



HM Government

Industrial Strategy: government and industry in partnership



Growth is Our Business:

A Strategy for Professional and Business Services

July 2013

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Executive Summary

The UK's professional and business services (PBS) sector is a global success story. We are host to top international firms providing the various highly skilled services that make up the sector, including in advertising, accountancy, architecture, legal services and management consultancy. Small and medium size PBS enterprises flourish in the UK: barriers to entry and concentration levels are generally low, with intellect, ideas and personal contacts more important than capital assets. The UK's PBS sector is highly competitive internationally, with a share of exports to developed countries second only to the US and a trade surplus of £19 billion. Its advice is also key to the success of much of the rest of the UK economy.

This strategy reflects a strong partnership between the sector and the Government, working together in the Professional and Business Services Industry Council (PBSC) to support UK growth. The strategy looks ahead to the medium and long term challenges and opportunities.

It identifies two specific areas key to ensuring the future strength of the industry: increasing access to the high level skills demanded by client-focused professional firms and capitalising on the excellence of the UK PBS sector to increase exports to emerging markets. The strategy sets out a long term plan for each of these priorities.

PBS is critically dependent on the quality of its people for success. This means its recruits must have the basic skills that make them ready for work, the aptitude to gain specific knowledge, and a professional mind set. The opportunities are huge: the UK Commission for Employment and Skills expects 600 000 additional UK jobs to be created in the PBS sector in the next decade. We want to ensure these opportunities are available to all, regardless of their background. We are therefore working to create new non-graduate routes into the sector, including into the most senior professional positions. Recent developments mean this is already possible, for example, for chartered accountancy, audit and other professional positions in management consultancy. We want to increase these routes across the PBS sector, in small and medium sized businesses as well as large international firms. And we want to treble the number of PBS Higher Apprenticeships in the next five years. Furthermore, we are establishing a PBS taskforce to look at ways to boost engagement between employers in the sector and young people aspiring to a PBS career.

We have developed a robust trade and investment strategy to help UK companies compete globally and attract new investment to the UK, including promoting the UK as the leading global PBS hub. This aspect of the strategy sets out how we will seek to enhance our international competitiveness by identifying and working to bring down trade barriers. To bolster these efforts, UKTI will establish a new network of sector special envoys to identify opportunities to promote the sector in target markets.

The UK is already a world leading centre for PBS business. London is a global hub and there are strong centres for the industry across the nations of the UK and in the English regions. This is underpinned by a favourable business environment, including the UK's reputation for integrity and legal impartiality and its flexible labour market. It is vital for continued growth, and for the success of our plans on skills and trade, that the UK continues to improve its business environment and we have therefore looked widely at the measures being undertaken to achieve this.

PBS firms play a key role as 'enablers' in the economy. This is a theme running through our strategy. Through its advice, networks and capabilities, the sector can facilitate growth in other businesses, large and small, across the UK. Launching early next year, a new £30 million "Growth Voucher" scheme will support the sector in this role by helping small and micro businesses in England access advice to unlock their growth potential. And our trade strategy sees the sector playing a leading part, not only in promoting PBS exports, but those of its clients too.

Government and industry, led by the PBSC, have a shared commitment to ensuring this agenda is delivered. We will continue to work together in a strong spirit of partnership to implement the strategy and ensure our PBS sector continues to thrive in the global race.

Introduction

Vision

In September 2012 the Government set out its approach to industrial strategy which included providing a spectrum of support to all sectors of the economy. It highlighted 11 key sectors, including Professional and Business Services (PBS), where there were significant opportunities and barriers to growth and scope for government action to make a difference. It committed to develop long term strategies for each of these sectors in partnership with the sector.

This strategy sets out to maintain and extend the UK's strengths across the PBS sector and to project this strength into new and emerging markets. We must also ensure that the wider UK economy benefits from the excellence of our PBS sector, in particular by leveraging its export strength to support our wider drive to boost exports.

Our vision sees the UK as *the* main global hub for knowledge intensive PBS services, with growing exports to emerging markets, building on the industry's position as a premier UK export sector. There is also potential for the expertise of PBS firms to be used more intensively by UK businesses in other sectors, as they seek to innovate, export and respond to new challenges. The knowledge and networks of the sector can help the clients they serve to grow and export and hence bolster growth in the wider economy. The sector will become:

- More international, maintaining and extending its comparative advantage to win bigger shares of established and emerging markets
- More highly skilled, with industry working with Government to drive up ambition and attainment in our education system and thereby increase industry satisfaction with school leavers and graduates
- More professional, building on the role of UK professional institutions in setting internationally recognised standards to engender world-leading levels of trust in the industry
- More adept in the use of ICT/the internet to transform its own business processes, as well as clients' and engagement with clients

Current situation¹

Professional and business services² (PBS) are a true British success story. We are among the world leaders in most of the highly skilled services which make up the sector. The UK is keenly competitive in world markets, with a share of exports to developed (OECD) economies of 12%, second only to the US³. The sector is a major exporter in its own right as well as being at the forefront of helping other UK businesses to export.

The sector has flourished in the UK economy as a result of our open markets, flexible labour regime and innovative approach to business practices. This is reflected in the value added to the economy by PBS, which has grown by over 50% in real terms since 2000⁴. It is also demonstrated by the position of London as the leading world centre for financial and professional services⁵ as well as strong clusters of PBS firms in cities around the UK, including Edinburgh, Glasgow, Birmingham, Manchester, Leeds and Liverpool.

The UK is host to many world leading PBS businesses, including six of the top 10 international networks of accountancy firms⁶, the ‘magic circle’ of leading law firms, and the world’s largest advertising company, WPP. The UK has strong international players across the rest of the sector, including architecture, recruitment services and audit. Small and medium size PBS enterprises also flourish in the UK: barriers to entry and concentration levels are generally low, with intellect, ideas and personal contacts more important than capital assets.

The PBS sector is made up of a number of sub-sectors. Legal and accounting services are the largest of these, representing over a fifth of the sector’s output. Head offices/management consultants, architects and employment agencies are also significant (see chart below).

¹ The evidence base for this strategy (see Annex B) builds on the strong start provided by the “Seizing the Opportunities for Growth” report, published last year by the PBSC’s predecessor, the Professional and Business Services Group (PBSG). In addition, the UK Commission for Employment and Skills has contributed additional analysis on skills and employment issues within the sector.

² The PBS sector in the UK includes: legal activities, accounting, bookkeeping & auditing; activities of head offices and management consultancy; architectural and engineering activities and technical testing & analysis; scientific research and development; advertising and market research; other professional, scientific and technical activities; rental and leasing activities; office administrative, office support and other business support activities.

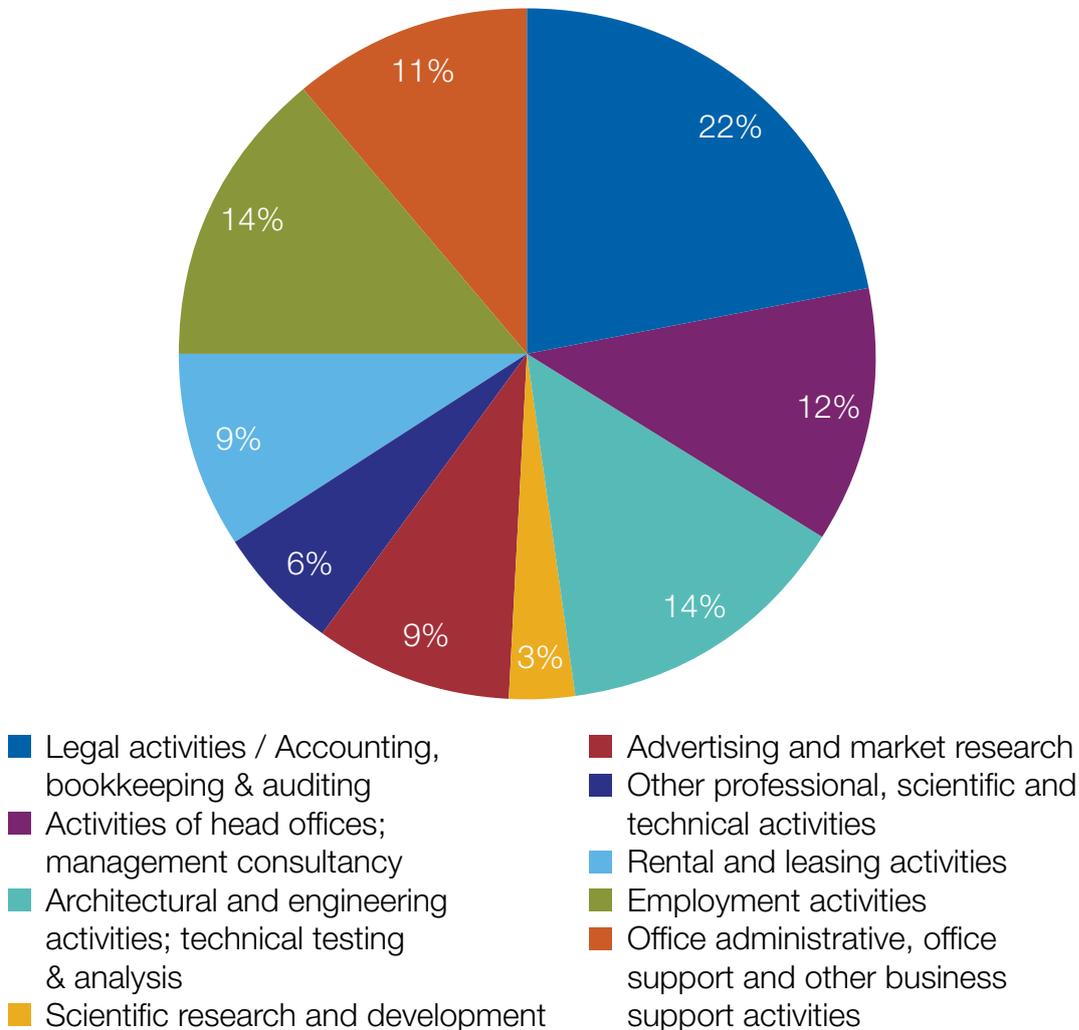
³ OECD Trade in Services data

⁴ ONS data and BIS calculations

⁵ The Global Financial Centres Index 13

⁶ http://www.accountancyage.com/digital_assets/5562/All_charts_v2.pdf

Figure 1: Share of PBS output by sub-sector (GVA current prices ONS 2011)



UK PBS businesses are recognised for operating to high ethical and professional standards, which are maintained by the UK's world renowned professional institutions. The UK's position is further strengthened by international confidence in the integrity of the English and Scottish legal systems and the rule of law and a proportionate regulatory system that gives overseas clients of UK firms assurance of the quality of service they receive.

The PBS sector generates 11% of UK gross value added and provides nearly 12% of UK employment⁷. It also contributes strongly to economic growth and productivity: despite the economic downturn, PBS has seen growth of nearly 4% a year in the last decade⁸. But, even more fundamentally, it is a catalyst of change and innovation in both the public and private sectors, transforming business processes and business models across the UK economy. Export performance is strong, totalling £47 billion in

⁷ ONS National Accounts data and BIS calculations

⁸ Ibid

2011⁹ and with a trade surplus of £19 billion (a third of the UK's total services sector surplus)¹⁰.

We have considered the strengths, weaknesses, opportunities and threats to the UK's strong international position in the PBS sector. The UK enjoys a number of powerful factors which provide a strong base for UK comparative advantage and have helped to underpin the development of world-leading UK firms and brands in all parts of the PBS sector. These include:

- the UK's geographical advantage at the interface between Asian and US markets;
- the English language and worldwide confidence in the impartiality of the UK justice system;
- the strength of UK professional institutions, not only in setting the standards of entry to the professions but in maintaining professional development, and ethical as well as technical standards: these institutions have a reputation for promoting and maintaining high professional and ethical standards which others seek to replicate;
- a university system which provides high quality graduates and attracts talent from around the globe;
- a dynamic and competitive market which ensures that UK firms respond quickly to new challenges and opportunities;
- a supportive business environment, which is reflected in surveys of international competitiveness by the World Economic Forum and the World Bank;
- early mover advantage established by the UK in developing new models of public service delivery and methods to improve transparency and the use of Open Data.

However, there is growing competition from both developed and emerging markets which will put pressure on the sector to maintain its competitive edge and reduce its cost base. And powerful forces are driving change and creating new opportunities and threats for the sector, in particular:

- the growth of the Asia Pacific market, in contrast to the Eurozone;
- the drive of cities like Singapore, Hong Kong and Shanghai to become the financial centres of the Far East, together with Dubai's efforts to establish itself as a hub for Middle East financial and trade services, and seeking to attract talent, particularly from the UK, North America and Australasia to develop capability;



⁹ ONS Pink Book

¹⁰ OECD Trade in Services data

- the developments in technology which continue to drive change in business processes and business models and enable different modes of working;
- urbanisation in the developing economies and an emerging global middle class, with a growing demand for high value services (as well as branded goods) and a modern infrastructure;
- concerns about the environmental impact of growth, including in rapidly developing countries such as China;
- financial constraints faced by Governments across the globe which are encouraging them to consider new models of public service delivery.

Developing the Strategy

The strategy was developed by the PBS Council (PBSC) which is co-chaired by Sir Michael Snyder and Viscount Younger and includes senior industry representatives¹¹. This strategy sets out three areas crucial to growth in the PBS sector in which actions can be taken: Business Environment; Access to Skills; and Developing Overseas Markets and Bringing in New Investment. The PBSC will implement, monitor and report on progress against the strategy.



This strategy was developed with leading trade and professional bodies. A regional outreach exercise to eight Local Enterprise Partnerships (LEPs)¹² in England was undertaken to capture views from the wider PBS community, including SMEs. These endorsed the priorities identified by PBSC, but there was a clear message that contact should be maintained with regional PBS firms to develop understanding of the sector from a local and regional perspective. It is our intention, therefore, to repeat the regional outreach consultations during the latter part of 2013 to reinforce a closer relationship between PBS communities and policy makers and seek feedback on implementation of the strategy.



¹¹ Full Council membership is listed in Annex C. The PBSC is the successor to the PBSG, an industry advisory group on the sector.

¹² Greater Birmingham & Solihull, Leicester & Leicestershire, Leeds City Region, Greater Manchester, Greater Peterborough, Gloucestershire, Liverpool City Region and West of England (Bristol)

1 The Business Environment

The PBS sector is strongly client-focused and has links to virtually all parts of the economy. The state of the economy, business confidence, and the underpinning fiscal and legislative framework set by Government are critical to both PBS businesses and their clients. A favourable business environment is fundamentally important to the UK's ability to attract investment and clients for its services, to project our capabilities into overseas markets, and to respond to the challenges posed by increasing competition in global services markets. This chapter therefore looks at the following areas:

- The PBS sector supporting growth
- New PBS business models
- The UK's business environment

The PBS sector supporting growth

The Government has announced an innovative “**Growth Vouchers**” programme worth £30 million. This is a new scheme for England, which will test different ways to encourage firms to seek professional advice and help identify what type of advice makes a difference to business growth among small and micro businesses. The evidence from this exercise will be used to help shape future support.

This is a major opportunity for the PBS sector as providers of professional advice. The scheme will help the sector to engage with SMEs and play a key role in boosting their growth potential. The Government will work closely with the PBS sector to ensure the scheme achieves its aims and makes best use of the sector's knowledge and networks to bolster its role in stimulating growth in the wider economy. As part of the programme, the Government will launch Growth Vouchers to test the impact of subsidising the cost of external advice in early 2014.

The Government recognises the role of PBS as enablers of local growth and investment, including where they are supporting developments in English Enterprise Zones. Some of these, like Birmingham, Liverpool, Manchester and Bristol, include a PBS focus. For example, Bristol has an established cluster of these services, which it will continue to grow with the development of Grade A office space around Temple Meads Station.

The PBS sector also has a key role to play in boosting UK exports (in the sector and more widely) and supporting inward investment. Chapter 3 of this Strategy sets out our plan in this area, which includes engaging with SMEs around England.

New PBS business models

The need to innovate in increasingly competitive markets and to make best use of specialist skills and diverse talent pools, including on collaborative projects, is driving change in the way PBS businesses are organised. This includes new modes of working within traditional employment relationships (such as increased teleworking and flexible working hours) to fundamentally different business structures where a PBS provider resembles an agency employing staff on contract to do specific work. These new models have a lot of attractions: the ‘agency model’ for example, can be attractive to individuals who want to develop a freelance ‘portfolio career’ and set their own work hours. It can also be attractive to businesses who want to keep unit labour costs to a minimum. Improved work satisfaction and lower costs could give PBS businesses a great competitive advantage. Flexible business models can also help firms that are engaged in joint projects, working with other businesses in the PBS sector and beyond to get the right blend of skills to deliver efficiently.

Effective collaboration also benefits from mutual trust and understanding of how risks are shared. Given the evolving nature of how PBS firms and the projects they engage in are organised, the PBSC’s forward programme will examine whether there are barriers to both the adoption of flexible business models and the development of stronger partnerships between specialist firms; the removal of which would permit a more competitive response to global opportunities.

The PBSC also wants to ensure that the UK maximises the benefits – to the economy and the international competitiveness of our PBS sector – of the internationally respected professionalism of the UK PBS sector..

The UK’s business environment

The PBS sector plays a critical role in supporting businesses who are making decisions on where to invest globally. The UK’s standing in international rankings affects how the UK is viewed. The World Economic Forum and World Bank have both ranked the UK in the top ten places in the world to do business.

Table 1: UK performance in overall international competitiveness

| Year | World Economic Forum Rank out of 144 (Score/7) | World Bank Rank out of 185 |
|-------------|--|----------------------------|
| 2008 | 12 th (5.3) | 6 th |
| 2009 | 13 th (5.2) | 5 th |
| 2010 | 12 th (5.3) | 4 th |
| 2011 | 10 th (5.4) | 6 th |
| 2012 | 8th (5.4) | 7th |

However, there is no room for complacency, in particular when noting the threat posed by increasing international competition. In its report, *Seizing the Opportunities for Growth*, the PBSG (the PBSC's predecessor) last year called on Government to improve the business environment in four areas:

I. The need for clarity, certainty and consistency in the tax regime, at levels which remain attractive to individuals and business alike;

A clear course has been set to improve the UK's tax competitiveness, and to provide a more stable and certain tax environment for businesses. The main Corporation Tax rate has been cut to 23%. Further planned cuts will reduce it to 20% by April 2015. By 2015, the UK will have the joint lowest CT rate in the G20 and the lowest in the G7. Government has committed to work with business to ensure that any changes improve the sustainability and long-term stability of the corporate tax system, and to avoid complexity where possible.

II. Making every effort to establish a smarter regulatory regime, including building on strengths such as the UK's reputation for integrity and legal impartiality and its flexible labour market;

The PBSC supports the UK Government's commitment to reduce the burden of **regulation** which falls on businesses. World leading initiatives have been introduced, such as the "One-in, One-Out" rule, whereby any increase in the cost of regulation must be at least matched by reduction elsewhere. In January 2013 the rule was increased to an even more challenging "One-In, Two-Out", under which Departments must now find two pounds of saving for every pound of extra cost. The costs and benefits of significant regulatory proposals must be fully assessed and alternatives to regulation considered. The resulting impact assessments are in the public domain and subject to scrutiny by the independent Regulatory Policy Committee (RPC)¹³. Furthermore, the Red Tape Challenge¹⁴ has provided an opportunity for businesses and the wider public to have their say on which existing regulations should be

¹³ <http://regulatorypolicycommittee.independent.gov.uk/>

¹⁴ <http://www.redtapechallenge.cabinetoffice.gov.uk/home/index/>

scrapped and what should be improved. Reforms to date are saving businesses over £211 million per year, with more savings yet to come. Many of the regulatory themes explored are relevant to PBS:

- A package of employment tribunal reforms (in England, Wales and Scotland) that will save businesses around £40 million per year. This summer will see the introduction of tribunal fees to help prevent spurious claims and a 12 month pay cap on the compensatory award for unfair dismissal to reduce the cost burden to employers. The qualifying period for unfair dismissal has already increased to two years. Government has also consulted on reforming and improving guidance to the TUPE regulations.
- Reforms came into force this April which simplify the way businesses use their assets to raise finance, saving them over £21 million per year. Accounting requirements for micro-businesses will also be reduced. BIS is doing further work to see whether it is possible to reduce duplication of information sent to Companies House and Government and will make an announcement on this later in the year.
- The Ministry of Justice is conducting a review of the legal services statutory framework in England and Wales in light of concerns raised about its complexity.
- The Bribery Act is world-leading domestic legislation that helps to ensure business is conducted ethically. There is no intention to relax the application of the Bribery Act, which will be used to prosecute the giving and taking of bribes at home and abroad. However, at the same time, the Government is clear that the Bribery Act and its associated guidance should not impose unnecessary costs or burdensome procedures on legitimate business. The Ministry of Justice and BIS are working with small businesses to ensure they understand the requirements of the Act and only put in place proportionate measures to comply.
- The UK Government's Focus on Enforcement reviews have already begun to improve the way regulations are enforced and have reduced burdens on business.
- The UK Government is also working to reduce the unnecessary costs of European legislation. The UK-led '10 Point Plan for EU Smart Regulation' influenced the content of the Commission's December 2012 smart regulation strategy, and its March 2013 SME report. This met a number of key UK asks including the launch of a new REFIT programme aimed at reducing the EU regulatory burden, and further action to reduce burdens on SMEs.



- The Scottish Government is equally committed to addressing regulatory barriers to business growth, where possible, but actively pursues policies which deliver better regulation rather than deregulation. Working with the business-led Regulatory Review Group, businesses and regulators, the focus in Scotland is on collaborative work to tackle the regulatory issues which matter most for business. In addition, a Regulatory Reform Bill was introduced to the Scottish Parliament in March 2013. It will create more favourable business conditions for Scotland, bring greater efficiency and consistency to public services and help improve the environment.
- The UK Government has recently consulted on placing a statutory requirement on non-economic regulators to take growth into account, which will help to achieve a proportionate and fit for purpose regulatory environment. The PBSC would like to explore the idea of a ‘college of regulators approach’ to reduce the incidence of multiple overlapping inspections and duplication of information provision in the sector.

III. Seizing the opportunities afforded by growing demand for PBS in the developing world, by maintaining the UK’s tradition of attracting very high quality people to work here and operating a “revolving door” approach to training talent from target markets;

The Government has made clear its commitment to steer a business-friendly course consistent with its wider policy commitments and controls on immigration. For example, the UK aims to deliver an efficient, effective and competitive visa system. BIS continues to work with the Home Office to influence delivery of the visa system to promote business-friendly approaches, such as making it easier for small businesses to use.

IV. Ensuring that UK infrastructure, both physical and access to broadband, supports the needs of a modern competitive economy.

A modern, efficient infrastructure network has a critical role in boosting growth and competitiveness. At Budget 2013, the Government increased capital spending plans by £3 billion per year from 2015-16. The Spending Review announced a pipeline of public investment in infrastructure worth over £100 billion to 2020.

The UK is already one of best connected countries in the world, but the PBSC stresses the importance of an aviation sector and broadband infrastructure that is equipped to face the challenges of the 21st century:

- **Airports:** Government has established the Airports Commission, chaired by Sir Howard Davies, to gather evidence and provide analysis of the options for maintaining the UK’s status as a leading global aviation hub.

- **Broadband:** The recently published Information Economy strategy¹⁵ sets out how the UK will seek to capitalise on its position as one of the most sophisticated and competitive online markets in the world, with the highest share of individuals who purchase goods or services online out of all OECD countries. The Information Economy strategy established a time limited e-commerce taskforce to identify key barriers and obstacles for industry and consumers to buy and trade cross-border in the EU and recommend industry short-term actions to boost UK cross-border trade. The Information Economy Council will oversee progress.

¹⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206944/13-901-information-economy-strategy.pdf

| Proposal | Actions for sector | Actions for Government | Success Measures |
|--|--|---|--|
| <p>Partnership working between the sector and government to ensure that the UK's business environment supports our position as a global hub for PBS.</p> | <ul style="list-style-type: none"> ■ To continue to monitor the broad business environment (in particular its priorities of tax, regulation, migration and infrastructure) and to advise Government on the progress of policy in these areas; ■ To contribute its views on regulatory oversight of professional services, the role of professional bodies, and how public confidence can be ensured by demonstrating adherence to the highest professional standards; to report to Government by Q3 2014; ■ To examine whether there are barriers to both the adoption of flexible business models and the development of stronger partnerships between specialist firms and advise on removing such barriers by Q2 2014. | <ul style="list-style-type: none"> ■ Engage with sector to ensure the regulatory and business environment for PBS is fit for purpose and work with the sector to minimise regulatory overlap; ■ Work with industry in developing its Growth Voucher scheme to ensure this helps maximise the impact of PBS in stimulating growth in the wider economy. Launch the scheme in early 2014. | <ul style="list-style-type: none"> ■ Strong use and positive feedback on Growth Vouchers from the PBS sector and client firms in England. |

2 Access to Skills

The PBS sector's main asset is its people. A net increase of over 600,000 PBS jobs is predicted to 2020¹⁶. Over half of those currently employed in the sector have degree level or above qualifications¹⁷. Key to its success, therefore, is access to a wide range of advanced skills, both to meet current demands and future growth opportunities. The quality of the PBS workforce will be critical to the sector's ability to compete for international business.



In today's highly competitive environment, new entrants need to add value from day one. This is a general issue for UK PLC and, indeed, in most countries around the world¹⁸. But, as client-focused businesses fundamentally dependent on their people for success, it is an issue felt particularly keenly by PBS firms.

Employers, however, report dissatisfaction with new recruits' employability skills, particularly among school leavers: 44% of employers in the PBS sector that have recruited a school leaver report that they were not sufficiently prepared for work¹⁹. Furthermore, PBS employers were found to be generally less satisfied with the preparedness of new recruits (including school leavers) than for other sectors as a whole²⁰.

A further challenge for the sector is that it has historically drawn from relatively narrow social strata, resulting in a workforce that could be more representative of the clients and the society it serves. It also means that the sector is not always tapping into the widest available talent pool.

¹⁶ Wilson and Homenidou, 2011

¹⁷ UKCES Employer Skills Survey 2011

¹⁸ Education to Employment, Mckinsey 2012

¹⁹ Ibid.

²⁰ Ibid.

To tackle these challenges, PBSC has identified two interrelated priority areas for action:

- Expanding alternative routes of entry to the sector, in particular Higher Apprenticeships; and,
- Facilitating business engagement with the skills system, to drive up levels of aspiration, attainment and work readiness.

Alternative Routes of Entry

PwC

PwC led the development of the Professional Services Higher Apprenticeship (HA), which was developed in collaboration with over 40 employers, professional bodies and FE and HE partners. It has occupational routes into audit, tax and management consultancy. The HA is now in use at PwC, with 60 apprentices and a further 100 due to start later in 2013. PwC are now leading the development of a Higher Apprenticeship at level 7 in accounting services, covering audit, tax and accounting routes. This is the first ever apprenticeship to take apprentices to chartered status in audit, tax and accounting.

Cap Gemini

In 2011, Capgemini launched a Higher Apprenticeship Programme hiring 34 apprentices into a business that had traditionally recruited graduates at consultant entry level. The success of the programme saw the number of Higher Apprentices double in 2012, by the end of 2013 there will be over 200 on the programme working with teams on fee-earning work. The apprentices are assigned to a variety of different projects allowing them to follow careers ranging from consultancy to engineering. They also have the opportunity following their apprenticeship to go on to gain a sponsored degree.

Association of Accounting Technicians

AATs have a long established vocational progression route into the highest levels of the accountancy profession (and are sponsored by four of the chartered accountancy bodies). Development of the higher apprenticeship was a natural progression from the already established model of work-based training in accountancy that effectively mirrored the apprenticeship model but had not traditionally been described as such. The HA in accountancy was launched in September 2009. In three years, apprenticeship starts have almost doubled, to 2050 in 2012.

Higher Apprenticeships (HAs) are already providing an alternative route of entry into some parts of the PBS sector. Numbers in England have risen from around 2,000 in

2010/11 to 3390 in 2011/12²¹. This has made the sector the largest provider of such opportunities. Those companies offering HAs already feel that there are real benefits (including increased loyalty and retention) in training up school leavers as well as recruiting graduates. There is a desire in the industry to increase and widen this offer still further.

There are already Higher Apprenticeship routes into professional occupations in the sector, including accountancy, management consultancy and legal services. The PBSC's vision is that these routes continue to broaden into all aspects of the PBS sector and other high level professional roles, for example, the possibility of opening up a new route to becoming a qualified solicitor. These HAs will provide equivalent opportunities and should have parity of esteem to graduate entry. They will be delivered through greater partnership across the sector and with Government.

The opportunities afforded by HAs in the PBS sector – the ability to reach Partner status through the vocational route – will transform perceptions about the value of apprenticeships more generally. There is also a real opportunity to diversify recruitment into the sector and to make a genuine contribution to the social mobility agenda. Our goal is therefore to treble the number of HAs in the sector so that there are 10,000 HA starts in 5 years time. Alongside this goal, the industry will seek opportunities to showcase and develop the prestige of PBS HAs. Furthermore, we will explore the possibility of a 'clearing house' mechanism to help SMEs access the excellent talent pool of HA applicants, along the lines of current efforts in both the aerospace and automotive sectors.

Engagement with the skills system

Engagement between businesses and the skills system has a significant impact on the employability of young adults. Those who recalled four or more contacts with employers while at school are five times less likely to be not in education, employment or training²².

There is already a significant amount of innovative high-quality engagement between businesses and the skills system to prepare students for work, facilitated by a wide range of organisations (including Sector Skills Councils, social enterprises, and charities). This engagement can take many forms, with hundreds of local, regional and national schemes operating in this space.



²¹ Data Service 2013

²² Employers and Education Taskforce 2012

FSP virtual work placements

Pilot of financial services work placements for school pupils, conducted online. It comprises a one month programme of learning and regular email exchange between pupil and mentor in the sector. Focus is on developing understanding of the sector and career opportunities, as well as increasing employability skills. Businesses that provide mentors have the opportunity to identify future talent.

MyKindaCrowd

A national social enterprise that gets companies to set challenges for school/FE/HE students. Challenges are launched at classroom-based workshops, with a focus on employability skills and careers advice. Those with bright ideas are rewarded with prizes, internships or even jobs. Companies get to identify future talent, improve awareness of their brand and receive ideas.

Skills Development Scotland (SDS)

SDS has designed a Certificate of Work Readiness for young people ready to experience the world of work, but needing guided support. It includes an employer assessed "real life" work experience placement; providing a meaningful qualification and a credible standard that employers can trust. Successful completion offers a young person improved job prospects. See SDS's website www.ourskillsforce.co.uk (which helps employers recruit, develop and plan their workforce) for more information.

Gloucester LEP

The LEP has identified business/schools engagement as a local priority and has piloted approaches to improving this, including: work experience (especially targeting potential NEETs), teacher placements in businesses, interview skills and entrepreneurial workshops. Key to their success was the local facilitation: matching supply with demand, and sustaining relationships between schools and businesses.

Discussions with PBS businesses indicate that they have a clear appetite for greater engagement with the skills system. However, the breadth of engagement opportunities, coupled with the lack of coordination between schemes, mean that it is not easy for education establishments or businesses to navigate the landscape, nor is it always a priority.

High quality engagement between businesses and the skills system is vital to ensure that talent is available to fill the large numbers of PBS jobs expected to be created in next decade. A significant part of the solution to this issue is to expand and improve existing good practice. It is also important to ensure that opportunities to engage are accessible and easy to navigate. Expanding engagement will raise young people's aspirations, increase their understanding of PBS careers and improve their employability skills. The PBSC is committed to ensuring that there is at least one

engagement between a PBS firm and a school in each English LEP over the next twelve months.

Furthermore, the PBSC will establish a PBS Education Engagement Taskforce to assess how the sector is served by current opportunities for engagement, identify good practice, and make recommendations to improve the accessibility of these opportunities to PBS businesses, including SMEs. This will include consideration of the idea of a web-based portal for businesses looking to engage. By the end of 2014, PBSC will report on the steps taken to:

- Improve coordination of business/skills system engagement at both local and national level;
- Work with the skills system to improve the employability of those leaving education, including developing a baseline measure of this; and
- Increase and improve engagement opportunities in the PBS sector.



| Alternative routes of entry | | | |
|--|--|--|---|
| Proposal | Actions for sector | Actions for Government | Success Measures |
| Increase the number of HA routes and increase the number of HAs offered. | <ul style="list-style-type: none"> ■ Collaborate to develop HA frameworks with broad application in the sector. ■ Monitor numbers and diversity of PBS HAs over time. ■ Seek to extend HA opportunities to parts of sector where they do not currently exist. | <ul style="list-style-type: none"> ■ Continue to support HAs as a viable alternative to HE (including access to HE funding at higher levels). | <p>By the end of 2014, to demonstrate the effectiveness of the action plan in England, PBSC will report on the following targets:</p> <ul style="list-style-type: none"> ■ Increasing the number of HAs undertaken in the PBS sector and the breadth of roles covered ■ Increasing the number of applicants to HA, to demonstrate the parity of esteem and raised awareness ■ Increasing the number of HA places offered by the PBS sector ■ Increasing diversity of entry to the PBS sector, including through HAs ■ Achieve 10,000 HA starts in five years' time and open up further routes into professional occupations for non-graduates. |

| Proposal | Actions for sector | Actions for Government | Success Measures |
|--|--|--|--|
| <p>Increase awareness and boost profile/prestige of HAs.</p> | <ul style="list-style-type: none"> ■ Recognise value of all relevant HA frameworks in recruitment processes. ■ Support efforts to raise awareness of PBS HAs and help create parity of esteem between HAs and HE. ■ PBSC continues to seek opportunities to showcase HAs in the sector. | <ul style="list-style-type: none"> ■ Promote awareness of HAs, potentially using the example of PBS HAs to help create parity of esteem between HAs and HE. ■ Consider effect of school reporting metrics/data on prestige of HAs as destination and ensure that they are recognised as equal to HE. | <ul style="list-style-type: none"> ■ As previous. |
| <p>Share unsuccessful HA applicants' details with other PBS companies.</p> | <ul style="list-style-type: none"> ■ Develop a 'clearing house' mechanism for PBS HA applicants and help SMEs access this talent pool. | | |

| Engagement with the skills system | | | |
|--|--|--|--|
| Proposal | Actions for sector | Actions for Government | Success Measures |
| A web-based 'national portal' for business/schools engagement. | <ul style="list-style-type: none"> ■ Assess how the sector is served by current online provision and identify good practice. ■ Support the ambition for a national portal, including provision of practical assistance. | <ul style="list-style-type: none"> ■ Promote effective web-based efforts to link PBS businesses with the education sector, including through the National Careers Service, and report on progress by the end of 2014. | <ul style="list-style-type: none"> ■ Long Term (given that improvements will take several years to yield results): ■ Views of PBS businesses around the country on whether engagement with schools/employability of young people has improved. ■ PBS satisfaction with school leavers and others leaving education (UKCES Skills Survey data). ■ Diversity of entry to the PBS sector. |
| Increase and improve engagement between local businesses and schools, colleges and universities. | <ul style="list-style-type: none"> ■ Assess success of key engagement schemes and seek to expand PBS engagement opportunities in the best schemes. ■ Develop and disseminate good practice guidance for engagement with the sector. ■ Support the code of practice on high quality internships. | <ul style="list-style-type: none"> ■ Pilot new approaches to improving business/skills system engagement and share good practice. | |

| Proposal | Actions for sector | Actions for Government | Success Measures |
|---|---|--|--|
| <p>Strengthen employability skills within the school curriculum, FE or through additional qualifications.</p> | <ul style="list-style-type: none"> ■ Work with awarding bodies to develop qualifications that meet the sector's needs. | <ul style="list-style-type: none"> ■ Measure success of FE colleges in engaging with business as a condition of achieving 'chartered status'. ■ Encourage awarding bodies to find innovative ways of improving employability of young people within the national curriculum. | <ul style="list-style-type: none"> ■ As previous. |

3 Developing Overseas Markets and Bringing in New Investment

Professional and business services are a huge export success story. The sector earned approximately £47 billion overseas and accounted for roughly 10% of total UK exports and 24% of UK services exports in 2011. The value of its exports grew by around 120% between 2001 and 2011²³.

However, UK exports of goods and services remain low in global growth markets in Asia and the Far East, reflecting lower levels of historical demand. The UK export market remains dominated by Europe and the USA, and PBS exports reflect this, with 36% of sector exports going to the EU and 22% to the US. Export shares are under threat from new PBS global centres, such as Dubai, Shanghai, Singapore and Hong Kong.



To support the growth of PBS trade and investment, we have identified two priority objectives for action:

- **Promote the excellence of the UK's capabilities in targeted overseas markets to boost exports**
- **Identify and bring down trade barriers**

Success in these areas will be evident by a significant increase in the number of PBS businesses that are exporting, particularly winning high value contracts.

Promote the excellence of the UK's capabilities in targeted overseas markets to boost exports

As emerging economies grow, the demand for PBS is increasing. This represents a significant opportunity for PBS business. Countries like India, China, Brazil and markets across Asia and Africa have rapidly growing economies, a massively

expanding number of consumers and infrastructure development. India for example is the fastest growing economy in the world with strong links to the UK. The opportunities are vast.

Special envoys for professional and business services

The UK is rich with world-class business leaders from across the PBS sectors. These individuals are perfectly placed to be ambassadors for the sector. The Government will invite a number of these individuals to act as **special envoys for the sector** when they are travelling overseas in the normal course of their business. Several PBSC members have expressed interest in this rôle.

UKTI is committing to increase support to PBS businesses to explore the opportunities for exports to and investments from these fast growing global markets. The PBSC has committed to provide a business secondee to help UKTI deliver this. UKTI will:

- Run at least two dedicated PBS trade missions each year.
- Forge stronger working relationships with leading PBS companies to bring in high value inward investments from selected markets.
- Put in place a named contact in each of the key markets.
- Develop a marketing campaign to promote UK excellence across PBS.
- Work with the Devolved Administrations and their agencies in Scotland, Northern Ireland and Wales in their promotional activities.

UKTI has a major programme of identifying and helping UK businesses win contracts in **high value opportunities** across the world, which include infrastructure but also educational, creative and healthcare projects. This support includes communicating the opportunities; helping business navigate the legal and contractual requirements; and connecting consortia and supply chains. PBS businesses are critical to every part of the project from initial concept, through design and project planning, to long-term maintenance and legacy. A key objective of this strategy will be to get more PBS businesses winning these high value contracts.

As part of our approach we shall focus on where is large scale global market opportunity and demonstrably strong UK capabilities, such as sports marketing and consultancy services and services which support carbon reporting and management. We provide more detail on this in Annex A.



Source: ICON, part of CSM Sport & Entertainment

UKTI's **International Chambers of Commerce programme** enhances services for SMEs. It includes 'British Business Centres' which provide SMEs with a place, in-market, to access business advice, support, and expertise. We will deepen the links between PBS firms with both this initiative and British business groups based internationally, nationally, and locally. This will help ensure a more extensive and coherent business-to-business trade support offer to SMEs, particularly in high-growth markets. The programme will also give the participating PBS businesses greater profile and new connections.

The PBS sector plays a key "enabling" role in supporting its clients in growing through export and attracting investment. This includes leveraging the support that Government provides for export and investment. UKTI will form a stronger partnership in England with **Local Enterprise Partnerships (LEPs), Chambers of Commerce and other partners** to support PBS businesses looking to export and support exports from their regions; and in brokering inward investments.

Identify and bring down trade barriers

Communicating and promoting our capabilities in this sector will only go so far if there are regulatory or policy hurdles that are hampering business success.

The European Single Market created a huge opportunity for the UK's PBS sector by opening up access to a large market at a time when demand for its services was increasing. The Government is continuing to work to ensure that the Services Directive supports this sector by delivering further liberalisation of EU national markets, and enforcement of single market obligations by Member States. Businesses can turn to the UK's 'Single Market Centre'²⁴, for problem solving and information exchange functions to support operation of the Single Market and the implementation of the Services Directive. The recently published Information Economy strategy establishes a taskforce to examine barriers to trade in digital services in the EU and identify UK negotiating priorities for the EU Digital Single Market²⁵.

PBS is a sector which often faces considerable barriers to trade in international markets. The Government is committed to working with other governments to reduce such barriers where there are no trade agreements being negotiated e.g. China, where BIS, working with FCO colleagues, promoted and secured UK PBS priorities in the EU's list of key market access barriers. The Commission, in consultation with the UK and other MS, has identified key market access barriers for EU businesses in various markets to focus its lobbying efforts. In relation to trade in PBS this includes issues such as, for example, caps on foreign investment, foreign ownership restrictions, or non-transparent licensing requirements.

²⁴ <https://www.gov.uk/uk-single-market-centre>

²⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206944/13-901-information-economy-strategy.pdf

In the case of non-EU markets, the Government also raises with the European Commission issues of significance to the UK and presses it to work for their resolution. BIS and UKTI also work with the UK's global diplomatic network to help open overseas markets for British businesses. BIS will continue to engage with a range of stakeholders in the PBS field to hear about the barriers they face in overseas markets.

Trade agreements provide an opportunity to guard against protectionism by our trading partners and to liberalise trade in services further, providing new opportunities for PBS businesses. The European Commission represents the UK in trade negotiations. One example of what can be done is legal services in the EU-Korea Free Trade Agreement where the FTA set out a timetable for the opening up of the Korean legal services market to EU providers. The agreement has been provisionally in force since July 2011 and implementation is being monitored.

Under the UK's presidency of the G8 where trade was a priority, the Transatlantic Trade and Investment Partnership (TTIP) between the EU and US was launched. The UK is aiming for an ambitious agreement which removes a significant number of barriers to trade. This will take into account market priorities identified by the PBS Sector. Other trade negotiations underway at this point include those with India, Canada and Japan as well as with ASEAN countries such as Malaysia, Thailand and Vietnam.

| Proposal | Actions for sector | Actions for Government | Success Measures |
|--|--|---|--|
| Establish a network of business special envoys to promote UK capability. | <ul style="list-style-type: none"> ■ Provide senior business representatives, to act as special envoys; help identify opportunities to promote the sector and participate in these efforts. | <ul style="list-style-type: none"> ■ UKTI will convene the new envoy network during 2013, including inviting business people to participate and orchestrate a mission programme. ■ Run at least two PBS dedicated trade missions each year. | <ul style="list-style-type: none"> ■ Increase in the value of PBS exports to markets targeted with business in this programme over a 5 year period. ■ Increasing PBS-leveraged overseas business and investment into the UK over a five year period. |
| Develop and deliver a marketing plan for enhanced promotion of professional and business services. | <ul style="list-style-type: none"> ■ Contribute to marketing collateral including case studies and messaging. Help find PR and marketing opportunities to promote the sector. | <ul style="list-style-type: none"> ■ UKTI will lead development of the marketing plan and collateral by September 2013 and deploy this material via its global network, on missions and other events. | <ul style="list-style-type: none"> ■ Increase the number of UK firms from the PBS sector participating in trade missions/ other promotion events during the UKTI programme. |
| Boosting PBS engagement in UKTI's High Value Opportunity Programme (HVO). | <ul style="list-style-type: none"> ■ Help with dissemination of opportunities among networks and clients, provide advice and inputs to support. | <ul style="list-style-type: none"> ■ Develop an engagement plan for disseminating HVO opportunities. | |

| Proposal | Actions for sector | Actions for Government | Success Measures |
|--|--|---|--|
| <p>Boost UKTI resources to deliver the action plan in partnership with business.</p> | <ul style="list-style-type: none"> ■ PBSC to sponsor a secondee to UKTI. | <ul style="list-style-type: none"> ■ UKTI will enhance its teams, including the recruitment of sector specialists. UKTI will ensure that key markets have the resource and expertise they need to support the sector. This will include providing relevant training and materials. | <ul style="list-style-type: none"> ■ As previous. |
| <p>Link PBS businesses to the International Chambers of Commerce Programme.</p> | <ul style="list-style-type: none"> ■ Increase engagement with British Chambers and business groups based internationally, nationally, and in the UK, to step up the support and advice offered to SMEs on export-related matters. | <ul style="list-style-type: none"> ■ UKTI will lead development of a plan of action to help increase engagement of major firms with business groups and bodies that provide support to SMEs. | |

| Proposal | Actions for sector | Actions for Government | Success Measures |
|--|---|--|--|
| Regional outreach and support for PBS sector as intermediaries and 'enablers' of exports and inward investments. | <ul style="list-style-type: none"> ■ Business partners to champion this initiative, including some PBS Council member firms, where they have presences in locations chosen for pilot activity. | <ul style="list-style-type: none"> ■ UKTI and BIS will invite professional and business services communities and networks in several English Local Enterprise Partnership areas to work with them, during autumn 2013, to promote exports and investment opportunities. UKTI and BIS will work with the Devolved Administrations in the light of their existing national trade and investment programmes and initiatives to promote common approaches, wherever possible. | <ul style="list-style-type: none"> ■ As previous. |
| Target trade barriers for this sector. | <ul style="list-style-type: none"> ■ Advise priorities and identify key barriers. | <ul style="list-style-type: none"> ■ BIS will take into account business priorities in deciding objectives for international trade negotiations and activities to tackle barriers (EU or bilateral). | |

Annex A – Opportunity Case Studies

Sports marketing and consultancy services

Professional and business services related to sport are an important emerging area of UK capability, as evidenced by the success of London 2012 Olympic and Paralympic Games, and one with massive global growth potential.

Research to inform this Strategy estimated the revenues of this sub-sector²⁶ at £500-£750 million a year, with the potential to increase to £1 billion per annum within a decade²⁷. It identified global market opportunities worth an estimated £5.9 billion (2013-2022)²⁸ associated with 55 major global sporting events scheduled between now and 2022.

The sporting and commercial success of London 2012 is crucial in marketing terms. It provides an outstanding, albeit time-limited, shop window from which UK firms can bid particularly strongly for contracts on forthcoming major global sports events.

Figure 2: UK sports marketing and consultancy



Source: Ardi Kolah

²⁶ Comprising three broad areas: (i) sports marketing agencies and advisors, including general and specialist consultancy, advertising and marketing, professional advisors, such as lawyers and accountants and insurers; (ii) marketing services providers, such as providers of facilities managements and event support services; and (iii) infrastructure, technology and logistics support services, including architecture and engineering design services, hard- and software management, social media and digital technology specialists and data management.

²⁷ "An assessment of the evolving capabilities for sports marketing and consultancy services in the UK and the opportunities in global markets for these services to 2022", research undertaken by Ardi Kolah for BIS, 2013

²⁸ Ibid

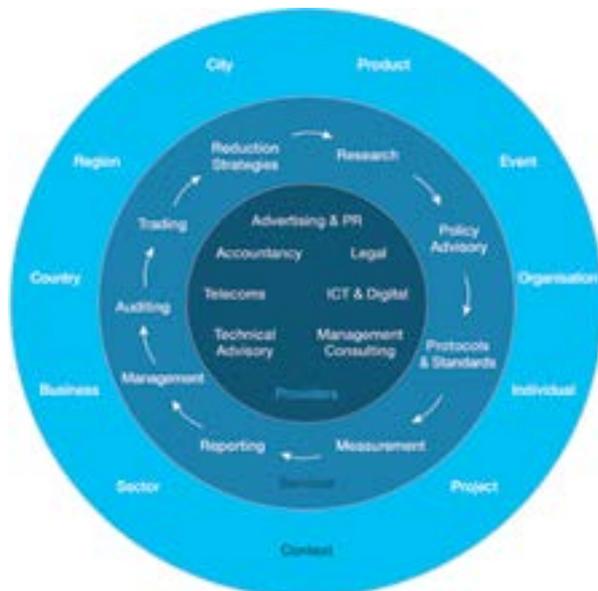
UK capabilities in the “business of sport” and our credibility overseas are crucially supported by a thriving sports environment here. The Government’s 10 point Sport Legacy plan includes work with governing bodies to promote wider participation, confirmed funding for our elite athletes until Rio in 2016 and a commitment to bid for and host over 70 major sporting events by 2019. The Government is underwriting two international sports events taking place in the UK in the immediate future: the 2015 Rugby World Cup and the 2017 World Athletics Championships. Wider support including funding on offer to bidding initiatives to bring events to the UK has been confirmed²⁹. The 2014 Commonwealth Games in Glasgow provide a further opportunity for Scottish and UK PBS businesses.

UK Trade & Investment (UKTI) is promoting the ability of UK firms to compete for work on major forthcoming sports events on the world stage. UKTI will work further with this PBS sub-sector from autumn 2013 onwards to explore where there are opportunities to highlight existing promotion or to collaborate further to promote UK capabilities.

Carbon reporting and management services

UK capabilities in professional and business services for carbon management compete with the best in global markets. For example, it was estimated that one third of all asset investment in new energy deals between 2007 and 2012 received both legal and financial advice from the UK. We are the world’s leading green finance centre³⁰. The UK has also taken a leading role in promoting the development of standards based approaches in the sphere of carbon measurement and management and in the significant international moves towards a framework for this – which is supportive to exports of associated business services.

Figure 3: The carbon ecosystem



Source: Arup

²⁹ “A Stage to Inspire”, UK Sport, DCMS. <http://www.uk sport.gov.uk/publications/a-stage-to-inspire>

³⁰ http://www.green-alliance.org.uk/uploadedFiles/Publications/reports/British_success_story_Issue.pdf

The overseas market opportunities for low carbon professional and business services look to be substantial. The global value of low carbon and environmental goods and services as a whole was estimated at £3.3 trillion in 2010-11³¹. UK sales on this broad basis were estimated at £122.2 billion in 2010-11³².

Global markets are evolving fast. Countries are addressing the challenge of climate change and its impacts in differing ways and at differing speeds. Policy and regulatory drivers may address energy supply and demand, but also wider economic management, for example, designing public policy, encouraging and enabling new, more sustainable business models, with appropriate financial and legal structures, as well as statutory monitoring, reporting and accounting. Services in these areas support the mainstreaming of economic sustainability in fast growing emerging economies.

The Government has recognised the scale of these global opportunities and the strength of relevant UK capabilities. Accordingly, trade promotion by UK Trade & investment (UKTI) already includes a strong marketing emphasis on the UK's "Low Carbon Know How" for export.

Given the range of existing policy interventions supporting low carbon services opportunities for PBS in the UK market and focused support in trade promotion, the Professional and Business Services Council will work with the Government on how to make the most of growth opportunities in this space, including ensuring that a standards framework for helping firms to exploit PBS capabilities in global low carbon markets is in place.

³¹ This showed an annual increase from 2009/10 of 3.7%, compared with increases from 2007/8 to 2008/9 of 3.1% and from 2008/9 to 2009/10 of 1.8%. <http://www.bis.gov.uk/assets/BISCore/business-sectors/docs/l/12-p143-low-carbon-environmental-goods-and-services-2010-11.pdf>

³² This compares with the 2009/10 figure of £116.8 billion and shows a £5.4 billion increase at 4.7% annual growth. Annual growth in previous years had been £4.8 billion or 4.3% (2008/09) and £4.7 billion or 4.3% (2007/08). This shows consistent growth since 2007/08. <http://www.bis.gov.uk/assets/BISCore/business-sectors/docs/l/12-p143-low-carbon-environmental-goods-and-services-2010-11.pdf>

Annex B – Evidence Base

The PBS sector strategy evidence base builds on the strong start provided by the “Seizing the Opportunities for Growth” report of 2012, updating key statistics to reflect more timely information and the slightly narrower focus of the sector strategy (principally excluding computer and information services). The UK Commission for Employment and Skills (UKCES) has provided additional analysis on skills and employment issues within the sector.

Summary

The PBS sector is a knowledge intensive sector covering a wide range of activities and providing largely intermediate inputs to UK firms. It is responsible for 11% of UK gross value added (GVA) and nearly 12% of employment³³ and contributes strongly to economic growth and productivity through its important role as an enabler providing innovative solutions and business approaches for most other sectors.

Despite the economic downturn the sector has seen growth of nearly 4% a year in the last decade and is projected to continue to grow at this rate over the next decade³⁴. The sector has generally low entry barriers and low levels of concentration. The exception to this is the supply of legal and audit services to the UK’s largest companies where scale is a significant barrier. Most sub-sectors are lightly regulated and the UK regulatory regime is considered favourably in international studies although concerns have been expressed about recent changes to the accountancy regulatory framework and changes to regulation in the financial services sector – a key customer – following the financial crisis. The business environment, reflected in the UK’s position in world competitiveness rankings³⁵, including its flexible labour market and openness to international trade is also supportive for this sector.

Domestic markets for most sub-sectors are relatively mature and future growth in the sector will come largely from emerging and BRIC economies and from helping firms meet new challenges such as an ageing population and climate change. The key challenges for the UK sector therefore are to ensure its perceived quality and

³³ ONS and BIS calculations

³⁴ Oxford Economics forecasts

³⁵ See for example The Global Competitiveness Report 2012 – 2013 – The World Economic Forum

reputational advantages are promoted within these new markets and that its cost base is controlled.

The sector is highly dependent on the skills of those it employs and, increasingly, ensuring that it can provide the range of skills, particularly IT related skills, its customers require. There is therefore a strong synergy with the Information Economy sector which is seen as critical in terms of providing and delivering business solutions. The continued access to highly skilled employees at reasonable cost will also remain vital to maintaining the sector's international success. Employees within the sector are highly qualified (57% at degree level or above) but employers tend to report an above average level of concern about the work skills of those joining directly from education³⁶.

The sector demonstrates a strong trade performance and nearly a fifth of firms operate internationally³⁷. The sector has benefitted from the UK's openness to trade and efforts within the EU to further deregulate trade in services through the Services Directive. Exports from the sector had a value of £47 billion in 2011 and a trade surplus of £19 billion³⁸ (a third of the total services sector surplus). The UK also continues to demonstrate a comparative advantage in this sector with a share of OECD exports of 12%, second only to the US (17%)³⁹.

Definition

The sector strategy is using a narrower definition than used in the "Seizing the Opportunities for Growth" report and now excludes computer and information services and specific consultancy activities covered by other sector strategies⁴⁰:

- Legal and Accounting services
- Activities of head offices and Management Consultants
- Architectural and Engineering activities
- Scientific R&D
- Advertising and Market Research
- Other Professional, Scientific and Technical Services
- Rental and Leasing activities
- Employment activities
- Other Business and Admin activities.

³⁶ UKCES UK Employer Skills Survey 2011 found the PBS sector was less likely on average to report that recruits from school and higher education were well prepared for work.

³⁷ UKCES UK Employer Skills Survey 2011

³⁸ ONS Trade Statistics

³⁹ OECD Trade in Services figures

⁴⁰ There may be some overlap in the figures with the Construction sector strategy where it has not been possible to separate out completely the relevant engineering consultancy figures.

Sector size and economic contribution

In 2011 the sector contributed £153 billion (11% of UK total) to GVA an increase of 50% since 2000⁴¹ in real terms. Employment in the sector reached over 3.8 million in 2012 (12% of UK total) with annualised growth of 2% per annum since 2000⁴² suggesting a significant improvement in labour productivity during this time.

The sector is made up of a number of distinct sub-sectors of which legal and accounting services is the largest representing over a fifth of the output of the sector but management consultants, architects and employment agencies are also significant (see the chart on page 6). The sub-sectors with strongest growth over the last decade have been management consultants, scientific R&D and employment activities with annual growth at over 5%⁴³.

There is a strong London/South East bias to the sector reflecting the dominance of the financial services sector in this region, although all regions have a significant PBS sector serving the local market. The CityUK⁴⁴ figures suggest that employment in the professional services sector is over 7% of total employment in London and Manchester and around 5% in Edinburgh, Birmingham and Leeds.

The sector has continued to be a source of growth even during the recent economic downturn – the sector saw a decline in 2009 but has since recovered strongly with growth in constant price GVA of over 5% in both 2010 and 2011. It is reported that many consultants saw increased demand as a direct result of the downturn as firms sought new ways of reducing costs or increasing their competitive advantage. Legal and accounting firms may also have seen an increase in demand in relation to restructurings and business closures.

Whilst the sector is, to a degree, a business ecosystem in its own right (consuming around 20% of its own output) it is also an important contributor to many other sectors within the economy, especially financial services, manufacturing and the information economy sector, with which it often collaborates to produce innovative business solutions⁴⁵.

International Performance

The sector has a strong trade performance with a revealed comparative advantage in business services and a 12% share of OECD sector exports⁴⁶. The largest export markets are EU (£20 billion), US (£12.2 billion) and Switzerland (£4 billion)⁴⁷. This strength is probably underestimated by trade statistics which don't fully capture the

⁴¹ ONS figures and BIS calculations

⁴² ONS figures and BIS calculations

⁴³ ONS figures and BIS calculations

⁴⁴ <http://www.thecityuk.com/assets/Uploads/Key-facts-about-UK-FS-Jan-2013.pdf>

⁴⁵ BIS calculations based on ONS Supply and Use Tables 2010

⁴⁶ OECD Trade in Services statistics

⁴⁷ OECD Trade in Services statistics

extent to which PBS firms operate overseas, either by travelling to the customer destination or establishing an overseas commercial presence. Nearly one-fifth (18%) of firms operate internationally (above the whole economy average) and a quarter of UK firms that sell their goods and services internationally are from the PBS sector so remaining competitive is crucial to future success⁴⁸.

Competition and Regulation

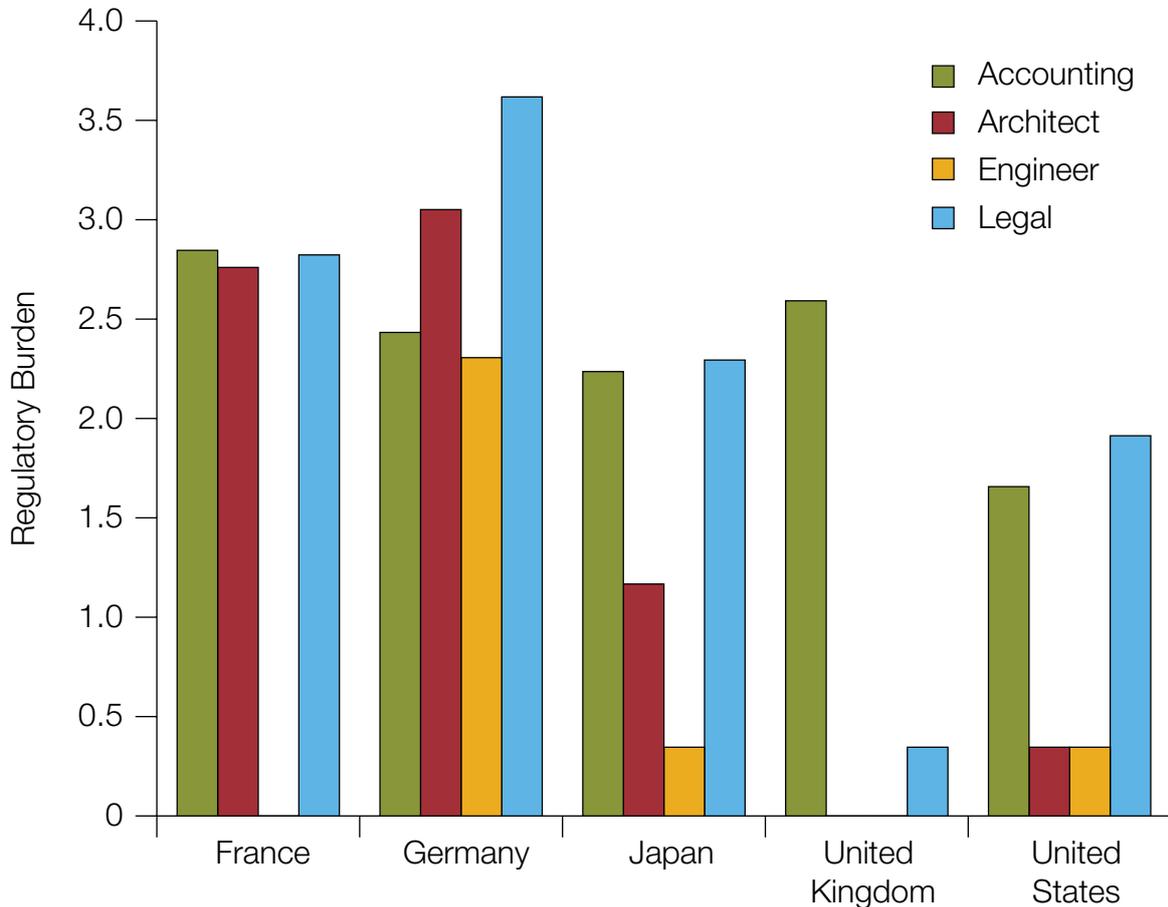
Barriers to entry and concentration levels are low in most sub-sectors where intellect, ideas and personal contacts are more important than capital assets. The audit market for large UK companies is a noticeable exception (currently under review by the Competition Commission) and to some extent the supply of legal services to large firms (though large overseas law firms tend to have an operation in London providing additional competition). Recent attempts have been made to open up the market for legal services with the Legal Services Act (2007) which allows legal firms to be owned and operated by non-lawyers.

The professional services within this sector tend to be subject to a mixture of statutory and self-regulation but regulation of the sector compares favourably with international comparators⁴⁹ although tighter regulation of the accounting profession following the financial crisis has reduced the advantage.

⁴⁸ UKCES UK employer surveys

⁴⁹ OECD Sectoral Regulation Database (2008)

Figure 4: Relative burden of regulation on the professions



Source: OECD

Skills

Skills availability will be a key issue in the years ahead as competition from both developed and developing overseas markets increases. The sector is currently dominated by highly qualified individuals in professional roles (57% to degree level or higher compared to 39% in the wider economy)⁵⁰, although there are also substantial numbers in administrative and managerial roles. Wage costs are therefore higher than the average across the economy and a significant cost for many firms. This is particularly true in relation to the management consultancy, scientific R&D, advertising and legal and accounting sub-sectors. Going forward, the pressure to reduce wage costs will have to be weighed against the need to attract and retain the staff that will be crucial for future success.

UKCES survey data⁵¹ indicates that skills shortages are more prevalent in this sector than the general economy which is likely to affect future competitiveness (especially of

⁵⁰ UKCES Employer Skills Survey 2011

⁵¹ UKCES Employer Skills Survey 2011

those firms competing internationally). There is already evidence that the difficulty of recruiting individuals with the right skills within the sector is leading to work being lost or outsourced.

However, once within the sector, there is less of a reported mismatch between the skills needs of PBS businesses and the skills of their workforce which may reflect more rigorous recruitment processes.

Future growth of the sector and the need to replace those leaving the workforce, primarily through retirement, will require an extra 1.3 million posts in the professional services sector to be filled and probably a similar amount in the business services sector over the next 10 years (this includes the 600 000 additional jobs mentioned earlier in this strategy document)⁵².

The PBS sector is more reliant on recruiting those leaving HE than school leavers/FE but it is generally less likely to report that those it recruits from HE are well prepared for work. The use of apprenticeships (especially higher apprenticeships) has grown strongly in recent years as the sector has attempted to appeal to a wider demographic but levels still remain slightly below average⁵³. Formal training levels also appear to be below average but this may be compensated for by on-the-job learning.

Future Growth

Most sub-sectors are relatively mature now and for many of them domestic growth will remain modest. Market growth opportunities for the sector are therefore focused on expanding economies – BRICS etc. – where the UK is perceived to have an advantage in terms of the strength and innovativeness of its legal and regulatory system with world leading companies and institutions. However, this is where the trade barriers are greatest.

As well as economic globalisation, where the rise of a global middle class will result in a rising demand for services, drivers of demand in this sector are likely to arise from other global “challenges” including climate change, sustainable development and an ageing population. The growth prospects for the sector therefore remain positive over the short and medium term. Oxford Economics project annual growth of the sector of around 4% a year in the next ten years with slightly stronger growth in the second half of the period. Employment is also forecast to grow strongly in the professional services sector (17%) over the next 10 years⁵⁴.

⁵² Working Futures 2010-20 (Wilson and Homenidou (2011) UKCES)

⁵³ The Data Service

⁵⁴ UKCES (2011) Working Futures 2010-20 (these figures are based on a slightly wider definition of the PBS sector than is used elsewhere in this paper).

Table 2: Output and employment in the PBS sectors

| | | Gross Value Added | | Workforce Jobs | |
|----|--|---------------------------------|--------------------------|---------------------------------|--------------------------|
| | | Annualised Growth (2000 – 2011) | Share of Total UK (2011) | Annualised Growth (2000 – 2011) | Share of Total UK (2011) |
| 69 | Legal activities/ Accounting, bookkeeping & auditing | 4.4% | 2.5% | 0.6% | 2.2% |
| 70 | Activities of head offices; management consultancy | 6.5% | 1.4% | 7.3% | 2.0% |
| 71 | Architectural and engineering activities; technical testing & analysis | 4.4% | 1.5% | 1.7% | 1.6% |
| 72 | Scientific research and development | 6.0% | 0.3% | 1.5% | 0.4% |
| 73 | Advertising and market research | 1.1% | 1.0% | 2.3% | 0.6% |
| 74 | Other professional, scientific and technical activities | 3.0% | 0.7% | 5.5% | 0.8% |
| 77 | Rental and leasing activities | 1.4% | 1.0% | -1.8% | 0.4% |
| 78 | Employment activities | 5.4% | 1.5% | 1.5% | 2.5% |
| 82 | Office administrative, office support and other business support activities | 3.4% | 1.2% | 0.7% | 1.1% |
| | Total Professional and Business Services | 3.9% | 11.1% | 2.1% | 11.6% |
| | TOTAL UK | 1.7% | 100.0% | 0.5% | 100.0% |

Source: UK National Accounts and BIS calculations based on ONS employment data

Annex C – Professional and Business Services Council

| Co-Chairs of PBS Council | | | |
|--|--|--|--|
| Viscount Younger of Leckie Sir Michael Snyder, Senior Partner of Kingston Smith LLP | | | |

| Members of PBS Council | | | |
|------------------------------------|---------------------------|--|---|
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BIS/13/922