



HM Treasury

## **A better deal:**

**boosting competition to bring  
down bills for families and firms**

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boosting competition to bring down bills  
for families and firms

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Presented to Parliament by  
the Chancellor of the Exchequer  
by Command of Her Majesty

November 2015

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# Foreword

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Improving productivity in the UK is a priority for the government. In July 2015, a comprehensive fifteen point plan, *Fixing the Foundations: Creating a more prosperous nation*, was set out describing the steps needed to tackle the UK's productivity challenge and raise living standards. This document focuses on competition, one key aspect of that broader plan, and outlines our approach to encouraging open and competitive markets that are free from distortions. It sets out a number of specific policies, which will ensure wider competition in various sectors, and deliver benefits for consumers and businesses alike.

Well-functioning markets are the lifeblood of a thriving economy. They promote growth, innovation and efficiency. Competition fosters consumer choice, resulting in better products and services at lower prices and ensuring more disposable income in the hands of working people. It is essential to the UK's long-term economic success.

It is the government's responsibility to help foster the right conditions for competition and investment across the UK. This means removing barriers – including unnecessary regulation – that stop small and innovative businesses from growing and exploiting market opportunities. It means reducing barriers within the European Union, which is why enhancing its competitiveness is one of the four areas for a reformed European Union identified by the Prime Minister. And it means ensuring consumers have the unbiased information they need to be confident and secure in exerting their buying power, driving markets to deliver for them.

As part of its plan to make the UK the most productive advanced economy, the government will continue to look for new ways to promote open and competitive markets. This is not a one-off exercise but an ongoing ambition on the part of government. We will continually strive to ensure that the policies pursued by both central government and independent regulators deliver open and effective competition. The concrete steps set out in this document will mean key markets – including energy, water, banking and telecoms – deliver choice and quality at lower prices. And they will ensure government, regulators and local authorities all play their part in promoting competition and removing market distortions.



George Osborne  
Chancellor of the Exchequer

November 2015



Sajid Javid  
Secretary of State for Business, Innovation  
and Skills

November 2015





# 1 Summary

**1.1** In July 2015, the government set out a comprehensive plan to raise UK productivity. *Fixing the foundations: Creating a more prosperous nation*<sup>1</sup> outlined the government's approach, which is built around two key pillars:

- Encouraging long-term investment in economic capital, including infrastructure, skills and knowledge; and
- Promoting a dynamic economy that encourages innovation and helps resources flow to their most productive use.

**1.2** Open, competitive markets are the cornerstone of a dynamic economy. This document focuses on the competition aspects of the government's productivity plan, in particular announcing steps to boost competition and eliminate market distortions.

**1.3** Effective competition ensures that firms direct resources to their most productive use, and that they are incentivised to invest in technology and to innovate. This results in high quality products and services delivered at the lowest possible prices, giving people more disposable income.

**1.4** In order for markets to deliver these benefits they need to be open to competitive pressures. Businesses must be able to enter markets and innovate; and consumers need to be engaged, confident and secure in asserting their rights to get the best deal available to them. Together, this will ensure markets deliver long-term productivity and prosperity, benefitting households and businesses.

## Helping households

**1.5** In order to focus its efforts, the government has examined core markets that working people rely on and that account for a significant proportion of household spending.

**Table 1.A: Regular household spending**

Household bill	Average costs per annum
Housing costs including mortgage repayments	£4,880
Energy	£1,280
Clothing	£1,180
Insurance	£875
Telecoms	£725
Water	£385
Health products and services	£325
Legal and Banking	£35
<b>Total</b>	<b>£9,685</b>

*Source: HM Treasury analysis based on Family Spending 2014 edition, Office for National Statistics, December 2014*

<sup>1</sup> *Fixing the foundations: Creating a more prosperous nation*, HM Treasury, July 2015

**1.6** Across these essential markets, as the table shows, bills run to £9,685 per year on average, or 40 per cent of disposable income<sup>2</sup> (median household income is around £23,600 per year after taxes and benefits).<sup>3</sup>

**1.7** The government is acting to ensure that these key markets are free from distortions. It is also taking steps to strengthen competitive pressures to help deliver lower prices. While the impact of these actions will vary depending on household type, some households could save up to £80 a year in the future from Spending Review and Autumn Statement 2015 measures on motor insurance and energy. Many households could also save up to £390 a year by switching their energy supplier, current account and mobile tariff – all of which the government is making easier through this plan. So a household that gets all these benefits might save close to £470 a year, to spend on the other things that matter to them.<sup>4</sup>

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<sup>2</sup> HM Treasury analysis based on *Family Spending 2014 edition*, Office for National Statistics, December 2014

<sup>3</sup> *Households Below Average Income: An analysis of the income distribution 1994/95 - 2013/14*, Department for Work and Pensions, June 2015

<sup>4</sup> HM Treasury analysis

### **Box 1.A: Helping households – summary of action**

**Water.** The government is driving water market competition. Business and other non-household customers will be able to switch suppliers from 2017. Ofwat will provide an assessment by summer 2016 of the costs and benefits of extending retail competition to household water customers. Following this, the government will work with water companies to begin the transition to household retail competition before the end of this Parliament.

**Banking.** The government will boost competition in banking with the establishment of a New Bank Start-Up Unit, making it easier for new banks to enter the market. It will also take steps to help consumers find the best bank for them. Switching can save the average customer £70 a year and heavy overdraft users £260 a year.

**Broadband.** Pricing in this market often lacks transparency. The Advertising Standards Authority (ASA) is looking at whether teaser rates on broadband deals are misleading consumers, and the government expects the ASA to take swift action to ensure that prices are made clearer and costs are not hidden. Total costs can be £240 a year higher than the headline introductory rate.

**Legal services.** The government will further reduce barriers so that it is easier for alternative business structures, such as supermarkets and estate agents, to offer legal services like conveyancing, probate and litigation in England and Wales.

**Pharmacies.** The government will examine the NHS community pharmacy market to ensure that the regulatory framework and payments system are efficient, encourage competition and innovation, and facilitate online, delivery to door and click and collect, pharmacy and prescription services. This will save time for working people.

**Dentistry.** Pricing for dentistry can be opaque and confusing. The government will ensure that dentist treatment plans and price lists are clear and easily accessible, empowering patients in England to make the best choices.

**Motor insurance.** The government intends to end the right to cash compensation for minor whiplash injuries, removing over £1 billion from the cost of providing motor insurance, equivalent to an average of £40 to £50 saving for each motor insurance policy.

**Energy.** The government will reduce the projected cost of green policies on the average annual household energy bill by £30 from 2017. The government will also make switching supplier easier and quicker. The average household could currently save £160 from switching supplier.

**Mobile phones.** Consumers can face costs of up to £20 to unlock their phones with an estimated £48 million spent per year. The government expects industry to start automatically unlocking customers' handsets at the end of their contracts, and will consult in 2016 on ending the practice of handset locking for customers outside any initial contract period.

**School uniforms.** The government will ensure that parents and carers get the best value deals on school uniforms in England. Analysis shows that parents and carers are significantly less likely to report financial hardship when schools allow them to purchase uniform from a variety of suppliers.

## Helping business

**1.8** In 2015, there were a record 5.39 million private sector firms in the UK, a rise of 900,000 since 2010.<sup>5</sup> Between Q2 2010 and Q2 2015, private sector employment increased by 2.2 million, meaning that 5.4 jobs have been created in the private sector for every public sector job lost. Evidence indicates that small and medium sized businesses (SMEs) contribute disproportionately to UK job creation. Between 2008 and 2013, 85 per cent of new jobs in the UK were created by firms with fewer than 50 employees.<sup>6</sup>

**1.9** Open markets are fundamental to fostering productivity growth across the UK. Competition compels firms to be more efficient and innovative, allows new businesses to enter markets and ensures that the best firms grow. Improved competition policy is estimated to have accounted for 20 per cent of industry productivity growth in the UK in the decade to 2005.<sup>7</sup>

**1.10** A regulatory environment that encourages innovation is an essential foundation of a dynamic economy. In the last Parliament, the government cut the cumulative burden of regulation by over £10 billion and has committed to cut at least a further £10 billion this Parliament. The UK is also becoming a better place to do business and is ranked 6<sup>th</sup> in the world and 2<sup>nd</sup> in Europe, according to the World Bank's *Doing Business* index.<sup>8</sup> Markets that are liberalised and deregulated are more productive. For example, liberalisation and regulatory reforms which introduced competition into the UK electricity, gas, and water industries are thought to have driven productivity growth of over 10 per cent a year in these sectors across the 1990s.<sup>9</sup> However, a number of markets in the UK are still held back by regulation that constrains competition and productivity growth.

**1.11** Access to finance is also essential, enabling entrepreneurs to launch new ventures and productive businesses to scale up. Since 2010, the government has increased banking competition, focused the Funding for Lending Scheme on supporting lending to SMEs, and set up the British Business Bank, whose programmes are already supporting £2.4 billion of finance to 40,000 smaller businesses.<sup>10</sup> The Start-Up Loans programme has provided entrepreneurs with more than 33,000 loans worth over £180 million.<sup>11</sup> Although the large, established banks still dominate the market for small business finance, challenger banks and alternative finance providers are making an increased contribution to meeting demand for both equity and loan capital. According to NESTA, peer-to-peer business lending in the UK grew at a rate of 250 per cent annually between 2012 and 2014.<sup>12</sup>

**1.12** Credit conditions for smaller businesses have improved steadily since 2014. Net lending grew by 1.3 per cent on an annualised basis in the three months to September 2015,<sup>13</sup> and small businesses are finding the banks increasingly willing to lend – around 80 per cent of loan and overdraft applications were successful in the 18 months to Q2 2015, up from 67 per cent in the 18 months to Q4 2013.<sup>14</sup> Yet challenges remain. Responses to the Federation of Small Businesses *Voice of Small Business* survey suggest SME conditions are improving, but remain

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<sup>5</sup> *Business Population Estimates for the UK and Regions 2015*, Department for Business, Innovation and Skills, October 2015

<sup>6</sup> *Net Job Creation in the UK, 2008-2013*, European Research Council Research Note, Anyadike-Danes, M, 2014

<sup>7</sup> *Factsheet on how competition policy affects macro-economic outcomes*, OECD, October 2014

<sup>8</sup> *Doing Business Economy Rankings*, World Bank Group press release, June 2015

<sup>9</sup> *Product Market Competition and Economic Performance in the United Kingdom*, OECD Working Paper, Maher, M. and Wise, M, 2005

<sup>10</sup> British Business Bank website available at: <http://british-business-bank.co.uk/facts-and-figures/>

<sup>11</sup> Start Up Loans UK website available at: <https://www.startuploans.co.uk/about-us/>

<sup>12</sup> *Understanding Alternative Finance*, Nesta, November 2014

<sup>13</sup> *Bankstats (Monetary & Financial Statistics)*, Table A8.1: 3-month annualised growth in total loans to small and medium-sized enterprises, Bank of England, September 2015

<sup>14</sup> *SME Finance Monitor Q2 2015: Management Summary*, BDRC Continental, September 2015

tighter than for other firms, and more SMEs report that credit availability is poor rather than good, though this has improved.<sup>15</sup>

#### **Box 1.B: Helping business – summary of action**

**Government as a customer.** A new 'Crown Marketplace' will be created to make it easier for businesses to supply government with goods and services. This is a huge new opportunity for small business: central government procurement spend is in the region of £44 billion per annum.<sup>16</sup>

**Local competition.** The Competition and Markets Authority (CMA) will examine how the actions of local authorities – including those cities with newly devolved powers – can support competition and challenge them when they do not. The CMA will report in 2017.

**Business rights.** Regulators in the energy and water markets will give the smallest businesses consumer-style rights, for example, protecting them from mis-selling, ensuring more transparent prices and making switching easier.

**Smaller business finance.** The government will have helped more than 75,000 entrepreneurs benefit from Start-Up Loans by the end of this Parliament. The British Business Bank's funding will be maintained so that it can facilitate at least £10 billion of finance.

**Science and innovation.** Innovate UK funding will be protected in cash terms, by introducing a new package of loans for innovative companies, reaching £165 million by 2019-20. The government will also increase catapult funding in real terms to drive the development and diffusion of new technologies and processes.

**Improving market access.** UK Trade and Investment will be refocused so that it ensures UK firms are able to access international markets. This will involve enhancing direct support to business and developing the private sector market, supported by £175 million total reinvestment over the next four years.

**Reasonable regulation.** Building on the commitment to cut £10 billion of red tape over this Parliament, the government will establish the principle that, where appropriate, enforcement action is a last resort and regulators should start by helping businesses do the right thing.

**Space for innovation.** Businesses need the space to innovate and experiment. Regulators will develop new approaches to support innovation and the safe testing of new products and services, which will form part of regulators' Innovation Plans at Budget 2016. This will build on: regulatory sandboxes, which the FCA is opening to proposals from firms in spring 2016; and innovation spaces.

**1.13** The steps to help households and firms set out in this summary are not an exhaustive list. Rather, they will help focus the government's initial drive to boost competition. Over the course of this Parliament, the government will seek more ways to eliminate distortions and promote entry, competition and switching. The remainder of this document provides detail on the measures set out above, together with some additional future plans.

<sup>15</sup> *FSB Voice of Small Business Index – quarter 3 2015*, Federation of Small Business, September 2015

<sup>16</sup> *Central Government Direct and Indirect Spend with SMEs 2013-14*, Cabinet Office, Crown Commercial Service, Efficiency and Reform Group, February 2015



## 2 Open markets

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**2.1** Opening up markets to new entrants promotes stronger competition and drives efficiency and innovation. The result is the creation of new and innovative products and services at lower costs, which benefits consumers across the UK. For example, in the decade to 2002, opening up the market to new providers of international telephone calls led to a decrease in prices of up to 90 per cent.<sup>1</sup>

**2.2** The government is taking action to open up markets to new entrants, driving greater competition and providing consumers with more choice.

### Action to open up markets

#### Increasing competition in the water sector

**2.3** The government is taking action to promote competition in the water sector in England. Opening up retail competition in the non-household market from 2017 will create the largest retail water market in the world and deliver £200 million in benefits across the UK.<sup>2</sup> The government is also introducing the world's first competitive market for the sale of water and the disposal of waste water in upstream water markets, which will deliver almost £1.8 billion in benefits across the economy.<sup>3</sup> Upstream water markets will be facilitated by the government's planned modernisation of the way water abstraction is regulated to enable trading and competition, reduce water waste, cut red tape and help businesses to focus on investment and growth.

**2.4** Building on opening up the non-household retail market to competition, the government wants to extend choice to households. *Ofwat will provide an assessment by summer 2016 of the costs and benefits of extending retail competition to household water customers. Following this, the government will work with water companies to begin the transition to retail competition before the end of this Parliament.*

#### Tackling the cost of school uniforms

**2.5** The government wants to ensure that families get the best value for school uniforms. A 2015 Department for Education survey found that nearly one-fifth of parents and carers reported that they had suffered financial hardship as a result of purchasing their child's school uniform.<sup>4</sup> The survey found that parents and carers are significantly less likely to report that they have experienced hardship if schools allow them to purchase uniforms from a variety of suppliers. The government wants to ensure that effective competition is used to drive better value for money and *will therefore put existing best practice guidance for school uniform supply in England on a statutory footing.* This will ensure that schools deliver the best value for parents by avoiding exclusivity arrangements unless regular competitions for suppliers are run.

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<sup>1</sup> *The Benefits from Competition: some illustrative UK cases*, Department of Trade and Industry, Economics Paper NO.9, July 2004

<sup>2</sup> *Impact Assessment – Introducing Retail Competition in the Water Sector*, Department for Environment, Food and Rural Affairs, February 2015 available at: <http://www.legislation.gov.uk/ukpga/2014/21/impacts>

<sup>3</sup> *Impact Assessment – Upstream Competition*, Department for Environment, Food and Rural Affairs, November 2011 available at: <http://www.legislation.gov.uk/ukpga/2014/21/impacts/2011/2006>

<sup>4</sup> *Cost of School Uniform 2015 Research Report*, Department for Education, June 2015

## Boosting competition in banking

**2.6** The Competition and Markets Authority (CMA) has provisionally found that the average customer could save £70 per year by switching to the best available current account deal, rising to £260 for heavy overdraft users.<sup>5</sup> The government welcomes the CMA's work in this area and stands ready to take appropriate action once it comes forward with its final recommendations in spring 2016.

**2.7** The government is also announcing today further steps to support more competition in banking to enable new entrants. **The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) will launch their New Bank Start-Up Unit on 20 January 2016.** The new Unit will have a dedicated website, and will provide firms with named case officers at both the PRA and FCA to give dedicated supervisory resource to assist new banks to enter the market and through the early days of authorisation.

**2.8** Between May 2010 and May 2015, eight completely new UK banks were authorised by the regulators.<sup>6</sup> This compares to just one new authorisation of a UK bank in the preceding five year period. By making the process of becoming a bank easier and more efficient, the New Bank Start-Up Unit will build on the progress made in the last Parliament and help to meet the government's ambition of 15 new bank licences this Parliament. Good progress is already being made, with Atom Bank securing their authorisation in June of this year and several more banks in the pipeline. All this means more choice for consumers.

**2.9** The government is also taking steps to engage consumers in banking, which will boost demand and competition. The government is committed to delivering an open Application Programming Interface (API) standard in UK banking to help Financial Technology (FinTech) companies make use of bank data on behalf of customers, to provide a range of value-added services. The industry led Open Banking Working Group, which HM Treasury has set up, will publish a report by the end of the year with more detail on the design of the open API standard and how it can be implemented.

## New business models, and independent regulators, for legal services

**2.10** According to a recent survey by YouGov, 62 per cent of adults have used a law firm or solicitor at some point in their lifetime and the cost of legal services is now considered the most important factor when searching for a legal representative.<sup>7</sup> The government wants to ensure that innovative businesses are able to enter the market, providing greater choice for consumers. Alternative business models are around 15 percentage points more likely to introduce new legal services than other types of regulated solicitors' firms.<sup>8</sup>

**2.11** The government will launch a consultation by spring 2016 on removing barriers to entry for alternative business models in legal services, and on making legal service regulators independent from their representative bodies. This will create a fairer, more balanced regulatory regime for England and Wales that encourages competition, making it easier for businesses such as supermarkets and estate agents among others, to offer legal services like conveyancing, probate and litigation.

## Modernising pharmacy and prescription services

**2.12** The government will examine the NHS community pharmacy market to ensure that the regulatory framework and payments system is efficient, encourages competition and innovation,

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<sup>5</sup> *Retail banking market investigation, Summary of provisional findings report*, Competition and Markets Authority, October 2015

<sup>6</sup> *Banking for the 21st Century: driving competition and choice*, HM Treasury, March 2015

<sup>7</sup> *Consumer Legal Services 2015*, YouGov Report, April 2015

<sup>8</sup> *Innovation in legal services, A report for the Solicitors Regulation Authority and the Legal Services Board*, Enterprise Research Centre, July 2015



and that it facilitates online, delivery to door and click and collect, pharmacy and prescription services. As part of this, the government will explore moving the GP prescription service to a digital by default system. Increasing numbers of people are using the internet to make their purchases. The Office for National Statistics estimate that around 37.6 million adults in Great Britain used the internet on a daily basis in 2014, and the proportion of adults using the internet to make a purchase has increased from 53 per cent in 2008 to 74 per cent in 2014.<sup>9</sup> Despite this, less than 10 per cent of adults ordered their medicine online.<sup>10</sup> The government wants to ensure that the health service in England keeps pace with the digital revolution and that, both for hardworking families leading busy lives and for an increasingly elderly population with complex needs, patients can access the medicines they need at the touch of a button and receive a home-delivery service.

## Removing distortions to give consumers the best deal

### Saving motorists money on their insurance policy

**2.13** The government is determined to crack down on the fraud and claims culture. Whiplash claims cost the country £2 billion a year, an average of £90 per motor insurance policy,<sup>11</sup> which is out of all proportion to any genuine injury suffered. As set out at the *Spending Review and Autumn Statement 2015*, the government intends to introduce measures to end the right to cash compensation<sup>12</sup> for minor whiplash injuries, and will consult on the details in the New Year. This will end the cycle in which responsible motorists pay higher premiums to cover false claims by others. It will remove over £1 billion from the cost of providing motor insurance,<sup>13</sup> and the government expects the insurance industry to pass an average saving of £40 to £50 per motor insurance policy on to consumers.<sup>14</sup>

### Cutting household energy bills

**2.14** The government recognises that households can struggle with the cost of their energy bills. The CMA has provisionally found that if competition in the energy market had been more effective over 2009-13, households would have paid about 5 per cent less for their energy, and small businesses, around 14 per cent less.<sup>15</sup> The CMA is currently investigating energy markets and has identified a range of possible remedies to improve competition in the sector. The government welcomes the CMA's provisional findings and stands ready to take action as necessary to increase competition in energy markets once it publishes its final report next year.

**2.15** The government is committed to ensuring that its energy policy is delivered in a way that is good value and does not impose excessive costs on bill payers. As set out at the *Spending Review and Autumn Statement 2015*, the government is therefore reducing the projected cost of green policies on the average annual household energy bill by £30 from 2017.

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<sup>9</sup> *Digital Day*, part of *Internet Access – Households and Individuals, 2014 Release*, Office for National Statistics, August 2014

<sup>10</sup> *Digital Day*, part of *Internet Access – Households and Individuals, 2014 Release*, Office for National Statistics, August 2014

<sup>11</sup> Association of British Insurers, available at: <https://www.abi.org.uk/Insurance-and-savings/Topics-and-issues/Personal-injury-claims/Whiplash-claims>

<sup>12</sup> Claimants will still be entitled to claim for 'special damages' (including treatment for any injury if required and any loss of earnings) but entitlement for general damages will be removed.

<sup>13</sup> Ministry of Justice analysis

<sup>14</sup> Ministry of Justice analysis

<sup>15</sup> *Energy Market Investigation: Provisional Findings report*, Competition and Markets Authority, July 2015

## Future action to open up markets

### Reforming the NHS dental contract in England

**2.16** The Office of Fair Trading (OFT) found the dentistry market in England to be subject to rigid regulatory controls that dictate who can enter the market and where, restricting innovation and patient choice.<sup>16</sup> The government believes that there are opportunities to improve both efficiency and competition in the provision of dental services and **will be carefully considering the issue of non-time limited dental contracts as part of broader work on contract reform.**

### Opening up higher education to new entrants

**2.17** The UK has a world class higher education sector, but the sector also faces competition from abroad and ongoing demand for highly skilled graduates. A key priority for the government, as set out in the Green Paper on Higher Education reform – *Fulfilling our potential*<sup>17</sup> – is to enhance student choice and use this to drive competition in the sector, including through the entry of new providers. Through the Green Paper, the government is consulting on plans to:

- Enable simpler entry for new providers, in particular by reforming the current arrangements in which new entrants must seek validation from incumbents;
- Reduce regulatory burdens for specific course designation for high quality providers;
- Introduce a single gateway to the higher education sector, operated by a new 'Office for Students', which will put the student interest at the heart of the system; and
- Offer a clearer and faster route to degree awarding powers and university title for those assessed as offering the best quality education.

### Injecting innovation into the process of home buying

**2.18** The government wants to inject innovation into the process of home buying, ensuring it is modernised and provides consumers with different – and potentially quicker, simpler and cheaper – ways to buy and sell a home. Encouraging new business models (for example, online only estate agents) is key to enhancing price competition in the real estate sector, but these have yet to penetrate the market.

**2.19** In addition, emerging findings from government research suggest that consumers incur costs of around £270 million each year when their transactions fall through and they have already spent money on legal fees and surveys,<sup>18</sup> and many more sales are subject to costly delays. Similar issues can affect businesses trying to buy or sell commercial property – the UK ranks 45<sup>th</sup> for registering property in the World Bank's *Doing Business* index,<sup>19</sup> and improving performance will help unlock additional economic growth.

**2.20** The government wants to consider and address the way the real estate and conveyancing markets have developed around the existing regulatory frameworks, encourage greater innovation in the conveyancing sector and make the legal process more transparent and efficient. **The government will therefore publish a call for evidence in the New Year on home**

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<sup>16</sup> *Dentistry, An OFT market study*, Office of Fair Trading, May 2012

<sup>17</sup> *Fulfilling our potential: teaching excellence, social mobility and student choice*, Department for Business, Innovation and Skills, November 2015

<sup>18</sup> Department for Business, Innovation and Skills analysis

<sup>19</sup> *Doing Business Economy Rankings*, World Bank Group press release, June 2015

buying, exploring options to deliver better value and make the experience of buying a home more consumer-friendly.



# 3 Engaging consumers

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**3.1** Active and assertive consumers are key to creating competitive and dynamic markets. They incentivise businesses to be agile and responsive, to innovate and be more efficient and to improve their competitive offer. However, to fulfil this role effectively, consumers need to be well informed, unencumbered in pursuing the best deal and sufficiently protected when things go wrong – and this is where government can assist.

**3.2** The government is taking key steps to ensure consumers across the UK have the tools they need to be able to secure a better deal.

## Action to ensure consumers get a better deal

### Acting on our switching principles

**3.3** Consumers should be free to switch services quickly and easily. There are real savings to be had by customers who are empowered to get a better deal. Which? research shows that seven in ten mobile customers could save by switching to a contract that better suits their needs, and on average this group would save £159 a year by switching.<sup>1</sup> The CMA has provisionally found that dual fuel consumers could save £160 a year by switching energy provider.<sup>2</sup>

**3.4** In October 2015, the government set six principles of switching<sup>3</sup> and asked for evidence to create a switching action plan by spring 2016. Having considered the initial responses to this call for evidence, the government will also work with industry and regulators to take more immediate action to support consumers who want to switch supplier, including:

- **Legislating for easier and quicker switching in communications markets, and working with Ofcom to ensure that customers can switch services and bundles of services with the minimum of hassle.** The government believes that consumers should only have to deal with the party that most wants their switch to go smoothly – their new provider;
- **Facilitating the launch in the first half of 2016 of a switching guarantee – similar to that in current accounts – for the energy sector; and working towards a similar guarantee in communications markets to be in place as soon as possible.** This will ensure that consumers can switch with confidence;
- **Ensuring, using legislation if necessary, that by 2017 consumers across the regulated sectors have easy access to the data they need to find the best deals for them, and can authorise third party intermediaries such as price comparison websites to access this data on their behalf using secure APIs.** As part of this, the government will work with regulators to promote the public profile and understanding of the opportunities better data availability provides. Tariff data should be made similarly available in a machine readable form;
- **Commissioning independent research on the best form and timing for ‘trigger points’ whether in banking, energy or telecoms, to report by spring 2016; and**

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<sup>1</sup> *Mobile customers losing out on billions of pounds by being on wrong contract*, Which? press release, January 2015

<sup>2</sup> *Energy Market Investigation: Provisional Findings report*, Competition and Markets Authority, July 2015

<sup>3</sup> *Switching principles, call for evidence*, Department for Business, Innovation and Skills, October 2015

- Working with Citizens Advice to improve access to switching advice over the phone.

## Unlocking mobile phones

**3.5** The government wants to reduce the cost and hassle of switching mobile networks for consumers. Customers currently pay as much as £20 to unlock their mobile phone, which can take 30 days to process.<sup>4</sup> Overall, handset owners spend an estimated £48 million a year unlocking their phones.<sup>5</sup> The government expects industry to start automatically unlocking customers' handsets at the end of their contracts, and will consult in 2016 on ending the practice of handset locking for customers outside any initial contract period.

## Transparent pricing in broadband advertising

**3.6** Customers rely on adverts to choose the right broadband product for them. They should not be misled. The government wants to ensure consumers understand the full cost of a contract and are not misled by teaser rates. For example, government analysis of research by Citizens Advice shows that total costs can be £240 a year higher than the headline introductory rate for fixed broadband.<sup>6</sup> The Advertising Standards Authority (ASA) is looking at whether teaser rates on broadband deals are misleading consumers, and the government expects the ASA to take swift action to ensure that prices are made clearer and costs are not hidden. The ASA will publish research into this area in January 2016 and will publish proposals later in the spring.

## Improving the awareness and understanding of Terms and Conditions

**3.7** In fair, competitive markets, consumers should be able to take informed choices without being misled. Where written terms and conditions exist, they should serve the purpose of giving customers relevant information on the product or service they are purchasing, should not be misleading, and should provide consumers with the security that their rights will be protected if something goes wrong.

**3.8** However, problems still exist with terms and conditions. They often seem excessively lengthy and cover a very wide range of eventualities, making it very difficult for customers to identify the terms that might interest them most and might influence their choice of one offer over another. For example, 62 per cent of people did not read or glance at the terms and conditions the last time they bought something on the internet.<sup>7</sup> The government has therefore asked the consumer group Which? to work with leading, consumer-facing businesses to review the way they present their terms and conditions, in particular online. The government welcomes this Which? campaign, and expects businesses to work positively with Which? to find an approach that will ensure companies display key terms and conditions information upfront, clearly and succinctly. This should make it easier for consumers to understand what they are signing up to when they make a purchase. The campaign will complement the ongoing work of the government's Consumer Protection Partnership in ensuring consumers understand their rights, and help inform the government's call for evidence on terms and conditions.

**3.9** Going forward, the government will take further action to strengthen rules to prevent exploitative terms and conditions. The government will consult on the introduction of civil fining powers for breaches of consumer protection laws, as part of a wider call for evidence on how to

<sup>4</sup> Mobile phone locking and unlocking, Ofcom website available at: <http://consumers.ofcom.org.uk/phone/mobile-phones/changing-provider/mobile-phone-locking-and-unlocking/>

<sup>5</sup> Brits spend over £48 million unlocking mobile phones every year, uSwitch Press Release, June 2015

<sup>6</sup> Broadband providers 'cashing in on false promises', Citizens Advice, July 2015

<sup>7</sup> Consumer Engagement and Detriment Survey 2014, TNS survey for the Department for Business, Innovation and Skills, June 2014

improve engagement with terms and conditions and ensure the terms that bind consumers are fair in practice.

## Improving transparency in NHS dental services in England

**3.10** A 2012 OFT report into dentistry found that around 500,000 patients each year may be provided with inaccurate information by their dentist regarding their entitlement to receive particular dental treatments through the NHS.<sup>8</sup> The government will ensure that dental patients in England have access to the information they need to make the right decisions about their dental care, by asking NHS England to reinforce the existing contractual requirement to ensure patients understand NHS treatment and prices, and to further improve the information available through NHS Choices by spring 2016. These changes will empower patients to make the best and most affordable choices for them.

## Future action to ensure consumers get a better deal

### Helping consumers compare products and services

**3.11** Price comparison websites have helped millions get a better deal on essential services but consumers do not always trust them. To ensure the opportunities they provide are being fully realised, the CMA plans to undertake an analysis of price comparison websites during 2016. Among the issues to be considered will be whether there is a case for a common accreditation framework; whether lack of access to free, readily-available tariff data is a barrier for innovative and new price comparison websites; and whether price comparison websites in specific sectors should be subject to more rigorous propriety and transparency standards.

**3.12** In addition, the government will investigate what more can be done to ensure greater publication of complaint and customer satisfaction data by regulators and ombudsmen. This will encourage businesses to improve their performance and help customers to make informed choices about the products and services they buy.

### Trading Standards review

**3.13** The government has reviewed the functions of local Trading Standards services to ensure that enforcement supports competition and better regulation objectives. The government will publish a report of the review in due course.

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<sup>8</sup> Dentistry, An OFT market study, Office of Fair Trading, May 2012

# 4 Reducing regulation, fostering innovation

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**4.1** The government is committed to creating the right business environment to enable all businesses, including those with new and innovative business models, to grow and thrive and to provide better products and services at lower prices for consumers. As part of this, regulatory frameworks should be geared towards promoting open, dynamic markets. Regulatory frameworks need to be fit for purpose both at the UK and the EU level; unnecessary regulations and enforcement practices that cost businesses time and money need to be stripped back or removed; and where regulation does exist, it should help rather than hinder business.

## Action to reduce regulation and foster innovation

### Regulators that help

**4.2** As part of its wider agenda to cut £10 billion of red tape over this Parliament, the government wants to ensure that regulators adopt a proportionate approach to compliance, in particular for new, start-up businesses, who can find complying with regulatory requirements a challenge. Sometimes honest mistakes lead to enforcement action rather than to constructive help and advice.

**4.3** Building on international best practice, **the government will ensure that the statutory guidance on the Growth Duty is clear that, where appropriate, regulators should follow the principle that enforcement action is a last resort and regulators should help first.** Together with a new requirement for regulators to report annually on compliance with the Growth Duty, being taken forward in the Enterprise Bill, this will ensure that new businesses seeking to introduce products and services to markets can get on with doing so, in the knowledge that they will get the advice and support they need.

### Opening up government procurement

**4.4** The public sector is one of the largest purchasers of goods and services in the UK and its purchasing decisions can have a significant impact on competition. The government is transforming the way the public sector buys digital and technology services, making it simpler, clearer and faster for it to buy what it needs through the Digital Marketplace.

**4.5** The Digital Marketplace has reduced barriers to the public sector market by applying user-centred principles to the design of procurements and contracts. This is making it easier for businesses to sell to government, delivering better value for money and creating new jobs. The public sector now has access to a greater number of new and innovative suppliers and the savings they unlock, many of whom have never had the opportunity to work with government before. Total sales through the Digital Marketplace have reached £836 million in three years and are continuing to grow. Of this, £406 million (50 per cent by value and 60 per cent by volume) have been with SMEs.<sup>1</sup>

**4.6** Building on the lessons of the success of the Digital Marketplace, **the government will create a Crown Marketplace, which will extend this approach to the purchase of other common goods and services in government. The government will also develop market feedback systems on the**

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<sup>1</sup> Digital Marketplace sales information available at: <https://digitalmarketplace.blog.gov.uk/sales-accreditation-information/>, Government Digital Services, 2015



quality of services provided and the quality of commissioning itself, to signal and drive the growth of the best providers.

### Improving access to finance for small business

**4.7** Access to finance can be a significant issue for SMEs and can act as a barrier for new businesses to start up and grow. The British Business Bank helps smaller businesses to access the finance they need to expand. As set out at the Spending Review and Autumn Statement 2015, the government is maintaining the Business Bank's funding so that it can meet its aim of facilitating at least £10 billion of finance over the next four years. The Business Bank will also retain the £400 million of additional funding for Enterprise Capital Funds that was announced at Autumn Statement 2014 within its long term funding envelope, so that it can plan for the future. By the end of this Parliament, more than 75,000 entrepreneurs will have benefitted from Start-Up Loans.

### Investing in science and innovation

**4.8** As set out at the Spending Review and Autumn Statement 2015, science resource funding will be ring-fenced and will be protected at its current level of £4.7 billion per annum in real terms for the rest of the Parliament. This will include a £1.5 billion new Global Challenges fund. The government will also introduce a package of new loans for innovative companies, reaching £165 million by 2019-20, so that total Innovate UK funding is protected in cash terms by the end of the Parliament. The government will also support business innovation by protecting and increasing funding for Catapults.

### New rights for small businesses as consumers

**4.9** There are many challenges faced by small businesses engaging with markets. These problems can be particularly severe in utilities markets. For example, Ofgem has found that, in energy, 41 per cent of the smallest businesses have not switched supplier for five years, compared to 19 per cent of the largest businesses.<sup>2</sup> These businesses also face particular barriers to switching in the energy market. For example, unlike for domestic consumers, prices for the smallest businesses are not available on price comparison websites. Overall the CMA has provisionally found that more effective competition in the energy market could have reduced prices for small businesses by around 14 per cent between 2009 and 2013.<sup>3</sup> In water, it will be important to ensure small businesses have the protections they need when the non-household sector is opened up to competition in 2017.

**4.10** Small businesses therefore do not have the same rights as household consumers, and this can mean they do not get the best deals from the market. **The government will therefore ensure greater focus on the needs of small businesses through the Policy Statements it gives to Ofgem and Ofwat, which give guidance on their policy priorities.** The government will ask the regulators to look in particular at giving small businesses further protections, for example, to protect them from mis-selling, ensure more transparent prices and to make switching easier. **Beyond energy and water, the UK Regulators Network (UKRN) will also consider the protections needed by the smallest businesses across regulated sectors as part of its work in 2016.**

### Improving support for UK businesses to export

**4.11** Trade supports competition and innovation, by exposing UK firms to new ideas and international markets. As set out at the Spending Review and Autumn Statement 2015, the

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<sup>2</sup> *Quantitative Research into Non-Domestic Consumer Engagement in, and Experience of, the Energy Market*, Element Energy report for Ofgem, December 2013

<sup>3</sup> *Energy Market Investigation: Provisional Findings report*, Competition and Markets Authority, July 2015

government will support companies to export by refocusing UK Trade and Investment (UKTI) to enable it to become a world-class export and investment promotion agency. This will enhance direct support to business and develop the private sector market. The government will support this through £175 million total reinvestment between 2016-17 and 2019-20 as part of UKTI's settlement. This is part of a broader government effort to boost exports, including to build the domestic environment for firms and develop global trade relations.

## Supporting competition and innovation at the local level

**4.12** Local authorities play an important role in shaping how markets operate, through procurement, licensing and the provision of services. When taking these decisions it is important that local authorities do so in a manner that protects and promotes competition and that allows businesses, ideas and innovation to flourish. As the government continues to devolve greater powers to the local level, it will become even more important to consider the impact that local decisions have on competition.

**4.13** At times, local authorities may inadvertently act in ways that harm competition and prevent businesses and consumers from realising the full benefits of competitive markets. The CMA can help to address this, by providing advice and challenge for local authorities, as it does for central government. *The government will therefore amend the government's strategic steer to the CMA to encourage it to focus on the relationship between local authorities – including those cities with newly devolved powers – and competition, and to consider whether there are enabling steps that can be taken to support local authorities in promoting competitive local markets. The CMA will review its work on local authorities and, in 2017, report on whether there are any themes emerging from its work, and consider whether local authorities have responded positively and effectively to CMA recommendations and advice.*

## Future action to reduce regulation and foster innovation

### Improving economic regulation and space for innovation

**4.14** The UK has a world leading system of strong, independent economic regulation and the government is committed to maintaining a regime that supports investment and competition.

**4.15** Economic regulators' core functions are to protect the interest of consumers through price controls that make sure that network monopolies set prices fairly and are run efficiently; and ensure that competition is promoted wherever possible for the benefit of consumers. Since regulators were created, their functions have grown, which can take away from this focus on consumers. To address this, *the government will hold Star Chamber sessions to challenge whether the functions of the economic regulators could be slimmed down to enable a greater focus on their core functions, how they can reduce unnecessary red tape and how they can be as lean as possible in their operations.* This work will report alongside an initial assessment of the energy delivery landscape, by Budget 2016.

**4.16** The government wants regulators to give businesses the space to innovate. *Regulators will build on existing innovation programmes to develop new approaches to support innovation and the safe testing of new products and services, which will form part of regulators' Innovation Plans at Budget 2016.* Approaches for safe regulatory spaces allowing innovation include: regulatory sandboxes, which the FCA is opening to proposals from firms in spring 2016; and innovation spaces, where new models can be trialled within existing regulatory arrangements.

**4.17** In addition, *the UKRN has committed to produce firm plans in spring 2016 for identifying and delivering business improvements on a bilateral or multilateral basis, including sharing expertise and specialist skills in policy areas such as price controls, support functions, services and facilities, and to put these improvements in place by April 2017.*

## Consumer protections for small businesses in the non-regulated sectors

**4.18** Small businesses are potentially vulnerable in markets beyond the regulated sectors. Drawing on responses to the call for evidence on consumer protections for small businesses,<sup>4</sup> the government is particularly keen to ensure that the smallest businesses – including sole traders – have the protections they need. **The government will therefore consult on whether further protections are needed for the smallest businesses in non-regulated sectors.**

## Future action on central and local government procurement

**4.19** Building on the measures the government has already taken to open up its procurement frameworks to small and innovative businesses, the government will additionally:

- **Extend the successful Contracts Finder service to the sub-contracting market in 2016**, offering wider access to procurement opportunities; and
- **Improve the advice available to businesses via GREATbusiness.gov.uk**, so that businesses are better equipped to win more contracts down the supply chain, and can build their capability to win work in export markets.

**4.20** The government will also tackle procurement at the local level. Local government spends around £45 billion annually on goods and services.<sup>5</sup> However, small businesses say the current systems to access these contracts are bureaucratic and costly. **The government will launch a pilot, based on the principles of Primary Authority, to explore how local authorities can reduce these burdens and make it easier and cheaper for small businesses to supply to them.**

## Reducing burdens on house builders

**4.21** The government recognises that smaller house builders are less well placed than larger ones to navigate the regulatory systems on house building. **The government will launch a Cutting Red Tape review focusing on the issues and costs faced by house builders to meet their regulatory obligations, including those affecting small business.**

## Reducing regulatory burdens and supporting competitiveness at the EU level

**4.22** As part of the UK's EU reform agenda, the Prime Minister has called for action at the EU level to improve the competitiveness of all 28 EU Member States. To achieve this, the UK is calling for a target to cut the regulatory burden on business, as well as a clear long-term commitment to boost the competitiveness and productivity of the EU as a whole.

**4.23** The UK's ongoing agenda to drive competitiveness at the EU level proposes that additional reforms are brought forward to deepen the Single Market, particularly in Services. This will help reduce barriers to companies operating across the EU and allow businesses to gain from increased trade, economies of scale and greater efficiency. The government will also ensure that the Digital Single Market creates new opportunities for millions of businesses by supporting the growth of e-commerce, preventing the stifling of the developing sharing economy and taking action on unjustified price discrimination. Developing the Capital Markets Union will help get finance to entrepreneurs and growing businesses. In particular, the UK has asked the European Commission to maintain high levels of ambition on both safe securitisation and the Prospectus Directive proposals.

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<sup>4</sup> *Protection of small businesses when purchasing goods and services: call for evidence*, Department for Business, Innovation and Skills, March 2015

<sup>5</sup> *Local government procurement, Sixth Report of Session 2013-14*, House of Commons Communities and Local Government Committee, February 2014

**4.24** Developing the Single Market in this way, with the right regulatory environment, means the EU is well placed to make ambitious trade agreements. If the EU completed all deals currently under negotiation, including with the US and Japan, it could boost the UK economy by £20 billion each year.<sup>6</sup>

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<sup>6</sup> Department for Business, Innovation and Skills analysis, based on Impact Assessments prepared for the European Commission and HM Government



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