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Department for Business
Innovation & Skills

The path to strong, sustainable and balanced growth

November 2010



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Foreword



The Government's economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries.

The UK needs to move away from an unbalanced growth model reliant on a narrow range of sectors and ever-increasing government spending. We can no longer have an unsustainable accumulation of private debt that inflated property bubbles and ultimately caused a banking crisis and sharp falls in output. The UK needs to grow sustainably – both economically and environmentally. We need to grow, but we need to grow *differently*.

A new approach to growth requires a new attitude in Government. Government on its own cannot create growth. It is the decisions of business leaders, entrepreneurs and individual workers which build our economy. What the Government *can* do is provide the conditions for success to promote a new economic dynamism – harnessing our economic strengths, removing the barriers which prevent markets from supporting enterprise, and putting the private sector first when making decisions on tax, regulation and spending.

Since the election, this Government has taken significant action to support growth. Our immediate focus had to be on reducing the fiscal deficit, to take Britain out of financial danger and create essential macroeconomic stability. We have made sure that fiscal and monetary institutions are independent and taken steps to overhaul the regulation of the financial system.

The Government has put in place an ambitious programme of reforms to improve the dynamism of the UK business environment. We are shifting the planning system towards a presumption in favour of sustainable development, and have put in place processes for reviewing the stock of existing regulations and the flow of new ones. Access to finance is a real concern for many small businesses and we have set out a package of Government and industry-led measures to work towards addressing this.

Protecting incentives for entrepreneurship and innovation is crucial for a thriving economy, and the Intellectual Property Review will look at how best to provide these incentives. The measures set out in the Blueprint for Technology¹ will help to make the UK Government the most technology friendly in the world.

The Spending Review prioritised areas of capital spending that generate the highest long-run economic returns, and looked across the board at how public spending could be best focused.

¹ *Blueprint for Technology*, HM Government, November 2010

The first ever National Infrastructure Plan² set out the Government's strategy to unlock some £200 billion of public and private sector investment over the next five years.

The Government has also set out a plan to make the UK corporate tax regime the most competitive in the G20 and today we are publishing a road map³ to provide certainty on the direction of future reforms.

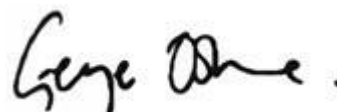
To create a labour market which rewards work, the Government has embarked on a programme of radical reform, and is re-designing the education system so that it encourages achievement and drives social mobility at every stage.

The work is far from complete. We now need a relentless drive for growth across all sectors of the economy, getting behind not just the big business of today, but the businesses of tomorrow, to create the best environment for the private sector to succeed. Britain needs nothing less than a second wave of structural reform to boost growth and international competitiveness.

That is why today we are launching the Growth Review, a rolling programme to last the whole Parliament, with a first report by Budget 2011. This will be a fundamental assessment of what each part of Government is doing to provide the conditions for private sector success and address the barriers faced by industry. We are inviting business to take part in this Growth Review to challenge every Government department on the action that it is taking to tackle barriers to growth, whether through structural reforms that improve our overall competitiveness and the business environment for all firms, or measures that make life easier for a particular sector of the economy.



Vince Cable,
Secretary of State for Business,
Innovation and Skills



George Osborne,
Chancellor of the Exchequer

² *National Infrastructure Plan*, HM Treasury, October 2010

³ *Corporate Tax Reform: delivering a more competitive system*, HM Treasury, November 2010

1

Creating the right framework for growth

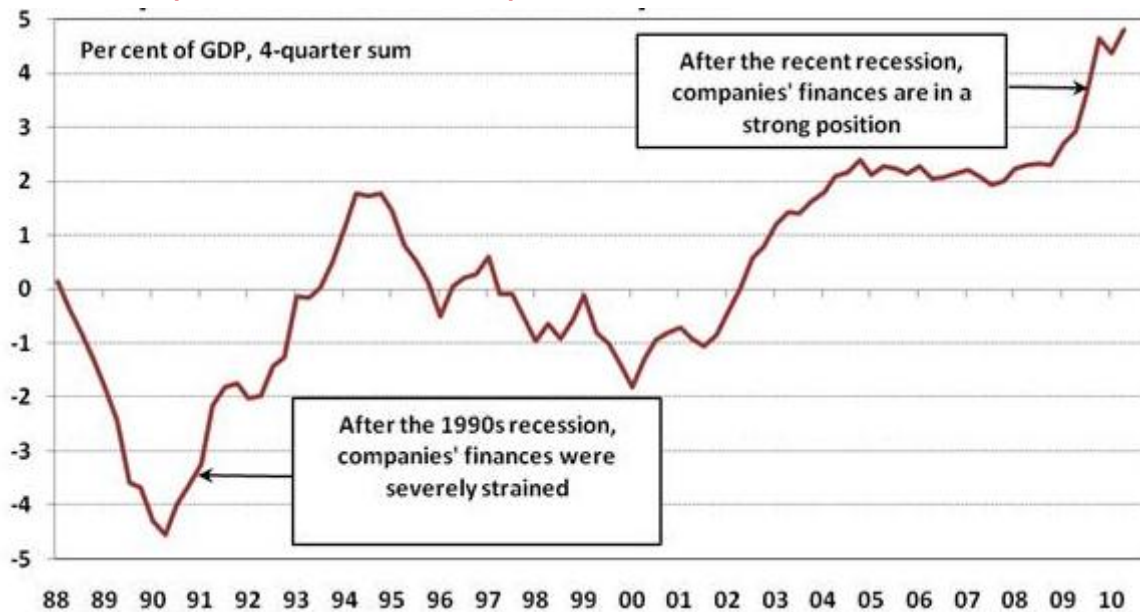
1.1 The overriding priority of this Government is to return the UK economy to balanced, sustainable growth. Growth is essential for paying down the country's debts, for giving people throughout the country new opportunities, and for making sure that the UK is well placed for competing in an expanding global economy.

1.2 But it needs to be a different sort of growth from that which the UK has seen in the past decade. The Government's vision is to create a dynamic economy, where it is easy to start up and grow a business and where every company can reach its potential. This means building a broad-based economy rooted in higher levels of business investment, open and competitive markets and greater exports. It means ensuring that the UK is well-positioned for the transition to a low-carbon economy. The Government believes that it is the agenda of the private sector that should come first – the people, businesses, and social enterprises who are the real creators of prosperity in this country. The Government's priority must be to create the conditions for businesses to grow and for individuals to reach their potential.

1.3 The UK has economic strengths which put it in a good position for long-term growth. The Government has restored confidence in the public finances and taken action to improve the competitiveness of the tax system. The UK is still near the top of Organisation for Economic Co-operation and Development (OECD) rankings for flexibility of product, capital and labour markets and is home to 19 of the world's top 100 universities. More overseas companies set up their European headquarters in the UK than anywhere else.

1.4 As shown in Chart 1.A, in the first six months of 2010, the corporate sector as a whole ran a financial surplus worth 4½ per cent of GDP. This aggregate position masks the serious difficulties that many small firms have continued to experience in accessing finance. However, it does mean that, unlike after the 1990s recession, the corporate sector is in a strong position to drive an investment-led recovery. To make this happen, the Government needs to help give businesses the confidence and stability to invest.

Chart 1.A: Corporate sector financial surplus



Source: ONS

1.5 To build on these strengths, the Government has made a four-part commitment to the private sector that reflects its new attitude, around which this Chapter is structured:

- providing the stability business needs to plan and invest;
- making markets more dynamic by removing barriers to growth wherever possible;
- focusing the Government's own activities on providing the conditions for private sector growth and investment; and
- ensuring that strong growth is fairly shared and sustainable in the long-term.

1.6 This is not just about tackling barriers for the benefit of big business today; the Government is also getting behind the big businesses of tomorrow. The UK's 4.8 million small and medium-sized enterprises (SMEs) are vital to the economy. They provide 60 per cent of private sector jobs and account for half of all private sector turnover. The Government is committed to ensuring that the UK has an environment where it is easier for new companies and innovations to flourish and where people who aspire to be entrepreneurs are encouraged.

1.7 Small businesses will benefit from the measures the Government is taking across the whole economy but Government is clear that they have specific needs and can be disproportionately burdened by poor Government policy. That is why the Government is recognising their needs by streamlining business support and providing targeted help to those SMEs that have high-growth potential.

1.8 Action needs to be taken to restore UK competitiveness. The World Economic Forum's Global Competitiveness Index showed the UK's ranking falling from seventh to thirteenth place between 1997 and 2009-10.¹ **This Chapter sets out the big decisions which the Government has already made to deliver its commitment to the private sector. The Government will work closely with business to identify what more needs to be done.**

¹ *The Global Competitiveness Report 2009-10*, World Economic Forum, September 2009 and *The Global Competitiveness Report 1997*, World Economic Forum, May 1997

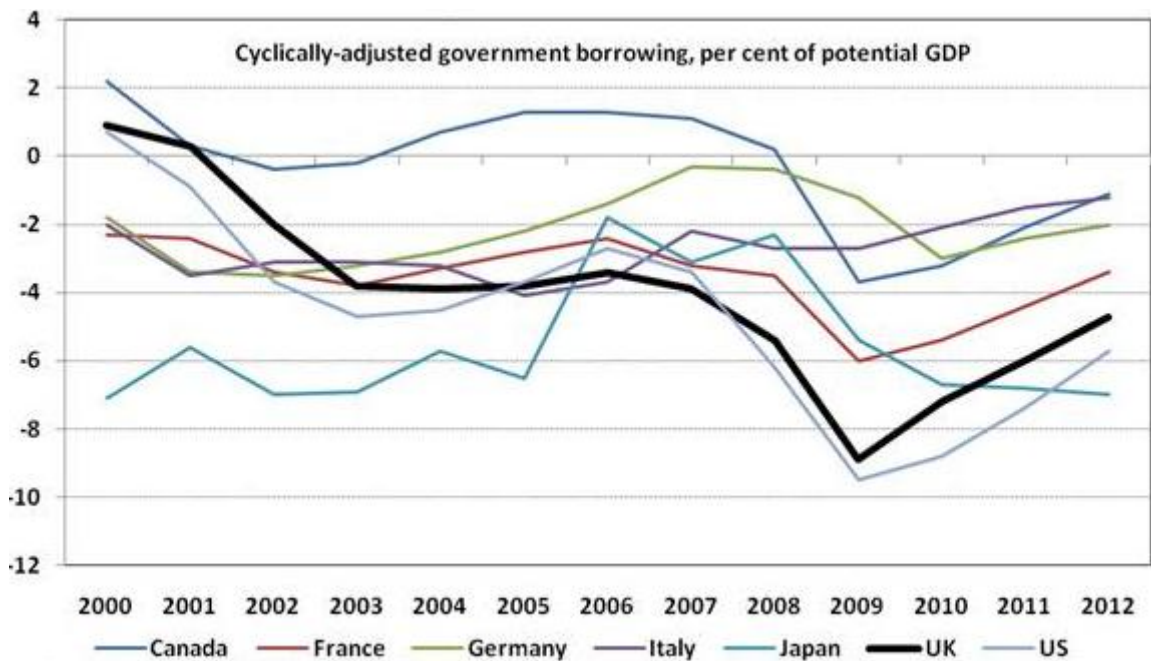
Providing the stability business needs

1.9 The private sector cannot plan for the future if it does not have confidence in the long-term stability of the economy. Past growth was too dependent on spending financed by debt – by both households and government. This was unsustainable and drove growing imbalances in the UK economy. The UK was also vulnerable to an unstable financial system and to cycles of boom and bust in asset prices. This Government is committed to a more resilient model of growth, both domestically and internationally.

Domestic stability

1.10 The Government has listened to calls from business for a credible plan to reduce the deficit and for a stable financial system. This will provide the conditions for growth that are better balanced between the public and private sectors and between saving and consumption. It will ensure a stable platform for greater business investment and exports. As shown in Chart 1.B, the UK's structural fiscal position was one of the best in the G7 in 2000, but by 2007, just before the crisis, had deteriorated to be the worst in the G7. Following the financial crisis, only the US faced a larger structural fiscal deficit than the UK.

Chart 1.B: G7 structural fiscal positions



Source: OECD Economic Outlook 88, November 2010

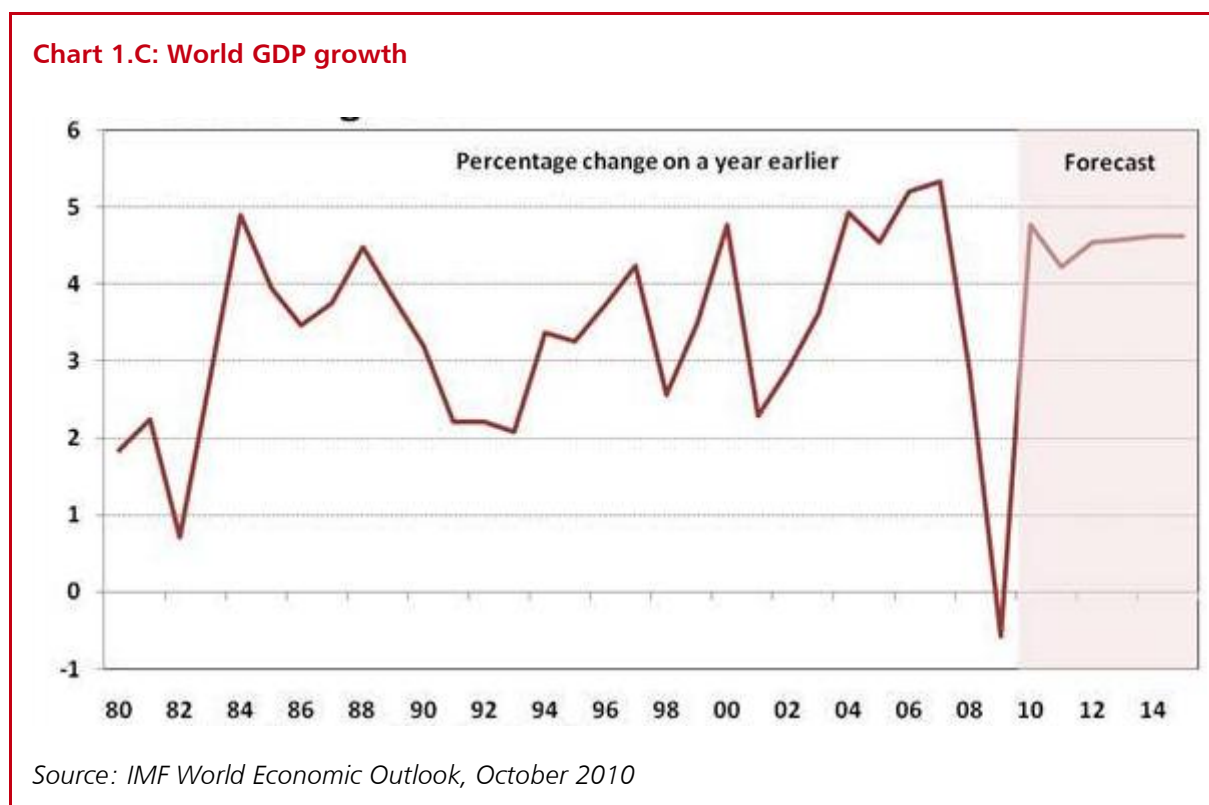
1.11 The Government has taken action to:

- **reduce the deficit.** This will provide business with the stability and confidence that underpins investment and helps keep long-term interest rates low;
- **ensure that fiscal and monetary institutions are independent,** by setting up the Office for Budget Responsibility and reaffirming the Government's commitment to an independent Bank of England. This will help restore business confidence in the credibility and transparency of Government decisions; and

- **reform the regulation of the financial system**, giving the Bank of England control of macro-prudential regulation and oversight of micro-prudential regulation, and tasking the Independent Commission on Banking to bring forward proposals for banking reform by September 2011. This will help the economy to be more resilient to future shocks.

International stability

1.12 As a result of globalisation, the UK economy is ever more closely linked to the health of the global economy, and many of the opportunities for UK companies to expand are in overseas markets. As Chart 1.C shows, the last three years have been an exceptionally turbulent time for global markets.



1.13 Considerable uncertainty remains, particularly in the Eurozone. But the global economy has stabilised and global growth is recovering, particularly in emerging economies. China grew at 9.6 per cent in the third quarter of 2010 and India at 8.8 per cent in the second quarter, opening up huge new opportunities for UK exporters.

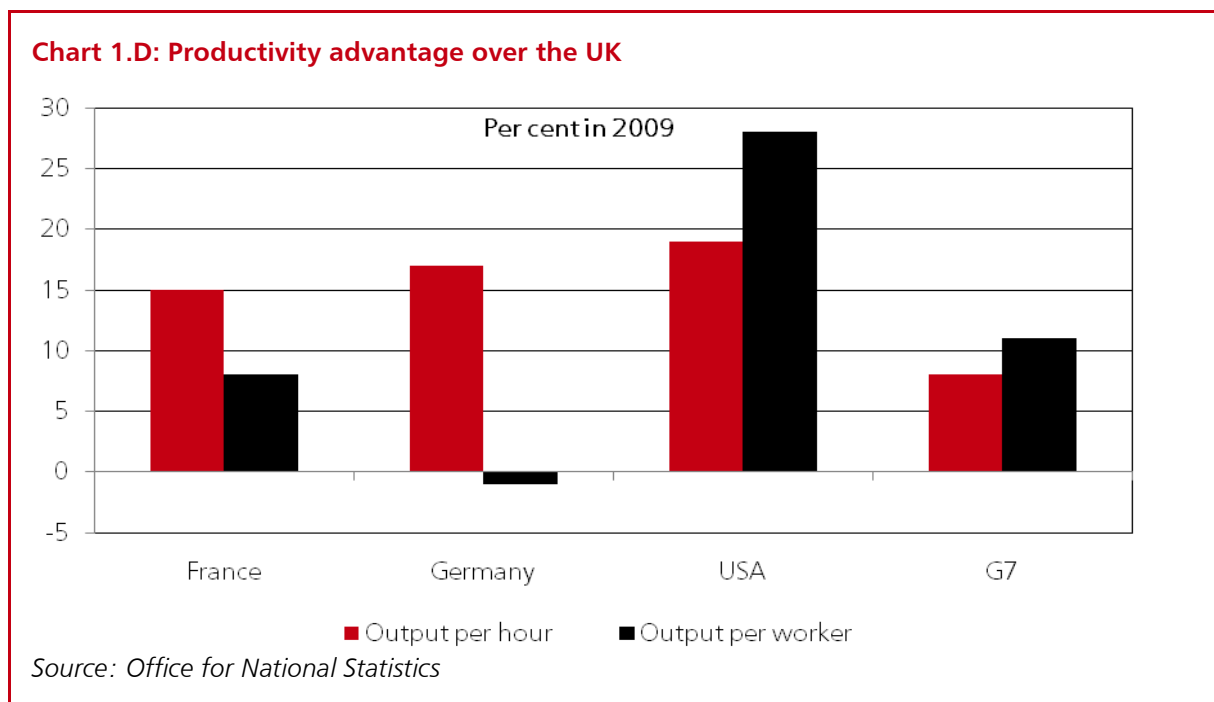
1.14 Since exporters need international as well as domestic stability to give them the confidence to invest and expand, the Government has:

- **been at the forefront of action through the G7, G20 and EU** to ensure that the world's major economies play their part in delivering a sustained recovery and a rebalanced, open global economy. This has included pushing for the successful implementation of the G20's Framework for Strong, Sustainable and Balanced Growth and reform of the international financial institutions, including the International Monetary Fund and World Bank, and of the financial regulatory framework through the endorsement of Basel III.

Making markets more dynamic

1.15 Stability is necessary for private sector growth, but it is not sufficient. It is businesses and individuals that will be the greatest engines of growth and employment. Well-functioning markets are critical to this, providing new entrants with the potential for success and challenging incumbents to become more efficient.

1.16 The UK starts from a strong position, comparing well with most other major economies in terms of the flexibility of its product, capital and labour markets. But, as Chart 1.D shows, the UK still has weak productivity relative to many of its peers – UK workers create less output for every hour worked.



1.17 Many of the reasons for this lower productivity can be traced back to structural problems that affect the whole economy. The Government's goal is a dynamic business environment, driven by open and competitive markets. Incumbent firms need to be constantly challenged to improve and new ideas must be allowed to enter markets.

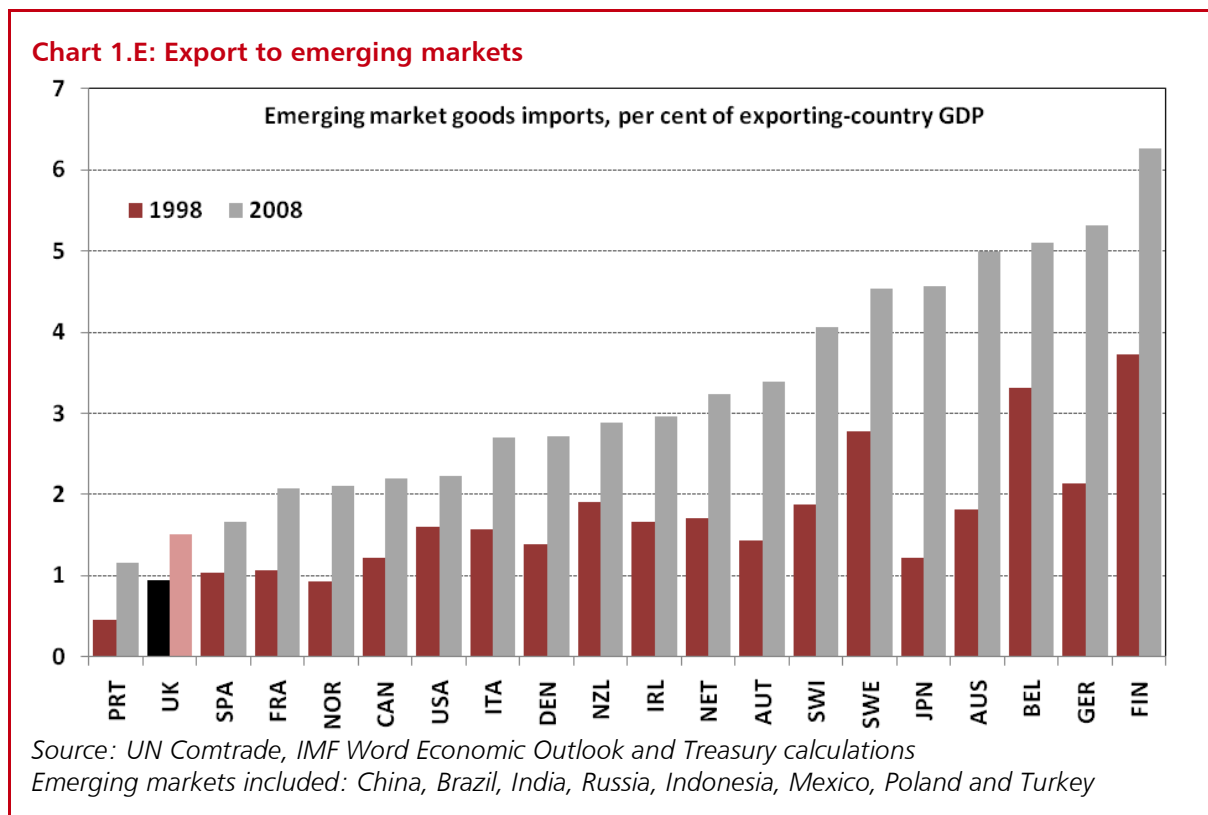
1.18 As set out below, the Government already has an ambitious programme of reforms to create a more open and competitive business environment, including action to ensure access to finance for SMEs, to protect incentives for innovation, and to reform the skills system and labour market. This is partly about creating a robust competition regime, but it is also about looking wider than this at reforms that matter for long-term growth. **This is why the Government will take further action on trade, access to finance, planning, better regulation, innovation, competition and corporate governance.**

Increasing trade and access to international markets

1.19 Trade and an open economy are key drivers of growth, boosting competition, lowering prices and maintaining pressure on domestic producers keeping them innovative and efficient. UK exporters account for 60 per cent of UK productivity growth, over 70 per cent of UK business research and development (R&D), and nearly twice their share in output.²³

² Firm Level Empirical Study of the Contribution of Exporting to UK Productivity Growth, Harris and Li, 2007

1.20 The UK has competitive strengths in industries which are well positioned to benefit from global trends, for example in advanced manufacturing, healthcare and life sciences, and business services. Despite the past depreciation of sterling, the UK exports less overseas, especially to emerging markets, than many of its peers, as Chart 1.E shows. Export growth will be crucial to the recovery.



1.21 Alongside a focus on increasing trade, the Government will look to boost the stocks and flows of investment to and from the UK. The UK remains a hugely attractive market for inward investors. At the end of 2009, the stock of foreign direct investment in the UK was worth £672 billion while UK direct investment abroad was worth about £1,046 billion.

1.22 The Government is already focusing its influence internationally to create opportunities for British businesses and reducing barriers to trade, both in emerging markets and with its main trading partners. The Government aims to improve the competitive environment within Europe through completion of the Single Market.

- **In early 2011, the Government will publish a Trade White Paper** which will build on its commitment to open trade and the further liberalisation of markets, to be followed by the publication of a new delivery strategy by UK Trade and Investment. The White Paper will set out a strategy for the UK on trade and investment policy, aligning all levers to ensure UK companies are able to take maximum advantage of growing opportunities for exports, imports and investment.

1.23 But there is much more to do to capture the UK's full potential, which is why the Government is making trade, export promotion and attracting investment to the UK one of its priorities for action.

³ An Empirical Study of the Respective Contributions of Exporting and Foreign Direct Investment to UK R&D, Harris, 2008

Access to finance

1.24 Maintaining a flow of finance to viable businesses is vital to ensure that they have the resources to invest and grow, and that innovative ideas have the backing they need to break into the market.

1.25 But the financial system has not been working effectively for some viable businesses that need it, in particular for small businesses. Responses to the Government's Green Paper consultation, *Financing a Private Sector Recovery*⁴, showed that businesses are concerned about: the impact of instability in the financial markets on their ability to access finance; the lack of a competitive and transparent banking system; and the relatively narrow range of products available to some businesses.

1.26 The Government's response to this consultation set out a comprehensive package of Government and industry-led measures to address these concerns, including:

- **a new bank-led £1.5 billion 'Business Growth Fund'** to provide equity finance to established SMEs who need capital to secure their plans for growth. The Government will also work with other parties, such as the European Investment Fund, to look towards increasing the scale of this;
- **support for the Enterprise Finance Guarantee (EFG) over the next four years** to enable lending to viable small businesses that lack collateral or track record. The EFG scheme will provide up to £600 million of additional lending to around 6,000 businesses next year alone and, subject to demand, over £2 billion in total over the next four years;
- **increasing the Government's share of Enterprise Capital Funds by £200 million**, which will enable investment into the equity gap of more than £300 million for early stage innovative SMEs with the highest growth potential; and
- **encouraging business angel groups and the Government's SME investment arm, Capital for Enterprise Ltd, to put together a bid to the Regional Growth Fund for a Business Angel Co-Investment Fund**. If successful, this will support angel investments into early stage SMEs with high growth potential, particularly in areas worst affected by public spending cuts.

1.27 The major UK banks have also committed to actions that will seek to repair relationships between banks and business customers. The Business Finance Taskforce, formed in response to the Green Paper, committed banks to:

- **fund and implement a new single network of UK mentoring providers**. This network of experts will help start-ups, growing businesses and businesses seeking financial mentoring. It will also include access to 'financial master classes' funded by banks;
- introducing a **new, transparent appeals process** with independent review and disclosure of appeals data **to assist businesses that have been declined finance by banks**; and
- **funding and publishing of a new independent survey to provide agreed, authoritative data on business finance and lending supply**, including appropriate regional lending data.

⁴ *Financing a Private Sector Recovery*, Department for Business Innovation and Skills, October 2010

1.28 The Government wants to make the UK the most attractive developed economy in the world for early-stage and venture capital investment in SMEs. The Government will constantly challenge the banks to deliver on their commitments to improve the transparency of their decisions, promote competition and provide the new business growth fund for established SMEs. It will assess how successful the package of both public and private sector support is in unlocking the finance small business needs to grow.

1.29 The Government will continue to review the competitive landscape in access to finance for SMEs as a priority, particularly considering early-stage and venture capital investment.

A planning regime which supports growth and sustainable development

1.30 The planning system affects labour market flexibility and businesses at all levels – from small businesses with ambitions to grow to large firms with cash to invest. Planning has an important role in reconciling competing economic, social and environmental considerations, but business groups often cite delays and restrictions in the UK system as a major barrier to growth. This Government wants to ensure that, in the future, planning is flexible and responsive to business needs, values development, supports towns, cities and rural areas, facilitates competition, and does not impose disproportionate costs on business.

1.31 The Government is committed to reforming the planning system so that it supports economic growth by providing the right land in the right place for development, enables an increased supply of housing that the country needs, and ensures the timely delivery of infrastructure. The reforms will ensure that the planning system incentivises growth with development driven from the bottom up, understands and is more responsive to changing demands of business, and is less bureaucratic. By creating a more effective planning system which responds to market signals and takes account of the implications for business and households, and where decisions are taken at the right level and communities receive more of the benefits from growth, the Government's reforms will encourage growth and provide increased confidence to investors.

1.32 The Government has already published a Local Growth White Paper⁵ setting out elements of the Government's reforms to be delivered through the forthcoming Localism Bill. Via this legislation and wider reforms to planning, the Government will:

- **create a Major Infrastructure Planning Unit** to deliver a fast-track, democratically accountable planning process for nationally significant infrastructure projects;
- **create a presumption in favour of sustainable development in a way that supports economic growth;**
- **incentivise housing growth through a New Homes Bonus** to encourage local authorities and communities to be more supportive of local housing growth;
- **reform the Community Infrastructure Levy** to make it a more powerful incentive for local communities to support growth through funding for infrastructure;
- **fundamentally reform and streamline national planning policy and guidance**, and prepare and present to Parliament a simple and consolidated national planning policy framework covering all forms of development; and
- **introduce a new duty that will place a statutory obligation on local authorities and public bodies, crucial to effective plan-making, to cooperate.** This duty will further support the delivery of effective cross-boundary strategic planning.

⁵ *Realising Every Place's Potential*, Communities and Local Government, October 2010

1.33 The Government will make this an immediate priority for action, to help overcome the bureaucracy and delays in planning that have often caused problems for business.

Better regulation

1.34 Overregulation damages business: every hour filling in forms is an hour not spent running and growing a business. Businesses clearly see both the stock of existing regulations and the flow of new ones as barriers to growth, particularly employment regulation.⁶ The Government wants the UK to be the best place to start and grow a business.

1.35 The Government has already:

- **introduced a ‘One In One Out’ system to minimise new burdens, and sunset clauses to ensure that neither regulation nor regulators will continue to exist beyond their useful life.** The Regulatory Policy Committee of independent experts now advises Government on the quality of Impact Assessments to help improve the analysis of costs and benefits before decisions on new regulation are taken. A tough new Cabinet Committee has the remit of reducing regulation;
- **taken action to reduce the disproportionate burdens imposed by health and safety regulations on business** accepting all of the recommendations put forward by the Prime Minister’s Adviser on Health and Safety Law and Practice⁷;
- **announced that each relevant department is reviewing the employment law for which they are responsible** to ensure maximum flexibility, protect fairness and promote competitiveness; and
- **committed to reduce the total regulatory burden on the house building industry over the Spending Review period** in order to help increase housing supply and support UK house building.

1.36 The burdens of regulation continue to be one of the top concerns of business. The Government will focus on reducing the regulatory burden as an immediate priority for action.

Incentives for innovation

1.37 Within competitive markets, a sound intellectual property framework is essential to protect incentives for entrepreneurship and innovation, underpinning the dynamism the Government wants to see in the UK economy. The Government has announced:

- **an independent review of the UK’s intellectual property (IP) framework**, due to report in April 2011, which will focus on identifying barriers to growth that exist in the IP system and how to overcome them, alongside enabling new digital-age business models.

1.38 Innovative firms will help drive the new breakthroughs which bring long-term wider benefits to the economy. That is why the Government has an ambition to be the most technology-friendly government in the world. As set out in the Blueprint for Technology⁸, the Government is:

- **making the Technology Strategy Board the prime channel through which the Government will incentivise business-led technology innovation** and providing it

⁶ *Voice of Small Business Annual Survey*, Federation of Small Businesses, February 2010

⁷ *Common Sense, Common Safety*, Lord Young of Graffham, October 2010

⁸ *Blueprint for Technology*, HM Government, November 2010

with over £200 million to establish a **network of Technology and Innovation Centres** to help commercialise new and emerging technologies;

- **introducing a new Entrepreneur Visa**; and
- **launching a new 'peer to patent' system** which draws on the expertise of people across the globe to help maintain patent quality.

1.39 Many of the benefits from innovation come not from new ideas, but from spreading the benefits of existing technologies. Openness to trade, more competitive and efficient markets and a better skilled workforce will help promote the spread of new technologies throughout the economy, with huge potential rewards for productivity.

Stronger competition regime

1.40 The Government wants to see more effective competition throughout the economy, **which is why work to remove barriers to competition and to reform the UK's competition regime will form part of the Government's priorities over the coming months.** In particular, businesses have expressed concerns over the costs of dealing with two different authorities and the resulting duplication. Evidence suggests that, while there are parts of the competition regime that work very well, there are other elements of the system that are too slow, for instance in prosecuting antitrust cases.

1.41 The Government has put in train work to:

- **reform the competition regime**, including plans to merge and streamline the Competition Commission and the competition functions of the OFT.

Sound corporate governance, providing incentives for long-term growth

1.42 For a more competitive economy, the Government must also ensure that long-term growth is not compromised by short-term volatility, or that its benefits are captured by a few at the expense of the many who provide the capital. **The Government has launched a review into corporate governance to investigate issues including the problems of short-termism, investor engagement, directors' remuneration, and the economic case for takeovers. This will be one of the Government's priority areas over the coming months.**

1.43 The Government will also consider the role of directors and shareholders and ask fundamental questions about shareholder engagement, market short-termism and the long-term sustainability of UK companies.

Effective Government that supports investment and growth

1.44 The focus of Government should be on supporting private sector growth and investment. The goal is an environment in which businesses can thrive, with a competitive and stable tax and regulatory regime and efficient public spending focused on the activities that the market would not do by itself.

Focused public spending

1.45 The Government knows that businesses need certainty about the long-term investment climate. Business has called for fiscal consolidation to focus on spending cuts rather than tax rises and for the most economically productive spending, particularly on capital, to be protected as far as possible. In line with calls from industry and evidence from the IMF and OECD on the nature of successful consolidation plans, the Spending Review set out how the Government would achieve the vast majority of deficit reduction through spending cuts.

1.46 High quality economic infrastructure is particularly important to support a competitive, growing economy. **In the Spending Review, the Government increased capital spending by £2.3 billion over Budget 2010 plans to protect the most productive infrastructure investment. Within capital spending, the Government has prioritised spending that generates the highest long-run economic returns.** As a result, transport infrastructure spending, which is a critical support for private sector growth, will be higher in real terms in 2014-15 than in 2005-06, with over £39 billion investment over the Spending Review period.

1.47 The Spending Review also made tough choices to prioritise resource spending that promotes growth, such as providing the largest ever financial investment in adult apprenticeships. The Government has protected science resource spending in cash terms and is incentivising universities to work more closely with business to maintain and develop the UK's strong skills base, generate new companies, and attract research and development funding from around the world.

1.48 The Government is focusing its business support so it is more responsive and better targeted. 'Growth Hubs' will help businesses that could grow more to identify the barriers that are stopping this growth. The 'Hubs' will provide businesses with access to specialist coaching, mentoring, investment-readiness advice, and will point them in the direction of help on issues such as innovation and exporting.

1.49 Alongside prioritising spending that promotes growth, the Government is committed to driving up the productivity of public spending by opening up departments' plans to public scrutiny. Every Government department will report publicly each month against the milestones in its Business Plan and publish data on a selection of indicators every quarter. Within Government, the Minister for Government Policy and the Chief Secretary to the Treasury will hold them to account.

Infrastructure

1.50 The Government has prioritised public spending on infrastructure, but the majority of vital economic infrastructure is provided by the private sector. The UK's approach to infrastructure in the past has been too timid, uncoordinated and insufficiently targeted. The result is that the UK's infrastructure is aging, plans are unclear and costs are too high.

1.51 The first ever National Infrastructure Plan set out the Government's strategy to unlock some £200 billion of public and private sector investment over the next five years, to deliver the infrastructure the UK needs for the 21st Century. It set out how the Government will:

- **improve private sector investment models**, encouraging new sources of capital and exploring options to reduce the cost of capital, including the potential for extending the Regulated Asset Base model, reporting in spring 2011;
- **ensure that the economic regulation regime is fit to deliver the investment needed to meet future challenges.** The Government will develop a common set of principles for economic regulation to be published by the end of the year with clear actions for implementation by the time of Budget 2011. By summer 2011 the Government will publish what further action is necessary to ensure the regulatory framework for infrastructure networks is fit for purpose;
- **reduce the costs of construction**, recognising that the UK is one of the most expensive countries in Europe in which to build infrastructure. The Cost Review, led by Terry Hill, will report by the end of 2010; and
- **work with the sectors engaged in delivering infrastructure to identify barriers to innovation and efficient operation of supply chains**, reporting in spring 2011.

1.52 A reliable and cost-effective energy system, delivered through a higher proportion of low-carbon generation, is a pre-requisite for sustainable growth. Because of the long-term nature of electricity investments, and the high proportion of existing generating capacity that is due to close, there is an opportunity to get the UK on the right path.

1.53 That is why the Government:

- **has committed to reform the electricity market**, including supporting the carbon price in the UK to encourage more low-carbon generation. These reforms are designed to ensure continued energy security and a significant increase in the levels of low-carbon investment. They aim to achieve these goals in the most cost-effective way possible to minimise the burdens on business. The Government will publish proposals for consultation later in 2010, with a White Paper setting out final recommendations in spring 2011.

1.54 To help make the transition to a low carbon economy, the Government is **setting up a Green Investment Bank**. This institution will initially be capitalised with £1 billion of Government funds, with significant additional proceeds from the sale of Government-owned assets, subject to a final design which meets the tests of effectiveness, affordability and transparency. **From 2012, the Green Deal will introduce innovative private finance products** to enable businesses and homeowners to invest in energy efficient measures. The Government will also **increase the proportion of tax revenues from environmental taxes** and publish a **Road Map to a Green Economy** in spring 2011, providing greater clarity for investors.

Procurement

1.55 Public spending also shapes markets through Government's role as a procurer. The current system leaves businesses wasting too much time on form-filling and searching for contracts. It works against a competitive market by locking dynamic and innovative SMEs out of many Government contracts.

1.56 The Government wants to create a more competitive and transparent procurement system which drives value for money for the taxpayer, and contributes to demand in low-carbon goods and services and capability and innovation in the private sector. The Government is:

- **unlocking barriers to SMEs**. The Government's aspiration, that 25 per cent of Government contracts will be awarded to SMEs, will be achieved through an ambitious programme of measures, including: mandating a simplified, core Pre-Qualification Questionnaire; a Lean Study looking at causes of delay in the procurement process; and launching a Contracts Finder in March 2011, a system to help SMEs find public sector procurement and subcontract opportunities online. To improve transparency, Government has been publishing tender documents since September 2010 and will publish all contracts online from January 2011;
- **using procurement as a lever, through enabling the Small Business Research Initiative to support innovation in new technologies and to direct public money towards firms that are developing new and innovative technologies;** and
- **supporting public sector bodies, where relevant and cost-effective, to promote skills training and apprenticeships in procurement.**

A stable, competitive tax system

1.57 Over the past 10 years, the tax environment for UK business has become less competitive, and businesses have become frustrated with frequent changes. The primary aim of the tax system is to raise revenue, and therefore provide the fiscal stability that is a precondition for

business success. The Government believes that the tax system can and should also be an asset for the UK, improving the business environment and helping to attract investment.

1.58 The Government is therefore taking action to provide a more competitive, predictable and simpler tax system. The Government has taken the first steps towards making the UK corporate tax regime the most competitive in the G20, by reducing the rate of corporate tax over the next four years from 28 per cent to 24 per cent (its lowest rate ever), and the small profits rate from 21 per cent to 20 per cent in 2011.

1.59 Reducing corporation tax rates benefits businesses across the economy and can boost investment and growth. However, a competitive tax system is not just about headline rates of tax. **The Government has today published a detailed programme of reform in 'Corporate tax reform: delivering a more competitive tax system', which includes a Corporate Tax Road Map:**

- Globalisation has meant that the world's markets have become more open and competitive. The Government needs to ensure that the way the tax system operates for UK-headquartered multinationals does not inhibit commercial business practices or make them unattractive to international investment. Moving towards a more territorial tax system will allow businesses based here to be more competitive, supporting UK investment and jobs. **The Road Map confirms that the Government will take action to reform the Controlled Foreign Company (CFC) regime and the taxation of foreign branches by adopting a more territorial approach;**
- Over recent years, businesses have become more focused on deriving value from intangible assets. The taxation of intellectual property plays a key role in the Government's corporate tax system ambitions. **The Road Map confirms that the Government will introduce a preferential regime for profits arising from patents, known as a Patent Box.** The Patent Box will encourage companies to locate the high-value jobs and activity associated with the development, manufacture and exploitation of patents in the UK. It will also enhance the competitiveness of the UK tax system for high-tech companies that obtain profits from patents; and
- The Government believes that R&D tax credits play a valuable role in supporting innovation and productivity in the UK. **The Road Map sets out plans for consulting on the support R&D tax credits provide for innovation and the proposals of the Dyson Review.**

1.60 The Government has set out its intention to reform the way that tax policy is developed. It committed to a new approach to policy making to increase predictability and stability, with consultation on policy and scrutiny of legislation as its cornerstones. To underpin these commitments, the Government has been consulting on proposals for improving the tax policy-making framework and will report back later in 2010. This consultation is already informing the Government's approach, which the Corporate Tax Road Map demonstrates.

Supporting individuals to fulfil their potential

1.61 The UK economy will be stronger, fairer and more sustainable in the long-term, if everyone can contribute to and share in future prosperity. The UK needs concerted Government action to overcome barriers to social mobility and provide equal opportunities in Britain today. Only by doing this can a fairer society be built.

1.62 The previous model of growth was unbalanced, with too many people trapped out-of-work, in jobs that did not fully use their skills, or were failed by the education system. There are currently over 10 million working-age people who are not working, and around five million receiving out-of-work benefits. 1.4 million people in the UK have been on out of work benefits

for nine or more of the last ten years. Last year, of the 80,000 students in one year eligible for free school meals, just 45 were admitted to the universities of Oxford and Cambridge.

1.63 The Government has embarked on a programme of radical reform to create a welfare system that rewards work, and an education system which encourages achievement and drives social mobility at every stage.

An education and skills system that supports sustainable growth

1.64 Evidence shows that the better skills a person has, the more likely they are to be employed, to earn more, and to be more productive. Better skilled people are also better able to adapt to new technologies, and the better use of technologies throughout the economy offers huge potential for growth.

1.65 Businesses often highlight the need for improved basic skills and call for: a schools system which tackles the 'long tail' of low-achieving students; a stronger base of science, technology, engineering and mathematics (STEM) skills; and a competitive and sustainable world-class higher education system. As well as improving skills, the UK needs to make better use of the skills people already have.

1.66 The UK needs a simpler, more flexible skills system that responds to the needs of employers and which repays the efforts of learners. That is why the Government is:

- **launching reforms, learning from world-class education systems, to improve the skills of young people**, as set out in *The Importance of Teaching*⁹. This will include enhancing teachers' status and authority, making the UK's curriculum and qualifications world-class, giving schools more autonomy, and holding schools to account for their results;
- **expecting all young people to participate in education or training to age 17 by 2013, and then to 18 by 2015**, to ensure they have the opportunity to gain the skills they need to thrive in the labour market;
- **driving up the quality of workforce skills and reducing bureaucracy**. Where there are barriers to growth the Government will work with employers to remove them, tackling market failure and making the skills market work more effectively. As set out in the recent *Skills Strategy*¹⁰, the Government is expanding adult apprenticeships by up to 75,000 by 2014-15 compared to the previous government's plans. The Government will support employers to help address their skills needs through a new £50 million growth and innovation fund, with financial support to SMEs to co-fund the costs of training for lower skilled employees. The Government will also work with the private sector to support collective employer-led initiatives, such as the establishment of new professional standards, occupational licensing or the introduction of voluntary training levies; and
- **encouraging a more competitive and diverse higher education sector**. Following the review by Lord Browne¹¹, the Government announced a fundamental reform of higher education funding, to be introduced from autumn 2012. This will sustain the viability of the UK's world-class university sector, while reducing the burden on the taxpayer, by requiring graduates who can afford it to pay more in return for the benefits they gain. The Government will ensure progressive financial support for those on low incomes while they study at university and in their loan repayment

⁹ *The Importance of Teaching*, Department for Education, November 2010

¹⁰ *Skills for Sustainable Growth*, Department of Business Innovation and Skills, November 2010

¹¹ *An Independent Review of Higher Education Funding and Finance*, Lord Browne, October 2010

terms. The Government will publish a Higher Education White Paper before spring 2011 setting out wider plans for increasing the contribution that higher education makes to growth.

Labour market reform

1.67 One of the main ways in which Government can promote growth and social mobility is by getting more people working and removing barriers to job creation. Businesses want a system which rewards both work and job creation. The current system does neither, with a welfare and tax system which discourages work for those starting out on the employment ladder, and a system of employment law which needs to be modernised.

1.68 In response the Government is:

- **improving incentives to work.** The Government is introducing a new Universal Credit to radically simplify the current system of benefits and make the gains from work greater and clearer. To help long-term unemployed people into sustained employment, the Government is replacing the array of employment programmes with an integrated regime of support (the Work Programme) and creating a new Enterprise Allowance that will help those wanting to set up their own business. The Government is re-assessing the needs of people on Incapacity Benefit to identify those who are able to move into work with the right support and has announced £6 billion of reductions in labour taxation, further improving the incentives for those moving into lower earning jobs; and
- **removing barriers to job creation.** The Government needs to build on the UK's strengths as one of the world's most flexible labour markets. The Government is reviewing employment laws and will launch improved web-based tools on businesslink.gov to bring together help for employers taking on new employees. The Government wants to increase the proportion of the population who are in the labour market and looking for jobs, including by making changes that will help people to balance work with family and other non-work commitments, including caring.

Promoting opportunities across the country

1.69 The Government is aiming to create the conditions that enable every place to reach its growth potential and that allow people to access opportunities regardless of where they live. In Budget 2010, **the Government introduced a regional employer National Insurance Contributions holiday for new businesses.** The holiday applies to eligible businesses set up in target regions and countries where there is the greatest dependence on public sector employment. By reducing the cost of employing staff, the holiday helps new businesses to create jobs.

1.70 The Local Growth White Paper set out the Government's strategy for enabling local authorities, businesses and communities to drive growth in their own area, including:

- **shifting power to local communities and business,** giving business, local authorities and other partners such as universities the responsibility for and ability to drive local economic growth, through the creation of local enterprise partnerships, 24 of which have already been approved;
- **enabling tax increment financing (TIF)** to allow local authorities to borrow against growth in their local business rates. Details of how TIF will be implemented will be considered in the Local Government Resource Review to be undertaken early in 2011; and

- **releasing the private sector**, through the £1.4 billion Regional Growth Fund to stimulate private sector expansion throughout England and improve access to the opportunities which growth brings, in particular to those areas and communities that are currently dependent on the public sector. This will help to enable them to make the transition to sustainable private sector-led growth and prosperity.

1.71 The Government aims to promote growth in all parts of the UK and will continue to work closely with the devolved administrations to achieve this aim. The Government welcomes the opportunity to share ideas for creating the conditions for business success, such as through the Scottish Government’s sustainable economic growth strategy.

Getting behind British businesses

1.72 The UK needs broad-based growth that comes from all sectors of business, and that builds on the UK’s existing strengths. It is also necessary to respond to opportunities from globalisation, technological developments and rising incomes, as well as to structural changes, for example demographic change and the need for a transition to a low-carbon economy.

1.73 Whilst important, the Government recognises that the structural reforms outlined above will not fully address the more specific issues facing firms across the economy. A focus on individual industries can act as a diagnostic tool for wider policy, providing examples of where structural barriers to growth really bite. Only by raising productivity sector by sector can overall growth be generated.

1.74 Every sector of the economy faces different challenges **and there are actions Government can take for specific sectors that will provide the right conditions for British business to grow.** This is not about picking winners – only the interplay of consumers, markets and companies can determine which industries and businesses will be most successful in the future. It is about understanding the landscape that business operates in and making sure that wherever Government is able to remove a barrier to their success, it does so.

1.75 There are critical but different roles that Government can play in improving the UK’s performance, through increasing the UK’s share of world markets, raising employment or improving productivity. In particular, the Government has identified the following challenges:

- consolidating existing strengths in high-value services and advanced manufacturing to drive export growth;
- supporting new and expanding industries where the UK has the potential to become a world leader including in low-carbon technologies;
- improving performance in large domestic sectors, which is critical to increasing overall productivity and employment;
- ensuring essential infrastructure sectors underpin growth across the economy; and
- benefiting from the Government acting as a more intelligent customer in sectors where it is a major purchaser and can promote innovation.

1.76 This strategy therefore places a focus on the specific barriers faced by different sectors. This will be informed by a much greater level of dialogue with the private sector to help Government become more responsive.

2

The Growth Review

2.1 The Government is inviting business to take part in a fundamental review of what each part of Government is doing to address the barriers facing industry. This Growth Review will:

- **identify structural reforms with the potential to improve the business environment** and benefit the whole economy; and
- **examine the barriers to growth that affect specific sectors** and set out what Government will do to address them.

2.2 This marks a step-change in the way Government considers the impact of its policy choices, and the way that it implements them, on the private sector. The Chancellor of the Exchequer and Secretary of State for Business, Innovation and Skills will require every Government Department to present Action Plans for sustainable growth across sectors of the economy and for all sizes of business, focusing on areas where there are clear opportunities to improve the UK's performance, and where the Government can make a difference. This will be accompanied by intensive engagement with the private sector to ensure that the policy outcomes are as relevant as possible.

2.3 Departments will be expected to demonstrate how they are delivering the Government's four-part commitment to growth, in particular how they support efficient and dynamic markets. They will be required to show that their approach values stability, certainty and simplicity and that any new policies remove distortions rather than create new ones.

2.4 The Government has already acted to remove barriers to growth. The Growth Review sets in train an intensive programme of work to drive forward action on the Government's priority areas. The first phase of the Review will focus the Government's efforts on an initial set of issues, reporting back with policy proposals by Budget 2011. The Government will also set out the next phase of cross-Government priorities at Budget 2011. This relentless focus on growth will continue to form the basis of this Government's agenda for the rest of Parliament.

2.5 The Government will start by focusing on the priorities for action identified in the previous Chapter:

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

2.6 Over the course of the Review, the Government will need to take a forensic look at all sectors of the economy. To start with, the Government will assess the potential for Government action in the following six sectors, chosen to reflect the challenges set out in the previous Chapter:

- Advanced manufacturing
- Digital and creative industries
- Business and professional services
- Retail
- Construction
- Healthcare and life sciences

2.7 Box 2.A sets out the current contribution that these sectors make to the UK economy.

Box 2.A: First set of sectors

Advanced manufacturing: Despite perceptions to the contrary, the UK has real strengths in manufacturing, responsible for over half of all UK exports in 2009. The UK has a strong competitive advantage in sectors where it is possible to build on the UK's strong skills and research base, such as aerospace, defence, bio-pharmaceuticals, microelectronics and chemicals and emerging potential in other sectors including in low carbon vehicle technologies.

Digital and creative industries: The UK's creative industries are among the most influential and successful in the world, and UK digital content reaches round the globe. The sector is driven by clusters of interdependent firms both within and outside the creative industries, suppliers and institutions. Exports from across the creative industries are worth £16 billion annually to the UK economy, 4.3 per cent of all goods and services.

Business and professional services¹: Business and professional services account for 15 per cent of UK GDP. They are highly competitive in global markets – exports doubled over the period 1999 to 2009 to over £40 billion. Business services also support growth and drive change in other sectors, including by helping companies to meet challenges of globalisation and technological change through business process innovation and new business models.

Retail: The UK's retail sector is the largest private sector employer, employing more than 3 million people. It is extremely diverse, from small niche shops to large multinational retailers. Evidence suggests, however, that productivity in the UK has been lower, and growth slower, compared to the US due to later take-up of information and communication technologies and the impact of planning regulation in the UK.

Construction: Construction accounts for around 8 per cent of GDP. Improved performance by the sector and by the Government as a customer will make a vital contribution to the low carbon agenda, to infrastructure and to the country's prospects for growth.

Healthcare and life sciences: The UK has a world-leading life sciences industry, employing over 120,000 people and generating over £10 billion in value added in 2008. The Government is both a major regulator and, through the NHS, the largest customer in the UK, accounting for around 86 per cent of total public and private healthcare spend. The sector's strength is based on high quality research and innovation and a growing reputation for strong collaboration. This makes it well placed to take advantage of global trends, such as an aging population that will increase demand for high-quality healthcare and life sciences.

¹ Professional and business services comprise a wide range of activities, including accounting, legal services, management and engineering consultancy, HR services, advertising and computing services

Scotland, Wales and Northern Ireland

2.8 While some of the policies covered in this paper are UK wide in their coverage, in devolved areas of policy it is for the devolved administrations to determine their own policies and priorities. The Government aims to promote growth in all parts of the UK and will continue to work closely with the devolved administrations, building on the benefits of devolution. The Government welcomes the opportunity to share experience and ideas for creating the conditions for business success.

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