



We will work closely with the Devolved Administrations in Northern Ireland, Scotland and Wales, recognising their particular and varying responsibilities. While some of the policies in this paper are specific to England, the challenges are common across the four countries of the United Kingdom. Each will need to consider the most appropriate arrangements in those areas for which they have devolved responsibility, to address the issues in ways that meet their own circumstances and needs.

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# Future Foundations



We all recognise that the years ahead are going to be defined by the need to pay down public debt after the borrowing required to stabilise the banking sector and get us through the recession. This will only be possible if the British economy

returns to strong and sustainable growth.

This growth must be widely shared across the people of Britain, resilient to future economic shocks and environmentally sustainable. It needs to be based in a wide range of productive sectors and strengths. As a country, we need to invest more and build much more on our strengths as an exporter.

Britain's people and businesses have shown exceptional resilience through the worst part of the banking crisis and the downturn. In the years ahead, a highly competitive global economy and the urgent transition to low carbon will put unprecedented demands on them.

To prosper in this world, Britain needs to build on what it has done well over the last decade, and address the challenges revealed by the banking crisis and globalisation. Indeed, the defining challenge for Britain in the coming decade will be its success in devising and implementing a comprehensive modernisation

agenda for the British economy with the clear and consistent aim of actively promoting UK growth.

We need to recognise that globalisation presents us with new challenges, and that to prosper in the face of these we need a diverse and balanced economy, based on productive investment and equipped to do the jobs of the future. These challenges require an active and engaged government committed to investing in the fundamentals of British economic competitiveness.

We will need open markets and the dynamic of competition to create the incentive to innovate and improve productivity across both the private and the public sectors.

We will need an enterprise environment that provides active support to those considering starting businesses, and ensures that innovative businesses can access the finance they need to grow. This requires a particular approach to investment; one that invests in innovation and favours long term commitment and growth.

We will need a strong knowledge base, represented above all by its world class universities and science, and the ability to generate new knowledge and transform it into economic growth through innovative new products, processes and solutions. Britain has invested heavily in these things, but can still do

a lot more to turn the power of its knowledge base into innovation and economic growth.

We will need skilled, confident people equipped to prosper regardless of their background. We need a twenty-first century physical and digital infrastructure. These things are fundamental to our economic growth and they depend heavily on collective investment.

Britain will need to invest in the industries of the future, such as low carbon transport and energy, industrial biotechnology, advanced bioscience and cutting edge advanced manufacturing. We need a government that understands the ways in which carefully targeted public policy can strengthen these capabilities at critical points in their development.

This paper sets out what the Government is doing and will do to strengthen and invest in these things. The Pre-Budget Report made it clear that we have to make tough spending choices. It also made the case that to lock in the recovery, and to see Britain right for the future, we need to invest collectively in these basic capacities. They are our future foundations.

A handwritten signature in black ink, reading "Peter Mandelson". The signature is written in a cursive, flowing style.

Peter Mandelson

# The Road to recovery

## Why growth matters

Britain is emerging from the largest global financial crisis and deepest international downturn for almost a century. Thanks to swift government action to stabilise the banking sector, a substantial fiscal and monetary stimulus to counter a collapse in private demand, a flexible labour market that has allowed business to adapt quickly and targeted short-term help for British businesses and workers, Britain will emerge from the recession with its capacity for long term growth largely intact. British businesses and workers have shown exceptional resilience and adaptability through the toughest part of the downturn. Measured against the destructive experience of past downturns, this is a considerable achievement. It positions us well for a strong recovery, but only if we make the right decisions about the future.

The imperative now is to focus on equipping people and businesses to return the economy to growth, increasing employment, raising incomes and supporting an improving quality of life. Restoring the public finances to a sustainable position and preventing cuts to essential public expenditure, including key front line public services, means restoring growth in the economy.<sup>1</sup> That growth must be environmentally sustainable, more balanced and resilient to

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1 Previous HM Treasury analysis has estimated that a one per cent increase in output relative to trend after two years, reduces the ratio of public sector net borrowing to GDP, by just under ¾ of a percentage point. HM Treasury (2008) *Public Finances and the Cycle*.

economic shocks and shared widely across both regions and individuals. We need to build on the successes of the last decade and recognise the ways in which we need to adapt to compete and prosper in the long term. These existing and new priorities are set out in this paper.

The *Pre-Budget Report 2009: Securing the Recovery*<sup>2</sup> set out the action that the Government is taking to ensure fiscal sustainability over the medium term. Returning the public finances to balance after the unprecedented costs of stabilising the banking system and supporting people through the downturn is vital. Setting a credible consolidation path is a key element of the Government's macroeconomic strategy and is essential for economic stability and the long-term health of the economy. However, we need to avoid withdrawing support too quickly and choking off recovery. We also need to be creative and forward-thinking, not only in how we invest public money, but in the encouragement we provide for productive private investment and the environment we offer to attract foreign investment to Britain.

This paper builds on the analysis set out in *New Industry New Jobs* in April 2009<sup>3</sup> and sets out the wide ranging work programme that has flowed from that analysis over the last year. The argument of that paper was that Britain needs

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2 HM Treasury (2009) *Pre-Budget Report: Securing the Recovery* [http://www.hm\\_treasury.gov.uk/prebud\\_pbr09\\_press01.htm](http://www.hm_treasury.gov.uk/prebud_pbr09_press01.htm)

3 BIS (2009) *New Industry, New Jobs* <http://www.bis.gov.uk/ninj>

to plan for more than simply a cyclical recovery from recession. We face structural changes in the global economy linked to globalisation, technological change, climate change, natural resource pressure and demographics that are radically changing the world in which our businesses and people compete. The banking crisis has also emphasised the critical importance of ensuring that the British economy and the public finances it supports remain resilient and diverse, built on a wide range of economic strengths and constantly fostering our comparative advantages.

We need to reflect on the demanding new capabilities needed to support growth in this new economy. Britain competes at the top of global supply chains in an environment that puts intense demands on the skills of its businesses and their employees. In particular, we need to recognise that the capabilities required to prosper in this changing economic environment can only be built by the right combination of investment, private enterprise and public policy.

To maximise Britain's potential, the role of public institutions and public policy alongside the powerful dynamics of the market in supporting the development of a diverse economy based on knowledge, innovation and productive investment needs to be well understood and fully exploited. This paper identifies those basic capabilities and sets out how the Government has invested in them over the last six months. It also makes it clear how we will take forward this commitment to continued investment in Britain's industrial competitiveness.

## The globalised economy

Although parts of Britain's economic life have stretched beyond its borders for centuries, twenty-first century Britain is integrated into a globalised economy to an entirely different extent. Within the space of a single working life – even over just the last decade – the conditions in which British people and companies compete, and the people and companies with whom they compete, have changed radically.

The rapid emergence of the large developing economies in the last quarter of the last century has reshaped the global labour market and radically changed global patterns of production and commerce. Production is increasingly organised on a global basis through global supply chains. We increasingly sell our goods and services into markets around the world. The financial system, as the recent crisis dramatically illustrated, is now global in its reach and integration. Our economic strength depends on the infrastructure to connect with and integrate into global markets, and our ability to attract inward investment and buyers for what Britain sells.

A number of other broad trends will also shape this future. Most importantly, the urgent need to respond to climate change will create a new imperative around cleaner energy, resource efficiency and the decarbonisation of industry. To sustain economic growth we need to maintain our natural assets and use them wisely. An ageing population in the developed world will reinforce spending shifts towards healthcare and leisure goods. A bulging youth demographic in the developing world will create new demand for education. All of these trends will interact with rapidly advancing technologies, especially

in communications, the life sciences and manufacturing.

This is a world that plays to some of Britain's greatest potential strengths. It puts a premium on knowledge and skills, both of which we have invested in heavily as a country over the last decade. It represents a rapidly growing market for the complex services, high value goods and innovative technological solutions demanded by industrial societies – all of which are in sectors where we have considerable strengths. It requires an economy that is open to investment and trading opportunities, supportive of entrepreneurship, and which combines a flexible labour market with investment in the capabilities of people and the infrastructure that serves people and businesses. This is the balance that Britain has struck over the last ten years.

### What kind of growth do we need?

For long term stability and shared prosperity, the growth of the British economy after the banking crisis will need to be **environmentally sustainable, more balanced and resilient** to economic shocks, and **shared widely** across both regions and individuals.

For growth to be **environmentally sustainable** it will need to respond to the fact that the necessary and inevitable transition to a low carbon society has implications for every part of our economy. Britain's growth must be based in environmentally sustainable economic activity that uses resources efficiently, increases resilience to climate change and helps drive a wider decarbonisation of our society. This means not only enabling UK businesses to compete effectively in a global market for low carbon and environmental goods and services,

already estimated to be worth £3 trillion, but ensuring that all companies use energy and other resources more efficiently in order to boost competitiveness. As climate change continues to affect the physical environment in Britain, we must ensure businesses are able to become more climate-resilient so that the economy's exposure to environmental risk is well managed. Making our growth environmentally sustainable is a huge challenge – perhaps the defining challenge for the British economy in the decade ahead.

For growth to be **more balanced and resilient** to future economic shocks and structural change, it will need to be both underpinned by productive investment and diversified, with companies achieving success in a wide variety of industries and geographic markets. It is important that the UK remains diversified economically, with all sectors, including the public sector, having the capacity and incentives to innovate and improve productivity, even where they do not face the pressure of international competition. The UK has strengths across a wide range of sectors from business services to advanced manufacturing, and this diversity needs to be preserved. Our brightest people need to choose to pursue careers in all parts of the private, public and third sectors.

While consumer spending will continue to be a key driver of growth, it will need to be balanced by higher levels of investment. It must be complemented with sustained investment in skills, job creation, innovation, goods and services for export and tangible assets such as plant, communication and transport infrastructure, which will all be critical for Britain's growth and the international competitiveness of its companies and people. In particular, we anticipate net exports and



investment to be more significant drivers of growth than they have been in the recent past.

Although conditions in financial markets are improving, the challenge of ensuring an adequate supply of finance for productive investment through the recovery and thereafter remains significant. One of the key strands of this paper concerns the need for significant solutions to this problem.

Britain's external trade also needs to be widely diversified, taking advantage of the opportunities presented by both established markets in Europe and the US and emerging markets in Asia and Latin America. The EU in particular will remain Britain's largest export market but also a key means of amplifying our economic and growth policies at the scale of the European economy and our key instrument for shaping the economic governance of the wider global economy. This needs to be accompanied by a global strategy to identify and draw productive investment from around the world into the UK.

For growth to be **shared widely** and socially sustainable it will need to be founded upon continuing improvements in our skills base and able to benefit all regions, nations and individuals in the UK. The objective of national growth policy must ultimately be to expand the supply of high quality jobs. Britain needs an education and skills systems that is able to equip all British people with the skills they need to start a business or secure a job and progress in the workplace throughout their working lives. It also means directing investment on interventions that promote economic inclusion and tackle worklessness by connecting people to jobs.

Government policy must also aim to ensure that all regions of the UK collaborate to maximise the potential of their unique economic geography and benefit from growth and job creation.

### The role of active government in delivering growth

Driving this growth means above all creating the right conditions for private enterprise and maintaining the UK's reputation as one of the best places in the world to start and grow a business. Open and competitive markets are key to this. They are a source of efficiency and dynamism and the discipline of competition, both from domestic and international markets, is vital to innovation and growth.

However, it is important to recognise the critical role that government plays in this process. Government action shapes the environment for business when it defines the regulatory environment for companies, acts to maintain open and competitive markets and sets the frameworks for business investment, especially in important areas like low carbon and infrastructure, where stable long term frameworks and least burdensome regulation are vital to support private investment and sustainable growth.



A careful and disciplined approach to regulation also helps create the right conditions for sustainable growth. Regulation can play an important role both in providing essential protection and in setting a fair playing field on which companies can compete. By creating the optimal regulatory environment, minimising burdens, and providing certainty to businesses through forward planning, Government can encourage enterprise, and free up resources for innovation and investment.

The key argument of *New Industry New Jobs* was that this active role for government in encouraging sustainable economic growth extends into shaping the way we invest collectively in the national capacities that underwrite the competitiveness of our people and our companies after the downturn. Infrastructure, our skills base, science, the intellectual property system and research capabilities are all crucial to defining our capacity for growth. The actions of government can have a decisive impact in these areas. They will constitute an innovation system that will be key to the competitiveness of our companies and will increasingly be the capacities against which inward investors measure the attractiveness of Britain.

A range of other interventions by government also have an important role to play. These include the way it uses procurement spending to drive innovation, its role in facilitating the investment of risk capital in growing companies and the help it gives to UK exporters in accessing growing global markets. Government also has a role in tackling specific market failures, in order to unlock competitive or productive potential in sectors or markets that would not be achieved by the market alone.

The remainder of this paper focuses on these capacities for growth in Britain, and is structured around the basic capabilities that will underwrite our future success. It sets out what the Government is doing and will do to strengthen and invest in them to help lock in the recovery and equip this country for the future.

# Enterprise

Enterprise is the sense of initiative and ambition that compels us to undertake a new commercial venture, or to innovate within an existing organisation. It is important for growth because it is an agent of change. When entrepreneurs enter the market with a new technology or idea they provide a vital source of creativity, competition, innovation and employment. Entrepreneurial firms that start, survive and grow have higher levels of productivity and this raises the average productivity level of the economy. Some research suggests that up to 50 per cent of a country's growth may be derived solely from this competitive process of market entry, challenge and raised productivity<sup>4</sup>. The UK's growth plan is rooted in helping this to happen.

Thanks to a focus on improving the environment for business start-up and growth, in 2008 the UK had a record 4.8 million businesses of which 99.9 per cent are Small and Medium sized Enterprises (SMEs)<sup>5</sup>. The productivity growth of these firms has exceeded that of large firms in recent years<sup>6</sup>. According to OECD figures<sup>7</sup>, the UK has the lowest barriers to entrepreneurship of all OECD countries.



Maintaining this strength requires an active government policy that:

- Ensures that British people have the confidence, knowledge and skills needed to start and grow business.
- Ensures that the regulatory framework makes it simple to start a business, employ people and expand operations.
- Ensures that companies can access the finance they need to start-up and grow, including venture capital and risk and growth finance.
- Ensures that when companies are ready to expand into export markets they can access assistance and advice from government.

## Making it easy to start a business

Starting a business requires the confidence and knowledge to create and manage a commercial operation. It also needs a business environment that makes it easy to take that step. The UK

4 Ahn (2002), *Competition, Innovation and Productivity Growth: A Review of Theory and Evidence*, OECD Economics Working Paper No. 317

5 BIS (2009), *Small and Medium-sized Enterprise (SME) Statistics for the UK and Regions 2008*  
<http://stats.berr.gov.uk/ed/sme/>

6 ONS (2007), *Annual Business Inquiry 2007*  
<http://www.statistics.gov.uk/pdfdir/abi0609.pdf>

7 OECD (2008), *Indicators of Product Market Regulation 2008*  
[http://www.oecd.org/document/36/0,3343,en\\_2649\\_34323\\_35790244\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/36/0,3343,en_2649_34323_35790244_1_1_1_1,00.html)

has one of the most effective environments for business creation in the world. Recent progress on encouraging entrepreneurialism includes:

- **A new focus on entrepreneurship skills alongside vocational and university training.** The Skills for Growth<sup>8</sup> strategy published in November 2009 announced our intention to test with Regional Development Agencies a range of approaches to providing a coherent “qualify with a business” package for learners interested in starting their own business or becoming self-employed. These will incorporate training in business start-up skills alongside those required for vocational trades backed up by information and support on self-employment and business start up; opportunities to meet small business owners and self-employed individuals; and help with the transition from learning to training. Our ambition is that, over time, colleges across the whole country offer opportunities to “qualify with a business” as a clear national programme. Through the BIS-funded National Council of Entrepreneurship (NCGE), action is also being taken to embed enterprise and entrepreneurship within universities. For example, the Flying Start programme will give 8,000 final year university students and graduates the chance to meet and be inspired by successful young business owners who will help them to think seriously about starting a business.
- **Earlier support to help unemployed people overcome the barriers to taking up self employment.** From early 2010, access to the Self-Employment Credit and to the provision of intensive advice and

support will be available from three months of a Jobseeker’s Allowance (JSA) claim. Additionally, from the outset of a JSA claim, all claimants will be made aware of the support available for those interested in self-employment.

- **New enterprise support for Service Personnel returning from conflict, including those who may have disabilities as a result of their service.** The Pre-Budget Report 2009 announced new funding of up to £5 million to assist returning Service Personnel by reducing the costs and barriers associated with self-employment and setting up a new business. It will also allow targeted mentoring support to help more businesses operated by ex-Service Personnel to thrive and grow.
- **Further progress in cutting the costs of regulation on growing businesses, especially the smallest.** The Government is committed to reducing the administrative burdens of regulations by 25 per cent between May 2005 and May 2010 – £3.3 billion of net annual savings. By December 2009, Departments had delivered around £2.9 billion towards the target. We have recently announced a new goal to cut the cost of regulation by a further £6.5 billion in savings for business by 2015 – £1.5 billion in unnecessary paperwork and record-keeping, and £5 billion in the wider regulatory costs that impact upon business. The Government has already identified potential savings of over £1 billion (including £300 million from transport regulation; £250 million from workplace health and safety regulation; and £130 million from employment and skills regulation). The Government will also consult on legislation to reduce administrative burdens

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<sup>8</sup> BIS (2009), *Skills for Growth – The National Skills Strategy*  
<http://www.bis.gov.uk/skills-for-growth>

by enabling connected employers to pool their PAYE references, returns and payment obligations. Subject to consultation, the Government plans to introduce this by 2011.

- **A new call for interested parties to highlight where regulation imposes a disproportionate cost to the wider benefits delivered and to propose solutions.** Submissions can be made through <http://www.betterregulation.gov.uk/> or [simpler2015@bis.gsi.gov.uk](mailto:simpler2015@bis.gsi.gov.uk). We are particularly keen to minimise negative impacts of regulation on small businesses. This has led to, for example, the Safer Food, Better Business scheme introduced by the Food Standards Agency, which has made it simpler for small businesses to put in place food safety management procedures and comply with food hygiene regulations. We are also working alongside business organisations and the Local Better Regulation Office to assess whether businesses with fewer than ten employees face unique regulatory challenges. The outcome of this work will inform our future policymaking in this area.
- **Big improvements in the accessibility and clarity of the advice Government provides to businesses that want to grow.** The Business Link service now offers access to all government support for businesses, including guidance on all aspects of employers' obligations<sup>9</sup>, free access to interactive tools and model documents that are quick and easy to use. This help has already saved businesses an estimated £418 million in administrative burdens in the last year. We are now piloting an approach that insures businesses against

the costs of legal challenge (for employment and health and safety issues) as long as they seek and follow the insurers' advice. We are also providing, through Solutions for Business<sup>10</sup>, a streamlined set of publicly funded measures to help businesses to start, grow and succeed.

- **A range of Pre-Budget Report 2009 (PBR) measures that will support business growth in the recovery.** These include: deferral of the planned increase in the Small Companies' Rate of corporation tax for an extra year, helping around 850,000 companies; the continuation of HM Revenue and Customs time-to-pay scheme to help viable businesses spread tax payments over an agreed timetable; and the maintenance for a further year of the higher threshold for business tax liability for empty property – exempting an estimated 70 per cent of properties.

### Finance for business growth

Across the world, the ability of businesses to raise finance has been significantly affected by the banking crisis. The Government acted quickly to support viable companies through the downturn. Now, as we emerge from recession, we need to ensure that adequate finance is available for businesses to invest and grow. UK firms have historically relied extensively on banks for lending. As set out in PBR, the Government is also looking at ways to diversify the sources of finance available to business and has recently launched a discussion paper on developing non-bank lending channels. Recent progress in

<sup>9</sup> Business Link is available at <http://www.businesslink.gov.uk/employingpeople>

<sup>10</sup> BIS (2009), *Solutions for Business: A Foundation for the Future* <http://www.berr.gov.uk/whatwedo/enterprise/simplifyingbusinesssupport/page44805.html>

supporting and widening the sources of finance available to growing business includes:

- **Guarantees on lending to businesses from major banks.** In January 2009, the Government entered into legally binding lending commitments with the Royal Bank of Scotland (RBS) and Lloyds Banking Group (Lloyds). These commitments will remain in place until March 2011. Other banks have also made specific commitments to increase the availability of business lending.
- **An extension of the successful Enterprise Finance Guarantee, enabling £500 million of additional bank lending to SMEs between April 2010 and March 2011.** Even under benign conditions, viable SMEs which do not have sufficient collateral or a financial track record are sometimes unable to access commercial lending. The Enterprise Finance Guarantee (EFG) was set up in January 2009 to enable additional lending to SMEs. To date, nearly £1 billion of eligible applications from almost 9,000 SMEs have been granted, are being processed or assessed – all additional lending that would not otherwise have taken place. Although we are seeing a strengthening of normal commercial lending, there is still a need over the next year to provide some additional support to ensure banks lend to eligible viable businesses. We are therefore continuing the EFG to facilitate lending of between £1,000 and £1 million to viable businesses with a turnover of up to £25 million.
- **The creation of a new growth fund, following Chris Rowlands' independent review of growth capital conditions in the**

**UK<sup>11</sup>.** The Rowlands' review showed that there is a permanent gap in the provision of growth capital to SMEs. The Government is creating a growth fund to provide a new channel to attract private sector investment into UK SMEs seeking between £2 million and £10 million to ensure that UK firms have the finance they need as we emerge from the recession. Just as in 1945 when the Government and banks came together to set up ICFC (Industrial and Commercial Finance Corporate) as a new financial corporation to provide funding for SMEs in the UK to aid the post war recovery. So the Government is now in discussions with a group of global and UK banks to establish a world-class, fully commercial Growth Capital Fund to provide the finance the UK SMEs need to grow as part of the post-financial crisis recovery. Initial investors and fund structure will be announced in 2010.

- **A new review with the Regional Development Agencies (RDAs) of the relationship between regional and national venture capital schemes to ensure coherence, consistency and efficiency.** Since 2000, Government has provided venture capital funding to support young, often highly innovative companies who find it difficult to raise finance through conventional means. Current venture capital interventions, such as the Enterprise Capital Fund programme and the UK Innovation Fund, have learned lessons from the earliest experimental and innovative programmes. The range of interventions now in place means that the landscape for publicly backed venture capital is complex. As set out in the new

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11 Rowlands, C. (2009), *Provision of Growth Capital to UK SMEs*  
<http://www.berr.gov.uk/files/file53698.doc>

framework for regional economic policy<sup>12</sup>, we will work with the RDAs to ensure that funds are complementary, consistent and additional to one another.

- **The creation of the UK Innovation Investment Fund (UKIIF) to provide a new source of equity capital for high tech firms.** In June 2009, the Government announced it would invest £150 million in the Fund, which will be invested in sectors of the future such as digital, low carbon, life sciences and advanced manufacturing. Following a competitive tendering process, two Fund of Funds Manager mandates have been awarded to Hermes Private Equity and the European Investment Fund, who have between them raised an additional £175 million, giving UKIIF an initial total of £325 million to invest, from the first quarter of 2010. Of this, £125 million will focus on low carbon, managed by Hermes Private Equity; and £200 million is for investment in a general technology Fund of Funds to be managed by the European Investment Fund. Both Fund of Funds Managers will also seek to raise additional investment.

### Expanding into export markets

Expansion into export markets is a key route to growth for British enterprises. Businesses that diversify both what they do and to whom they sell are more likely to be resilient when times are tough. Selling successfully into overseas markets benefits firms in three main areas: financial performance<sup>13</sup>, including greater probability of

survival<sup>14</sup>; innovation, including the ideas and resources to undertake additional Research and Development (R&D)<sup>15</sup>; and productivity.<sup>16</sup> Recent progress in helping UK firms expand by exporting includes:

- **The new Letter of Credit Guarantee scheme to help UK companies wishing to grow through exporting to developing countries.** The economic crisis has severely affected access to trade finance, adversely affecting the value of overseas sales and impacting on the ability of firms to grow. The Export Credits Guarantee Department (ECGD) is now working with UK-based banks on a new Letter of Credit Guarantee scheme to insure UK exporters against default. On 3 December 2009 we launched a public consultation on updating ECGD's Business Principles, to gather views on possible changes<sup>17</sup>. We are also extending ECGD's Fixed Rate Export Finance scheme until March 2011, within its existing budget.
- **Backing British exporters in growing international markets, with a focus on sectors where we lead the world.** UK Trade & Investment (UKTI) was provided with an additional £10 million in Budget 2009 to create a platform for UK businesses to showcase their excellence to high quality global buyers, in the UK and in growing markets. UKTI also helps companies review their readiness for international business and

12 HM Government (2009), *Partnerships for Growth: A National Framework for Regional and Local Economic Development* <http://www.berr.gov.uk/files/file53941.pdf>

13 Greenaway, Guariglia and Kneller (2006), *Financial Factors and Exporting Decisions*, University of Nottingham

14 Harris, R and Li, Q. Cher (2007) *Firm Level Empirical Study of the Contribution of Exporting to UK Productivity Growth*, Final Report to UK Trade and Investment

15 Harris, R. (2008), *An Empirical Study of the Respective Contributions of Exporting and Foreign Direct Investment to UK R&D*, Final Report to UK Trade and Investment

16 Harris, R. & Li, Q. Cher (2008), "Evaluating the Contribution of Exporting to UK Productivity Growth: Some Microeconomic Evidence", *The World Economy*, vol. 31(2), Blackwell Publishing

17 The ECGD public consultation is available at <http://www.ecgd.gov.uk/index/public-information/public-consultation.htm>

develop a plan of action for market entry and growth through their network of International Trade Advisers. British Airways, working with UKTI, has offered 4,000 complimentary return flights to support SME exporters and HSBC has partnered with UKTI to provide a series of international trade workshops across the UK to help businesses looking to grow their international export business.

### Green Lite

Government support for small firms unable to secure debt finance due to a lack of security or track record has enabled many small businesses to grow. The Enterprise Finance Guarantee has been key to providing additional working capital to businesses in 2009.

Green Lite Solutions UK is a trading division and brand of the highly successful environmental lighting company, Direct Lamp Distribution Ltd, which specialises in commercial environmental lighting solutions. Direct Lamp Distribution was set up in 2004 and turns over £1 million a year.

Thanks to a Royal Bank of Scotland loan of £450,000 under the Enterprise Finance Guarantee scheme and a further £800,000 via its asset finance arm, Lombard, Green Lite was able to announce a £1.25 million funding package to support its growth, including the purchase of 45 vehicles.

Green Lite, which they hope to grow into a £2 million turnover enterprise, will provide energy audits and other services to help customers save money and reduce their carbon footprint.

Managing Director Bob Hall said:

***“The funding we received from the EFG loan gave us the capital we needed to grow our business significantly and take it to the next level. The process to get the loan was simple and straightforward.”***

Companies like Green Lite will continue to be able to benefit from government support to grow in the future. In addition to the extension of the Enterprise Finance Guarantee announced at PBR, we are working with banks and financial institutions to establish a new fund for SMEs seeking capital to grow.



# Knowledge

The UK's competitive strengths in the global economy are rooted in the application of knowledge and high levels of creativity to develop advanced technologies and sophisticated services. Knowledge and the skills to apply it are absolutely fundamental to our economic growth. When knowledge is applied as innovation it can improve existing products, processes and services; create new capacities and increase productivity. All of these gains are critical to Britain's future growth.

To sustain robust growth we need to build on our strengths at creating knowledge in the UK and become even more effective at transforming that knowledge into economic growth. This requires an active government policy that:

- Invests in world class universities and a diverse research base where leading edge advances in knowledge can be nurtured and achieved.
- Supports a vibrant and mutually beneficial interaction between the research base, industry and the investors that will finance innovation, so that new knowledge can be quickly converted into economic benefits, and where the perspective and experience of wider commercial application can help drive research.

- Ensures that the right incentives, financial and regulatory frameworks exist for businesses to develop and apply new knowledge and innovate.
- Ensures that Government, through its role as market-shaper, enables the development of new knowledge and technologies.
- Ensure that Europe acts as a powerful driver of innovation and that the EU's innovation policy reflects the needs of business.

By almost any measure the UK has exceptional strengths in knowledge creation. The sector supports a highly skilled workforce producing nearly 17,000 PhD and 119,000 Masters graduates each year<sup>18</sup>. Government investment supports a broad range of research from fundamental science to the application of cutting edge technology. The UK research base is second only to the US on research citations and ranks as among the best in the world<sup>19</sup>, supporting business development and inward investment. Although this sector faces inevitable public financial constraints in the years ahead, we are committed to maintaining the fundamental strengths of our research base and higher education sector. Despite the current

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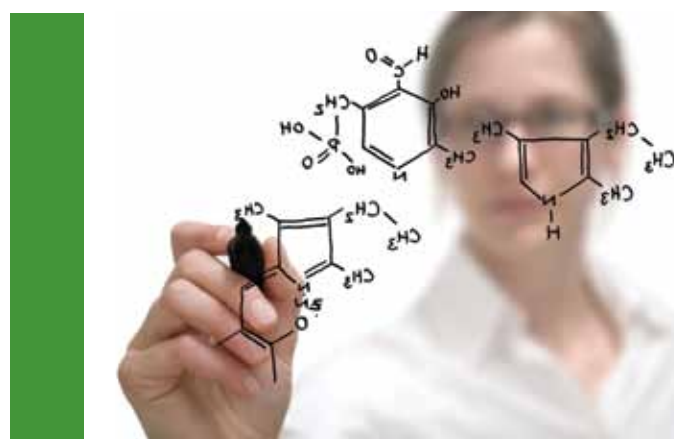
18 HESA Online Student Qualifiers Data Tables  
[http://www.hesa.ac.uk/index.php?option=com\\_datatables&Itemid=121&task=show\\_category&catdex=3](http://www.hesa.ac.uk/index.php?option=com_datatables&Itemid=121&task=show_category&catdex=3)

19 HEFCE, Scottish Funding Council, HEFCW and Department for Employment and Learning (2008), *Research Assessment Exercise 2008: The Outcome*  
<http://www.rae.ac.uk/results/outstore/RAEOOutcomeFull.pdf>

fiscal constraints, by 2010–11 Government investment in the UK research base will have doubled from its 1997 level, to over £6 billion<sup>20</sup>.

## Transforming knowledge into economic growth

Government policy also ensures that the incentives and capacity exist for our high quality research to lead to commercial application and enterprise. In 2007–08 university spin-out companies employed nearly 14,000 people and had a combined turnover of over £1.1 billion<sup>21</sup>. Over the last 10 years, university bioscience departments alone have generated over 200 spin-out companies<sup>22</sup>. Public Sector Research Establishments have produced spin-out companies that employ nearly 4,500 people, with a combined turnover of over £70 million, securing external investments of over £50 million<sup>23</sup>. This process of transforming knowledge developed *in* the UK into economic benefits *for* the UK must be a key focus of policy in the years ahead. The UK has an emerging network of centres of excellence for technologies and industrial innovation. We will aim to develop these centres in a strong network that connects industry, the research base and investors. Recent progress in further strengthening the generation and application of knowledge for economic growth in the UK includes:



- **A new commitment to increasing our focus on the economic and social impact of research.** The Government now makes an annual investment of around £6 billion in science and research via the Funding Councils and Research Councils<sup>24</sup>. Through changes in the new Research Excellence Framework<sup>25</sup> we will do more to incentivise universities to broaden and deepen their links with business and users of research and to think further about the impact they generate. This will include greater consideration of the economic and social impact that research can deliver, deepening our understanding of how research outcomes can support growth.
- **Strengthening universities' capacity to transfer the knowledge they create into the wider economy.** Investment in the Higher Education Innovation Fund (HEIF) has helped universities establish dedicated teams to work with business, allowing the formation of professional links and long-term relationships. 80 per cent of universities now have knowledge transfer explicitly in their institutional missions. HEIF has invested nearly £600 million in universities between 2001 and 2007 generating an estimated £3–4 billion in

20 HM Treasury (2007), *Pre-Budget Report and Comprehensive Spending Review*, Annex D4

[http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_annexd4\\_168.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_annexd4_168.pdf)

21 BIS, HEFCE, Scottish Funding Council, HEFCW and Department for Employment and Learning (2008), *Higher Education – Business and Community Interaction Survey 2007-2008*

[http://www.hefce.ac.uk/pubs/hefce/2009/09\\_23/](http://www.hefce.ac.uk/pubs/hefce/2009/09_23/)

22 BBSRC (2009), *Economic Impact Baseline 2009 Update*

[http://www.bbsrc.ac.uk/publications/policy/economic\\_impact\\_baseline\\_2009\\_update.pdf](http://www.bbsrc.ac.uk/publications/policy/economic_impact_baseline_2009_update.pdf)

23 BIS (2009), *Fifth Annual Survey of Knowledge Transfer Activities In Public Sector Research Establishments*

<http://www.dius.gov.uk/~media/publications/2/2009-5th-psre-report-v2>

24 More information on the Research Councils can be found at <http://www.rcuk.ac.uk/default.htm>

25 More information on the Research Excellence Framework can be found at <http://www.hefce.ac.uk/Research/ref/>

value<sup>26</sup>. We are increasing investment in HEIF over this spending review period, rising to £150 million by 2010-11<sup>27</sup>.

- **A new more flexible knowledge transfer partnership scheme for small businesses.**

A shorter version of the Knowledge Transfer Partnership<sup>28</sup> scheme was introduced in 2009, aimed at micro-sized organisations and SMEs. Through Knowledge Transfer Partnerships, business and academia collaborate on the placement of skilled individuals into business, injecting vital know-how to help take forward development projects. In addition, through Knowledge Transfer Networks<sup>29</sup> we bring together people from businesses of all sizes, universities, research, finance and technology organisations to improve business competitiveness and productivity through better sharing of knowledge and the use of technology and skills.

### The incentive to innovate

In addition to ensuring a strong public sector research capability, Government must establish the right incentives and systems to encourage and support innovation by business. Firms must have the confidence to undertake R&D and the ability to realise the commercial rewards of that work through the effective protection of intellectual property and the application of industrial standards.

26 PACEC and the Centre for Business Research, University of Cambridge (2009), *Evaluation of the effectiveness and role of HEFCE/OSI third stream funding*  
[http://www.hefce.ac.uk/pubs/hefce/2009/09\\_15/#exec](http://www.hefce.ac.uk/pubs/hefce/2009/09_15/#exec)

27 HM Treasury (2007), *Pre-Budget Report and Comprehensive Spending Review, Annex D4*  
[http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_annexd4\\_168.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_annexd4_168.pdf)

28 More information on Knowledge Transfer Partnerships is available at <http://www.ktponline.org.uk/>

29 More information on Knowledge Transfer Networks is available at [http://www.ktnetworks.co.uk/epicentric\\_portal/site/KTN/?mode=0](http://www.ktnetworks.co.uk/epicentric_portal/site/KTN/?mode=0)

The UK's R&D Tax Credits system is a major incentive for businesses to innovate. In total, over £3 billion of support has been provided to innovative UK companies since the introduction of the schemes in 2000 and 2002: 80 per cent of these are small and medium sized companies<sup>30</sup>. Recent steps to further strengthen incentives and support for the creation and commercial exploitation of knowledge by businesses include:

- **A new Patent Box to increase tax incentives for innovation.**

As announced in the PBR 2009, the Government will introduce a Patent Box, applying a 10 per cent rate of Corporation Tax to income from new patents from April 2013, to ensure the UK remains an attractive location for innovation. The Government will consult with business in time for the Finance Bill 2011 on the detailed design of the Patent Box.

- **A simplification of the R&D Tax Credit scheme to further support small and medium sized companies.**

As of PBR 2009, SMEs will no longer have to own any intellectual property (IP) attributable to their R&D expenditure as a condition of being able to claim under the R&D Tax Credit SME scheme. The change will apply to any expenditure incurred in accounting periods ending on or after 9 December 2009.

- **New support for business to help them fully exploit the commercial potential of their intellectual property.**

The Intellectual Property Office<sup>31</sup> has introduced a raft of measures to improve the granting of patents

30 HMRC (2009), *Corporate Tax: Research and Development Tax Credits*  
[http://www.hmrc.gov.uk/stats/corporate\\_tax/randdmenu.htm](http://www.hmrc.gov.uk/stats/corporate_tax/randdmenu.htm)

31 More information on the Intellectual Property Office is available at <http://www.ipo.gov.uk/>

and trademarks. These include a fast track procedure for green patents to support the rapid growth of climate-friendly industries; a suite of resources to help businesses identify IP and put in place effective licensing arrangements; the RightStart scheme to help SMEs protect their brands by halving the initial fees for trade mark registration; and the recent copyright strategy<sup>32</sup> which sets out plans to simplify the copyright system for creators, businesses and users. For the second successive year the UK has been ranked top in a global benchmarking of IP regimes<sup>33</sup>.

Government also has a particular role to play in driving innovation and advances in knowledge to address the major challenges we face as a society, such as global warming and an aging population. Government can play a critical role in directing investment to address these challenges, in ensuring that the knowledge required to tackle them is both generated and exploited commercially, and in enabling business to realise the global market opportunities that result. Recent progress in doing this includes:

- **A strengthened role for the business-led Technology Strategy Board<sup>34</sup> to deliver a national technology strategy.** Working with other partners the Technology Strategy Board will deliver support for business innovation worth well over £1 billion during the current spending review period. This includes an additional £50 million of funding provided as part of the Strategic Investment Fund at Budget 2009 to expand support for future

high growth areas of the UK economy and £5 million announced in the PBR to develop new prize funds for emerging technologies.

- **New investment in centres of excellence in emerging technologies with potential high economic impact.** Facilities such as the recently launched Stevenage Bioscience Park, the Composites Centre, the Printable Electronics Technology Centre (PETEC) and the European Space Agency's investment in a new space technology centre at Harwell will play a critical role in commercialising the outputs of our world leading research and developing the platform technologies and industries of the future. The Technology Strategy Board will work across Government and with Regional Development Agencies to identify and promote further national centres of excellence.
- **A fresh look at the UK's innovation landscape to ensure we are maximising our potential.** We have huge potential in our existing innovation networks including through universities increasingly realising the commercial potential of their research activity and RDA investment in innovation centres. But we need to learn how best to further build and consolidate this landscape. We have asked the technology entrepreneur, Herman Hauser, to lead a review working closely with the Technology Strategy Board and BIS, to see how the UK could learn from other innovation networks, such as the Fraunhofer institutes in Germany and the Delft Centre in Holland.
- **A major strategic investment in developing low carbon industries via the Energy Technologies Institute (ETI)<sup>35</sup>**

32 IPO (2009), © *the way ahead: A copyright strategy for the digital age 2009*

<http://www.ipo.gov.uk/pro-types/pro-copy/c-policy/c-strategy.htm>

33 Taylor Wessing (2009), *Taylor Wessing Global Intellectual Property Index 2009* <http://www.taylorwessing.com/ipindex/>

34 More information on the Technology Strategy Board can be found at <http://www.innovateuk.org/>

35 More information on the Energy Technologies Institute can be found at <http://www.energytechnologies.co.uk/Home.aspx>

**and Carbon Trust**<sup>36</sup>. The ETI is a unique Public-Private Partnership established between BIS and leading engineering and energy companies including BP, Caterpillar, EDF Energy, E.ON, Rolls-Royce and Shell, to accelerate the deployment of affordable, secure low carbon energy technologies. During 2009 nearly £50 million has been invested in projects to develop commercial-scale tidal turbines, offshore wind power and research into the nationwide roll-out of plug-in vehicle infrastructure. Combined with new funding for the Carbon Trust this marks a major investment in new low carbon energy technologies. The Carbon Trust has already supported over 200 UK low carbon technology projects and companies since 2001. The ETI is expected to secure up to £1 billion of investment over a ten year period through 50:50 public-private funding.

- **A reformed Small Business Research Initiative (SBRI)**<sup>37</sup> **for the public sector, supporting small businesses in developing innovative solutions.** Led by the Technology Strategy Board, SBRI provides fully-funded contracts for business to develop technology-based solutions that address public sector challenges. By focusing public sector contracts more on desired outcomes, it encourages innovation and development from industry. In the first six months of the new programme, 277 contracts have been awarded with a value of £9.3 million. These provide potential novel solutions to meet public service challenges in areas such as security and defence, healthcare, transport and retrofit demonstrators for low

carbon buildings. Further tenders to improve the energy efficiency of public buildings and develop Ultra Efficient Lighting solutions are planned for 2010.

The EU has the potential to be a powerful driver of innovation. It is a major investor in science and technology development through the Framework Programme and the Competitiveness and Innovation Programme. As the world's largest single market, the EU can be a major procurer and consumer of innovative products and services. A key UK priority for the next European Commission will be to work with British business, the European Commission and other EU Member States to increase the contribution of EU policies to driving innovation and growth.

<sup>36</sup> More information on the Carbon Trust can be found at <http://www.carbontrust.co.uk>

<sup>37</sup> More information on the Small Business Research Initiative can be found at <http://www.innovateuk.org/deliveringinnovation/smallbusinessresearchinitiative.ashx>

## **Imperial Innovations and Ceres Power: from University Research to International Markets**

Government investment is developing the high level skills that can drive new knowledge and new technologies; supporting fundamental research and commercial exploitation of innovations; and ensuring that business support helps firms succeed generating wealth and jobs.

Based at Imperial College London, Imperial Innovations is one of the UK's leading technology commercialisation and investment companies, making full use of its access to early stage technology and intellectual property. Through its spin-out work Imperial Innovations has a portfolio of equity holdings in more than 80 companies, including Ceres Power. Ceres was founded to commercially exploit revolutionary fuel cell technology developed during a decade of publicly funded research at Imperial College.

Ceres has achieved a genuine technology breakthrough, developing a novel fuel cell which generates electricity from fuels such as natural gas and LPG. The first product is a residential energy hub (or 'micro-CHP') which replaces a normal gas boiler and provides heating, hot water and electricity from a single wall-mounted unit.

A project co-funded with the Technology Strategy Board helped Ceres develop its first demonstration system. Early stage support from the Design Council helped Ceres examine their business strategy, routes to market and communications – accessed as part of the national package of business support products, Solutions for Business.

Ceres has already created approximately 100 new UK jobs through direct employment, and in March 2009 it secured a mass manufacturing facility providing the potential to produce more than one million fuel cells per annum. The development of a UK-based, high volume manufacturing facility will create further skilled 'green-collar' jobs directly at the facility and in the surrounding area via the company's supply chain.

# People

People are the UK's most important asset. People generate ideas and start businesses. They employ other people and help them achieve their potential. The knowledge that people have, and the expression and application of that knowledge in the form of skills and innovation, define our comparative advantages and our economic potential. Investing in the skills of its people is one of the most productive investments a country or business can make. Government must work alongside businesses and support them in making these important investments in skills.

It is important that we continue to recognise the changing nature of the workforce and it is vital that everyone has opportunities to develop skills and contribute to the economic recovery. We must use the skills of everyone in Britain – older and younger workers, women and men, people from different ethnic backgrounds and those with disabilities. We need a flexible, family-friendly labour market and continued support, for example through childcare, to enable this to happen.

Having people with the right skills in the UK will be key to ensuring that British people of all ages can have satisfying and prosperous working lives. This requires a flexible and open labour market that enables people to start businesses, gain employment, move easily from job to job within their workplace or around the country and continue to develop their skills throughout

their working life. It requires a framework of employment rights and responsibilities that encourages successful and supportive workplaces, upholds basic standards of decency and dignity, and promotes engagement.

Some of the talented people the UK needs will be drawn to work here from the EU and abroad, and it is vital that the UK is open to them. But the vast majority of workers will be British and the skills those British people have must equip them with the resources to prosper in the world of modern life and work and benefit from the expansion of new and growing industry sectors such as low carbon and environmental goods and services.

Fundamental to this is a clear understanding of the opportunities the economy offers to help people make choices about their learning and training and their children's education. A dynamic and growing economy can and must also be a source of a new wave of social mobility in this country. This was a key message of *Unleashing Aspiration*<sup>38</sup>, the report of the Panel on Fair Access to the Professions led by the Rt Hon. Alan Milburn MP. Investment also needs to be directed to interventions that promote economic inclusion and tackle worklessness by connecting people to jobs. The 2009 PBR announced a cross-government exercise to

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<sup>38</sup> Panel on Fair Access to the Professions (2009) *Unleashing Aspiration: The Final Report of the Panel of Fair Access to the Professions*  
<http://www.cabinetoffice.gov.uk/media/227102/fair-access.pdf>

be led by CLG and HM Treasury to assess the efficiency and effectiveness of these interventions in deprived areas.

Making sure that we have people with the right skills in the UK for the recovery and for our future economic prosperity requires an active Government policy that:

- Ensures a jobs-rich recovery, in which those who have lost work during the downturn find sustainable jobs or self employment quickly, and young people can find jobs for the first time.
- Ensures that the skills that people of all ages learn are relevant to the demands of a modern low carbon economy, especially the higher level skills needed to drive growth in the economy and secure the jobs and business opportunities of the future.
- Ensures that people recognise and demand the skills that will help them shape a career and have the greatest value in their working lives. This requires businesses to communicate clearly the skills that the economy needs, and universities and adult skills providers to meet that need effectively.
- Recognises the value of skilled migrants to the UK.

There are now close to 29 million people in work in the UK. That is nearly 2.5 million more than in 1997 and our employment rate remains one of the highest in the G7<sup>39</sup>. The flexibility of the British labour market is a key reason why unemployment has remained lower

in this recession than in previous downturns. That flexibility has made it relatively easy for businesses to get the right person into the right job and to manage their businesses as productively as possible. The UK's points-based immigration system allows businesses to recruit from abroad where no suitable residents are available.

In England, we have made substantial progress in recent years in improving the education and skills of our workforce. Since 1997 almost six million adults have improved their basic skills and over two million people have started an apprenticeship<sup>40</sup>, with a record 143,400 people completing an apprenticeship in the 2008-09 academic year<sup>41</sup>. We also have a strong track record of encouraging better in-work training – essential given that the majority of the working population of 2020 have already left school and entered the world of work. Through Business Link, employers can now get advice about the financial support that might be available through Train to Gain. In 2008-09, over 470,000 industry-recognised qualifications were achieved through Train to Gain alone<sup>42</sup>. We have also invested heavily in helping people develop the skills for self-employment, which is an important spur to entrepreneurship.

In Wales, the Welsh Assembly Government developed both the ReAct and ProAct schemes. The ReAct scheme has helped nearly 12,000 workers since October 2008 to re-skill or up-skill

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40 BIS (2009), *Skills for Growth Analytical Paper*  
<http://www.bis.gov.uk/skills-for-growth>

41 The Data Service (2009), *Statistical First Release December 2009 on Post 16 Education & Skills: Learner Participation, Outcomes and Level of Highest Qualification Held*  
<http://www.thedataservice.org.uk/statistics/sfrdec09/>

42 The Data Service (2009), *Statistical First Release October 2009 on Post 16 Education & Skills: Learner Participation, Outcomes and Level of Highest Qualification Held*  
<http://www.thedataservice.org.uk/statistics/sfroct09/>

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39 ONS Labour Market Brief for December 2009 available on the ONS website at <http://www.statistics.gov.uk/default.asp>



following redundancy so that they can rejoin the labour market as quickly as possible. Additionally, the ProAct scheme supports short time working and re-skilling, initially in the automotive sector but now available to other sectors. So far, the scheme has helped around 6,000 people directly, and supported another 2,800 jobs.

### Real Help Now

As the recession hit, the Government took unprecedented action both to limit rises in long-term unemployment and inactivity and to restore economic growth as quickly as possible. Keeping people, particularly those at the start of their working lives, close to the labour market is vital for the UK's prospects in recovery. Decisive action to help people who have lost their jobs since the start of the recession includes:

- **Targeted help through the downturn for those who have lost their jobs.**

Government intervened quickly to minimise the depth of the recession and impact on employment by making available up to £5 billion since November 2008 to help those on out-of-work benefits get back to work. Specifically, in terms of training, we have made available £100 million to help at least 80,000 people facing redundancy or recently made redundant to get the skills they need to move quickly back into sustainable employment including self-employment; £83 million to fund an extra 75,000 new work-focused training opportunities for people who have been unemployed for six months or more; and nearly £200 million for up to 120,000 training opportunities for 18–24 year-olds approaching 12 months unemployment. The Government is building the service offered via Jobcentre Plus to provide access to intensive self-employment



support and advice at the three month stage to enable more people to take up the skills, knowledge and coaching help they need to succeed. In addition, eligible jobseekers will be able to receive the £50 a week Self-Employment Credit at the three month stage to help the transition from benefits to work.

- **More support for young people to get them back to work, including substantial support for firms taking on apprentices.**

This includes a dedicated personal adviser from day one of their claim to Jobseekers Allowance (JSA). Under the new Young Person's guarantee for 18–24 year olds, young people will have access to jobs, training and work experience opportunities after six months claiming JSA, with a requirement to take up this support before reaching the ten month stage of a claim. The Future Jobs Fund, one part of this guarantee, will be worth around £1 billion and will create 170,000 new jobs – at least 120,000 for young people and a significant proportion in areas of high unemployment. Within the Future Jobs Fund there is also a target to create 16,000 apprenticeships for young people. Apprenticeships offer an excellent opportunity for young people, in particular, to develop the skills they need to get on in the workplace. To encourage employers to offer more of these opportunities to the most vulnerable in the

labour market we will be making available up to 5,000 one-off payments of £2,500 to employers who are able to take on immediately a new or additional 16 or 17 year old.

- **A new guarantee that all 16 and 17 year olds will be offered a place in education or training.** The September Guarantee ensures that all 16 and 17 year olds are offered a suitable place in learning. On 18 November 2009, the Government built on this approach by guaranteeing the offer of a place on an Entry to Employment (E2E) programme and access to the Educational Maintenance Allowance to all 16 and 17 year olds who are not in education, employment or training (NEET) in January 2010. To enable local authorities to meet this commitment, the Government is providing funding for 10,000 additional places with E2E providers and additional funding for Connexions to contact young people and support them to find a suitable opportunity.

- **Ambitious plans to integrate the employment and skills systems.** *Building Britain's Recovery: Achieving Full Employment*<sup>43</sup> set out plans to deliver a joined up system which makes it easier for people to identify their skills needs and the training available to help them find work and progress in it. We will work towards: personalised on-line support through skills accounts to bring together all the skills training an individual will be able to access in their local area; a fully integrated and seamless service to people who are out of work, with enhanced support and steers from Jobcentre Plus advisers to help

people make training choices which will help them get a job and progress in their careers; and we will bring together existing funds spent to help people on out-of-work benefits, primarily those on Jobseekers Allowance, to get the skills they need to get a job in which they can progress.

### Skills for the future economy

Ensuring British people are equipped to prosper in the global economy requires that we identify the skills they will need in the future, in particular the generic employability skills that enable people to succeed at work, and the specialist skills that underwrite new sectors and processes such as low carbon, advanced manufacturing and digital communications. Recent progress in this area includes:

- **The development of new resources for identifying the strategic skills needed in the British economy.** The RDAs will have a new role in identifying skills needs and being the champion and advocate for skills at the regional level. They will do this by articulating demand and by putting national priorities into a spatial context. In 2010 the UK Commission for Employment and Skills will publish its first annual National Strategic Skills Audit. This will help identify skills needs at the national, regional, sub-regional and sectoral levels. Ministers will use this advice to set a national framework of priorities for skills, which will inform the regional skills strategies led by the RDAs. The Skills Funding Agency will use these regional priorities to inform how it will fund colleges and learning providers to ensure an appropriate supply of skills. The national framework will also shape the guidance given by the Higher Education Funding Council for

<sup>43</sup> DWP (2009), *Building Britain's Recovery: Achieving Full Employment* <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/building-britain's-recovery/>

England (HEFCE) in its annual grant letter about the priorities for the allocation of funds to universities, and it will shape decisions on the next generation of Skills Academies in 2010. As a first step we will invest around £7.9 million over three years in a new National Skills Academy for Information Technology, with employer investment and in-kind contributions of £10.9 million.

- **The creation of a new pilot Joint Investment Scheme, to identify gaps in areas key to economic recovery and train people for those sectors.** This scheme will enable employers to identify the training or higher education institutions that they believe are most capable of delivering the training in their industry and benefit from matching funds from Government. This combined fund could support 75,000 training places in priority sectors at advanced vocational levels. We are also taking action to improve skills co-ordination in key sectors such as renewable energy, where eight sector bodies are working on a Renewable Skills Strategy.
- **The creation of a new technician class in the UK through a large expansion of the Apprenticeship programme.** The *Skills for Growth* strategy<sup>44</sup> set out plans to expand the Apprenticeship programme to deliver more opportunities for young adults to develop the technical and professional skills the economy needs. We will create an additional 35,000 new Advanced Apprenticeships for those aged 19–30 years old over the next two years, almost doubling the capacity for places currently available. This is in addition to the £7 million to support Group Training models announced
- on 21 October 2009 which could deliver up to 15,000 new Apprenticeships for those aged 16–18 years old within the next five years. By 2013, all suitably qualified young people will be offered an apprenticeship place, if they want one. We will also build stronger pathways into higher education for apprentices, including the development of the apprenticeship scholarship proposed in the Milburn Review on Fair Access to the Professions<sup>45</sup>.
- **The development of University Technical Colleges (UTCs) to focus on key skills in manufacturing and new technologies.** The Department for Children, Schools and Families (DCSF) has already identified two UTCs and is considering their strategy for establishing further UTCs. These colleges will offer new opportunities for 14–19 year olds to undertake vocational and applied study. Alongside the introduction of 14–19 Diplomas, UTCs will greatly strengthen the flow of young people coming into the labour market with the skills and capabilities employers want, particularly for technician careers. We will ensure good progression from UTCs to other routes of study including Advanced Apprenticeships and Foundation Degrees.
- **A new financial support scheme for undergraduate internships in professions with historically poor access.** We will contribute £8 million towards bursary-style support for undergraduates undertaking short unpaid internships. The details of the scheme will be developed with the higher education sector and the professions. It is intended that this funding will be augmented with

44 BIS (2009), *Skills for Growth – The National Skills Strategy*  
<http://www.bis.gov.uk/skills-for-growth>

45 The Panel on Fair Access to the Professions (2009), *Unleashing Aspiration: The Final Report of the Panel on Fair Access to the Professions*  
[www.cabinetoffice.gov.uk/accessprofessions](http://www.cabinetoffice.gov.uk/accessprofessions)

contributions from the professions themselves. Support will be available as early as summer 2010 and once fully operational the scheme will support around 10,000 internships a year.

- **A full review of postgraduate level higher education in England.** This review, launched in July 2009, will assess the success of postgraduate education in England in meeting both the university sector's and the economy's needs for skills at the highest level. This will feed into the review of higher education funding and student finance in English universities, led by Lord Browne of Madingley, announced in November 2009.

It is important that people recognise the value of high quality relevant skills and demand them from universities, colleges and training providers. This requires that businesses express clearly and consistently the skills they need for the future. It is also important that businesses see investment in their workforce and engaging staff in the wider aims of the business as vital. Recent progress in this area includes:

- **New frameworks for both higher education and adult skills policy that put a new emphasis of the relevance of skills for the modern world of work.** Both our *Higher Ambitions* framework for higher education<sup>46</sup> and our *Skills for Growth* strategy for adult skills create new incentives for universities, colleges and training bodies to work closely with business and government to define and provide the skills needed for the jobs and businesses of the future. This includes entrepreneurship skills and generic employability skills such as teamwork and

computer literacy, along with the complex and creative skills in science, technology, low carbon, digital communication and the life sciences that will be critical in some of the UK's most internationally competitive sectors. For example, the Office for Life Sciences has worked with life sciences businesses and academia in 2009 to establish the Industry and Higher Education Forum for life sciences. This Forum will help ensure that graduates leave with the core high level skills and critical disciplines required to pursue a career in life sciences research and development. The *Higher Ambitions* framework also set out proposals to create new incentives for universities to offer courses such as Foundation Degrees, that involve vocational, work-based training.

- **A new statutory right for employees to request time to train.** This important new right will give employees a legal right to ask their employer to give them time to undertake relevant training. We will work with business to ensure effective implementation.
- **New work with businesses to help them recognise the potential benefits of raising workforce engagement.** The Government is taking forward recommendations from the independent MacLeod Review of employee engagement<sup>47</sup> through a high profile campaign to raise awareness of the benefits of employee engagement. We are developing practical tools and guidance that employers can use to raise their levels of workplace engagement and thereby harness people's creativity and energy.

46 BIS (2009), *Higher Ambitions*  
<http://www.bis.gov.uk/higherambitions>

47 MacLeod, D. and Clarke, N.(2009), *Engaging for Success: enhancing performance through employee engagement*  
<http://www.berr.gov.uk/whatwedo/employment/employee-engagement/index.html>

## The value of skilled migrants to the UK

Our priority must always be to ensure that our skills system is supporting the training of British people to compete successfully for jobs, especially in high growth and skills-shortage areas. In these areas, we will strengthen the link between the Migration Advisory Committee's list of shortage occupations to training priorities in the skills system. This will help us ensure that the skill system is sufficiently responsive and, over time, that there is less need to fill skills gaps through migration. However, migration still has its role to play in ensuring that the British economy has the skills it needs. We remain committed to ensuring that talented migrants with these skills are able to make a contribution in the UK. Recent progress in adapting the UK's migration system to the UK's modern skills needs includes:

- **Additional flexibility in the points based immigration system.** This creates a simpler way for employers to bring in non-EEA interns and trainees to work and train in the UK; rewards 'highly trusted' business users of the points based system by introducing extra benefits to this group in 2010 and implements a clearer process through which Government will make all future major changes to the points based system from 2010. By incorporating common commencement dates it will increase certainty for users of the system and ensure business and investor audiences understand that we welcome trade and travel that benefits the UK.

### E.ON Engineering Academy

E.ON, one of the Europe's leading power and gas companies with more than 16,000 employees in the UK, opened its new Engineering Academy at three sites across the Midlands region in January 2009.

Combining the expertise of E.ON and Government funding for Nationally Recognised Qualifications, the E.ON Engineering Academy brings together practical, technical and operational training relevant to the power and associated engineering industries. It provides Apprenticeship and bespoke training, qualifications and career development to craftsmen, technicians and engineers across the sector. This new vocational approach creates opportunities for young people and existing employees of E.ON and other energy companies. It enables progression from entry level through to Foundation Degrees and higher level skills. This will help secure the next generation of UK engineers needed by this sector and meet the professional development needs of power engineers across the country.

*"We are investing billions of pounds in our industry which will help boost the UK economy and ensure we have the right people with the right skills for a sustainable mix of energy resources. Working with universities and colleges across the UK, we aim to offer the very best technical, business and leadership skills that meet our industry's ever growing demands."*

**Dr Paul Golby, E.ON UK Chief Executive**

# Infrastructure

Communications, water, waste, transport and energy networks are the foundation of a modern economy: without them it is impossible for modern businesses to maximise their potential and for labour and product markets to operate efficiently. Infrastructure is critical to growth, providing the right environment for domestic businesses, helping us drive the transition to a low carbon economy and attracting others to invest in the UK. Over the next decade and beyond the UK's infrastructure will require considerable renewal and massive investment.

Ensuring that there is an effective infrastructure to meet the needs of the economy of the future is one of our most significant challenges as a country. One of the key aims of our low carbon transition is to ensure that British based companies are prepared to compete for the opportunities in these vital areas.

Ensuring that the UK has the necessary infrastructure for twenty-first century growth requires an active government policy that:

- Ensures that new and existing infrastructure facilitates moving to the low carbon, digital economy of the future and is resilient to the effects of climate change.
- Delivers the best value from the use and upgrading of our existing infrastructure.

- Anticipates, identifies and coordinates the economy's future needs for infrastructure and enables a combination of direct investment, partnership with the private sector and effective and targeted use of economic regulation to ensure that the incentives exist to build the right infrastructure at the right time.
- Creates a planning system that responds quickly to the need for large scale infrastructure investments and supports necessary wider development as the economy grows.

Over the last decade, the Government began to tackle the historic backlog of infrastructure under-investment through an investment programme in transport, energy, utilities and modern communications systems.

Over the last ten years we have invested over £150 billion in transport networks alone. For example, in 2007 the country's first high speed rail link to the Channel Tunnel and continental Europe came into operation, cutting journey times by over 40 minutes. The Government is also funding the construction of Crossrail to increase rail capacity in London and the South East. In addition, the Government has created an environment for significant private investment, such as Heathrow's new Terminal 5, which is capable of handling over 30 million passengers per year. Globalisation brings new opportunities

and challenges to business and consumers and success requires that we have an effective modern transport infrastructure and globally competitive levels of connectivity providing frequent and direct connections to a wide range of destinations.

Since the introduction of the Renewables Obligation in 2002, the contribution of renewable electricity in the UK has more than tripled. For example, the UK has moved from having no offshore wind energy supply to being the world leader for installed offshore wind. Since 2004 we have also more than tripled our gas import capacity, improving the resilience of our energy supplies.

### The infrastructure of the future

The UK can remain economically competitive only if this focus on upgrading its infrastructure is sustained, including optimising the use of existing infrastructure. Recent progress in equipping the UK with the infrastructure needed by a high-growth, low carbon, digital economy includes:

- **A new route plan for future high speed rail links.** The High Speed Two company was set up in 2009 to make recommendations on a dedicated high speed North-South rail line for the UK. The Government is currently considering the proposals developed by High Speed Two, including a detailed route plan for the first stage between London and the West Midlands.
- **A major new rail electrification programme.** In July 2009 the Government set out plans for a major new £1.1 billion rail electrification programme<sup>48</sup> that will increase the proportion of passenger travel on the electrified network from 60 per cent today to 67 per cent in 2017, improving journey performance and cutting carbon emissions. We have now announced further electrification of lines between Preston, Manchester, Liverpool and Blackpool.
- **Using technology to improve the reliability of our strategic roads.** In January 2009 we set out a programme of up to £6 billion to improve 520 lane miles of the most important national roads across England. At the heart of the programme lies the creative use of technology which regulates speed to smooth traffic flow and enables the safe use of motorway hard shoulders at times of high demand. This approach has given us the capability to deliver new capacity 40 per cent cheaper than conventional widening while offering faster delivery and benefits to safety and a lower environmental impact.
- **Major announcements on the UK's future energy infrastructure.** The UK will need significantly more electricity generating capacity in the longer term, and will need this new capacity to be low carbon to deliver our environmental goals, including major new expansions of both renewable and nuclear generation. An estimated £200 billion of new energy investment is needed over the period to 2025. One third of that larger future generating capacity must be consented and built over the next 15 years, including major new expansions of both renewable and nuclear energy generation.

<sup>48</sup> DfT (2009), *Britain's Transport Infrastructure: Rail Electrification* <http://www.dft.gov.uk/pgprail/pi/rail-electrification.pdf>

2009's *UK Low Carbon Transition Plan*<sup>49</sup> set out our plans to move the UK to a permanent low carbon position and to maximise economic opportunities, growth and jobs from this programme of new construction and generation. By 2020, 40 per cent of British electricity could come from low carbon sources, providing a major source of employment. In support of this the 2009 Pre-Budget Report announced that Government would support a £14 billion investment in a fleet of four new clean coal power stations, demonstrating carbon capture and storage technology. To help ensure access to finance for low carbon energy projects, the Government has brought together the European Investment Bank and three partner banks – RBS, Lloyds and BNP Paribas Fortis – in a new lending scheme which will facilitate investment of up to £1.4 billion in onshore wind over the next three years.

- **Ambitious new plans to complete the UK's digital infrastructure.** A high quality digital infrastructure is essential to ensuring the country remains competitive. The UK has been at the forefront of the internet revolution and now has one of the highest levels of broadband availability in Europe<sup>50</sup>. The *Digital Britain White Paper*, published in June 2009, sets out how the Government will spend up to £200 million on a Universal Service Commitment, ensuring that all homes have access to a line capable of delivering two megabits per second (Mbps). We will also support investment in next generation broadband so that 90 per cent of the

population has access to next generation broadband by 2017. We set out our plans for application of the landline duty in 2009 and are publishing alongside this document a consultation on how the support scheme will work. We are investing up to £12 million to drive digital participation, through the National Plan for Digital Participation, being developed by a wide range of stakeholders including the Champion for Digital Inclusion, Martha Lane Fox, with a further £30 million for UK Online centres to bring one million people online.

- **A new role for Ofcom in ensuring that the UK invests in its future communications infrastructure.** The Government is also consulting on using its powers to direct Ofcom to undertake reforms to licences which will allow new spectrum to be brought forward for auction. The Digital Economy Bill, published November 2009, includes provisions to give Ofcom new duties to make a formal assessment of the UK's communications infrastructure every two years and, alongside this, to encourage investment in communications infrastructure<sup>51</sup>.

### **A more strategic approach to infrastructure and planning policy**

To deliver a low carbon, digital infrastructure requires a step-change in the level of infrastructure investment during a period in which there will be real constraints on the available resources. Recent progress in changing the way the UK invests in infrastructure includes:

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49 HM Government (2009), *UK Low Carbon Transition Plan: National Strategy for Climate and Energy*  
[http://www.decc.gov.uk/en/content/cms/publications/lc\\_trans\\_plan/lc\\_trans\\_plan.aspx](http://www.decc.gov.uk/en/content/cms/publications/lc_trans_plan/lc_trans_plan.aspx)

50 OECD Broadband Portal  
<http://www.oecd.org/sti/ict/broadband>

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51 More information on the Digital Economy Bill can be found at  
<http://interactive.bis.gov.uk/digitalbritain/digital-economy-bill/>



- The creation of Infrastructure UK (IUK) to better coordinate investment in the UK to ensure we have a high quality, modern and competitive national infrastructure that underpins low-carbon economic growth.** Infrastructure UK is developing a strategy for the UK's infrastructure over the next 5 to 50 years, to be published at Budget 2010. It will work with government departments, private sector infrastructure investors, contractors and operators, and with the independent regulators where appropriate, to ensure the UK develops and delivers the national infrastructure businesses and citizens need. Paul Skinner, former Chair of Rio Tinto, and previously a Group Managing Director of Royal Dutch Shell, has agreed to be the Chair. He has a wealth of experience in the development of major capital projects and we are looking to him and his team to assess the scale of the challenge and to think creatively about how best to stimulate increased private sector investment in infrastructure. In particular, focusing on the incentives required to unlock new sources of private capital and developing new funding models building on the success of PFI/PPP (Private Finance Initiatives and Public–Private Partnership). IUK will manage the Government's investment in the 2020 European Fund for Energy, Climate Change and Infrastructure, and consider how technological innovation can be supported by our future infrastructure. In particular it will support HM Treasury and the Department of Energy and Climate Change in their work on the energy market framework (including exploring, amongst other options, the case for a low carbon investment institution); the Department for Transport on proposals for a new high speed line to the West Midlands and beyond; and the Department for Business,

Innovation and Skills in delivering the Universal Service Commitment in broadband by 2012 and providing further support to achieve private sector roll-out of next generation broadband.

The planning regime is a key enabler of investment and growth. Planning is a decision-making framework to secure the right investment and development in the right place. Recent progress in adapting the planning system to facilitate investment in infrastructure and other development to support the economy includes:

- The establishment of an Infrastructure Planning Commission that will determine planning decisions on major projects.** The Infrastructure Planning Commission (IPC) was established in the Planning Act 2008 and will shortly receive applications on major infrastructure projects.<sup>52</sup> In November 2009, we published for consultation draft National Policy Statements that provide the framework for IPC decisions covering energy and ports<sup>53</sup> these will be the cornerstone of the new planning system. For example, the energy National Policy Statements provide much greater clarity on how IPC decisions should apply our policy for moving the UK energy sector to low carbon infrastructure, including listing sites that have been assessed to be potentially suitable for the deployment of new nuclear power stations.

52 More information on the Infrastructure Planning Commission can be found at <http://infrastructure.independent.gov.uk/>

53 DFT (2009), *Consultation on the draft ports national policy statement* <http://www.dft.gov.uk/consultations/open/portsnps/> DECC (2009), *Consultation on the draft National Policy Statements for Energy Infrastructure* <https://www.energyinpsconsultation.decc.gov.uk/>

- **New reforms to improve the planning system and development process.**

We will continue to simplify the planning system, both for major infrastructure and smaller scale projects, following the Killian Pretty Review<sup>54</sup>. To support large planning applications, the role of Advisory Team for Large Applications (ATLAS) is being expanded to advise local authorities on large commercial applications. We will continue to encourage the development and implementation of Local Development Frameworks, which are important in providing certainty for business to make long term investment decisions, and provide the framework for coordinating infrastructure provision at the local level. The Local Democracy, Economic Development and Construction Act 2009 will also help streamline this process at the regional level, with the Regional Development Agencies working together with regional local authority Leaders' Boards to set strategy and priorities. The Act also requires county and unitary local authorities to produce a local economic assessment, ensuring that local areas have a strong understanding of their economy.

- **A new review of the wider consents regime beyond planning permission.**

This review, led by Adrian Penfold, Head of Planning and Environment at British Land, will identify and address any blockages and delays that businesses experience when they seek to invest. On 15 December 2009 we issued a Call for Evidence. We are also talking extensively with interested parties to establish the main issues and to report in spring 2010.



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<sup>54</sup> Killian, J. and Pretty, D., (2008), *Planning Applications – A Faster and More Responsive System*  
<http://www.communities.gov.uk/planningandbuilding/planning/planningpolicyimplementation/reformplanningsystem/killianprettyreview/>

## Building the offshore wind industry in the UK

Active policies over the last seven years have taken the UK from having no offshore wind industry – to leading the world with eight operating offshore wind farms totalling nearly 700 megawatts. Rhyl Flats is the latest offshore wind farm to be built.

Following detail preparations and planning, offshore construction began in July 2007, followed by cabling, the onshore electrical substation and grid connection. The first export of power from Rhyl Flats occurred on 15 July 2009 and the project was formally opened on 2 December 2009. Once fully operational, the Rhyl Flats Offshore Wind Farm will produce enough clean, green electricity every year to meet the average needs of 61,000 homes.

Our Renewables Obligation means that electricity suppliers must source a growing share of their electricity from renewable sources. As a result we have succeeded in getting offshore wind farms built around the UK.

Our active industrial policy is seeking to develop further the UK-based offshore wind supply chain. Our Low Carbon Industrial Strategy will deliver up to £170 million to support development of the industry in the UK, including funding for new offshore wind manufacturing facilities in the UK; investment in the development of next generation and near-market offshore wind technologies through large scale demonstration; and examining how to improve the UK's capability in integrated offshore wind testing.

We are also taking action to support the design and manufacture of larger blades for higher power offshore wind turbines. In September 2009 we announced £4.4 million of support for Clipper Wind to develop their prototype 71.5m blade for the Britannia project – the largest wind turbines in the world. In addition, the UK Composites Strategy, published in November 2009, announced a new National Composites Centre, one of the aims of which is to develop advanced materials for wind turbines.

# Open and competitive markets

Open and competitive markets matter for growth because they provide the incentives for firms and individuals to invest, innovate and improve and because they lead to more efficient allocations of resources. This drives productivity and pushes down prices for consumers and businesses. Maintaining this basic dynamic in the economy through open and competitive markets at home and openness to trade internationally is the foundation of the UK's economic policy.

Ensuring that effective competition in open markets is able to drive innovation and growth requires an active Government policy that:

- Creates a framework in which markets can operate efficiently, encouraging competition, enabling new businesses, products and services to enter the market, preventing anti-competitive behaviour, and protecting and empowering consumers.
- Enables international competition, encouraging and supporting UK and international firms to compete in the UK and internationally.
- Guards against regulatory requirements on firms and individuals that act as an unnecessary barrier to effective competition or investment.

The 2009 Pre-Budget Report reiterated the Government's commitment to maintaining the

UK's strong and effective competition regime, ensuring that it continues to rank among the best in the world.

## Making markets work

By shaping the frameworks in which businesses operate, with the right balance of openness, intervention and regulation, the Government can and should improve the conditions for growth, and confidence for investors, and help to deliver better outcomes for businesses, employees and consumers.

The UK has a world-class competition regime, tackling abuse of market power and cartel activity, and investigating mergers to ensure that consumers are not disadvantaged by reduced competition. The Office of Fair Trading (OFT) helps ensure that practices that adversely affect competition are removed, thereby enabling access for new competitors. A key element in this framework is ensuring that consumers are informed and demanding – which encourages firms to innovate to improve their products and services and reduce prices.

Recent progress in strengthening the UK's market frameworks includes:

- **Actions to reform financial markets to make them stronger and more stable.**  
We need a stable and strong UK financial services sector that supports UK growth and

prosperity. This Government has taken the lead in the G20 and played a key role in the creation of new European arrangements to improve the stability of financial markets. The Financial Services Bill introduced in November 2009, among other measures, creates a formal Council for Financial Stability in the UK and sets out clear and robust arrangements to ensure that remuneration in the financial services industry does not reward excessive risk taking. The 2009 Pre-Budget Report also announced new arrangements, from 31 December 2009, for oversight of the key systems that banks use to pay each other and sets out a programme of work to ensure the UK has robust, liquid and transparent markets in asset-based securities.

- **Further improvements in our world class corporate governance framework.** Following the modernisation of the company law framework, in 2009 the Financial Reporting Council published proposed changes to its Corporate Governance Code<sup>55</sup> and agreed to take responsibility for a new stewardship code for institutional investors. The Government will actively promote the London principles of long term engagement between major investors and companies to encourage sustainable growth and more efficient markets.
- **Action to strengthen competition in the banking sector.** Intervention in the UK banking system was required to stabilise this important sector during a period of economic crisis. The long-term health of the sector now requires greater diversity and

competition. In November 2009, after an assessment by EU competition authorities, we agreed restructuring plans for RBS, Lloyds and Northern Rock in which parts of the banks will be broken up and assets sold to small or new players in the market. Together these divestments will represent nearly 10 per cent of the UK retail banking market. At the same time, the Government is consulting on a major expansion of banking services at the Post Office, with proposals for a wide range of new products – such as a Post Office current account, a children’s account, a weekly budgeting account, and small business accounts.

- **A new Consumer Advocate to champion consumer rights.** The *A Better Deal for Consumers White Paper*<sup>56</sup>, published in July 2009, set out our proposals for making markets work better for consumers. The new Consumer Advocate will be a high profile champion for consumers, coordinating consumer education and helping consumers who have suffered from unscrupulous practice. The Credit and Store Cards Review will strengthen financial regulation and help restore consumer confidence in credit cards. The 2009 Pre-Budget Report also announced £20 million to fund the national rollout of the Money Guidance service in 2010–11 which will help one million people to manage their money better and £5 million to fund extended opening hours at Citizens Advice Bureaux in 2010–11 to help an additional 300,000 people.

55 Financial Reporting Council (2009), *2009 Review of the Combined Code*  
<http://www.frc.org.uk/corporate/reviewCombined.cfm>

56 HM Government (2009), *A Better Deal for Consumers: Delivering Real Help Now and Change for the Future*  
<http://www.berr.gov.uk/whatwedo/consumers/consumer-white-paper/index.html>

## Supporting global trade

Overseas business is vital to the UK economy: exports of goods and services are the equivalent of around 29 per cent of GDP (2008)<sup>57</sup>.

Competitively priced imports are also important to the standard of living of UK consumers and the productivity and competitiveness of UK firms (around 60 per cent of imports from outside the EU are used by UK businesses to create new products and services<sup>58</sup>). Our openness to foreign direct investment also acts as an important driver of competition. Multinational enterprises in the UK tend to have higher labour productivity<sup>59</sup> and account for 40 per cent of R&D expenditure in UK businesses<sup>60</sup>. This investment also facilitates the transfer of technology, skills and managerial know-how.

Although world trade volumes reduced by almost 20 per cent as a result of the global downturn, they started to recover in the second half of 2009<sup>61</sup>. As the global economy recovers, we must be outward looking in our focus to ensure both businesses and consumers gain from trade and investment. Open global markets are critical to the competitiveness of British firms and, the risk of protectionism during and after the downturn, a genuine threat to British prosperity.

Recent action to resist protectionism and further open global markets includes:

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57 Office for National Statistics (2009) *United Kingdom National Accounts: The Blue Book, 2009 Edition*

58 European Commission (January 2009), *EU performance in the Global Economy*  
[http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc\\_141196.pdf](http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141196.pdf)

59 Harris, R. (2009) *The Effect of Foreign Mergers and Acquisitions on UK Productivity and Employment*, report submitted to UKTI October 2009.

60 National Statistics (2008), *MA14 Research and Development in UK Businesses 2006*, National Statistics Information Note 13 February 2008

61 HM Treasury (2009), *Pre-Budget Report: Securing the Recovery: Growth and Opportunity*  
[http://www.hm-treasury.gov.uk/prebud\\_pbr09\\_repindex.htm](http://www.hm-treasury.gov.uk/prebud_pbr09_repindex.htm)

- **Measures to make it easier to trade into and out of the UK market.** On 2 December 2009, the Government published “Simplifying Trade Across UK Borders – A Plan of Action”, a package of 19 substantive measures to reduce burdens on international traders<sup>62</sup>. These included an enhanced role for the UK Border Agency in facilitating co-ordination between border regulators, and plans to give new impetus to the International Trade Single Window project, which would create a single electronic platform that covered all trade regulatory clearances, and could deliver estimated annual savings to business of between £100 million – £200 million once completed. The package, together with the support available from UKTI’s network of international trade advisers, makes trade a more attractive option for UK companies new to international markets.

- **The establishment of a new monitoring body to track global market openness.** The UK has co-funded Global Trade Alert (GTA) to track market openness around the world. It has been an active participant in the G8, G20 and World Trade Organisation’s protectionism monitoring work, raising international awareness of the dangers of protectionism during the downturn.

- **Consistent advocacy of a new world trade deal in 2010.** The UK will continue to work for the completion of the Doha Round of world trade talks in 2010. A successful deal would deliver around \$170 billion in global growth annually through the opening of new

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62 BIS and HMRC (2009), *Simplifying Trade Across UK Borders – A Plan of Action*  
<http://www.businesslink.gov.uk/simplifyingtrade>

markets around the world<sup>63</sup>. New market access in developed and emerging economies in sectors, such as business services, will present significant opportunities for British firms.

- **Advocacy of further EU Free Trade Agreements with strategic markets.** The EU-Korea Free Trade Agreement, due to be concluded in 2010, is expected to yield £1.6 billion in duty savings to the EU<sup>64</sup>, and benefits worth around £0.5 billion annually to the UK economy. The EU must now match this ambition by prioritising similar agreements with other strategically important markets such as India, Canada and ASEAN nations, and include key sectors of growth, such as telecoms, environmental goods and services and financial and professional services. We are also working bilaterally and through the EU to resolve specific trade barrier problems, including banking, insurance and intellectual property issues in China and retail and telecoms issues in India.
- **A new focus on regulatory cooperation.** With the US we are seeking regulatory cooperation in traditional sectors and new industries such as nanotechnology. If the EU and US were to move together to “best practice” regulation, EU GDP per capita could be boosted by between 2 per cent and 3.5 per

cent annually<sup>65</sup>. Our work with Japan covers similar ground, and is currently addressing, for example, regulatory barriers to pharmaceutical exports, where UK exports were worth over £500 million in 2008<sup>66</sup>.

### Enhancing EU Competitiveness

The UK is also a strong defender of an open European market, which is a key source of competitiveness in both the British and global economies, as well as providing a vital market and source of economic growth for many developing countries. We have consistently supported the development and reform of the EU competition regime to ensure the benefits of the EU single market are not reduced by companies seeking to reduce competition across national boundaries. Around three million jobs in the UK are linked to trade with Europe’s Single Market. Therefore, the EU has a vital role to play in strengthening our long-term growth potential and creating employment for our workforce. This is why, prior to the October EU Council, the Prime Minister proposed a new EU Compact for Jobs and Growth to deliver strong, sustainable and balanced growth. In early 2010, the UK will publish a detailed vision for this Compact to build support within EU Member States, institutions and businesses for an ambitious set of economic reforms that boost jobs and innovation.

Action we are taking in partnership with other EU Member States to preserve and improve the openness of the EU single market includes:

63 Decreux, Y. and Fontagne, L. (2006), *A Quantitative Assessment of the Outcome of the Doha Development Agenda*, CEPII working Paper, 2006-10  
<http://www.cepii.fr/anglaisgraph/workpap/summaries/2006/wp06-10.htm>

64 European Commission Press Release (15 October 2009)  
<http://trade.ec.europa.eu/doclib/press/index.cfm?id=449&serie=274&langId=en>

65 OECD (2005), *The Benefits of Liberalising Product Markets and Reducing Barriers to International Trade and Investment: The Case of The United States and the European Union*, Economics Department Working Paper 432, Paris, June 2005.  
[http://lysander.sourceoecd.org/vl=831215/cl=42/nw=1/rpsv/workingpapers/18151973/wp\\_5lgpfmhmns3.htm](http://lysander.sourceoecd.org/vl=831215/cl=42/nw=1/rpsv/workingpapers/18151973/wp_5lgpfmhmns3.htm)

66 Eurostat (2009), Comext, Trade data  
[http://epp.eurostat.ec.europa.eu/portal/page/portal/external\\_trade/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/external_trade/data/database)

- **Pressing for the rapid deepening of the European Single Market, especially in services.** We are pressing for rapid implementation of the EU Services Directive, which entered into force at the end of 2009 and is projected to contribute £4–6 billion annually to the UK economy and create 80,000 new jobs<sup>67</sup>. The benefits of greater openness and competition in the EU market for services are already being felt in the UK with barriers removed to advertising in markets such as professional services. The UK is working to ensure that the evaluation in 2010 of Member States' implementation of the Directive results in the removal of any remaining barriers. Following successful implementation of this Directive, we will work to secure further liberalisation, particularly in the energy and telecoms fields.
- **Defending the role of EU state aid and competition rules, even through the downturn.** The Temporary Framework which allowed for the relaxation of EU state aid rules to give governments greater flexibility in addressing the impact of the banking crisis cannot be a long term solution. The UK has therefore strongly supported the European Commission's intention to end the emergency relaxations by December 2010. The UK has argued however, that the risk capital guidelines need to be amended to allow new tools for ensuring that innovative European firms have access to sufficient growth and risk capital.

## Getting regulation right

Whilst regulation both enables markets to operate effectively and can provide important protection, it can act as an unnecessary barrier to business growth. Any regulatory intervention should always be proportionate, targeted, transparent, accountable and consistent. Recent progress in ensuring that the UK's regulatory environment support business growth includes:

- **The publication of a Forward Programme, giving greater transparency and certainty on future regulation affecting business.** In October 2009, we published a Forward Programme, detailing all the planned regulations that will affect business over the next 18 month period<sup>68</sup>. This will provide greater transparency, help with planning and decision-making, and ensure that we take even greater account of the cumulative burden of measures. We also announced the appointment of Michael Gibbons as Chair of the new independent Regulatory Policy Committee. The Committee's role is advisory, providing strong and effective scrutiny by commenting on the quality of analysis supporting policy decisions on new regulations,



<sup>67</sup> BIS (2009), *Impact Assessment of the Service Directive*  
<http://www.berr.gov.uk/files/file53109.pdf>

<sup>68</sup> HM Government (2009), *The Government's Forward Regulatory Programme*  
<http://www.bis.gov.uk/frp>



including whether the Government has been effective in minimising the costs of measures and maximising the benefits.

- **New partnerships for regulation at the local level.** In April 2009, the Primary Authority Scheme was introduced. Operated by the Local Better Regulation Office (LBRO), the scheme enables businesses that trade across council boundaries to form a statutory partnership with a single local authority. It means that businesses need to speak only to one authority to get reliable advice, and when another local authority wants to take enforcement action against a business in the scheme, the Primary Authority must be consulted, and can block the action. To date, there are around 79 Primary Authority partnerships between businesses and local authorities covering over 14,500 premises nationwide.

Having strong market frameworks, enabling international trade and investment, and reducing regulatory burdens are all important and necessary for the UK to succeed in the global economy of the twenty-first century. However, these actions alone are not sufficient to maximise the benefits of competition and openness. We also have to consider the overall environment in which businesses operate. We are therefore announcing a new commitment to become the top-ranked business environment in the G20. In September 2009 the UK moved up from sixth to fifth place in the World Bank global “Ease of Doing Business” rankings, placing us first in the EU<sup>69</sup>. We are now aiming to further improve our position and make the UK the top-ranked business environment in the G20, and therefore one of the most attractive places in the

world to invest. The measures we will take to achieve this include:

- **Developing a single online process for incorporating and registering a company, aiming for delivery in April 2011.** This new process will build on earlier work to make it simpler to register and communicate with the Government.
- **Accelerating planning and consents processes through implementation of most recommendations from the Killian Pretty Review by October 2010,** including removing some types of small developments from the planning system; streamlining planning information requirements and improving certainty for businesses who choose to use pre-application opportunities; reducing the time allowed for consultation with the fire safety department; and the independent Penfold Review of the non-planning consents process. A review of the national performance indicator for handling planning applications by 2011 will incorporate ambition on this World Bank domain within a framework that brings together speed with certainty and satisfaction.
- **Reducing the time and cost to business of resolving commercial disputes by making more effective use of court capacity.** We will evaluate the scope for circuit judges to pass down lower value casework and allow district judges to deal with higher value cases.
- **Developing digital facilities at the Land Registry to make it quicker and easier for businesses to register commercial property.** This includes the aim to enable businesses to submit and receive registration details electronically.

69 World Bank (2009): *Doing Business 2010*  
[http://www.doingbusiness.org/Documents/DB10\\_Overview.pdf](http://www.doingbusiness.org/Documents/DB10_Overview.pdf)

## **The Future of EU Competitiveness: From economic recovery to sustainable growth**

When combined with effective market frameworks and strategic investment in our basic economic capabilities, open global markets will drive jobs and growth through increasing trade and stimulating competition, innovation, and investment. We must demonstrate our commitment to openness by prioritising the removal of the remaining barriers in the European Single Market. The Single Market stands as one of Europe's greatest achievements – worth over £12 trillion – but more needs to be done to enable Europe's businesses to take full advantage of the world's largest marketplace.

In June 2009 Lord Mandelson launched a new European strategy 'The Future of EU Competitiveness', setting out the Government's priorities for EU economic reform for the next five years. The strategy called for an integrated approach to Europe's policies on the single market and industrial growth in order to strengthen Europe's competitiveness in a global market. It advocated an EU approach built around support for open, competitive markets to facilitate recovery and growth; investment in the building blocks of European competitiveness such as skills, innovation, finance and infrastructure; and suggested that Europe should focus its attention on strategic areas of future growth to support the transition to a low-carbon, digital economy.

The strategy was well received across Europe and there has been progress in a number of areas since June 2009, including: agreement on a new telecoms framework package to further liberalise the market; a European Skills Review to help inform where funds should be directed to meet future skills needs, and the first stage of an agreement on the Community patent to boost innovation. The proposals in the 'Future of EU Competitiveness' were also strongly reflected in President Barroso's own vision for economic reform – the EU 2020 Strategy – which will drive the agenda of the new European Commission when it starts work in 2010.

# Industrial strengths

The UK's economic recovery will be driven by firms and individuals across the whole economy, competing in a diverse range of sectors and markets. This diversity, and the economy's ability to adapt to change, is the foundation of our strength.

Although it is not possible to predict exactly the future shape of the the economy, we can identify the global trends and challenges that are driving increasing demand, and look at the comparative advantage we have or can develop to meet these opportunities. We can also assess how government action might realistically support these strengths, looking at the real and beneficial impact of targeted intervention.

Targeted action to make the most of our competitive advantage requires an active Government policy that:

- Supports the UK's basic capabilities in particular sectors, markets and technologies where it has proven strengths, and where Government action could make a real difference in unlocking competitive potential. Areas identified in *New Industry, New Jobs* where there is both opportunity and impact include advanced manufacturing, life sciences, low carbon, digital and creative industries, construction and business services.

- Sells our strengths abroad, providing support to UK firms competing in overseas markets, and attracting inward investments that bring about further growth.

The £750 million Strategic Investment Fund (SIF) established in April 2009 to support *New Industry, New Jobs* underpins our approach. It is administered on the basis of the following core principles.

First, the Government should not substitute itself for the market. Investments do not support projects that are unsustainable in the long term in an open competitive market, but are targeted at specific market failures that are preventing otherwise viable developments. They are based on the opportunities that exist in particular areas, where Government co-investment can make a tangible difference.

Second, the SIF targets a diverse portfolio of investments across a range of sectors, but also geographically, to ensure widespread benefits across the economy.

Third, investments target measures that are non-sector and non-product specific as well as sector specific. For example, the Technology Strategy Board is using additional funding from SIF to invest in pre-commercial technologies across a wide range of sectors, and UKTI is using it to help companies trade overseas and attract valuable inward investment. SIF is supporting

the UK Innovation Investment Fund, which will provide venture capital for a diverse range of high-tech firms. The SIF has also provided support for a number of national centres for demonstration and research for pre-commercial technologies. An interim report on the SIF investments was published in October 2009<sup>70</sup>.

In the PBR 2009, we announced an additional £200 million for the Strategic Investment Fund, including a major boost to further low carbon markets and technology support.

### Advanced manufacturing

Manufacturing is a cornerstone of our industrial base. Although the UK manufacturing sector was hit hard by recent economic conditions, the Government acted decisively to help maintain our manufacturing capability in the UK. For example, we recently allocated an extra £100 million to our successful car scrappage scheme. This is helping the whole UK automotive industry, which has now seen the fifth month of growth for new car registrations.

In July 2009, we announced a £150 million package of targeted investment to help the UK's **advanced manufacturing** base further develop its strengths<sup>71</sup>. The SIF is providing support for a number of projects within this, including investment of £45 million to support research and technology critical to the development of low carbon aircraft engine technology, to be led by Rolls-Royce and delivered through the Technology Strategy Board's collaborative R&D programme.

70 BIS (2009), *UK Strategic Investment Fund – Interim Report* <http://www.bis.gov.uk/sif-interim-report>

71 More information on the packages of measures announced to support Advanced Manufacturing can be found at <http://interactive.bis.gov.uk/advancedmanufacturing/>

In the aerospace sector we have invested over £500 million in next generation aircraft design and manufacture that will create and sustain more than 2,500 jobs within Airbus, GKN and Bombardier as well over 5,000 jobs within the supply chain across the UK.

We are now broadening our focus by investing in underpinning technologies that support a number of different sectors including:

- **Industrial biotechnology** which could well be as transformational for the twenty-first century economy as oil was in the twentieth century<sup>72</sup>. The SIF has helped fund demonstrator facilities for industrial biotech research.
- **Advanced composites** – where the UK has a strong competitive edge<sup>73</sup>. The SIF is funding a new national centre for composites in Bristol and a challenge fund for R&D projects.
- **Plastic electronics**, which is forecast to rise to \$120 billion globally by 2020<sup>74</sup> and where we have recently published our strategy for building on our nascent capability in the UK<sup>75</sup>.
- The **Space** Innovation and Growth Team will report in early 2010 on specific measures to be taken by industry and Government to realise the growth potential of a sector where the UK has a strong presence in manufacturing, satellite operators, applications, and world-

72 Information on the BIS Industrial Biotechnology Innovation and Growth Team can be found at <http://www.berr.gov.uk/whatwedo/sectors/chemicals/IBIGT/page44395.html>

73 Information on the BIS £22 million Composites Strategy can be found at <http://interactive.bis.gov.uk/advancedmanufacturing/composite-strategy-documents/>

74 BIS (2009), *Plastic Electronics: A UK Strategy for Success*, p.7 <http://www.berr.gov.uk/files/file53890.pdf>  
Forecast from FlexTech: [www.flextech.org](http://www.flextech.org)

75 BIS (2009), *Plastic Electronics: A UK Strategy for Success* <http://www.berr.gov.uk/files/file53890.pdf>

leading science. We are also setting up a UK Space Agency to coordinate better UK space activities and investments to accelerate jobs and growth in this sector.

## Life sciences

UK Life Sciences (pharmaceuticals, medical technology and biotechnology) is a world-leading, high-tech industry estimated to employ over 120,000 people and represents one of the UK's greatest strengths in research and development. It provides opportunities for highly-skilled employment and, through the development of innovative medicines and technologies, contributes to the delivery of high-quality healthcare. In particular the NHS, as the largest customer of the life sciences industry, plays a critical role as an innovation champion. It has established the NHS Life Sciences Innovation Delivery Board to lead the way in accelerating the adoption and uptake of clinical and cost-effective innovative medicines and technologies. We have also launched a consultation on the Innovation Pass, a world-leading step to give patients earlier access to innovative medicines<sup>76</sup>. We are taking further steps to take forward our Blueprint for UK Life Sciences<sup>77</sup>, including:

- **A new UK Life Sciences Super Cluster to bring industry together with the UK's leading researchers and clinicians to drive innovation in early stage drug and medical technology development.** The Super Cluster will act as a catalyst to attract business investment, create employment opportunities and deliver improved benefits for patients.

- **Investment in development facilities for new life sciences companies.** Backed by joint investment from the Strategic Investment Fund, the Technology Strategy Board, the East of England Development Agency, the Wellcome Trust and GlaxoSmithKline, a cutting edge innovation campus in Stevenage will provide access to specialist equipment, services and knowledge sharing on drug development for innovative new life sciences companies. In addition, we are providing new funding from the SIF for the Edinburgh BioQuarter – a partnership project involving Scottish Enterprise, the University of Edinburgh, the NHS and Alexandria Real Estate Equities Inc that will support the growth of new and emerging life sciences companies.

## Low carbon energy

Our *Low Carbon Industrial Strategy*<sup>78</sup>, published in July 2009, set out opportunities for growth in the UK, arising from the global shift towards low carbon goods and services. In five years' time the low carbon and environmental goods and services sector in the UK could be worth as much as £150 billion<sup>79</sup>. £250 million was set aside from the initial Strategic Investment Fund to be combined with an additional £155 million from the Department of Energy and Climate Change to support the development of key low carbon industries, including the nuclear supply chain. Policies announced in the 2009 Pre-Budget Report, together with measures brought forward since September 2008, will drive over £15 billion worth of investment in low carbon

76 DH (2009), *A Consultation on proposals for the Innovation Pass pilot* [http://www.dh.gov.uk/en/Consultations/Liveconsultations/DH\\_109236](http://www.dh.gov.uk/en/Consultations/Liveconsultations/DH_109236)

77 HM Government (2009), *Blueprint for Life Sciences* <http://www.bis.gov.uk/ols>

78 HM Government (2009), *UK Low Carbon Industrial Strategy* <http://interactive.bis.gov.uk/lowcarbon/2009/07/low-carbon-industrial-strategy/>

79 Innovas (2009), *Low Carbon and Environmental Goods and Services: an industry analysis* <http://www.berr.gov.uk/files/file50254.pdf>

over the next three years. Recent progress in this area includes:

- **Commitments to invest in platforms for the UK renewable energy industry**, including wind and wave technology demonstrators such as the Wave Hub facility in the South West of England, which has been designated a Low Carbon Economic Area for wave and tidal power. We are also providing £11.5 million to the New and Renewables Energy Centre in the North East to develop a unique UK capability for the testing of wind turbine blades, in addition to £10 million to deliver early stage test infrastructure for marine drive systems and other components.
- **Driving investment in Carbon Capture and Storage.** The Government is doubling its previous commitment to support four demonstration projects in total, supporting some £14 billion of investment in the technology over the life of the demonstration programme.
- **A new Nuclear Low Carbon Economic Area** that will build on the strong existing nuclear expertise in the North West, and manufacturing and supply chain activity for the nuclear industry spread across Yorkshire. It will work with supply chain companies reaching out across the Midlands, London and rest of the UK. As part of this, the North West Development Agency will lead the Nuclear Manufacturing Advisory Service which will help companies who see business opportunities in nuclear sector but face regulatory and information barriers. The creation of a Nuclear Advanced Manufacturing Research Centre (NAMRC), led by Sheffield University, working with Manchester University

and backed by the SIF, will provide businesses operating in the nuclear sector with cutting-edge knowledge.<sup>80</sup>

### Low carbon vehicles

We are reinforcing the UK's leading position in the development of low carbon vehicles. The Government is providing more than £400 million of funding to support the research, development, demonstration and early adoption of low and ultra low carbon vehicles. This includes £230 million in consumer subsidies for low carbon cars from 2011 onwards, support for the demonstration of around 500 ultra low carbon cars and vans across the UK over the next 18 months and the recently announced Green Bus fund which is subsidising the purchase of over 300 hybrid and low carbon buses. Recent progress in boosting the UK's status as a world centre for low carbon vehicle design and manufacture includes:

- **The creation of the Office of Low Emission Vehicles (OLEV)** which cuts across departmental boundaries to provide a clear focus for delivery of our strategy for ultra low carbon vehicles. In November, it launched *Plugged in Places*, a £30 million project supporting lead cities and regions in the UK to develop an electric vehicle charging infrastructure.
- **The creation of a Low Carbon Economic Area specialising in ultra-low carbon vehicles** in the North East of England. As part of this, Nissan has announced that it will invest more than £200 million over five years in a lithium-ion battery plant in Sunderland.

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<sup>80</sup> More information can be found in the 3rd December 2009 press release at <http://nds.coi.gov.uk/clientmicrosite/content/Detail.aspx?ReleaseID=409236&NewsAreaID=2&ClientID=431>

- **A new initiative to improve the strategic view of the automotive sector in the UK.**

The recently established Automotive Council has dedicated technology and supply chain working groups and will ensure action in support of the UK automotive technology roadmap, so the UK is in the best position to become a world centre for the testing, development and manufacture of low carbon vehicles.

### Low carbon construction

Construction, despite being hard hit by the downturn, remains an important source of employment in the UK. A strong, skilled and innovative sector is vital to deliver the built environment and physical infrastructure on which the nation's future prosperity and well-being will depend. Ten years after Sir John Egan's Task Force, the time is ripe for a fundamental look at the sector against the low carbon agenda. Paul Morrell, the recently appointed Chief Construction Adviser, is leading an Innovation and Growth Team that will develop an action plan to ensure the industry is well placed to benefit from the new opportunities that the twenty-first century will offer, while also addressing the low carbon agenda.

As announced in the 2009 Pre-Budget Report, the Manchester City-Region Built Environment Low Carbon Economic Area (LCEA) will build on the City-Region's strong track record in regeneration in the built environment, stimulating the wider supply chain and sharing learning and best practice with other regions.

The Government's policies to promote zero carbon new buildings and to retrofit existing buildings also provide opportunities

for the construction industry to develop new products and ways of working. The Department for Business, Innovation and Skills and the Department for Communities and Local Government are setting up a Retrofit Consortium, using large retrofit budgets in both public and private sectors to incentivise industry to develop new energy efficiency and production technologies. We recently announced £50 million for a Boiler Scrappage Scheme to help households upgrade old boilers for more efficient models, helping to support the market for UK boiler manufacturers and installers.

### The creative and digital industries

The UK has significant creative and technical strengths that will allow us to exploit fully the infrastructure being put in place by Digital Britain. The UK has the largest creative sector in the EU<sup>81</sup>. With strong growth over the last decade, the UK's Digital Industries produce an annual Gross Value Added (GVA) of around £86 billion, with the IT industry, for example, delivering a GVA per job which is nearly three times that of the average for the UK<sup>82</sup>. Recent progress in strengthening this sector includes:

- **New specialist facilities to help develop the skills the video games industry needs to build on its global reputation.** To tackle issues of access to finance and skills shortages, we are investing through the SIF in two centres of excellence – in Dundee and Manchester – to provide specialist facilities to help product development. The project aims

81 UKTI (2009), *Creative Industries UK*  
[http://www.uktradeinvest.gov.uk/ukti/fileDownload/UKTI\\_Creative\\_Industries\\_brochure\\_FSC.pdf?cid=437255](http://www.uktradeinvest.gov.uk/ukti/fileDownload/UKTI_Creative_Industries_brochure_FSC.pdf?cid=437255)

82 ONS (2009), *Annual Business Inquiry 2008*  
<http://www.statistics.gov.uk/abi/whatsnew.asp>

to create 30 new companies, and assist 80 others, stimulate 400 new jobs and enhance the skills of a further 300 workers.

- **The creation of a High Performance Computing (HPC) Institute in Wales, which will focus on providing support to key industrial sectors.** The Institute will accelerate the delivery to market of innovations critical to the growth of key, high value sectors, and will share findings with other HPC facilities to help increase capability and capacity across the UK.
- **Enabling the development of new markets and services.** The “Making Public Data Public” project is opening up public sector information and will contribute to economic growth through the creation of new business services, as shown in the US and Canada. The Technology Strategy Board is investing in digital testbeds which will allow companies to test out how they monetise new services and how they ensure privacy and security.

### Business and professional services

We are strengthening our engagement with business and professional services. This sector, broadly defined, contributes about 20 per cent of GVA<sup>83</sup> and employs 18 per cent of the workforce<sup>84</sup>. It also has a key role to play in supporting and enhancing productivity in other sectors. We have established a Services Policy Unit as a main point of contact for the sector and are working with industry to produce a strategy ensuring the sector is well-placed to

respond to future challenges, with initial findings by the end of March 2010.

### Selling our strengths abroad

Our industrial strength relies on both strong export markets and a steady flow of productive inward investment. UKTI is leading national marketing strategies to bring UK business strengths to world audiences in areas such as advanced engineering, life sciences, low carbon solutions, financial and professional services, energy, the creative industries and ICT. Recent progress in doing this includes:

- **High profile events to promote UK advanced manufacturing and creative industries.** This included support for 100 UK companies to exhibit at the centenary Paris Air Show and a major showcase in Sao Paulo focusing on aerospace and motorsport involving both Brawn GP and Williams F1. The UKTI’s “Love and Money” campaign is providing a powerful and highly effective visual showcase of UK creative strengths. UKTI has also provided additional support in 2009 for companies wanting to attend international trade shows for the first time.
- **New work on export promotion for homeland security.** This is a large market in which the UK is a world leader. The global market is valued at some \$180 billion and estimated to grow to \$300 billion in the next 10 years<sup>85</sup>. UKTI is expanding the export expertise and services that it offers to

83 ONS (2009), *United Kingdom National Accounts: The Blue Book 2009*

<http://www.statistics.gov.uk/statbase/Product.asp?vink=11434More=N>

84 ONS (2009), *Labour Force Survey 2009*

85 Homeland Security Research Cooperation (2008), *Global Homeland Security, Homeland Defense and Intelligence Markets Outlook 2009-2018*  
<http://www.homelandsecurityresearch.com/2009/03/global-homeland-security-homeland-defense-intelligence-markets-outlook-2009-2018/>



companies and is working with the Home Office on a major event in March 2010 to showcase UK strengths.

The Government will help UK companies take advantage of international opportunities. Recent progress includes:

- **A major British International Investment Conference in London.** Hosted by the Prime Minister early in 2010, this will allow British and foreign investors to come and see the great opportunities that the UK can offer.
- **A cross-government effort, led by UKTI, to maintain the UK's position as the leading recipient of global investment,** including securing the largest share of investment from China and India, of any EU country by 2015
- **The creation of a new Advisory Panel to help secure globally mobile business investment in the UK.** This Panel will help the Government take a systematic and strategic approach to relationship management with the leading companies investing in the UK.



### Stevenage Bioscience Park

The Strategic Investment Fund is supporting the UK life sciences sector through an investment with the private sector and other public agencies in a cutting edge bioscience park. Co-located in Stevenage at a major pharmaceutical R&D site, the site will benefit from their know how and equipment, and be of national significance. The park will become home to about 25 small, start up medical biotechnology companies. This particular area of the life sciences is a particular strength for the UK, where we are second only to the US in terms of its drug development pipeline. The park will allow the UK to develop further by building both capacity and capabilities of tenant companies through its focus on drug discovery and development. It will also allow informal interactions and provide access to specialist equipment and services and knowledge sharing on drug development.

The park will impact productivity for both the pharmaceutical sector (UK's leading manufactured exports sector – trade surplus of £6 billion in 2008, and highest R&D spend – £4.5 billion spend in the UK in 2008) and the Med Bio sector where the UK leads Europe in terms of drugs in final stage development.

# Government and the Market

In *New Industry, New Jobs* we set out the importance of recognising how Government influences market outcomes. In earlier sections, we set out how a strategic approach from the Government, operating alongside market forces under open competition is necessary to produce the right outcomes for UK workers and businesses.

In addition to such direct interventions, other government activities can also have important indirect impacts on the economy. When it regulates, procures or publishes guidance, Government shapes or participates in markets in ways that can create opportunities for business to exploit. Do these things badly, and it can inadvertently undermine markets and business.

To deliver sustainable growth the Government must understand its wider impact on the economy and make and implement policy in a way that is coherent and reflects this complex relationship between the state and the market. In particular, we need:

- A more joined-up Government approach, with the drive for sustainable growth a strong focus across all Departments.
- An awareness among policy makers of the potential impacts of their actions on the market and a commitment to working with business to understand how economic benefits can be maximised.

- A wider understanding among policymakers of the potential of smart procurement policy to help increase skills and innovation to drive economic growth.

*Putting the Frontline First: Smarter Government*<sup>86</sup> set out how the Government plans to make public services more convenient and better value for money for businesses and citizens, through aligning delivery and joining up services. As we look to deliver more efficient public services and at the same time drive growth, we need a strong understanding of how government and the private sector interact. The potential benefits to the wider economy are considerable: increased certainty for business will facilitate investment; increased understanding of UK capability will help identify business opportunities; and intelligent intervention will help develop comparative advantage. Smarter, more efficient, government and economic prosperity go hand in hand.

## A more strategic approach from government

Since the publication of the *New Industry, New Jobs* strategy we have taken some important steps in joining up national, regional and local levels of government behind a common set of priorities to foster economic growth. Recent progress in these areas includes:

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<sup>86</sup> HM Government (2009), *Putting the Frontline First: Smarter Government*  
<http://www.hmg.gov.uk/frontlinefirst.aspx>

- **Partnerships for Growth: A National Framework for Regional and Local Economic Development<sup>87</sup> set out how national, regional and local government should work together in driving economic growth.** It clarifies Government priorities, and sets out plans for regional and local levels to take a much more coordinated approach to supporting innovation, skills and enterprise, and attracting investment.
- **New coordinated work across government departments to secure major inward or domestic investment.** We have created a new Ministerial Group on Investment Projects to ensure that we can clear away unnecessary bureaucratic blockages to major projects. The Group brings together all relevant government departments with an interest in a particular investment whether from a domestic firm or an overseas company. This more co-ordinated approach was core to our success in securing the investment, announced on 5 January 2010, from Dubai Ports World to drive forward development of the new London Gateway port, one of the UK's largest infrastructure projects. This commercially-funded £1.5 billion investment will generate 12,000 direct jobs and an additional 36,000 jobs after its completion through onward supply chain investment.
- **New agreements with City-Region pilots in Manchester and Leeds, to test how to better drive growth in major urban areas, and in turn, generate new jobs.**

In *New Industry, New Jobs* we described how Departments need to work better with each other and with business to understand how the actions of government can deliver economic benefits for the UK and UK-based firms. Recent progress in building our understanding of how companies respond to government action include:

- **New work with industry to understand the potential business opportunities in the rail supply chain associated with new investment programmes.** The Government has already committed to investing £15 billion over the next six years in developing the rail network, including a new programme of rail electrification and proposals for new high speed rail infrastructure. As the network modernises, the Department for Transport will continue to look for the potential business opportunities and barriers in the rail supply chain.
- **A pilot study to identify new business opportunities that can transform the waste and materials markets to deliver both economic and environmental benefits.** The waste management sector is likely to increase dramatically as the UK focuses on greater resource efficiency.
- **A study of the house building industry to identify the drivers of housing growth and the steps Government or industry could take to improve diversity and innovation in the sector.** The study will look to identify business opportunities in housing construction and develop an appropriate policy response to help promote a strong and diverse house building sector.

87 HM Government (2009), *Partnerships for Growth: A National Framework for Regional and Local Economic Development*  
<http://www.berr.gov.uk/files/file53941.pdf>

- **New work by BIS to look at the potential business opportunities in the broadband supply chain and the UK's capability to support the development and exploitation of Next Generation Networks.**

We set out more detail on these in our interim report on government policy-making to deliver business opportunities and growth<sup>88</sup>. More generally, key government departments are considering what further they need to do to ensure that new policy is assessed against the impact that it will have on growth.

### Smarter procurement

Public procurement is currently valued at £220 billion a year, with £80 billion of that spent on the outsourcing of activities<sup>89</sup>. Our vision in *Putting the Frontline First: Smarter Government*, is for central government's working practices to match the standards of the best, with the improvements in procurement capability and contract development and management called for in the Julius Report<sup>90</sup>, which would allow the growth and innovation potential of the public services industries to be released. We will publish a formal response to the Julius Report around Budget 2010.

Public procurement is an important mechanism for stimulating supplier investment and strengthening the skills base in developing markets. Greater market certainty and reduced risks to suppliers can be achieved through

aggregating public sector customer demand, setting clear expectations of the outcomes to be delivered, and encouraging public procurement bodies to be innovative while delivering value for money for tax payers. Within this overall framework for innovation our priorities for promoting economic growth are:

- Encouraging more SMEs, especially those with innovative new approaches to provision, to bid for government contracts.
- Linking government contracts to places for apprentices, and using procurement to help tackle youth unemployment.
- Using government contracts to drive forward demand for resources efficient, low or zero carbon publicly procured goods and services.

We will set out how we plan to deliver these priorities in the Policy through Procurement Action Plan to be published this month.

We also want to ensure value for money in public procurement through more effective processes, broadening of the supplier base and encouraging innovative solutions. By improving information and simplifying administrative requirements, Government can encourage innovative SMEs to bid against incumbents for contracts. Recent progress in widening the supplier base in this way includes:

- **Work towards the launch in 2010 of a single web portal** that SMEs can use to access information and details about all public sector opportunities, accessible through the Business Link website. This is part of a wide range of programmes to encourage SMEs to

88 HM Government (2009), *Thinking Business in Policy: an interim report*

<http://www.berr.gov.uk/files/file53988.pdf>

89 ONS and HM Treasury (2009), *The Public Expenditure Statistical Analyses (PESA) 2009*

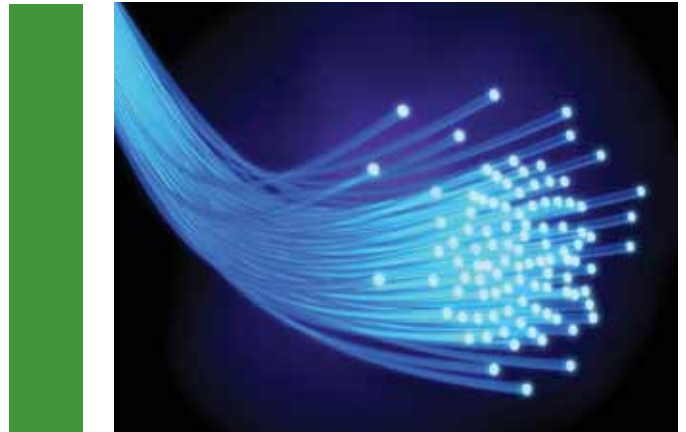
[http://www.hm-treasury.gov.uk/pespub\\_pesa09.htm](http://www.hm-treasury.gov.uk/pespub_pesa09.htm)

90 Julius, D., (2008), *Understanding the Public Services Industry: How big, how good, where next?*

<http://www.berr.gov.uk/files/file46965.pdf>

do more business online, improving efficiency and delivery of services and contributing to our vision for Digital Britain.

- **Making Winning the Contract, an online resource for SMEs, free of charge and providing increased training by the Office of Government Commerce (OGC) for public procurers across the regions.**
- **Producing a simplified new Pre-Qualification Questionnaire** to make life easier for both suppliers and procurers, which is being promoted across the public sector.
- **Introducing a requirement that all departments publish innovation procurement plans**, showing how they will use procurement budgets to drive innovation.



## 2012 Olympic and Paralympic Games

The 2012 Olympic and Paralympic Games is an exemplar of the power of public investment to create economic opportunities. It will offer a massive potential fiscal boost; supporting hundreds of thousands of jobs and businesses across the country. A Lloyds TSB study put the potential boost to the economy at £21 billion. Already £5 billion of work on the Olympic Park has been won by over 1,000 companies throughout the UK. Half of these companies are outside London and 70 per cent of them are SMEs.

There are also unique opportunities to support training and apprenticeships. 120 apprentices are already working on delivery of the Olympic Park and Village, and the ODA is aiming to support 350 apprenticeships in total.

ODA is using the power of public procurement to deliver this aim. It has placed a contractual requirement on new contractors to deliver 3 per cent of their workforce as apprentices. There is more to come with the ODA having a further £1 billion to spend on goods and services and LOCOG spending £735 million on contracts ranging from artists and performance to security, management services, technology, transport and logistics.

We are working with partners to ensure that the skills developed for the Games have a lasting positive effect on individual skills levels so that the workforce is better able to deliver other major sporting, cultural and entertainment events; and businesses are more productive and better able to compete in the global market.

BIS is ensuring that publicly provided business support through Business Link is available to help businesses get fit to compete for these opportunities and already 35,000 of the 95,000 companies registering on CompeteFor have received some support from Business Link.

However, it is not just about the 2012 Games – the expertise that UK companies are acquiring on the 2012 project is allowing them to compete overseas. UK companies won to the tune of £2 billion at the Beijing Games. UKTI is targeting the Sochi 2014 and the Rio 2016 Games to help UK companies win. Sochi is spending a massive \$7 billion on staging its games, with a further \$33 billion on infrastructure in its Black Sea resort and UKTI has signed a Host2Host agreement to ensure UK companies make the most of these opportunities.

# Conclusion

The 2009 Pre-Budget Report set out a clear framework for balancing the UK's public finances over the years ahead, reducing the current budget deficit by half over the next four years. It also set out the importance of locking in the recovery by investing collectively in Britain's strengths and capacity for growth. Returning the UK economy to sustainable growth will be critical to paying down the high levels of public borrowing incurred in preventing the collapse of our banking system and supporting people and businesses through the downturn.

Growth is the result of successful innovation and enterprise, leading to the creation of new wealth. Growth is a means of creating jobs and raising standards of living. Growth provides the fiscal strength that supports high quality public services. This is why growth matters.

Britain has grown strongly over the last decade, but the banking crisis is a stark reminder that the resilience of growth cannot be taken for granted, and the foundations of growth must be durable. For long term stability and shared prosperity, the growth of the UK economy after the banking crisis will need to be environmentally sustainable, more balanced and resilient to economic shocks, and shared widely across both regions and individuals. Growth must use resources efficiently and help drive a wider decarbonisation of our society. It must be both underpinned by productive investment and diversified across a wide range of sectors

and markets. Growth must be built on a deep commitment to raising the skills and widening the opportunities of all British people. To the greatest extent possible, it must be shared in an equitable way across all regions and nations in the UK.

This growth depends on the ability of British companies and people to compete in a global economy that puts unprecedented demands on them but carries with it new opportunities created by new markets and globally mobile investment. As an economy that competes often on the basis of the value that it adds to production processes, the UK requires sophisticated skills, world class infrastructure, a strong science and technology base and high levels of knowledge and innovation.

These fundamental strengths need to be complemented by a business environment that encourages competition and enterprise, ensures that companies have access to the finance to grow and expand, and supports them in expanding into overseas markets. The UK's growth and economic prosperity depend on encouraging private enterprise and on the Government taking a strategic approach for long-term growth.

The 2009 Pre-Budget Report included a range of new measures for building these capabilities. It included a new growth fund to provide capital investment for innovative companies and a new

body to provide strategic leadership in upgrading Britain's infrastructure. An additional £200 million was also allocated to Britain's Strategic Investment Fund for supporting low carbon industries and technological innovation.

These new measures are the latest action in a programme of work and investment in the foundation's of Britain's industrial competitiveness launched with *New Industry New Jobs* in April 2009. It establishes a clear set of priorities not just for putting Britain on the road to recovery, but for equipping this country and its people to compete and prosper in a globalised economy.



# Action plan

Priority	Actions	Detail
Making it easier to start a business	By March 2010: Complete call for evidence on where regulation imposes a disproportionate cost, in particular for small business.	Please refer to page 11
	By April 2010: Provide additional enterprise support for Service Personnel returning from conflict.	Please refer to page 10
	May 2010: Reduce the administrative burdens of regulations by 25 per cent (in net annual cost) compared with May 2005.	Please refer to pages 10-11
	By 2015: Cut the cost of regulation by a further £6.5 billion for business.	Please refer to pages 10-11
Finance for business growth	January 2010: First closing of the UK Innovation Investment Fund with an initial £325 million to invest in technology funds.	Please refer to page 13
	By March 2010: Secure initial investors and fund structure for a new Growth Capital Fund.	Please refer to page 12
Expanding into export markets	By March 2010: Hold a public consultation on updating the Export Credit Guarantee Department's Business Principles.	Please refer to page 13
	By March 2011: Deliver an enhanced programme of events for UK businesses to showcase their excellence to high quality global buyers.	Please refer to pages 13-14
Transforming knowledge into economic growth	By Mid-2010: Complete pilot exercises to inform the development of the Research Excellence Framework which will contain an explicit impact assessment for the first time.	Please refer to page 16

Priority	Actions	Detail
Incentives to innovate	January 2010: Commission Hermann Hauser, working with the Technology Strategy Board to undertake a review of technology centres in the UK and make recommendations as to how these should be developed in future.	Please refer to page 18
	By spring 2010: Launch two new Small Business Research Initiative competitions to improve the energy efficiency of public buildings and to develop Ultra Efficient Lighting Solutions.	Please refer to page 19
	By April 2013: Introduce a Patent Box applying a 10% rate of Corporation Tax to income from patents from April 2013.	Please refer to page 17
Identifying and meeting priority skill needs of the modern economy	From 2010: Introduce rewards for 'highly trusted' business users of the points based migration system.	Please refer to page 27
	By February 2010: Create an Industry and Higher Education Forum to equip graduates with the skills needed for a career in Life Sciences.	Please refer to page 26
	From summer 2010: Provide financial support for up to 10,000 low income undergraduates undertaking short unpaid internships in professions with historically poor access.	Please refer to pages 25-26
	By autumn 2010: Implement proposals for an apprenticeship scholarship fund.	Please refer to page 25
	By 2012: Deliver an additional 35,000 new Advanced Apprenticeships for 19–30 year olds.	Please refer to page 25
A more strategic approach to planning policy and creating the infrastructure of the future	January 2010: Launch Digital Britain consultation on application of the landline duty.	Please refer to page 30
	By Budget 2010: Publish a strategy for UK infrastructure.	Please refer to page 31
	By spring 2010: Publish Penfold Review on non-planning consents.	Please refer to page 32

Priority	Actions	Detail
Opening up global trade and enhancing EU competitiveness	2010: Support international action to prevent protectionism through G8 and G20 processes, the Global Trade Alert and the World Trade Organisation's protectionism monitoring work.	Please refer to page 36
	By 2015: Implement measures to reduce burdens on international traders published in 'Simplifying Trade Across UK Borders – A Plan of Action'.	Please refer to page 36
Getting regulation right	By autumn 2011: Have in place reforms that will improve our position in the World Bank rankings for 'ease of doing business' and become the top-ranked business environment in the G20.	Please refer to page 39
Investing in areas of strength	By March 2010: Consultation with the Business and Professional Services Sector to produce a strategy for Business and Professional Services.	Please refer to page 46
	By summer 2010: Create a new Life Sciences Super Cluster to build UK capabilities in critical therapeutic areas and encourage investment.	Please refer to page 43
	By end 2010, use <i>Making Public Data Public</i> project to open up public sector information to encourage creation of new markets and services.	Please refer to page 46
	By 2011: Invest additional £200 million Strategic Investment Fund announced in PBR 2009, in particular to support low carbon industries and technological innovation.	Please refer to page 42
Selling our strengths abroad and attracting inward investment	In March 2010: Host a major event to showcase UK security strengths to an international audience.	Please refer to page 47
	By spring 2010: Host a major British International Investment Conference in London.	Please refer to page 47

Priority	Actions	Detail
A more strategic approach from government	January 2010: Publish the Policy through Procurement Action Plan.	Please refer to page 50
	By spring 2010: Report on business opportunities pilot studies underway to explore the future opportunities in sectors such as the broadband supply chain, the rail supply chain, housing construction and the waste and materials markets.	Please refer to page 49
	2010: Implement plans for improving coordination between national, regional and local government in supporting innovation, skills and enterprise, and attracting inward investment.	Please refer to page 49



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