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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2015 National Reform Programme of the United Kingdom and delivering a Council opinion on the 2015 Convergence Programme of the United Kingdom

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2015) 277 final.

COUNCIL RECOMMENDATION

of …

on the 2015 National Reform Programme of the United Kingdom

and delivering a Council opinion on the 2015 Convergence Programme

of the United Kingdom

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a Recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States[3]. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a Recommendation[4] on the United Kingdom's National Reform Programme for 2014 and delivered its opinion on the United Kingdom's updated Convergence Programme for 2014.

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey, marking the start of the 2015 European Semester for economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which the United Kingdom was identified as one of the Member States for which an in-depth review would be carried out.

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3 Maintained by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

4 Council Recommendation of 8 July 2014 on the National Reform Programme 2014 of the United Kingdom and delivering a Council opinion on the Stability Programme of the United Kingdom, 2014 (OJ C 247, 29.7.2014, p. 136).

(5) On 18 December 2014, the European Council endorsed the priorities for fostering investment, intensifying structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for the United Kingdom. This assessed the United Kingdom's progress in addressing the country-specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that the United Kingdom is experiencing macroeconomic imbalances which require policy action and monitoring. In particular, risks related to the high level of household indebtedness, also linked to structural characteristics of the housing market, continue to require attention. The resilience of the economy and the financial sector has increased. However, a shortage of housing will persist and is likely to underpin high house prices in the medium term and continue to leave the sector less resilient in the face of risks.

(7) On 26 March 2015, the United Kingdom submitted its 2015 National Reform Programme and its 2015 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The United Kingdom is currently in the corrective arm of the Stability and Growth Pact. In its 2014-15 Convergence Programme, the Government plans an improvement in the headline deficit from 4,3 % of GDP in 2015-16 to 2,2 % of GDP in 2016-17 so that a surplus of 0,1 % of GDP is reached in 2019-20. The Convergence Programme does not include a medium-term objective. The government debt-to-GDP ratio is expected to peak in 2015-16 at 88,8 % and to gradually decline to 81,4 % in 2019-20. Based on the Commission's 2015 spring forecast, the United Kingdom is not expected to have corrected its excessive deficit by the 2014-15 deadline set by the Council. Furthermore, the fiscal effort was below what was recommended by the Council. For this reason, on 19 June, the Council decided in accordance with Article 126(8) TFEU that the United Kingdom had not taken effective action in response to the Council recommendation under the excessive deficit recommendation of 2 December 2009 and issued a new recommendation asking the United Kingdom to correct the excessive deficit by 2016-17. The Convergence Programme is compatible with the new 2016-17 deadline under the excessive deficit procedure. The macroeconomic scenario underpinning these budgetary projections is plausible. Based on the Commission's 2015 spring forecast, the United Kingdom is forecast to correct its excessive deficit by the 2016-17 deadline and to deliver the recommended fiscal effort. Measures to support the planned deficit rates from 2015-16 onwards are already specified but greater detail is required on ear-marked departmental expenditure limits. Based on its assessment of the Convergence Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that the United Kingdom is expected to comply with the provisions of the Stability and Growth Pact.

(9) A high, and possibly excessive, level of household indebtedness has been identified as potentially constituting a macroeconomic imbalance that poses risks to the United Kingdom's economy. While household sector indebtedness continues to fall modestly, it remains high and leaves the United Kingdom vulnerable to risks that could affect economic growth and financial stability. In mid-2014, the Financial Policy Committee of the Bank of England announced two measures to mitigate risks associated with high household indebtedness. They recommended that mortgage lenders apply an ‘interest rate stress test’ to assess borrowers’ ability to meet their mortgage obligations if interest rates rise. They also recommended that mortgage lenders limit the proportion of mortgages at loan-to-income ratios of 4,5 and above to 15 % of new mortgages. The impact of these measures should be monitored carefully.

A number of reforms of the national planning policy framework have been undertaken but these are unlikely to have a short-term impact. The response of the local authorities to the reform in raising housing supply needs to be closely monitored.

(10) The United Kingdom's labour market has performed well in recent years and is set to remain strong. The employment rate reached 76,5 % in 2014 while the unemployment rate continued to fall, to 6 %, and is projected to decline further in 2015. Despite the positive trends in relation to labour market outcomes, social challenges persist. The rate of people living in households with very low work intensity increased slightly, from 13 % in 2012 to 13,2 % in 2013, compared with the EU average of 10,7 %. The difference in the share of part-time work between women (42,6 % in 2013) and men (13,2 % in 2013) is one of the highest in the Union.The percentage of women who are inactive or work part-time due to personal and family responsibilities (12,5 %) was almost twice as high as the EU average (6,3 %) in 2013. Youth employment and employer engagement in the area of apprenticeships are further challenges. Another area to focus on, linked to youth employment, is education and skills. A large proportion of young people have comparatively low levels of basic skills. The implementation of measures to address welfare reform and childcare has been limited. The proportion of children living in jobless households in the United Kingdom is still one of the highest in the Union. In addition, even if supply in the childcare system has increased recently, the availability of affordable, high-quality, full-time childcare remains a key issue.

(11) Boosting public and private investment would help improve productivity and competitiveness which are key challenges for the United Kingdom. The need to ensure high-quality infrastructure investment is reflected in the December 2014 national infrastructure plan which has been updated and widened in scope. The private sector is expected to finance a major share of the plan but questions remain over how much it will commit. This poses risks to the plan's success, even if there has been substantial progress in providing timely information on its implementation. The United Kingdom should ensure that business tax systems are pro-investment, in particular through the forthcoming review of business rates.

(12) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the United Kingdom's economic policy and published it in the 2015 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to the United Kingdom in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in the United Kingdom but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(13) In the light of this assessment, the Council has examined the Convergence Programme, and its opinion[5] is reflected in particular in recommendation (1) below.

(14) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (2) to (3) below,

[5] Under Article 9(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that the United Kingdom take action in 2015 and 2016 to:

1. Ensure effective action under the excessive deficit procedure and endeavour to correct the excessive deficit in a durable manner by 2016-17, in particular by prioritising capital expenditure.

2. Take further steps to boost supply in the housing sector, including by implementing the reforms of the national planning policy framework.

3. Address skills mismatches by increasing employers' engagement in the delivery of apprenticeships. Take action to further reduce the number of young people with low basic skills. Further improve the availability of affordable, high-quality, full-time childcare.

Done at Brussels,

For the Council
The President