



# Seizing the Opportunities for Growth

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A Report by the Professional and Business Services Group

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# Foreword

by Mark Prisk,  
Minister of State for  
Business and Enterprise



In welcoming this report, prepared by the Professional and Business Services Group, I would like to express my gratitude to its members and particularly its Chairman, Sir Michael Snyder, for their commitment and candour.

With a share of GDP of 13% and growth in exports of 140% over the decade 2000-2010, the Professional and Business Services sector is one of the great success stories of the UK economy. The Professional and Business Services Group has been a vital forum for Business and Government to work together in seeking to strengthen the UK's position. We won't always agree, but we strongly share a wish to see the UK's position as market leader strengthened.

**“With a share of GDP of 13% and growth in exports of 140% over the decade 2000-2010, the Professional and Business Services sector is one of the great success stories of the UK economy.”**

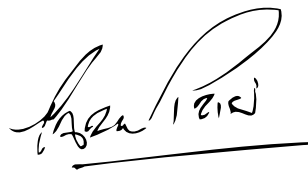
As the report emphasises, the fortunes of firms in this sector are deeply intertwined with the success of their clients, underpinned by a business environment that is based on trust and the rule of law, which rewards enterprise and attracts fresh talent. We should not lose sight of these important foundations. Indeed, I would argue that these principles are at the heart of the four ambitions underpinning the Government's Plan for Growth: creating the most competitive tax system in the G20; making the UK the best place in Europe to start, finance and grow a business; encouraging investment and exports; and creating a more educated workforce that is the most flexible in Europe.

I share the Group's vision of making the UK the pre-eminent global hub of expertise in this broad field, where firms come to find solutions to specific challenges or to find the best quality advice. I believe that much has been achieved already. We have taken significant strides in making the tax regime more attractive; in reducing red tape; in encouraging Higher Apprenticeships in this sector; and improving transparency and access to public data.

But we must not be complacent. Other locations, for example in Asia, are seeking to emulate the UK's achievements. We will continue, therefore, to strengthen the business environment, to open up opportunities for business at home and abroad, whilst working with the banks to improve the supply of credit.

I would also like to use this opportunity to set a challenge for the Professional and Business Services community itself. Given the importance of this sector as a catalyst for innovation and change, how can we bring the knowledge and expertise of Professional and Business Services clusters to bear on a much wider group of firms in all parts of the UK, as part of our attempt to rebalance the economy?

I look forward to working with you and the wider Professional and Business Services community on this issue, and in driving forward the agenda you have set out in this report.



Mark Prisk



# Foreword and Introduction by Sir Michael Snyder, Chairman, PBSG

The Government launched its Growth Review in the autumn of 2010 and, in response to its challenging agenda, the Professional and Business Services Group (PBSG) has sought to inform policy developments. Over this period, it has submitted advice to Ministers on a range of issues which, together, set out the framework conditions that underpin innovation and enterprise. The Group also contributed four papers to Phase 2 of the Growth Review on mid-sized firms, infrastructure, education and skills and open data/smart cities. The aim of this report is to encapsulate and update this advice into a single document.

In so doing, I should emphasise three points:

- The success of our own businesses depends, to a very large extent, on the success of British business as a whole, and it is this broader view which has framed our discussions
- The growth of professional and business services over the past twenty years, summarised briefly below, also stems in no small part from Government acting as an enabler of change, and the leitmotiv of this report is to consider how, in the present difficult economic climate, Government might continue to fulfil that role and, thereby, sow the seeds of growth; and
- The present growth debate is being conducted against a backdrop of financial crisis, at home and among our leading trading partners, while globalisation and technological change continue apace. Expanding sales and market share in such an environment is no easy task, and we believe that those who have the enterprise, drive and good fortune to steer their firms to success, amid such uncertainty, deserve to be well rewarded for their efforts, provided that the rewards reflect their unique skills and personal risk, and that the processes are transparent.

**“The present growth debate is being conducted against a backdrop of financial crisis, at home and among our leading trading partners, while globalisation and technological change continue apace.”**



For the purposes of this report, Professional and Business Services comprise accounting, actuarial services, legal services, shipping, computing services, management consultancy, advertising/corporate communications, recruitment & HR management, architectural and engineering services. Together they employ 3.5 million people (13.2% of UK employment) and produce £167 billion pa or 12.9% of GDP and, in 2010, exported £61 billion, accounting for 14% of UK exports. The sector earned a surplus on current account of £28.5 billion in 2010. Further information on the size and performance of the sector is set out in Annex 1.

The extraordinary growth of this sector dates back to a specific date, 27 October 1986, the so called “Big Bang” when regulatory reform removed fixed commissions on share transactions and opened up the City to competition. This sparked a wave of expansion, as the entry of US financial services firms increased demand for accounting, legal, HR, computing and property services. Market opening was accompanied by investment in infrastructure to meet the new demand for office accommodation: the first buildings on Canary Wharf were completed by 1991 and work began on the Jubilee Line Extension to complement the Docklands Light Railway which had been open since 1987. As a result, the development along the Thames to Docklands, with its series of iconic landmarks, made London a global centre for design, architecture and engineering services.

The opening up of the City to competition was accompanied by the transformation in the ownership of public utilities: telecommunications, gas, electricity and railways were privatised over the period 1984 to 1992, which further stimulated demand for professional and business services. This, in turn, was succeeded by a transformation in the delivery of public services as the Government began to outsource a wide range of services. Between 1996/97 and 2007/8 outsourcing of public services doubled from £40 billion to £80 billion in real terms<sup>1</sup>.

But perhaps the biggest driver of change and opportunity for Professional and Business Services firms came with the development of the internet and the liberalisation of trade, most significantly, China’s application to join the WTO in 1986 and its acceptance into the community of trading nations in 2001. As a result, global supply chains were transformed and UK firms were forced to respond to the competitive challenge in a relatively short period. This set in train an upsurge in demand for a wide range of services, as firms sought specialist advice on the re-design of business processes; new business and revenue models; the information systems to capture and collate the management information to respond to rapidly evolving markets; staffing requirements and new employment

strategies; and the most effective channels for marketing and communication, as consumers steadily switched to online and, more recently, mobile channels: in short, specialist advice to enable businesses to engage with, and respond more quickly to the needs of, their customers, to their workforce, and to secure more value from their efforts and position in the value chain.

At the same time, the 1986 EU Single Market Act provided new opportunities for many UK-based professional and business services’ companies and acted as a spur to London becoming a professional services gateway to Europe for investment and trade from outside Europe. Thus, it helped consolidate the UK’s position as a hub.

Opportunities for UK Professional and Business Services firms were enhanced further by successive Governments seeking to encourage foreign direct investment (FDI), both inward and outward, over many years. More recently, UK firms have been able to capitalise on the knowledge and experience gained, both in public service transformation and in global supply chains, by exporting to overseas markets. The growing recognition of UK expertise is reflected in the trade figures: between 2000 and 2010 exports of Professional and Business Services have more than doubled from £25 billion to £61 billion. The bulk of these exports have been to developed economies but, as the developing world acquires a taste for branded products, a resilient, sustainable and modern built environment, and public services which match citizens’ rising expectations, so demand for UK expertise has increased.

Indeed, as globalisation has increased, so has the need for businesses to work in a common language and have confidence that contractual obligations will be observed. The UK, and particularly London, has emerged as the market place of choice, where international businesses locate or choose to transact their business, confident in English contract law, the fairness of arbitration and, where necessary, restitution. Creativity, and the ability to develop innovative solutions are also valued; the upshot is a business service ecosystem which is second to none, where, regardless of size, global businesses or governments can find solutions to almost any challenge they face, however specific, or however large and diverse. In addition, the City provides access to capital and the means of funding investment and insurance on fine terms.

The rich and varied nature of demand since 1986 has clearly been critical to the growth of the Professional and Business Services sectors. However, these

<sup>1</sup> Public Services Industry Review: A review by Dr DeAnne Julius CBE, July 2008

## Case Study

# Linklaters - The UK as an international legal centre

The rapid development of emerging economies has made international work a key growth area for the legal sector.

Many large international companies choose to transact business under English law, even in situations where neither party is English. As an example, on 8th June 2012, Linklaters' client Sberbank of Russia, the pre-eminent Russian bank and the largest lender in Central and Eastern Europe, entered into a definitive agreement to acquire 99.85% of the outstanding shares in Denizbank A.S., the 8th largest bank (and the 5th largest private bank) in Turkey from Dexia NV/SA and Dexia Participation Belgique, for the total consideration of approximately USD 3.5bn (subject to adjustment at closing). The deal is the largest ever acquisition by a Russian bank of a foreign bank, is governed by English law and the work was carried out by Linklaters, a UK based law firm.

Arbitration and Dispute Resolution have also been a major growth area since 2008. TheCityUK estimates that there was a 78% increase in the number of disputes resolved in the UK between 2007 and 2009. Although these disputes were mainly domestic, a sizeable proportion (approx. 15-17%) were international and the number of these cases increased by 59% between 2007 and 2009.

The UK is particularly well placed to exploit these opportunities through our well respected and consistent legal system and world class law firms. In fact, this highly

developed legal infrastructure attracts business to the UK as demonstrated by the Commercial Court.

The Commercial Court, now housed in the state of the art Rolls Building, issues, on average between 800 and 1,300 claims a year, with between 4% and 10% going to court: there were 56 cases heard in 2009. Roughly three quarters of the claims issued involve overseas parties, and with over half of cases, there is no link to the UK other than the parties' choice of London as the venue.

The Rolls building, opened in 2011, is the largest dedicated commercial court in the world. It is 4 times the size of its nearest competitor; with 31 courtrooms, 11 hearing rooms for related work, 55 public consultation rooms, and high quality IT infrastructure for parties involved in proceedings. There is the added attraction that it is located just off Fetter Lane within 30 minutes of many of the world's pre-eminent law firms and chambers and accessible internationally through London City Airport, London Heathrow and Eurostar St. Pancras International.

<sup>1</sup>TheCityUK, Dispute Resolution in London and the UK, September 2010

<sup>2</sup>TheCityUK, Dispute Resolution in London and the UK, September 2010

<sup>3</sup>Her Majesty's Courts Service

<sup>4</sup>Her Majesty's Courts Service

<sup>5</sup>Picture Credit:

[http://www.propertyweek.com/pictures/458xAny/6/5/8/1663658\\_110\\_fetterlane\\_1\\_CMYK.jpg](http://www.propertyweek.com/pictures/458xAny/6/5/8/1663658_110_fetterlane_1_CMYK.jpg)

<sup>6</sup>Ministry of Justice, <http://www.justice.gov.uk/courts/rcj-rolls-building/rolls-building>






waves of new opportunity would have foundered, and possibly shifted elsewhere, had it not been for the flexibility and capacity of the UK, and London and the South East in particular, to respond in kind. It is important for policy makers and Business to recognise that the UK's pre-eminence in this field has been built on three main elements:

- An infrastructure, in the broadest sense, which has been able to accommodate a significant expansion in activity and yet remain attractive to a diverse population
- A creative pool of talent, from a wide range of backgrounds and disciplines - from hard analytics to so called "softer" creative skills - nurtured by a combination of world class universities and professional institutions, whose standards and integrity are of global repute; and
- An open, competitive, entrepreneurial environment, which is truly global in outlook and entirely customer focused, where regulation has traditionally struck a balance between risk and enabling new approaches.

Following the Executive Summary, we consider these three elements - the underlying framework conditions for growth - and we highlight where we believe Government needs to focus its attention. But this, in itself, will not kick-start the growth process: in the succeeding chapter we suggest both a shift in focus for Government policy and identify key areas which have significant growth potential, where the UK has a proven capability, as affording the best prospect for promoting sustainable growth. We also consider that the shift in focus might be matched by a change in the way we discuss innovation in the modern economy, which we illustrate in Annex 4.



Sir Michael Snyder, Chairman, PBSG



**“The rich and varied nature of demand since 1986 has clearly been critical to the growth of the Professional and Business Services sectors.”**



# Executive Summary and Recommendations



Over the past decade the Professional and Business Services sector has grown at 3.6% pa (in real terms) compared with 1.6% for the UK economy as a whole. In 2010 it generated £167 billion of value added, accounting for almost 13% of UK output and employed 3.5 million people, a similar proportion of the UK workforce. The sector earned around £61 billion overseas, accounting for around 14% of UK exports in 2010, and, at £28.5 billion, it secured the highest trade surplus for the Professional and Business Services sectors in the OECD. In short, it can reasonably stake a claim to being the most successful sector in the British economy and the most powerful clustering of business service activity in the OECD.

However, this sector, like others, is facing increasing global competition, and the shift in economic activity towards the Far East and other developing countries poses its own threats, as centres such as Singapore, Hong Kong, and Shanghai emerge to offer services to a burgeoning business sector. This report seeks to articulate how the UK needs to respond to these challenges and how it might focus on areas of significant growth potential, worldwide, as the cornerstone of the Government's Growth Agenda.

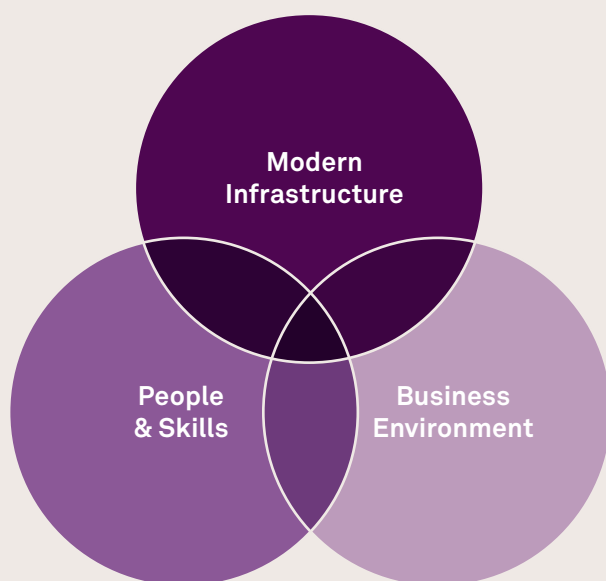
### Conditions which Underpin Growth:

In chapter 4 we set out a vision for the UK to be the global hub of the knowledge intensive professional and business services market. The widespread use of English by globally oriented firms and the worldwide reputation of British professional institutes as the

guardians of the highest technical and ethical standards among practitioners, provide a strong basis for this vision. However, such a lead is soon eroded if other key elements are overlooked, in particular:

- A business environment, underpinned by the rule of law, which rewards success and encourages enterprise, within a competitive, open market with demanding customers
- A modern infrastructure and flexible urban planning in key areas, which accommodates growth and provides access to emerging markets around the world; and
- A flexible supply of highly skilled and professional people, able to respond quickly to meet customer needs and to handle the rich diversity of global markets.

Figure 1: Framework Conditions for Growth



#### Modern Infrastructure:

Competitive broadband  
Access to emerging markets  
Multimodal transport systems

#### People & Skills

Access to world class talent  
CPD imbued in the business culture  
Diversity encouraged

#### Business Environment

Rule of law  
Business confidence  
Rewards for success & taxation  
Regulatory climate  
Open to competition  
Enterprise & SME friendly

Our overriding concern is to strengthen these elements which, over time, have been instrumental in building the UK's pre-eminent position and form the basis for innovation and growth. While they are regarded as horizontal policies, it is the mutually reinforcing elements of policy - all pulling in the right direction - which signals to global firms that the UK is not just "open for business", but is the place to do business. To this end, our key recommendations to Government are:

## Business Environment

### a) The Rule of Law, Business Confidence and Competitive Tax Rates

- Ensure greater stability and predictability within a tax system that is equitable between types of business organisation, and avoid the imposition of retroactive legislation and windfall taxation that makes the UK a riskier prospect for international investment
- Ensure that personal taxation levels are competitive for the UK to attract and retain the best talent in professional and business services as a global hub
- Pay due regard to corporate taxes in competing locations and work with governments in developing countries to simplify and rationalise the withholding tax arrangements faced by all firms
- Ensure bank lending targets to SMEs are met (through a mixture of pressure and incentives).

### b) The Regulatory Environment

#### (i) Employment Regulation

- Streamline the process - implement pro-active case management by tribunals
- Consider extending the principle of the Part 36 Offer to employment law
- Address continuing problems with the Working Time Regulations, redundancy pools and suitable alternative employment
- Address concerns over how the proposed changes to maternity and paternity leave will work in practice
- Simplify and reform "The Conduct of Employment Agencies and Employment Businesses Regulations 2003" and the Agency Workers Regulations.

#### (ii) Bribery Act and Money Laundering

- Government should play a more active role in high risk jurisdictions in seeking to influence the way in which business is conducted

- The Group will provide a report on the impact of the Act, one year on.

### (iii) Audit Regulation

#### Encourage the FRC to:

- Concentrate on oversight
- Reflect on the views of auditors with up-to-date experience of audit
- Co-ordinate its activities with the professional bodies more effectively to minimise the risk of duplication
- Focus its efforts and resources on the audit of firms and sectors where systemic risk is greatest
- Ensure that auditors have been sufficiently forthcoming in signalling to regulators relevant important developments which are pertinent to the latter's task
- In the event of failure, focus on determining whether proper processes were followed and, on matters of important professional judgement, confirming that further independent advice was sought
- More actively promote the UK's overall high audit quality and transparency to ensure that inspection reports and regulatory measures are seen in their proper context
- Promote international standards and the UK's role as a hub and guarantor for standards in line with G20 commitments and continue to urge the EU to fully adopt these standards, thus reinforcing the UK's (and EU's) global position
- Defend the UK's principles based approach to regulation of the professions in the negotiations in the European Council.

### (iv) Red Tape Challenge

- Extend the purview of the Red Tape Challenge to look at the supervision of firms by regulators (attitude and approach) and obtain feedback from stakeholders on the way regulations are monitored and implemented.

## People & Skills

### (a) Employability and Diversity

- Simplify and support more vigorously the mechanisms by which businesses, particularly SMEs, can work with schools to improve the employability of school leavers

# Case Study

## Davis Langdon - The Shard

A decade ago, London was a fledgling in the tall buildings market, characterised by immense and intense debate on their appropriateness for the UK's historic capital. Back then we looked to the world for ideas and advice. Now, following the development of an array of architectural and engineering solutions, and having to demonstrate quality in all senses at every hurdle, London's professional community possesses genuine high rise credibility, exporting its knowledge on a truly international scale.

These towers are a vital part of a future smart city. Among other things, their leveraging of existing infrastructure and, in the Shard's case, mix of uses, answer critical questions about sustainable development in a world of rapid urbanisation and resource constraints. 8,000 people will live, work and 'play' in this vertical city and many more will enjoy the enhanced public realm and transport connections.

Our work on these schemes has been a major catalyst for research and development, work that is fed into live projects across the globe in a continuous cycle of improvement. The current focus is placed on effective and efficient tall buildings fit for an environment of austerity and climate change.

The Shard at London Bridge is an example of this new wave of landmark towers that are changing the city's skylines: a new icon for London, new tower typology and a new winner in the European height stakes – but its success reaches far beyond its status as a trophy asset. Its legacy includes the profile, experience and skills that it has afforded the business community.

Not only has the tower (and London Bridge Quarter) had a contingent effect upon Bermondsey and London, it is receiving considerable global attention. A seminal CTBUH annual conference is coming to London in 2013, with The Shard and other landmark London towers showing how height can be successfully mixed with heritage.

The key aspects of The Shard, in terms of its impact on London and the wider UK economy, are:

- Thought leadership – London is now a centre of excellence for high rise design and delivery
- Job creation and training for local residents / college leavers during construction and in operation
- London's first vertical city, completely connected at its base. Improved integration between the city and the transport system
- New tourist attraction – the tower itself as well as the view from the gallery – which has captured the public's imagination more than any other London tower
- Leveraging existing infrastructure: located at London's busiest transport node; improvements to the station concourse; relocated bus station and taxi rank; better connections into the underground

- Infrastructure improvements supplemented by a substantial Section 106 investment, including a new entrance for Guys Hospital
- Placemaking on an international scale – it is the tallest in Western Europe and already challenging the existing iconic symbols of London
- The Shard is not stand-alone: this is more about the new hub, London Bridge Quarter, a catalyst in the regeneration of Bermondsey and Southwark
- A modern energy system including CHP which transfers waste heat from the offices to other users
- Long-term ownership by a new SPV to manage the building, the asset enabling them to invest further in the area and across London
- High performance glass / automatic blinds that react to solar conditions, making it a responsive skin
- Re-energised an historic city hub and successfully negotiated the regulatory hurdles on a platform of a good working relationship with London Borough of Southwark, helped by political will
- A single project insurance policy provides industry business, and a cost effective way of dealing with risks
- Shows that a large and complex project on a difficult site can negotiate the considerable planning process and satisfy an extended list of stakeholders
- Will host the first Shangri-La hotel in the UK
- Has given Sellar the confidence to look at other developments in London (as well as the advantage of the contingent value to the area that LBQ has created)
- One of the tallest, one of the most iconic towers – but also relatively cost-effective and efficient due to a committed and creative client and team.



- Promote the concept of Higher Apprentices in Professional and Business Services as a route to the top
- Consider more flexible arrangements in university timetables and curricula to allow students to participate in paid internships while studying and seeking to pay their fees.

#### (ii) Immigration

- Maintain a pragmatic immigration system that allows the UK to access the World’s best and brightest, essential as a global hub
- Keep the 20,700 quota on ‘skilled workers’ under careful review, particularly as the global economy begins to expand
- Re-examine the criteria for intra-company transfers to meet the needs of global businesses.

#### c) Infrastructure

- Maintain and protect infrastructure investment
- Develop a more integrated transport policy – and press on with the HS2 proposals
- Treat global connectivity as a priority – review strategy on airport capacity particularly in relation to London and the South-East
- Play a more active role in encouraging private finance to invest in infrastructure projects.

### Opportunities for Growth

Strengthening the framework conditions which underpin growth is a necessary, but not a sufficient, condition for success. We recognise the efforts which Government has made to provide a sectoral context and focus for its Growth Strategy and we welcome the fact that the role and importance of Professional and Business Services has been recognised in this process by HMT, BIS and UKTI. However, whilst a sectoral focus enables improvements to be made within specific sectors, we believe that such a focus may not take sufficient account of opening up opportunities for new emerging businesses and sectors, which often comprise or integrate a range of competencies e.g. assisted living, location services or, more broadly, the concept of smart cities. We therefore recommend that Government should:

- Broaden its focus to encompass societal challenges where rising global demand affords UK solutions providers with the prospect of significant growth (see pps 26-30)
- Take a leadership role in de-risking innovative solutions to such challenges for all stakeholders,

including local authorities, by supporting large scale demonstrators in the selected themes, which will also provide insights into priorities for technology development programmes; the nature of skills required; and the standards which might be developed to open up global opportunities, as well as inform venture capitalists of the potential of new emerging firms and sectors; and

- Develop an export strategy which improves overseas awareness of UK capabilities in this broad sector and provides support to Professional and Business Services firms to exploit their knowledge in export markets.

In our submission to Phase 2 of the Growth Review, we emphasised the importance of open data. We remain of the view that open data – the raw material of the information society and a key component of the next wave of web developments – is central to any Growth Strategy. Indeed, we believe the full opening up of Government data has the potential to be the Big Bang of 2012 with all that follows, but we recognise that it requires the political will of 1986 to achieve it.

Finally, while much has been written about the disruptive effects of e-commerce on the UK High Street and the threats posed by cyber crime, we view these areas as offering significant opportunities to a range of UK firms. We believe the Growth Strategy should focus on new opportunities such as these, where the UK has a significant advantage which can be commercialised worldwide, and we focus on the following:

- The concept of smart cities
- E-commerce
- The security/resilience of ICT infrastructures and internet services
- Business services in support of large sporting events.

A fifth area, namely carbon reporting to promote sustainable supply chains, also offers new opportunities for UK firms in an emerging market, and we propose to explore this further during the coming year.



**“We believe the full opening up of Government data has the potential to be the Big Bang of 2012.”**





# Establishing the Right Conditions for Growth

## The UK as a Global Hub

As previous chapters have outlined, the cluster of Professional and Business Services activity around London and the South East has developed into a global hub of the highest rank. As well as being the key financial centre of the European time zone, the UK has particular advantages: the pre-eminence of the English language, access to exceptional young talent from world class universities and centres of the creative arts, Professional Institutes which not only control entry into the professions, but also advise on ethical standards, monitor activities and require continual professional development (CPD), all provide a solid foundation for global activities. This, together with the symbiotic relation with Financial Services, enables UK firms to design, manage, market and finance/insure the very largest projects.

However, we cannot afford to be complacent. The market for Professional and Business Services is growing rapidly in Asia and, more generally, in the developing world. PwC economists estimate that, by 2050, China's GDP will have grown to around \$60 trillion pa, India's to \$43 trillion and the USA to \$38 trillion (all at Purchasing Power Parity rates). Inevitably, changes of this magnitude are bound to have an impact and emerging financial and business centres are already seeking to develop the same synergies and develop a similar high value service capability as London. For example, Singapore openly states its ambition to be the "London of the Far East" and, while adopting international accounting standards and maintaining high overall regulatory standards, it is seeking to attract mobile capital and high level skills through relatively low levels of taxation. The Table below provides a comparison between some of the world financial centres.

**Table 1: International Comparisons**

	Annual Growth % GDP 2011	Projected real growth in GDP per annum 2009-2050 <sup>2</sup>	Top rate of Income Tax 2011	Corporation Tax 2011 <sup>3</sup>
London	0.8% (UK)	2.3%	47% (incl. NIC)	24%
Frankfurt	3% (Germany)	1.3%	45%	29.37%
Geneva	1.9% (Switzerland)	N/A	34.9% (threshold is much higher)	21.17%
New York	1.7% (US)	2.4%	42%	40%
Hong Kong	9.2% (China)	5.9%	15% (standard rate)	16.5%
Singapore	4.8%	N/A	20%	17%

## Key Elements of a Global Hub

The Group believes the UK objective, or vision, should be to create a powerful global hub which acts as an entrepôt for talent: attracting the best from around the world to develop their skills and experience, recognising that they will return to their native countries to take advantage of the rapid economic development. We consider that this diaspora of talent will prefer to work with UK partners in developing solutions to the many complex issues for private and public sector

<sup>2</sup> PwC, The World in 2050, Jan 2011, [http://www.pwc.com/en\\_GX/gx/world-2050/pdf/world-in-2050-jan-2011.pdf](http://www.pwc.com/en_GX/gx/world-2050/pdf/world-in-2050-jan-2011.pdf)

<sup>3</sup> KPMG, Corporate and Indirect Tax Survey 2011, <http://www.kpmg.com/GR/en/IssuesAndInsights/ArticlesPublications/Documents/Corporate-and-indirect-tax-survey-2011.pdf>

organisations which flow from the process of rapid economic development. Of course, this means that UK firms need to stay ahead of all the competition, but we believe that Table 5 in Annex 1 indicates the viability of this ambition. Since 2005, exports of business services to the USA have increased by almost 50% to £13 billion pa in 2010 – the more sophisticated the market, the greater the appreciation of UK offerings.

However, to achieve this goal, the UK needs to build on its solid foundation by focusing on three broad and overlapping, or mutually supporting, elements which form the framework conditions for growth, namely a friendly business environment, attracting the best people and a modern infrastructure (ref. Figure 1, page 13). The Group has considered each area in turn.

## Business Environment

### a) The Rule of Law, Business Confidence and Competitive Tax Rates

The Rule of Law is the foundation of a prosperous economy and free society. Property rights, the enforceability of contracts, the policing of criminal activities and protection against the arbitrary use of state power gives individuals and businesses the confidence to start up businesses and invest. The UK has a well deserved reputation for stability and consistency in its common law and governance. This has encouraged international investors to invest in UK companies and property. However, this reputation is in danger of being undermined. Retrospective legislation and windfall taxation may seem justified in the short term but they go against the grain of English common law and can have serious consequences. Penalising companies for actions that were legal when they were taken will damage business confidence, discourage investment and drive down growth. A move in one area will be interpreted by the market that other areas are no less vulnerable. Thus, imposing retrospective legislation and windfall taxation will make the UK a much riskier prospect for international investment and should, therefore, be avoided.

Business needs to operate in an environment in which it is trusted and valued. Recently, the legitimacy of business has been called into question by the emotive public debate about directors' remuneration. Institutional investors too have shown they are increasingly frustrated by pay which is disconnected from performance. Both businesses and Government have recognised the need to tackle this issue and restore trust in business. The Group is concerned that the ongoing criticism is creating a disincentive for good executives to take the step up to board level and, in an increasingly competitive environment, to take the risks which can result in

a step change in business performance, or failure. It therefore welcomes the Government's moves to strengthen the governance framework for directors' pay by encouraging greater transparency and better engagement between companies and their owners. This should help to promote a stronger link between pay and performance.

As events have demonstrated, business confidence is critical to economic growth and the dynamism of the economy. In a recent survey of its members, conducted by Ipsos MORI, the Management Consultancies Association found that almost half of the respondents expected a deterioration in the economic outlook over the coming year, while just over a third expected conditions to remain the same. When asked (in a separate survey) which measures might improve the economic conditions, just over one half of respondents cited investment in infrastructure and around one third specified reductions in income tax and corporation tax and a similar proportion sought a reduction in VAT and measures to promote innovation.

While recognising the fragility of the current economic situation, the Group is slightly more optimistic about the economic outlook but it is firmly of the view that, in such a tough business environment, the Government needs to reconsider its own policies towards incentivising business leaders to take risks. We understand the compromises that need to be made in relation to the balance of taxation, but we believe that growth is being curtailed by the levels of direct taxation; indeed in advising clients objectively about location, we are finding it increasingly hard to justify a UK base. Our advice to Government has consistently been that it should:

- Return, at the earliest opportunity, to a lower maximum rate of income tax
- Ensure greater stability and predictability within a tax system that it is equitable between types of business organisation
- Pay due regard to corporate taxes in competing locations and work with governments in developing countries to simplify and rationalise the withholding tax arrangements faced by all firms.

We therefore welcome the Chancellor's decision to reduce the top rate of income tax to 45% and to maintain the downward pressure on Corporation Tax as an important signal to the business community that success will be rewarded.

More broadly, the business climate will be helped by a clear Government commitment to implementing

# Case Study

## KPMG- Global Talent

KPMG is a professional services firm with 11000 UK-based partners and staff, and offers audit, taxation and advisory services to most of the FTSE100 and a wide range of other companies, public and voluntary organisations. It is part of UK-registered KPMG Europe LLP and a member firm of the KPMG international network. London is KPMG's largest office and the centre for many of our centres of excellence and higher value-added services that reinforce the UK's role as a global hub. Thus, it is essential that KPMG professionals from throughout the world can be located here for specific roles and that we can recruit the brightest and best. At the same time, KPMG places huge emphasis on recruiting and promoting UK talent as a major graduate and school-leaver recruiter, as demonstrated by our sponsorship of a City Academy and work with hundreds of schools around the country. Many of our leaders in KPMG member firms especially in the key emerging markets are or have been UK citizens or UK qualified.

assignments. Upon repatriation, the assignees support up-skilling colleagues in the Indian practice and are well positioned for the next step in their career.

Other examples relate to KPMG Mongolia, KPMG Panama and KPMG Hong Kong – Sustainability Practice where the programme has been used to meet specific needs.

### SUMMARY Assignments from 01 June 2009 to Date

	Inbound		Outbound	
Leadership	180	17%	197	27%
Management	658	64%	439	60%
Staff	195	19%	97	13%
<b>Total</b>	<b>1033</b>	<b>100%</b>	<b>733</b>	<b>100%</b>

Currently, KPMG has over 1000 inbound assignees into the UK and over 700 outbound assignees from the UK, with middle management accounting for 64% of all inbound international assignments and 60% of all outbound international assignments. Specific examples of “London as a revolving door of talent” in KPMG include the following:

#### Audit Programme

This was specifically developed for graduates working in the Audit function of the KPMG Global Services in India, to come to the UK for 3 to 5 year international assignments to undertake their professional qualification, with the view to becoming experienced managers capable of leading high-performance teams on their return to the KGS. The programme was launched this year with 11 inbound assignees joining the London and Manchester offices to start their training.

#### IT Advisory Programme

This programme in Risk Consulting also focuses on developing the skills and experience of offshore employees to ensure they are able to service our clients in the banking sector with the global mindset and in-depth understanding of their businesses expected by global clients. Each year, Risk Consulting receives around 20 inbound assignees for short-term international



its Infrastructure Strategy, by ensuring that the bank targets of lending to SMEs are met and by Government taking a leading role in key areas of opportunity, which forms the next chapter.

## b) The Regulatory Environment

Since its inception, the Group has pressed for a smarter regulatory regime. We initially focused on three important areas: employment regulations (and the Government's consultation on this subject), the Bribery Act and regulations to prevent money Laundering, and the regulation of audit. More recently, we have supported the Government's broader review of regulation, the Red Tape Challenge.

### (i) Employment Regulation

Employment law and regulations underpin the rights of individuals in the workplace and provide employers and employees with a framework for handling disputes. They are designed to prevent discrimination and arbitrary dismissal and, more broadly, to strike a balance between the needs of employees and those of firms that have to respond promptly to competition and the exigencies of the market. Inevitably, they affect all businesses but have a disproportionate impact on SMEs that lack the HR expertise of larger companies. The critical question is whether, in practice, they do strike that reasonable balance between the needs of employees and maintaining a flexible and efficient UK labour market.

The Group believes that the Employment Tribunal System requires reform. Our concern is with the general decline in the speed and effectiveness of tribunals and the knock-on effect this has on costs, not least senior management time. Senior managers are distracted from the more important task of running their businesses and employees are kept in a state of limbo, with no financial security and unable to move on. Neither the employee nor the employer benefits from this situation.

The Group therefore welcomes the Government's proposals to reform the tribunal system, particularly the extension of the qualifying period for unfair dismissal from one year to two years, and the introduction of fees for claimants, to discourage frivolous or mischievous claims. It also welcomes recent moves to allow judges to sit alone in unfair dismissal cases, for witness statements to be taken as read and to consider the cap on compensation.

However, the Group recommends that further consideration be given to: implementing pro-active case management by tribunals, and to extending the principle of the Part 36 Offer to include employment law. In other areas of law, this principle encourages and rewards reasonable behaviour from both parties and we believe that, in the employment context, it

would help resolve claims before they reached the tribunal stage.

More broadly, the PBSG welcomes the focus being given to the following specific topics:

- Collective redundancies and TUPE
- Agency regulations and protected conversations
- Merging National Minimum Wage (NMW) regulations; and
- Simplifying the dismissal process for micro businesses<sup>4</sup>.

However, the Group is still concerned about:

- Redundancy pools: requiring firms to identify a broad pool of people from which to select redundancies, which will inevitably include people who are not realistically going to be made redundant, is likely to worry a large part of the workforce unnecessarily and undermine morale and productivity
- Identifying suitable alternative employment for women on maternity leave: while we agree that, in the case of redundancy, women on maternity leave should be given special consideration, we do not believe it is fair on others in a similarly vulnerable position, that they should be given automatic priority. Suitability to the job should still be the primary criterion for selection
- Problems with the Working Time Regulations
- How the proposed changes to maternity and paternity leave will work in practice.

We should also highlight the specific concerns of the Recruitment sector, which has an important role in matching supply and demand for particular skills and maintaining the flexibility of the UK labour market. The Conduct of Employment Agencies and Employment Businesses Regulations 2003 (the Conduct Regulations) and the Agency Workers Regulations are complex and onerous and place burdens on recruiters which, we believe, would be better dealt with through self regulation. We welcome the Government's commitment to look at the rules governing the Recruitment sector as part of the Red Tape Challenge and look forward to the Government's proposals in this area.

### (ii) Bribery Act and Money Laundering

Initial concerns about the Bribery Act related to the lack of clarity in the Guidelines as to how the Act might be interpreted. A specific concern was that

<sup>4</sup> BIS, Reforms to job laws to help business, 23rd November 2011 <http://www.bis.gov.uk/news/topstories/2011/Nov/reforms-to-job-laws-to-help-business>

the scope and reach of UK legislation, particularly the fact that UK firms might be deemed responsible for their business partners', or agents', behaviour in overseas markets, might disadvantage UK firms compared to competitors and discourage UK firms from actively exploring export opportunities at a time when Government was seeking to rebalance the economy. It might also discourage overseas firms from listing on the London stock markets. From the business perspective, the interpretation of what constitutes reasonable facilitation payments and entertainment remains a source of real concern. Business also believes that Government should play a more active role in high risk jurisdictions to help create the right ethical environment for business. The Group will continue to monitor the impact of legislation and will submit a paper on its findings to the Government, one year on.

Similarly, the Group has considered the regulations in relation to money laundering, not least because real estate and legal services are two areas where there is a specific onus on the professions to identify and report potentially suspicious transactions. The Group's main concerns have related to process and accountability.

### (iii) Audit Regulation

In the wake of the Financial Crisis, we share the Government's objective to restore the City's capacity and reputation for sound practice and judgement. In the circumstances, it is only right and proper that the audit of companies, who present a particularly high or systemic risk to the business community as a whole, should be reviewed and that proper monitoring processes, by bodies such as the Financial Reporting Council (FRC), be put in place. The Group's main concerns have been that:

- The principles based approach to regulation, which has served the UK well over many years, should not be put at risk; and
- The new regulatory framework should seek to build on the institutional safeguards already in place, where the Institute's own ethical standards, monitoring processes and continual professional development (CPD) requirements provide a solid foundation for investor protection and one which provides UK audit with a global reputation.

We recommend that Government encourages the FRC to:

- Concentrate on oversight
- Reflect on the views of auditors with up-to-date experience of audit
- Co-ordinate its activities with the professional bodies more effectively to minimise the risk of duplication

- Focus its efforts and resources on the audit of firms and sectors where systemic risk is greatest
- Ensure that auditors have been sufficiently forthcoming in signalling to regulators relevant important developments which are pertinent to the latter's task
- In the event of failure, focus on determining whether proper processes were followed and, on matters of important professional judgement, confirming that independent advice was sought
- More actively promote the UK's overall high audit quality and transparency to ensure that inspection reports and regulatory measures are seen in their proper context; and
- Promote international standards and the UK's role as a hub and guarantor for standards in line with G20 commitments and continue to urge the EU to fully adopt these standards, thus reinforcing the UK's (and EU's) global position.

The Government's aim should be to enable firms to improve the quality of audit and the services they provide to clients. Reforms should go with the grain of the current UK model, with the coordination of regulators and professional institutes to avoid duplication. We also recommend that, in its negotiations in the European Council, the Government maintains the long and successful tradition of UK regulation by seeking to ensure that the UK can maintain its principles based approach to regulation of the professions within a strong "comply or explain" corporate governance framework.

### (iv) Red Tape Challenge

A consistent theme in Group discussions has been how to reduce the cumulative weight of regulations to enable managers, partners and entrepreneurs to devote more of their time to running their businesses. For this reason, we welcome the Government's Red Tape Challenge and its commitment to major change. In response, one of our members has seconded a key member of staff to co-ordinate the Group's input into this process. As a result, we recently submitted a contribution on corporate law and governance with suggestions on how to improve some 40 specific regulations and we are about to contribute to the pensions strand of the Challenge.

However, our concerns about the regulatory environment go beyond the number or clarity of regulations and relate, more fundamentally, to the culture, tone and attitudes of regulators. We recommend that the Government extend the purview of the Red Tape Challenge to look at the supervision of regulations by regulators and obtain feedback from stakeholders on the way regulations are monitored and implemented. We shall continue to make an active contribution to this key area of Government policy. We also suggest that, given the importance business and Government attach to this issue, there is scope for improving the quality of the international comparisons (the indicators and measures) relating to the different national regulatory environments.

### People & Skills

The primary resource of every Professional and Business Services firm or company is its people and the services they provide. For this reason, it is vital that the Professional and Business Services sector has access to highly talented and trained individuals either domestically, through universities and apprenticeships, or internationally, through a pragmatic immigration system that allows the best and brightest to come to the UK.

### (i) Employability and Diversity

The nature of the work undertaken by UK Professional and Business Services Firms requires individuals with:

- Good analytical skills
- An ability to listen to/understand and communicate with clients
- A level of commitment to the client and speed of response which sets this sector apart
- An ability to work in teams by taking responsibility and fulfilling objectives reliably
- High levels of probity/work ethics; and
- The absolute need to learn from experience and apply that knowledge in different circumstances.

These skills are relatively rare and in high demand. Professional and Business Services firms invest a large amount of their time and resources in recruiting individuals with potential and in developing these skills. The benefits of doing so accrue to Professional and Business Services firms

## Case Study Michael Page - Intern Schemes

Like a number of professional service companies, Michael Page operates an Intern Scheme for university students who typically work for us throughout the summer month. The 2011 scheme involved some 31 students from predominantly Leeds, Manchester, Birmingham, Loughborough and Nottingham universities working in 13 of our local offices. From a Michael Page point of view, this is a valuable channel for identifying talent that supplements our graduate recruitment scheme. Primarily, we see this as an ideal opportunity for students to gain real experience of the professional work environment, while supplementing their income rather than taking unskilled work, which simply provides them with funds. In a highly competitive professional job market, attendance at an Intern Scheme helps to differentiate the candidate but also provides them with the experience to hit the ground running and improve the chances of success in their first role after graduation.

While we are generally happy with the results of the Intern Scheme, anecdotal evidence from our Brazilian colleagues suggests that the UK is missing a huge opportunity in this area and we believe Government should take steps to encourage expansion of such schemes. In Brazil, Internships are common across many industry sectors and a large proportion of students take part. Students do not pay tax during the internship and there are no employer taxes for companies to consider. While tax savings would clearly encourage expansion in the UK, we understand that

the key difference in Brazil is the structure of University timetables, such that 'spare' term time (maximum six hours per day) can be used in intern employment. This makes the whole proposition more attractive to employers, who can see an on going benefit from the time applied to training Interns, while retaining all the experience and differentiation benefits for the student. Sergio Sabino, Marketing Director for Michael Page in Brazil said 'we regularly take Interns from universities such as PUC – Sao Paulo Catholic University, Mackenzie University and Armando Alvares Penteado Foundation. The culture of previous experience is really vital in Brazil and companies want people "ready to go", even though they've just graduated, so the vast majority of students try to become Interns before graduation'.

We believe Government can play a key role in bringing together higher education establishments and employers, perhaps on a localised basis, to investigate changes in scheduling that would make better use of student down time throughout their courses.

but the benefits also spill over into other parts of the economy as professionals interchange between their parent firms and their clients.

Professional and Business Services firms recognise that, in the recent past, recruitment has been drawn from a relatively narrow strata of society, and they have made serious efforts to increase the diversity of their recruitment. However, feedback from the Group suggests that a wide range of young people leaving school and graduating from university are not aware of the importance of the skills/attributes outlined, in particular personal presentation and appropriate communication (written and verbal). The Group also question whether the core curriculum is equipping students with the “hard” skills of literacy and numeracy in a demanding professional environment. We therefore welcome the Government’s efforts to raise educational standards, and the introduction of demanding curricula, such as the English Baccalaureate.

The PBSG thinks it is vital to improve the standard of potential recruits to the industry and believes that business has an important role in engaging with the world of education to ensure that young people

understand the opportunities open to them, and the basic requirements. As a result, our report to Ministers in the Autumn focussed on the need for Government to:

- Simplify and support more vigorously the mechanisms by which businesses, particularly SMEs, can work with schools to improve the employability of school leavers
- Promote the concept of Higher Apprentices in Professional and Business Services, not only to help improve the diversity of the sector’s intake, but also to raise people’s perceptions about apprenticeships more broadly, i.e. to remove the stigma associated with them, and highlight their value, not simply as a means of entry into the world of work, but as a route to the top
- Promote work experience and internships while students are at university.

The Group welcomes the support the Government has given to Higher Apprentices in relation to the sector. However, we remain concerned at the employability of pupils and graduates and we recommend that the Government should review, with universities and business, the possibility of introducing more flexibility into the university timetable to allow students to





participate in internships during term time. We also question whether the devolved approach towards fostering school-business links, favoured by Department for Education, without further resource and simplification, will lead to the transformation in employability which is required, if the UK is to reduce youth unemployment from its current peak to more acceptable levels. We are also concerned that the current plethora of schemes, although excellent in their activities, are lacking in overall coordination and would benefit from a single point of access for young people and their parents and teachers. We take this opportunity to reiterate our view that Government needs a step change in its efforts to link education with the world of work and that a failure to do so will have significant costs in both the short and long term.

### (ii) Immigration

To achieve the goal of the UK being the pre-eminent global hub for high value Professional and Business Services, Britain must be open to highly talented foreign workers and graduates. The openness of the UK market, and the welcome which London has extended to global talent for generations, has been critical to the City's success and continues to attract leading global businesses. Indeed, it has led to the enviable situation of London having more US banks than New York, more Japanese banks than Tokyo and, with over 100,000 registered voters, it is recognised by French Presidential candidates as an important campaign stop. Furthermore, in a globalised world, UK firms need to have access to the best overseas talent in order to spearhead expansion into new overseas markets.

The PBSG therefore agrees with the recent report from the Migration Advisory Committee and echoes their concerns about the Government's immigration policy<sup>5</sup>. So far the tighter restrictions do not seem to have had a serious material impact. The 2011 'skilled workers' quota of 20,700 has not yet proved a barrier, with only 10,000 visa applications made<sup>6</sup>. However, this should be seen in the context of low growth and a large increase in the number of intra-company transfers (there were 30,000 over the same period). As soon as the global economy begins to grow again, demand for visas is likely to exceed the quota to the detriment of UK businesses. Intra-company transfers have proved popular but tightening the eligibility criteria to a salary of £40,000 reduces the flexibility of staff deployment and the ability of Professional and Business Services firms to develop

5 The Migration Advisory Committee, the Government's official advisers, published a report on 28th February 2012 about the impact of the restrictions on skilled migrant workers from outside the EU. (<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/limit-tier2-settle/limit-report/tier2-limit-report?view=Binary>).

6 The Migration Advisory Committee, the Government's official advisers, published a report on 28th February 2012 about the impact of the restrictions on skilled migrant workers from outside the EU.

## Case Study PwC – the World Experience Programme

In 2002 PwC created its World Experience Programme to provide opportunities for PwC staff in emerging countries to better understand the Assurance side of the firm's business so that they could disseminate this knowledge to colleagues and use it in their engagement locally with clients. The programme was extended to our Tax business in 2005 going on to gain both internal recognition and external awards.

Despite the global economic challenges PwC have remained committed to this programme and our firms in other territories continue to be enthusiastic about the benefits the programme brings. London continues to offer our colleagues a breadth of international experience and the depth of technical expertise which our clients are looking for globally.

The 18 to 24 month UK based programme is aimed at junior management staff with a focus on training whilst providing networking opportunities and access to senior people within PwC. By the end of 2012 over 300 colleagues from Brazil, Cambodia, Chile, China, Ecuador, Egypt, Estonia, Ghana, Hong Kong, Hungary, India, Kazakhstan, Kenya, Korea, Lebanon, Malaysia, Mexico, Nigeria, Oman, Paraguay, Peru, Poland, Romania, Russia, Saudi Arabia, Singapore, Sri Lanka, Taiwan, Tanzania, Thailand, Turkey, Uganda, Ukraine, Uruguay, Vietnam and Zambia will have participated in this programme.

Szymon Sokal was a junior manager in our Warsaw, Poland Tax practice before joining

**“London continues to offer our colleagues a breadth of international experience and the depth of technical expertise which our clients are looking for globally.”**

the WEP in 2007. In bringing Szymon into the UK firm's mergers and acquisition team this was considered an exciting opportunity for both our UK and Polish teams to strengthen their network, enhance the client experience and share knowledge and best practice. On his return to Warsaw, Szymon was able to utilize his experience on M&A work and private equity structuring to introduce new practices with benefits for Poland and the wider Central Eastern European region. He has subsequently progressed to senior management and is one of the leaders of our CEE M&A practice.

**Feedback from participants:**

"I've now got a solid understanding of the M&A team's role in a deal. A knock-on effect of being in a more central PwC location is that I have already been exposed to broader elements of projects. I have finished my first international due diligence work and have the opportunity to try international tax structuring as well. I have just started getting acquainted with the UK tax legislation which is more developed than in Hungary. I now have new opinions and ideas on the Hungarian tax system, as I am looking at it from the outside in - hopefully this will translate into real recommendations and actions on how we do business back home."

— Participant from Hungary

"I was recently given the opportunity to work with the VAT team which involved advising the client on their new global supply chain. This project offered me the opportunity to build a network with other PwC VAT consultants from various countries like Russia, China, Brazil, Spain and Italy. I felt that it was a very rewarding experience and I learnt a great deal from it. Working on an international project like this made me realize the value of building good personal relationships."

— Participant from Malaysia

their younger "high flyers" in a UK environment and then redeploy them back in their respective home markets. Immigration policy needs to recognise the importance of intra-company transfers to the success of global businesses: in particular, to establish a corporate culture in young staff, to staff retention and for global businesses to be able to manage large contracts by using staff flexibly between their offices.

In relation to Tier 2 skilled workers, the Group notes the Government's proposed changes to residency rights<sup>7</sup> (and the severance of the right to work from the right to settle) as an attempt to effect a compromise between reducing overall immigration, while maintaining the UK's access to skilled foreign workers. The Group will continue to monitor the impact of policy on access to skilled people to ensure that it is consistent with our ambition and vision for the UK to be a global hub of Professional and Business Services talent.

## Infrastructure

Companies across the Professional and Business Services spectrum emphasise the importance of infrastructure to competitiveness and growth, and this was reflected in our submission to Ministers in the autumn. We focussed on three elements:

- Digital infrastructure, not least the success of the radio spectrum auction to promote widespread access to 3G/4G broadband
- The quality of the UK's transport infrastructure and the quality of its links to airport hubs in the developing world; and
- Engaging more effectively with private investors in the implementation of the Infrastructure Strategy.

The growth of digital services and e-commerce in the UK depends significantly upon widespread access to a resilient and secure, modern digital infrastructure. The benefits to business and to the economic fortunes of fairly remote communities are well illustrated by programmes, such as Superfast Cornwall, where new business service firms have been established on the back of this investment in digital infrastructure. We highlight in the next chapter and its appendices the wider opportunities for the UK in the fields of e-commerce and cyber security, where digital infrastructure is a pre-requisite.

<sup>7</sup> UKBA Statement, Automatic settlement for skilled workers to end, 29th February 2012. Amount of time spent in the UK will no longer be relevant for Tier 2 skilled workers in the route to settlement and will be replaced by a £35,000 threshold. <http://www.ukba.homeoffice.gov.uk/sitecontent/newsarticles/2012/february/66-settlement>



**“The growth of digital services and e-commerce in the UK depends significantly upon widespread access to a resilient and secure, modern digital infrastructure.”**

# Case Study

## Arup - London as a “Revolving Door”

Arup is a professional services firm specialising in design and engineering services, with 10,000 people in more than 90 locations around the world. Increasingly, the balance of our activities is shifting to other parts of the world. How does Arup capitalise on emerging markets while ensuring – almost above all - that we remain the same, distinct firm in all our locations, and that our quality, design prowess, client proposition and values remain constant wherever we are?

### Mobility in Arup

Part of the answer is we move our developing managers around the world, bringing emerging talent here, to London, to learn “first hand” the distinct ways in which we work. In particular, what our young managers learn from assignment in London is:

- A business environment in which the value of design is recognised and prioritised – and in which poor or mediocre design is rapidly rejected
- A chance to learn from our greatest talents working on iconic structures and infrastructure here in the UK
- A closeness to the heart of Arup’s values of quality, social usefulness and holistic solutions.

At any one time, around 600 of our people are on an international assignment – approximately one in 20 of our global team - of which around 12% are based in London from a “home” location in one of our ‘developing’ markets, E.g. China. This development, via London as our global hub, begins rapidly with our “Early Development Assignments”. Currently, 30% of our Early Development assignees are working in London for periods between 1 and 3 years. This focus on global mobility also produces benefits for Arup:

- We can attract high potential candidates from the UK who wish to test themselves on the international stage
- It is easier to attract the brightest and best talent around the world as we offer candidates a truly international career in a firm with a global reputation
- We stay current and relevant to new and developing markets, while returning talent offers UK plc a skills base with broad international exposure
- The firm gains a broader global cultural perspective that helps us to understand our clients better and lay the foundations for global growth in the future.

### London as a Host

Arup offers a structured development programme tailored to their needs. London specifically, adds invaluable experience of bigger projects, newer technologies and new legislation. For our younger assignee managers we operate a team of London-based mentors, who have been on assignment from another remote location for a few years, and who know what it’s like to live and work for Arup in London.

### What a ‘Revolving Door of Talent’ Means for Arup

In brief, we believe some of the key gains to be:

- Enhancing the reputation of the UK as an open and outward-looking country seeking to engage with the world and inspire innovation and creativity worldwide
- Exposure to the skills and expertise that Arup and our partners here in the UK can offer to stakeholders and clients around the globe
- An appreciation of the standards required to compete in a highly competitive global marketplace
- Greater understanding of the value and benefit of great design
- The ability to attract and retain the brightest and best both in the UK and abroad who seek to test themselves to the highest standards on the international stage
- A global perspective of the challenges we all face in an increasingly inter-connected world, alongside the ability to see solutions that are culturally and developmentally sympathetic to other environments.



We recognise the steps Government is taking to improve access to next generation mobile broadband, but we are also struck by the ambition of other countries to roll out this key enabler of service innovation. The Ofcom Infrastructure Report, published in November 2011, refers to TeliaSonera's 4G networks in Denmark, Estonia, Finland, Latvia, Lithuania, Norway and Sweden as well as developments further afield in Korea and the USA. We are concerned that, in comparison to our Nordic neighbours, UK coverage is weak and patchy, which is damaging to the Government's own ambitions to rebalance the regional economy.

More broadly, although the World Economic Forum's 2011 Global Competitiveness Report placed the UK in 10th position overall, its analysis indicated that our infrastructure appears to be a source of competitive disadvantage<sup>8</sup>. It ranked the UK:

- 28th for the quality of its infrastructure overall
- 26th for the quality of its roads
- 19th for the quality of its rail infrastructure
- 17th for the quality of its port infrastructure
- 24th for the quality of its air transport infrastructure
- 9th for the quality of its electricity supply.

These findings imply a significant risk to our ability to maintain and enhance our competitiveness. In particular, problems of efficiency and reliability across our infrastructure networks risk leading global companies to relocate or grow their businesses elsewhere.

The PBSG supports the actions the Government has taken to improve the UK's infrastructure. The will to protect plans for infrastructure investment in the 2010 Comprehensive Spending Review was evident, with government setting out its intention to maintain funding for economic infrastructure and taking steps to support private sector investment (E.g. through the Green Investment Bank). We support the plans for HS2, particularly the Government's amendments which will connect HS2 with Heathrow and HS1, and more investment in existing rail infrastructure.

The global mobility of professionals and the Government's plans to increase exports to developing markets make airport capacity one of the key components of the UK's infrastructure. In the

Cities Served (direct only)	London Heathrow	Paris Charles de Gaulle	Frankfurt	Amsterdam Schipol
South America	3	7	8	4
China (incl. HK)	4	4	7	7
India	5	3	5	1
ASEAN <sup>9</sup>	3	5	3	6
<b>TOTAL</b>	<b>15</b>	<b>16</b>	<b>23</b>	<b>18</b>

last 30 years, the UK has seen a 400% increase in air travel and this trend is set to continue. Heathrow is already running at 98% of its current permitted limit of 480,000 air traffic movements a year. The lack of spare capacity means that Heathrow cannot offer the range of international long-haul destinations to the fast-growing markets that its rivals offer.

When viewed by this measure, Heathrow has already fallen behind Paris, Frankfurt and Amsterdam. The lack of capacity also means that delays at Heathrow are longer and more frequent than their competitors. The PBSG recommends that the Government reviews its strategy towards airport capacity, especially with regards to London and the South-East.

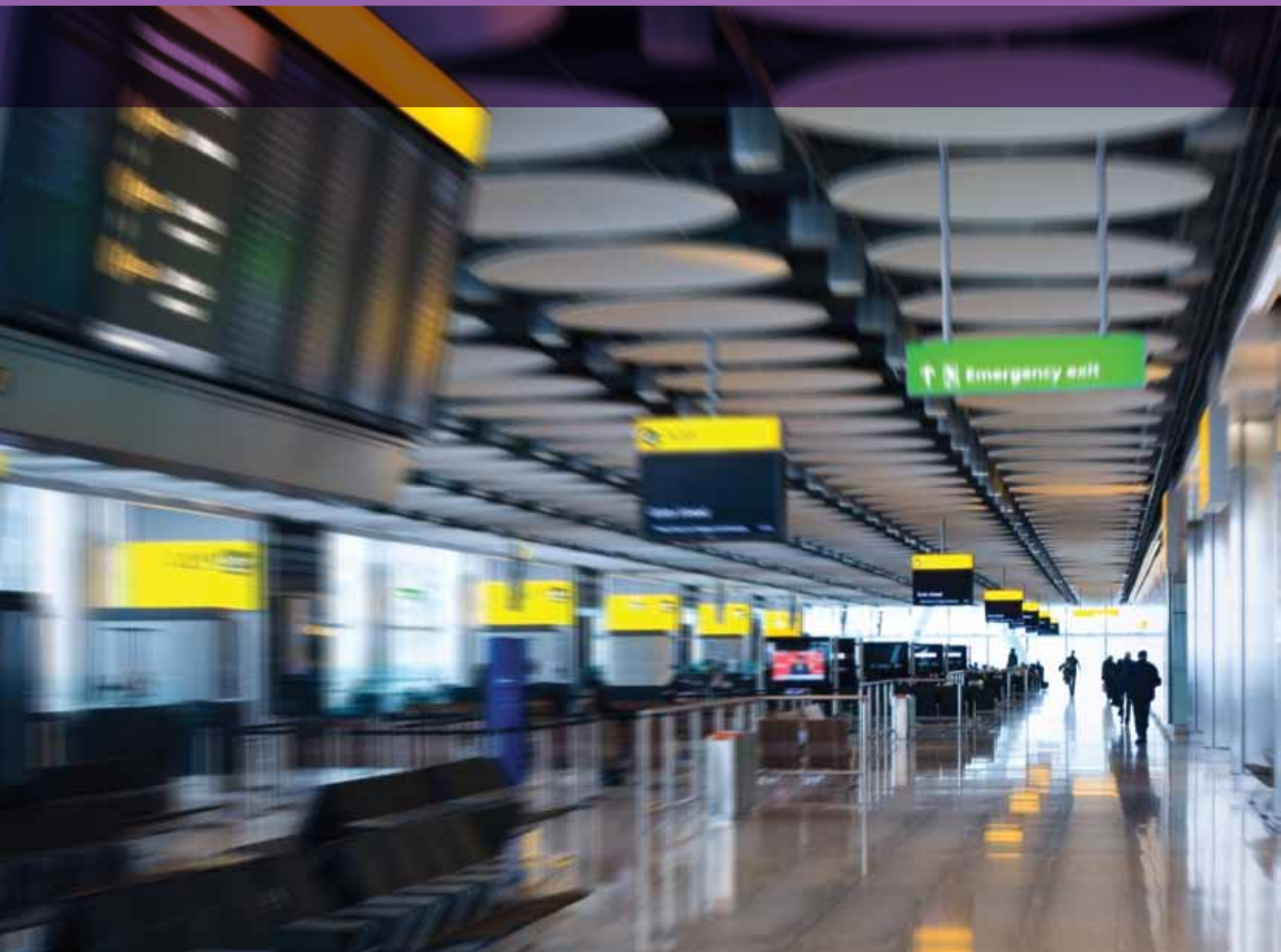
The scale of investment required to implement the Infrastructure Strategy is clearly beyond the public sector's resources and will require substantial private sector involvement. PFI (Private Finance Initiatives) and PPP (Public Private Partnerships) have received a lot of criticism but Government needs to learn from experience and take a stronger lead in making infrastructure projects attractive to pension funds as potential partners. With its capacity to generate clear long term revenue streams, the PBSG considers transport infrastructure to be ideally placed as a vehicle for pension fund investment in public infrastructure projects.

**“In the last 30 years, the UK has seen a 400% increase in air travel and this trend is set to continue.”**

<sup>8</sup> The Global Competitiveness Report 2011-12, World Economic Forum, 2011

<sup>9</sup> ASEAN includes Singapore, Malaysia, Thailand, Indonesia, Philippines, Brunei, Burma, Vietnam, Cambodia, Laos

# Opportunities for Growth: Capitalising on Change - the UK's Real Competitive Advantage





**“There are important lessons in the evolution and growth of this range of sectors for policy makers and business alike.”**

The Introduction to this report provides the background to the extraordinary growth which this range of sectors has experienced since the mid-80s, and the previous chapter sets out the vision of the UK as the global hub of knowledge intensive services, together with the conditions needed to achieve that goal. We consider that strengthening the UK’s position as a global hub – and one which continues to attract new firms, both large and small, trying to tap into UK expertise – will, perhaps, provide the main source of growth in the future.

However, as we examine future opportunities for growth, we believe there are important lessons in the evolution and growth of this range of sectors for policy makers and business alike. Many of the drivers of change are familiar:

- The globalisation of trade will continue to exert competitive pressure on an even wider segment of British business but, in equal measure, it provides access to new markets and new challenges as rapid economic development is leading to growing urbanisation, particularly in Asia, and a rising middle class demanding a modern built environment, resilient energy and communications networks, potable water, high quality healthcare, education, leisure/ entertainment and branded products
- An aging population will increase the cost of care, and concerns about the environment have not receded, despite the difficulty of reaching international agreement; and
- Technology will continue to evolve apace as Web 2.0 is superseded by Web 3.0, 4G mobile communications, “the internet of things”, and more open approaches to data access, which together provide a digital infrastructure (and petabytes<sup>10</sup> of data) that deliver unparalleled information and knowledge to demanding customers “anytime, anywhere”, thereby enabling new service delivery models and rapid response to changing circumstances.

<sup>10</sup> 1 petabyte = 1 million gigabytes



### New drivers of change have also emerged:

- Rapid economic development in Asia is raising questions, not only about environmental impact and access to strategic energy supplies, but access to other raw materials, for example, rare earths and food supplies
- Concerns about security and the threat of cybercrime have spawned a whole new industry to protect ICT enabled infrastructures and e-commerce
- The deleveraging of business, in the wake of the Financial Crisis, has resulted in a significant move away from asset acquisition by firms to pure rental/service models; and
- Companies are much more aware of reputational risk and the need for careful management, in the event of adverse comment associated with the environment, or exploitation of unskilled labour.

These developments have led, not only to rapid disintermediation of high cost elements of specific value chains, but to fundamental change in the way markets are organised. Such systems transformation is being experienced in many areas of the economy and in the delivery of public services, for example:

### Information and the switch to digital media:

The way consumers access information, validate and respond to it, has moved increasingly online. The growth of the digital economy has had a serious impact on a wide range of sectors. As the recent Portas Review has highlighted, it is not simply music retailers and book stores that have been squeezed by new channels to market, but the High Street itself. Newspapers and magazines are struggling to maintain circulation, while seeking to establish a viable presence online. Employment agencies, the travel and tourism market, restaurants and entertainment, have all been significantly affected and these markets will continue to evolve as smart phones and location based services enable targeted offers to be made in real time, and social media networks provide a whole new approach to engaging with the customer.

### Logistics:

Global supply chains have transformed the logistics industry, which will continue to experience radical change as Chinese distribution centres innovate to enable direct delivery to specific UK locations, and DP World's £1.5 billion investment in a deep water container port at the London Gateway, will soon provide direct access to London and the South East. Urban congestion, the quest for even greater resource efficiency, and the spread of rapid manufacturing techniques are likely to promote further change.

### Healthcare:

With care for the elderly accounting for over £30 billion pa of the NHS budget, and rising, the move from the 5 star costs of hospitalisation, or care homes, to independent living has become a priority for all Governments and one welcomed by citizens. However, this shift from hospital to the home requires, not only a monitoring and communications infrastructure, but also co-ordinated support systems to be delivered at scale to be cost effective.

### Energy:

The move to renewable, low carbon sources of energy, including waste, requires a paradigm shift from highly centralised energy production to more distributed models. Communities will become more self sufficient, but with access to a central grid to manage imbalances.

### Transport:

Societal concerns about congestion and vehicle emissions, combined with developments in technology, energy prices, and information services underpin a significant change in vehicles themselves; the infrastructure to recharge/refuel; the ability of people to plan journeys and adjust in real time to changing circumstances; and, more fundamentally, in patterns of vehicle ownership and use in urban environments, which will continue to evolve in the years ahead.

### Construction/Facilities Management:

The construction industry is undergoing radical change as integrated software tools provide the whole value chain with detailed and transparent plans and costs of built assets, which inform the client about the prospective performance of the asset (building or infrastructure), the ability to monitor it and build in-use data and experience into subsequent designs, while enabling flexibility in the use of the asset over time. Just as similar tools for asset monitoring in the design of ships and aeroplanes have transformed business models in those sectors, so Building Information Management (BIM) offers the same prospect of change in this market.

In this process, traditional divisions between sectors are being eroded and many manufacturing firms are moving to service models to capture more value.

**We highlight the above because we believe it is the profound changes to whole systems which offer significant opportunities for British business. The knowledge and skills to deliver innovative solutions to such complex challenges – through design, project management, appropriate training and skills development, access to finance/insurance and meeting the needs of customers and the market – are highly tradable and, at root, this is where the UK comparative advantage lies. Furthermore, it represents a significant growth opportunity, not**



## Case Study

# AECOM - Kings Cross

### King's Cross

- Investment worth circa £2 billion in a mixed use 67 acre brownfield site, adjacent to King's Cross and St Pancras International stations
- The second global HQ of BNP Paribas Real Estate will sit alongside 2,000 apartments, a third of which comprise affordable housing. With outline planning permission granted for the Master Plan in 2007, 3.5 million of the 8 million sq.ft. development are underway.

### People and Skills

Access to a cluster of innovative, professional service teams in architecture, engineering, construction, finance, insurance and legal services have enabled this complex development to be put together.

The flagship Construction Skills Centre at King's Cross offers local people training, professional qualifications and employment opportunities. It is a commitment by the developer, KCCLP, to ensure local communities benefit. At over 15,600 sq. ft. and costing just over £2 million, the Centre is more than double the size required in the Section 106 agreement with the London Borough of Camden.

All three construction partners at King's Cross (BAM, Carillion, and Kier Group) have signed up to a delivery model which provides work placements and employment opportunities within their supply chains. The Learning and Skills Council have made funding available for 100 NVQ Apprenticeships, to be delivered through Carillion's national training contract.

The project is adopting BIM systems to enable efficient design through to construction, and also cost effective estate management of the site.

The developer has introduced site wide insurance which has reduced the overall cost of insurance cover in the construction phase by an estimated 1-2%.

### Business Environment

Productive relationship established between developer and local authority which facilitated development of the Master Plan.

Strong customer focus with project developed to BREEAM / LEED sustainability standards to meet tenant demand.

### Modern infrastructure

High quality interchanges with the rail termini and the Western Concourse, together with an 800 bicycle space, transform the concept of sustainable commuting.

The developer's target is to cut carbon emissions by at least 50% relative to 2005 levels through energy-efficient building design, the application of the latest technologies, and connection to a site-wide Combined Heat and Power (CHP) driven hot water distribution network. All buildings will connect to the hot water distribution network which will be fed from the Energy Centre. The power generated at the CHP plant will supplement supplies from the National Grid.

It is expected that water use per head will reduce to 130 litres per day by 2015 - the national target for 2025.

In partnership with Metropolitan, strong IT connectivity with all parts of the site having access to wi-fi. King's Cross has become London's largest outdoor, totally free public WiFi zone after signing a deal with The Cloud.

# Case Study

## Capgemini - Ministry of Defence

### New Online Booking Tool Delivered to the MoD

“Defence Travel is providing the Department with the tools to manage travel better. Individuals can compare different modes and types of travel and make decisions over the most efficient means of travel.”

—Head of Defence Travel, Ministry of Defence

### The Situation

With budgets under pressure, the Ministry of Defence (MOD) sought greater control over its travel management processes and costs. It needed a solution to replace a diverse range of systems used by different units. These involved paper-based processes requiring form-filling and the production of printed warrants that were proving inefficient and costly.

### The Solution

Capgemini has been supporting collaboration across the MOD through DECS (Defence Electronic Commerce Service), a secure communications solution under a long-term contract. As part of this, Capgemini worked with MOD's Defence Travel (DT) Team and Hogg Robinson Group (HRG), Travel Service Provider to the MOD, to develop, test and roll out an intuitive web travel service to help contain costs.

The DT online service is available for use worldwide by some 300,000 Royal Navy, Army, Royal Air Force and MOD personnel of all ranks, both individuals and groups. The core supporting IT systems run on DECS, managed from a secure Capgemini UK data centre.

### The Result

The online self-booking tool gives users an easy-to-use service and single point of contact for all business travel. Users also have instant access to in-depth information supporting their business travel requirements. The DT Service provides extensive schedule and fare information

for available flights, trains and overseas cars, with an integrated display showing scheduled airlines, low cost carriers and rail, and includes CO2 emission estimates. No other system includes this information on the same screen. It also provides a comprehensive configuration set up to meet diverse Departmental travel policies for each mode of travel. This includes items such as expenditure limit by grade, preferred (or banned) carrier, linked cost centres to travel bookings, and reason codes for travel outside policy. The MOD is mandating use of EBIS to leverage volumes, focus on traveller behaviour and encourage travellers to book simple journeys online. Overall, the department has targeted savings of 10% to 20% per annum.

The MOD is using EBIS in “Restricted” mode, incorporating additional security for access from government secure networks using DECS. It also includes a Business Intelligence Model (BIM) Reporting Service to allow departments to monitor adherence to policy and expenditure across all levels as well as facilitate rate negotiation.

### How the MOD and Capgemini Worked Together

Faced with inconsistent access to information about low-cost travel options for personnel needing to book all forms of business travel including hotels, MOD needed a solution that was both easy-to-use and prompted better, more cost effective travel booking decisions.

In order to understand MOD's very specific requirements, Capgemini worked closely with key team members, both onsite at the MOD and during frequent workshops and discussions. The partners delivered an Early Operating Capability in late 2007 by providing a limited subset of functionality. This was progressively expanded to deliver the full functionality, including rail and overseas car hire. The June 2008 launch followed rigorous trials involving some 6,000 personnel of different ranks in a number of countries and units.



**only for service firms, but also for engineering design and manufacture, since innovative solutions typically have an important high technology component. Indeed, since Government policy is aimed at rebalancing the economy, we believe that experimenting with, and understanding the way complex systems are likely to evolve, provides innovative manufacturing firms with the best chance of stealing a march on competitors. It certainly offers early warning of potential threats.**

However, enabling systems change requires a fundamentally different, and much more co-ordinated approach to Government intervention. We recognise from our own experience the challenge this poses. Notwithstanding the difficulties of implementation, we believe that the Government's growth strategy needs to be more thematic and address these complex challenges, and place far more weight on aligning all relevant policy tools to enable the necessary transformation.

Each theme will be different but, for each priority area, the overriding task of Government should be to develop a shared vision with business on the nature of the changes underway; to understand how value networks will evolve, the scale of the market opportunity, and the UK's competitive advantage within those networks; to identify the key policy levers, including procurement, to enable the UK to seize competitive advantage; and co-ordinate policy accordingly, in order to achieve it.

Such complexity needs to be managed and, in our Growth Review paper on "smart cities", we highlighted the role that demonstrator programmes should play in developing and evaluating possible solutions at a scale which provides decision makers with the confidence and knowledge on how to proceed: in short, de-risking the prospect of change for all stakeholders. We believe that more widespread use of demonstrators as a policy tool promotes opportunities for new firms in emerging and growing markets, and also affords a greater opportunity for regional development. Similarly, experimenting with new approaches also provides insights into emerging skills needs and (interoperable) standards, for example, in the area of new energy systems or assisted living.

We therefore recommend that business support programmes, such as the Regional Growth Fund and the programmes of the Technology Strategy Board, should give greater weight to demonstration projects, which bring together a range of partners to provide solutions to complex societal challenges and catalyse emerging firms and industries. These, in turn, should be linked to procurement decisions to pull through the benefits of proven innovation to citizens and innovative firms alike.

As with business planning, the size of the potential prize together with the ability to win a sizeable share of it should be an important policy consideration. To illustrate, we have identified four areas where we believe there are significant opportunities for UK firms, if Government were to play a more active and more co-ordinated role in enabling transformation. In all these areas the UK has a substantial lead or is, at least, recognised for its capabilities, and for its technical and ethical standards. They are:

**(i) Smart cities, including open data:** More than 50% of the world population lives in an urban environment and urbanisation is increasing rapidly in the developing world. Ensuring that cities remain pleasant and secure places to live represents a major challenge in the years to come, and involves considerable investment in careful design as well as the infrastructure itself. UK firms have acquired a global reputation as being at the forefront of thinking in this area, including how public data might be made available for re-use in the development of new services.

**(ii) E commerce:** As a proportion of total retail activity, UK consumers are the most intensive adopters of e-commerce in the EU and the industry continues to grow at around 14% pa. This activity is based on high levels of performance and trust in UK firms to accept "returns" – which is a tradable asset as consumers around the world are increasingly attracted to on-line retailing.

**(iii) The security/resilience of ICT infrastructures and internet services:** It is now widely recognised that the growth of the above two areas is significantly underpinned by the ability of internet based systems to be resilient in the face of cybercrime and UK business and research capability in cyber security is held in high regard. We examine how the UK Cyber Strategy might build on this capability, to promote a wide range of professional and business services to enable the internet to fulfil its full potential.

**(iv) Business services in support of large sporting events:** The global sports market is estimated to grow from its present size of \$120 billion pa to around \$145 billion by 2015; sponsorship and related activities currently amount to almost £50 billion pa. Major sporting events represent a significant business opportunity and, in common with the themes above, UK firms enjoy a global reputation in the key sub-sectors, such as the design and construction of sporting venues, the management of events and the sponsorship and marketing which provide a considerable part of the funding for such events.

We set out the case for Government intervention in a series of mini-studies which form Annex 3. A fifth area, namely carbon reporting to promote

sustainable supply chains, also offers new opportunities for UK firms in an emerging market, and we propose to explore this further during the coming year.

### A Targeted Trade Strategy

The 56% increase in UK exports of professional and business services between 2005 and 2010, to a figure approaching £61 billion, points to the growing tradability of services and the 50% growth in the highly competitive US market points to the strength of UK offerings. The Group believes that this trend is likely to be maintained, if not increased, as firms in the developing world seek to move higher up the value chain and to extend operations into new markets. Furthermore, the experience of UK firms in helping to shift state owned enterprise into the private sector, and in transforming the delivery of public services, affords further opportunities to work in partnership with overseas governments and their agencies. Raising exports of professional and business services, particularly in the developing world, should therefore be a key plank of the Government's growth strategy.

However, competition to maintain or improve market share will be fierce and we believe that this requires a much more focussed approach than hitherto. We welcome, therefore, the decision by UKTI to nominate Professional and Business Services as a key sector and to offer to work with the Group to develop such a trade strategy. It should comprise a number of elements, including:

(i) A clear vision of the UK as a global hub of professional and business services excellence: as we have indicated earlier, we believe the high level message should be one of the UK being a centre for creative solutions to apparently intractable problems, where diversity is respected and welcomed, and the system is underpinned by trust and the rule of law.

(ii) A focus on UK institutions, which have a global reputation for maintaining the standards of professionalism and probity within the UK professions, and the opportunities for young people to train in the UK and acquire professional qualifications.

(iii) A continued emphasis on opening markets in target regions, such as the BRICs, and developing the evidence base on the economic loss to local consumers of current market arrangements.

(iv) Identifying medium term opportunities in regions such as SE Asia, Latin America, Africa and the Gulf, where markets may be more receptive and open to UK offerings.

(v) A stronger emphasis on UK experience in public service reform and the professional and business services which underpin it: as resource constraints impact upon all governments, UK expertise in managing the process of outsourcing and developing innovative solutions to a wide range of societal challenges will be increasingly sought after.

(vi) Broadening the SME export base by raising awareness, providing practical on-line assistance and, where appropriate, targeted support, such as mentoring, trade shows and local support in target markets.

Such a strategy will require strong messaging and marketing collateral. We look forward to working with UKTI on its development and dissemination, and to improving overseas awareness of UK capabilities across the range of professional and business services.

**“The 56% increase in UK exports of professional and business services between 2005-2010, to a figure approaching £61 billion, points to the growing tradability of services”**

# Case Study/ Linklaters - Global Talent

## Global Talent Programme

In 2007, Linklaters launched its Global Talent Programme to develop the leadership capabilities of advisors with high potential and outstanding performance. The programme takes place over 18 months and each cohort consists of 16 participants. The benefits to the firm are to:

- Recognise, reward and retain outstanding performers who are interested in developing their career within Linklaters
- Align talented individuals to the needs of the firm and develop them as a globally aware, cross-functional cohort
- Access talented individuals to lead a number of the firm's strategic projects.

The individuals that participate on the programme are selected on a regional basis to ensure that the global network is represented. There is a rigorous selection process to ensure that all individuals meet the criteria for the programme, which are based around their: performance; ability to influence; problem-solving skills; and ability to apply learning.

The programme consists of a series of elements designed to prepare them for future career development within the firm:

- Five stretching development initiatives: a kick-off event to establish expectations of the programme; a development centre; a bespoke skills course tailored the needs of the cohort; a leadership development centre; and a closing event where participants present their experiences and the benefits to the business of their participation on the programme
- A mentor relationship with a member of the senior management team to provide advice and act as a career champion
- A secondment to a project outside of their function, aligned to the strategic priorities of the firm, to allow participants to directly apply their new skills and build their network in a new part of the business
- A tailored development plan, which forms the basis of their on-going development throughout and after the programme.

Participants receive a considerable degree of development and personal support throughout the programme. While promotion is not a guaranteed outcome of participation in the programme (between 30 – 35% of participants are promoted within two years of programme completion), participants increase their involvement in and contribution to cross-functional initiatives which may provide new opportunities for them.

### Feedback from participants:

"I felt completely involved in a quality program, and that the firm was committed to helping me develop myself on a professional and personal level."

— Participant from Paris

"You develop a firm network of peers, who you may or may not have normally worked with in the past, who bring a different perspective to everything you thought was obvious."

— Participant from Hong Kong

"Personally, I've benefited immensely from the GTP mentoring programme. From the outset my mentor has been a confidante and a friend, always accessible and providing sound, objective advice at a number of critical junctures in my Linklaters career."

— Participant from Brussels

"The Leadership Development Centre especially, addressed our main interests and/or challenges, and the programme specifically supported each of us in analysing what we needed to improve. The programme helped me to visualise what leadership is in a global firm, and I am still aiming to achieve that!"

— Participant from Tokyo





# **Annex 1: Size and Scope of Professional and Business Services in the UK**

**“The sector has made a large contribution to UK growth in recent years. It accounted for around a third of the growth in UK output productivity between 2000 and 2007, compared to around a fifth of the growth in real GVA in the US and leading EU economies over the same period.”**

The Knowledge Intensive Business and Professional Services sector covers a wide range of activities including Support Services, ICT, Law, Architecture and Consulting. The Professional and Business Services 2020 Vision used a broad definition covering logistics, communications, professional services and R&D<sup>13</sup>. However this sector review focuses more narrowly on the core business and professional services captured by:

- Computer and Information Services
- Legal Services
- Accountancy
- Actuarial Services
- Management Consultancy and Market Research
- Architectural, Technical and Engineering Consulting
- Advertising and Marketing Services
- Research and Development and other scientific, professional and technical activities
- Other Business Services (Inc. Support Services, HR, Recruitment, Security).

Taken together **business and professional services account for around 13% of UK output and 13.2% of UK employee jobs**. This is the result of strong growth over the last decade, with output<sup>14</sup> growing by an average of 3.6% a year (in real terms) compared to 1.6% for the economy as a whole. Although employee jobs growth in the sector was less rapid (1.5% a year) this was again faster than for the rest of the economy (which grew by 0.2% a year)<sup>15</sup>.

As a result of this, **the sector has made a large contribution to UK growth** in recent years. It accounted for around a third of the growth in UK output productivity between 2000 and 2007, compared to around a fifth of the growth in real GVA in the US and leading EU economies over the same period<sup>16</sup>.

It also compares favourably, in terms of output and employment, to other important sectors of the UK economy:

**Table 2: Sectoral Comparisons of Output and Employment 2010**

	% of UK GVA	% UK Employee Jobs
Professional and Business Services	12.9	13.2
Manufacturing	10.0	8.9
Financial Services	8.8	3.9
Retail and Wholesale	10.7	16.3
Construction (Construction contracting only)	7.0	4.7

Table 2 above provides more detail on output and employment in various parts of the sector. It highlights the particularly strong growth in areas such as Research and Development, and Management Consultancy which both grew by more than 5% a year (in real terms) during 2000 – 2010.

<sup>12</sup> We are grateful to the Analysis Directorate of BIS for this comprehensive description and performance analysis of the sector.

<sup>13</sup> BIS (2010) Business and Professional Services: A 2020 Vision for Growth, see also DTI (2007) Business Services and Globalisation.

<sup>14</sup> Gross Value Added (GVA).

<sup>15</sup> On a broader definition Business and Professional Services accounts for 18% to 19% of UK GVA and Employment.

<sup>16</sup> BIS analysis based on ONS and EU KLEMS data.



**Table 3: Output and Employment in the Business Services Sectors**

SIC	Sector	Real GVA <sup>17</sup>		Employee Jobs <sup>18</sup>	
		Share (2010)	Annual Growth (00-10)	Share (2010)	Annual Growth (00-10)
62	Computer Services	2.4	4.8	1.6	-0.2
63	Information Services	0.3	1.9	0.3	2.8
69	Legal and Accounting Services	2.5	4.1	1.9	0.4
70	Management consultancy; head offices	1.0	5.2	2.0	8.0
71	Architectural engineering; technical testing and analysis	1.6	4.1	1.4	2.0
72	Scientific research and development	0.3	7.0	0.4	1.9
73	Advertising and market research	0.8	-0.5	0.5	0.3
74	Other prof, scientific and technical activities	0.5	1.2	0.5	1.3
77	Rental and leasing	0.9	1.0	0.4	-2.9
78	Employment activities	1.3	4.7	3.0	1.3
82	Administrative, office support and other business support activities	1.3	3.2	1.1	0.0
	<b>Total Business and Professional Services</b>	<b>12.9</b>	<b>3.6</b>	<b>13.2</b>	<b>1.5</b>

Source: BIS Calculations based on ONS National Accounts (2010), Employee jobs. Note: Growth rates are annualised figures

These figures set out the broad importance of the sector in terms of its direct output and employment. However, **business services are also an important input into other sectors** of the economy. BIS analysis of the ONS Supply and Use Tables shows that business services account for around 20% of UK businesses' externally sourced inputs (intermediate consumption).

This data also illustrates the role of the sector as an **'ecosystem' of inter-related services**, with its component industries buying and selling significant amounts of services to and from each other. In 2009 business services firms accounted for nearly 61% of the intermediate consumption of business services. This reflects the fact that there are powerful synergies between different elements of the sector.

Related to this is the **sector's strong relationship with financial services**, with around 35% of the latter's intermediate consumption going towards business services<sup>19</sup>. Although this relationship is epitomised by the City of London as a global centre for financial and business services, as Figure 2 below illustrates, the sector is also a major employer across most of the regions of the UK.

### Export Performance

This growth has been achieved on the back of a **strong export performance**, with UK exports of Computer & Information and Other Business Services growing by 9% a year during 2000-2010.

<sup>17</sup> Gross Value Added at Basic Prices.

<sup>18</sup> Workforce Employee Jobs.

<sup>19</sup> Conversely, financial services account for around 5% of intermediate consumption by business services, which is slightly less than the average for the economy as a whole.

Figure 2: Employment in the UK financial and associated professional services

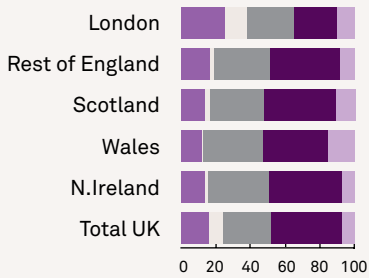
Legend for map

Region name  
FS workforce (% of regional total)

- FS > 7% of regional economy
- FS 5-7% of regional economy
- FS < 5% of regional economy

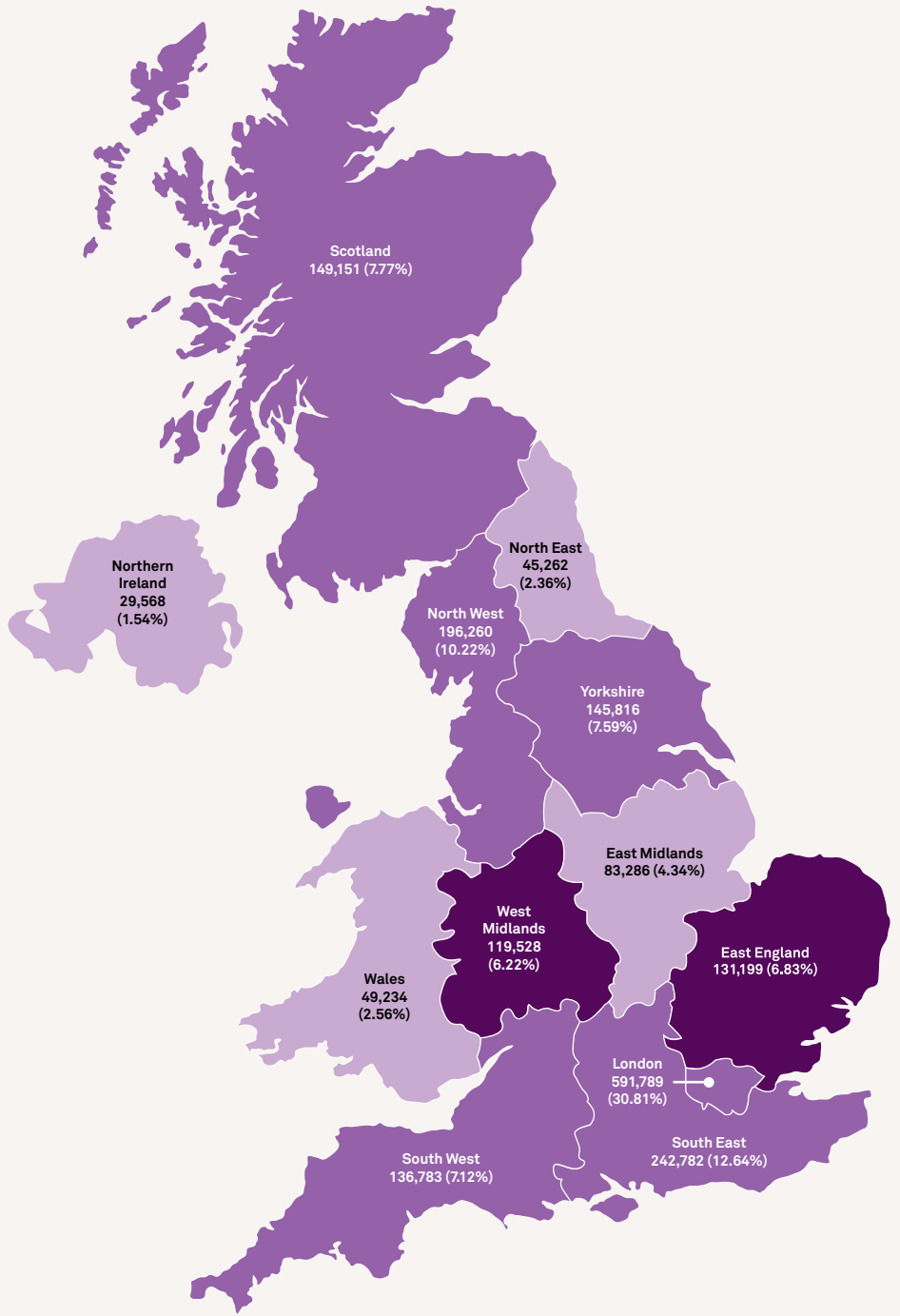
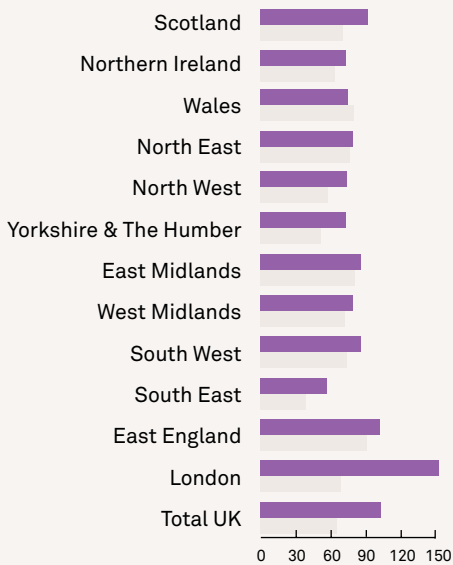
A diverse industry Financial services workforce by sector

- Corporate and institutional banking
- Asset management
- Insurance and pensions
- Retail banking
- Others



A highly productive sector\* Economic value/head (£'000)

- Financial services
- Financial and associated professional services



Source: TheCityUK (2010) – Key Facts About Financial and Professional Services.

**Table 4: UK Exports of Professional and Business Services**

£ Millions	2000	2010	% change	Annual Average % increase
Computer and information services	2,865	8,742	205%	11.8%
Other business services	22,399	52,162	133%	8.8%
<b>Total Professional &amp; Business Services</b>	<b>25,264</b>	<b>60,904</b>	<b>141%</b>	<b>9.2%</b>

Professional business services also make a large and increasing positive contribution to the UK balance of trade with a trade surplus of over £28 billion in 2010. The size of the trade surplus in these industries has grown by 8% each year over the period 2000 - 2010.

Analysis by the OECD shows that the UK has a Revealed Comparative Advantage (RCA) in ICT and

business services, which is above average for the G7 as a whole<sup>20</sup>.

This strength is reflected in the **UK's large market share**, accounting for around 12% of OECD exports of Business, Computer and Information related services, roughly comparable to the US.

**Table 5: Share of OECD Exports of Professional and Business Services 2009**

	Computer and Information Services	Other Business Services	Total Professional and Business Services
United States	10.4	14.5	13.8
United Kingdom	10.3	12.0	11.7
Germany	11.5	11.8	11.7
Ireland	26.4	4.7	8.5
Netherlands	4.8	6.1	5.8
Japan	0.7	6.9	5.8
Belgium	3.3	5.1	4.8
France	1.3	5.5	4.7
Spain	4.7	4.7	4.7
Sweden	5.4	3.6	3.9

Although the majority of this trade is with other advanced economies, exports of business services to the BRIC countries have been growing rapidly<sup>21</sup>, by an average of 19% a year during 2000-2010<sup>22</sup>.

<sup>20</sup> OECD Globalisation Indicators database. Analysis such as that carried out by the European Commission finds similar results, see [http://ec.europa.eu/enterprise/newsroom/cf/document.cfm?action=display&doc\\_id=5580&userservice\\_id=1&request.id=0](http://ec.europa.eu/enterprise/newsroom/cf/document.cfm?action=display&doc_id=5580&userservice_id=1&request.id=0)

<sup>21</sup> Brazil, Russia, China and India.

<sup>22</sup> Source: OECD Trade in Services Database.

**Table 6: Exports by Country**

European Union (EU27)			
of which	23,643	17,026	38.9%
Germany	4,185	3,442	21.6%
France	2,966	2,040	45.4%
Switzerland	5,047	2,175	132.0%
The Netherlands	4,150	3,115	33.2%
Ireland	3,448	2,683	28.5%
United States	13,049	8,819	48.0%
Japan	1,262	1,138	10.9%
Brazil	288	41	602.4%
China	677	235	188.1%
India	636	..	-
Russia	427	..	-
Others	20,922	11,409	83.4%
Total	60,904	38,978	56.3%

Limitations in trade data mean that these statistics tell only part of the story. In addition to conventional exports, business services are often delivered by either the customer or supplier travelling to the other, or the supplier establishing a commercial presence in the destination country<sup>23</sup>. FDI data suggest that business services account for around 5% of the UK's outward FDI and 8% of its inward FDI, with the majority of this activity being with the US and other European countries.

In the wider debate about globalisation, attention has understandably focused on the potential for UK service jobs to move overseas. However, these trends equally apply to the potential for on-shoring

of service activities into the UK. Despite fears of increased outsourcing of service jobs, the **UK is the largest net exporter of business services in the G7** (indeed our net exports from this sector are larger than most other OECD countries' gross exports of business and computer related services<sup>24</sup>).

### Business Structure

In terms of the degree of competition in the sector, most of these industries are among the least concentrated in the economy. In advertising for example, the largest five companies accounted for only 12 per cent of industry value added in 2004.

**Table 7: Concentration Ratios for Business Services (2004)**

Industry	Top 5 Businesses (% Share)		Top 15 Businesses (% Share)	
	Turnover	GVA	Turnover	GVA
Computer Services	19	17	29	28
Legal Activities	9	9	17	17
Accountancy Services	36	40	47	50
Market Research, Consultancy	10	13	16	18
Architecture and Technical	8	12	15	20
Advertising	10	12	20	20
Other Business Services	5	6	10	12

<sup>23</sup> These would not appear as exports of business services in the trade data, but either as Foreign Direct Investment or under the heading 'Travel' in the services trade data. See Langhammer (2004) for a discussion of the issues.

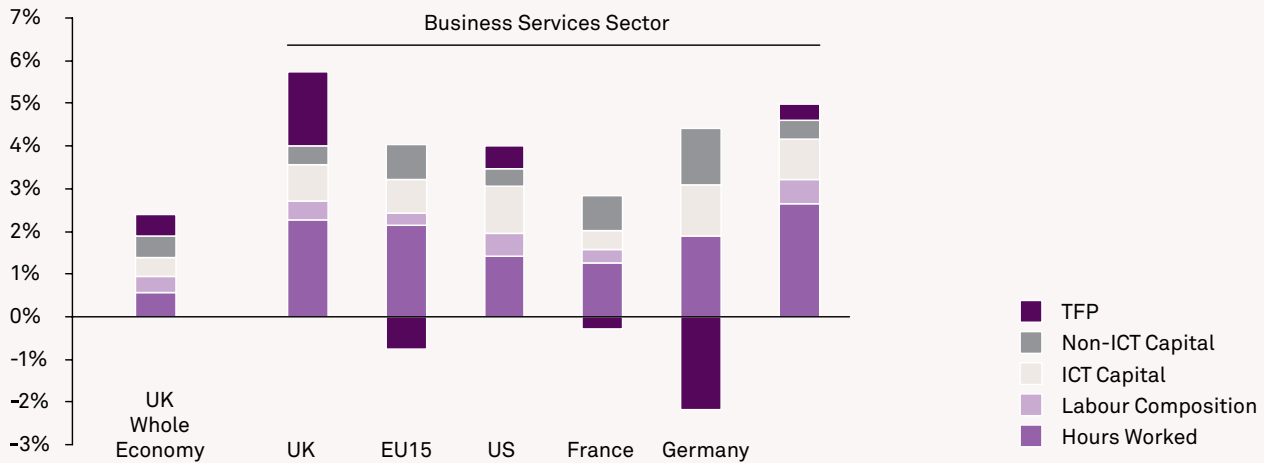
<sup>24</sup> See also Amti and Wei (2004).

## Drivers of Sector Performance

It is in the nature of international comparisons of sector performance that the data is not as up-to-date as output and trade data. Nevertheless, they provide important insights into how performance has been developed. As the Figure 3 below shows, the output of the UK business services sector grew

by an average of 5.7% a year in real terms between 2000 and 2007, faster than our major competitors. Underlying this appears to have been a **relatively strong productivity performance**, i.e. in the way UK firms have combined capital (typically ICT) and people skills to best effect, as opposed to simply investing more in equipment or employing more people/working longer hours.

Figure 3: Decomposition of Business Services Growth in Gross Value Added (Volumes, 2000-2007)



## Productivity

Although the available data is limited, international comparisons of sectoral productivity largely support the story outlined above. Productivity growth in UK business services appears to have outstripped our major competitors, even though labour productivity (output per worker) may still be lower.

Table 8: International Comparisons of Productivity (UK =100, 2004)

	Average Labour Productivity			Total Factor Productivity		
	US	GER	FRA	US	GER	FRA
Computer Services	176	100	154	133	64	
Other Business Services	133	127	107	99	47	
All Market Sectors	136	107	120	116	83	104

Source: BERR (2008) Cross Country Productivity Performance at the Sector Level

**Table 9: International Comparisons of Labour Productivity Growth**

	Labour Productivity Growth (2000-2007)			
	UK	US	FRA	GER
Business Services:	2.8%	2.2%	0.9%	-1.1%
All Market Sectors	1.6%	1.9%	1.3%	1.6%

Source: BIS Calculations base on EUKLEMS data

It is also important to recognise the diversity of the sector, both in terms of the firms which make it up and the types of activity they engage in. Table 10 below provides figures for the median annual salary per full time worker across the various sub-sectors of business services. The table shows that, while ‘professional business services’ as a whole

lie towards the upper end of the salary spectrum, a large section of the activities encompassed in this group particularly within the “Administrative and Support Services” are generally of relatively low remuneration.

**Table 10: Median Full Time Gross Annual Salaries in Professional and Business Services Sectors(2011)**

SIC	Sector	Median Annual Salary
62	Computer Services	£37,880
63	Information Services	£36,132
69	Legal and Accounting Services	£30,300
70	Management consultancy; head offices	£35,181
71	Architectural engineering; technical testing and analysis	£31,776
72	Scientific research and development	£37,900
73	Advertising and market research	£31,652
74	Other prof, scientific and technical activities	£29,491
77	Rental and leasing	£23,053
78	Employment activities	£19,359
82	Administrative, office support and other business support activities	£23,000

Source: Annual Survey of Hours and Earnings

However, care should be taken when interpreting this data, as even at this level of detail the figures can still mask significant variation within sectors and professions, and occupations within those sectors.

### Innovation

Innovation is difficult to measure in an intangible service environment and most international comparisons currently rely on self assessment. Business service firms are also more likely to engage in innovating their processes and in the way

they engage their clients rather than in offering new innovative services. Recent work by the ONS, Imperial College and NESTA has attempted to quantify the scale and contribution of this wider innovation activity to the economy, e.g. in the form of investment in design, skills, marketing and business organisation as well as R&D, and found that<sup>25</sup>:

- For the UK as a whole, investment in knowledge assets and wider innovation accounted for over 60% of the improvement in business productivity

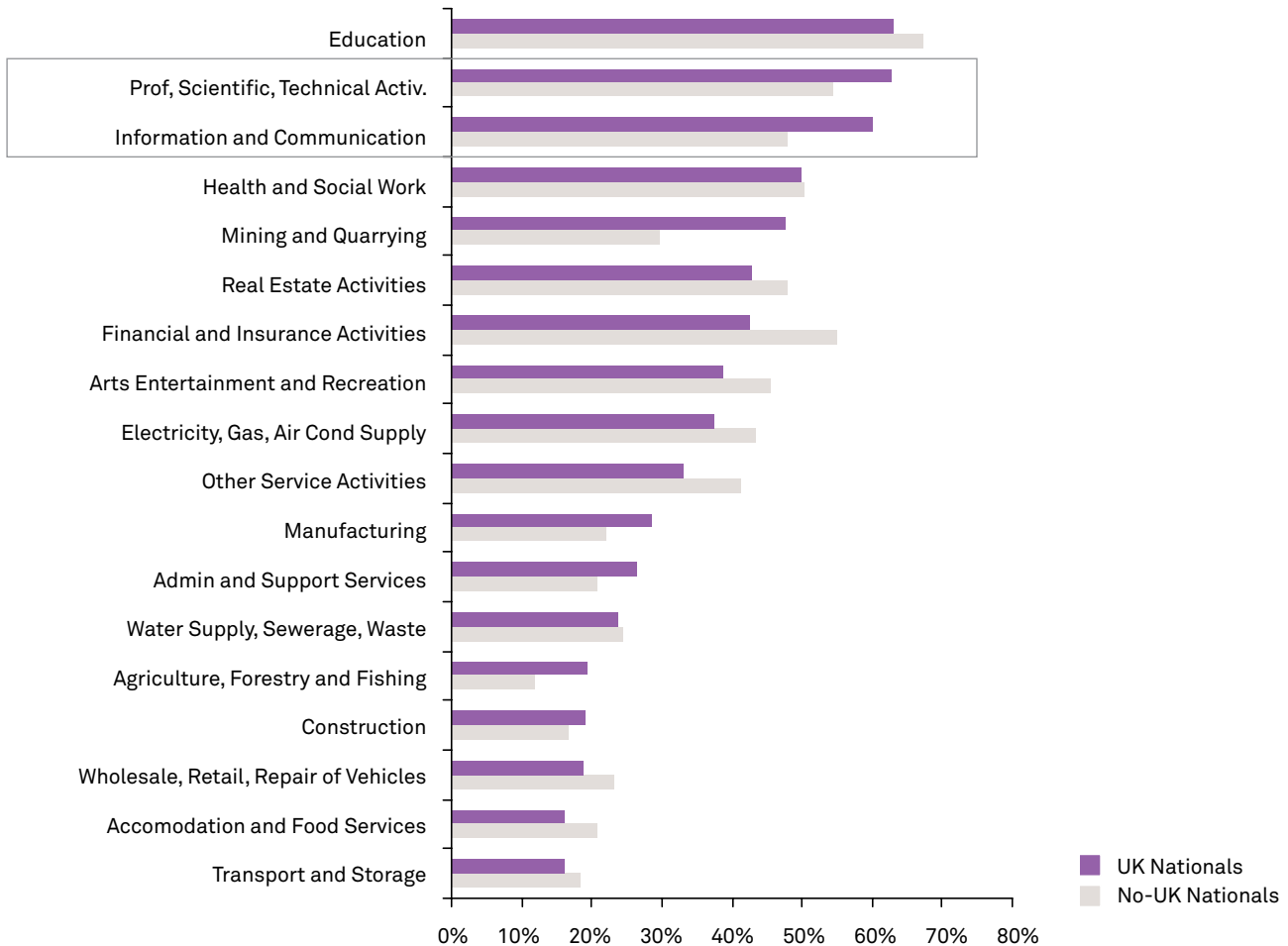
<sup>25</sup> NESTA Innovation Index (forthcoming).

- Between them, business services and manufacturing accounted for over half of this investment in 'knowledge assets'.

## Skills

Detailed data on the skill levels by sector is available from the Labour Force Survey (Figure 4). This shows that skill levels in professional and information related services are high compared to other sectors in the economy – for both domestic and migrant workers.

Figure 4: Proportion of UK Workers with High Level Skills by Nationality and Broad Sector (2010)



Source: ONS Labour Force Survey, Q3 2010. Data are on an SIC (2007) basis. Figures give share of UK and Non-UK Nationals with degree level or equivalent qualifications as a percentage of the UK and Non-UK National Workforce for that sector.

OECD migration data suggests that **internationally mobile workers are more important to the UK business services sector than in other countries.**

The business and professional services are the 4th largest employer of migrants in the UK (after wholesale trade, manufacturing and health) compared to 12th for the OECD as a whole <sup>26</sup>.

## The Burden of Regulation

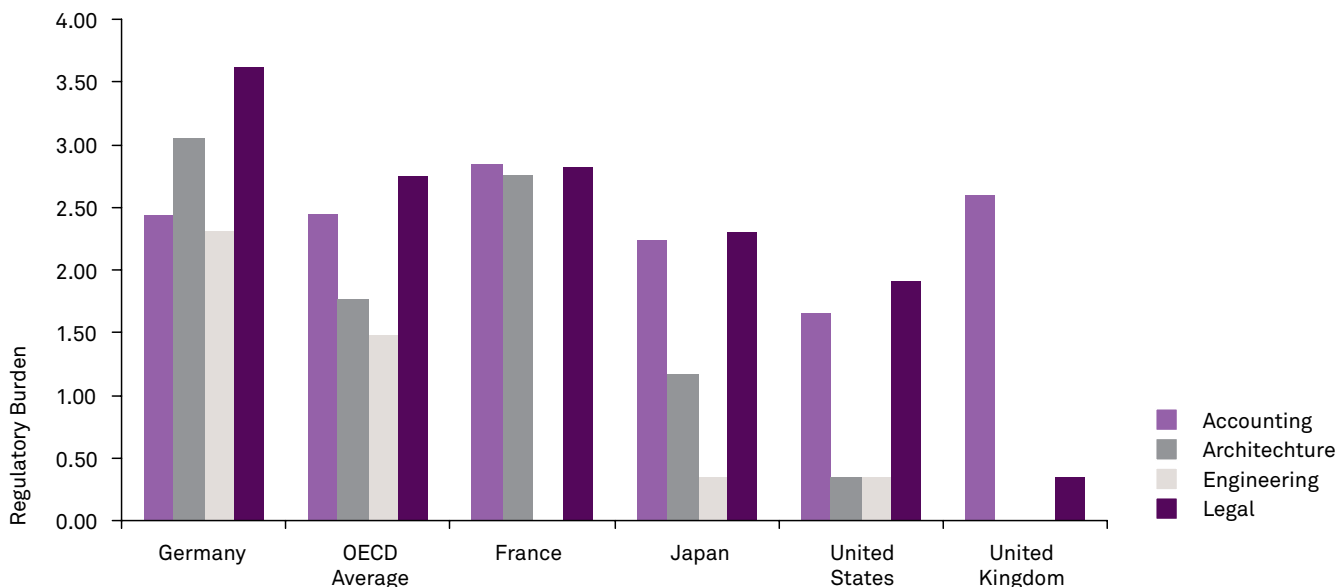
International comparisons of the regulations on business and professional services suggest that,

<sup>26</sup> OECD Migration Database.

<sup>27</sup> OECD Professional and Business Services Product Market Regulation Database.

in relation to accounting, the regulatory burden is far higher than in the USA and almost at the same level as France, while in relation to legal services, the burden is significantly lower than other leading competitors. It is considered that the former is primarily accounted for by relatively more stringent regulation on market entry, as opposed to 'conduct' regulation<sup>27</sup>. More generally, UK Employment Regulation is more restrictive than the US, but well below the OECD average.

Figure 5: Relative Burden of Regulation on the Professions (2007)



Source: OECD Sectoral Regulation Database

These findings are broadly supported by international comparisons of the business environment, with the UK ranked 4th in the World Bank Ease of Doing Business report, and 12th in the World Economic Forum’s Global Competitiveness report<sup>28</sup>.

### Globalisation of Business Services

Central to developments in the global economy over the last few decades has been the **acceleration in the pace of globalisation**. In particular, technological progress has facilitated the development of global value chains, leading to increased outsourcing of particular activities to specialist providers – wherever they may be located.

Initially, the impact of this transformation was most visible in the production of goods, but more recently service activities have become more tradable<sup>29</sup>. Although this reflects a challenge for the UK business services sector through increased international competition, it also represents a **significant opportunity in the form of potential new markets**.

In particular, as emerging economies become wealthier, their demand for more sophisticated products is expected to increase. While the most visible aspect of this may be in terms of increased demand for branded consumer goods and services, a similar logic applies in the context of a wide range of infrastructure and business services.

For example, the rapid increase in population in China and India will require a huge investment in urban infrastructure, including housing, transport and energy systems. This will spur demand in a range of related sectors including architecture and specialist technical advice<sup>30</sup>. There is also evidence that **Chinese and Indian firms are increasingly looking to foreign firms with global reach and expertise across a range of business services**, in order to help them achieve their increasingly outward looking ambitions<sup>31</sup>.

28 World Bank (2010) Doing Business Report, World Economic Forum (2010) Global Competitiveness Report.

29 See for example Blinder (2007) How Many US Jobs Might be Offshorable?

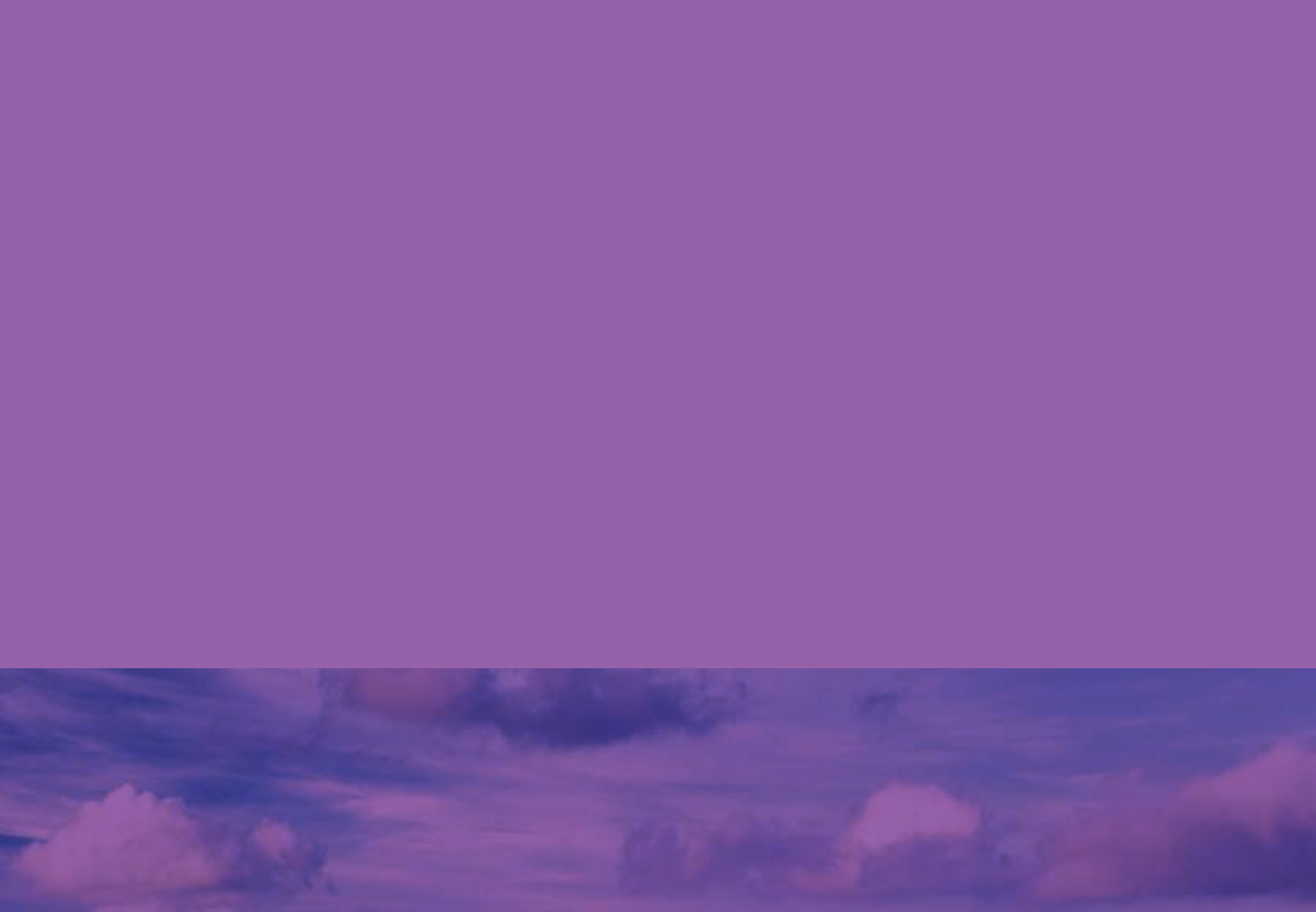
30 See for example McKinsey Global Institute (2008) Preparing for China’s Urban Billion.

31 BERR (2008) China and India: Opportunities and Challenges for UK Business.



**“As emerging economies become wealthier, their demand for more sophisticated products is expected to increase.”**







# Annex 2: PBSG Terms of Reference and Membership

**“To promote the interests and the knowledge of the professional and business services sector for the benefit of those firms operating in and for the UK economy.”**

### **Purpose**

The UK is a leading provider of many professional and business services including legal, accountancy, marketing, management consultancy, IT and shipping; whose services are world leaders and represent some 13% of UK employment as well as having a symbiotic relationship with London and the UK as a leading global financial centre.

### **The Professional and Business Services Group will:**

- Consider the medium- to longer-term trends impacting on the competitiveness of the professional and business services sector in the UK, taking into account London-/UK-based factors and the sector-specific opportunities and challenges in overseas market liberalisation and regulatory/standards dialogue. The Group will produce a practical analysis on the basis of its examination of these issues, and a range of considerations that ought to be addressed. This analysis should enable the Government to prioritise the commercial challenges for the UK-based professional and business services industries and related public policy challenges (including horizontal issues as well as those specific to the sub-sectors in the professional services industry)
- Be a trusted forum for interaction with Senior Ministers and Government and generally both for swiftly escalating and explaining issues, whether of proposed UK legislation or regulation or from the EU or indeed other international factors (competition/restrictions/etc), and for Ministers and Senior Civil Servants to get swift and trusted input and advice from the Group on an immediate basis
- Help to promote the interests and the knowledge of the professional and business services sector for the benefit of those firms operating in and for the UK economy.



**Sir Michael Snyder**  
Senior Partner, Kingston Smith  
LLP



**Paul Bainsfair**  
Chairman, Iris Worldwide and  
a Director General, IPA



**Nick Baird**  
Chief Executive, UKTI



**Richard Batten**  
UK Executive Chairman, Jones  
Lang Lasalle



**John Griffith-Jones**  
Chairman and Senior Partner,  
KPMG LLP



**John Hicks**  
Director, Davis Langdon



**Christine Hodgson**  
Chairman, Capgemini UK plc



**Steve Ingham**  
Chief Executive, Michael Page



**Ian Powell**  
Senior Partner, PwC



**Vicky Pryce**  
Senior Managing Director,  
FTI Consulting



**Christopher Satterthwaite**  
Chief Executive, Chime  
Communications



**Ken Shuttleworth**  
Senior Partner, Make  
Architects

The Chairman may, from time to time, invite relevant sector-wide groups and associations representing the legal, accounting and other sectors to contribute to the work of the Group and we may also issue reports occasionally where we feel appropriate and useful.



**Ronnie Bowie**  
Senior Partner, Hymans  
Robertson



**Andi Case**  
Chief Executive, Clarksons PLC



**Robert Elliott**  
Senior Partner, Linklaters LLP



**Philip Dilley**  
Chairman, Arup



**Laurence Longe**  
National Managing Partner,  
Baker Tilly



**Michael Mainelli**  
Chief Executive, Z/Yen



**Chris Mullen**  
Senior Partner, Pinsent  
Masons LLP



**Stuart Popham**  
Chairman, TheCityUK



**Jonathan Taylor**  
Director General, Financial  
Services and Stability,  
HM Treasury  
(Observer)



**Lance Uggla,**  
Chief Executive Officer, Markit



**Will Lawes**  
Senior Partner, Freshfields  
Bruckhaus Deringer LLP

### **Chairman and Secretariat**

The Group will be chaired by Sir Michael Snyder, Senior Partner at Kingston Smith LLP and former Chairman of the Policy and Resources Committee of the City of London Corporation. The Secretariat will be run jointly between the Department for Business, Innovation and Skills (BIS) and Kingston Smith LLP with the utilisation of the resources and facilities of all members as well as engaging with professional bodies including the ACCA, ICAEW, ICE, The Law Society, MCA, RIBA, RICS and the FRC.

### **Minister**

Vince Cable, Secretary of State for Business, Innovation and Skills and Mark Prisk, Minister of State for Business and Enterprise, attend the meetings.

# Annex 3: Specific Opportunities for Growth



## Smart Cities

The changes taking place in energy, transport, retail, and healthcare are mainly taking place in an urban environment because around 75% of the population of the developed world is urbanised and, in the developing world, urbanisation is increasing at around 70 million people pa. Some 70% of global GDP is now generated in an urban environment and 50% of China's GDP is generated in its urban coastal regions. According to Booz & Co<sup>32</sup>, it is estimated that spending by cities on infrastructure and its management/use will amount to \$350 trillion over the next 30 years. The report indicates that smarter approaches, facilitated by investment in ICT of \$22 trillion to improve the efficiency of transport and energy consumption, could generate savings of \$33 trillion and reduce emissions by 50%.

These are staggeringly large numbers and UK firms only need a small share of such a market to create significant wealth. As recent publications by members of this Group<sup>33</sup> have indicated, UK firms are among the thought leaders in this field and enjoy a global reputation. However, aside from London, UK cities are rarely cited as exemplars of innovative cities, and this was reflected in the Government's own report on cities, published after the 2011 Autumn Statement<sup>34</sup>. We recommended in our submission to the Growth Review that, for the benefit of ratepayers, as well as UK plc, Government needed to play a leading role in encouraging Local Authorities to take more innovative approaches to managing public services. In particular, we recommended that Government should seek to bring together, in specific locations, pilots on assisted living, intelligent transport, energy efficiency and smart grids, supported by a modern digital broadband infrastructure, to explore, or demonstrate, the challenges and benefits arising from the integrated delivery of public services, i.e. to translate thought leadership into a portfolio of application projects. Specifically, we advised that Government should develop a Smart City Demonstrator programme as a learning tool and means of de-risking this paradigm shift in service delivery and that, as part of this "experiment", Government should make available for re-use all public data at marginal cost, in the designated smart cities. We believe that this, together with a more proactive approach to open data, would provide significant economic benefits as well as making cities more "liveable" and would provide a platform for third sector activity in support of the Government's concept of a "Big Society".

We therefore welcome the prospect that the £25 million earmarked in the Autumn Statement for investment in demonstrators by the Technology

Strategy Board will focus on the concept of Future Cities and that this will be accompanied by a business led "catapult" to provide a testing ground for integrated approaches to service delivery. We also applaud the focus being given to the concept in the current round of Ministerial discussions with a number of the eight "core" cities. We believe that these exercises are complementary: the scale and complexity of change is such that cities need to be incentivised to embark on this process of radical change, while the Technology Strategy Board should use its resources to test new approaches and push the boundaries of innovation to ensure that the UK is firmly at the forefront of development. The prize for success in terms of economic growth and quality of life in cities merits the focus being given to this topic.

However, as noted above, the acid test of the Government's commitment to a "smarter" society is the extent to which it makes public data available for re-use. In our paper on open data, we recommended the following six core principles:

- Ownership of individual data resides with the individual, who may choose to release it for personal gain
- The role of Government (and its agencies) is to share freely, and as openly as possible, the data/information upon which policies are based and implemented, and to be held to account for not only its interpretation of the data, but also the quality/reliability and robustness of the data it is using and its ease of access
- Information about the physical attributes of this country, its transport and communications, the underground utility infrastructure, its weather, the vulnerability to flooding, shifting land use, and environmental hazards are a public good which should be paid for by the taxpayer and made freely available
- Value added activities should be placed in the private sector and should compete on equal terms with others; where possible, the cost of updating datasets should be borne by those who change them, e.g. the cost of changing OS maps should be borne by those responsible for the new development, public or private, and incorporated into Land Registry fees
- Government should define its information requirements but the acquisition/procurement/collation of raw data should, consistent with wider procurement policies, be subject to the principle of contestability.

<sup>32</sup> WWF-Booz, Reinventing the City, 2011

<sup>33</sup> Information Marketplaces: The New Economics of Cities, November 2011

<sup>34</sup> Unlocking Growth in Cities, December 2011



# Case Study

## Arup - Smart Cities

### Introduction

With the advent of cloud computing, the internet of things, hyper-connectivity, modern analytics, smart devices and increasing processing power, we stand on the brink of a new era in the way cities are developed and how they deliver services to their citizens.

### Evolving toward a new future

The next generation of smart cities are already beginning to emerge, evolving as new technologies move into the mainstream and people adapt and respond to the low-cost availability of processing power and new ideas for reshaping society.

The Climate Group predicted a 15% reduction in emissions was possible by 2020 via ICT, while the Technology Strategy Board (TSB) estimates that by 2030 there will be a £200bn global market annually for integrated city systems.

Although still in the early stages, smart city projects – large and small – are emerging rapidly across the globe. In London, for example, an investment of under £15,000 enabled the creation of the London Datastore, which allows developers to access ready-to-use datasets that have been cleaned up and meta-tagged. This has resulted in the creation of many new apps for Londoners. One app created from this data is Tube Deluxe, a guide to the London Underground transport system. It has 50,000 active daily users and 350,000 downloads.

Arup is already working with other major UK cities to explore the methodologies required to prioritise smart city investments in the future, but evidence of the effectiveness of a smart city approach is already growing around the globe.

In Helsinki, for example, Arup has been closely associated with the Low2No sustainable urban development in Jätkäsaari. This project is already credited with reducing residents' personal carbon footprint by 37%. The forecast is that the development could become carbon negative by 2021 using a wide range of pervasive informatics strategies and services directed at the community. These include in-street displays that report on personal and civic footprints in real-time, as well as next generation smart meter displays for apartments. The Low2No project highlights the wider benefits of sustainability, which includes social and economic outcomes, as well as environmental.

New York has taken a similarly creative approach, creating a "Big Apps" competition that challenges citizens to use city data innovatively to create value for citizens. One entry "596 Acres" used data about the city's publicly owned vacant lots to encourage people to join together to turn them into usable public spaces. On one site, two people from the local area met through the app, and transformed a lot that had been vacant for over 20 years into a public garden where the community now grows its own produce and provides a space for tranquil reading. Not only does this maximise the use of local assets, but it supports community unity and ownership of the local area.

On a larger scale, there is Smart Streets Pittsburgh. This is a collaborative project in Pennsylvania, USA, where Arup is working with the city authorities and a number of partners to create a 'smart' urban environment that captures the full benefits of the knowledge, innovation, culture, commerce and fun that reside in the area for the people who use the space.

### We are working with:

- Mijksenaar on wayfinding solution
- Billings Jackson Design on industrial design innovations
- Imelk on landscape and urban design
- EDGE Studio on architectural solutions
- Wall-to-Wall Studios on interactive website and application design
- And with Peter Margittai Architects on community outreach.

It is still too early in the project to calculate the full benefits of this scheme, but the client team predicts Smart Streets Pittsburgh will dramatically change the experience of the city for residents, workers, and visitors alike, yielding benefits from an economic, business, social, cultural, innovation, environmental, and health standpoint.

Based on evidence from Asia, this seems likely. The New Songdo City development in Incheon, South Korea, suggests that embedding 'soft infrastructure' from inception can deliver additional returns of up to US\$13/m<sup>2</sup> for the developers. The scheme is being led by Gale International and designed by Kohn Pedersen Fox and Arup amongst others, while Cisco is heading the 'soft infrastructure' elements. An integrated smart city approach will support residents and workers via direct access to healthcare, education, local municipal services, video conferencing, information, recreational facilities, etc., over high-speed networks.

### Conclusion

Managed well, the potential of Smart Cities can have a regenerating effect across all city systems, from energy management, waste collection and transport optimisation. Innovative companies are also using city data as the basis for providing innovative products and services to the marketplace.

The solution to this problem will require an integrated interdisciplinary effort that pulls together Government and other actors such as landlords, technology companies, mobile operators, universities and local authorities. This should develop new thinking and applications for smart cities, launching 'Smart Cities Demonstrators' for example.

We remain of the view that open data – the raw material of the Information Society and a key component of the next wave of Web developments, the Semantic Web – is central to any Growth Strategy. Quite simply, opening up Government data has the potential to be the Big Bang of 2012 with all that follows, but we recognise that it requires the political will of 1986 to achieve it.

### E-Commerce

The growth of e-commerce has been well documented. The ONS (Office of National Statistics) undertakes an annual survey of e-commerce and ICT activity by businesses<sup>35</sup> (with 10 or more employees), covering a wide range of sectors, which has charted the trend in the use of websites, and other routes, as a channel for purchases and sales. The growth of e-retail and its impact on the High St has inevitably attracted other market research, including a study in relation to the Mary Portas review<sup>36</sup>. The estimates of the absolute size vary between market research organisations, but there is clear consensus about the rapid growth of the e-retail sector, which in the UK currently lies at around 14% pa. Google estimates the UK online economy to be worth £100 billion<sup>37</sup>. According to IMRG<sup>38</sup>, UK e-retail sales represent a third of the EU total and, in terms of consumer intensity of e-retailing, i.e. e-retail as a proportion of all retail purchases, UK consumers are the most active in the world. Notwithstanding the current challenges faced by the global economy, the upward trend of e-commerce is likely to continue.

The success of e-commerce depends on three main elements:

#### Technology and Digital Infrastructure:

Access to broadband is fundamental, and needs to be addressed in many rural areas in the UK (and across Europe). There are also issues about search engine focus and whether the largest are channelling traffic to their own sites.

#### Trust:

Consumers are concerned about cybercrime and failures of fulfilment (from availability of product through to reliable delivery and the ability to provide redress for problems with purchases). As many as 62% of UK consumers fear fraud in ordering goods from another European country, and UK suppliers are concerned at the prospect of cyber attack. There is also a lack of cross border harmonisation in relation to contracts, warranties and return of goods, as well standard insurance cover for damage.

#### Ease of use/purchase:

Site design, which truly facilitates search and purchase (including catering for a range of key languages), represents an important competitive advantage for those sites which are successful in this regard. The concerns or difficulties about using e-commerce to purchase from foreign sites, or to export, is reflected in the recent ONS survey. Around half of all businesses made purchases via e-commerce in 2010. However, while almost all businesses making such e-commerce purchases did so from sources in the UK, only 10% of all businesses used e-commerce to purchase from EU sources, and 7% from outside the EU. Similarly, while virtually all businesses who reported website sales had customers in the UK, less than half also reported selling to customers in the EU and even fewer to customers in the rest of the world.

#### Opportunities for UK business

Other countries recognise UK pre-eminence in this field and, as e-commerce increases worldwide, there are a number of opportunities for UK firms, in particular:

- As a result of the UK's reputation for trust, consumers worldwide are beginning to look to UK firms/web sites as the channel to market. A UKTI report in 2009 concluded that e-commerce presented significant growth opportunities for UK business during the economic downturn with over half (51%) of businesses experiencing increasing demand from abroad. Expanding internationally offers retailers the benefit of greater exposure to more customers potentially leading to more sales. It may be Australian purchasers of goods manufactured in China but the transaction is handled/managed through a UK firm which generates value added in the UK. This is, not only in terms of narrow fulfilment, but also in the financial and legal services underpinning the market, as well as the marketing/ web design development
- An emerging global middle class looking for goods and services, outside their own culture, presents opportunities for innovative SMEs seeking to expand in such global markets. The "overseas" agent is (instead) a UK based web site and fulfilment system, which should reduce the risks for UK SMEs of expansion in overseas markets and enable scale-up

35 <http://www.ons.gov.uk/ons/rel/rdit2/ict-activity-of-uk-businesses/2010/stb-e-commerce-and-ict-activity-2010.html>

36 <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/u/11-1402-understanding-high-street-performance> (page 54)

37 Connected Kingdom report Oct 2010

38 Source: IMRG (Interactive Media in Retail Group, a membership organisation with over 1,200 accredited retail members and accounting for >70% of all UK e-commerce activity): <http://www.imrg.org/IMRGWebSite/user/pages/homepage.aspx>

- More broadly, a vibrant e-commerce economy will offer significant opportunities to technology firms developing new intelligent search tools and software which promotes the security of data and transactions, not least to serve the emerging m-retail (mobile retail) market
- Niche sites offer opportunities for retailing that are not available through conventional means – for example “Farmers Market” type sites or others such as thecorner.com, lifestylemirror.com or farfetched.com.

The scale of this opportunity in terms of jobs and value added is difficult to quantify because, at present, some proportion of e-commerce activity is a displacement of “bricks and mortar” operations in the UK. However, if the UK were to secure its status as a global hub of e-commerce, the prospect for growth outside the UK is considerable, particularly in markets where local retailers lack the dynamism of UK counterparts, and so the impact on employment in financial and business services should not be underestimated.

## Objectives

The UK needs to capitalise on this paradigm shift in market offering and delivery, which transcends borders and disintermediates a significant part of the commercial value chain. **The objective should be to build on the UK’s demonstrable lead in trust, delivery/execution to make the UK the global hub for e-commerce:** if we do not then others will, over time, seize the opportunity.

## Barriers to Growth

The key to developing the UK as a global hub is to focus on the three broad elements which underpin this paradigm shift towards e-commerce:

- Broadband infrastructure
- Management and workforce skills, in particular, understanding the nature of the new value chains and opportunities emerging from the growth of e-commerce and m-retail, as well as specific software development skills; and

## Case Study

### MetaPack: B2B Services in e-Commerce

MetaPack is a venture backed start-up, which employed 10 people just 5 years ago. It now employs 85, with expectations of growth to 100 by the end of the year and ambitions for public listing in the next few years.

Working with the leading High St stores and online retailers, its market niche lies at the interface between the logistics/parcel delivery firms and the e-retailers. MetaPack’s unique software advises retailers of the most appropriate handler to deliver their products to a particular country and automatically provides the transit paperwork for the goods in question. This considerably simplifies the process, enhances quality of service to the customer and avoids retailers being locked in to a specific shipper’s systems.

With an eye on consumer needs, it is about to launch a service where the customer can purchase goods off multiple sites, within 8 hours, and can arrange for all the goods to be delivered at the same time slot.

Looking at the growth in the market, CEO Patrick Wall said, “The UK is in prime position in this growing global market because of its innovative retailing and logistics businesses, and trust in UK fulfilment. Strengthening the UK brand and raising awareness of the UK’s e-commerce capability would consolidate our leading position.”

At present, retailers are warehousing goods before shipment to customers, so swimsuits made in China are shipped to UK for online sale and delivery to Australia.

“This is not a sustainable model and, in the not too distant future, goods will be shipped directly. So, the benefits to the UK of being a world leading e-retailer will lie in the high value jobs of web design, online marketing and the oversight of logistics processes, not just in warehousing. But we need to gear up for this online world by training our own software developers – young people need to know that this is where the jobs lie.”

**“The UK is in prime position in this growing global market because of its innovative retailing and logistics businesses, and trust in UK fulfilment”**

- Regulatory and standards frameworks which instil confidence in new market developments, which promote e-commerce across borders, and give encouragement to sources of finance about the growth prospects of new propositions.

At present, UK cities are well served but broadband access in rural areas is patchy, and actual versus advertised speeds differ very widely<sup>39</sup>. On the positive side, an Ofcom study of international pricing<sup>40</sup> suggests that prices in the UK for broadband services compare favourably with those elsewhere in Europe and the USA.

Advice on e-commerce is available on the Business Link web site<sup>41</sup>. However, given the potential for growth and for recalibrating the economy towards exports, BIS/UKTI will wish to consider whether sufficient focus has been given to raising awareness. In relation to workforce skills, firms have pointed to a lack of web design and software skills which will constrain growth in this market.

However, a key barrier to growth would seem to be achieving a step change in confidence in e-commerce in the UK and beyond. This means developing a recognisable international brand around trust, to a level where “e-commerce UK” is considered to have the same levels of probity and reliability as UK legal services and accountancy. For overseas buyers this provides absolute assurance of fulfilment of orders or, that in the event of failure, they will secure fair and swift redress. At present, there is a multiplicity of trust marks and it is not clear which ones provide substantive support to both suppliers and users in the form of good practice standards, and a comprehensive insurance offering in the event of failure. To give consumers and suppliers confidence, trust marks need to meet minimum standards, which are rigorously monitored

39 <http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/bbspeeds2011/bb-speeds-nov-2010.pdf>

40 <http://stakeholders.ofcom.org.uk/binaries/research/cmr/cip09.pdf>

41 <http://www.businesslink.gov.uk/bdotg/action/layer?r.l1=1073861197&r.s=tl&topicid=1073866263>



and enforced by a body, such as the Trading Standards Institute (TSI), that has the necessary powers to ensure compliance.

In parallel, we need to ensure that barriers to e-commerce within Europe are addressed across a range of specific issues, including copyright licensing, consumer rights, the fragmentation of contract laws, payment costs and security of payment, and the cost of shipment. According to a recent study of Copenhagen Economics, the EU could gain 4% of GDP from the development of the digital single market by 2020, corresponding to almost 500 billion Euros.

### Proposals for Action

The Government needs to give greater clarity to its objectives for UK e-commerce and we recommend a DCMS/BIS/ UKTI /Cabinet Office Task Force to consider the following measures as a matter of priority:

- The introduction of a UKAS accredited process for the development of e-commerce trust marks which is enforced by TSI
- Work with the EU Commission and other member states to promote a Digital Single Market
- Promote the UK as the global hub of e-commerce arbitration
- Improve young people's awareness of the skills shortage and requirements in this growth sector
- A more co-ordinated approach to maximise the impact of public and private efforts to stimulate awareness and good practice in relation to e-commerce, including advice on the Business Link web site and BIS work on the cyber security strategy
- To strengthen the advice given to SMEs regarding opportunities and issues surrounding e-commerce channels for international trade.

### Cyber Security

**Operating securely in the cyber environment is among the most urgent issues facing business and government leaders today.**

Far from being a barrier to participating in the cyber world, effective security is a critical enabler for any organisation seeking to realise the benefits of taking activities online. Achieving this requires two assets: an understanding of online operating and business models; and an ability to protect and support those business models.

### Who is at risk?

As the use of online services increases, so do the scale and sophistication of cyber attacks. Targets range from countries' critical national infrastructure and the global financial system, to less obvious targets such as mining companies.

One of the most alarming attacks was the Stuxnet computer virus that emerged in mid-2010. This malicious software (malware) program was created with the aim of sabotaging Iran's nuclear programme, by increasing the speed of uranium centrifuges to breaking-point and simultaneously shutting off safety monitoring systems. Commercial cybercriminals are mounting equally sophisticated attacks and such examples underline how opportunities and risks in the cyber world have risen to a new level.

In June 2011, Nintendo joined fellow online games company Sony and US-based defence contractor Lockheed Martin in confirming that it was among the latest targets of cyber attacks. The announcement came just days after the UK's Chancellor, George Osborne, told an international conference that British government computers are now subject to over 20,000 malicious email attacks every month. The message is clear: No organisation in any sector is safe – and the threat is growing.

In January 2011 the World Economic Forum (WEF) named cyber attacks as one of the top five threats facing the world – alongside planetary risks posed by demographics, scarcity of resources, concerns over globalisation, and weapons of mass destruction. Far from suggesting that fears over cyber threats may be over-hyped, the WEF highlighted the danger that they were actually being underestimated.

### Unprecedented Opportunities

The growing threat reflects the explosion of online services in all sectors. Across the world, private and public sector organisations are capitalising on web, mobile and social media platforms to improve their performance and serve customers more effectively. As we noted in the previous e-commerce section, online interactions bring a blend of four key benefits: lower costs to serve, higher speed to market, greater customer loyalty, and – in the case of the private sector – the potential for higher revenue growth.

These benefits are causing the cyber revolution to gain momentum at breathtaking speed. For example, we estimate 115 million Europeans will be using mobile banking services by 2015.

UK Cyber Security Strategy – “Protecting and promoting the UK in a digital world” issued in November 2011 sets out the government's vision for



Likewise, the UK's position as a leading global financial services centre will increasingly depend on secure and reliable communication.

### Exploiting Cyber Security through Professional Services:

The UK Cyber Security Strategy highlights the importance of developing skills, professionalism and additional standards in cyber security. The UK has a traditionally strong and vibrant professional and business services sector with a wide range of leading capability across consulting, auditing and law both at home and abroad. In addition, the British Standards' Institute has a strong reputation in security standards, with the international family of standards having developed from the earlier BSI standards. UK based professional bodies, such as IISP (Institute of Information Security Professionals) and thought leaders such as the ISF (Information Security Forum) could support further standards development which could be readily exploited by UK based professional services groups, both within the UK and overseas.

Cybercrime is also the fastest growing area of criminal endeavour. Utilising a web of different jurisdictions, to hinder law enforcement, makes cybercrime a particularly profitable avenue, fundamentally shifting the risk/reward profile in the criminals', and especially organised criminals', favour.

the UK to “derive huge economic and social value from a vibrant, resilient and secure cyberspace”. The UK has an opportunity to take a leading role, both domestically and abroad, by:

### Underpinning a high growth UK Economy:

In an increasingly online economy, individuals, government and businesses must learn how to operate securely in cyberspace. BIS estimate £150bn could be added to UK business GVA through efficient use of ICT. Meanwhile, in the public sector future efficiencies are envisaged through transformed Government services, including cost savings associated with Digital by Default and future growth potential through exploiting Open Data. However, insecure ICT means inefficient ICT, and these targets could be jeopardised by insufficient security, whether perceived or real.

Cyber security has an important role to play in protecting UK growth in other high growth sectors, e.g. recent announcements of £180m HMG investment in Life Sciences were overshadowed by Data Protection and Medical Record Privacy concerns; and, the largest cause of fraud losses to UK industry is through IP theft, largely conducted electronically from overseas.

Much has been done to strengthen law enforcement's capability in this regard, with the Metropolitan Police, in particular, internationally renowned. UK intelligence agencies also have leading capability to support enforcement. However, the economic opportunity afforded to criminals in being able to select a jurisdiction of choice, has a similar opportunity for the UK to promote the City as an international centre of excellence in arbitrating on complex intra-jurisdictional matters. The City has a long history of international settlements, be they legal or financial, and **the Government should promote the City to become the de facto international centre of cyber arbitration.**

Insurance, another traditional UK economic strength, has not yet fully emerged to redress losses caused by breaches of cyber security for a variety of reasons, not least the complexities of litigating in such disputes. Whilst criminal law remedies are available for both national and international disputes, Microsoft have recently commented in discussions in Parliament that they prefer to take civil action to take down offending parties, a potentially lucrative growth market for UK professional services providers, not only in terms of legal arbitration, but also in the ability to subsequently insure against such losses.

In conclusion, the strength and reputation of the UK professional and business services sector, enforcement capability presents opportunities for the UK to develop as a Cyber Security Centre of Excellence.

### Key barriers

The UK needs to overcome a number of entrenched barriers if we are to defend ourselves effectively against increasingly sophisticated attacks. Three are especially prevalent:

- **A need for new skills and insights:** In today's world, a fifteen year-old hacker might have a better understanding of security risks than a seasoned leader. The people engaged in securing cyberspace need to keep raising their game faster than the attackers. Many companies are experiencing difficulty recruiting people with the cyber security skills they need. Yet most companies plan to create more jobs in cyber security in the next few years. The battle for talent will be fierce.

The provision of cyber security services has historically been dominated by a handful of international suppliers, causing concerns of stifling both innovation and access for SMEs. Existing strategies already outline moves for HMG to become an 'intelligent customer' in procuring services, and a commitment to source 25% of all contracts to SMEs, and other HMG actions are currently underway to address these areas.

Much academic research is already carried out in UK institutions but this needs to be scaled up into commercial offerings.

- **Creating a cyber risk aware culture:** A cyber attack can gain entry via any node on an organisation's network – including a third-party supplier, customer or business partner. This means that everyone involved in the organisation's cyberlinked activities shares direct responsibility for security, and that awareness of cyber risks needs to be an integral part of every decision and action. Yet we are in an era when many younger people access social networks in the workplace and when organisational cultures can change rapidly
- **Recognising cyber security as a problem without borders:** Governments recognise the difference between domestic and foreign domains while cyberspace and global business does not. This leads to inconsistencies in the responses to threats from government and business and a feeling the government does not understand how global business works.

### Steps to cyber leadership

The UK Cyber Security Strategy sets out a clear view of the government's vision and the roles for the various parts of government as well as plans for engaging the private sector. The challenge is now one of execution. Here we set out the most important steps to reinforce a leadership position:

- **Promote UK cyber security professional services at home and abroad:** Exploit the strengths in UK professional and business services to spur a vibrant international market for UK cyber security services. Provide support for City UK to promote London as a centre of online arbitration and a Centre of Excellence in Law Enforcement and Insurance
- **Encourage innovation and competition:** Mechanisms whereby HMG might be able to augment venture capital or angel capacity in high growth areas such as cyber security have been investigated for many years, but a solution needs to be given urgent priority before the next generation of high growth potential start ups join the last in the US
- **A Technology Innovation Centre in Cyber Security should be established. It would act as a magnet for:** inward investment; commercial exploitation of innovation; skills development; and, act as an interlocutor for business and Government
- **Clear guidance, principles and legislation:** Guidance, principles and legislation need to be straightforward and support the vision of the cyber security strategy. This should include support for development of security standards, beyond 'kitemarking' - as an 'intelligent customer' HMG has the opportunity to set standards for good practice (E.g. through the Security Policy Framework) and promote certification of compliance of auditable standards in alignment with standard setting and professional services bodies  
  
Consideration should be given to minimum standards, data protection laws and breach notification laws
- **Promote a cyber aware UK:** both the public and private sector have a role to play in raising awareness. The government has an important role to play akin to the road safety campaigns of the 1970s. A cyber risk aware culture will be the lubrication of aware businesses
- **Continue to nurture skills:** Continue to invest in cyber skills. Many companies are experiencing difficulty recruiting people with the cyber security

skills they need. Yet most companies plan to create more jobs in cyber security in the next few years. Initiatives, such as the UK Cyber Security Challenge and university engagement, are a good start. Further steps are required to raise the professional status of information / cyber security for example through a professional body with chartered status

- **Engage with global business on its terms:** Government must continue to recognise the nature of global business and that it does not distinguish between domestic and foreign domain. In developing a strategy to enhance the UK's cyber security posture it is essential to engage global business in a way it understands.





## Case Study

# Davis Langdon - London 2012 Olympic Park

- The Olympic and Paralympic parks and venues will accommodate 15,000 athletes and 21,000 journalists, entertain 180,000 spectators with the help of 70,000 volunteers on any given day, while 75% of the world's population will watch some part of the event
- Investment worth £9bn in a 1,500 hectare area at the southern end of the Lea Valley, one of the poorest areas in the UK. Delivery below budget and on schedule
- For every £1 spent on creating the Olympic Park, 75 pence remains in place invested for the legacy - a well-served, well-connected urban district based around a new 100 hectares park, one of the largest new parks in Europe
- The masterplan that secured London's bid for the Games aimed for long-term urban regeneration of the Lower Lea Valley. The proposals will create a truly mixed use new piece of city in five new neighbourhoods around the Olympic Park. Nearly 7,000 new homes with a focus on family housing and over 4,000 jobs will be supported by a range of new community facilities, including three schools, eight nurseries, a library and health care centres.

### People and Skills

- Access to a cluster in London of innovative, professional service teams in architecture, engineering, construction, finance, insurance, legal services and a wide range of marketing skills (sponsorship, media rights sales, brand merchandising and communications)
- Design skills – the Basketball Arena is the world's largest temporary sports venue; innovative design of venues to transform (shrink) post Games
- Over 450 construction related apprenticeships created and 4,421 end user jobs from the Legacy, in addition to those created by the park, venues and Press and Broadcast Centre.

### Modern Infrastructure

- Two-thirds of the building materials and internal features can be reused or recycled. More than two million tonnes of contaminated soil have been cleaned on site
- The Olympic Delivery Authority (ODA) invested in an energy centre with biomass boilers and a Combined Cooling, Heat and Power (CCHP) plant, to serve both Games and Legacy
- ODA has created the UK's largest blackwater recycling plant to generate non-potable water from waste water to irrigate the new park
- This is a Digital Games enabled by secure "cloud" services and superfast broadband across the venue.

### Business Environment

- The Olympic site straddles four local planning authorities, the complexity of which could have delayed planning decisions. ODA was established with planning decision powers, so that a Park-wide approach could be taken, and with a clear remit to deliver the Games on time
- ODA's planners, with advisors including AECOM, maintained good relations with the four authorities throughout the planning and construction period. The success of this model encouraged the Mayor to establish the London Legacy Development Corporation covering the Olympic Park and its environs
- London 2012 has generated over £600 million of sponsorship from over 50 individual sponsorships
- Significant business legacy from London 2012:
  - The venue is a key component of East London Tech City – business and university innovation centres to be established
  - Major retail complex (Westfield) used as focus for new development and investment
  - An Enterprise Zone in the Royal Docks close to southern end of Lea Valley has financial incentive packages.





**“Sports events help to foster diversity in our local culture and heritage, providing opportunities for further destination expansion and growth.”**

## The Sporting Opportunity for UK PLC

Technology in particular (via pay-tv, high-speed internet and connected mobile devices) has driven a major growth in the sports sector which is now worth \$121bn globally with \$48bn accounted for by sports sponsorship and related activities. As a result, there is a huge level of competition amongst Governments to attract major sporting events with the attendant economic benefits and political prestige. The UK has done well in this regard with, not only the Olympic Games in 2012 shortly to commence, but also the European Champions League final and Rugby League World Cup in 2013, Commonwealth Games and Ryder Cup (both in Scotland) in 2014, the Rugby World Cup in 2015, the Athletics World Championships in 2017 and the Cricket World Cup in 2019. All of this has significant benefits for the UK. However, to realise the business benefits there are two key areas to focus on:

- Enabling the UK to attract more major events by creating a more favourable regulatory framework, in which competitors, sponsors and the media will all have the opportunity to thrive
- Supporting attempts by British companies to export products, services, skills and expertise to major sports events in other countries.

## Context – people love sport

Successful sports events generate economic, political, reputational and social benefits to the hosting country, not only creating business opportunities but also increasing positive media attention and boosting funding of, and participation in, sport as a whole.

## Government

- Economic benefits – the Rugby World Cup (RWC) in New Zealand produced 10 NZ\$ of economic benefit for every 1 NZ\$ invested (KPMG 2011)
- Political benefits – hosting often sends a policy signal that countries are open for business. For example, the winning of the Beijing Olympic games only just preceded China's entry in the WTO and Barcelona won in 1986, the year Spain joined the EEC.

## Consumers

Sport has long been popular but the globalisation of media has driven an extraordinary level of engagement:

- TV viewing figures: Beijing attracted 4.4bn viewers – the opening ceremony 2bn alone; in

2010/11 the English Premier League was watched by 3.9bn globally; the 2011 Rugby World Cup had a cumulative audience of 3.9bn; and the 2012 Superbowl was the most watched programme in US TV history

- Digital engagement has also increased: the 2010 FIFA World Cup had a cumulative online 'viewer' audience of 7.4m, while social media has driven awareness, interaction and engagement e.g. the Real Madrid midfielder Kaka attracts 6.7m followers on Twitter and FC Barcelona, 22m Facebook 'likes'. Many of the UK's big sports stars also have substantial social media following (Rooney, Poulter and Murray to name but a few).

## Brands

- The global sponsorship market is now worth \$48bn per annum and offers brands major marketing opportunities, increased brand awareness and brand loyalty, focussed corporate and social responsibility initiatives with which consumers will engage, retail and sales opportunities and significant internal benefits.

## Sports team and federations

- Rights owners, such as the RFU, ECB, Football League as well as National governing bodies in Olympic and Paralympic sports (such as UKA), have the opportunity to attract funding to build their team's performance levels, their sports infrastructure and to drive public participation.

## Objective of a Government programme of support

The UK has long been a major player in the global world of sport but, as sport continues to grow, the UK has to continue to compete in order to be seen as a source of excellence and expertise globally, as an attractive destination for major events, and as a country with sport at its heart.

Hosts for major events are now emerging from developing nations in Africa, the Middle-East, Eastern Europe and South America. In turn, those nations are creating a sports administration infrastructure to compete with our own. If the UK does not act to remain global leaders there is a risk of becoming less important in the 'business of sport' over the next decade.

**UK plc needs to focus on remaining a major power in sports events, an attractive location for major sports businesses and a successful competitive nation – a leading competitor in the global business of sport.**

## 1. Attracting major events

### i) The value of sporting events

The Olympics and Paralympic Games are estimated to be worth some £2.3 billion to UK tourism over the period 2007-2017, while a Deloitte report projects that the total economic benefit of hosting the Rugby World Cup in 2015 will be up to £2.1 billion.

Hosting sports events generates additional revenue from business and incentive groups visiting and extending their stay around Britain, including meetings, conferences and other business events. Major events are often a catalyst for improving transport infrastructure, conference facilities and media facilities, all of which are vital ingredients in the fiercely competitive battle to be a leading international business destination. As an example, on-going investments in London on projects which have come about as a result of London 2012 are worth some £11 billion.

But, the benefits of hosting sports events have other positive impacts on society, contributing to health and wellbeing, education, social diversity, community spirit and cohesion, and civic pride. Sports events help to foster diversity in our local culture and heritage, providing opportunities for further destination expansion and growth.

### ii) Sports event issues

#### Taxation:

This has been a significant issue for event organisers as leading foreign sportsmen have avoided UK events because of HMRC rules in relation to their taxing global endorsement income. For example, many leading tennis players have declined to participate in the pre-Wimbledon tournaments thereby denying fans around the country the opportunity of seeing top class sport. We therefore welcome the Chancellor's Budget announcement which gave greater clarity on exemptions relating to future events and a reform of the rules relating to endorsement income.

#### Event Legislation:

There are wider issues in relation to event bidding and management where, we believe, legislation is needed that provides sports organisations with a consistent framework for event bidding. We therefore recommend that a "Major Events" Bill dealing with all aspects which impinge on events management, including athlete taxation, ambush protection, and ticket touting would provide protection to governing bodies that would give the UK a competitive advantage in bidding for major events.

#### Government Support:

There should be a greater focus on attracting and staging international events in the UK, supported by the development of a national subvention

fund, possibly in conjunction with UK Trade and Investment / VisitBritain, to strengthen Britain's bidding capabilities.

## 2. A 'Gateway' to British sports expertise

The global sports market is expected to grow to US \$145.3 billion per annum by 2015. One of the key developments in recent years has been the emergence of major sports events in new markets and a symbiotic relationship between rights holders and governments which recognises the economic benefits of hosting the world's major tournaments. This has allowed UK companies to showcase and export their huge range of specialist services from event bidding and planning through to engineering, construction and event management. With the market in sports becoming increasingly competitive, there is a clear and crucial role for the Government to play to play in promoting our sports capabilities through UK Trade & Investment (UKTI).

A number of Government schemes exist to involve UK businesses, though effectiveness is mixed. These include:

- "Passport to Export" offers access to events, inward missions and outward missions. The Government offer incentives, grants and subsidies as part of the package
- The Overseas Market Introductory Service (OMIS) can also be used but this is not as well suited to sports marketing as to sectors such as finance, security and construction.

One issue arising from these programmes is the potential view that they portray a 'British Club' abroad rather than a partnership opportunity in these markets. Experience from UK based sports businesses is that many of these new markets, such as the BRIC countries, respond better to 'local partnerships' than 'UK exports'.

## Recommendations

The UKTI, in conjunction with the British Sport Industry and major event organisers, need to work closer to ensure that the sport industry is championed and promoted overseas and properly showcased at major events in the UK and abroad. For example, at Soccerex 2011 in Brazil the UKTI took a major stand showcasing the UK sports industry.

We would also recommend that UKTI start to position our efforts as local collaborations designed to add value and build knowledge rather than 'exports from the UK'.



# **Annex 4: Innovation in the Modern Economy**

#### Annex 4.

#### A new Lexicon for discussing Innovation in the Modern Economy

While the language of R&D and patent protection is central to technology development and product innovation, particularly in areas such as biotechnology, electronics and advanced materials, the modern service economy is more concerned with technology integration, and the transformation of whole service systems. We recognise the continued importance of the former but we consider the debate around innovation and growth in a modern economy would benefit from a certain shift in terminology, as illustrated below:

Former Emphasis	New Emphasis
Manufacturing & Services	Engineered Services or Complex Service Systems
Product Innovation	System Transformation & New Business Models
Access to Raw Materials	Data Mining & Access to Public Re-usable Data
R&D Programmes	Large Scale Demonstrators & Living Labs
Patent protection Technology Development	Brand Recognition Technology Integration & Interoperable Standards
The “Russell Group” & Graduates	Professional Institutes & Higher Apprenticeships
Road & Rail Infrastructure	Digital Infrastructure, 4G and the “Internet of Things”
“Cap Ex” and Tangible investment ICT equipment & software licences	“Op Ex” and intangibles Software as a Service

