the Government forsake any undue concern about what people might say about us if they think that there are areas in other Member States that really do need correction? The second thing is, as far as some kind of monitoring of our own performance nationally, surely what you really need is a kind of well-equipped NGO scorecard on how we are doing. Alas, it's not much use hoping that Parliament will do it, because it would be highly politicised. Those on the Government side will say they are doing pretty well and those on the Opposition side will say the Government's making a mess of it. However, the Centre for European Reform, as you probably know, published an annual scorecard for Lisbon that was extremely influential because the Commission was far too frightened to do it properly. The publication of this scorecard, with villains and heroes and things

like that, did have quite an impact. I just wonder whether you couldn't think a bit imaginatively about this sort of thing. I think it would have much greater credibility with the public if it came from a non-political source.

Lord Sassoon: There are some interesting thoughts there. I think the first thing we should bear in mind is that there has been a huge shock to the European system as a result of the financial crisis and the reassessment not only of the implications for the fiscal framework but also the implications for what needs to be done for structural reform—the whole Van Rompuy drive, the Mario Monti work and so on. I think we should be optimistic in that context that people will be more honest, open and candid in their discussions in particular in the peer review processes. I don't think we should be overly optimistic because we know what the dynamics are of these discussions, but I think it is worth remembering that we are in a world in which people, if they were complacent, will be less complacent now about what needs to be done. I certainly hope that the UK will bring a candid approach to these discussions. I think, going back to what I was saying before, the fact that the indicators that we will be using for the NRP are ones that are absolutely embedded at the centre of departmental business plans means that this won't be something off on the side that we can in any way massage or construct specifically for some discussion off in Brussels. That means we will be coming at it in a straightforward way. I hear what you say about the CER and other people coming at it. I think it will be interesting to see what outsiders do in the way of scoring but, as we've seen from the past, there's no shortage of expert independent bodies that can look at these things and give some commentary.

Q23 The Chairman: Minister, just following that up, in paragraph 3.2 of the NRP, you say, "The Government believes that the process of identifying national bottlenecks, and then being held accountable for tackling them, has the potential to be a valuable way of encouraging reform without sacrificing national ownership." I wonder whether you can say who will hold HMG accountable in this and how?

Lord Sassoon: I think it's going to be done in a number of ways. The first thing is that Parliament will be able to see it. So it will be in your Lordships' House, in Committee or in debate, and in another place. As we've discussed, we will have the UK public able to look at it. We will have independent think tanks and any number of other interest groups there to give us their views, their assessment, their criticism—one would hope it will be constructive. This is really focusing on the European peer group process. I think there's nothing in addition to what I've said already

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but I think potentially people can come at it from many different angles.

Q24 Lord Trimble: The question I was going to put was to observe that the Lisbon Strategy didn't meet expectations and to ask if the Government believed that the NRPs and Europe 2020 will succeed where Lisbon failed. I was glad that a moment ago you actually mentioned the elephant in the room: the fact the current crisis was caused by the fact that, rather than become more competitive, some parts of the European Union lost competitiveness, judged against the world as a whole, and all of us are currently continuing to lose competitiveness relative to Germany. Is there anything in 2020 and NRPs that is going to address those issues?

Lord Sassoon: Well I'm grateful for what you said, commenting on my previous answer, because I think that is a critical starting point; people have to wake up to the realities of what Europe in a post-crisis globalised world means. I think in practical terms there are a number of things about the way that the strategy should all hang together in a coherent way that mean it could work better than under the Lisbon approach. Particularly—this is detail but important detail—the new EU semester reconciles the analysis of fiscal policy under the stability and growth pact with structural reform policy under Europe 2020 and puts them on to a common timetable. Now just in process terms, which are very important to making all of this work effectively in Europe, that is a big step forward to have these things working to a common timetable. Certainly it is the Government's view that the EU semester approach represents a positive development in economic governance to bring coherence and consistency across the piece. So I think that will go to the heart of the way that Europe will in mechanical terms, but important mechanical and governance terms, try and bring a more holistic approach than has been done in the past.

Q25 Lord Trimble: Will it do better than the Lisbon Strategy; just that they have some slightly superior processes for bringing that together, to look at the papers and to discuss them? Will it actually produce a better product or outcome than before?

Lord Sassoon: I would say a significantly better process, much greater focus, a more realistic approach to what is targeted so looking in these terms of bottlenecks to growth is a much more practically orientated approach to it. I think we should be optimistic. Certainly from a UK perspective, we should lead from the front in the sense of producing a good practicable and workable plan and using that as a basis off which we can have productive and constructive discussions with other countries. Of course we have to be realistic about the difficulties of doing any of these things on an international

platform, but I think this is a significant step forward from the previous Lisbon approach.

Q26 Lord Jopling: There are perhaps one or two members of this Committee who are old enough to remember in the mid-1960s when, with a great flourish of trumpets, George Brown produced the National Plan. It was held out to be the great recipe for economic Valhalla. As time went on it became more and more seen as a sort of ribald joke and still is to many people. Is this all that much different?

Lord Sassoon: I have to say that I didn't live through the tortuous difficulty of national plans.

Q27 Lord Jopling: I see, you were still at school when that came out?

Lord Sassoon: I was probably still at school then. I think there is a great danger. I approach my answer with some trepidation because I put my name to what I think is rather an important document in another part of the economic space, which was the first National Infrastructure Plan, an important document the Government produced within the last month as part of our suite of growth policies. I do think that a national plan or a series of national plans as coming together in the European context is a way of galvanising action. Yet, I do share with you a recognition that we shouldn't think that just because something has "National Plan" on the front page, it is going to solve all the problems of Europe absolutely. So I very much take that health warning.

Q28 Lord Liddle: Following up your point about galvanising action, one of the developments we've seen both at national and European level in the last 10 or 20 years is that monetary policy and fiscal policy—including with the latest developments in UK policy, the creation of the Office for Budget Responsibility—are increasingly subject to external independent scrutiny. We don't have similar scrutiny of structural reform and of progress on structural reform. That has been one of the weaknesses of the Lisbon Strategy. The only body that provides any kind of assessment, and it's dealing with a different group of people, is the OECD. They do a lot of valuable work on structural reform issues but it's not targeted at these EU processes. In fact, the EU rather wants to keep the OECD at a distance. So, how do we resolve this problem of lack of really independent scrutiny of Member State progress on structural reform?

Lord Sassoon: Well I think that raises some interesting questions. The first thing is that we have to remember that most of the delivery of the policies that we're talking about here falls to individual Member States. I think we have to bear in mind that, as I said at the outset, there are some very important pieces of uncompleted business at the Europe-wide level, such

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as completing the free market in services, and indeed in financial services there is still a long way to go. So there are a lot of things to be done at that level, but I think the key to this process is getting true national ownership. A lot of it goes back to individual Member States putting their own internal processes in order. I don't think we should necessarily be dictating to individual Member States how they go about it. You helpfully mentioned the Office for Budget Responsibility because I think that is an instance of the UK absolutely leading the way, and if that is the sort of leadership by example that we can give and people pick up on our ideas in the UK, the approach we have now to developing individual developmental business plans and indicators goes with it. I think it's part of the transparency and enables people to assess how we're doing. I think it is that sort of approach and the OECD has had an important role to play for a long time. Yet, I'm not sure that we want to be going too far in imposing a set of prescriptive approaches to assessment down at the national level.

Q29 Lord Hannay of Chiswick: I just want to carry on a bit beyond that point, because we've had a lot of questions about peer group and peer review and so on. Don't you think that something that has been missing in our discussion so far this afternoon is the role that the Commission's going to have to play in all this? I don't accept the view that Lisbon wisely minimised the role of the Commission and maximised the role of the Member States. I think that is one of the reasons that it didn't work very well. Although I don't think that in any circumstances the Commission should be ordering Member States around in their national strategies, I do really think they are one of the sources of reasonably objective analysis that will need to be drawn on. Does that make sense to you?

Lord Sassoon: Of course the Commission has a critical role at the centre of this. I think the way that the greater co-ordination between different strands of the broader economic and fiscal agendas come together is very much driven by the Commission. Of course they're absolutely critical there to facilitate and guide the whole process. As I've described in the way that the Commission has driven the format of these plans, there's been an interactive discussion with the Commission as we've worked them up. Absolutely they are there at the table to make sure that all of this works but I'm not sure in this area. It's a fine balance between the Commission handing down tablets of stone on the one hand and, on the other hand, making sure that individual Member States really do take ownership and don't feel they are being pushed into something of the making of somebody else. I think it's a fine line that the Commission has to tread

and, in the way the NRPs are coming together, I think the balance is being struck perfectly well.

Q30 Lord Hannay of Chiswick: But it is a line that, in the context of the growth and stability pact, the Commission got more or less right, and the Council and the Member States swatted it aside and are now suffering the consequences.

Lord Sassoon: I hear what the noble Lord has to say. I think that probably gets us into territory slightly beyond the NRP.

Q31 Lord Hannay of Chiswick: But it is an example of why it's perhaps a little bit wiser to take the Commission seriously, when it hasn't a particular axe to grind, in these matters than we or other Member States are inclined to do.

Lord Sassoon: Indeed. I think that last sentiment I share.

Q32 Lord Harrison: Minister, you have explicitly mentioned the European semester and you seemed very warm to the idea of it leading to a more integrated and effective policy co-ordination at the EU level. I press you on a couple of points. Do you see a co-ordinated EU review of Member States' budgetary and structural policies as an effective mechanism to guide the drafting of domestic budgets for the following year? Whilst you seem welcoming of the idea of the European semester, there are those who do not welcome the idea that peer reviews are setting out these items, that we each lean over each other's shoulders and perhaps comment on what each other is doing. This probably is going to be part of the process. Do you see, in the end, that that is a beneficial result of establishing this European semester?

Lord Sassoon: Yes, I do see that the semester is positive in bringing these two critical strands of policymaking together in an overall economic governance sense. It should and I hope it will lead to more coherent and consistent recommendations being given to Member States that can inform the development of their follow-up policy. I don't want to say that there's anything in this construct that is going to solve all of our or Europe's problems at a stroke, but I think this is another sensible development based on learning the difficult lessons of the last couple of years.

Q33 Lord Harrison: Will you be happy if others comment on our programmes and, in fact, will you be happy if we comment on others' programmes?

Lord Sassoon: Well, we will make our full contribution as we're invited to through the processes. Of course, we will welcome others' contributions similarly.

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The Chairman: Minister, thank you very much indeed for coming and giving us so much evidence today. Perhaps I could just tell you that over the last 12 months in the meetings of COSAC, which brings together the European Affairs Committee of all of the 40 Chambers in the European Union—although they have 27 Member States, some of course are bicameral and some are unicameral, so there are 40 Chambers and we meet twice a year—we have been pressing our colleagues in the context of looking forward to 2020 to

be trying to hold their Governments to account in their own Parliaments on their NRPs, so I'm afraid that as we felt we were encouraging them to do it, we should invite you to come in and give evidence. We're extremely grateful to you for doing so, having given such a full idea. As I say, it may well be other Committees that will pursue this in future but we're very glad to have known something today of the process and to you and Mr Skinner for your evidence today, thank you very much indeed.
