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Department for Business Innovation & Skills

The Plan for Growth

March 2011

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Foreword

This Plan for Growth is an urgent call for action.

Britain has lost ground in the world's economy, and needs to catch up.

If we do not act now, jobs will be lost, our country will become poorer and we will find it difficult to afford the public services we all want. If we do not wake up to the world around us, our standard of living will fall, not rise.

In the last decade other nations have worked hard to make their economies more competitive. They have reduced their business tax rates, removed barriers to enterprise, invested in their infrastructure, improved their education systems, reformed welfare and increased their exports.

Sadly the reverse has happened in Britain over the last ten years. The UK economy stopped saving, investing and exporting and instead turned to a model of growth that failed. It resulted in rising levels of debt, over-leveraged banks, an unsustainable property boom, and a budget deficit that was forecast to be the largest of any of the world's twenty leading economies. Continuously rising but unaffordable government spending disguised the fact that it was an unsustainable economic boom, with the economy becoming steadily more unbalanced, less competitive and less prepared to meet the challenges of the future.

The facts today are staring Britain in the face. We've gone from having the 3rd lowest corporate tax in the EU-15 to having the 7th highest. In the World Economic Forum's Global Competitiveness Index, we've fallen from 4th to 12th. In education, the foundation of economic success, we have slipped back. In international rankings of excellence in maths, we've fallen from 8th to 28th, in science from 4th to 16th. Manufacturing has halved as a share of our economy, and 50 per cent of all manufacturing jobs have been lost. Our share of world exports has fallen from 4.4 per cent in 2000 to 2.8 per cent in 2009. These trends are not inevitable for an advanced economy: look at Germany whose share of world exports was 9.0 per cent in 2009 compared with 8.5 per cent in 2000. Not only do we export just a third as much as Germany, we even lie behind the Netherlands, a country a third our size.

The consequence of this failure over the last decade to confront the causes of our relative economic decline is clear. Our economy has become more and more unbalanced. The gap between the prosperity of the South East and the rest of the UK has grown, as has the gap between the richest in our society and the poorest. This is the case even as government spending has grown to equal about half of the entire national economic output, paid for by our highest peacetime budget deficit.

We literally cannot afford to go on like this.

Britain has to earn its way in the modern world. We have to become much more productive so we can be a leading high tech, highly skilled economy. We must build a new model of economic growth – where instead of borrowing from the rest of the world, we invest and we save and we export. Our economy must become more balanced.

Private sector growth must take the place of government deficits, and prosperity must be shared across all parts of the UK. We want to remain the world's leading centre for financial services, yes; but we should determine to become a world-leader in, for example, advanced manufacturing, life sciences, creative industries, green energy and non-financial business services.

None of this will be easy to achieve. Difficult, far-reaching changes are needed to make our economy more competitive, the education of our children more effective, and government spending more productive.

The Government has wasted little time in starting what needs to be done. We have set out a credible plan to tackle the budget deficit and bring economic stability. We have set in place annual reductions that will give us the lowest business tax rate in the G7, and reduced taxes on jobs for low and middle earners. We have protected the science budget so we can remain a magnet for technological leadership. We have found funding for a Green Investment Bank so we can get on with building a low carbon future. We are investing in the apprenticeships and innovation centres that industry needs. We have embarked on major reforms of our school, university, welfare, pension and health systems, to make them fit for the demands of the future. Those who oppose these reforms are the forces of stagnation who would commit our country to decline.

But even all this is not enough. We now have to step up a gear. Our economy needs to become much more dynamic, less burdened by pointless barriers, and retooled for a high tech future, if we are going to create the jobs and prosperity we need for the next generation.

We should never again allow our taxes to become uncompetitive, or drive valued entrepreneurs from our shores. If other nations are turning out smarter school and university students, we have to make sure ours are smarter still. We have to tear down the barriers to enterprise and economic development. Britain should be producing businesses that out-compete, out-smart and out-pace the rest of the world.

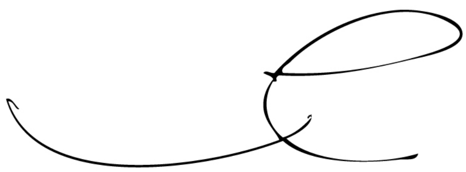
That is what this Plan for Growth is all about.

None of it is without controversy – all of it involves choices about our priorities.

But the alternative is to accept Britain's economic decline and falling standards of living for our population.

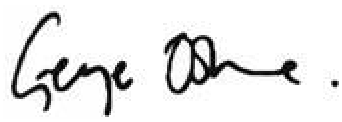
That is not a future we have to settle for.

In the world's race to the top, Britain can come out first.



Vince Cable

Secretary of State for Business, Innovation and Skills



George Osborne

Chancellor of the Exchequer

Executive summary

The Government is announcing a plan to put the UK on a path to sustainable, long-term economic growth.

Over the last decade, other countries have reduced tax rates, removed barriers to growth, and supported their exports. However, over the same period, as the evidence in Chapter 1 sets out, the UK economy became seriously unbalanced and heavily indebted, masking a decline in underlying competitiveness. The economy was underpinned by unsustainable levels of private sector and rising public sector debt. The UK's share of world exports declined and its current account deficit increased. Growth was concentrated in a few sectors of the economy and in a few regions of the country, with others becoming increasingly reliant on the public sector. The UK fell in international competitiveness rankings, with tax rates, regulation, access to finance and planning all cited as problematic for doing business in the UK.

Yet the UK has intrinsic strengths to build on. For example, the UK is an open, trading economy with a flexible labour market, and an attractive investment location for global companies. English remains the predominant language of business throughout the world and the UK's institutions, such as its legal system, are respected around the world. The UK is the world's second largest exporter of services. It has a world-class research base with more top-ranking universities than any country except the US. If these and other strengths are harnessed, more successful British companies can compete in global markets, develop innovative products and services, and so create new jobs and rising prosperity.

The Government is committed to putting the problems in the economy right. This will not be easy. It will involve tough choices about the Government's priorities. Since May 2010 the Government has demonstrated its willingness to take decisive action. The June Budget 2010 and 2010 Spending Review set out a credible plan to tackle the fiscal deficit and restore debt as a percentage of GDP to a sustainable, downward path. The macroeconomic stability that this will create is an essential pre-condition for sustainable growth. Businesses will not invest unless they have the confidence that inflation will remain low, long-term interest rates will remain stable, and finance will be available when needed.

But economic stability is not in itself sufficient to put the UK on track to deliver long-term growth. For sustainable growth to be driven by private sector investment and enterprise, the Government needs to act in a way that supports growth rather than hampers it. The UK needs a Plan for Growth.

The Plan for Growth

The Government's economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries. The Plan for Growth contains four overarching ambitions that will ensure the progress is made towards achieving this economic objective. The ambitions are:

1. to create the most competitive tax system in the G20;
2. to make the UK one of the best places in Europe to start, finance and grow a business;
3. to encourage investment and exports as a route to a more balanced economy; and
4. to create a more educated workforce that is the most flexible in Europe.

Each ambition is supported by a number of measurable benchmarks against which the Government expects to be judged. The Government will also constantly benchmark the UK against best practice around the world.

The Plan for Growth: Ambitions and Measurable Benchmarks

To create the most competitive tax system in the G20

A The lowest corporate tax rate in the G7 and among the lowest in the G20

B The best location for corporate headquarters in Europe

C A simpler, more certain tax system

To make the UK one of the best places in Europe to start, finance and grow a business

D Improving the UK's ranking in major international indices of competitiveness

E A lower domestic regulatory burden

F More finance for start-ups and business expansion

G An increase in the proportion of planning applications approved and dealt with on time

To encourage investment and exports as a route to a more balanced economy

H Ensure the UK remains one of the top destinations for foreign direct investment (FDI)

I An increase in exports to key target markets

J An increase in private sector employment, especially in regions outside London and the South East

K Increased investment in low carbon technologies

To create a more educated workforce that is the most flexible in Europe

L Supporting more apprenticeships than any previous government

M Home to more of the world's top universities than any other country except the USA

N An increase in the participation of 16-24 year olds in employment or learning

O Narrowing the educational attainment gap, allowing everyone to meet their potential

N Lowest burdens from employment regulation in the EU

The new announcements from the Growth Review and Budget 2011 will help to achieve these ambitions.

To create the most competitive tax system in the G20:

- **further action to improve the competitiveness of business taxes,** including through:
  - reducing the main rate of corporation tax by a further one per cent. From April this year, the rate will be reduced to 26 per cent and by 2014 it will reach 23 per cent;
  - reforming the UK's outdated Controlled Foreign Company (CFC) rules;

- introducing a new 10 per cent rate of corporation tax on income from patents;
- reforms to the regime for taxing foreign branches;

- simplification of the tax system. The new Office of Tax Simplification is already providing independent challenge and recommendations on untangling complexity within the tax code. Acting on these recommendations, the Government is abolishing 43 outdated and ineffective tax reliefs and launching a consultation on simplification of income tax and National Insurance.

To make the UK one of the best places in Europe to start, finance and grow a business:

- support for small firms through an unprecedented moratorium exempting micro and start-up business from new domestic regulation for three years; extending the current small business rate relief holiday for one year; measures to open up public procurement to small and medium-sized businesses (SMEs); and increasing the SME rate of R&D tax credit, subject to state aid approval;
- scrapping plans for regulations that would have cost businesses over £350 million a year, including stripping back proposed regulation on dual discrimination and third party harassment from the Equalities Act 2010; launching a public thematic review to reduce the stock of regulation in which nominated regulations will be removed unless they can be justified; and implementing Lord Young's Review on Health and Safety;
- radical changes to the planning system to support job creation by introducing a powerful presumption in favour of sustainable development; opening up more land for development, while retaining existing controls on greenbelt land; introducing new land auctions starting with public sector land; consulting on the liberalisation of use classes; and ensuring all planning applications and appeals will be processed in 12 months and major infrastructure projects will be fast-tracked; and
- finance for new start ups and business growth through an increase in income tax relief under the Enterprise Investment Scheme, subject to state aid approval; a proposed business angel co-investment fund; and doubling the lifetime limit on capital gains qualifying for Entrepreneurs' Relief.

To encourage investment and exports as a route to a more balanced economy:

- support for new capital investment by extending the capital allowances short life asset regime for plant and machinery from four years to eight years, from April 2011, more closely aligning tax and economic depreciation for a greater number of business assets;
- support for investment across the regions by setting up 21 new Enterprise Zones with superfast broadband, lower taxes and low levels of regulation and planning controls, to be developed with the new Local Enterprise Partnerships, and with all business rates receipts to be held locally;
- support for inward investment by developing a more entrepreneurial culture within UKTI which makes better use of private sector expertise, with a clear focus on winning business for the UK. In addition, the Government will provide a bespoke service to key inward investors, giving them direct access to UK ministers and speedy resolution of bureaucratic obstacles to investment;
- the promotion of exports by the UKTI and FCO networks, providing companies with local intelligence on high value projects overseas and intensive support to win these

deals; extending the range and eligibility of trade finance products offered by the Export Credit Guarantees Department; and delivering a new package of support through UKTI to help SMEs with an ambition to break into overseas markets;

- increasing green investment through support for the carbon price and a Green Investment Bank;
- encouraging growth in the sectors covered by the Growth Review so far:
    - healthcare and life sciences will particularly benefit from: the establishment of a new health research regulatory agency to streamline regulation and improve the cost effectiveness of clinical trials; and stripping out regulations that were never meant for the social care market and are preventing market entry and flexible services. In addition, future funding by the National Institute for Health Research (NIHR) to providers of NHS services will be conditional on meeting benchmarks, including a 70 day benchmark to recruit first patients for trials;
    - advanced manufacturing will particularly benefit from: changes to capital allowances; the establishment of a High Value Manufacturing Technology and Innovation Centre; the development of a new degree-equivalent Higher Level Apprenticeship; and nine new university based centres for innovative manufacturing;
    - construction will particularly benefit from: the radical changes to the planning system and publication of a rolling two year programme of projects where public sector funding has been agreed as well as a long-term forward view of infrastructure; reforms in the way government procures construction projects; and announcements on the regulatory requirements for zero carbon homes to apply from 2016;
    - digital and creative industries will particularly benefit from: an overhaul of development and planning rules to support superfast broadband roll-out; substantially reducing burdens of the communications and media regulatory framework; and significantly increasing the level of support to IP-intensive businesses to ensure they can exploit their IP domestically and overseas;
    - retail will particularly benefit from: the extension to the small business rates relief holiday; expansions to the Primary Authority model to apply consistent enforcement of standards; and from simplification of age-restricted sales regulations and licences for businesses;
    - professional and business services will particularly benefit from: the introduction of trusted business visa service schemes and the new visa regimes for entrepreneurs and high net worth investors; and work to promote the sector in the EU and overseas and to address wider regulatory burdens and skills gaps;
    - the space industry will particularly benefit from: reform of the Outer Space Act, introducing an upper limit on liability for UK operators; definition of the regulations for novel space vehicles to offer low cost access to space; and £10 million of new funding to accelerate development of the International Space Innovation Centre; and
    - tourism will particularly benefit from: a £100 million campaign co-funded by the Government and industry to attract an additional 4 million visitors to the UK after 2012, and making tourist visas far easier to obtain.

To create a more educated workforce that is the most flexible in Europe:

- promote skills and employment, especially for the young, through funding for up to 100,000 additional work experience placements for young people and 50,000 additional apprenticeship places over the next four years;
- expand the University Technical Colleges programme, to establish at least 24 new colleges by 2014, enabling more young people to gain the technical skills that employers need; and
- promote labour mobility by boosting the supply of housing through support for the housebuilding industry, with a FirstBuy shared equity programme to assist over 10,000 first time buyers to get on the housing ladder, reforms to stamp duty land tax for bulk purchases of residential property and a range of measures to remove barriers to entry for new Real Estate Investment Trusts.

Next Steps

The measures announced in this document represent just the beginning of a process, not the end. The Growth Review will continue for the rest of this Parliament to provide an ongoing focus on what government can do to support growth.

In all areas of policy, the Government will constantly benchmark the UK against best practice around the world, while expecting to be judged against its own benchmarks. Where the UK is falling behind, the Government will take action.

1 The Plan for Growth

1.1 The Government is announcing a plan to put the UK on a path to sustainable, long-term economic growth. This follows a decade in which economic growth became increasingly unbalanced and reliant on increasing levels of borrowing, and the UK fell in international surveys of competitiveness.

1.2 The Government has already taken decisive action to tackle the fiscal deficit and provide economic stability, which is an essential platform for growth. But stability is not enough. The measures outlined in this plan will help to create a new model of economic growth by achieving four overarching ambitions for the British economy:

1. to create the most competitive tax system in the G20;
2. to make the UK one of the best places in Europe to start, finance and grow a business;
3. to encourage investment and exports as a route to a more balanced economy; and
4. to create a more educated workforce that is the most flexible in Europe.

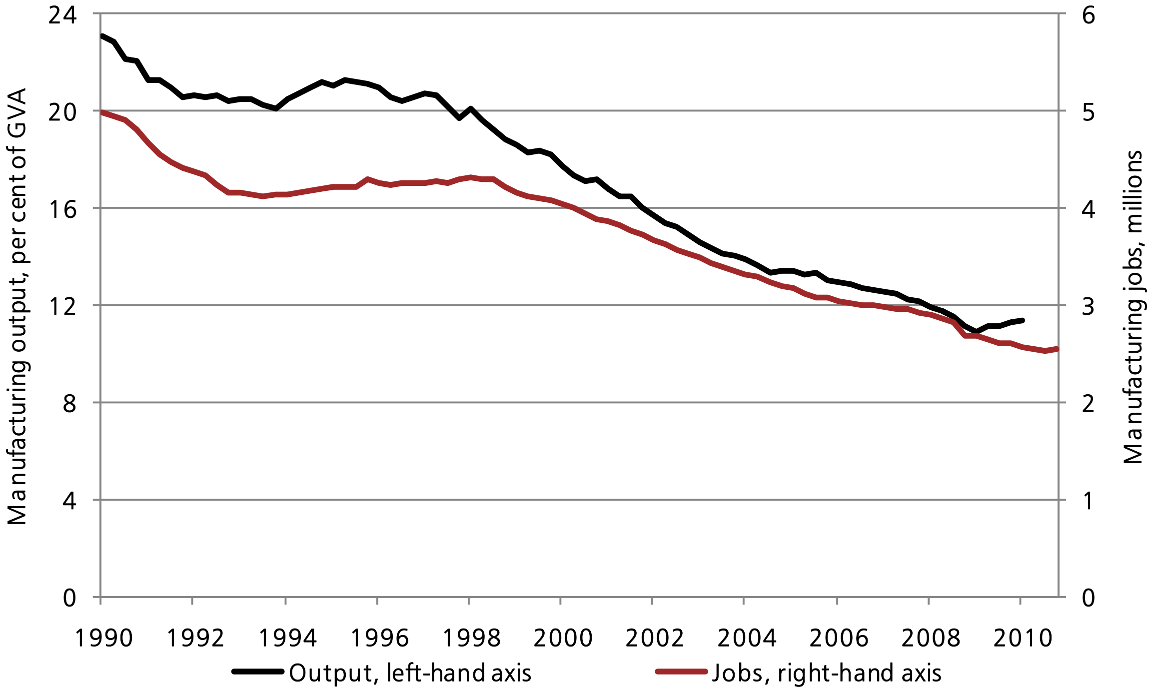
The need for action

1.3 Over the last decade, on some measures, the UK became the most indebted of the major economies in the world.[1] House prices trebled in a decade.[2] Government spending was persistently higher than revenues even before the financial crisis, with the Government running a structural deficit in every year from 2001-02, and public spending reaching 47.5 per cent of GDP in 2009-10.[3] By contrast, business investment as a share of GDP in the UK was among the lowest in advanced economies in the 2000s.[4]

1.4 Economic growth was unbalanced across the UK, concentrated in the South East, with other parts of the country increasingly reliant on jobs funded by public spending. Growth relied on a limited number of sectors. Financial services' share of GDP rose from 6.5 per cent in 1997 to 8.5 per cent in 2007, while manufacturing's share nearly halved over the same period, from over 20 per cent to 12.5 per cent.[5] In terms of jobs, the position was equally stark, with the numbers employed in manufacturing falling from 4.5 million in 1997 to 3 million in 2007.[6]

[1] *Debt and deleveraging: the global credit bubble and its economic consequences*, McKinsey Global Institute, January 2010
[2] Nationwide House Price Index (available at www.nationwide.co.uk/hpi/)
[3] *Budget 2010*, HM Treasury, June 2010; and Office for National Statistics (ONS) data (available at www.statistics.gov.uk)
[4] *Economic Outlook*, OECD, November 2010
[5] ONS data
[6] Ibid

Chart 1.A: Manufacturing output and employment



Source: Office for National Statistics

1.5 This model of growth proved to be unsustainable. More than a quarter of the GDP per capita growth in the pre-crisis decade to 2007 was reversed during the financial crisis and recession of 2008 and 2009.[7] As the OECD concluded in its March 2011 Economic Survey of the UK:

> "The global financial crisis and the associated recession ended a 15 year period of continuous growth, rising employment and stable inflation. Significant imbalances had developed, however, in terms of public and external deficits, an excessively leveraged financial sector, high house prices and low household savings. The imbalances exacerbated the downturn during the global recession and contributed to a more pronounced fall in GDP, a larger fiscal deficit and higher inflation than in most of the OECD."[8]

1.6 At the same time, evidence suggests the UK was becoming a less competitive place to do business. While other countries reduced tax rates, removed barriers to growth, and supported their exports, the UK fell behind. The UK was ranked 4th in the World Economic Forum's Global Competitiveness Index in 1998, but 12th in 2010, having been overtaken by countries including Germany, Japan, Finland, the Netherlands and Denmark.[9] Rising levels of tax and regulation, inadequate skills in the UK's workforce and an adversarial planning regime hampered the ability of UK firms to win business, invest for the future and create jobs.

1.7 The Government believes that other objectives were allowed to take precedence over the competitiveness of UK businesses, leading to an increase in the burden of regulation. The cumulative additional cost to business of new regulations introduced since 1998 is estimated at

[7] ONS data

[8] *Economic Survey of the United Kingdom*, OECD, March 2011

[9] *Global Competitiveness Report 2010-2011*, World Economic Forum, September 2010

nearly £90 billion a year.[10] This burden of regulation is a particular challenge for small firms, and a significant disincentive for new businesses considering taking on their first employees. In planning, over 3,250 pages of national guidance have been issued in the last five years, and planning delays cost an estimated £3 billion a year.[11]

1.8 More fundamentally, improvements are needed in the infrastructure and systems that support growth. The Government has identified £200 billion of public and private infrastructure planned over the next five years, and the requirement is likely to grow beyond that to provide the power, communications and transport links to underpin a modern, low carbon economy. Education is the foundation of future economic success, and yet the levels of educational attainment by UK school children in science and mathematics are declining when compared with other countries. Between 2000 and 2009 the UK fell in the OECD's Programme for International Student Assessment (PISA) rankings from: 4th to 16th for science; 7th to 25th for literacy; and 8th to 28th for mathematics.[12]

Restoring economic stability

1.9 To tackle these problems requires tough choices. Since May 2010, the Government has taken decisive action to start to address these issues. The immediate priority was to restore economic stability. This is an essential precondition for sustainable economic growth, because businesses will not invest unless they have confidence that long-term interest rates will remain stable, and that finance will be available, on reasonable terms, when they need it. In the June Budget 2010, the Government set out a credible plan to tackle the fiscal deficit and restore debt as a percentage of GDP to a sustainable downward path.[13] The Spending Review in October 2010 set out a detailed programme to deliver this and initiated a major programme of reforms of the school, university, welfare and pension systems to make them fit for the demands of the future.[14] The IMF has supported the Government's action, stating that action is "essential" to ensure debt sustainability and that:

> "The consolidation plan and implementation of early measures to tackle the deficit – one of the highest in the world in 2010 – greatly reduces the risk of a costly loss of confidence in fiscal sustainability and will help rebalance the economy."[15]

1.10 The Government's action provided confidence to the financial markets, with the credit rating agency Standard & Poor's restoring the UK's top AAA rating to a stable outlook. The Government has also taken steps to overhaul regulation of financial markets, so as to promote responsible and sustainable banking, and to ensure that the financial system works for the good of the whole economy.

The Plan for Growth

1.11 The UK has intrinsic strengths to build on. For example, the UK is an open, trading economy with a flexible labour market, and an attractive investment location for global companies. English remains the predominant language of business throughout the world and the UK's institutions, such as its legal system, are respected around the world. Overseas companies choose to use UK courts to settle commercial disputes, and the UK is the world's second largest exporter of services. The UK has a world-class research base, with more top-ranking universities, and more Nobel prize-winners, than any country except the US. If these and

[10] *The Burdens Barometer 2010,* British Chambers of Commerce, May 2010

[11] *Housing Supply and Planning Controls : the impact of planning control processing times on housing supply in England,* National Housing and Planning Advice Unit, February 2010

[12] *PISA 2009 Results*, OECD, December 2010

[13] *Budget 2010*, HM Treasury, June 2010

[14] *Spending Review 2010*, HM Treasury, October 2010

[15] *UK Article IV Consultation 2010*, IMF, September 2010

other strengths are harnessed, more successful British companies can compete in global markets, develop innovative products and services, and so create new jobs and rising prosperity.

1.12 Economic stability that comes from a credible deficit reduction plan is the essential starting point, but it is not in itself sufficient to put the UK on track to deliver long-term economic growth. For sustainable growth to be driven by private sector investment, enterprise and job creation, government needs to be pro-active in ensuring policy acts in a way that supports growth rather than hampers it. This requires tough choices and putting economic growth ahead of other priorities.

1.13 The Government's Plan for Growth builds on the action that the Government has already taken, with the new measures resulting from the Growth Review and Budget 2011. All the measures from the first stage of the Growth Review are set out in more detail in Chapter 2.

1.14 The Government's economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries. As outlined above, the Plan for Growth contains four overarching ambitions that will ensure the progress is made towards achieving this economic objective. Each ambition is supported by a number of measurable benchmarks against which the Government expects to be judged. The Government will constantly benchmark the UK against best practice around the world.

1.15 The potential for reform to raise GDP in the UK could be significant. Recent analysis by the OECD has suggested that a programme of structural reform could raise the capacity of an advanced economy by around 3 per cent over a period of 5 years.[16] The scope to capitalise on new sources of growth is also significant. The IMF forecasts the world economy will expand by $20 trillion in current prices between 2010 and 2015, with advanced economies contributing around $8.5 trillion while faster growing emerging and developing economies contribute around $11.5 trillion.[17]

[16] *Raising potential growth after the crisis: a quantitative assessment of the potential gains from various structural reforms in the OECD area and beyond*, OECD Economics Department Working Papers no. 835, January 2011
[17] *World Economic Outlook*, IMF, October 2010

Ambition 1: The most competitive tax system in the G20

Measurable benchmarks

A The lowest corporate tax rate in the G7 and among the lowest in the G20

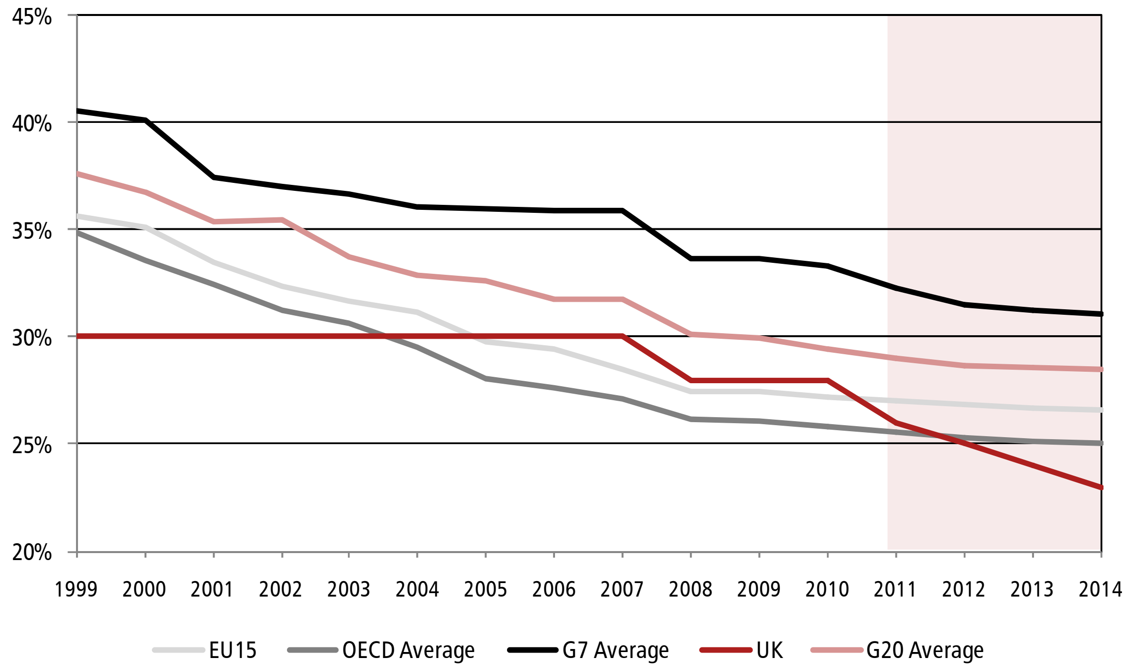
B The best location for corporate headquarters in Europe

C A simpler, more certain tax system

The need for action

1.16 A competitive tax system is crucial for private sector investment and growth. It provides businesses with the confidence they need to invest and expand. However, the UK has lost tax competitiveness. In 1997 the UK had the third lowest corporation tax rate among the EU15 but by 2008 it had moved to being the 7th highest. This pattern is repeated across the OECD where statutory corporate tax rates have fallen further and faster than in the UK (see Chart 1.B).

Chart 1.B: Statutory Corporate Tax Rates (1999-2014)



Source: OECD Tax Database

1.17 High levels of taxation can act as a drag on growth by reducing the incentives for businesses to invest and create new jobs.[18] In a world of increasingly mobile capital and labour, business taxes are an important determinant of the attractiveness of a country to foreign investment.[19]

[18] It has been estimated that shifting tax revenues corresponding to 1per cent of GDP from income to consumption and property taxes for a given overall level of the tax burden would on average increase long-run GDP per capita by between 0.6 and 2.3 per cent in OECD countries. See *Economic Policy Reforms: Going for Growth*, OECD, March 2009

[19] *How are Plant Location Decisions and Capital Flows Affected by Corporate Income Taxes?*, European Tax Policy Forum, April 2006

1.18 Uncertainty, instability and complexity also undermines the competitiveness of the tax system. In recent years, businesses have complained that the tax system is unpredictable, unstable and complex, making it difficult to plan, invest and recruit. This common complaint is undermining the reputation of the UK as a good place to invest and do business.

1.19 Independent measures of international tax competitiveness bear out these concerns. In the World Bank and PricewaterhouseCoopers' measure of 'ease of paying taxes', reflecting the number of tax rates, payments and compliance costs, the UK has fallen from 12th in 2008 to 16th in 2010-11.[20] Other figures from the World Economic Forum show the extent to which taxation affects decisions to work and invest. The UK has fallen significantly from 25th in 2006-07 to 95th in the latest 2010-11 figures.[21]

What the Government has done already

1.20 The Government has already:

- committed to create the most competitive corporate tax system in the G20. The June Budget 2010 announced four annual one per cent reductions in the main rate of corporation tax;
- reduced the corporation tax rate for smaller companies to 20 per cent from 2011;
- committed to introducing a Patent Box in 2013, which will give a reduced 10 per cent corporation tax rate on profits from patents. This will encourage companies to locate the high-value jobs and activity associated with the development, manufacture and exploitation of patents in the UK;
- reduced tax on employment and work. The most damaging effects of the April 2011 increase in the rate of employer National Insurance Contributions (NICs) will largely be reversed by increasing the employer NICs threshold. As a result, from April it will be cheaper to employ anyone earning less than £21,000 a year. The £1,000 increase to the income tax personal allowance for 2011-12 will mean 23 million people will pay less income tax;
- established the Office of Tax Simplification to provide independent advice on simplification and reducing administrative burdens on business and individuals; and
- improved the way in which it makes tax policy. Following consultation with business and tax practitioners, the Government has changed the way that tax policy is developed, communicated and legislated. The Government will develop and implement tax reforms over a longer policy cycle, providing greater opportunity for consultation with business on policy design, and greater scrutiny of its implementation. For the first time, the Government published a substantial number of draft clauses for scrutiny for Finance Bill 2011 last autumn. Over 250 responses were received.

1.21 The Government's Corporate Tax Road Map demonstrates a commitment both to work with business to improve competitiveness and to take a coherent approach to reform. This programme will deliver a more competitive and stable tax system for businesses, creating the right conditions for business investment.[22]

[20] *Doing Business 2011: Making a difference for entrepreneurs*, World Bank, November 2010
[21] *Global Competitiveness Report 2010-2011*, World Economic Forum, September 2010
[22] *The Corporate Tax Road Map*, HM Treasury, November 2010

What the Government will do now

1.22 The Budget announces a range of further measures to improve the UK's tax competitiveness. The Government will:

- reduce the main rate of corporation tax by a further one per cent. From April 2011, the rate will be reduced from 28 per cent to 26 per cent and by 2014 it will reach 23 per cent. This will further reduce capital costs for businesses and promote higher levels of business investment;
- further reduce taxes on work, by increasing the income tax personal allowance to £8,105 in 2012-13, and by further real terms increases in subsequent years towards the goal of a £10,000 personal allowance;
- introduce new Controlled Foreign Company (CFC) rules in Finance Bill 2012, making them more competitive and less burdensome to businesses. This reform will enhance long-term stability and ensure the UK tax base is adequately protected. The new rules will reflect the increasingly global nature of modern business and enable UK businesses to compete on a more even footing with businesses based elsewhere. New CFC rules on overseas financing will provide an effective rate of one-quarter of the main CT rate (5.75 per cent by 2014), an internationally competitive regime which will make the UK a more attractive location for multinationals and for corporate headquarters;
- introduce an opt-in exemption from corporation tax on the profits of foreign branches. This will contribute to the Government's aim for a more territorial corporate tax system and help make the UK a more competitive location for international businesses;
- consult this year on options to integrate the operation of income tax and National Insurance to remove distortions, reduce burdens on business and improve fairness;
- abolish 43 tax reliefs whose rationale is no longer valid, following the recommendations of the Office of Tax Simplification and ongoing work by HM Revenue and Customs. This will help to reduce complexity and will mean the removal of over 100 pages of tax legislation; and
- implement further tax changes that support enterprise and investment as set out elsewhere in this document and in Budget 2011.

Box 1.A: Actions to support mid-caps

Midcap firms (those with a turnover between £25 million and £500 million) are vital to the growth of the economy. They account for 21 per cent of jobs and they contribute almost 20 per cent of total private sector turnover. A range of policies are set out in Chapter 2 that will have a particular benefit for mid-caps.

To reduce the burden of regulation on mid-cap firms, the Government is:

- scrapping proposals for specific regulations which would have cost business over £350 million a year, including not bringing forward the dual discrimination rule;
- launching a public thematic review to reduce the stock of regulation with the presumption that burdensome regulations will be removed unless they are robustly defended;
- streamlining regulation of clinical trials through a new health research regulatory agency;
- simplifying narrative reporting for quoted companies; and
- pressing the EU Commission and other EU member states to implement the Services Directive in full.

To make it easier for mid-caps to get planning consent, the Government is:

- introducing a powerful new presumption in favour of sustainable development so that the default answer to development is 'yes'; and
- introducing measures to streamline the planning applications and related consents regimes, including a 12 month guarantee for the processing of all planning applications, including any appeals.

To provide the conditions mid-cap firms need to innovate, export and invest, the Government is:

- reducing the main rate of corporation tax by a further one per cent;
- extending the capital allowances short-life asset regime for plant and machinery from four years to eight years, from April 2011;
- funding a £200 million programme of Technology and Innovation Centres, and launching the first of these in high-value manufacturing;
- pressing for opening of market access overseas in areas of UK strengths, in particular the service sector; and
- making permanent the Letter of Credit Guarantee Scheme and allowing the Export Credits Guarantee Department's guarantees to be used to raise long-term finance in capital markets.

To ensure that mid-cap firms have access to the finance they need to grow:

- the biggest banks will make £190 billion of new credit available for businesses in 2011;
- the new £2.5 billion bank-led Business Growth Fund will provide opportunities for mid-cap firms to access growth capital; and

- the Government will support industry-led measures aimed at widening access to debt capital markets.

To provide the infrastructure and skills base that mid-cap businesses need, the Government is:

- expanding the University Technical Colleges programme, to establish at least 24 new colleges by 2014;
- creating 50,000 additional apprenticeship places over the next four years; and
- supporting the UK's digital infrastructure, for example by applying the presumption in favour of sustainable development to superfast broadband deployment.

Ambition 2: One of the best places in Europe to start, finance and grow a business

Measurable benchmarks

D Improving the UK's ranking in major international indices of competitiveness

E A lower domestic regulatory burden

F More finance for start-ups and business expansion

G An increase in the proportion of planning applications approved and dealt with on time

The need for action

1.23 International studies suggest that over the last decade the UK has lost its competitive edge. As already noted, the UK was ranked 4th in the World Economic Forum's Global Competitiveness Index in 1998, but 12th in 2010.[23] The World Bank ranks the UK 17th for ease of starting a business, significantly behind the likes of Australia (2nd) and the US (9th).[24] In order to make the UK one of the best places in Europe to start, finance and grow a business, the Government must take action to remove regulatory burdens, improve corporate governance, improve access to finance, promote British exports, and encourage innovation.

1.24 As some measures show, regulation is hampering enterprise in Britain. In the past six years, the UK's ranking by the World Economic Forum has fallen from 39th to 89th out of 139 countries in terms of business perception of the burden of regulation.[25] The burden of regulation is one of the most common complaints of business, and SMEs often suffer disproportionately.

1.25 In recent years, on average, more than six new regulations were introduced every working day. [26] There are currently over 21,000 regulations and statutory instruments on the statute books. Estimates put the cumulative cost to business of regulations introduced since 1998 at nearly £90 billion a year.[27] There is a £1 billion burden for business from complying with employment law alone. And government has not done enough to support business when introducing new regulations. Guidance is often not provided, is provided after the regulation has come into force, or is not provided in a way that makes sense for businesses.[28] Simply through government cutting out the jargon and making the rules straightforward to understand, businesses could save some of the £1.4 billion currently spent on advice from consultants.[29] Bureaucratic processes have also held back SMEs from successfully bidding for public sector procurement contracts. These processes have been unwieldy and have actively discouraged entrepreneurial organisations from providing services and goods for the public sector. The Forum of Private Business estimates that a typical small business spends 34 hours a month dealing with red tape.[30]

[23] *Global Competitiveness Report 2010-2011*, World Economic Forum, September 2010

[24] *Doing Business 2011: Making a difference for entrepreneurs*, World Bank, November 2010

[25] *Global Competitiveness Report 2010-2011*, World Economic Forum, September 2010

[26] Better Regulation Executive analysis, November 2010

[27] *Get Britain Trading Manifesto*, Forum of Private Business, February 2011

[28] *Lightening the Load*, Better Regulation Executive report, November 2010

[29] Ibid.

[30] *The cost of compliance on micro, small and medium sized business employers*, Forum of Private Business survey, June 2009

1.26 One of the most significant burdens highlighted consistently during the Growth Review has been the UK's overly slow and bureaucratic planning system. Since January 2005, an estimated 3,250 pages of national planning guidance for England has been issued at considerable cost to the public sector.

1.27 The costs for business are also significant, both in time and money. On average it takes more than twice as long, 95 days, to go through the procedures to build a warehouse in the UK as the USA.[31] Recent research by Reading University suggests that the costs to the economy associated with delays in processing applications may be up to £3 billion a year.[32] Gross costs of regulation associated with building office property are estimated to be 12 times higher in the City of London than in Brussels, and higher in Manchester than Milan, Paris, Barcelona or Amsterdam.[33] Low levels of housing completions and limits on land supply also create barriers to mobility and high costs of entry for firms coming to the country.

1.28 The financial crisis showed that, while the UK model of corporate governance is not essentially flawed, there are areas needing improvement. Over time, both the volume of reporting requirements for UK business, and associated costs, have increased, and businesses and investors have stressed that there are ways to be more flexible and targeted in applying rules on reporting, accounting and audit. Tackling these problems should ultimately help to deliver growth through the greater availability of capital at a lower cost and through improved productivity and performance.

1.29 Many businesses are also struggling to access the finance they need to grow. The Government has identified an equity gap faced by many innovative and high growth SMEs, which has grown particularly acute in recent years. In particular, the UK venture capital (VC) market has declined significantly, with total investment down by nearly a half.[34] In 2008, the UK invested less in early stage investment as a percentage of GDP than Switzerland, Sweden and the USA.[35] The UK's VC market is less focused on investment in high tech firms than in the USA.

1.30 Despite the UK's strength in research, some measures suggest UK business is falling behind in innovation. Just over 40 per cent of UK manufacturing firms are involved in technological innovation, lower than Germany at over 70 per cent, Sweden at over 50 per cent and Finland at 50 per cent.[36] In a recent survey around 20 per cent of UK manufacturing firms cited lack of information on technology or markets as a barrier to innovation.[37] Germany has set up an impressive innovation infrastructure, including a network of Fraunhofer Institutes, a collaboration between the public and private sector, undertaking applied research to shape technology and improve industrial processes and techniques.

1.31 In particular, there are barriers to overcome for UK health research, which is one of the most important sectors for research and innovation. The Academy of Medical Sciences' (AMS) recent review found that, "UK health research activities are being seriously undermined by an overly complex regulatory and governance environment".[38] The UK's share of global patient recruitment in clinical trials dropped from six per cent in 2000 to two per cent in 2006.[39] A

[31] *Doing Business 2011: Making a difference for entrepreneurs*, World Bank, November 2010

[32] *Housing Supply and Planning Controls : the impact of planning control processing times on housing supply in England,* National Housing and Planning Advice Unit, February 2010

[33] 'Office space supply restrictions in Britain: the political economy of market revenge', *Economic Journal* vol. 118, P. Cheshire and C. Hilber, June 2008

[34] *European Venture Capital Association Yearbook*, European Venture Capital Association, June 2010

[35] *Venture capital: now and after the Dotcom crash,* National Endowment for Science Technology and the Arts, July 2010

[36] Eurostat data (available at epp.eurostat.ec.europa.eu/)

[37] *UK Innovation Survey 2009: Statistical Annex*, Department for Business, Innovation and Skills, November 2010

[38] *A New Pathway for the Regulation and Governance of Health Research*, Academy of Medical Sciences, January 2011

[39] *Commercial Clinical Research in the UK*, Kinapse, November 2008

report by the AMS found that it took an average of 621 days from a decision to support studies through to the first patient entering a trial, compared to Canada's 30 to 60 day process.[40]

What the Government has already done

1.32 To encourage enterprise the Government has already:

- stemmed the flow of new regulation by introducing the 'One-in-One-out' system and guidance on sun-setting clauses to ensure regulation is kept up to date;
- consulted on revised employment tribunal procedures, the introduction of fees, and increasing the qualification period for unfair dismissal to two years;
- reformed public sector procurement practices to make it much easier for small businesses to access contracting opportunities: setting an ambition for 25 per cent of total government contracts to be delivered by SMEs; eliminating Pre-Qualification Questionnaires (PQQs) for all central government procurements under £100,000; introducing Contracts Finder, a free one-stop-shop which will display every central government tender opportunity; and launching SME surgeries to give enterprising companies the opportunity to pitch innovative products and services;
- cut back on the information required to support planning applications. For example, measures to remove repetitive and unnecessary work on Environmental Impact Assessments announced in August 2010 should save £200 million a year alone;
- tackled the cost of compliance with corporate governance requirements, for example joint filing at HMRC and Companies House which started in October 2010;
- secured the agreement of the UK's biggest banks to increase their lending capacity up to £190 billion in 2011 through the Project Merlin lending commitments, including a 15 per cent year on year increase in lending to SMEs, and to increase the size of the Business Growth Fund to £2.5 billion;
- introduced the new Enterprise Allowance and Enterprise Clubs to give unemployed people the help they need to turn business ideas into reality;
- protected spending on science and research programmes in the 2010 Spending Review, and increased spending on health-related research;
- maintained and reformed funding for university-business collaboration through the Higher Education Innovation Fund;
- introduced the Research Excellence Framework (REF) which will recognise universities' achievements in terms of impacts from excellent research. Twenty per cent of the assessment will be based on the social, economic or cultural impacts from excellent university research;
- provided funding of over £200 million to establish a network of Technology and Innovation Centres, similar to the German Fraunhofer Institutes, and £50 million of funding for the Manufacturing Advisory Service to improve the adoption of innovative processes; and
- announced plans to reform the provision of support to small businesses so that it will focus on what they need to start and grow. This includes access to a network

[40] *A New Pathway for the Regulation and Governance of Health Research*, Academy of Medical Sciences, January 2011

of 40,000 experienced business mentors and the Business Coaching for Growth Programme that will help high growth SMEs realise their potential.

What the Government will do now

1.33 To **minimise regulatory burdens**, the Government will:

- scrap proposals for specific regulations which would have cost business over £350 million a year. This includes not extending the right to request time to train to businesses with less than 250 employees and not bringing forward the dual discrimination rule;
- introduce an unprecedented moratorium on new domestic regulation for micro-businesses and start-ups for the next three years;
- launching a public thematic review to reduce the stock of regulation, with the presumption that all regulations identified as burdensome would be removed unless good reasons are given for them to stay;
- push the EU Commission to deliver a culture change that bears down on the overall impact of EU legislation, including urging the Commission to set a new ambitious target to cut EU regulatory burdens over the life of this Commission; and
- implement the proposals from Lord Young's review of health and safety, including bringing in new risk assessment tools, the registration of health and safety consultants, combined inspection programmes and taking action to constrain 'no-win, no-fee' legal services.[41]

1.34 To **reform the planning system radically and fundamentally,** the Government will:

- introduce a powerful new presumption in favour of sustainable development, so that the default answer to development is 'yes';
- localise choice about the use of previously developed land, removing nationally imposed targets while retaining existing controls on greenbelt land;
- produce a shorter, more focused and inherently pro-growth National Planning Policy Framework (NPPF) to deliver more development in suitable and viable locations;
- set clear expectations that with immediate effect local planning authorities and other bodies involved in granting development consents should prioritise growth and jobs, through a Written Ministerial Statement by the Secretary of State for Communities and Local Government on 23 March 2011;
- introduce new powers so that businesses are able to bring forward neighbourhood plans and neighbourhood development orders;
- bring forward proposals to extend Permitted Development rights, and will consult on proposals to make it easier to convert commercial premises to residential;
- pilot a new land auction model, starting with public sector land; and
- ensuring all planning applications and appeals will be processed in 12 months and that major infrastructure projects will be fast-tracked.

1.35 To **improve the corporate governance framework,** the Government will:

[41] *Common Sense, Common Safety*, HM Government, October 2010

- reduce the number of UK SMEs required to undertake an audit;
- substantially reduce the burden of financial accounting for UK businesses, by bringing forward legislation in 2012 to exempt many subsidiaries from producing audited accounts; and encouraging the European Commission to exempt the smallest companies from audit; and
- materially simplify narrative reporting for quoted companies in the UK.

1.36 To **provide finance for new and growing businesses,** the Government will:

- reform the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT), subject to state aid approval, increasing the rate of EIS income tax relief to 30 per cent from April 2011 and bring forward proposals to provide further support for seed investment; and
- increase to £10 million the lifetime limit on capital gains qualifying for Entrepreneurs' Relief, with effect from April 2011. Eligible gains are taxed at a 10 per cent rate of Capital Gains Tax. This will encourage serial entrepreneurs who want to expand their business and reinvest gains, helping to make the UK a more attractive location for entrepreneurs.

1.37 To **further improve innovation in the UK,** the Government will:

- increase the rate of the SME R&D tax relief to 200 per cent in 2011 and 225 per cent in 2012, subject to state aid approval. In addition the Government will consult on proposals to simplify the scheme to make it easier to use by small firms, and on changes to ensure relief is available when R&D project work is contracted out;
- invest an additional £100m in 2011-12 in science capital development to provide facilities for the commercialisation of research, accommodation for innovative SMEs and new research capabilities. This will be invested in existing campuses and clusters including the Norwich Research Park, Babraham Research Campus in Cambridge, new instruments at the ISIS research centre and development of the International Space Innovation Centre in Oxfordshire. These new commitments build on the 2010 Spending Review settlement for science and research and underline the Government's recognition of the contribution of science to economic growth;
- launch the first Technology and Innovation Centre in high-value manufacturing, which will integrate the activities of a number of existing high performing centres in Rotherham, Coventry, Strathclyde, Sedgefield, Redcar and Bristol;
- fund nine new university-based Centres for Innovative Manufacturing by 2012;
- set up a new health research regulatory agency to streamline regulation and improve the cost effectiveness of clinical trials, and make future National Institute for Health Research (NIHR) funding to providers of NHS services conditional on meeting benchmarks, including a 70 day benchmark to recruit first patients for trials; and
- use government procurement to drive innovation and support innovative SMEs, committing £20 million over the next two years to the Small Business Research Initiative, including £10 million from the Department of Health on specific competitions to address healthcare challenges.

1.38 To **improve competition**, the Government will:

- reform and further invigorate the UK's world-class competition framework, including consulting on a proposal to merge the competition functions of the Office of Fair Trading and the Competition Commission to create a single Competition and Markets Authority; and
- publish a binding set of principles of economic regulation to provide greater certainty for long-term investors in UK infrastructure, by April 2011.

Box 1.B: Actions to support SMEs

The UK's 4.8 million small and medium sized businesses (SMEs), businesses with an annual turnover of up to £25 million, are vital to the economy. They account for half of all private sector output and almost 60 per cent of private sector jobs.[42] A range of policies are set out in Chapter 2 that will help both SMEs and larger businesses grow, with the following measures of particular benefit to SMEs.

To minimise regulatory burdens on SMEs, the Government will:

- not extend the right to request time to train to businesses with less than 250 employees;
- introduce a moratorium exempting micro and start-up businesses from new domestic regulation for three years from 1 April 2011; and
- reduce the number of SMEs required to undertake audits and reduce financial reporting burdens for these firms.

To help SMEs access the finance they need to grow and invest:

- the major UK banks have agreed to increase the finance available for SMEs by 15 per cent in 2011, to £76 billion;
- the Government is significantly reforming the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs), subject to state aid approval; and
- the Government is increasing to £10 million the lifetime limit on capital gains qualifying for Entrepreneurs Relief.

To reduce fixed costs for SMEs, the Government will:

- extend the current small business rate relief holiday for one year from 1 October 2011, which means that 330,000 SMEs will pay no rates for a year.

To make it easier for SMEs to access public sector procurement, the Government will*:*

- transparently monitor progress towards eliminating pre-qualification questionnaires for contracts below £100,000; and putting procurement opportunities on Contract Finder. The Government will also monitor progress towards its aspiration of awarding 25 per cent of government contracts to SMEs.

To encourage exporting SMEs, the Government will:

- work with banks to ensure a successful implementation of three new trade finance products by the Export Credits Guarantee Department;
- deliver a new package of support for SMEs to break into overseas markets through UKTI; and
- launch the Export Enterprise Finance Guarantee to help SMEs access trade finance.

To encourage innovation by SMEs, the Government will:

- improve the range of products and services available to support SMEs on issues relating to intellectual property; and

[42] *Small and Medium-sized Enterprise Statistics for the UK and Regions (2009)*, Department for Business, Innovation and Skills, October 2010

- increase the rate of the SME R&D tax relief to 200 per cent in 2011 and 225 per cent in 2012, subject to state aid approval.

To make it easier for SMEs to get planning consent, the Government is:

- introducing a powerful new presumption in favour of sustainable development so that the default answer to development is 'yes'; and
- introducing measures to streamline the planning applications and related consents regimes, including a 12 month guarantee for the processing of all planning applications, including any appeals.

To make it easier for SMEs to start up and grow across the UK, the Government will:

- set up 21 new Enterprise Zones.

To address the specific barriers faced by SMEs in accessing apprenticeships, the Government will:

- support business consortia to set up and maintain advanced and higher apprenticeship schemes, supported by grants, creating a further 10,000 apprenticeships.

Ambition 3: Encourage investment and exports as a route to a more balanced economy

Measurable benchmarks

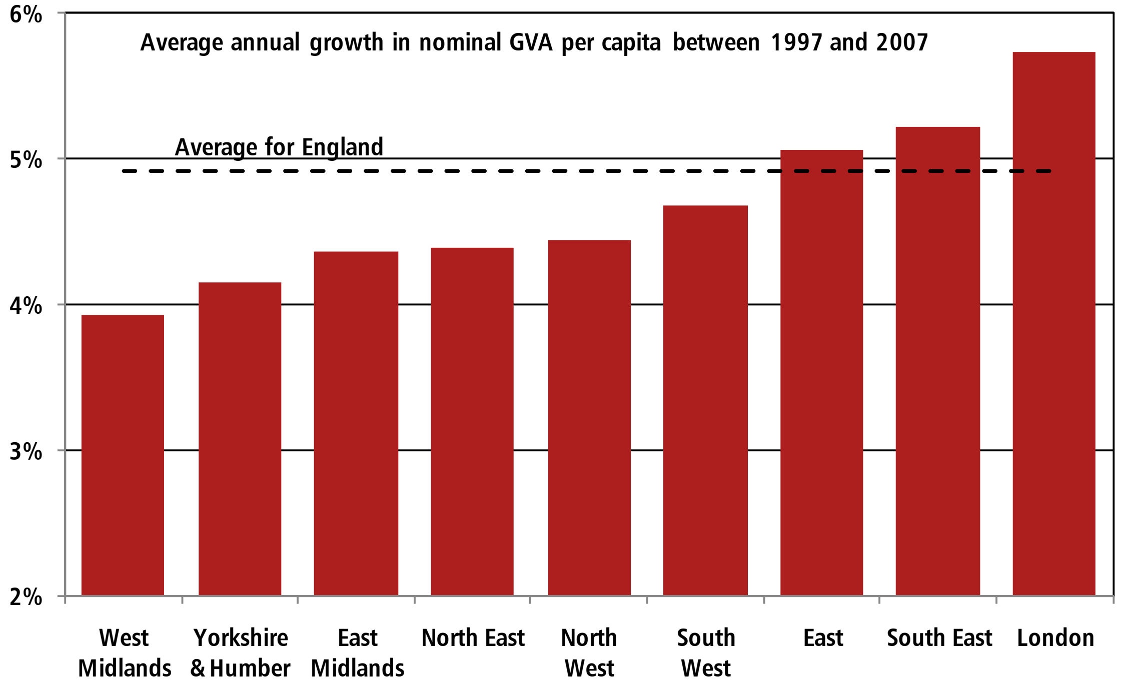
H	Ensure the UK remains one of the top destinations for foreign direct investment (FDI)
I	An increase in exports to key target markets
J	An increase in private sector employment, especially in regions outside London and the South East
K	Increased investment in low carbon technologies

The need for action

1.39 Sustainable growth requires a rebalancing of the UK economy away from a reliance on a narrow range of sectors and regions, to one built on investment and exports, with strong growth more fairly shared across the UK. In 2009-10, public spending reached 47.5 per cent of GDP at a time when business investment as a share of GDP in the UK was among the lowest in advanced economies in the last decade. Economic growth was unbalanced across the UK, with regions other than London and the South East increasingly reliant on jobs funded by public spending.

1.40 Analysis suggests that regional differences in GDP per capita are greater in the UK than in any other EU country, despite over £20 billion being spent by the English Regional Development Agencies over ten years. Over the decade prior to 2007, nominal gross value added (GVA) per head grew more quickly in London than in other regions, widening the gap between the richest and the poorest regions, as shown in Chart 1.C. The ability of regions to play a part in the global economy seems to be a significant driver in their success. However, the story is not just one of differences between regions; in all parts of the country there are places that have been more successful than others in adapting to challenge and opportunity, and all places must be empowered to find and secure the growth that is required to build a sustainable and prosperous future.

Chart 1.C: Regional growth in the pre-crisis decade



Source: Office for National Statistics

1.41 Growth in the UK also relied on a limited number of sectors. Financial services' share of nominal GDP rose from 6.5 per cent in 1997 to 8.5 per cent in 2007, while manufacturing's share nearly halved over the same period, from over 20 per cent to 12.5 per cent.[43] The Government wants the UK to remain a leading centre for financial services, but these sectoral imbalances played their part in driving differences in productivity across the regions. These industries were some of the most unevenly distributed across regions, with the Greater South East accounting for 60 per cent of total UK activity in financial intermediation and more than half of total UK output from real estate, renting and business services in 2006.

1.42 Free trade is central to an effective global economy and strong exports are a key to delivering strong, sustainable and balanced growth. The UK is well placed to take advantage of trade opportunities, situated between the USA and the rest of Europe and through its membership of the EU's single market. However, over the past decade, import growth has on average outstripped export growth, so that net trade has acted as a drag on GDP growth. By 2006, the UK's current account deficit had increased to more than three per cent of GDP, and was, in absolute terms, the third largest in the world after the USA and Spain.[44] The UK share of world goods exports has declined from 4.4 per cent in 2000 to 2.8 per cent in 2009, while the UK's share of world services exports, which had appeared strong in the decade up to the crisis, has fallen from 8.3 per cent in 2007 to 7.0 per cent in 2009.[45]

1.43 The UK has particularly underperformed in exports to emerging markets. From 1998 to 2008, UK exports to the 8 largest emerging markets increased by just over 0.5 per cent of GDP compared to over 3 per cent for Germany.[46] The IMF forecasts that the world economy will expand by $20 trillion in current prices between 2010 and 2015, with advanced economies contributing around $8.5 trillion, while faster growing emerging and developing economies

[43] ONS data
[44] *World Economic Outlook* database, IMF, October 2010
[45] *UK Trade Performance: Patterns in UK and Global Trade Growth*, Department for Business, Innovation and Skills, November 2010
[46] UN Comtrade database (available at comtrade.un.org/); and World Economic Outlook database, IMF

contribute around $11.5 trillion, creating great opportunities for UK businesses.[47] This provides an opportunity for strong export growth, as was evidenced by the 40 per cent growth in UK goods exports to China in 2010, with car exports to China trebling to around £1.5 billion.[48] The Government is determined to get behind British business and provide the support they need to take advantage of these trade and investment opportunities.

Chart 1.D: UK and German share of world goods exports, 1960-2009

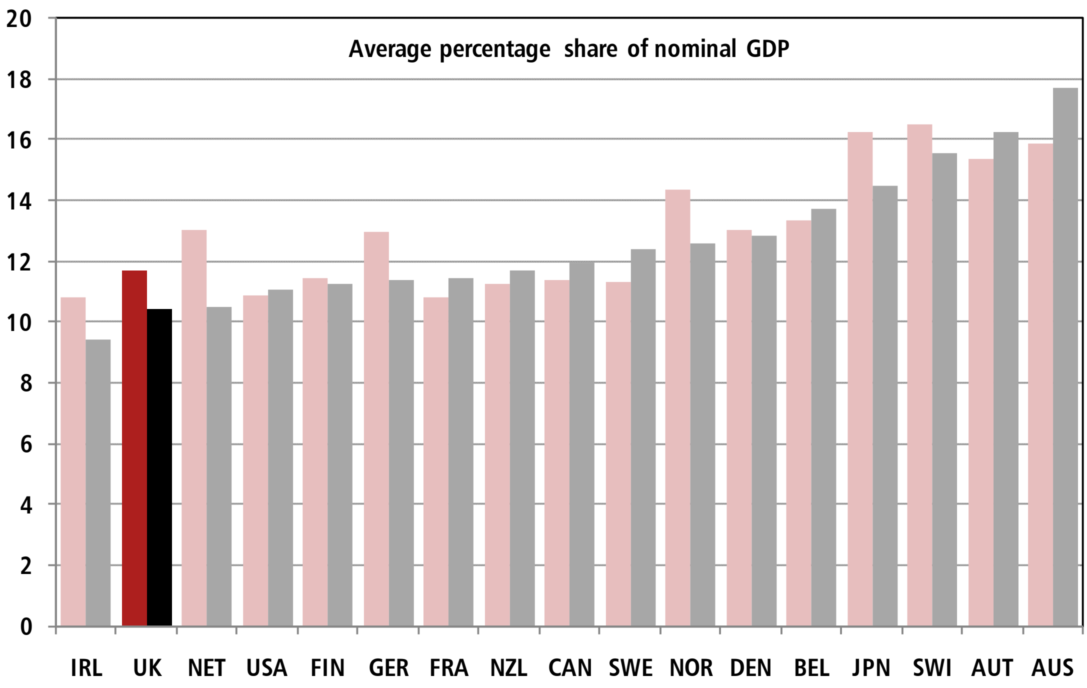
Source: World Trade Organisation

1.44 While the UK's stock of FDI remains the third largest in the world, just behind France, in 2009 the UK's position in terms of attracting new FDI inflows slipped to 5th in the world.[49] As the UK faces increasingly fierce competition for inward investment, the whole of government needs to step up its game to ensure that constraints to investment are addressed and the UK is a top investment destination. Inward investors highlight concerns with the UK's business environment in a number of areas, including skills, innovation, and planning. Businesses argue that there is scope for the Government to take a more proactive approach to attracting inward investment and for UKTI to make better use of business expertise. The Professional and Business Services sector in particular raised concerns about the complexity and speed of visa administration. These issues hamper the ability for their clients from outside the EU to access UK services and reduce flexibility for staffing in international businesses.

1.45 Business investment in the UK has been persistently low by international standards. As Chart 1.E shows, business investment between 2000 and 2010 was less than it had been in the previous decade as a proportion of GDP, and was the second lowest across OECD countries. From an already low base, business investment fell sharply during the recession.

[47] *World Economic Outlook*, IMF, October 2010
[48] ONS and HM Revenue and Customs
[49] *UNCTADstat*, United Nations Conference on Trade and Development, 2009

Chart 1.E: Business investment in advanced economies



Source: OECD Economic Outlook and HM Treasury

1.46 This is at a time when there is significant need for investment in the UK. As already noted, the Government has identified £200 billion of public and private infrastructure planned over the next five years, and the requirement is likely to grow beyond that to ensure businesses have the resilient and high quality infrastructure networks they need. The UK's infrastructure is ageing. For example, 40 per cent of London's water mains are over 100 years old.[50] The demands on UK infrastructure are growing. For example, estimates suggest 60 per cent of adults in the UK will have accessed the internet every day or almost every day in 2010 compared to 35 per cent in 2006,[51] but the UK ranks 11th in the group of OECD countries for fixed broadband (30 per cent of inhabitants) and 16th for mobile (also 30 per cent of inhabitants). [52]

1.47 Investment will also be required to renew the UK's energy infrastructure. A reliable and cost-effective energy system, delivered through a higher proportion of low-carbon generation, is a pre-requisite for sustainable growth. The Government's Electricity Market Reform consultation estimated that new investment of £110 billion in electricity generation and transmission would be needed in this decade to deliver secure, low-carbon energy supplies – over double the rate of the last decade.[53] Access to finance is particularly important to enable the investments needed in green technologies, which are frequently less mature and tested than high-carbon or resource-intensive alternatives.

1.48 Global action to tackle environmental challenges offers potential for UK firms to grow their businesses both in the UK and through capturing international markets and increasing exports. The low-carbon and environmental goods and services sector already employs 910,000 people in the UK, part of a £3.2 trillion market worldwide[54]. Actions the Government is taking to decarbonise the economy provide further opportunities both for UK businesses and to attract

[50] *Victorian mains replacement: why we are replacing pipes*, Thames Water, 2011 (available at www.thameswater.co.uk)
[51] *Internet Access 2010: Households and Individuals,* Office for National Statistics, August 2010
[52] *OECD Broadband Portal*, OECD, June 2010 (available at www.oecd.org.uk)
[53] *Electricity Market Reform: consultation document*, Department for Energy and Climate Change, December 2010

[54] *Low Carbon and Environmental Goods and Services: an industry analysis, Update for 2008/09*, Innovas, March 2010

inward investment. For example, the Green Deal will enable households and businesses to invest in energy efficiency measures at no upfront cost, driving expansion of the sector and potentially leading to the creation of up to 100,000 jobs. Inward investment from global market leaders in green and low-carbon technologies will provide further significant economic opportunities in the UK.

What the Government has already done

1.49 The Government has acted swiftly to address the barriers hindering investment. The Government has already:

- supported the creation of Local Enterprise Partnerships led by local business and based on real economic geographies instead of false administrative boundaries;
- initiated the Local Government Resource Review to incentivise local authorities to drive growth, by ensuring they are able to benefit financially from decisions which lead to additional growth in their localities, including through their plan-making and planning decisions;
- established a £1.4 billion Regional Growth Fund, operating over three years across England to stimulate private-sector led, sustainable economic growth and employment particularly in those areas most dependent on the public sector. The first round of bidding closed in January; the Government is encouraged by the strength of the response, which saw over 450 bids from across England, supporting a wide range of sectors;
- significantly increased the portfolio of trade finance products available to business through the Export Credits Guarantee Department;
- set out the first ever National Infrastructure Plan, outlining the Government's strategy to unlock the private and public funding required, to deliver the infrastructure the UK needs;
- prioritised investment in infrastructure;
    - increasing capital spending in the 2010 Spending Review by £2.3 billion, to a level above the previous Government's plans, with spending focused on those areas that offered the greatest economic returns;
    - providing £530 million of investment over the 2010 Spending Review period to deliver the best superfast broadband in Europe by 2015;
    - investing over £30 billion in transport projects including funding for Crossrail and the development of High Speed Rail;
    - providing up to £1 billion of funding for one of the world's first carbon capture and storage demonstration plants; and
- set out its proposals for reform of the electricity market to deliver secure, low-carbon and affordable energy supplies.

What Government will do now

1.50 To encourage investment across the UK regions the Government will:

- introduce 21 new Enterprise Zones (EZs) across the Local Enterprise Partnership (LEP) areas of England, as detailed in Box 1.C; and

- shortly announce final decisions on the first round of the Regional Growth Fund. The Government will launch a second round of bidding from 12 April 2011 inviting proposals for further projects and programmes to stimulate private sector led economic growth in areas.

Box 1.C: Enterprise Zones

Businesses occupying the 21 new Enterprise Zones (EZs) will benefit from:

- a 100 per cent business rate discount worth up to £275,000 over a five year period for businesses that move into an EZ during the course of this Parliament;
- all business rates growth within the zone for a period of at least 25 years will be retained and shared by the local authorities in the LEP area, to support LEP economic priorities and ensure that the returns from EZ growth are reinvested locally;
- government and local authority help to develop radically simplified planning approaches in the EZ, for example using existing Local Development Order powers; and
- government support to ensure that superfast broadband is rolled out throughout the EZ, achieved through guaranteeing the most supportive planning environment and public funding.

The first ten of these will be in LEPs that include the UK's major urban centres and areas that have significant untapped potential. The location of specific zones will be a matter for each LEP, but the Government is seeking to support real growth opportunities, not remedy local dereliction. The first round of ten EZs will be in the following LEPs:

- Birmingham and Solihull
- Leeds City Region
- Sheffield City Region
- Liverpool City Region
- Greater Manchester
- West of England
- Tees Valley
- North Eastern
- The Black Country
- Derby & Derbyshire with Nottingham & Nottinghamshire

The Mayor of London has unique economic development responsibilities. As a result London will also have an EZ and London will be able to choose its site.

A further ten EZs will be determined by competition. A letter of invitation will be sent to the chairs of each LEP, including a prospectus for new EZs, and the Government will seek to make decisions on the final ten zones in the summer.

It will be for the LEP partners to decide how best to make use of the business rate receipts from the zone, but the Government hopes that this will be basis for long-term sustainability and cooperation across the LEP. The Government anticipates that LEPs will want to make their EZ as competitive as possible, including by minimising local regulatory burdens. To support them in doing this the Government will work with individual LEPs to consider the scope to:

- introduce enhanced capital allowances for plant and machinery to support EZs in assisted areas where there is a strong focus on manufacturing;
- promote the use of Tax Increment Finance to support the long-term viability of the area; and
- provide UKTI support to promote inward investment or trade opportunities in all new EZs.

The Government will work with the devolved administrations to explore opportunities for employing the new Enterprise Zone model across the UK.

1.51 To **encourage inward investment,** the Government will:

- launch simplified visa processes to ensure the UK is 'open for business' by increasing added value premium and fast track services in key overseas growth markets, increasing the availability of biometric enrolment and the availability of ePassport gates at Gatwick and Heathrow airports, and publishing visa application guidance in more local languages;
- develop a more entrepreneurial culture within UKTI, led by the Minister for Trade and Investment, which makes better use of private sector expertise and talent with a clear focus on winning business for UK firms; and
- provide a bespoke service to key inward investors, giving them direct access to UK ministers and speedy resolution of bureaucratic obstacles to investment. This will support a major drive to encourage investment in economically significant projects.

1.52 To **encourage exports,** the Government will:

- deliver a new package of support through UKTI to help SMEs with an ambition to break into overseas markets;
- use FCO and UKTI to provide UK businesses with local intelligence on high value projects overseas and intensive support to win these deals; and
- extend the range and eligibility of products offered by the Export Credits Guarantee Department, including the Export Enterprise Finance Guarantee.

1.53 To **incentivise investment,** Government will:

- extend the capital allowances short life asset regime for plant and machinery from four years to eight years from April 2011, more closely aligning tax and economic depreciation for a greater number of business assets.

1.54 **To increase investment in infrastructure,** the Government will:

- provide £200 million of new funding for rail projects. The first project to be confirmed is work to deliver the Ordsall Chord, which will link Manchester Victoria and Manchester Piccadilly stations, supporting significant reductions in journey times between Leeds and Liverpool;

- provide an additional £100 million of funding for local authorities to repair potholes caused by the exceptionally cold winter. This is on top of the £100 million announced in February 2011;
- publish the UK's long-term forward view of projects and programmes in autumn 2011 as part of the National Infrastructure Plan 2011;
- enable building contractors to respond more effectively to emerging market opportunities by publishing quarterly from autumn 2011, a rolling two year forward programme of infrastructure and construction projects where public funding has been agreed;
- reform the way in which it procures public sector construction and infrastructure to reduce costs by up to 20 per cent. This will include measures to encourage standardisation rather than bespoke designs, setting clear criteria for asset performance and introducing new models of procurement; and
- allocate £3 billion in capital to the Green Investment Bank and catalyse significant additional investment in green infrastructure.

Ambition 4: A more educated workforce that is the most flexible in Europe

Measurable Benchmarks

L Supporting more apprenticeships than any previous Government

M Home to more of the world's top universities than any other country except the USA

N An increase in the participation of 16-24 year olds in employment or learning

O Narrowing the educational attainment gap, allowing everyone to meet their potential

N Lowest burdens from employment regulation in the EU

The need for action

1.55 Education and skills are the foundation of economic success and yet the UK has been falling behind. The UK working age population has lower skills than the workforces in France, Germany and the USA.[55] This is a major contributing factor to the 15 per cent productivity gap with the UK's main competitors.[56]

1.56 Schools have a key responsibility for closing this gap. However, international comparisons show that the UK system has fallen back in recent years. Between 2000 and 2009, the UK fell in the OECD's PISA rankings from 4th to 16th in the developed world in science, from 7th to 25th in literacy, and from 8th to 28th in mathematics.[57]

1.57 Underlying this decline is the attainment gap between rich and poor children in the UK education system. This gap is much wider than it is in the best education systems, and represents both a barrier to social mobility and a waste of the UK's human capital.[58]

1.58 The UK is also weak in the vital intermediate technical skills that are increasingly important as jobs become more highly skilled and technological change accelerates.[59] Professor Alison Wolf's review of vocational education found that, while high-quality vocational provision is available to some young people, between a quarter and a third of 16-19 year olds are on vocational courses with little or no labour market value.[60] Action is also needed to raise the level of employer investment and engagement in skills. For example, in Austria, Germany and Switzerland, around 25 per cent of employers offer apprenticeships, compared to just 8 per cent in England.[61]

1.59 Higher education is central to economic growth and the UK has one of the most successful higher education systems in the world. Nevertheless, businesses regularly report difficulties in recruiting graduates with suitable skills. Reform is necessary to make the system more responsive to students and employers and to ensure that it is financially sustainable in the long-term.

1.60 The result of these trends is that the education system is not giving young people the skills that businesses need. This skills shortage is particularly acute in the manufacturing sector. In a

[55] *Skills for Sustainable Growth*, Department for Business, Innovation and Skills, November 2010
[56] ONS data
[57] *PISA 2009 Results*, OECD, December 2010
[58] *The Case for Change,* Department for Education, 2010
[59] *Skills for sustainable growth*, Department for Business, Innovation and Skills, November 2010
[60] *Review of Vocational Education: The Wolf Report*, Professor Alison Wolf, March 2010
[61] *The state of apprenticeships in 2010*, Centre for Economic Performance, H. Steedman, August 2010

recent survey 20 per cent of manufacturers reported skills gaps, while 31 per cent of high tech manufacturing firms "had recruited people from outside the UK owing to a lack of suitably qualified people from within the UK".[62]

1.61 As well as providing the skills businesses need, a competitive economy also needs a flexible, mobile labour market able to respond to the needs of businesses. The UK's flexible labour market is a relative strength. However, evidence from business suggests that an increasing burden of employment regulation is holding business back – particularly smaller businesses that lack a central human resources function. The World Economic Forum ranks the UK 49th in hiring and firing practices.[63]

1.62 A flexible labour force also needs to be mobile. The affordable supply of new homes in the right places helps to create a dynamic economy. House building makes a direct and immediate impact on GDP through job creation and an almost wholly domestic supply chain. But levels of house building are currently at their lowest in peacetime since 1924, despite increasing numbers of households. The immediate constraint is a lack of effective demand, with low levels of mortgage lending affecting people's ability and willingness to purchase homes. According to the Council for Mortgage Lenders, mortgaged purchases of new build fell by over 50 per cent between 2006 and 2009, and remain subdued.[64] More widely, developers face burdensome regulation and overly-bureaucratic planning processes, coupled with insufficient land allocated for development, particularly in areas of higher demand.

1.63 Lastly, it is critical that the welfare system supports growth and delivers fairness. In particular, this means ensuring that it pays to work, and that this is matched with clear responsibilities and support to move into work. Nearly five million people are out of work and on benefits, almost exactly the same level as ten years ago, despite employment overall having risen by 1.5 million.[65]

What the Government has already done

1.64 Increasing participation in the labour market is central to the Government's growth agenda and to delivering fairness. The Government has already:

- radically reformed every stage of education and skills provision, moving away from a culture of bureaucratic central planning towards a system which responds better to the needs of employers and repays the efforts of learners:
  - opening up the schools system, supporting parents, teachers and other groups to set up new free schools and giving existing schools new freedoms through conversion to academy status. There are now more than 450 academies open, and the first free schools are due to be open in September;
  - narrowing the attainment gap between rich and poor children through a new Pupil Premium. By 2014-15, the Pupil Premium will provide an additional £2.5 billion a year to support the learning of disadvantaged pupils and provide a clear incentive for good schools to take them on;
  - introducing the new English Baccalaureate to encourage schools to offer a broad academic education until 16, and ensuring that the vocational routes offered to young people are high quality and are recognised by employers and further and higher education;

[62] *National Employer Skills Survey for England 2009: Key Findings Report*, UK Commission for Employment and Skills, March 2010; *Survey of UK High Tech Manufacturing*, General Electric, February 2011
[63] *Global Competitiveness Report 2010-2011*, World Economic Forum, September 2010
[64] Available at www.cml.org.uk
[65] ONS data

  - developing a new National Curriculum which sets out only the essential knowledge that all children should acquire, and gives teachers greater professional freedom over how they organise and teach the school curriculum to meet the needs of their pupils;
  - raising the participation age to 18 by 2015, reducing the number of 16-18s not in education, employment or training and ensuring that all young people can gain the skills they need to thrive in the labour market;
  - cutting back red tape on skills providers and removing centralised micromanagement of further education and adult skills, so that it is those using the system, not the state, that drive the system;
  - making the highest ever public investment in apprenticeships so that by 2014-15 there will be funding for 75,000 more adults to start an Apprenticeship than under the previous Government's plans;
  - putting the UK's world-class Higher Education system on a sustainable footing and ensuring the system is driven by the choices of students;
- **announced a New Homes Bonus** to give communities the incentive to deliver housing growth worth £200 million in 2011-12 and rising in every year to 2016-17;
- **reformed the benefits system** to make work pay through the Universal Credit;
- **introduced the new Work Programme** to provide extra support for the long-term unemployed. This is the largest ever employment programme of its kind, with private and voluntary sector providers paid out of the benefit savings they generate and the outcomes they achieve; and
- **introducing the New Enterprise Allowance**, which will be available nationwide, and will provide mentoring and financial support to up to 40,000 people who are starting their own business and have been unemployed for more than six months.

What the Government will do now

1.65 To **promote skills and employment**, especially for young people, the Government will:

- provide £180 million for up to 50,000 additional apprenticeship places over the next four years:
  - 40,000 places will provide additional capacity to support young unemployed people, in particular through progression from the work experience programme;
  - to address the specific barriers faced by SMEs in accessing apprenticeships, the Government will support business consortia to set up and maintain advanced and higher apprenticeship schemes, supported by grants, creating a further 10,000 apprenticeships;
- create up to 100,000 work experience placements for young people, helping them develop key work skills and get on the employment ladder. Employers including Hilton Hotels, Skanska, McDonalds and Carillion have already signed up to offer young people places;
- expand the University Technical Colleges (UTC) programme to establish at least 24 new colleges by 2014. Formed through partnerships between universities, colleges and businesses, UTCs will provide leading edge technical training opportunities for 11-19 year olds. The sponsors will help set curricula to match the needs of the local

economy and of their sectors, provide high quality work placements, and allow the colleges to use their specialist facilities; and

- work with key sectors to ensure the skills system is delivering what the sector needs. For example, the Government will work with the retail sector to provide pre-employment retail skills training to the unemployed and encouraging greater take-up of retail apprenticeships. In the life sciences sector, the Government will work to improve market signalling by bringing companies and educators together, through Cogent, the Sector Skills Council, to ensure that educators provide the skilled individuals the sector needs to grow.

1.66 To **ease the burdens of employment regulation,** the Government will:

- scrap the planned extension in April 2011 of the right to request time to train to SMEs and the right to request flexible working to parents with children under 17; and
- continue to review employment laws for employers and employees to ensure they maximise flexibility for both parties while protecting fairness and providing the competitive enterprise to thrive.

1.67 To **support the housing market**, the Government will:

- provide equity loans, jointly funded with house builders, through a FirstBuy programme assisting over 10,000 first time buyers to purchase a new-build property;
- take action to strengthen demand for residential property by reforming the Stamp Duty Land Tax rules applied to bulk purchases. This will reduce a barrier to investment in residential property, promoting private rented housing supply;
- implement a range of measures to remove barriers to entry for new Real Estate Investment Trusts; and
- accelerate the release of public sector land. The Homes and Communities Agency will announce shortly the first tranche of available sites. The Government will consider whether using a 'Build Now, Pay Later' model could be applied to the sale of particular parts of public sector land to encourage development.

Box 1.D: Opportunities for young people

The UK has a long-term youth unemployment problem, and unemployment among young people aged between 18 and 24 has risen by 250,000 since the start of the recession. Evidence suggests that young people can be at particular risk from cyclical changes, and similar trends have been seen previously in the UK and internationally. 9.4 per cent of all young people are unemployed and not in education, compared with a peak of 12 per cent after the recession of the 1990s.[66]

The Government is providing young people with extra support to develop skills and move into the labour market. It is already investing £7.6 billion in 2011-12 in education and training for 16 to 19 year olds, in addition to the £1.4 billion apprenticeship programme. The Government will also give young people earlier access to the new Work Programme.

[66] ONS data

The Budget announces further measures to support young people:

- up to 100,000 new work experience placements for young people over the next two years and 50,000 additional apprenticeship places over the next four years; and
- to enable more young people to gain the technical skills that employers need, the Government will expand its planned programme of University Technical Colleges to establish at least 24 new colleges by 2014.

Next steps

1.68 *The path to strong, sustainable and balanced growth* made clear that a relentless focus on growth will continue to form the basis of the Government's agenda for the rest of the Parliament.[67]

Implementation of existing reforms

1.69 The Growth Review has generated a wide range of actions to stimulate growth across the economy and in particular sectors. Effective implementation and monitoring of these reforms will be critical. To ensure that this happens, the Government will incorporate the actions included in this Plan into its further plans and activities, including by amending departmental business plans to set out how and when the commitments will be implemented.

Identifying further priorities

1.70 The Growth Review will continue for the rest of this Parliament to provide an ongoing forensic focus on what Government can do to support growth.

1.71 In all areas of policy the Government will constantly benchmark the UK against best practice around the world, while expecting to be judged against its own benchmarks. Where the UK is falling behind the Government will take action.

[67] *The path to strong, sustainable and balanced growth,* HM Treasury and Department for Business, Innovation and Skills, November 2010

2 Growth Review Measures

2.1 This chapter sets out the challenges British businesses face when seeking to expand and grow and what the Government has done to respond to these across the economy as a whole in the following priority areas:

- Planning
- Regulation
- Trade and inward investment
- Access to finance
- Competition
- Corporate governance
- Low carbon

2.2 The first phase of the Growth Review also took a detailed look at the following eight sectors of the economy to remove the barriers to growth that affect them:

- Advanced manufacturing
- Healthcare and life sciences
- Digital and creative industries
- Professional and business services
- Retail
- Construction
- Space
- Tourism

2.3 This list of areas is by no means exhaustive. Building on this first phase, the Government will move on to implement the measures outlined in this chapter and take a further forensic look at cross-economy challenges and specific sectors.

Planning

2.4 The current planning system is holding back UK growth and jobs. It is overly bureaucratic, costly for business, and unresponsive to demand. A report by Michael Ball of Reading University suggested that the costs to the economy associated with development control may be up to £3 billion a year.[1] Previous governments have published detailed planning guidelines, seeking to enforce a range of complex policies. Since the 1 January 2005, an estimated 3,250 pages of national planning guidance has been issued. This has grossly overburdened the system, resulting in complexity and cost for both the public and private sector.

2.5 The restrictiveness of the planning system also overly restricts the supply of land, increasing costs to individuals and businesses. Paul Cheshire and W. Vermuelen found that the 'gross costs of regulation', the difference between the cost of construction and the market price of floorspace, in London and other UK cities are higher than in nearly all Continental Europe, which are in turn higher than in the United States.[2] For example, planning costs imposed on business are nearly ten times larger in the West End of London than in Brussels and more than double those in Paris. [3]

2.6 The frustration and uncertainty involved in navigating our complex planning system is a frequent complaint from businesses, and is cited as one of the leading concerns for potential overseas investors.

2.7 The Secretary of State for Communities and Local Government has already brought forward important reforms to remove cost and bureaucracy from the system, increase incentives for local communities to go for growth and remove unnecessary burdens. Building on these reforms, this section outlines the Government's collective approach to driving sustainable economic growth through national planning policy in particular.

Actions

2.8 The Government will make radical changes to the planning system to support job creation and growth. By creating a planning system, supported by powerful financial incentives, that makes the right land available in the right place for development, it will deliver commercial development, vital infrastructure and housing that the country needs.

1) **The Secretary of State for Communities and Local Government will make a Written Ministerial Statement on 23 March 2011, setting clear expectations that local planning authorities and other bodies involved in granting development consents should prioritise growth and jobs.**

2.9 The Government is committed to ensuring that the planning system does everything it can to support growth. This statement of Government policy is capable of becoming a material consideration in local planning decisions with immediate effect and local authorities should press ahead and put in place development plans that are pro-growth. The Secretaries of State for Transport, Environment, Food and Rural Affairs, Energy and Climate Change and Culture Media and Sport, have made clear that they will also place significant weight on the need to support the economic recovery in related consent regimes. Going forward, the Government will adopt the same pro-growth approach as it reforms national planning policy. The Chief Planning Officer will write to all local planning authorities to outline the Government's intent.

1 *Housing Supply and Planning Controls - The impact of planning control processing times on housing supply in England*, Ball, M, National Housing and Planning Advice Unit (NHPAU), 2010. This can be found at: http://www.communities.gov.uk/documents/507390/pdf/1436960.pdf

2 *Land markets and their regulation: the welfare economics of planning*, Paul Cheshire and W. Vermuelen, London School of Economics, 2011

3 *Office space supply restrictions in Britain: the political economy of market revenge Cheshire*, P.and Hilber, C., 2007

2.10 Where developments are stalled due to extensive planning obligations, negotiated in more buoyant property market conditions, local authorities will be asked to reconsider these in light of new circumstances and planning policy tests, and, where possible, to modify obligations to allow development to proceed.

2) The Government will introduce a powerful new presumption in favour of sustainable development, so that the default answer to development is 'yes'.

2.11 The Government will introduce a new presumption in favour of sustainable development, a principle which will underpin the entire National Planning Policy Framework. This will set out the Government's clear expectation that the default answer to development and growth should be 'yes', except where this would compromise the key sustainable development principles set out in national planning policy.

2.12 The presumption will reinforce a pro-growth emphasis on plan-making. It will require local authorities to work promptly to accept applications that comply with up-to-date plans and national planning policies. Local authorities will be expected to have an up-to-date core strategy in place. Where local authorities do not have plans for development, or they are silent, out of date or indeterminate, this policy will mean that local authorities should start from the presumption that applications for development and job creation will be accepted, for example, in relation to disused commercial premises or former Ministry of Defence sites. The Government will publish a draft presumption in favour of sustainable development in May 2011, alongside details of how it proposes to integrate the presumption into national planning policy.

3) The Government wants more development in suitable and viable locations and will produce a shorter, more focused and inherently pro-growth National Planning Policy Framework (NPPF) to deliver this.

2.13 The NPPF will embody the pro-growth principles set out in the Written Ministerial Statement. It will combine all national planning policies into one concise, easy to use document. Developed with business and other stakeholders, the NPPF will provide clarity on the Government's planning policy in a way that is much more accessible to business and communities. The NPPF will set out the Government's key economic, social and environmental objectives and the planning policies to deliver them. The Government will bring forward the new NPPF with the aim of finalising it by the end of 2011, if that is possible.

2.14 The Government's top priority in introducing the NPPF will be to support long-term sustainable economic growth, through both development plans and decisions on individual applications. Local authorities will be required to identify and plan for development, with a clear role for market signals in assessing the need for development. For example, if land prices are high for housing, this should inform an assessment of relative need and may indicate housing shortages.

2.15 Understanding the burdens imposed on businesses is a critical role for local authorities and they should be mindful of the cumulative costs of their policies. For development plans, deliverability will remain a key test of soundness. Local authorities seeking to introduce the Community Infrastructure Levy will be legally required to assess the economic viability of the rates they set. Through the NPPF, Government will also ensure that local authorities will not be able to adopt plans that block the delivery of required development by imposing unsupportable burdens on developers. In order to prevent excessive burdens on industry, the Government will work with local authorities and developers to ensure that the cumulative impact of regulation and other costs can be assessed, without adding complex and unwieldy bureaucracy to plans.

4) **The Government will enable businesses to bring forward neighbourhood plans and neighbourhood development orders.**

2.16 The Government has already set out its plans to provide an opportunity for neighbourhoods to put forward plans for development. Neighbourhood plans will be able to shape development, but not to block it. The Government will set out clear requirements for any neighbourhood forum or parish council to consult and engage local business and take into account their views in preparing neighbourhood development plans and orders. It will ensure that neighbourhood plans are only adopted if they fit with the local authority plan and national planning policy, and they show that they have considered representations from business.

2.17 Further, the Government will enable businesses to bring forward neighbourhood plans and neighbourhood development orders. This will mean that businesses are able to develop and implement planning frameworks, or to set up neighbourhood development orders, reducing the need for additional planning consents, for example on a single or shared use industrial site or town centre. Businesses will need to work with and gain the agreement of the local community and pass independent examination before neighbourhood plans or orders are formalised.

5) **The Government will pilot a land auctions model, starting with public sector land.**

2.18 The land auctions model seeks to capture a greater share of the land value uplift created by the granting of planning permission than is currently the case. This may bring a number of benefits compared to the current system of allocating land for development, potentially making significantly more land available for development, increasing competition and bringing greater certainty and reduced risks for developers. It would work alongside existing mechanisms such as the Community Infrastructure Levy. The model would generally involve local authorities auctioning planning permission on parcels of land, owned either by the public sector or private landowners who want to participate.

2.19 The Government will pilot elements of this approach on publicly owned land within 12 months, in order to test the land disposal elements of the model. The Government will give further consideration to the wider land auctions model over the coming months, with a view to wider use.

6) **The Government will localise choice about the use of previously developed land, removing nationally imposed targets.**

2.20 The Government remains committed to the revitalisation of urban areas and cities and planning policy has a key role to play here. In line with its commitment to make the planning regime more responsive to economic demand and the needs of local communities, the Government is removing the centrally imposed target specifying the levels of development that should take place on previously developed land.

2.21 The Government expects that a very significant proportion of development will continue to take place on previously developed land, but a nationally imposed target has helped to drive up land prices in certain areas and would increasingly limit the supply of new housing, which would harm first time buyers in particular. This policy change does not affect the Government's commitment to maintain the greenbelt, Sites of Special Scientific Interest, Areas of Outstanding Natural Beauty and other environmental designations.

7) **The Government will consult on proposals to make it easier to convert commercial premises to residential.**

2.22 The Government wants to identify more opportunities to exempt development from the planning system, where the impacts are likely to be acceptable, to both encourage and make it easier to develop. As part of this, the Government will consult on a proposal to allow changes of use, without the need to apply for planning permission, from classes B1, B2 and B8 (business, general industrial and storage) to class C3 (residential). This will support our urgent need to increase the supply of housing.

2.23 The Government will also conduct an urgent review of the Use Classes Order and associated permitted development rights, such as the ability to transfer uses between different categories of commercial premises and from residential to commercial use, which will enable full consideration of the role the Use Classes system plays in encouraging growth.

8) **The Government will introduce a number of measures to streamline the planning applications and related consents regimes removing bureaucracy from the system and speeding it up. This will include a 12 month guarantee for the processing of all planning applications, including any appeals.**

2.24 The Government is committed to ensuring that planning applications and related consents are processed promptly. No planning application should take longer than one year to reach a decision. The vast majority of planning decisions are made by local planning authorities and the Government will continue to monitor closely their performance to ensure that development is not delayed beyond this time. As part of the Government's transparency agenda, DCLG will report on the proportion of planning applications that are decided and approved within specified time limits. The Government will consider requiring local planning authorities to achieve certain standards if it is clear that they are failing to do so.

2.25 For planning applications that come to the Secretary of State for Communities and Local Government, he will ensure that decisions are made as quickly as possible. To support this objective, he will introduce a planning service guarantee. The guarantee means that planning applications will not have to spend more than 12 months in total with decision-making bodies, where a timely appeal is made. This guarantee will be underwritten by a requirement for the Secretary of State for Communities and Local Government to report periodically to Parliament on cases where it has not been met.

2.26 The Government believes that much more could be done to promote development by simplifying the planning application process and removing unnecessary delays. It is already revising the rules on Environmental Impact Assessment procedures to make them much clearer and remove unnecessary work, which will create significant savings for business and local authorities. The Government will also identify further types of minor commercial development that can be exempted from the need to apply for planning consent by expanding permitted development rights, and will consult on this in the summer.

2.27 The Government will consult by autumn 2011 on a further package of measures to streamline the information required to support planning applications, in order to make it simpler and more efficient. To support renewable energy while maintaining standards of protection, environmental regulators will work closely with the renewables industry to streamline administrative processes for their permissions. The Department for Environment, Food and Rural Affairs (DEFRA) will move towards a common framework for all environmental permits. This will start with water abstraction and impoundment, which will be completed by 2013 subject to Parliamentary time. Alongside this, it will also consult on next steps to ensure that advice from statutory consultees is sought on a proportionate basis, and that different consenting bodies take a consistent approach.

2.28 The Government will provide an annual update on simplification and streamlining measures in planning and development control, covering all of the issues described above. The first report will be in autumn this year. In line with the Penfold Review, we will also work with consenting bodies to identify further types of minor development that can be exempted from various non-planning consents. We will report on next steps with Penfold Review implementation in May.

9) The Government will ensure a fast-track planning process for major infrastructure applications through the Major Infrastructure Planning system.

2.29 Securing investment in new infrastructure will be an essential element in delivering sustainable economic growth over the coming decades. Some £200 billion of private and public sector investment in new infrastructure is expected over the next five years alone.

2.30 The UK needs a planning system designed to support this investment and promote the national economic interest. The Government will return decision-making to democratically accountable ministers, but will do so in a way that ensures a smooth transition and that decisions are made in a timely way. The responsibilities of the Infrastructure Planning Commission (IPC) will therefore transfer to the Major Infrastructure Planning Unit within the Planning Inspectorate. Sir Michael Pitt, Chair of the IPC, will take on an additional role as Chief Executive of the Planning Inspectorate from 1 April 2011. The current cadre of commissioners will be retained. This responds to business concerns to ensure a steady transition as the Planning Inspectorate takes on responsibility for major infrastructure.

2.31 The Government commits that major infrastructure applications will be determined within 12 months from the start of inquiry to decision. As announced in December 2010, to support timely investment in major infrastructure, an informal ministerial group will oversee the performance of the major infrastructure planning regime. The group will ensure that Ministers take joint responsibility for the effectiveness of the regime and the membership of the group would be drawn from the departments represented at Economic Affairs Committee.

2.32 The Government had previously committed to present the energy national policy statements, including that on nuclear power generation, to Parliament for approval this spring and designate them by the summer. Given recent events in Japan, Government considers it prudent to consider the energy statements in light of these events, but will make an announcement about its timetable as soon as the situation has clarified.

2.33 The Government's intended timetable for publishing the other national policy statements is set out below.

National Policy Statement	Consultation and scrutiny	Laid for approval	Designation
Ports	Completed May 2010	September 2011	October 2011
National networks	Starting December 2011	By December 2012	By December 2012
Waste water	Completed by June 2011	July 2011	July 2011
Hazardous waste	Starting May 2011	March 2012	March 2012

2.34 On 31 March 2011, Government will publish a Policy Framework for UK aviation. This will ask questions on how best to balance the contribution of aviation to the UK economy with environmental concerns.

10) The Government is legislating to introduce a duty on local authorities and public bodies to require them to co-operate on planning issues.

2.35 Local planning authorities have a statutory role in planning for development. It is vital that they work with neighbouring authorities on issues that impact across wider economic areas or require strategic collaboration, such as on transport, infrastructure or waste. Government has removed the regional tier of planning because the Government believes local authorities are best placed to perform this role. As such, the Government will look to expedite local authorities' ability to get on with making planning decisions by further reducing the number of applications 'called in' by ministers for decision at a national rather than local level.

2.36 The Government is legislating to give local authorities a duty to ensure that this strategic planning role is delivered effectively. The duty means that local authorities are required to engage in ongoing constructive and active engagement with relevant neighbouring authorities on the preparation of development plan documents and other activities relating to the sustainable development and use of land, in particular in connection with strategic infrastructure. The Government will strengthen the current proposed duty to ensure that local authorities must demonstrate that they have planned for key sub-national infrastructure.

2.37 Local Enterprise Partnerships (LEPs) will be able to play a vital role in supporting local authorities plan for key sub national infrastructure. The Government has not prescribed a role for LEPs in this respect, but the Government is discussing a number of potential roles with them, including:

- providing a powerful voice for business in the planning system;
- leading the production of strategic plans that identify and align strategic economic priorities and guide infrastructure delivery;
- providing a strong business role facilitating for key infrastructure investment;
- producing evidence and technical assessments to inform decision-making; and
- facilitating decision making on complex applications.

2.38 This approach provides a framework for local planning authorities and LEPs to work together successfully on sub-national planning issues, including those of major economic significance. The Government believes it is right that decisions should remain with the local planning authority wherever possible. However, where economically significant or infrastructure projects not captured by the major infrastructure regime have potential for large benefits beyond the local area, the Government will consider the case for using existing powers to direct that the application should be made centrally.

Summary of Planning Review actions

1. The Secretary of State for Communities and Local Government will make a Written Ministerial Statement on 23 March 2011, setting clear expectations that local planning authorities and other bodies involved in granting development consents should prioritise growth and jobs.
2. The Government will introduce a powerful new presumption in favour of sustainable development, so that the default answer to development is 'yes'.
3. The Government wants more development in suitable and viable locations and will produce a shorter, more focused and inherently pro-growth National Planning Policy Framework (NPPF) to deliver this.
4. The Government will enable businesses to bring forward neighbourhood plans and neighbourhood development orders.
5. The Government will pilot a land auctions model, starting with public sector land.
6. The Government will localise choice about the use of previously developed land, removing nationally imposed targets.
7. The Government will consult on proposals to make it easier to convert commercial premises to residential.
8. The Government will introduce a number of measures to streamline the planning applications and related consents regimes removing bureaucracy from the system and speeding it up. This will include a 12 month guarantee for the processing of all planning applications, including any appeals.
9. The Government will ensure a fast-track planning process for major infrastructure applications through the Major Infrastructure Planning system.
10. The Government is legislating to introduce a duty on local authorities and public bodies to require them to co-operate on planning issues.

Regulation

2.39 Regulation supports a wide range of Government objectives, including maintaining financial stability, supporting public health and protecting consumers and the environment. Regulations impose costs on the individuals, organisations and businesses that are required to comply with them, but when well-targeted and proportionate, regulation can tackle market failure, promote competition and be beneficial to the economy and society. Conversely, regulation on business can be a drag on innovation and productivity when it is poorly designed and uncoordinated.

2.40 Internationally, the UK is facing an increasingly poor perception of its regulatory environment, with possible impacts on inward investment. The World Economic Forum ranks the UK as 89th out of 139 countries in terms of business perceptions of the burden of regulation.[4]

2.41 There are more than 21,000 regulations and Statutory Instruments currently on the statute books and estimates put the cumulative cost to business of regulations introduced since 1998 at nearly £90 billion a year.[5] In recent years, more than six new regulations were introduced every working day on average.[6] In terms of where the greatest burdens lie, business surveys identify employment law, health and safety, tax and planning.

2.42 Reducing the cost of regulation on business has been one of the most consistent themes to emerge from the Growth Review, in particular the costs to small business of complying with regulation. The Forum of Private Business estimates that a typical small business spends 34 hours a month dealing with red tape.[7] Reducing and improving regulation eases the burdens on the economy and supports enterprise. Measures to reduce regulation on specific sectors are covered in the sections on planning, retail, construction, healthcare and life sciences, professional and business services, and digital and creative industries.

2.43 Evidence also suggests that Government does not do all it can to support business when introducing new regulations. Often guidance is poorly designed, not provided, or provided late (i.e. after the regulation has come into force).[8] Through cutting out the jargon and making the rules straightforward to understand, businesses could save some of the £1.4 billion currently spent on advice from consultants.[9]

2.44 Alongside bearing down on domestic regulation, the Government must take strong action in Europe to tackle the cost, volume and quality of EU regulation. A significant proportion of regulation introduced in the UK comes from implementing regulation set at an EU level or to meet other international obligations. For instance, since October 2009, the cost of European regulations to the UK has varied from 27 per cent to 60 per cent of the total UK regulatory cost.[10]

2.45 The EU does not attempt to cost its European Commission Legislative and Work Programme or assess the cumulative burdens of its regulation. A better understanding of the annual cumulative impacts and costs of regulation at an EU level is required as a first step towards bearing down on the costs.

[4] *The Global Competitiveness Report 2010-2011*, World Economic Forum report, September 2010

[5] *The Burdens Barometer 2010,* British Chambers of Commerce, February 2010

[6] Better Regulation Executive analysis, November 2010

[7] *The cost of compliance on micro, small and medium-sized business employers*, Forum of Private Business survey, June 2009

[8] *Lightening The Load*, Better Regulation Executive report, November 2010

[9] *Regulation and Business Advice*, Better Regulation Executive report, August 2007

[10] UK 2009 and 2010 Forward Regulatory Programme

2.46 The Government has taken steps already to reduce the burden of regulation by:

- introducing 'One-in, One-out', which has been operational since autumn 2010. Under this policy, the Reducing Regulation Cabinet Committee does not give clearance to proceed with a new regulation until a deregulatory measure of equivalent value has been identified;
- introducing sunset clauses on new regulation to ensure it is kept up-to-date and costs to business are kept to a minimum, and taking steps to avoid 'gold-plating' of EU regulations;
- scrapping Home Information Packs; and
- conducting reviews on areas of regulation that business have identified as problematic for example, reviewing employment law including consulting on revised employment tribunal procedures and the introduction of fees, increasing the qualification period for unfair dismissal to two years, and launching the Employer's Charter.

Actions

1) The Government will introduce a moratorium exempting micro and start-up businesses from new domestic regulation for three years from 1 April 2011.

2.47 Recognising the particular burden that new regulation places on small businesses, the Government will exempt micro businesses (i.e. businesses with fewer than 10 employees) and genuine start-ups from new domestic regulation. The moratorium will last for three years, affecting all regulation due to start from 1 April 2011 onwards.

2.48 In exceptional instances, and only where there is a compelling argument, any breach of the moratorium will require both the consent of the Reducing Regulation Cabinet Committee, chaired by the Secretary of State for Business, Innovation and Skills and the final sign-off of the Economic Affairs Committee, chaired by the Chancellor of the Exchequer. Impacts on equality will be taken in to account when making decisions on whether to exempt micro businesses.

2.49 Following the HMRC definition, the Government proposes start-ups would be identified as businesses commencing a trade, profession or vocation on or after the date that the moratorium begins, unless:

- at any time in the six months leading up to the start of this business, they carried on another business that did mostly the same activities;
- the new business is the result of the transfer of another business which carried out the same activities; and
- the new business takes on an existing business or part of an existing business.

2.50 Micro businesses will be able to comply with new regulatory standards voluntarily if they choose to. Introducing a policy of exempting micro businesses from new regulation will challenge policy makers' thinking on whether regulation is the right solution. This policy represents a complete shift in the culture of government. It will find alternatives to regulation for meeting its policy objectives wherever possible.

2) The Government will scrap proposals for specific regulations that would have cost businesses over £350 million a year to implement.

2.51 To reduce the costs of regulation on all businesses, the Government is announcing that it:

- will not extend the right to request time to train to businesses with fewer than 250 employees. It is estimated that this would have cost businesses up to £350 million a year,[11] and will provide SMEs with the flexibility to manage the training requirements of their companies to meet their needs without spending time on administering the 'right to request' process, which is proportionately more costly for smaller businesses;
- will not bring forward Equality Act dual discrimination rules that would have cost business £3 million per year;[12]
- repeal the right to request flexible working to parents of 17 year olds that was planned for April, which would have had an administrative burden costing £0.5 million;[13] and
- will consult to remove the unworkable requirement in the Equality Act for businesses to take reasonable steps to prevent persistent harassment of their staff by third parties as they have no direct control over it, which would save £0.3 million.[14]

3) The Government will launch a public thematic review to reduce the stock of regulation.

2.52 To significantly reduce the burden of existing regulation, the Government will seek the public's views on over 21,000 UK Statutory Instruments currently in effect. The thematic review will address different regulatory themes over the next year, through a public website. Its aim is to gather views from businesses and the public particularly affected by existing regulations and invite practical suggestions for alternatives. This consultation will presume that all regulations identified as burdensome would be removed unless good reasons are given for them to stay. These reasons will be verified by an independent reviewer. The review will be similar to one recently launched by President Obama, who has ordered agencies to seek public comments on rules, draw up plans for a Government wide review of all regulation, and reduce burdens on small business.

4) The Government will make further changes to employment legislation to reduce the costs to businesses of compliance.

2.53 Government will publish a timetable for its further review of employment law over the course of the Parliament, which will allow businesses to provide input in to the changes that are being made. The review is aimed at reducing the estimated £1 billion burdens of complying with employment law.[15]

5) The Government will implement proposals from Lord Young's Review of Health and Safety.

2.54 Government is implementing the recommendations of Lord Young's Review of Health and Safety. On 21 March 2011 the Government announced that it is:

- bringing in new risk assessment tools and the registration of health and safety consultants to discourage them from promoting over-compliance;
- introducing combined food safety and health & safety inspections in local authorities to cut down on time spent with regulators; and

[11] Department for Business Innovation and Skills estimates, 2011

[12] *Equality Act 2010* Impact Assessment, Government Equalities Office, April 2010

[13] *Extending the Right to Request Flexible Working to Parents of Children Aged 17* Impact Assessment, Department for Business, Innovation and Skills, October 2010

[14] *Equality Act 2010* Impact Assessment, Government Equalities Office, April 2010

[15] *Simplification Plan 2009: Delivering a better business environment*, Department for Business, Innovation and Skills, December 2009

- taking action to constrain 'no win, no fee' legal practices.

6) The Government plans to move registration of the main business taxes online.

2.55 Completing the forms necessary for tax online frees up businesses resources. Following the Minister for Cabinet Office's, *Digital by Default* announcement last November, the Government will consult on how it will move to the use of online sign up for the main business taxes, including corporation tax, Income Tax Self Assessment/Class 2 National Insurance Contributions, Pay As You Earn (PAYE) and VAT, in the summer.

7) The Government will launch a major drive to revise burdensome EU regulations and directives.

2.56 The Government will seek to revise numerous EU regulations and directives. The Government has identified specific areas where improvements can be made:

- EU-sourced trade regulation. The Commission should launch a targeted simplification programme to address those regulations that impose the greatest cost on businesses trading beyond the EU. A 25 per cent reduction in these costs could result in annual savings of approximately €2 billion for EU businesses.[16] Even a 5 per cent reduction in trade costs could increase EU-27 productivity by 2 per cent;[17]

- EU maternity and paternity rights. The European Parliament's position on the Pregnant Workers directive would give 20 weeks maternity leave and 2 weeks' paternity leave, in principle on full pay, which would cost UK businesses in excess of an extra £2 billion a year, with most benefits going to the highest paid women. The Government will seek to prevent costly and regressive changes to maternity rights;

- Clinical Trials Directive. Government will seek to influence the Commission to bring forward soundly based proposals to reduce regulatory burdens in the European Clinical Trials Directive; and

- Information and Consultation of Employees Directive. The Commission is currently reviewing the directive on Informing and Consulting Employees, which gives employees in medium and large businesses a right to be informed and consulted on a regular basis about issues in the organisation they work for, including the firm's economic situation and employees' contractual arrangements. The Government will negotiate to avoid any costly revisions.

8) The Government will work with GSK, Balfour Beatty, Kingfisher and Tribeka Limited to find ways to improve European growth opportunities for UK businesses.

2.57 GSK, Balfour Beatty, Kingfisher and the medium-sized software company Tribeka Limited have agreed to work with Government to identify areas where European enforcement could be improved and where EU laws could be made more growth-friendly. The Government will also work with these companies to identify areas of best practice when implementing EU legislation so that UK business can compete fairly.

9) The Government will push the Commission to deliver a culture change that bears down on the overall impact of EU legislation.

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[16] BIS estimates of trade regulation costs based on data from the Administrative Burdens Measurement Exercise, implemented by Pricewaterhouse Coopers, 2006

[17] European Competition Report, 2008

2.58 The Government will hold the Commission to account on its existing Smart Regulation objectives and launch a major focus on getting the EU institutions to improve their commitment to better regulation.

2.59 To achieve this, the Government will urge the Commission to:

- set a new ambitious target to cut total EU regulatory burdens over the life of this Commission;
- publish an annual audit of the cumulative cost of all planned EU regulations;
- reconsider its objections to consulting on impact assessments;
- strengthen the SME test so that micro businesses with fewer than 10 employees are exempted from European legislation. Only where there is an overwhelming, quantifiable case should they be included. Special treatment such as reduced fees should be considered for SMEs;
- work with other EU member states to deliver a new culture that bears down on the overall impact of EU legislation and where any new burdens on business are offset by savings elsewhere;
- work to ensure both the European Parliament and Council cost all their substantive amendments; and
- push the Council and European Parliament to agree to the 31 administrative burden reduction proposals which are currently held up in the European decision making process. These are worth an estimated €30.7 billion across the EU.[18]

10) Improve online Business Link guidance on regulation.

2.60 The Government wants to make compliance with regulation as straightforward as possible. To do this the Government will provide advice to all sizes of businesses on which specific regulations they are required to comply with to do business in their sector and how best to go about complying. All this advice will be available on a single website, www.Businesslink.gov.uk. All businesses will benefit from simplified and straightforward guidance.

11) The Government will publish an Enforcement White Paper in May 2011 with plans to improve enforcement of regulations.

2.61 The Government recognises the importance of simplicity in the implementation of regulation and will consult in May 2011 on the best way to achieve this. It will consider how outcome-focused regulatory enforcement can help ensure that regulations are meeting their intended aims of protecting consumers, creating stable rules-based markets that help business operate on a level playing field, rather than just ticking boxes and getting businesses to fill in forms for the sake of it. The Government will also consider how to tackle the impact of conflicting regulation on business.

[18] Communication COM(2009) 544, European Commission, 2009

Summary of Regulation Review actions

1 The Government will introduce a moratorium exempting micro and start-up businesses from new domestic regulation for three years from April 2011.

2 The Government will scrap proposals for specific regulations that would have cost businesses over £350 million a year to implement.

3 The Government will launch an extensive public thematic review to reduce the existing stock of regulation.

4 The Government will make further changes to employment legislation to reduce the costs to businesses of compliance.

5 The Government will implement proposals from Lord Young's Review of Health and Safety.

6 The Government plans to move registration of the main business taxes online.

7 The Government will launch a major focus on revising burdensome EU regulations and directives.

8 The Government will work with GSK, Balfour Beatty, Kingfisher and Tribeka Limited to find ways to improve European growth opportunities for UK businesses.

9 The Government will push the Commission to deliver a culture change that bears down on the overall impact of EU legislation.

10 The Government will improve online Business Link guidance on regulation.

11 The Government will publish an Enforcement White Paper in May 2011 with plans to improve enforcement of regulations.

Trade and Inward Investment

2.62 Over the past decade GDP growth has been dampened by imports growing by more on average than exports. By 2006, the UK's current account deficit had increased to more than three per cent of GDP and was, in absolute terms, the third largest in the world after the US and Spain.[19] Even over the last three years as sterling depreciated in value by 25 per cent, imports have continued to outpace exports.

2.63 The IMF forecasts that the world economy will expand by $20 trillion over the next five years, with fast growing emerging and developing economies contributing around $11.5 trillion.[20] This presents great opportunities for UK business. However, the UK's recent performance on exports to emerging markets has been poor. From 1998 to 2008, UK exports to the eight largest emerging markets increased by just over 0.5 per cent of GDP compared to over three per cent for Germany.[21] In 2009, UK exports of goods to China were less than half of those to Belgium.[22]

2.64 Businesses face a range of barriers that inhibit trade and investment. Investors in the UK often cite concerns with the UK's business environment in areas such as regulation, planning and skills, which are addressed elsewhere by the Growth Review. UK Trade and Investment (UKTI) has had some success in providing support to exporters and inward investors through both its regional and overseas networks. However, businesses argue that there is scope for the Government to take a more proactive approach to attracting inward investment and for UKTI to make better use of business expertise.

2.65 Some businesses also lack an awareness of where and how to break into overseas markets. Small and medium sized enterprises, in particular, say that they have difficulties in obtaining support, advice and the required financing needed for accessing overseas markets.

2.66 There are great benefits to UK firms in removing both tariffs and non-tariff barriers put in place by other governments. Within the EU, the Single Market has been a key driver of growth, and has contributed to the creation of 2.75 million jobs between 1992 and 2006.[23] The current round of multilateral trade talks, the Doha Development Agenda, has been ongoing since 2001. Completing Doha would boost global GDP by £110 billion a year[24] and act as a bulwark against protectionism, but substantial action is needed to take advantage of the current window of opportunity to complete in 2011. Non-tariff barriers (NTBs) are one of the main obstacles to accessing foreign markets. These can arise from a range of sources such as different regulatory standards, or restrictions on ownership and investment. NTBs pose a greater challenge for Small and Medium-sized Enterprises (SMEs), who often lack the resources and capabilities to overcome them.

2.67 The measures in the Growth Review build on the framework set out in the Trade and Investment White Paper by setting out practical actions that the Government is taking to support UK exporters abroad and attract and facilitate investment in the UK.

[19] *World Economic Outlook database*, IMF, October 2010

[20] *Trade and Investment for Growth*, Department for Business, Innovation and Skills, February 2011

[21] *UN Comtrade database and World Economic Outlook database*, IMF, 2010

[22] *The Pink Book*, Office for National Statistics, 2010

[23] *Steps towards a deeper economic integration: The Internal Market in the 21st Century*, DG ECFIN, European Commission, 2007

[24] *Trade and Investment for Growth*, Department for Business, Innovation and Skills, February 2011

Actions

1) **Led by the Minister for Trade and Investment, UKTI will develop a more entrepreneurial culture which makes better use of private sector expertise and talent with a clear focus on winning business for UK firms.**

2.68 UKTI will draw more on private sector expertise and talent, and work more closely with private sector organisations to deliver support for exporters and attract high quality inward investment. In this spirit, it is already planning to make greater use of incentives and to contract out the delivery of most inward investment services in England.

2.69 UKTI will further pilot this approach to pursue the Government's ambition for London's East End to become a world-leading technology cluster. Private sector specialists and entrepreneurs will be deployed to attract investment. Marketing will be contracted out, with appropriate, world-leading capability being brought to bear to promote the Prime Minister's 'Tech City' initiative to the East London community and to new potential investors and companies.

2) **The Government will provide a bespoke service to key inward investors giving them direct access to UK Ministers and speedy resolution of bureaucratic obstacles to investment. This will support a major drive to encourage investment in economically significant projects.**

2.70 The bespoke service will involve developing strong ongoing relationships with the most significant investors and providing them with direct access to Government Ministers. It will provide speedy resolution of bureaucratic obstacles to investment such as those that sometimes arise in the context of planning, tax, regulation and visas. Investors will be introduced to potential customers and suppliers. It will build confidence in the predictability of government policy. HMRC will support this service by offering quick advice to resolve tax issues.

2.71 In addition to continuing to attract high quality foreign direct investment, this service will also target financial investment from institutional investors, including Sovereign Wealth Funds and pension funds overseas, into UK projects. Government will embark on a major drive to attract high-value investment into large scale infrastructure and regeneration projects as well as Enterprise Zones.

3) **UKTI will deliver a new package of support to help SMEs with an ambition to break into overseas markets.**

2.72 This will include promotion of 'Passport to Export', which helps SMEs new to exporting to build their trade capacity. This provides advice on a range of issues such as: the company's capability for exporting; the potential markets for its products; the culture, business practices, regulations, and economic conditions in those markets; trade finance and getting paid; trade fairs and exhibitions; and the improvements to its business plans and strategy that the company would need to make to become a successful exporter. Also, UKTI will put the company in contact with staff in the UKTI overseas network who can help introduce the company to potential customers and business partners.

2.73 The 'Gateway to Global Growth' scheme provides more experienced exporters with a programme of support to help them diversify into new markets. It includes information on the more difficult cultural and regulatory issues, tailored training and business mentoring, helping the company form relationships with business networks in those countries who could help it break into the market, and provides local intelligence on how to win orders.

2.74 In response to feedback from exporters, UKTI will set out clearly its customer service standards to ensure that exporters receive a consistently high-quality service across UKTI's regional and overseas network. The enhanced support for SMEs will also include mentoring by senior business specialists for companies taking their first steps into new markets and an online peer-to-peer self help community network. There will be a new business service for SMEs in the defence and security sector. This will include specialist tailored advice on selling to foreign governments and other public authorities who are significant customers of the sector's goods and services.

4) The Government will use the Foreign and Commonwealth Office and UKTI to provide UK businesses with local intelligence on high value projects overseas and intensive support to win these deals.

2.75 This will enable UK businesses of all sizes, including supply chains, to take better advantage of high-value international projects and contracts such as the Delhi-Mumbai industrial corridor, high speed rail in United States, airport re-development in the Middle East and energy projects in China. Under a new High Value Opportunities programme, UKTI will focus Government support on around 50 opportunities at a time on the basis of where the greatest impact and value to UK companies can be achieved. UK companies will be sent relevant information on the opportunities and UKTI will help them work together on coordinated bids to win large scale contracts that require many different suppliers of specialist goods and services. The FCO overseas diplomatic network will support this work.

5) In EU negotiations, the Government will press for opening of market access overseas in areas of UK strengths, in particular the service sector.

2.76 Through EU negotiations, the Government will push for increased market opening overseas particularly in areas of UK strengths such as financial and professional services, advanced manufacturing including food and drink, educational and green goods and services, and healthcare goods. As set out in the Trade and Investment White Paper, the Government is re-focusing its efforts to open up markets and export opportunities for British business by completing a Doha agreement, and pushing for substantial liberalisation in key markets through Free Trade Agreements with India, Canada, Singapore and Mercosur (Argentina, Brazil, Paraguay, Uruguay and Venezuela) among others. The Government will also work through the EU to further open the Single Market, prioritising measures that support growth, such as full implementation of the services directive and the digital economy.

6) Working closely with business, UKTI will identify opportunities and barriers faced by UK companies operating in high-growth markets and ensure that the UK's diplomatic resources and ministerial visits focus on eliminating these barriers to trade.

2.77 The Government will use all international engagement opportunities, including multilateral negotiations, bilateral dialogues and trade missions, to work to remove the constraints identified through consultation with businesses and trade associations. This will aim to deliver increased market access in areas of key opportunity. This is particularly important in fast growing emerging markets where UK firms are seeking to grow their presence. This requires a whole of government approach to promoting trade and investment.

7) To address demand for short-term trade credit insurance, the Export Credits Guarantee Department (ECGD) has extended the eligibility of its existing short term credit insurance policy, the Export Insurance Policy (EXIP).

2.78 The EXIP is an insurance policy whereby an exporter is insured against the risk of a buyer overseas not paying for goods and services delivered to it. If an insured exporter is not paid for goods delivered, it could make a claim under the policy for up to 95 per cent of the unpaid amount. Previously this product was generally only available for exports of capital goods. It is now open for business on an extended basis which increases the eligible range of goods and services exported to emerging markets. This will make it more applicable to the products exported by SMEs and so help the ECGD offering reach the SME sector more widely.

8) **The Government makes permanent two facilities introduced in response to the financial crisis: the Letter of Credit Guarantee Scheme and allowing ECGD's guarantees to be used to raise long-term finance in capital markets for UK exports.**

2.79 The Letter of Credit Guarantee Scheme helps ensure that UK exporters are paid for goods they sell to emerging markets. Under the scheme, ECGD shares risks with UK banks in confirming letters of credit issued by overseas banks in respect of their clients' purchases of UK exports. This eases the impact of letters of credit on banks' capital requirements and exposure limits to overseas banks in particular countries.

2.80 Allowing the use of ECGD's guarantee in capital markets will enable banks to raise funds to finance UK exports by issuing securities backed by long-term loans guaranteed by ECGD.

9) **The Government will provide further support to exporters, particularly SMEs, by working with banks to ensure a successful implementation of three new ECGD products: a bond support product, an export working capital product and a foreign exchange credit support scheme.**

2.81 These new products have been designed to help free up exporters' working capital. Under the bond support scheme, an exporter would, for example, approach its bank and ask the bank to put up a contract bond by which the bank would provide an overseas customer with a promise to pay a specified sum of money to the customer in the event of the exporter failing to perform an export contract. The bank will often take security over the exporter's cash to protect itself in case its guarantee is called. This constrains the exporter's cash flow. ECGD will help relieve this constraint by sharing some of the exporter risk with the bank.

2.82 Under the export working capital product, ECGD will share risks with banks in respect of short-term loans made to finance individual export transactions. These structured trade finance products enable banks to control better the risk of default. By sharing some of that risk with ECGD, a bank would be able to increase its total lending to an exporter.

2.83 Under the foreign exchange credit support scheme, ECGD would share with a bank the risk of an exporter defaulting on a foreign currency hedge that has been provided by the bank to the exporter to facilitate an export that is being supported by other ECGD product. This will give banks greater capacity to provide their exporting customers with protection against the risks of foreign exchange movements affecting income from export transactions invoiced in foreign currencies.

2.84 The bond support product will be open for business from early April and the others will be soon after. The new products will be delivered through banks and their success will depend on how willing the banks are to use them to increase the availability of trade finance. The Government will monitor closely the success of the new products in increasing the amount of bank finance available for exporters. It will consider alternative strategies if significant problems remain for exporters in obtaining trade finance products in circumstances where the financial risks ought to be commercially acceptable.

10) **The Government is launching the Export Enterprise Finance Guarantee (ExEFG) and promoting its use to SMEs.**

2.85 The scheme is aimed at viable SME exporters with an annual turnover of up to £25 million that require export finance. Under the ExEFG, the Government will guarantee lenders to facilitate the provision of short-term export finance lines of up to £1 million to exporting SMEs. The ExEFG will cover a range of trade finance facilities. This will complement ECGD's proposed working capital scheme. ECGD is working with UKTI, BIS and business organisations to arrange a promotion programme to raise awareness of the new products for SMEs.

11) UKBA will implement a single point of contact for all traders, with lead officials at ports and airports whom they can contact in the event of delays and issues related to Government Departments.

2.86 The UK Border Agency (UKBA) currently coordinates border controls and UKBA lead officials are the single point of contact for all immigration and customs activities at each port. They lead all engagement with port operators and other delivery partners such as the police. To create a similar service for traders, UKBA will nominate an outward facing official for business to engage with on a regular basis. This system will be in place by the end of June.

2.87 The Government is also looking at providing a starting point for a one-time submission of data from traders to Government. A number of departments including HMRC, DEFRA and the Food Standards Agency all require data from traders and some may have to input the same data several times. BIS has tasked Business Link with developing a Unified Trade Interface, capturing all the pieces of data which different parts of Government require from exporters and importers.

Summary of Trade and Inward Investment Review actions

1 Led by the Minister for Trade and Investment, UKTI will develop a more entrepreneurial culture which makes better use of private sector expertise and talent with a clear focus on winning business for UK firms.

2 The Government will provide a bespoke service to key inward investors giving them direct access to UK Ministers and speedy resolution of bureaucratic obstacles to investment. This will support a major drive to encourage investment in economically significant projects.

3 UKTI will deliver a new package of support to help SMEs with an ambition to break into overseas markets.

4 The Government will use the Foreign and Commonwealth Office and UKTI to provide UK businesses with local intelligence on high value projects overseas and intensive support to win these deals.

5 In EU negotiations, the Government will press for opening of market access overseas in areas of UK strengths, in particular the service sector.

6 Working closely with business, UKTI will identify opportunities and barriers faced by UK companies operating in high-growth markets and ensure that the UK's diplomatic resources and ministerial visits focus on eliminating these barriers to trade.

7 To address demand for short-term trade credit insurance, the Export Credits Guarantee Department (ECGD) has extended the eligibility of its existing short term credit insurance policy, the Export Insurance Policy (EXIP).

8 The Government makes permanent two facilities introduced in response to the financial crisis: the Letter of Credit Guarantee Scheme and allowing ECGD's guarantees to be used to raise long-term finance in capital markets for UK exports.

9 The Government will provide further support to exporters, particularly SMEs, by working with banks to ensure a successful implementation of three new ECGD products: a bond support product, an export working capital product and a foreign exchange credit support scheme.

10 The Government is launching the Export Enterprise Finance Guarantee (ExEFG) and promoting its use to SMEs.

11 UKBA will implement a single point of contact for all traders, with lead officials at ports and airports whom they can contact in the event of delays and issues related to Government Departments.

Access to Finance

2.88 Ensuring that businesses can access a wide range of sources of finance is essential if they are to invest and reach their full growth potential. Small and medium-sized enterprises (SMEs),[25] in particular, tend to experience greater difficulties in accessing finance because of longstanding market failures.

2.89 The Government has set out a clear set of measures to enable viable businesses to access the finance they need in its response to the *Financing a private sector recovery* consultation last November.[26] These measures are detailed in this section, along with new actions that Government is taking to promote improved access to finance.

2.90 Research suggests there is a continuing 'equity gap' for SMEs seeking equity finance in the range of £250,000 to £2 million. This is below the minimum size of investment that most private sector funds are willing to consider. The 2009 Rowlands Review identified a further gap in the supply of equity finance for growth between £2-10 million for established businesses looking to expand.[27]

2.91 Over the past two years, the UK venture capital (VC) market has declined significantly. European Venture Capital Association data shows that total VC investment in the UK has dropped by €744 million or 49 per cent from 2008 to 2009, with seed and early-stage VC investment down €187 million or 32 per cent.[28]

2.92 Private investors have tended to move away from SMEs and towards larger deals and more established businesses.

2.93 Over the past two years, there have also been rising concerns around a breakdown in bank-business relationships and the level of competition in the banking system leading to a lack of choice and transparency. These issues also affect businesses looking for finance in order to export, and the Government has recently launched a range of export finance products in response. The Trade and Inward Investment section of this chapter provides further details.

2.94 Evidence also suggests that SMEs tend to undervalue the benefit of external advice, leading to an under-appreciation of the range of finance sources available to them and a lack of investment readiness.[29]

2.95 There are some positive private sector initiatives already under way to address this, which the Government welcomes. These include:

- the Goldman Sachs 10,000 Small Businesses Programme, which is a free, intensive four-month business and management education course for entrepreneurs running small businesses with high growth potential;
- Seedcamp, a pan-European mentorship and early-stage investment programme supporting over 200 businesses each year; and
- the New Entrepreneurship Foundation, which will provide promising young future entrepreneurs with internships with the CEOs of growth businesses and access to training by leading business schools.

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[25] Businesses with an annual turnover of up to £25 million.

[26] The *Financing a Private Sector Recovery* consultation (July 2010) and its response, *Financing Business Growth* (November 2010), can be found at: www.bis.gov.uk/businessfinance

[27] *The Provision of Growth Capital to UK Small and Medium Sized Enterprises*, Chris Rowlands, November 2009, can be found at http://www.berr.gov.uk/files/file53698.pdf

[28] European Venture Capital Association Yearbook, 2010

[29]See also *Financing a Private Sector Recovery*, HM Treasury and BIS, July 2010

2.96 Those in deprived areas or disadvantaged groups can find it difficult to borrow money to start up or finance an existing business. They often need small loans that are more risky and more expensive to administer and thus are not attractive to banks. Community Development Finance Institutions (CDFIs) provide loans (sometimes referred to as 'micro-finance') in these circumstances. However, they have difficulties raising capital to lend and many do not yet have a sustainable business model.

2.97 The majority of mid-cap businesses are,[30] like SMEs, heavily reliant on bank lending. Debt capital markets (corporate bonds and private placements) offer a potentially attractive way for businesses to diversify their financing sources, but are usually only accessible by large companies. Responses to the Government's consultation on business finance last year indicated that many mid-cap firms would be interested in utilising debt capital markets if the barriers to their use could be reduced.

Actions

To encourage greater investment in SMEs with high growth potential, the Government announces:

1) Significant reform of the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs), subject to State Aid approval.

2.98 This will include increasing the rate of EIS income tax relief to 30 per cent from April 2011 and bringing forward proposals to provide further support for seed investment.

2) The Government will also increase to £10 million the lifetime limit on capital gains qualifying for Entrepreneurs' Relief.

2.99 The Government will also increase to £10 million the lifetime limit on capital gains qualifying for Entrepreneurs' Relief, with effect from 6 April 2011. Eligible gains are taxed at a 10 per cent rate of Capital Gains Tax. This will reduce the barrier for serial entrepreneurs who want to grow their business and reinvest gains, helping to make the UK a more attractive location for entrepreneurs.

To increase community finance for businesses among disadvantaged groups and communities, the Government announces:

3) The Government will re-notify Community Investment Tax Relief to the EU Commission.

2.100 Government will consult in advance of re-notification on how the scheme can be made more effective.

4) Government announces the interim launch of the Big Society Bank.

2.101 The Big Society Bank will increase access to finance for civil society organizations through social finance intermediaries, including community development finance institutions. It will be funded from England's apportionment of the £400 million held in UK dormant bank accounts, subject to the release of these funds by the Reclaim Fund. The initial release of dormant account funds for the UK is estimated at £60-100 million. An additional £200 million has been contributed by the main UK banks as a result of Project Merlin negotiations. The Government is working with the Big Lottery Fund on interim arrangements to enable investments as soon as dormant accounts money becomes available in the summer, using existing state aid exemptions.

[30] Defined as businesses with an annual turnover of between £25-500 million.

5) Reforms to the delivery of European Regional Development Funds (ERDF).

2.102 The Local Growth White paper stated that the Government would consider reforms to the delivery of European Regional Development Funds (ERDF). The Government announces that to deliver better value for money, and increase opportunities for private sector match funding and leverage. It will:

- explore whether applications for the second round of bids for the Regional Growth Fund can be aligned with the process for applying for the ERDF;
- play a significant role in deciding which interventions the ERDF supports;
- explore the potential for further schemes to support growth, including options to encourage greater levels of venture capital activity; and
- consider further reforms to the delivery of all European funding streams as part of negotiations for the next round of European funding (2014-2020).

The Government also announces:

6) A review of the UK's regulatory framework of covered bonds.

2.103 The review will set out the key strengths of the UK framework and the FSA's supervision of regulated covered bonds. It will also consult on proposals to raise transparency in the UK covered bond market and make the UK regime more readily comparable with European peers. This will increase the appeal of UK covered bonds to investors, making it easier for banks and building societies to raise funding to lend to households and businesses.

These announcements will supplement the comprehensive package of announcements on access to finance that have already been made. These include:

For viable SMEs seeking debt finance:

7) The major UK banks will make £190 billion of new credit available to businesses in 2011, of which £76 billion will be available specifically for SMEs.

2.104 Over the past few months, the Government has worked with the main UK banks to identify ways in which they could support the recovery of the UK economy, including through an increase in the finance available to businesses. The available credit is more than the banks lent in 2010 (£179 billion) and, for SMEs, represents a 15 per cent increase on the £66 billion lent in 2010.

For viable SMEs seeking debt finance that lack track record or collateral:

8) An extension of the Enterprise Finance Guarantee (EFG), which will enable over £2 billion of new lending over the next four years.

2.105 Since its launch in November 2008, the EFG has supported nearly £1.4 billion of lending to over 13,900 small businesses. In November 2010, the Government announced that the EFG will continue for the life of this Parliament, supporting additional lending of up to £600 million per year to around 6,000 small businesses each year. The Government has also changed the design of the EFG to encourage its use by smaller and specialist lenders such as Community Development Finance Institutions.

For SMEs with high growth potential seeking up to £2 million in equity finance:

9) **An extension of the Enterprise Capital Funds (ECFs) programme, which will provide up to £300 million in equity finance over the next four years.**

2.106 This additional funding for the ECF programme was announced in November 2010 as part of the Spending Review. This will provide investment into the equity gap of more than £300 million and will be additional to the existing Government commitment of £156 million invested to date in the nine ECFs already operating. The ECF programme will continue to address the structural weakness in the provision of equity finance to SMEs across a range of sectors and in all parts of the country.

10) **A proposed Business Angel Co-investment Fund to unlock investment for high growth potential SMEs.**

2.107 The Government has encouraged business angels (high net worth individuals that invest in local businesses) and the Government's SME investment arm, Capital for Enterprise Ltd, to put together a bid to the Regional Growth Fund for a Business Angel Co-investment Fund. If successful, this will support Angel investments into high growth potential early stage SMEs, particularly in areas most affected by public spending cuts. The Government believes that this is the kind of activity that would be well placed to take advantage of the Regional Growth Fund application process.

For established SMEs and small mid-caps with high growth potential seeking growth capital in the range of £2-10 million:

11) **The major UK banks will launch a £2.5 billion Business Growth Fund.**

2.108 The Business Growth Fund was first announced by the British Bankers' Association-convened Business Finance Taskforce in October 2010 as a £1.5 billion equity fund. The UK banks have now increased their contribution, bringing the total size of the Fund to £2.5 billion, subject to demand. The Fund will target established businesses with high growth potential and a turnover of £10-100 million through a network of regional offices, providing between £2-10 million of finance per transaction. The Chair and Chief Executive of the Fund have now been appointed, and the Fund is on track to be formally launched in May 2011.

To help build up SME demand for equity finance and growth capital:

12) **Government will roll out a network of Business Coaching for Growth services across England from January 2012.**

2.109 This initiative will target SMEs with the potential to achieve rapid and significant growth, providing strategic advice at key stages in the business development cycle. Among other services, it will offer specialist investment readiness training for businesses seeking equity finance, either from business angels or venture capitalists, and will help to link up SMEs with potential investors. It will target up to 10,000 businesses per year and go live from January 2012 following the awarding of contracts to service providers.

13) **Government is also working closely with the major UK banks to repair bank-business relationships, improve lending standards and increase support through business mentoring.**

2.110 The British Bankers' Association convened Business Finance Taskforce has committed to simplifying the loan application process through a new checklist, revising the Lending Code and publishing new lending principles. A new independent review of bank appeals processes for declined loan applications will ensure the process is fair and equitable for all businesses, with review findings to be made publicly available.

2.111 The banks will also fund and publish a quarterly, independent survey, providing authoritative data on bank lending supply and demand to SMEs. The first findings from this survey will be available from July 2011.

2.112 Working with not-for-profit mentoring organisations, the banks have also started committing experienced staff to provide free mentoring to SMEs and individuals starting businesses. This support will be available through an online portal that will be launched in June 2011.

Government will also support industry-led developments to improve access to finance for, and through, mid-cap businesses. These include:

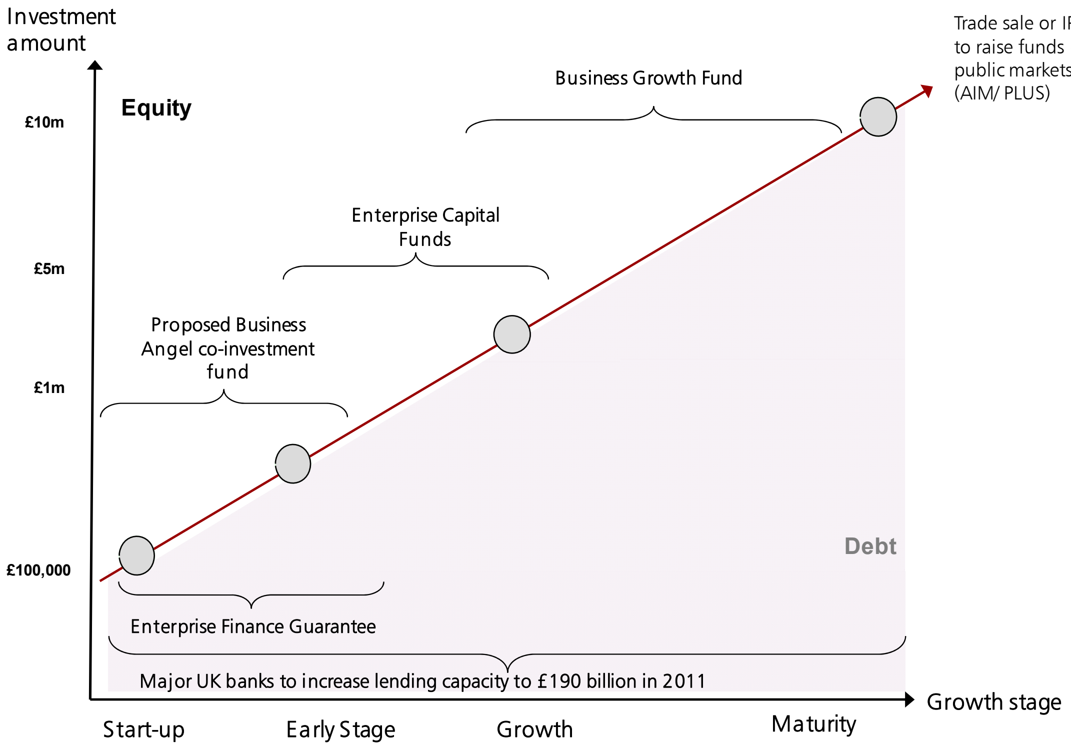
14) Industry-led developments to increase use of debt capital markets and supply chain finance.

2.113 Government is supporting ongoing industry-led work to raise awareness of debt capital markets and to standardise bond transaction documentation. Last year, the Bond Covenant Group produced a set of model bond covenants. The Government engaged with the Group in this work and will continue to do so to explore what the remaining barriers are in this area. Additionally, the Government has published advice on the Business Link website, and continues to promote debt capital markets through industry events and by engaging with key players in this market. This should help to make the process of issuing debt more attractive and simpler for mid-cap businesses that have not previously accessed debt capital markets. However, the Government recognises that the changes necessary to develop deeper sterling debt capital markets are likely to take a number of years. As a result, it is unlikely that debt issuance will be able to act as a significant alternative source of finance for mid-caps in the short-term.

2.114 Government will also continue to work with mid-cap and larger businesses and industry bodies to increase awareness and understanding of how supply chain finance could benefit private sector supply chains. In the public sector, Government will assess current pilot schemes to learn lessons and consider the potential for wider public sector use of supply chain finance.

Collectively, these measures will create a coherent supply of both debt and equity finance, for start-ups right through to established businesses, as shown in Chart 2.A:

Chart 2.A: Overview of equity and debt measures for SMEs



Source: HM Treasury

Summary of Access to Finance Review actions

The Government is announcing:

1 Significant reform of the Enterprise Investment Scheme and Venture Capital Trusts, subject to State Aid approval.

2 An increase to £10 million of the lifetime limit on capital gains qualifying for Entrepreneurs' Relief.

3 Re-notification of Community Investment Tax Relief to the EU Commission.

4 The interim launch of the Big Society Bank.

5 Reforms to the delivery of European Regional Development Funds (ERDF).

6 A review of the UK's regulatory framework of covered bonds.

These will supplement the following announcements that have already been made:

7 The major UK banks will make available £190 billion of new credit to business in 2011, of which £76 billion will be specifically for SMEs.

8 An extension of the Enterprise Finance Guarantee to enable over £2 billion of new lending over the next four years.

9 An extension of the Enterprise Capital Funds programme, which will provide up to £300 million in equity finance over the next four years.

10 A proposed Business Angel Co-investment Fund to unlock investment in high growth potential SMEs.

11 The major UK banks will launch a £2.5 billion Business Growth Fund.

12 The Government will roll out a network of Business Coaching for Growth services across England from January 2012.

13 The Government is also working closely with the major UK banks to repair business-bank relationships, improve lending standards and increase support through business mentoring.

14 Industry-led developments to increase use of debt capital markets and supply chain finance.

Competition

2.115 Vigorous competition is at the heart of dynamic economy. Thriving, competitive markets promote growth by creating strong incentives for firms to increase their efficiency and to innovate.[31] The UK has a well respected and stable competition regime that supports businesses ability to start, finance and grow. The Competition Commission (CC) and the Office of Fair Trading (OFT) are among the top-rated agencies globally.[32] But there remains scope for improvement. International peer review has highlighted the time taken over market studies and investigations, antitrust enforcement and merger cases; the complexity of the regime; the relative effectiveness and efficiency with which resources are used; the relevance and importance of subject matter; and the relatively low number of decisions on significant cases aside from mergers.[33] The Government has also created the Independent Commission on Banking to consider reforms to the UK banking sector to promote financial stability and competition.

2.116 In addition to setting the framework within which businesses compete, the Government is also a major customer and spends £236 billion a year on goods and services from a diverse range of suppliers.[34] Ineffective procurement practices and artificial barriers to competition support neither value for money to the taxpayer or economic growth. Suppliers to Government have consistently said that bidding for Government work often takes too long, is too costly and is too difficult for small firms and the voluntary sector to compete. Through changes to its procurement practices, a recent report by the OFT highlighted how government can best capture, where appropriate, the benefits of competitive markets in delivering greater value for money and supporting economic growth.[35]

2.117 For the economy to succeed in the future, people and businesses will require reliable infrastructure in sectors such as energy, water, communications and transport. In markets without the strongest competitive pressures, economics regulators are central to protecting consumers, driving efficiency and financing investment. The UK's regulated sectors such as telecoms, water and rail face the challenge of delivering the majority of the £200 billion of planned infrastructure investment over the next five years.[36] Strong and stable regulatory environments will central to meeting this challenge. A regulatory environment that is uncertain and lacks credibility could increase costs by up to £350 million per annum to energy and water bills, without any corresponding benefit in terms of investment or improvement in quality.[37] Confidence in the regulatory environment could be strengthened by providing greater clarity about the way that regulatory frameworks will operate in the future, and the Government is taking steps to do this.

2.118 Markets rely on active and informed consumers who drive competition by choosing to buy from businesses that offer the best mix of price and quality. Competition and consumer choice force businesses to produce efficiently and innovate. Growth is undermined when consumers face excessive barriers to switching suppliers, where there are market failures in the flow of consumer information or when unscrupulous suppliers exploit consumer ignorance.[38]

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[31] *The Effects of Entry on Incumbent Innovation and Productivity*, Philippe Aghion, Richard Blundell, Rachel Griffith, Peter Howitt and Susanne Prantl Review of Economics and Statistics, 2009; *Competition, innovation and productivity growth: A review of theory and evidence*, S. Ahn OECD Economics Department Working Papers, 2002; and *Measuring and Explaining Management Practices Across Firms and Countries*, N.Bloom and J. Van Reenen NBER Working Paper, 2006

[32] *UK's Competition Commission*, Global Competition Review, 2010; and *UK's Office of Fair Trading,* Global Competition Review, 2010

[33] *Peer Review of Competition Policy,* KPMG, 2007

[34] *Public Expenditure Statistical Analyses,* HM Treasury, 2010

[35] *Commissioning and Competition in the Public Sector*, Office of Fair Trading, 2011

[36] *National Infrastructure Plan*, HM Treasury, 2010

[37] BIS estimate based on a counter-factual analysis of regulated industries' credit profiles using published credit rating agencies' methods.

[38] *Research to analyse the links between consumer empowerment and competition/productivity and to scope further work which could be undertaken to quantify these effects*, M. Waterson, 2004

The Government wants to make competitive markets more effective by ensuring that consumers have the information and opportunities they need to choose between suppliers.

Actions

1) The Government wants to reform and further invigorate the UK's competition framework.

2.119 The Government launched a consultation[39] on 16 March 2011 on a proposal to merge the competition functions of the Office of Fair Trading and the Competition Commission to create a single Competition and Markets Authority (CMA). To strengthen the regime, support the competition authorities in taking forward high impact cases, and improve speed and predictability for business, the Government is also consulting on a range of other measures, including:

- introducing more (and tighter) statutory deadlines in merger and market cases;
- introducing an exemption for small businesses from merger control;
- streamlining the handling of antitrust cases; and
- enabling the CMA to carry out investigations into similar practices across different markets.

2) To help create a level playing field for businesses bidding for public tenders, the Government will promote greater transparency in transfer of undertaking (protection of employment) (TUPE) related liabilities.

2.120 Barriers such as differential tax treatment, pensions and procurement rules particularly affect small businesses and social enterprises, denying them opportunities to take advantage of government tenders. The Government has already started to address such issues across the public sector, by:

- withdrawing the two-tier code, which placed an excessive burden on independent providers of public services; and
- consulting on the Fair Deal on Pensions,[40] which requires that broadly comparable pensions are provided to staff where they have been compulsorily transferred from the public sector to a new employer.

2.121 The Government will also encourage public bodies to disclose TUPE related liabilities at an early stage in the commissioning process. This will help prospective providers, better understand the relevant costs when developing their bids.

2.122 To date, bureaucratic processes have held back start-ups, SMEs and voluntary and community sector organisations from successfully bidding for public sector procurement contracts. These processes have been unwieldy and have actively discouraged entrepreneurial organisations from providing services and goods for the public sector.

2.123 To encourage enterprise, this Government is already reforming public sector procurement practices to make it much easier for small businesses and voluntary and community sector organisations to access contracting opportunities, in particular by:

- setting an ambition for 25 per cent of the value of government contracts to be delivered by SMEs;

[39] *A Competition Regime for Growth: A Consultation on Options for Reform,* Department for Business, Innovation and Skills, 2011

[40] *Consultation on the Fair Deal Policy: treatment of pensions on compulsory transfer of staff from the public sector,* HM Treasury, 2011

- seeking to eliminate Pre-Qualification Questionnaires (PQQs) for all central government procurements under £100,000;
- mandating a standardised core PQQ for all central government procurements over £100,000, where a PQQ is necessary;
- introducing a Contracts Finder, a one-stop-shop which will display every central government tender opportunity;
- launching SME surgeries to give enterprising companies and voluntary and community sector organisations the opportunity to pitch innovative products and services; and
- appointing Stephen Allott as the Crown Commercial Representative for SMEs.

2.124 The Government will transparently monitor progress on these policies by:

- publishing whether departments are eliminating PQQs below £100,000 and provide the names of wider public sector organisations that are following central government's lead;
- publishing the performance of departments in putting their procurement opportunities on Contract Finder and list on Contract Finder all public sector organisations that indicate they are committed to this; and
- reporting against the aspiration that 25 per cent of the value of government contracts to be delivered by SMEs.

2.125 As well as monitoring progress, the Government is continuing to work with business and the public sector to identify further actions needed to support competition in public sector procurement.

3) The Government is publishing *Shaping Competitive Markets* in April 2011 to support procurement choices that encourage competition.

2.126 The Government will shortly publish *Shaping Competitive Markets*, guidance to support departments in better decision making by setting out measures that procurers should take to shape and open up markets, and highlighting how procurement decisions can have undesirable consequences on markets.

4) The Government is stripping back regulation and increasing transparency to make it easier for small businesses and voluntary organisations to compete for local authority contracts.

2.127 Local authorities account for around a third of UK public sector procurement, procuring around £86 billion in 2009-10.[41] The Government will act to remove barriers to leaner, more contested local public services that prevent councils fully focusing on their own priorities and productivity. Within this, the Government will revoke the complex and extensive Best Value guidance, including guidance on workforce matters. The Government will introduce minimal, light-touch guidance underlining the role of small businesses and voluntary organisations.

2.128 The Government will also shortly issue a council transparency code setting out expectations for the data that councils should publish, including details of contracts and tenders. This data should help to promote efficiency and open up new markets including for small businesses and the voluntary sector.

[41] *Public Expenditure Statistical Analysis,* HM Treasury, 2010

2.129 The Government is also supporting the Local Government Group's (LGG) Local Productivity Programme. The LGG is backing Government measures to help local businesses and voluntary organisations, including putting council procurement opportunities on Contracts Finder and using a simplified pre-qualification questionnaire.

5) The Government will publish in April 2011 a binding set of principles of economic regulation to provide greater certainty for long-term investors in UK infrastructure.

2.130 These principles will shape the behaviour of Government into a more stable and predictable pattern. It will give greater clarity about the cycle for review and amendment of the regulatory frameworks and a more transparent articulation of policy priorities and guidance for regulators (Postcomm, the Civil Aviation Authority, Office of Rail Regulation, Ofgem, Ofwat and Ofcom). This will be done on a predictable and infrequent basis in the future, no more frequently than once a Parliament, to minimise piecemeal changes and provide the certainty business needs to invest.

2.131 The Government will publish the process by which the responsible departments will secure detailed sector-application of the principles later in the year.[42] This will include specific dates and publications in which the detail will be provided, including findings from on-going reviews of regulators,[43] as well as specific communications accompanying the Postal Services Bill. The Government will ensure that it collectively abides by its commitments: sponsor departments will be required to explain, in published policy recommendations and impact assessments, how their proposals align with published principles and commitments. This will enable interested parties to check adherence to the principles. The Government will use cabinet committees to ensure adherence to these commitments.

6) The Government will set out in April 2011 its vision for consumer empowerment, to explain how it will help to support consumers in making better choices.

2.132 This will set out action that Government can take, alongside consumer groups and businesses, to support consumers in making good choices. Key themes will be harnessing the power of information (on how Government can support consumers accessing their own information and data in the digital age), the power of the crowd (how Government can encourage collective purchasing in communities), helping the most vulnerable (how to help empower such consumers) and how business can contribute.

[42] Relevant departments include the Department for Energy and Climate Change (DECC), Department for the Environment, Food and Rural Affairs (DEFRA), Department for Transport (DfT), Department for Business, Innovation and Skills (BIS), and the Department for Culture, Media and Sport (DCMS).

[43] Ongoing reviews of regulators include a review of Ofgem being undertaken by DECC, a review of Ofwat by DEFRA and DfT's review of the economic regulation of airports.

Summary of Competition Review actions

1 The Government will reform and further invigorate the UK's competition framework.

2 The Government will promote greater transparency in transfer of undertaking (protection of employment) (TUPE) related liabilities.

3 The Government is publishing *Shaping Competitive Markets* in April 2011 to support procurement choices that encourage competition.

4 The Government is stripping back regulation and increasing transparency to make it easier for small businesses and voluntary organisations to compete for local government contracts.

5 The Government will publish in April 2011 a binding set of principles of economic regulation to provide greater certainty for long-term investors in UK infrastructure.

6 The Government will set out in April 2011 its vision for consumer empowerment, to explain how it will help to support consumers in making better choices.

Corporate Governance

2.133 Corporate governance is the framework established through legislation, regulation and practice by which companies are directed or controlled. This framework can support growth by aligning the incentives for investors and managers to improve company productivity, providing the information to investors to encourage investment in UK companies, and increasing stability and confidence in UK markets.[44]

2.134 Over time, financial reporting and audit requirements and the costs which these impose on UK business have increased, and the Government has identified opportunities to make changes which will support growth.

2.135 The UK has more onerous accounting standards for unlisted companies than many competitors, both in the EU, and elsewhere in the world. Businesses have stressed that UK accounting and audit requirements could be applied in a more targeted and flexible manner to reduce compliance costs without significant impacts on disclosure and verification objectives.

2.136 Good narrative reporting should tell the company's story effectively and in a balanced way that puts financial information into context. Narrative reporting is an important part of the UK's internationally respected corporate governance framework, which, along with other key elements, contributes to the attractiveness of the UK as a location for global business. Various studies have looked at companies' narrative reporting.[45] Broadly, they conclude that most companies comply with the legal requirements but that some reporting is of poor quality or lacks relevance to investors. The increasing length and complexity of reports may militate against presentation of a clear, coherent and relevant picture of the business.

2.137 The UK already has a vibrant and expanding social enterprise sector. Clearer and more comprehensive guidance on appropriate legal forms and ownership models for this sector has the potential to promote growth. There is also widespread acknowledgement that the framework for mutuals is in need of further modernisation, to remove complexity and inflexibility and to address issues of inadequate governance and regulation.

2.138 The Government asked Lord Davies to undertake a review of gender equality on the boards of listed companies, identifying barriers preventing more women reaching the boardroom and asked him to make recommendations. The Government welcomes his report and shares the aim of getting more women on boards. It will consider his proposals.

2.139 The Government estimates that the changes outlined below could yield potential savings of more than £700 million a year for business. In addition, the Government will publish the next steps of its wider review of corporate governance and economic short-termism in the summer.

Actions

1) The Government will reduce the number of UK SMEs required to undertake an audit.

2.140 The UK does not currently exploit all of the existing small company audit exemption in the 4th and 7th Company Law Directives, because of onerous UK rules which pre-date European requirements. The EU only requires small and medium companies to satisfy two out of three criteria for turnover, balance sheet size, and number of employees in order to qualify for the exemption. The Government will introduce these changes in the UK, and companies should begin to see these benefits in 2012.

[44] For example *International Differences in the Cost of Equity Capital: Do Legal Institutions and Securities Regulation Matter?*, ECGI Law Working Paper 15/2003, 2005 and *Disclosure Level and Expected Cost of Equity Capital: An Examination of Analysts' Rankings of Corporate Disclosure*, University of Utah (SSRN 208148), 2000

[45] *The Future of Narrative Reporting: a Consultation*, Department for Business Innovation and Skills, August 2010

2.141 Similarly, most medium sized companies should not have to undergo a mandatory audit. The UK Government will press the European Commission to remove the audit requirement for most medium sized companies in the lead up to the publication of a revised audit directive, expected in November 2011.

2.142 Taken together, these measures could save UK companies up to £200 million per year.

2) The Government will:
   - bring forward legislation in 2012 to exempt many subsidiaries from producing audited accounts; and
   - encourage the European Commission to exempt the smallest companies from reporting requirements.

   These measures, and complementary measures from other regulators, will substantially reduce the burden of financial accounting for UK businesses.

2.143 The Government will take advantage of existing exemptions in EU accounting directives to exempt most subsidiaries from producing audited accounts, where their debts are guaranteed by their parent company. This will considerably reduce the burden of accounting requirements for relevant businesses and save UK companies up to £150 million per year.

2.144 The Government also wants the EU to simplify rules for the smallest companies and is seeking exemptions for these firms from the current minimum reporting requirements of the 4th Company Law Directive, which could save companies up to £400 million per year.

2.145 Small companies should also benefit from less complex financial reporting requirements; the Government welcomes the UK Accounting Standards Board's current consultation, which should simplify the reporting requirements for 35,000 qualifying SMEs.

3) The Government is calling on the OFT to investigate whether clauses in lending agreements made by the banks are unfairly restricting competition in the audit market.

2.146 The OECD have suggested that banks sometimes make loans to business contingent on their audits being undertaken by the top tier audit firms.[46] The Government is calling on the OFT to investigate claims that such clauses exist, that they unfairly and inappropriately restrict competition and that their removal would mean that the next tier of audit firms would be better placed to compete for larger audits and lead to a more vibrant market for audit services.

4) The Government will materially simplify narrative reporting for quoted companies to make it clearer and more focussed.

2.147 The Government will simplify the reporting framework to enable quoted companies to provide clear and relevant information to investors about strategy, performance and risk in a simpler and more concise report, with supporting information provided on the company's website.

2.148 The Government will seek views from business by the end of July 2011 on the best ways to reduce burdens. For example, by removing any requirements which duplicate similar reporting; improving non-regulatory guidance; and promoting a framework for company reporting which makes it as easy as possible for businesses to adapt to national and international developments.

[46] *DAF/COMP(2009)19 Competition and Regulation in Auditing and Related Professions,* OECD, July 2010

5) **The Government will modernise the legislation governing mutuals, and ensure that they remain competitive in future.**

2.149 The framework for mutuals needs to be modernised to remove complexity and inflexibility, and to address governance issues and overregulation. The Government has committed to a programme of reform, including to:

- commence the Co-operative and Community Benefit Societies and Credit Unions Act 2010. This will modernise the outdated name 'Industrial and Provident Societies', improve corporate governance, and allow some co-operative and community benefit societies law to be brought in line with company law;
- enable the greater use of electronic communications by mutuals by making an Order under the Electronic Communications Act 2000; and
- assess whether changes are required to update building societies legislation.

2.150 Alongside this, the Government will complete the passage of a Legislative Reform Order, which will relax the rules on age limits for membership, year-end dates and allow credit unions to offer interest on deposits. The Government will ensure that the legislation governing mutuals is kept up to date, so that businesses using these legal forms can remain competitive in the future. The government is also consulting on the future of mutual registration and regulation as part of its reform of financial services regulation.

2.151 Together, these changes will remove the burdens for those businesses and other organisations that wish to use the mutual form, with estimated savings for mutuals of £12 million a year according to sector estimates. The changes will ensure that they can operate effectively and place them on a more even footing with other corporate forms in the future.

6) **The Government will improve the guidance on businesslink.gov.uk to support business and social enterprise start-ups.**

2.152 The Government is committed to making the UK the best place in the world to build and grow a social enterprise. As a part of this commitment, it will improve guidance on businesslink.gov.uk to help businesses and other organisations make better choices about legal form and ownership model, including employee ownership. It will also improve the availability of advice for individuals, including public sector employees, about all other issues and questions involved in setting up and running different types of social enterprise.

Summary of Corporate Governance Review actions

1	The Government will reduce the number of UK SMEs required to undertake an audit.
2	The Government will change the law in 2012 to exempt many subsidiaries from producing audited accounts; and push the EU to exempt the smallest companies from audit.
3	The Government is calling on the OFT to investigate whether clauses in lending agreements made by the banks are unfairly restricting competition in the audit market.
4	The Government will materially simplify narrative reporting for quoted companies.
5	The Government will modernise the legislative framework governing mutuals.
6	The Government will improve the guidance on businesslink.gov.uk to support business and social enterprise start-ups.

Low Carbon

2.153 This Government is committed to being the greenest ever. Taking action now to put the whole economy on a low-carbon, resource efficient path which maintains UK competitiveness will lay the foundations for strong and sustainable growth in the future. The Stern Review made clear that the costs of effective international action to tackle climate change are dwarfed by the costs of inaction.[47]

2.154 Green growth presents significant opportunities for UK firms. In 2008-09 the UK low-carbon and environmental goods and services sector was worth £112 billion, an increase of 4.3 per cent on the previous year, and employed 910,000 people. Many of the companies involved are SMEs. The global low carbon goods and services sector is worth £3.2 trillion, offering significant export potential for UK firms. Across all sectors, businesses can save up to £23 billion a year from using raw materials, energy and water more efficiently.[48]

2.155 Some aspects of the move to a green economy will impose transitional costs. In the short-term cleaner technologies may be more expensive than the conventional ones they replace. Adopting new, low-carbon technologies in energy production and consumption is currently expected to increase the average non-domestic energy bill by around 11 per cent by 2015 and 26 per cent by 2020.[49] The Government is committed to using market-based approaches to simplify this policy landscape, minimising the costs of transition and reducing burdens on business. It has established a Green Economy Council to hear directly from business how it can facilitate the investment and business environment needed for the transition to a growing green economy, and will shortly publish a *Roadmap to a Green Economy* setting out this vision.

2.156 Access to finance is particularly important to enable the investments needed in green technologies, which are frequently less mature and tested than high-carbon or resource-intensive alternatives. The Government's Electricity Market Reform consultation estimated that £110 billion of new investment in electricity generation and transmission would be needed to deliver secure, low-carbon energy supplies, over double the rate of the last decade.[50]

Actions

1) **To encourage investment in low-carbon power, the Government will introduce a carbon price floor for electricity generation from 1 April 2013.**

2.157 The carbon price floor will start at around £16 per tonne of carbon dioxide and move to a target price of carbon of £30 per tonne in 2020. The carbon price support rates for 2013-14 will be equivalent to £4.94 per tonne of carbon dioxide.

2) **The Government will scrap the unnecessary plans for a new Carbon Capture and Storage levy.**

2.158 The Government will not introduce the CCS levy, but will instead fund the Coalition commitments to CCS demonstration from general taxation.

[47] *The Stern review report: The economics of climate change,* Cambridge University Press 2007
[48] *The further benefits of business resource efficiency,* Oakdene Hollins, 2011. Can be found at http://randd.defra.gov.uk/Document.aspx?Document=EV0441_10072_FRP.pdf
[49] *Estimated impacts of energy and climate change policies on energy prices and bills,* DECC, July 2010. Can be found at http://www.decc.gov.uk/assets/decc/What%20we%20do/UK%20energy%20supply/236-impacts-energy-climate-change-policies.pdf
[50] *Electricity Market Reform: consultation document*, DECC, December 2010. Can be found at http://www.decc.gov.uk/en/content/cms/consultations/emr/emr.aspx

3) **The Government will cap the cost of policies funded through energy bills.**

2.159 To ensure that costs to energy consumers of climate and energy policies continue to be controlled in the future, the Government is introducing a new framework to cap the impact of levy-funded support on energy bills. This will cover policies such as feed-in tariffs which the Office of National Statistics defines as tax and public spending.

4) **The Government will support the infrastructure development needed to enable the transition to a green economy through the Green Investment Bank.**

2.160 The Government is committed to ensuring that the Green Investment Bank (GIB) has the resources to help the UK to move towards a low-carbon economy. This Budget announces that the initial capitalisation of the GIB will be £3 billion and that the Bank will begin operation in 2012-13, a year earlier than previously anticipated. Government investment alongside private finance should mean that there is in the region of an additional £18 billion of investment in green infrastructure by 2014-15 as a result of the GIB.

2.161 The Spending Review allocated £1 billion for the GIB and the Government is aiming for the remaining £2 billion to be funded from the sale of assets. This will include the £775 million net proceeds already received from the sale of High Speed I, ensuring that funding is in place to allow GIB investments from 2012-13. The Government will enable the GIB to have borrowing powers from 2015-16 and once the target for debt to be falling as percentage of GDP has been met.

5) **The Government is promoting development of new markets in green goods and services:**

- the Green Deal will enable households and businesses to invest in energy efficiency measures at no upfront cost, saving money on energy bills and driving expansion of the sector potentially leading to up to 100,000 jobs. The Government is committed to the success of the Green Deal and will act to encourage and incentivise take-up so that the Green Deal will appeal to households, businesses and prospective providers alike, before it is introduced in 2012;
- the £500 million Ofgem Low Carbon Networks Fund, launched in 2010, has already allocated four major grants for innovative electricity distribution network projects totalling £60 million. Last week, Ofgem announced similar innovation incentives for the electricity transmission and gas distribution and transportation networks totalling £400 million over the period 2013 to 2021;
- introduction of smart meters will transform the energy retail market, reduce energy use and carbon emissions and enable development of new products and services expected to bring benefits of more than £7 billion over the next 20 years;
- the Renewable Heat Incentive will encourage £7.5 billion investment in the non-domestic sector in low-carbon heat such as biomass and air source heat pumps by 2020;
- feed-in tariffs are boosting the market for micro-generation of renewable electricity with thousands of household installations of solar panels and other renewable sources;
- funding £5000 incentives to reduce the up-front costs of ultra-low emission vehicles and supporting roll-out of charging infrastructure, making the UK a global front runner in the market for ultra-low emission cars; and
- leveraging government's £236 billion public procurement power to help drive new markets in green products and services.

Summary of actions in the Low Carbon review

1 To encourage investment in low-carbon power, the Government will introduce a carbon price floor for electricity generation from 1 April 2013.

2 The Government will scrap the unnecessary plans for a new Carbon Capture and Storage levy.

3 The Government will cap the cost of policies funded through energy bills.

4 The Government will support the infrastructure development needed to enable the transition to a green economy through the Green Investment Bank.

5 The Government is promoting development of new markets in green goods and services.

Advanced Manufacturing

2.162 Manufacturing is the third largest sector in the UK economy after professional and business services and the retail sector[51] in terms of share of UK GDP.[52] In 2008, it generated some £150 billion in gross value added, representing just over 12 per cent of the UK economy. However, manufacturing's share of nominal GDP fell from over 22 per cent in 1990 to 11 per cent in 2009. In terms of jobs, the position was equally stark with the number of employed in manufacturing falling from 5 million in 1990 to 2.5 million in 2010.

2.163 The future growth of the sector is dependent on its ability to design and make high value products. Investment in new capital has become increasingly expensive for manufacturers. Modern machinery and the proliferation of new technologies and software have contributed to shorter investment cycles. The EEF suggests that manufacturers are replacing their machinery and equipment, on average, every 7-8 years. However, the costs of demonstrating and testing the use of new technologies can be very high, particularly for small and medium sized enterprises (SMEs). Around 15-20 per cent of firms in the UK manufacturing sector cited either a lack of information on technology or markets as a barrier to innovation in the 2009 UK Innovation Survey.[53] Adoption of new technologies, such as automation, is also a key driver of growth. The UK lags behind a number of other countries. In 2008, the number of robots in use per 10,000 people was around 23, significantly lower than Germany (around 124) and Sweden (around 103).[54]

2.164 Access to a skilled workforce, particularly science, technology, engineering and maths (STEM) skills, is vital for the sector. The supply of STEM skills still falls short of anticipated demand for technicians and engineers. Some firms lack information about sources of specialist help and advice. A 2010 UK Commission for Employment and Skills (UKCES) survey reported that 39 per cent of interviewed firms were unable to name a specific organisation to approach.[55] Further, while higher apprenticeships provide a good alternative to full-time Higher Education for young people who want to develop a career through on-the-job training, some firms do not invest in apprenticeships because they are not perceived to be relevant or suited to the work of the company. The 2010 UKCES Employers Perspectives Survey reported that 33 per cent of interviewed firms shared this perception.[56]

2.165 Poor or inaccurate information about the characteristics of modern manufacturing can dampen investment and deter young people from studying STEM related subjects or from seeking a job in the sector. In 2008-09, nearly 43 per cent of first degree gradates from UK Higher Education Institutes (HEIs) were in STEM related subjects. However, of these graduates, less than 5 per cent entered employment in the manufacturing sector, despite average wages in engineering comparing favourably to other professions.[57]

[51] Defined as wholesale and retail distribution for these purposes.

[52] ONS

[53] *UK Innovation Survey, Statistical annex*, Office for National Statistics, 2009

[54] *Application of Automation in UK Manufacturing,* Engineering and Machinery Alliance (EAMA), 2010

[55] *UK Employer Perspectives Survey.* Evidence Report No 25,UKCES, January 2011

[56] *ibid*

[57] BIS estimates based on Higher Education Statistics Agency data for 2008-09

Actions

1) **To bring forward investment in new equipment, the Government will extend the capital allowances short life asset regime for plant and machinery from four years to eight years, from April 2011.**

2.166 The Government recognises the importance of new capital investment in improving productivity and growth, particularly in the manufacturing sector. This change to the capital allowances regime will allow businesses to write off the cost of assets for tax purposes more quickly, where those assets are disposed of within eight years, more closely aligning tax and economic depreciation

2) **The Government will expand the University Technical Colleges (UTCs) programme, to establish at least 24 new colleges by 2014.**

2.167 University Technical Colleges (UTCs) will provide leading edge technical training opportunities for 11-19 year olds. Top UK companies and universities will help set curricula to match the needs of the local economy and of their sectors, provide high quality work placements, and allow the colleges to use their specialist facilities. To enable more young people to gain the technical skills that employers need, the Government will expand the programme from 12 to at least 24 new UTCs by 2014.

2.168 Today, the Government can also announce that a new UTC will be opened in Aston in the West Midlands. The Aston UTC will open in September 2012, and will be sponsored by Ashton University, E.ON, National Grid, BT, Cadburys and the Electrical Engineering Federation. It will help to address the shortage of skilled staff in the manufacturing and engineering industry across the region. As well as Aston UTC, the Black Country UTC will open in September this year, with sponsorship from Walsall FE College, the University of Wolverhampton, Siemens, National Grid, and Cogent. These institutions, and the expanded programme of UTCs that the Government announces today, will build on the success of the JCB Academy in Staffordshire, the forerunner of the UTC model.

3) **The Government is announcing a High Value Manufacturing Technology and Innovation Centre (TIC).**

2.169 This is the first of an elite network of centres and will benefit UK manufacturing by enabling businesses to access state-of-the-art equipment and technical skills, which individual companies and universities could not afford to invest in on their own. By bridging the gap between research and technology commercialisation, TICs will help make new technologies investment ready and better able to attract venture capital or other forms of investment, shortening their time to market. The High Value Manufacturing TIC will integrate the activities of a number of existing high performing centres in Rotherham, Coventry, Strathclyde, Sedgefield, Redcar and Bristol helping large companies and SMEs to work individually or together to develop and commercialise their technology. The integrated centres will take a wide cross sector approach and embrace all forms of manufacture using metals and composites, in addition to process manufacturing technologies and bio-processing. The Technology Strategy board will set out plans to select further TICs in May.

4) **The Government will fund nine new university-based Centres for Innovative Manufacturing by 2012.**

2.170 These Engineering and Physical Sciences Research Council (EPSRC) funded Centres will support emerging science in areas of strategic opportunity for manufacturing. These Centres will feed new ideas and discoveries through to business and Technology and Innovation Centres, helping to open up new industries and markets in growth areas. This year, EPSRC will invest a further £45 million to establish nine new EPSRC Centres in areas such as biological pharmaceuticals, novel composite technologies, and intelligent automation.

5) The Government will fund a programme of new Manufacturing Fellowships to forge links between business and the research base.

2.171 EPSRC Manufacturing Fellowships will provide five years' support for at least six exceptional engineers and technology specialists from business who are able to bridge university and industrial cultures. Each Fellow will lead a £1 million programme of research with real commercial potential.

6) The Government is announcing an accelerated launch of the new enhanced Manufacturing Advisory Service with an additional £7 million to deliver its services over the next 3 years

2.172 The Manufacturing Advisory Service (MAS) provides companies with direct access to experts who work with them to identify and implement productivity and innovation improvements to their business. The Government has committed £50 million over three years from April 2012 to provide an enhanced service through MAS, tailored to suit the needs of the individual business and the local economic environment. The Government is introducing the new service from 1 Jan 2012, so that manufacturers can access it 3 months earlier than planned. Working with expert partners where appropriate, BIS will develop additional specialist services for firms in developing markets such as offshore wind, and low carbon cars.

7) The Government is launching a new £75 million programme of targeted support to help smaller employers access Advanced Level and Higher Apprenticeships.

2.173 This scheme will help address the concerns of small manufacturers who struggle to access Higher Apprenticeships under current delivery models. This funding will support businesses across the supply chain to build Advanced and Higher level apprenticeship schemes, covering some of the costs associated with setting up new training frameworks and putting in place training arrangements with other businesses, including large companies in the supply chain. This will complement investment in apprentices already made by SMEs and the Government. This scheme will help employers to create around 10,000 additional higher apprenticeships over the next 4 years.

8) The Government will support the development of a new degree-level Higher Level Apprenticeship which will include incorporating engineering status and professional recognition for successful apprentices when they graduate.

2.174 The Government has committed to expanding Higher Apprenticeships across all sectors from current numbers (around 1,500 starts in 2009-10), which will include looking at proposals to support the Advanced Manufacturing sector - in particular developing a new Level 5 framework, which would provide a route for Apprentices to achieve professional accreditation as an engineer, is supported as a priority.

9) The Government will strengthen its strategy for promoting STEM skills.

2.175 The Government recognises the importance of STEM skills for industry, in particular the manufacturing sector. In order to strengthen the STEM skills of young people in the UK and improve student awareness of STEM careers, the Government will:

- support the Careers Profession Alliance to improve training for careers professionals in subject-specific specialisms, including STEM, to ensure young people have access to high quality, independent guidance to make informed decisions about STEM subjects and careers;

- increase the number of industry-school visits (e.g. by Apprenticeship Ambassadors). The Government will work with the Education and Employers' Taskforce to remove excessive bureaucracy and other barriers to these visits;
- improve the teaching of STEM skills, by raising the quality of new entrants to the teaching profession. This will be done by reforming teacher training and protecting bursaries for trainee teachers of science and maths; and
- Strengthen STEM promotion activities, including STEMNET, which coordinates a range of activities between business and schools to raise the profile of STEM, including a STEM Ambassadors programme.

10) To promote the UK manufacturing sector, the Government will launch a high profile industry showcase alongside the 2012 Olympic and Paralympic Games and roll out a programme of 'Made in Britain' exhibitions.

2.176 An industry showcase will be open to the public and the international audience visiting London before and during the Games and will help change perceptions for young people seeking careers in the sector and international perceptions about UK industrial and design capability. A rolling programme of 'Made in Britain' exhibitions developed by the Department for Business Innovation and Skills will showcase the best of British manufacturing across the UK, including museums, public spaces and online.

11) The Government is seeking to promote a new international prize in engineering and is working with private sector partners to create an endowment to support such a prize

2.177 The Government's aim is to make engineering a desirable profession again, where young people aspire to be great engineers. The Government's concept of 'engineering' is modern and wide. It includes every type of science applied to improving human life and sustaining the natural world.

2.178 The Government believes that an international prize, as prestigious as the Nobel Prize, based in the UK could help to create the excitement that would help give British manufacturing a brighter future.

Summary of Advanced Manufacturing Review actions

1. The Government will extend the capital allowances short life asset regime for plant and machinery from four years to eight years, from April 2011, more closely aligning tax and economic depreciation.
2. The Government will expand the University Technical Colleges (UTCs) programme, to establish at least 24 new colleges by 2014.
3. The Government will launch a high value manufacturing Technology and Innovation Centre.
4. The Government will fund nine new university-based centres for Innovative Manufacturing by 2012.
5. The Government will fund a programme of new Manufacturing Fellowships.
6. The Government announces an accelerated launch of the new enhanced Manufacturing Advisory Service with an additional £7 million to deliver its services over the next three years.
7. The Government is launching a new £75 million programme of targeted support to help smaller employers access Advanced Level and Higher Apprenticeships.
8. The Government will support the development of a new degree-equivalent Higher Level Apprenticeship which will include incorporating engineering status and professional recognition for successful apprentices when they graduate.
9. The Government will strengthen its strategy for promoting STEM skills.
10. The Government will launch a high profile industry showcase alongside the 2012 Olympic and Paralympic Games and roll out of a programme of 'Made in Britain' exhibitions.
11. The Government will seek to promote a new international prize in engineering, working with private sector partners to create an endowment to support such a prize

Healthcare and Life Sciences

2.179 The NHS and the social care system contributes greatly towards the economy, primarily by increasing health and welfare, which results in greater economic activity that is then reflected in GDP. The NHS is also the largest UK purchaser of products and services from the healthcare and life sciences sectors, and a part of this spending benefits UK based companies and employees. The life sciences sector employs over 100,000 people,[58] largely in highly skilled jobs, in companies ranging from large multi-nationals to SMEs. The sector invests heavily in R&D, accounting for over 28 per cent of all business R&D.[59] The social care market (worth around £24 billion) is a key employment sector in the economy, providing over 1.5 million jobs, 71 per cent of which are providing direct care and support.

2.180 The complexity of health research regulation and governance has increased over the last twenty years through successive legislative changes. National complexity was then compounded by diverse local approval systems, inconsistent, sometimes risk-averse, local interpretations, and confusion about the standards for compliance that apply to different types of research. The Academy of Medical Sciences (AMS) report of its independent review of medical research regulation and governance found that: *"UK health research activities are being seriously undermined by an overly complex regulatory and governance environment".*[60]

2.181 The AMS review also called for a full revision of the Clinical Trials Directive (CTD) to ensure that regulatory requirements are proportionate to risk, and to reduce the scope of the CTD by modifying two specific definitions. The AMS report referred to data showing a drop in the UK's share of global patient recruitment in clinical trials from six per cent in 2000 to two per cent in 2006.

2.182 Greater collaboration between firms offers opportunities for growth of the sector. The Life Sciences Blueprint, published by the Office for Life Sciences, signalled the beginning of a new approach to supporting translational research collaborations between industry and the public sector by committing to pilot Therapeutic Capability Clusters to capture and promote the UK's world-leading capability. The clusters work by providing a way for academic institutions, the NHS and industry in life sciences to work together. In October 2010, two pilot clusters were announced.

2.183 Even though there are large numbers of biological science graduates (some 30,000 graduates in 2008-09, almost 10 per cent of all first degree graduates),[61] life sciences employers are reliant on workers from overseas, with a third of the sector's workforce sourced from abroad.[62] In part, this is due to inadequately skilled UK graduates coupled with shortages in critical areas such as *in vivo* subjects. Employers have consistently reported that the poor practical and numerical ability of UK bioscience graduates reduces employability.

2.184 The social care sector also suffers from skills shortages. Recruitment vacancy rates are high, just over twice the national average at 3.4 per cent. The turnover rate for care workers in the private sector in 2010 was 24 per cent and 10 per cent in the statutory sector.[63]

2.185 Innovation is a key driver of long-term growth in the sector. There is a long gap between an initial product idea and it reaching the market, and Intellectual Property (IP) protection is

[58] Estimated from ONS Annual Business Inquiry 2008 data and BIS/DH/UKTI Bioscience and Health Technology database
[59] ONS Business Enterprise Research and Development (BERD) 2008 data
[60] *A new pathway for the regulation and governance of health research*, Academy of Medical Sciences, January 2011
[61] Higher Education Statistics Agency (HESA) 2008/09 data
[62] Cogent (2010) based on the 2009 Labour Force Survey data
[63] *National Employer Skills Survey for England 2009: Main Report*, UK Commission for Employment and Skills, August 2010.

critical to ensuring firms ultimately make a return on that investment. At the same time, this protection must not inhibit ongoing innovation.

2.186 Assistive living technologies (often referred to as 'telecare' and 'telehealth') enable health and social care services to be provided remotely, for example by monitoring vital health signs and using sensors to detect movement or falls. The main barriers are the lack of properly evaluated evidence, the high cost per unit and low levels of awareness of the benefits this technology can bring. As the findings from the Department for Health's Whole System Demonstrator programme (the largest randomised control trial of this technology in the world) begin to emerge this year, it will deliver a clear evidence base to help move this forward.

2.187 In social care, micro-enterprises can face regulatory barriers to entering the market and fall within regulations which were never intended to affect social care providers. For example, private hire vehicle licensing can capture social care workers transporting those receiving social care. This sort of regulatory barrier can prevent new providers entering the market.

2.188 The UK's strengths in healthcare and life sciences also have significant export potential. By supporting the development of NHS intellectual property, the Government could help the sector better leverage its brand in overseas markets.

Actions

1) The Government will set up a new health research regulatory agency to streamline regulation and improve the cost effectiveness of clinical trials. It will make future National Institute for Health Research (NIHR) funding to providers of NHS services conditional on meeting benchmarks, including a 70 day benchmark to recruit first patients for trials.

2.189 The NHS has unique advantages as an environment for health research. The Government will:

- simplify health research regulation; and
- challenge the NHS to measure up to the best in the world.

2.190 The Government will make performance in the initiation and delivery of health research transparent and accountable, routinely enabling comparisons of research sites with one another, and against international benchmarks. This will allow people to hold the NHS to account for improved performance. In future, as a condition of National Institute for Health Research (NIHR) funding, providers of NHS services will have to play their part in a national system of research governance requiring timely and professional delivery of clinical trials.

2.191 It is far too difficult to navigate the complex national and local processes for research approvals. At national level, the Government will create a health research regulatory agency to combine and streamline the approvals for health research which are at present scattered across many organisations. This will reduce the regulatory burden on firms, improve the timeliness of decisions about clinical trials and hence the cost-effectiveness of their delivery in the UK, and has clear support from the Academy of Medical Sciences Review of health research regulation and governance. As a first step, the Government will establish this year a Special Health Authority with the National Research Ethics Service as its core. The new agency will work closely with the Medicines and Healthcare products Regulatory Agency to create a unified approval process and promote proportionate standards for compliance and inspection within a consistent national system of research governance.

2.192 At a local level, the Government will radically transform the incentives for efficiency in research initiation and delivery. In May, the Government will launch a framework of good practice and standard procedures called the NIHR Research Support Services to facilitate consistent local research management and greatly improve performance. NHS Trusts which adopt these standards will stop unnecessary duplication of checks. They will publish metrics regularly on their performance. They will have access to NIHR financial support for these activities. For clinical trials, the NIHR will from 2012 publish outcomes against public NIHR benchmarks, including an initial benchmark of 70 days or less from the time a Provider receives a valid research protocol to the time when that Provider recruits the first patient for that study.

2.193 In future NIHR funding to providers of NHS services will become conditional on meeting benchmarks, including a 70 day benchmark to recruit first patients for trials. The NIHR will make this a condition of new contracts from autumn 2011 and performance will affect funding from 2013.

2.194 In addition, the NIHR Clinical Research Network (CRN) will be working with Trusts implementing the NIHR Research Support Services and other partners to embed nationally the good practice identified in the NIHR CRN North West Exemplar Programme and elsewhere. This demonstrated that, even with the current excessively complex research regulation, the UK is capable of delivering clinical trial set up times to rival the best in Europe. This showed the impact of:

- a visible commitment from Trust Chief Executives to research within their organisations;
- rapid escalation and prompt management of extraordinary issues; and
- executive oversight of performance metrics.

2) The Government will reduce perceived gold-plating and increase the proportionality of EU Clinical Trials Directive (CTD) and its application.

2.195 The Government will look to introduce a number of domestic measures that would achieve some of the AMS's aims but in a shorter timeframe than is possible through the EU. When implementing these domestic changes, the Department for Health will follow government policy on better regulation, and demonstrate that, far from gold-plating EU legislation, this country is ready to be a leader in proportionate regulation.

2.196 EU level negotiations on the clinical trials directive may well not begin before 2012. The Government wants to go further and change the CTD itself to further reduce burdens on industry, and will seek to influence the Commission and the Parliament strongly with a view that they bring forward soundly based proposals for the necessary changes to the directive as early as they can.

3) The Government will open up information about clinical trials to enable the public to get involved.

2.197 The Government is committed to opening up information about clinical trials so that patients can find out about trials that may be relevant to their condition. The NIHR is developing a web-based UK Clinical Trials Gateway. It will present, in accessible form, information about trials conducted in the UK. By 2012, the Gateway will make it easy for patients, their doctors and carers, friends and families to see what a trial is about, where it is taking place, and who is running it. It will help patients to join in clinical trials if they are suitable and choose to do so with full information and advice.

4) The Government will build a consensus on using e-health record data to create a unique position for the UK in health research.

2.198 The NHS could offer unique opportunities for this country's international competitiveness in health research. Government can create the capacity to draw on the power of large linked data sets on a scale unprecedented here or elsewhere in the world. This would create unique opportunities for research in the UK, including more powerful uses of anonymised data sets and aggregated prescription data linked down to GP practice level. That can happen only if there is robust protection for individual patients' confidentiality and privacy. Enabling access through a managed health research data service would support clinical innovation and strengthen evidence of effectiveness, improving health outcomes. The Government will work with the National Information Governance Board and partners in the public and private sectors to publish plans by the autumn for a secure data service that is viable and affordable, and is focussed on linking the data sets which do most to strengthen the international competitiveness of our life sciences research.

5) Opening up information on clinical research to promote collaboration and innovation.

2.199 Transparency of information about the research activities and funding of the NIHR is vitally important in alerting academics, industry collaborators and investors to a range of research opportunities available through publicly funded health R&D. Despite large amounts of information being available about these opportunities, it can be difficult for potential research partners or the public quickly to access and navigate information about research activities, spend and outcomes across all the NIHR programmes and networks. The Government is committed to opening up this information in a transparent and accessible way. NIHR will bring together and present this information so that it is accessible through a single and easy to navigate portal on the www.nihr.ac.uk website.

6) Opening up prescribing data.

2.200 Government will look to publish prescribing data at practice level subject to an evaluation and impact assessment by the NHS Information Centre.

7) The Government will form new Translational Research Partnerships from its £775 million investment in NIHR Biomedical Research Centres and Units.

2.201 The NIHR Office for Clinical Research Infrastructure (NOCRI) will take on responsibility for co-ordinating and building on the existing Therapeutic Capability Cluster initiative, working with other funding partners and the industry. This will include provision of a single point of contact for industry engagement and model agreements to support faster contracting for collaborations. These Translational Research Partnerships will offer a unique international approach to support open innovation and collaboration with the life sciences industry in early and exploratory development of new drugs and other interventions.

2.202 The NIHR has launched a new open competition for Biomedical Research Centres and Biomedical Research Units, which will be awarded after international peer review in summer 2011. NIHR will invest a minimum of £775 million over five years in this infrastructure, which will form the basis of new translational research partnerships.

8) Remove any barriers that limit the further development of geographical clusters, working with industry, local government, universities, NHS and funders.

2.203 Clustering in life sciences can facilitate enhanced collaboration between industry, local government, universities, and the NHS, and more effectively pull through cutting-edge research into clinical and economic benefits. The Government will work with others to develop actions to remove any barriers limiting geographical clustering to support entrepreneurship and business growth, building on the UK's world-class research base. The Government will also develop practical guidance for life science SMEs on how embracing open innovation might grow their businesses.

9) The Government will launch a competition to form a Cell Therapy Technology and Innovation Centre.

2.204 The Technology Strategy Board announces the next step in the Government's goal to help the UK's healthcare and life sciences industry fulfil its potential by exploiting promising discoveries and supporting their development through the launch of a competition to form a Cell Therapy Technology and Innovation Centre. The centre, with a focus on cell therapies and advanced therapeutics, will help support the development and commercialisation of therapeutics as well as the underpinning technologies for manufacturing, quality control and addressing safety and efficacy challenges for these new treatments.

10) To ensure educators provide the skilled individuals the sector needs to grow, the Government will, through Cogent, improve market signalling by bringing companies and educators together.

2.205 This action will form part of a package of measures Cogent will present to Government, by spring 2011, to ensure biology training at all levels meets employer needs.

2.206 The Society of Biology's accreditation scheme will give employers the confidence that graduates have the necessary skills. The Government, through the Higher Education Funding Council for England (HEFCE), will oblige universities to provide information on whether relevant courses are accredited, for example through HEFCE Key Information Sets, to raise degree standards.

11) The Government will ensure that the Intellectual Property (IP) system supports life sciences businesses

2.207 Industry has expressed concerns about conducting some clinical trials in the UK because of fears of patent infringement. The IPO is therefore investigating how the relevant patent legislation, including the Bolar exemption, might be improved. Recommendations will be delivered by autumn 2011.

2.208 UK life sciences firms exhibit the highest levels of IP activity, acquisition and licensing within Europe. To ensure barriers to knowledge transfer from universities are minimised, the Government will produce an updated IP Strategy Handbook for publication in spring 2011.

2.209 Trademarks allow firms to differentiate their products from others. They also provide recognition for consumers when making purchasing decisions. The Government will update the UK's IP Crime Strategy by summer 2011 to provide a framework for practical action to tackle counterfeiting and piracy, including action to tackle counterfeit medicines.

2.210 IP is an important international issue. The Government will provide practical support to help UK IP-intensive businesses exploit their IP in key overseas markets by strengthening relations with IP authorities and increase R&D cooperation, with country-specific workplans being delivered by autumn 2011.

12) The Government will take forward a range of measures to encourage innovation in NHS procurement

2.211 Innovation has already been identified as one of the four pillars of the NHS improvement agenda, and procurement is an important element of this. Therefore the Government will make it easier for firms, and small firms in particular, to access the NHS. The Government will do this by:

- promoting the use of standardised forms such as Pre-Purchase Questionnaires (PPQs) held on a centralised database, so suppliers can submit information once only;
- in central government, eliminating the use of PQQs for contracts of less than £100k and encouraging the NHS to avoid using PQQs where they are unnecessary;
- encouraging NHS Supply Chain, Buying Solutions and other NHS procurement partners to simplify access for SMEs to their contracting activities;

- committing an additional £10 million from the Department of Health over the next two years on Small Business Research Initiative (SBRI) competitions that address healthcare challenges; and
- building on the Innovative Technology Adoption Procurement Programme (iTAPP) to allow firms to present their ideas and innovations to the NHS.

13) The NHS Chief Executive will provide a report by November 2011, in consultation with industry, academia and other interested parties, on how the adoption and diffusion of innovations can be accelerated across the NHS. This report will inform the strategic approach to innovation in the reformed NHS.

2.212 The Government recognises that more can be done to develop the full potential of the NHS as an engine of innovation in health care and across the economy. The Health and Social Care Bill will give the new NHS Commissioning Board a legal duty to promote research and innovation in the NHS and will encourage NHS, industry, academic collaborations to evaluate innovative products in a clinical setting and encourage service wide dissemination of the results. In addition, the government has asked the NHS Chief Executive to provide a report by November 2011, in consultation with industry, academia and other interested parties, on how the adoption and diffusion of innovations can be accelerated across the NHS. This report will inform the strategic approach to innovation in the reformed NHS. To ensure a co-ordinated approach the NHS Life Sciences Innovation Delivery Board will report to the NHS Commissioning Board in the future.

14) The Government will take forward a package of measures to improve the take up of assisted living technology.

2.213 The Government is committed to improving the take up of assisted living technology by supporting measures to achieve scale and bring down the relatively high cost per unit of the technology. The Government will:

- work with the Technology Strategy Board to develop assisted living solutions through supporting R&D, collaboration, innovation and interoperability of service models through an £18 million investment programme across a range of UK sites;
- make purchasers, individuals, retailers and government, more confident of assistive technology. To achieve this, the Government will help establish a code of practice that can set a standard framework for services and technology, led by industry, to provide quality assurance to customers and increase uptake; and
- work with the industry to reduce costs and make GP commissioners and new Local Authority Health and Well Being Boards aware of the benefits of this new technology.

15) The Government will strip out regulations that were never meant for the social care market and are preventing market entry and flexible services

2.214 The Growth Review has identified regulations that have a disproportionate effect on micro-enterprises in the social care sector. These cause added cost in both time and money which is restricting both the growth of new micro-enterprises and the ability of existing micro-enterprises in social care to offer specific services. These regulations could be clarified to reduce the burden on micro-enterprises. The National Association of Adult Placement Services (NAAPS UK), the national network for small community service providers, will provide a new map which micro-enterprises can use to navigate the regulatory system. Particular regulations include:

- The Food Standards Agency is looking at the process by which food businesses register their activities with the local authority and how they receive advice on food law requirements. It is also reviewing advice to local authorities about official controls on micro-enterprises, to provide more clarification while maintaining consumer protection;

- The Government will make clear the rights and responsibilities with regard to the employment and tax system for those using and receiving Direct Payments. This will enable more people to have control of the services they receive and to boost opportunities for local job creation, particularly amongst SMEs and micro-providers;
- In the summer, the Government will publish further guidance to local licensing authorities clarifying what types of vehicles are considered to fall within the scope of private hire vehicle legislation. This will assist local licensing authorities in determining if a particular type of vehicle and activity should be licensed under the PHV regime. The Government considers that most car journeys undertaken in the context of domiciliary care services do not fall within the PHV licensing regime; and
- The Government will shortly respond to the recent criminal records review by the independent Advisor for Criminality Information Management, Sunita Mason. These include making criminal records checks transferable between jobs and that a criminal records certificate is only issued directly to the applicant. This will reduce bureaucracy and make it easier for smaller providers to compete for business on a level playing field.

16) The Government will establish a proactive, entrepreneurial NHS Global to make the most of the NHS brand internationally and to offer support and advice to NHS trusts

2.215 The Government will work with the NHS and industry to design and establish a proactive, entrepreneurial NHS Global to make the most of the brand internationally and to offer support and advice to NHS trusts. It will act as a point of contact for NHS organisations and international customers, opening up international opportunities. NHS Global will be hosted outside the Department of Health, in an organisation that can represent the interests of the NHS and allow the NHS to shape the final business model.

Summary of Healthcare and Life Sciences Review actions

1 The Government will set up a new health research regulatory agency to streamline regulation and improve the cost effectiveness of clinical trials. It will make future National Institute for Health Research (NIHR) funding to providers of NHS services conditional on meeting benchmarks, including a 70 day benchmark to recruit first patients for trials.

2 The Government will reduce perceived gold-plating and increase the proportionality of EU Clinical Trials Directive (CTD) and its application.

3 The Government will open up information about clinical trials to enable the public to get involved.

4 The Government will build a consensus on using e-health record data to create a unique position for the UK in health research.

5 The Government will open up information on clinical research to promote collaboration and innovation.

6 The Government will consider opening up prescribing data.

7 The Government will form new Translational Research Partnerships from its £775 million investment in NIHR Biomedical Research Centres and Units.

8 The Government will remove any barriers that limit the further development of geographical clusters, working with industry, local government, universities, NHS and funders.

9 The Government will launch a competition to form a Cell Therapy Technology and Innovation Centre.

10 To ensure educators provide the skilled individuals the sector needs to grow, the Government will, through Cogent, improve market signalling by bringing companies and educators together.

11 The Government will ensure that the Intellectual Property (IP) system supports life sciences businesses.

12 The Government will take forward a range of measures to encourage innovation in NHS procurement.

13 The NHS Chief Executive will provide a report by November 2011, in consultation with industry, academia and other interested parties, on how the adoption and diffusion of innovations can be accelerated across the NHS. This report will inform the strategic approach to innovation in the reformed NHS.

14 The Government will take forward a package of measures to improve the take up of assisted living technology.

15 The Government will strip out regulations that were never meant for the social care market and are preventing market entry and flexible services.

16 The Government will establish a proactive, entrepreneurial NHS Global to make the most of the NHS brand internationally and to offer support and advice to NHS trusts.

Digital and Creative Industries

2.216 The Digital and Creative Industries (D&CI) have the potential to drive significant growth in the UK. Their exports are third only to advanced engineering and financial and professional services.[64]

2.217 There are clusters of innovative firms throughout the country, from film, photography and production in Brighton to video games and special effects in Dundee. 'Tech City' in London's East End is emerging as a potential rival to Silicon Valley in the US, with Vodafone, Google, Facebook, Intel and McKinsey & Company among the leading companies that have said they will commit to investing in the long-term future of the area.

2.218 Access to good quality broadband is important for economic growth, and it is particularly important for D&CI firms. But the private sector alone will roll out superfast broadband to only two thirds of the country and according to the latest data the UK is placed 13th for advertised broadband speeds in the OECD group of countries.[65]

2.219 D&CI rely on a strong Intellectual Property (IP) regime. However, the interests of IP holders need to be balanced against those of potential innovators, protecting incentives to invest in content, without damaging innovation and opportunities for new entrants. That is why the Government has commissioned an independent review by Professor Hargreaves addressing these issues, which will report to the Government in April 2011.

2.220 The regulatory framework governing communications and the media affects large parts of the sector, but much of it is out of date. The communications and media industry has transformed since the main piece of legislation governing digital communications, the Communications Act 2003, was introduced. It governs the behaviour of significant parts of the sector and places too many burdens on business.

2.221 The creative industries have reported difficulties with access to finance for many years.[66] Research currently underway intends to answer the question of whether creative industry businesses face greater difficulties accessing finance compared to SMEs in other sectors. Early indications suggest there are variations in access to finance across different creative industry sub-sectors. Some of the D&CI businesses covered by this Growth Review are found to be more likely to have their finance applications rejected by finance providers compared to non-creative businesses with similar risk profiles.[67]

2.222 Skills shortages in the industry have a detrimental impact on growth. For example, in the Livingstone-Hope Review[68] survey of video games and visual effects businesses carried out in 2010, 31 per cent of respondents said that skills shortages were having a real impact on their business. And 17 per cent of larger companies were recruiting from overseas in order to fill vacancies.

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[64] *UK Trade Performance: Patterns in UK and global trade growth,* BIS Economics Paper No.8, November 2010

[65] *Average advertised broadband download speed, by country, kbit/s,* October 2009

[66] *Creating growth: A blueprint for the creative industries*, CBI, July 2010, *Access to finance in the Creative Industries in the South Eas*t, SEEDA/ACE, 2010, *Mini Study on Access to finance Activities of the European Creative Industry Alliance,* Greater London Enterprise and Angel Capital Group, 2010 and *Rebalancing Act,* NESTA, June 2010

[67] Research being carried out by IFF Research and Warwick Business School.

[68] An independent review of the skills needed for school leavers and graduates to fully engage with the UK's world-class video games and visual effects industries. This can be found at: http://www.nesta.org.uk/home1/assets/events/livingstone-hope_skills_review_of_video_games_and_visual_effects

Actions

1) The Government will deliver a package to support the UK's digital infrastructure by:

- ensuring that all businesses in Enterprise Zones have access to superfast broadband;
- applying the principle of 'a presumption in favour of sustainable development' for superfast broadband deployment as it applies to wayleaves, overhead deployment of infrastructure and rights of access to multi-dwelling units;
- issuing guidance on micro-trenching and streetworks, emphasising that streetworks should prioritise critical infrastructure; and
- publishing a implementation plan for the release of 500MHz of public sector spectrum.

2.223 Superfast broadband is a key business growth enabler. The Government can play an important role in accelerating superfast broadband roll-out and it will invest £530 million over the next four years in order to create the best superfast broadband network in Europe by 2015. It can also make the investment case easier for the market by helping to lower the costs of roll-out.

2.224 Mobile broadband is also important, as businesses and consumers increasingly use the internet while on the move. Public sector spectrum release will help develop the UK's mobile broadband infrastructure and the development of other wireless communications technologies. The Government has directed Ofcom to take forward the release of 800MHz and 2.6GHz spectrum, which is suitable for mobile broadband. Ofcom has recently published a consultation on the award process with proposals to support competition in the mobile telecoms market and improve the coverage of mobile broadband networks.

2) In response to the Hargreaves recommendations, due in April 2011, the Government will consider simplifying payments for copyright materials and freeing up orphan works. The Government commits to no further broad reviews of the IP rights regime during the lifetime of this Parliament.

2.225 The review of Intellectual Property and Growth, led by Ian Hargreaves, is examining how the UK's intellectual property framework can further promote entrepreneurialism, economic growth and social and commercial innovation. The review's recommendations are expected to include measures to modernise the system of copyright licensing to minimise the transaction costs that inhibit innovation and growth, and a proposal to enable access to orphan works. The Government will consider these proposals carefully and will implement as soon as practicable those which will demonstrably contribute to future growth. A commitment to no further broad reviews gives investors certainty over investment. The Government will also set out a five-year international approach to intellectual property.

3) The Government's Intellectual Property Office (IPO) will improve the range of products and services available to support UK businesses, particularly SMEs, on issues relating to IP. The IPO will also establish a network of attachés covering the key global markets, including China, east Asia and India.

2.226 A strong IP framework is essential to many businesses, including those in the D&CI sector. The IPO will support specialised IP input into development of training materials for business advisors, master-class training in IP for business advisors and those operating in Technology and Innovation Centres, and support to businesses through the Technology Strategy Board.

2.227 There is evidence that UK businesses sometimes find it difficult to control the use of their IP overseas. The new IP attachés will focus on promoting and protecting UK business interests within host countries, working with local IPR enforcement agencies and providing a focal point for supporting UK businesses with IP-related issues. The benefit of this measure will be felt beyond the digital and creative sector by all businesses that rely on IP.

4) The Government will publish a guide to public sector IP procurement policy, so that industry exploits opportunities for IP to remain with the private sector provider for re-use.

2.228 The Government's policy is that IP rights produced by the private sector for public sector contracts remain with the party best placed to exploit them. This ensures that, wherever sensible, business can retain their IP to use with other clients and internationally. Evidence suggests that this policy is not always followed. The Government will publish a guide to policy on IP related to public procurement, to raise awareness in the public sector and industry.

5) The Government will substantially reduce the burden placed on business by the communications and media regulatory framework.

2.229 In April the Government will set out its approach to revising communications and media regulation. The Government's objective is a new Communications Act that will be able to respond to technological developments while removing unnecessary burdens on business. The new framework should also support competition in the communication and media sector and investment in infrastructure and content.

6) The Government will reduce the requirements for live music to be licensed.

2.230 The Government will reduce the licensing burdens for live music, which will include small music venues. The requirements of the Licensing Act 2003 are unduly restrictive and burdensome in respect of some live music, with evidence that small venues in particular are deterred from putting on small live music events. The Government will take action through legislation to reduce the licensing burden for live music performance. The Government will also bring forward proposals to reduce licensing burdens on other forms of entertainment such as theatre, cinema and indoor sport, and expects to make changes by the end of the year.

7) The Government will reduce the proposed extension of legal deposit requirements to online publications

2.231 Government has recently consulted on regulations under the Legal Deposit Act 2003. Through this process, industry has raised concerns that the requirements being considered would be overly burdensome on online publishers. The Government will respond to this by ensuring that the new regulations will not place a disproportionate cost on publishers.

8) The Government will re-notify film tax relief to the European Commission.

2.232 The Government recognises the value of providing stability and certainty to the UK film industry through continued support for the sustainable production of British film. State aid clearance for film tax relief expires on 31 March 2012. To enable the scheme to continue to operate beyond that date, the Government will re-notify the current scheme to the European Commission.

2.233 The announcements on R&D tax credits and significant reform of the Enterprise Investment Scheme included earlier in this document will also be of benefit to the sector.

9) The Government recognises BBC Worldwide's contribution to UK creative exports and would welcome exploration by the BBC of how BBC Worldwide may act as a source of finance and distribution expertise for UK D&CI firms with global ambitions.

2.234 The Government recognises BBC Worldwide's strong contribution to UK creative exports through the provision of financial support, development assistance and a global distribution platform for many UK D&CI firms. In the past five years the company has invested over £1 billion in the UK's creative sector. BBC Worldwide now accounts for nearly 10 per cent of UK creative exports in the categories in which it operates and sells programmes and formats produced by more than 500 different UK independent producers. The Government would welcome further action by the BBC to build on this contribution to growth in the sector.

10) The Government will support the establishment by industry of a Creative Industries Council, which can provide a voice for the sector with the financial community and coordinate action on barriers to growth.

2.235 There is evidence that investor understanding of the D&CI, and *vice versa*, has inhibited investment. The Creative Industries Council (CIC) will be better able to address the lack of understanding than individual businesses. As well as access to finance, the CIC will look at other issues in the sector, which may include skills, export markets, regulation, IP and infrastructure. The Government will bring together the D&CI and the financial community in June to improve engagement between them. This will look, amongst other things, at ways of dealing with the risk associated with debt financing and making better use funding already available but not accessed by enough D&CI SMEs.

11) A marketing plan will be developed by UKTI to promote opportunities for investment in the UK Digital and Creative Industries sector

2.236 UKTI will use its overseas network, Business Ambassadors and support from Ministers to promote opportunities for investment in the Digital and Creative Industries sector in the UK. In particular the UKTI's Global Technology Task Force will strengthen links with technology clusters overseas, such as Silicon Valley, with technology hotspots in the UK like Cambridge, Manchester and 'Tech City' in the East End of London and the use of round table discussion to highlight the UK's unique capabilities in these sectors.

2.237 The Access to Finance section of the Growth Review details a number of measures to help businesses from all sectors access debt and equity, which will also help digital and creative firms.

12) The Government will improve the stock of skills in the digital and creative industries. It will:

- expand 'flexible' advanced and higher apprenticeships which suit the freelance business models often seen in the D&CI, and will provide new grant funding for SMEs delivering advanced and higher apprenticeships.
- publish a response to the Livingstone-Hope Review this summer.
- encourage universities and business to create free-floating business modules for university students in the sector, so that they get the business skills they need alongside technical and creative skills.
- publish information for businesses on how they can support an employee undertaking university study to meet their high level skill needs.
- focus STEMNET's future recruitment of STEM Ambassadors on D&CI and other priority growth sectors

2.238 The D&CI suffers from a shortage of skills in its labour force, particularly amongst graduates. While the number of graduates from video games courses exceeds industry demand, the Livingstone-Hope Review identified that 58 per cent of sector employers find it difficult to recruit a number of positions straight from education, particularly computer programmers and technical artists. This rises to 71 per cent amongst larger employers. There is evidence that businesses will actually turn down work because of shortage of skilled candidates.

2.239 Historically D&CI businesses have not engaged with apprenticeships as they have not accommodated small businesses looking for higher skilled employees on a contract basis. The percentage of freelance workers in the D&CI is 25 per cent, in comparison to the national average of approximately 9 per cent.[69] Previous pilots run by the Department for Culture, Media and Sport and the Sector Skills Councils have already shown that when an apprenticeship offer is accessible, SMEs are positive about engaging. These pilots demonstrate to businesses in the D&CI sector how apprenticeships can work with their business models. The Government will continue to build on the findings of these to increase take-up.

2.240 The Government is also providing grant funding to SMEs in order to support the provision of 10,000 additional higher level apprenticeship places. This is specifically intended to help address the barriers many SMEs face in accessing advanced and higher level apprenticeships. Digital and Creative Industries are likely to particularly benefit from this new funding, given the high number of SMEs in this sector, and the capacity within the industry to generate higher level apprenticeships.

2.241 The Livingstone-Hope review showed that only 12 per cent of graduates from specialist video games courses got a job in the sector within 6 months. Graduates from industry-accredited courses were almost three times as likely to gain employment in the sector within that timeframe. Making it easier for businesses to contribute part or all of the fees for a new or existing employee to follow an accredited course could lock in job prospects for students, help students gain experience in the industry, and develop a market in employment-oriented courses. There are examples of these sorts of schemes in other sectors, often set up by large employers with considerable resources. The Government recognises that SMEs may also benefit from setting up schemes like these on a much smaller scale. But SMEs may lack the know-how to decide whether to devote resources to developing a scheme of their own. The Government will help by setting out the high level structure of such schemes, drawing on case studies from other sectors, and the factors an SME should consider when embarking on a scheme.

2.242 STEMNET raises knowledge of Science, Technology, Engineering and Maths skills in school, partly through a network of 27,000 skilled 'Ambassadors' who visit schools. By focusing its recruitment of STEM ambassadors on priority growth industry sectors the Government will encourage students to take higher education courses that industry values.

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[69] *The strategic skills assessment for creative industries 2011,* Skillset/CC Skills

Summary of Digital and Creative Industries Review actions

1 The Government will deliver a package to support the UK's broadband digital infrastructure.

2 In response to the Hargreaves recommendations, due in April 2011, the Government will consider simplifying payments for copyright materials and freeing up orphan works. The Government commits to no further broad reviews of the IP rights regime during the lifetime of this parliament.

3 The Government's Intellectual Property Office (IPO) will improve the range of products and services available to support UK businesses, particularly SMEs, on issues relating to IP. The IPO will also establish a network of attachés covering the key global markets, including China, east Asia and India.

4 The Government will publish a guide to public sector IP procurement policy, so that industry exploits opportunities for IP to remain with the private sector provider for re-use.

5 The Government will substantially reduce the burden placed on business by the communications and media regulatory framework.

6 The Government will reduce the requirements for live music to be licensed.

7 The Government will reduce the proposed extension of legal deposit requirements to online publications

8 The Government will re-notify film tax relief to the European Commission.

9 The Government recognises BBC Worldwide's contribution to UK creative exports and would welcome exploration by the BBC of how BBC Worldwide may act as a source of finance and distribution expertise for UK D&CI firms with global ambitions.

10 The Government will support the establishment by industry of a Creative Industries Council, which can provide a voice for the sector with the financial community and coordinate action on barriers to growth.

11 A marketing plan will be developed by UKTI to promote opportunities for investment in the UK Digital and Creative Industries sector.

12 The Government will improve the stock of skills in the digital and creative industries.

Professional and Business Services

2.243 The Professional and Business Services (PBS) sector accounted for around one third of UK growth between 2000 and 2007, and it is internationally competitive. The sector has high growth potential on the back of the world class reputation enjoyed by many professions including UK commercial law and arbitration professionals.

2.244 The PBS sector covers a wide range of activities, including legal services, accountancy and audit, market research and consultancy, architectural and technical consulting, computer services, and advertising. The sector's gross value added is approximately £166 billion a year, the largest in the UK economy. Over the last decade, output has grown by an average of 5.5 per cent a year in real terms, compared to 2.5 per cent for the economy as a whole.

2.245 The sector is also highly internationally competitive. It draws on a unique UK business heritage, and is widely regarded as world leading. The UK is the largest net exporter of business services in the G7.[70] Whilst the sector is predominantly based in London and the South East, there are also important centres in regional cities.

2.246 The sector is self-reliant, with a large degree of market-led regulation, such as in the audit, legal, architecture and surveying professions. However, PBS businesses have voiced concerns about some aspects of UK regulation. The sector describes it as overly process-based and delivered by a complex structure of, at times, overlapping sectoral regulatory bodies, creating unnecessary burdens and entry barriers. The sector cited employment law (particularly employment tribunals), the implementation of the Bribery Act 2010 and Money Laundering Regulations as particular concerns.

2.247 PBS businesses have also commented that efficient processing of business visas is important to the UK's image as being 'open for business'. Businesses reported difficulty getting visas quickly and efficiently for non-EU clients to access services in the UK and for businesses to bring non-EU staff to the UK to service international business out of UK offices.

2.248 The sector wanted the Government to help promote PBS businesses internationally, to reduce protectionism and other barriers to trade in high-value markets, and give stronger support to initial market entry. It thought this could be achieved through more focused trade promotion initiatives and greater Government engagement in Europe and internationally. The sector felt there was a specific need to join with industry in championing the UK's world-leading legal services, and international arbitration and dispute resolution facilities.

2.249 The PBS sector employs the UK's most qualified graduates and is a large purchaser of technical and support services. It invests heavily in the skills of its employees. PBS businesses want UK graduates to do more to develop 'business readiness' skills including communications, literacy and numeracy; a stronger base of science, technology, engineering and mathematics (STEM) and language skills; and a clearer and earlier understanding of the value and purpose of a business career. The professions also recognise the value of increasing the diversity of new entrants.

2.250 The PBS sector is highly internationally mobile compared with many other sectors of the economy, and UK business growth is influenced by a client base choosing to locate in the UK. The attractiveness of the tax environment in the UK is therefore of particular importance to this sector. Nearly 80 per cent of large businesses responding to the KPMG UK Tax Competitiveness Survey 2009 said that the attractiveness of a country's tax regime was of some or high importance in deciding where their company locates. As detailed earlier in this document, the

[70] Net exports from this sector are actually larger than most OECD countries' gross exports from the sector. See the OECD Trade in Services Data.

Government has taken action to address these concerns, through the Corporate Tax Road Map and by setting up the Office of Tax Simplification, and will continue to do so.

2.251 All sectors of business are increasingly dependent on the internet and IT systems for their operations and so cyber security has become a basic requirement for businesses to function and grow. UK firms already have world-leading expertise in cyber security products and services. These businesses want the Government to support the growth of this sector into both domestic and overseas markets.

Actions

1) The Government will shortly publish guidance to help commercial organisations understand the Bribery Act 2010 better.

2.252 The guidance has been revised to take account of responses to a public consultation last year, which included leading business groups.

2) The Government wants to abolish over two dozen regulatory offences under Money Laundering Regulations and exempt businesses with very low turnovers, which will reduce compliance burdens.

2.253 The Government will shortly consult on detailed proposals for changes to Money Laundering regulations, to further strengthen the risk-based approach. These and other measures will be designed to ensure that the Regulations continue to deliver an effective and proportionate anti-money laundering regime, while minimising the burdens they impose on businesses.

3) The Government wants to make it easier to do business in the UK. The UK Border Agency (UKBA) will launch services for trusted business visa service users, entrepreneurs and high net worth investors, move to online visa processing, and publish application guidance in more languages.

2.254 UKBA will launch a new Prospective Entrepreneur visit visa in April 2011 to enable business start ups and funding to be arranged before obtaining an Entrepreneur visa. Entrepreneur visas will include access for investment partners and the minimum investment thresholds will be reduced from £200,000 to £50,000 from specified sources. For high net worth investors, UKBA will introduce faster entitlement to UK settlement, after 2 years for those investing £10 million or more. UKBA will introduce trusted business visa service schemes, in autumn 2011 for UK Highly Trusted Sponsors and in July 2012 for US Trusted Travellers (including business travellers).

2.255 To simplify the visa application process, UKBA will process 100 per cent of visa applications online by the end of 2012 and offer improved guidance on visa eligibility. In addition, ePassport gates will be installed at Gatwick South and Heathrow Terminal 3 by May 2011, offering British and EEA passengers with chipped biometric passports a secure, self-service border entry.

2.256 Alongside these actions, UKBA commits to ensuring the availability of premium visa services in UKTI priority growth markets, (currently available in 14 countries including Russia, India, China, Nigeria, Kuwait and Brazil) and will pilot paid-for business, fast track and mobile biometric services in selected UKTI priority markets, with a view to extending in line with demand. To improve understanding in emerging markets of UK visa services, UKBA will publish translated tourist and business visitor visa guidance in Arabic, Chinese, Hindi, Russian, Turkish, and Thai by April 2011.

4) The Ministry of Justice and UKTI will work with the sector to promote the UK's world-leading business arbitration and commercial law services.

2.257 The Ministry of Justice will work with UKTI and the sector on an industry-led promotion of the UK as the world leader in legal arbitration and commercial law services. The opening of the new Rolls Commercial Court building later in the year, providing world-class facilities for commercial, property and business dispute resolution, will be used as an opportunity to build on the marketing of UK legal and dispute resolution services both here and overseas.

2.258 As part of Government efforts to promote UK legal services internationally, the Government will also work to protect the supremacy of English contract law. The UK Government submitted a robust response to the European Commission's consultation on a harmonised and codified European Contract Law for consumers and businesses.

5) The Government will pursue improved access to new markets outside the EU.

2.259 The Government will seek the removal of trade barriers for the professional and business services sector in non-EU markets, including working with our European partners on negotiations in the Doha Round and in bilateral Free Trade Agreements.

6) The Government will press the European Commission and other EU member states to implement the Services Directive in full.

2.260 EU Member States have nearly 3,000 regulatory requirements, specifically for professionals and business services, which inhibit access to the single market, shield sectors from competition and inhibit growth. The intention of the EU Services Directive is to remove these legal and administrative barriers to the free trade of services within Europe. The Government will encourage other EU member states to implement the directive fully, including the introduction of fully-functioning Points of Single Contact. These online 'one-stop shops' give service businesses comprehensive information about the requirements for doing business in each Member State.

7) The Government wants to encourage talented students into the professions regardless of their background. A working group convened by the UK Commission for Employment and Skills (UKCES) will look at whether a new accountancy apprenticeship programme would be effective, and propose other measures to improve access to the professions.

2.261 This Government wants more talented UK students to have access to careers in the professions regardless of social background, to increase the diversity of the skills pool available to PBS firms.

2.262 The new working group will be chaired by Jeremy Anderson of KPMG and will work with business to examine a wide-ranging package of possible actions, including enhanced careers advice, sharing of good practice and the potential merits of a new apprenticeship programme supported by top accountancy firms. The group's immediate focus will be the accountancy, audit and related professions, and it will report initial conclusions by the autumn.

8) The Professional and Business Services Group (PBSG), chaired by Sir Michael Snyder, will launch a Log of Professional Readiness by June to promote increased employability skills among graduates.

2.263 PBSG members and other leading firms in the sector will launch a Log of Professional Readiness by June 2011, in which school leavers and undergraduates can record work experience, relevant gap year activity, positions of responsibility and leadership, active citizenship and volunteering, and extra-curricular investment in employability such as language practice or youth work. This will enable PBS businesses to be clear about the skills they need and allow young people to communicate their employability in a way businesses will recognise.

9) **Initiatives being developed by a Government / Business cyber security partnership will make the UK a more resilient place to do business. These are likely to include sharing information on potentially damaging cyber activity, setting up a national incident response capability and promoting the development of world leading cyber security skills in the UK.**

2.264 The Government's National Security Strategy, published in autumn 2010, highlighted the threat posed by the use of cyberspace for malicious purposes, mass fraud and other serious crime, industrial and other forms of espionage, and, potentially, use by states or terrorists to harm UK interests. To counter this threat the Strategic Defence and Security Review announced a £650 million National Cyber Security Programme.

2.265 The Government is clear that cyber security is an opportunity for British business. Good national cyber security will enable Britain to remain among the safest and best places in the world to do business. The Government wants to give business an environment in which it can confidently invest in research, develop products and trade securely.

10) **The Government will cut down the administrative burdens of complying with business regulation.**

2.266 The Government wants to reduce the burden of regulation, and announces in the Regulation chapter a number of measures to achieve this. The way in which regulation is implemented can impose additional and unnecessary burdens. It will set out proposals in the Enforcement White Paper, to be published in the summer, to reduce the burdens imposed on business by regulatory compliance and engagement with regulators.

11) **The Financial Reporting Council will work closely with the professions, businesses and market participants to reinforce the principle that independent regulation and enforcement should focus on risk and outcomes rather than process.**

2.267 The Financial Reporting Council will consider the professional services sector's concerns about the impact of the regulation of accounting and auditing in the UK, together with views of others, including the House of Lords inquiry into the audit market. The FRC and the Government are committed to ensuring good quality auditing in the interests of investors. The quality of accounts and the inspection of audits of public interest entities is an important element of this. Equally both the FRC and the Government are keen to avoid imposing unnecessary regulatory costs.

Summary of Professional and Business Services Review actions

1. The Government will shortly publish guidance to help commercial organisations understand the Bribery Act 2010 better.
2. The Government wants to abolish over two dozen regulatory offences under Money Laundering Regulations and exempt businesses with very low turnovers, which will reduce compliance burdens.
3. The Government wants to make it easier to do business in the UK. The UK Border Agency (UKBA) will launch services for trusted business visa service users, entrepreneurs and high net worth investors, move to online visa processing, and publish application guidance in more local languages.
4. The Ministry of Justice and UKTI will work with the sector to promote the UK's world-leading business arbitration and commercial law services.
5. The Government will pursue improved access to new markets outside the EU.
6. The Government will press the European Commission and other EU member states to implement the Services Directive in full.
7. The Government wants to encourage talented students into the professions regardless of their background. A working group of the UK Commission for Employment and Skills (UKCES) will look at whether a new accountancy apprenticeship programme would be effective, and propose other measures to improve access to the professions.
8. The Professional and Business Services Group (PBSG), chaired by Sir Michael Snyder, will launch a Log of Professional Readiness by June to promote increased employability skills among graduates.
9. Initiatives being developed by a Government / Business cyber security partnership will make the UK a more resilient place to do business. These are likely to include sharing information on potentially damaging cyber activity, setting up a national incident response capability and promoting the development of world leading cyber security skills in the UK.
10. The Government will cut down the administrative burdens of complying with business regulation.
11. The Financial Reporting Council will work closely with the professions, businesses and market participants to reinforce the principle that independent regulation and enforcement should focus on risk and outcomes rather than process.

Retail

2.268 The retail sector directly accounts for over 5 per cent of UK GDP, employs one in nine of the workforce, and is the sixth largest retail market in the world by sales. It is also a key route to market for other sectors of the economy, notably the food industry. A number of studies have found that the UK retail sector has significantly lower labour productivity than the US, France and Germany.

2.269 A number of issues were raised by businesses through their engagement in the Growth Review process. Businesses said that high levels of policy uncertainty are reducing the sector's willingness to invest. An earlier indication of the level of the national minimum wage is a top priority, followed by stability of business rates and other taxes. Retailers have also called for a modern, streamlined planning system, saying that the current system is a barrier to investment and innovation. In particular, businesses have asked for more flexibility on Use Classes and for planning policies that create thriving town centres.

2.270 Retail is subject to a wider range of regulation than any other sector, and businesses report that the cumulative burden is a significant barrier to retail growth and lower prices for consumers. For example, there are at least 20 separate pieces of legislation on age-related sales alone, with the enforcement regimes, penalties, licences and other procedures varying considerably from product to product.

2.271 In much of the UK, retail is a mature market. Retail analysts believe that overseas expansion, including online sales, offers the opportunity for sales growth over the next five to ten years. However the absence of a single European Market for online retailing inhibits British firms from accessing a rapidly growing market.

Actions

1) The Government will extend the current small business rate relief holiday for one year from 1 October 2011.

2.272 Eligible small businesses with rateable values of up to £12,000 will receive significant reductions in their business rates, reducing their fixed costs and enabling increased investment. Over half a million small businesses will benefit, with 330,000 paying no rates for a year.

2) The Government will invite the independent Low Pay Commission (LPC) in its next report to consider and implement the best way to give business clarity on future levels of the National Minimum Wage, including consideration of two-year recommendations.

2.273 This would provide greater certainty for small and large retailers, and other businesses, when planning employment and investment decisions. Greater certainty of future National Minimum Wage levels would reduce risks for employers, enabling them to take on staff with greater confidence. Large retailers need to formulate and finalise their business plans well before the start of the financial year and certainty on costs is a vital element in creating investment.

3) The Government will introduce a package of measures to support thriving town centres and build on the Town Centre First policy.

2.274 Building on Town Centre First, to support local communities, the Government will introduce a package of measures to support thriving town centres. It will work with local agencies and retailers to identify examples of what currently works well at local level, including examples of how to create vibrant towns, and disseminate this information through a single portal for local authorities. This will provide best practice guidance to local authorities and businesses on the potential benefits of Business Improvement Districts (BIDs) and how Local Authorities can use Compulsory Purchase Orders to help re-invigorate town centres. The proposed wider review of how change of use is managed within the planning system, set out in the Planning Review, will consider the scope for removing unnecessary barriers to innovation and diversification in retail.

4) **The Government will expand the Primary Authority model to apply consistent enforcement standards across a wider range of regulations and businesses.**

2.275 Primary Authority enables companies to work to a single set of enforcement standards for all branches, creating clarity, promoting efficiency and producing savings. Businesses form a statutory partnership with a single local authority, which provides a single source of advice for other councils to take into account when dealing with non-compliance or inspecting the company's shops around the country. By 4 March 2011, 182 businesses with 35,000 premises had signed up to the Primary Authority programme, involving 569 partnership agreements with 46 local authorities.

2.276 To build on the success of this scheme, the Government will extend the scope of Primary Authorities to include additional retailers and additional areas of regulation, including:

- Regulatory extensions: increasing the number and type of regulations that fall within the Primary Authority model, for example fire safety and age-restricted sales of alcohol and knives; and
- Partnership extensions: for example to enable federations, company groups, retail chains and trade associations to have a form of the Primary Authority scheme.

5) **The Government will amend regulations affecting retailers to make them more outcome-focused, and use a checklist approach to assist SMEs in complying with these regulations.**

2.277 Retailers will benefit from the Government's plans to create a more effective and outcome-focused system of regulatory enforcement, which are set out in the regulation section. The Government will also pilot a more flexible, outcome-focused structure for the regulations themselves, i.e. what they ask business to do, not just how they are enforced. This will be piloted by amending existing regulations, working closely with retailers and enforcement authorities to ensure the balance is right. The Government recognises that for many smaller retailers, who may not be prepared or able to invest the necessary resources, there needs to be a clear, assured checklist on how to meet the minimum compliance level for these regulations.

6) **The Government will implement a regulatory reform package to simplify complex and inconsistent age-restricted sales regulations and licences for businesses.**

2.278 There are more than 20 different pieces of legislation governing the sale of various products to minors. The regulations, enforcement regimes, penalties, licences and other procedures vary considerably from product to product. The Government will simplify these restrictions, making them more consistent.

2.279 The Government will also work with local government to encourage councils to publish details of their processes and fees for licences required by businesses, in line with the Government's transparency agenda. It also intends to abolish or simplify some of the current requirements for licences.

7) **The Government will work with retailers to ensure the skills system is delivering what the sector needs, including by providing pre-employment retail skills training to the unemployed and encouraging greater take-up of retail apprenticeships.**

2.280 The Government will work in partnership with employers and the National Skills Academy for Retail to provide relevant, high-quality, pre-employment training so as to give provide unemployed people the skills to enter the retail sector.

2.281 In 2009-10 more than 7,500 retail apprentices completed their apprenticeship programme. However, many businesses report a lack of good quality information about the service. To address this, the National Apprenticeship Service will work with Skillsmart Retail and the National Skills Academy for Retail to provide advice and support to retail employers on the benefits of Apprenticeships.

8) The Government will work to remove regulatory barriers to increased cross-border online retail.

2.282 Removing barriers to cross-border online retailing in the EU single market is a Government priority. To increase cross-border trade the Government is committed to addressing the uneven application of the E-Commerce Directive and to simplifying and clarifying consumer protection rules.

Summary of Retail Review actions

1 The Government will extend the current small business rate relief holiday for one year from 1 October 2011.

2 The Government will invite the independent Low Pay Commission (LPC) in its next report to consider and implement the best way to give business clarity on future levels of the National Minimum Wage, including consideration of two-year recommendations.

3 The Government will introduce a package of measures to support thriving town centres and build on the Town Centre First policy.

4 The Government will expand the Primary Authority model to apply consistent enforcement standards across a wider range of regulations and businesses.

5 The Government will amend regulations affecting retailers to make them more outcome-focused, and use a checklist approach to assist SMEs in complying with these regulations that affect the Retail sector.

6 The Government will implement a regulatory reform package to simplify complex and inconsistent age-restricted sales regulations and licences for businesses.

7 The Government will work with retailers to ensure the skills system is delivering what the sector needs, including by providing pre-employment retail skills training to the unemployed and encouraging greater take-up of retail apprenticeships.

8 The Government will work to remove regulatory barriers to increased cross-border online retail.

Construction

2.283 A successful construction industry is vital for sustainable growth. Building and maintaining homes, commercial properties and economic and social infrastructure are activities that underpin the entire economy. Many of the measures in this document will lead directly to a requirement for new construction, for example as a result of increased inward investment and the opening up of more land for development. The Government has identified £200 billion of public and private infrastructure planned over the next five years, and the requirement is likely to grow beyond that to ensure businesses have the resilient and high quality infrastructure networks they need. The industry must be able to respond effectively and efficiently to these opportunities.

2.284 A housing offer fit for the 21st century, providing new homes in the right places, is also vital for our future economic competitiveness, enabling a mobile workforce and dynamic economy. Levels of housebuilding are currently at their lowest level in peacetime since 1924. The immediate constraint is a lack of effective demand, with wider economic uncertainties and low levels of mortgage lending affecting people's ability and willingness to purchase homes. As these constraints improve, it is critical that industry gets the support it requires to build houses on the scale the UK needs, through planning reform and new financial incentives for home building.

2.285 Recent reports highlight a number of key barriers to growth and the efficient operation of the construction market.[71] The lack of a clear view of forward work flow means that companies do not have sufficient confidence to invest for the future. Poor and inconsistent procurement practices, particularly in the public sector (which accounts for nearly 40 per cent of the industry's workload), are leading to waste and inefficiency.[72] This is compounded by low levels of standardisation and fragmentation of the public sector client base.

2.286 The cumulative burden of regulation is inhibiting growth. The Forum for Private Business found that SME construction firms spend £1.1 billion per year complying with legislation.[73] Businesses in the sector see the slow and bureaucratic planning system and wider consents regime as a serious deterrent to investment.[74]

2.287 The Government will remove obstacles to growth and create a business environment in which companies in the construction sector have the confidence to invest in people (training, skills and career development), improve supply chain integration and develop innovative processes. In addition, it will tackle the problems of burdensome regulation and reform the planning system to increase the supply of viable land allocated for development.

Actions

1) The Government will publish the UK's long term forward view of projects and programmes in the autumn as part of the National Infrastructure Plan 2011.

2.288 This will give industry and investors the confidence to invest in UK economic infrastructure.

[71] *Low Carbon Construction Innovation and Growth Team Final Report*, Department for Business, Innovation and Skills, November 2010; *Infrastructure Cost Review – Main Report,* HM Treasury, December 2010.

[72] *Construction Statistics Annual 2010*, Office for National Statistics, 2010

[73] *Quarterly Referendum survey of members*, Forum of Private Business, June 2009

[74] *Infrastructure Cost Review – Main Report,* HM Treasury, December 2010

2) **The Government will publish quarterly from autumn 2011 a rolling two year forward programme of infrastructure and construction projects where public funding has been agreed.**

2.289 The Government will require departments to use the Public Sector Construction Database to record central government construction projects where funding has been agreed. This will enable building contractors to respond more effectively to emerging market opportunities.

3) **The Government will reform the way in which it procures public sector construction and infrastructure to reduce costs by up to 20 per cent. This will include measures to encourage standardisation rather than bespoke designs, setting clear criteria for asset performance and introducing new models of procurement.**

2.290 A detailed programme of measures to achieve this will be published before the end of May 2011. This will enable the construction industry to focus on bringing forward innovative solutions, rather than participating in bureaucratic and wasteful procurement processes.

4) **The Government will support over 10,000 first time buyers to buy a home through a FirstBuy programme.**

2.291 The Government will provide equity loans, jointly funded with house-builders, to assist with the purchase a new-build property. This will help at least 10,000 first time buyers purchase a new home.

5) **The Government will accelerate the release of public sector land to encourage new homes and jobs.**

2.292 It has been estimated that forty per cent of land suitable for development sits within public sector land banks. The Homes and Communities Agency will announce shortly the first tranche of available sites and will publish a comprehensive strategy in May. In the future, Departments holding land will publish their release programmes and be held to account for delivery of new homes and jobs created as a result. The Government will consider whether using a "Build Now, Pay Later" model could be applied to the sale of particular parts of public sector land to encourage development.

6) **The Government will strengthen demand for residential property by reforming the stamp duty land tax rules applied to bulk purchases.**

2.293 If the buyer chooses, the rate of stamp duty land tax on purchases of multiple residential properties will be determined by the mean value of the dwellings purchased (subject to a minimum rate of 1 per cent), rather than their aggregate value as is currently the case. This will also reduce a barrier to investment in residential property, promoting the supply of private rented housing.

7) **The Government is introducing a range of measures to remove barriers to entry for new Real Estate Investment Trusts.**

2.294 Measures announced in Budget 2011 specifically address barriers to entry and investment, and support good business practice. Along with other regulatory reforms they will help support further investment in the property market, as the economy strengthens.

8) **The Government will work with industry between now and Budget 2012 to review construction standards and codes, to take out redundancy and duplication where the costs outweigh the benefits.**

2.295 The existing stock of standards in the construction sector is huge. Many professional organisations have a range of several hundred publications to consult.[75] There is no apparent mechanism to check whether the perceived need for a new standard can be met by reviewing or updating an existing one.

2.296 The Government will work with industry experts to identify and reduce duplication, redundancy and inconsistency in construction standards, based on cost-benefit analyses. Recommendations will be published at Budget 2012.

9) **The Government is announcing the regulatory requirements for zero carbon homes, to apply from 2016. To ensure that it remains viable to build new houses, the Government will hold housebuilders accountable only for those carbon dioxide emissions that are covered by Building Regulations, and will provide cost-effective means through which they can do this.**

2.297 The UK needs to deliver carbon savings in order to meet the Carbon Budgets to which the Government is committed. This means that the carbon footprint of new homes cannot be allowed to add to overall carbon reduction burdens.

2.298 Building Regulations cover carbon dioxide emissions from energy use through heating, fixed lighting, hot water and building services. They do not cover emissions related to energy use from cooking or from plug-in electrical appliances such as computers, as these are beyond the influence of housebuilders and will be addressed by other policies, for example the EU Emissions Trading Scheme.

2.299 The Government will introduce more realistic requirements for on-site carbon reductions, endorsing the Zero Carbon Hub's expert recommendations on the appropriate levels of on-site reductions as the starting point for future consultation, along with their advice to move to an approach based on the carbon reductions that are achieved in real life, rather than those predicted by models. This will be complemented by cost-effective options for off-site carbon reductions, relative to the Government's pricing of carbon, and Government will work with industry through consultation on how to take this forward.

2.300 This approach will deliver zero-carbon homes on a practical basis from 2016, with significantly reduced costs to industry, compared to previous proposals. Government will continue to work with industry on how the principle of its Green Deal scheme can be extended to new homes, enabling house builders to offset the upfront costs of building to more challenging carbon reduction standards.

[75] *Low Carbon Construction Innovation and Growth Team Final Report*, Department for Business, Innovation and Skills, November 2010

Summary of Construction Review actions

1 The Government will publish the UK's long term forward view of projects and programmes in the autumn as part of the National Infrastructure Plan 2011.

2 The Government will publish quarterly from autumn 2011 a rolling two year forward programme of infrastructure and construction projects where public funding has been agreed.

3 The Government will reform the way in which it procures public sector construction and infrastructure to reduce costs by up to 20 per cent. This will include measures to encourage standardisation rather than bespoke designs, setting clear criteria for asset performance and introducing new models of procurement.

4 The Government will provide equity loans, jointly funded with house-builders, through a FirstBuy programme assisting over 10,000 first time buyers to purchase a new-build property.

5 The Government will accelerate the release of public sector land to encourage new homes and jobs.

6 The Government will strengthen demand for residential property by reforming the stamp duty land tax rules applied to bulk purchases.

7 The Government will introduce a range of measures to remove barriers to entry for new Real Estate Investment Trusts.

8 The Government will review construction standards and codes, to take out redundancy and duplication where the costs outweigh the benefits.

9 The Government is announcing the regulatory requirements for zero carbon homes, to apply from 2016. To ensure that it remains viable to build new houses, the Government will hold housebuilders accountable only for those carbon dioxide emissions that are covered by Building Regulations, and will provide cost-effective means through which they can do this.

Space

2.301 The global space industry is worth around £160 billion. It is an expanding industry, forecast to grow at 5 per cent a year over the next 20 years.[76] All sorts of businesses and individuals benefit from the space sector, sometimes in ways that are not immediately apparent. Space infrastructure is used in commercial, security and defence systems, and space technology has applications in combating climate change and managing food and energy supplies. The space industry is innovative, with six times more R&D activity in this sector than the UK economy as a whole.

2.302 Growth in the space industry will be underpinned by growth in demand for e-connectivity, mobile communications and broadcasting, including HDTV and 3D TV, alongside consumer demand for instant access to real time navigation and weather data. Space will also become increasingly important to support national policy, for example, space-based Earth observation to combat climate change. Analysts have estimated that the global space internet market alone could be worth between £25 billion and £30 billion a year by 2030, and the market for environmental monitoring and security data from space between £100 billion and £300 billion between 2010 and 2030[77]. The UK has the right mix of skills today to win a disproportionate share of these markets.

2.303 There are considerable opportunities in high-growth emerging economies for sales of satellites and services as well as opportunities to collaborate. Government has an important role in facilitating exports. For many countries an inter-governmental agreement is a prerequisite for business to co-operate and allow the UK to win international business. These agreements have already opened opportunities in Indonesia, Peru, India, China and Russia.

2.304 The success of the space industry requires certainty about the regulatory environment which can be a particular constraint on investment and hence growth. There are specific challenges that need to be tackled to put the UK industry on a level playing field with other countries. Action will be taken to reduce insurance premiums for satellite operators, facilitate space tourism, promote exports and gain access to satellite orbit slots.

Actions

1) To create a level playing field with other countries, the Government will reform the Outer Space Act 1986 by introducing an upper limit on liability for UK operators.

2.305 Operation of the UK's satellites and space vehicles are governed by the Outer Space Act. Under this Act, the UK requires unlimited indemnity from UK operators against third-party liability claims. The licensing regime also places a further requirement on operators to insure for £100 million against third-party claims for the launch and in-orbit operational life of the space vehicle. This puts the UK at a competitive disadvantage as in other countries the compulsory insurance requirement is required only for the launch phase and unlimited indemnity against third party liability claims is not required. Aligning the UK with the requirements of other nations should make UK operators more internationally competitive by reducing their insurance premiums and also provide the opportunity for small companies and academia to launch 'micro' satellites on a commercial basis.

[76] *Space Innovation and Growth Strategy report*, Space IGS, February 20100. This can be found at: http://www.spaceigs.co.uk/documents/
[77] ibid

2) **The Government wants the UK to be the European centre for space tourism and will work with the international regulatory authorities to define regulations for novel space vehicles that offer low cost access to space.**

2.306 Space tourism and next generation 'hybrid' space planes could not currently operate out of the UK because there is no currently agreed regulatory environment for such vehicles. The Government will work with the European aviation safety agency to ensure that there is an operating and certification environment defined so that these vehicles can operate out of the UK, and so that manufacturers can invest in vehicle design with confidence that they will meet future regulations. In the long term, RAF Lossiemouth has the location, facilities and infrastructure for space tourism flights and the potential to become the European centre for space tourism.

3) **To improve the offer to overseas customers, the Government will provide UK industry with clearer guidance on the regulation of security aspects in export deals.**

2.307 This will ensure a more predictable environment for licensing space assets and services to overseas customers, including China and Russia. The Government is committed to providing new guidance on this complex issue by the summer. This will clarify the export position and processes needed for Earth Observation satellites and services with differing geographical coverage and image resolutions.

4) **The Government will continue to work with Ofcom to ensure that British industry has full and fair access to the limited supply of satellite orbit slots.**

2.308 Ofcom is the body that represents the UK in seeking access to satellite orbit slots which are needed to offer satellite services. The Government will work with them to provide the support needed for international reform of the processes used to gain access to orbit 'slots' at the World Radio Conference in 2012. Many nations allow slots to be reserved, but not used, and the industry has called for a process that will release these to increase supply for UK (and other legitimate) operators. This will involve supporting Ofcom's efforts to create a minimum condition for bringing a slot into use. The Government will work with Ofcom on ensuring proposals are not watered down or that extended transition arrangements are not allowed. The Government has also heard concerns from the space industry that some firms struggle to secure access to the radio frequency spectrum required to fully meet their needs. The Government will consider its market-based approach to this spectrum allocation in the course of its Communications Review. A high-level discussion paper will be published shortly.

5) **The Government announces £10 million of funding to accelerate the development of the International Space Innovation Centre (ISIC) at the Harwell Science and Innovation Campus.**

2.309 ISIC is to be established as a not-for-profit company in April 2011. It will create a critical mass of space-related activities by linking existing expertise in UK industry, academia and Government. This £10 million of funding will be used to build capability to underpin a unique concentration of facilities, such as the Earth Observation Hub, which supports research, collaboration and industry growth promoting self sustainability.

Summary of Space Review actions

1 The Government will reform the Outer Space Act 1986 by introducing an upper limit on liability for UK operators.

2 The Government will work with the international regulatory authorities to define regulations for novel space vehicles that offer low cost access to space.

3 The Government will provide UK industry with clearer guidance on the regulation of security aspects in export deals.

4 The Government will work with Ofcom to ensure that British industry has full and fair access to the limited supply of satellite orbit slots.

5 The Government announces £10 million of funding to accelerate the development of the International Space Innovation Centre (ISIC) at the Harwell Science and Innovation Campus.

Tourism

2.310 The entire Tourism sector[78] is the UK's sixth biggest industry and in-bound tourism is our third-largest export earner. The 200,000 businesses in the tourism industry provide £52 billion of UK GDP and employ 4.4 per cent of the workforce.[79] They are a particularly important source of employment in rural communities.

2.311 Domestic tourism[80] accounts for 59 per cent of the sector's visitor spend, while inbound travellers account for 14 per cent and outbound 27 per cent.[81] There is still scope to grow the sector, and the 2012 Olympics provide a unique opportunity to attract new visitors and showcase the best of Britain.

2.312 The tourism industry is predominantly driven by small businesses. This is good for competition, ensuring a diverse consumer offer, but this can be at the expense of cooperation which would improve quality and information. The tourism sector is overly reliant on public funds for much of its destination marketing activity and tourist information.

2.313 Levels of customer service and management skills in the industry also have further scope for improvement, particularly if the UK is to rank among the top tourist destinations in the world.

2.314 Some regulation is essential to protect consumers, employees and competition, but too much creates unnecessary burdens for businesses. For the tourism industry, the current system for obtaining planning permission is a particular problem. The system is slow, complex and difficult to predict, making it harder and more expensive for accommodation providers and tourism attractions to expand.

2.315 Businesses in the tourism industry will benefit from many measures covered in the Growth Review, including the reform of the planning system and the exemptions from new regulation for small businesses (see planning and regulation sections for details).

Actions

2.316 The Department for Culture, Media and Sport published the *Government Tourism Policy* on 4 March 2011. This set out a wide range of actions and recommendations to help the British tourism industry achieve its potential as part of Britain's growth strategy. The key actions the Government is taking to support the tourism industry are:

1) **The Government and private sector will co-fund a £100 million campaign aiming to attract an additional 4 million visitors to the UK in the years following 2012.**

2.317 This supports a new, more sustainable, approach to marketing UK Tourism, making the sector less dependent on Government funding. It will generate an additional 4 million extra visitors to Britain over the next 4 years, equating to £2 billion additional spend in our economy and 50,000 new jobs.

[78] Made up of contributions from inbound tourists while in UK, fare to UK carriers by inbound tourists, domestic trips with overnight stay, tourism day visits, rent from 2nd home ownership; and the Hotels and Restaurants sector.

[79] *Economic Contribution of the Visitor Economy: UK and the nations*, Deloitte, July 2010

[80] Includes overnight trips and day visits for tourism purposes by UK residents within the UK

[81] *Government Tourism Policy*, Department for Culture, Media and Sport, March 2011

2) **The Government will reduce regulation for businesses in the tourism industry by creating a task force of senior industry figures from across the UK, to identify opportunities to cut red tape.**

2.318 By June 2011, the taskforce will be asked to identify sector specific rules, regulations, inspections and forms which are holding the industry back in order to cut, modify or abolish as many of them as possible.

3) **The Government wants to make it easier for tourists to visit the UK. To do this the UK Border Agency (UKBA) will increase the number of biometric ID visa centres around the world, move to online visa processing, and publish application guidance in more languages.**

2.319 Too often prospective overseas tourists face a long journey to get a visa, which costs far more than the visa itself. To simplify the visa application process, UKBA will process 100 per cent of visa applications online by the end of 2012 and offer improved guidance on visa eligibility. In addition, ePassport gates will be installed at Gatwick South and Heathrow Terminal 3 by May 2011, offering British and EEA passengers with chipped biometric passports a secure, self-service border entry. To improve understanding in emerging markets of UK visa services, UKBA will publish translated tourist visa guidance in Arabic, Chinese, Hindi, Russian, Turkish, and Thai by April 2011.

2.320 These changes will reduce the overall cost of obtaining a visa for many people, making the UK a more attractive destination. These changes will also help business visitors – see announcements on Professional and Business Services.

4) **The Government will work with People 1st, the National Skills Academy for Hospitality, and the industry, to increase the number of apprenticeships and other courses teaching hospitality skills so that consistently higher standards are delivered.**

2.321 The UK has more well-qualified and experienced staff than ever before, but tourism still suffers from skill shortages. The Government will help the sector to change the perception that hospitality and service is a poor-quality job for students or low-skilled workers, rather than a professional career in its own right. This will help to improve the welcome the industry gives tourists, enhancing visitor experiences and in turn driving return visits and positive recommendations.

5) **The Government will modify Tourist Boards to become smaller, highly focused, industry-led partnerships between tourism firms and government.**

2.322 Tourist Boards will be funded through long-term partnership marketing campaigns with the tourism industry itself, and will be able to tailor both the management and marketing of a specific tourism area to reflect its particular characteristics.

6) **The Government will help the industry prepare for changes in technology, so tourism information can be provided through smartphone apps, as well as through traditional leaflets and websites.**

2.323 The Government will work with the Tourism Industry to ensure that more smartphone apps are available for British and international tourists. This will make every UK destination far more accessible for visitors to navigate, in more languages.

7) **The Government will give the industry and consumers responsibility for hotel 'star rating' quality schemes.**

2.324 The current government-sponsored scheme is bureaucratic and does not represent good value for money. Given that tourists are already making good use of websites to share their experiences and access up to date information on the standard of hotels, the Government is deregulating the current system to ensure that the industry and consumers are in control. This will ensure the tourism industry is responding directly to its visitor feedback, rather than conforming to government set standards.

8) The Government wants to help create tourist destinations that match London and maximise the potential of other parts of Britain.

2.325 The Government will support the industry to invest in collective destination marketing, to create a sustainable new model of destination marketing and management, changing the way the industry operates in future. The Government will do this by signposting available public and private funding, being a source of good practice and leadership and encouraging partnerships with Local Authorities and Local Enterprise Partnerships.

9) The Government will consult on whether to move the first bank holiday in May.

2.326 Possible alternatives include either a new St George's Day bank holiday in England or a new 'UK Day' or 'Trafalgar Day' bank holiday during the October half term instead. This would lengthen the summer tourism season and create new national holidays for the domestic tourism industry to celebrate.

10) The Government has delivered on its pledge to maintain and reform Furnished Holiday Lettings (FHL) reliefs.

2.327 The Government, in its first Budget reversed plans to abolish longstanding tax breaks on furnished holiday lettings, meaning that the financial foundations for this important section of our visitor economy will not be undermined.

Summary of Tourism Review actions

1 The Government is co-funding with the private sector a £100 million campaign aiming to attract visitors to the UK in the years following 2012.

2 The Government is reducing regulation for businesses in the tourism industry by creating a task force of senior industry figures from across the UK, to identify opportunities to cut red tape.

3 The Government is making it easier for tourists to visit the UK. To do this the UK Border Agency (UKBA) will increase the number of visa biometric ID centres around the world, move to online visa processing, and publish application guidance in more languages.

4 The Government is working with People 1st, the National Skills Academy for Hospitality, and the industry, to increase the number of apprenticeships and other courses teaching hospitality skills so that consistently higher standards are delivered.

5 The Government is modifying Tourist Boards to become smaller, highly focused, industry-led partnerships between tourism firms and government.

6 The Government is helping the industry prepare for changes in technology, so tourism information can be provided through smartphone apps, as well as through traditional leaflets and websites.

7 The Government is giving the industry and consumers responsibility for hotel 'star rating' quality schemes.

8 The Government is helping create tourist destinations that match London and maximise the potential of other parts of Britain.

9 The Government is consulting on whether to move the first bank holiday in May.

10 The Government is delivering on the pledge to maintain and reform Furnished Holiday Lettings (FHL) reliefs.

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