

Businesses are facing an exceptionally challenging economic climate with uncertainty over the short to medium term. Chapter 3 sets out the decisive steps the Government has taken to help ensure financial stability in support of the economy as a whole. Chapter 2 outlines the action that the Government is taking to support the economy, in particular through a temporary reduction in the rate of VAT, which will provide significant further support for businesses during the economic downturn. This chapter outlines further action that the Government is taking to help businesses respond to the current economic challenges over the short term. These include:

- **measures to help small and medium-sized enterprises (SMEs) facing credit constraints. The Government will launch: a new Small Business Finance Scheme to support up to £1 billion of bank lending; a separate £1 billion guarantee facility to support bank lending to small exporters; a £50 million fund to convert businesses' debt into equity; and a £25 million regional loan transition fund;**
- **a new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to pay their HMRC tax bills on a timetable they can afford;**
- **more generous tax relief for businesses now making losses, by allowing temporary additional carry-back of up to £50,000 of losses to be set against taxable profits from the last three years; and**
- **the modification of a number of planned tax reforms, including the deferral of the increase in the small companies' rate of corporation tax, a temporary increase in the threshold at which an empty property becomes liable for business rates, and the reform of air passenger duty rather than proceeding with a per-plane tax.**

The Government is committed to ensuring the UK is in a strong position to respond to longer-term challenges. This chapter sets out further measures to ensure the UK is well placed to deliver sustainable growth and prosperity over the decade ahead including:

- **a package of reforms to the taxation of foreign profits, including the introduction of a foreign dividend exemption for large and medium-sized businesses, supported by a worldwide debt cap on interest;**
- **a review of the controlled foreign companies anti-avoidance rules consistent with a further move towards a territorial approach;**
- **measures to enhance SMEs' access to Government contracts, including a new online portal for all Government contracts over £20,000; and**
- **a set of devolutionary proposals, to be agreed with local authorities in city-regions on a voluntary basis, to increase their ability to drive sustainable economic growth.**

SUPPORTING BUSINESS: RESPONDING TO CURRENT CHALLENGES

4.1 The economic shocks that have impacted on the global economy have created an exceptionally challenging environment for business. This chapter considers this impact, and sets out measures to support businesses through the short to medium-term challenges, while ensuring that the UK economy maintains its fundamental strengths and stability.

Impact of the financial crisis on business **4.2** Financial markets play a critical role in the operation of every business in the country. Businesses rely on properly functioning markets to be able to manage their cash flow and to fund investment. The recent instability in the financial system is having a damaging effect on everyday economic activity. Credit conditions have tightened significantly, directly affecting all sizes of business and contributing to slowing economic growth.

Government action to stabilise the financial system **4.3** The Government has responded decisively to restore stability to the financial markets through the measures outlined in Chapter 3. The Government's actions will help support stability in the financial system, in order to allow it to perform its role as the core mechanism by which resources are allocated in the economy. The Government has attached conditions to a number of institutions subscribing to the Bank Recapitalisation Fund, including maintaining the availability and active marketing of competitively priced lending to small businesses and homeowners at 2007 levels. The Government's investment in financial institutions, including compliance with these conditions, will be monitored by the newly established UK Financial Investments Ltd.

Maintaining business lending at competitive levels **4.4** The Government is continuing to monitor developments in the credit markets more generally. Where necessary, it is also acting to improve the dialogue between banks and business representative bodies, for example by establishing the Small Business Finance Forum to discuss and resolve concerns over business lending. Following the first meeting on 11 November 2008, a new panel has been set up to monitor individual lenders on the availability, risk and overall cost of lending to small and medium-sized enterprises (SMEs) from all the high street banks. This will now be transferred into the new Lending Panel which will address lending to both businesses and households. The Government is also listening to the concerns of large businesses through fora such as the Multinational Forum on Business Tax and Globalisation and the Business Council for Britain.

Fiscal stimulus and consolidation **4.5** **The temporary reduction in the standard rate of VAT to 15 per cent, set out in detail in Chapter 2, will increase economic activity, support employment, contribute to business and encourage economic recovery. To ensure maximum impact, the Government is introducing this 15 per cent rate from 1 December 2008.** In addition, the Government is bringing forward public sector capital spending, which will benefit businesses, in particular in the construction sector. The Government's long-term objective is to ensure a stable macroeconomic environment including sustainable public finances, and Chapter 2 sets out the action the Government is taking to achieve this, including reforms to income tax and national insurance contributions.

Action to support business

4.6 Small businesses in particular are more dependent on external finance to manage their short-term cash flow, and it has become clear from discussions with banks and businesses that many of these small businesses are struggling to access short-term credit. This chapter therefore sets out a package of short-term, targeted measures to help these businesses access the capital they need and manage their cash flow.

New loan facility for small firms **4.7** **The Government announces measures to improve the availability of finance for small and medium-sized businesses as set out in Box 4.1.**

Box 4.1 Measures to improve the availability of finance for SMEs which will be made available through an accessible single portal:

- to help SMEs with working capital and investment needs, early in 2009, **the Government, with Regional Development Agencies' (RDAs) support, will launch the Small Business Finance Scheme, a new temporary guarantee scheme to enable up to £1 billion of new Government supported lending by banks;**
- **the Export Credits Guarantee Department, in conjunction with the banks, will introduce a temporary guarantee scheme to support a £1 billion facility providing smaller exporters with better access to short-term working capital. Also, the Fixed Rate Export Finance Scheme will continue for another year after the end of 2008;**
- **the Government will also make available a capital fund of £50 million providing equity or quasi-equity to SMEs who are overleveraged.** This will be funded from the existing Mezzanine Fund, Enterprise Capital Funds and a £10 million RDA contribution;
- earlier in November 2008, Advantage West Midlands launched a transition loan fund for viable SMEs facing financial difficulties. **Other RDAs will launch similar loan funds, now totalling £25 million, to help businesses over the next six months.** The package of measures above includes £110 million of contribution from RDAs; and
- early in 2009, **the Government will launch, with Business Link, a new easily accessible portal, to direct credit-worthy SMEs who are experiencing problems accessing credit to the scheme appropriate for them.**

European Investment Bank

4.8 In addition to domestic measures, UK small businesses should also be able to benefit from around £4 billion of lending from the European Investment Bank (EIB) between 2008 and 2011. Following proposals by the Government, the EIB has increased by 50 per cent the total amount of lending available to small firms, and it has significantly simplified its approach to increase the attractiveness of its lending. The Government welcomes the commitment of UK lenders to approach the EIB to access these funds. As a first step towards this, **following negotiations between UK banks and the EIB, £1 billion of EIB funds will be available to SMEs in the UK by the end of 2008.** The Government is also working with the UK banks and EIB on its commitment to share greater risk with commercial banks lending to small businesses.

4.9 The Government has asked the EIB to offer additional help to large businesses through this difficult period, including to Private Finance Initiative (PFI) projects. In the medium to longer term, the Government, working with European Union (EU) partners, is encouraging the EIB to continue lending more, to lend faster and to take on more risk. This includes significantly increasing its volume of financing on infrastructure, for example projects that contribute towards the UK's and EU's energy security, and on projects that contribute towards a low-carbon economy.

HMRC Business Payment Support Service

4.10 The Government will also ensure the tax system is as flexible as possible to support businesses experiencing cash flow problems. **The 2008 Pre-Budget Report announces that HMRC will provide a new service for businesses in temporary financial difficulty to spread payment of their tax bills over a timetable they can afford.** Further information is set out in Box 4.2 below.

Box 4.2 Support for businesses in temporary financial difficulty to pay their tax bills

As more businesses experience worsening cash flow positions or difficulty accessing credit, they may struggle to pay their HMRC tax bills on time. HMRC has a key role to play in supporting businesses facing temporary financial difficulties and already offers 'time to pay' arrangements where businesses can spread tax payments over a timetable they can afford.

The 2008 Pre-Budget Report announces that HMRC has launched a new Business Payment Support Service to offer enhanced support to businesses finding it difficult to make tax payments on time, including corporation tax, VAT, PAYE, income tax and national insurance contributions. Businesses experiencing temporary financial difficulties, needing more time to pay an outstanding tax bill or a bill due soon, can call a dedicated phone service to agree arrangements tailored to need.^a

^a For further information refer to www.hmrc.gov.uk and www.businesslink.gov.uk

VAT Cash Accounting Scheme 4.11 The VAT Cash Accounting Scheme already provides businesses with a cash flow advantage by allowing them to defer paying VAT until their customers have paid them. The Government has made the scheme much more widely available to SMEs by doubling the turnover threshold to £1.35 million in 2007. 90 per cent of VAT registered traders are now eligible to use the scheme.

VAT Flat Rate Scheme 4.12 The VAT Flat Rate Scheme allows businesses with a turnover less than £150,000 to simplify their VAT accounting. **Alongside the temporary reduction of the standard rate of VAT, the Government will also amend the sectoral rates of the VAT Flat Rate Scheme in line with the standard rate reduction, allowing 180,000 small businesses in the scheme to benefit from the rate reduction.**

Loss carry-back 4.13 **To further help the cash flow position of businesses that have recently become loss-making, trading loss carry-back for businesses will be extended for a temporary period from one to three years, for up to £50,000 of losses.** Further information is set out in Box 4.3 below.

Box 4.3 More generous tax relief to businesses now making losses

The current loss relief rules already provide considerable support for businesses. Businesses can offset unlimited losses against profits in future years, reducing the tax to be paid, or 'carry-back' the loss to set against profits of the preceding year, resulting in a tax repayment.

The 2008 Pre-Budget Report announces that the Government will provide further support by temporarily extending the carry-back of losses from one to three years, for losses up to £50,000.

This temporary measure will apply for one year from 24 November 2008 for companies, and for the 2008-09 tax year for unincorporated businesses. Tax repayments from the extended relief will be made to businesses from Budget 2009.

Small companies' rate of corporation tax 4.14 To provide further support for small companies, **the Government is deferring, for one year, the planned increase in the small companies' rate of corporation tax. The rate will remain at 21 per cent during 2009-10.** The Government remains committed to the aims of the business tax package announced in Budget 2007, to refocus incentives towards investment and growth, and to reduce the differential between incorporated and unincorporated businesses.

Empty property relief 4.15 **The Government is temporarily increasing the threshold at which an empty property becomes liable for business rates. For financial year 2009-10, empty properties with a rateable value of less than £15,000 will be exempt from business rates,** exempting an estimated 70 per cent of empty properties. This one year relief for lower-value properties is best targeted at helping small businesses manage short-term pressures due to difficult property market conditions. The Government continues to believe that, in the long term,

beyond an initial rate-free period, it is right to charge rates when properties stand empty, since this increases incentives to re-let and re-use empty property, and avoids subsidising owners of empty properties.

- Payment of backdated business rates bills** **4.16** When premises are identified that should have always been subject to business rates, but have not previously received bills, business rates bills backdated to 2005 (the last business rates revaluation) are issued, for immediate payment. To reduce the cash flow impact on businesses, given current economic difficulties, **the Government will legislate to give businesses more time to pay certain backdated business rates bills issued before 31 March 2010. Businesses facing such bills will be able to pay their liability for previous years in equal interest-free instalments over 8 years, rather than immediately.** Beneficiaries will include several occupiers of ports who have been affected by recent rating reviews. Communities and Local Government will publish further details shortly, including the qualifying conditions.
- Prompt payment** **4.17** There are currently significant delays for many small businesses receiving payment of their bills from the companies they supply. To help businesses manage their cash flow, the Government has announced that it will aim to pay its suppliers as soon as possible and within 10 days. This commitment has since been adopted by the Scottish Government, Regional Development Agencies (RDAs) and by a number of local authorities. The Government is working with NHS trusts and the Local Government Association to extend this objective to the wider public sector.
- 4.18** In addition to its engagement with public bodies, the Government will continue to work with the private sector to encourage businesses to pay their bills promptly and has recently launched a series of guides to help businesses manage their cash flow.
- Regions** **4.19** *Meeting the economic challenges in every region*, published alongside the 2008 Pre-Budget Report, concludes this summer's consultation with regions to understand the regional impact of the current economic situation. It outlines the Government's response to support regions and localities, and sets out how regional partners are working together to focus on meeting the pressing challenges of their regions. Building on the successful dialogue between RDAs and the Government, RDAs have again been asked to provide input to Budget 2009.
- Aviation taxation** **4.20** The Government recognises the contribution that the aviation industry makes to the UK economy and believes that aviation taxation should ensure the sector pays its fair share towards public services and provide better environmental signals. **The Government has listened to the points made during the consultation process on aviation taxation. In light of responses received and, current economic conditions, it has decided to reform the air passenger duty (APD) regime rather than proceed with the per-plane tax.** Details of the reform, including the new rates, are set out in Chapter 7. This will ensure greater stability in tax policy at a time of economic uncertainty. Reforming APD also takes account of the need to mitigate the potential impact on the air-freight sector, and those who depend on the jobs and services supported by the aviation industry.

SUSTAINING FUTURE BUSINESS SUCCESS: ADDRESSING THE LONG-TERM CHALLENGES

- 4.21** In order to secure continuing growth and prosperity for the UK, the Government is responding to the significant immediate challenges. It is also determined to address the impact that long-term trends in the global economy will bring over the next decade.
- Long-term trends for the economy** **4.22** *The UK Economy: addressing the long-term strategic challenges*, published alongside the 2008 Pre-Budget Report, identifies four long-term trends that will affect the UK economy: global uncertainty; globalisation and technological change; environmental change; and

demographic change. It sets out the role that Government needs to play to help the UK face up to these challenges and make the most of the opportunities. This involves ensuring a stable macroeconomic environment, including sustainable public finances. It also sets out the Government's role to protect outcomes of investment programmes essential for long-term growth, to engage with sectors in order to tackle sector-specific constraints to growth, and to ensure that city-regions are able to make the most of economic opportunities.

4.23 The rest of this chapter sets out how the Government will play its part in helping to secure long-term growth and prosperity for the UK through reforms to the tax and regulatory regime, and measures to continue to promote higher productivity growth through action on enterprise, skills, innovation, investment and competition, building on significant progress over the last decade. This chapter also shows how Government programmes will be flexible and responsive to changing requirements of the economy.

Reforming tax and regulation

Foreign profits **4.24** The 2008 Pre-Budget Report announces the next stage in reforming the UK corporate tax system to enhance the competitiveness of the UK. Following discussions with businesses, **the Government will bring forward a balanced package of reforms to the taxation of foreign profits, including the introduction of an exemption for foreign dividends in Finance Bill 2009.** The details of the package are set out in Box 4.4.

Controlled foreign companies **4.25** **The Government will also continue to examine options to reform the UK's controlled foreign companies (CFC) rules.** These rules were originally designed to counter tax deferral and the artificial diversion of profits from the UK. Any reform will aim to enhance UK competitiveness by seeking to improve the way the CFC rules achieve their objective of taxing profits diverted from the UK. Coupled with the exemption for foreign dividends, this represents a clear further move towards a territorial approach to taxing foreign subsidiaries, so that a new CFC system should not tax profits that are genuinely earned in overseas subsidiaries. Consultation will continue through 2009.

Box 4.4 Taxation of foreign profits

Foreign dividends received by large and medium groups on ordinary shares and most non-ordinary shares will be exempt from UK tax. A Targeted Anti-Avoidance Rule will protect against avoidance activity seeking to exploit these dividend exemptions.

This new exemption will be supported by:

- **a worldwide debt cap on interest.** Tax deductions for interest claimed by UK members of a multi-national group will be restricted by reference to the group's consolidated net external finance costs;
- **extension of the unallowable purpose rules for loan relationships** to include schemes or arrangements; and
- **consequential changes to the CFC rules.** The acceptable distribution policy exemption and the holding company exemption will be repealed. There will be a 24 month transitional period to allow time for groups to unwind holding company structures.

In addition, the existing **Treasury Consent rules and notification requirements will be repealed and replaced with a quarterly reporting requirement for high-risk transactions with a de minimis limit of £100 million.**

Draft legislation will be published in December 2008 for consultation in order to implement these reforms in Finance Bill 2009.

Tax simplification 4.26 The Government announces further progress on tax simplifications from its four reviews:

- **VAT rules and administration review: from 1 April 2009, the Government will help small businesses reduce their administrative burdens by simplifying the eligibility tests for the Flat Rate Scheme and require fewer large retailers to agree a bespoke VAT accounting scheme by increasing this threshold to £130 million. From early 2009, the Government will make it easier to tax otherwise exempt supplies of land and property;**
- **anti-avoidance legislation review: the Government will simplify certain rules on Employment-Related Securities and repeal an outdated and complex anti-avoidance provision on transactions between associated persons;**
- **corporation tax rules for related companies review: the Government will continue its discussions with business about further simplification of the associated company rules and also intends to consult on proposals for the simplification of group aspects of corporate gains in 2009; and**
- **corporation tax calculations and returns for smaller companies review: following initial discussions with stakeholders, the Government publishes alongside the 2008 Pre-Budget Report emerging ideas for further discussion.¹**

4.27 As set out in this chapter and in Chapter 5, the Government announces further targeted tax simplifications to reduce the burden of complying with tax obligations, including measures benefiting employers, the self-employed and the financial services sector.

North Sea fiscal regime 4.28 The UK's oil and gas supplies will continue to play a vital role in ensuring that the UK has access to secure, affordable energy supplies. The Government therefore remains committed to maximising the economic recovery of the UK's oil and gas reserves. **Following further discussions with stakeholders, the Government is today publishing its proposals for further reforms to the North Sea fiscal regime.** These will encourage investment through incentivising production from marginal fields, supporting asset trades and simplifying the regime. The Government also proposes a number of measures to remove fiscal barriers to the re-use of North Sea infrastructure for activities such as carbon capture and storage.

Regulatory reform 4.29 The Government is continuing the drive to reduce the costs to business of complying with regulation, without reducing the quality of regulatory outcomes. The Government has set itself a target of reducing the administrative burden of regulation by 25 per cent by May 2010, which will deliver £3.5 billion net annual savings to business. The Government is also consulting on the introduction of regulatory budgets, which would be a radical mechanism for capping the cost of new regulation.

Maintaining the competitiveness of UK financial services

A competitive financial sector 4.30 Further to the measures outlined in Chapter 3 to restore stability to the financial system, the Government remains committed to working with the financial services sector to ensure it emerges from the current difficulties in a competitive position. The 2008 Pre-Budget Report introduces measures that continue to modernise the tax system, to simplify where appropriate, and to maintain the UK's competitiveness on asset management, the Lloyd's insurance market and Islamic finance.

¹*Simplification Review: corporation tax calculations and returns for smaller companies - a discussion document*, HM Treasury and HMRC, November 2008

Asset management **4.31** Building on the improvements to asset management taxation announced in Budget 2008, the Government announces:

- **the simplification of the rules for the Qualified Investor Scheme from 1 January 2009;**
- **amendments to legislation to facilitate the take up of Property Authorised Investment Funds;** and
- **its intention to discuss with industry the potential for increased legislative certainty on the distinction between trading and investment in relation to the tax treatment of transactions of Authorised Investment Funds.**

4.32 The Government is currently considering responses to consultations on Tax Elected Funds, the tax regime for Offshore Funds and the proposal to adapt the tax rules for Investment Trust Companies to enable tax-efficient investment in interest bearing assets. Complementing this work, further discussions will also be held with the industry on options for reform of Stamp Duty Reserve Tax Schedule 19. The Government will work closely with the industry in progressing these proposals with the aim of introducing legislation in Finance Bill 2009.

Insurance **4.33** The Government also today announces **its intention to legislate to align the tax treatment of Lloyd's claims equalisation reserves with that of other general insurers.** Furthermore, the Government will continue discussions with the general insurance industry on the ongoing tax treatment of claims equalisation reserves with a view to supporting the industry's competitiveness.

Islamic finance **4.34** The Government remains committed to promoting the UK as a centre for global Islamic finance and working towards a level playing field between conventional and alternative financing products. The Government today announces that:

- **new legislation will be introduced in Finance Bill 2009 to provide relief from stamp duty land tax for alternative finance investment bonds.** The Government will publish a response to its consultation in January 2009; and
- **in conjunction with the Financial Services Authority, the Government will examine the regulatory treatment of sukuk (alternative finance investment bonds) in the UK and will consult on this issue in the near future.**

4.35 The Government has looked carefully at the case for issuing sovereign sukuk and concluded that it would not offer value for money at the present time but it will keep the situation under review.

Promoting enterprise

Improved public sector procurement for SMEs **4.36** The 2008 Pre-Budget Report announces further support for dynamic and enterprising firms (see Box 4.5). In addition, **the Government accepts all of the recommendations put forward in the Glover Committee's report, published alongside the 2008 Pre-Budget Report.** The Committee was set up in Budget 2008 to provide advice on how the Government can help small firms win a greater share of public procurement. **The Government will advertise Government contracts worth more than £20,000 in a single free online portal, it will introduce measures to reduce bureaucracy and will make opportunities more transparent for small businesses.** In addition, it will standardise qualification criteria and encourage innovation by increasingly specifying outcomes rather than prescribing solutions. It will also help SMEs get a fair deal when they are sub-contractors.

Social enterprise 4.37 The current economic challenges also offer opportunities for new and sustainable business models. This is a time when social enterprises, with their focus on the creation of social and environmental, as well as financial, value, may come into their own, as they prove increasingly attractive to consumers, investors, and potential entrepreneurs. Support for social enterprise across Government has never been greater (championed by the Office of the Third Sector), aimed at creating an environment in the UK for social enterprises to thrive.

Box 4.5 Enterprise

The Government announces the following measures to support dynamic and enterprising firms:

- the Government recently launched a £12.5 million risk capital fund to encourage women led businesses to seek appropriate equity finance. This scheme will be managed by Capital for Enterprise Ltd who will seek to invest these funds alongside private sector risk capital;
- international trade represents a significant proportion of GDP and it is crucial that domestic trade regulation is as easy to comply with as possible, in order for UK based firms to remain internationally competitive. **The Government will take forward a Department for Business, Enterprise & Regulatory Reform and HMRC led work programme to review the cost to business of complying with international trade regulation** and put forward an action plan alongside the 2009 Pre-Budget Report setting out how it will reduce costs to business;
- the Government is taking steps to ensure that Government-funded support is effective and easily accessed by business. **The Business Support Simplification Programme of reform has made good progress and will be completed by March 2010;**
- **the Department for Children, Schools and Families will conduct a new in-depth primary research study into enterprise education in schools and colleges** in order to better assess the value of this investment and disseminate good practice. It will report back in autumn 2009; and
- **the Government's response to the consultation on the Enterprise Investment Scheme (EIS), announced in Budget 2008, is published alongside the 2008 Pre-Budget Report.** It sets out how the Government will ensure the rules and processes that govern the EIS are simplified and improved.

Strengthening the flexible and skilled workforce

4.38 The Government has recently announced short-term measures to support individuals and employers to develop their skills during the downturn. The Government also remains committed to its longer-term ambition, as set out by the Leitch Review, to achieve a world-class skills profile for the UK by 2020.² In addition to the measures below, further measures on skills are set out in Box 4.6.

Support for people facing redundancy 4.39 The Government announced in October 2008 that it would set aside £100 million from the European Social Fund (ESF) and the Department for Innovation, Universities and Skills (DIUS) to deliver an integrated employment and skills support for those facing redundancy. The funds available from the ESF now total £158 million, and will form part of a wider package on employment, as set out in Chapter 5, to develop the skills and support the job search of those facing redundancy or already looking for work. **DIUS will match their ESF money with a further £79 million, through Train to Gain, to increase resources for Next Steps advice services, and to provide a more tailored and flexible training offer, working with regional and local partners.** This could include allowing shorter, more focused units of training, or retraining at the same level in a new sector, where this would help individuals to find work with a new employer. Further details on the joint package will be announced by DIUS, the

²Leitch Review of skills: Prosperity for all in the global economy – world-class skills, HM Treasury, December 2006

Department for Work and Pensions (DWP), and the Department for Business, Enterprise & Regulatory Reform (BERR) shortly.

- Public procurement and apprenticeships** **4.40** The Government is committed to using its leverage with contractors and suppliers to promote training in the workplace, particularly through apprenticeships. **In letting contracts for construction projects, Government Departments and their Agencies will now consider, on a case-by-case basis, making it a requirement that successful contractors have apprentices as an identified proportion of their workforce.** The Government will ensure that its contracts remain accessible to small businesses. Therefore, before creating such a requirement, procurers will consider the likely effect on small businesses. In addition, the Government will consider whether there is scope to build on this approach in other sectors, including IT.
- Train to Gain** **4.41** Train to Gain is an employer, demand-led, training service that delivers training in the workplace, and is central to the Government's reforms in response to Leitch. The Government announced in October 2008 that all £350 million of the planned growth in Train to Gain funds between 2008-09 and 2010-11 will be used to fund a short-term package, specifically to help SME employers in the downturn, and will be kept under review. Building on this package, **the Government will route further resources from within existing budgets through Train to Gain and Apprenticeships in future years if individual and employer demand allows.**
- Productivity and progression pilots** **4.42** The Government wants city-regions to be able to take a coordinated approach to their skills needs and will encourage and support the development of sector productivity and progression pilots. These will operate at a local level, building on Multi-Area Agreements and employer-led Employment and Skills Boards to test how the provision of sector coordinated training and business support services can boost productivity and help create higher-value job opportunities.
- Strategic skills audit** **4.43** The Government and Devolved Administrations have asked the UK Commission for Employment and Skills to carry out a periodic strategic skills audit to identify where future demand and supply for skills in the UK could be better aligned. Further details will be set out in the Commission's Five Year Strategic Plan for 2009-2014, due to be published in April 2009.
- National Skills Academies** **4.44** The Government will expand the successful National Skills Academies programme by providing funding for an additional four academies in 2009-10, bringing the total number to 20. The Government is on course to meet its ambition to have at least one academy in every major sector of the economy, resources permitting.
- Higher education** **4.45** The Government has asked universities to outline how they can work with partners to support their local and regional economies during the downturn. Universities will shortly set out how they can provide such support, including short courses in high level management skills, professional retraining, and using their research expertise to promote innovative product development.

Box 4.6 Skills

As part of the Public Value Programme reviews outlined in Chapter 6, DIUS will take further steps to drive forward Leitch reforms and maintain the pace of reforms to move to a simpler and more demand-led system both for individuals and employers by:

- **fast-tracking units and qualifications into the Qualifications and Credits framework** where they are needed for training in particular areas to support the recent package for SMEs and provide greater flexibility in the range of training that receives public funding;
- **streamlining commissioning for apprenticeships and Train to Gain to reduce barriers to entry in the market for new providers.** Further detail has been announced in DIUS's and DCSF's Statement of Priorities for 2009-10, published on 18 November 2008; and
- **ensuring that, from 2009-10, learners are able to exercise choice between different courses and providers in a contestable market,** through the trials and roll-out of the Adult Advancement and Careers Service and Skills Accounts; and reviewing whether the timetable to channel £1.5 billion of funding through Skills Accounts can be brought forward from 2014-15 following regional and national trials in 2008-09 and 2009-10.

DIUS will also ensure that any future decisions on subsidies reflect their role in driving up demand for economically valuable skills, and will continue to be based on evidence about their impact for different groups and types of training. To support this, colleges and providers should collect appropriate fee levels from individuals and employers, who are expected to contribute towards the cost of learning. This will enable them to offer a full range of adult learning and respond to demand. The Learning and Skills Council will work with the sector to communicate this message and support progress.

Supporting innovation

4.46 Science and innovation are critical drivers of long-term economic growth. The Government will publish its first Annual Innovation Report (AIR) in December 2008, updating on progress in delivering the strategy set out in *Innovation Nation* in March 2008.³

Small Business Research Initiative **4.47** The Government is implementing reform of the Small Business Research Initiative (SBRI) to provide better access to research and development procurement opportunities for innovative SMEs, as recommended by the Sainsbury Review⁴. **Pilots have been launched with the Ministry of Defence and the Department of Health (DH), and to date the Technology Strategy Board (TSB) and Government Departments have committed over £15 million to the scheme.** The SBRI budget will be confirmed before full roll-out in April 2009.

TSB and procurement **4.48** The TSB is already working with Government Departments, for example DH, as part of its Innovation Platforms programme to invest in the development of higher performing healthcare technologies for assisted living. **The TSB will advise the Government, in conjunction with business, on the better use of innovative technologies in four key areas of Government procurement: construction, low-carbon vehicles, food, and business waste management,** reporting back in time for the 2009 Annual Innovation Report.

TSB and international best practice **4.49** The TSB will continue to learn from international best practice in providing support for technological and non-technological innovation, and is exploring a number of areas including: challenge-based innovation, the management of risk, recruitment and accessing business expertise, and support to clusters. **The TSB will set out further opportunities for applying best practice in time for Budget 2009.**

³ www.dius.gov.uk

⁴ *The Race to the Top*, Lord Sainsbury of Turville, HM Treasury, October 2007

Health research 4.50 The Office for the Strategic Coordination of Health Research (OSCHR) published its first Annual Report on 18 November 2008.⁵ Under OSCHR's oversight, the Medical Research Council, the National Institute for Health Research and its equivalents in Scotland and Wales are developing a shared Vision for UK Health Research, and are putting in place new measures to plug gaps in the pathway from research to drug development, underpinned by dedicated investment of £200 million.

4.51 **The Prime Minister has asked DH and DIUS for the development of a set of new National Ambitions for Translational Health Research**, to accelerate the translation of research breakthroughs into practical new treatments and services in the NHS within a decade. These will be developed under the auspices of OSCHR by the research funding bodies, working collaboratively with the medical and research communities as well as with industry.

University research 4.52 In consultation with other funding bodies, the Higher Education Funding Council for England (HEFCE) is developing a Research Excellence Framework which will reduce the burden on institutions and take better account of the impact research makes on the economy and society. A pilot exercise for bibliometric indicators of excellence is now underway, and HEFCE will set out its plans for all aspects of assessment, including user-focused research and subjects where bibliometrics are not appropriate, by summer 2009.

4.53 **The Charity Commission has consulted the university sector, HMRC and Government on the tax treatment of knowledge transfer activities, and will issue jointly agreed guidance early in 2009 which provides greater clarity on this issue**, consistent with both the requirements of charity law and the Government's commitment to encourage closer collaboration between higher education institutions and business.

Re-use of public sector information from trading funds 4.54 The HM Treasury/Shareholder Executive assessment of trading funds has considered the potential for innovation and growth from increasing commercial and other use of public sector information. It will shortly publish some key principles for the re-use of this information, consider how these currently apply in each of the trading funds and how they might apply in the future, and the role of the Office of Public Sector Information in ensuring that Government policy is fully reflected in practice. For the Ordnance Survey, this will involve consideration of its underlying business model. Further details will be announced in Budget 2009.

Investing in infrastructure

Transport infrastructure 4.55 Effective transport infrastructure is fundamental for a productive economy. Government spending on transport has increased by 70 per cent over the past ten years. The Government remains committed to investment across the road and rail networks and supporting investment in new airport capacity.

4.56 On 27 November 2008, **the Department for Transport will publish a consultation on the transport goals and priorities for 2014-19 and beyond**. This is part of the continuing response to the Eddington Transport Study⁶ and the Stern Review⁷ ensuring that transport contributes to economic growth and tackling climate change.

Roads 4.57 The Government is acting to reduce road congestion and to improve journey-time reliability. A demonstration project to trial the technology and processes that could underpin more sophisticated road charging systems will be underway by early 2009. In addition, the Government will bring forward schemes where capacity can be increased at peak times through the opening of the hard shoulder.

⁵www.dh.gov.uk

⁶*Transport's role in sustaining the UK's productivity and competitiveness*, HM Treasury, December 2006.

⁷*Stern Review: The Economics of Climate Change*, HM Treasury, October 2006.

- Road freight 4.58** The Government continues to support the UK road haulage industry. The Freight Best Practice programme has worked to improve the sustainability and competitiveness of the industry, helping UK hauliers to save around £41 million and 0.12 MtCO₂ each year. The £24 million of enforcement funding, announced in April 2008 to tackle hauliers not complying with UK road safety law, has already delivered 100 additional enforcement staff, who will carry out an additional 100,000 checks, an increase of 60 per cent on 2007-08 levels. In addition, as announced in Budget 2008, the Government is refreshing the foreign vehicle data survey, which will take place in spring 2009.
- Rail 4.59** The Government remains fully committed to delivering Crossrail, with services starting in 2017. The land purchase process began in October 2008 to enable early works to start on schedule in 2009. The Government continues to support the 2008 Rail Periodic Review and, when finalised, this will deliver major improvements to the rail network including significantly increased capacity and improved performance and safety.
- 4.60** Following the passing of the Channel Tunnel Rail Link (Supplementary Provisions) Act 2008 **it is the Government's intention (depending on prevailing market conditions) to proceed with the restructuring of London and Continental Railways Ltd and eventual sale of key assets such as High Speed 1** (the rail link between London St Pancras and the Channel Tunnel), to deliver best value for the taxpayer.
- Aviation 4.61** The Government's review of the regulatory framework for UK airports, which will report early in 2009, will aim to ensure airport operators are incentivised to deliver timely, efficient, and necessary investment in new airport capacity.
- Private Finance Initiative 4.62** The Government remains strongly supportive of the benefits Public Private Partnerships can bring to the public sector, and the pipeline of future PFI deals is strong: £21.3 billion worth of projects are due to be signed over the coming years. As part of supporting world-class public services, and the infrastructure on which they are based, the Government will continue to deliver on the objectives set out in the Budget 2008 document *Infrastructure procurement: delivering long-term value*. Over the short term, the Government is working with procuring authorities and departments to ensure that they are able to close PFI projects during the current difficult conditions in the banking market.
- Communication infrastructure 4.63** Information and communication technologies (ICT) play a critical role in underpinning commercial activity and driving economic growth. Digital technology creates significant opportunities for business and consumers alike but, going forward, a range of decisions will be required from Government and industry to maintain the UK's position at the forefront of the digital infrastructure and content industries. The *Digital Britain* report is developing a strategic framework for the digital communications sector. An interim report in early 2009 will inform Government of the options and prospects for a universal broadband infrastructure, a liberalised and fully functioning spectrum market providing the spectrum to support new ICT services, and investment in digital content – in particular maintaining quality and competition in news and other UK-originated content.
- 4.64** The Government will shortly publish its response to the Caio Review of Next Generation Access broadband (NGA). **The Government agrees with the Review's conclusion that investment, can, and should, be driven by the market.** The response will also outline Government's plans to address planning, access and other supply-side issues, to lower the cost of the build out and create the conditions to favour adoption of new investment models. **In addition, the Government will set out a vision for NGA and implement a benchmarking process to review NGA roll-out in order to inform future policy.**

Spectrum released by digital switchover **4.65** Plans for the release of up to 112 MHz of spectrum cleared by the switch from analogue to digital terrestrial television were set out in November 2005. Since then, a number of other EU nations have also revealed their plans to release a similar 'digital dividend'. This development could present significant new efficiencies and benefits to UK and EU consumers and industry, many of whom are making increasing use of devices and technologies that rely on a supply of suitable spectrum. However it also presents the UK with some challenges, especially in the context of the UK's television transmitter networks. In light of this, and as part of the Government's response to the Caio Review, **the Government will work with Ofcom and other stakeholders, in preparation for the *Digital Britain* report, to capture the maximum benefits from radio spectrum in these and associated bands.**

Maintaining competitive markets

4.66 Strong and competitive markets protect businesses and individuals from high prices and encourage innovation and more efficient operations. Competition remains fundamental to the Government's economic policy and continues to be pursued in national and international markets.

Water markets **4.67** In the face of economic and environmental challenges, there is an increasing need to find ways to use water more efficiently. In February 2008, the Government commissioned the *Independent Review of Competition and Innovation in Water Markets* to assess the potential to increase efficiencies in water and wastewater markets that would lower prices, improve customer service and deliver environmental benefits. The Review published its Interim Report on 18 November 2008,⁸ advocating a phased approach to furthering competition that could deliver significant benefits to the economy over the coming decades. The Government accepts this approach and will take it forward, while bearing in mind the need for the sector to retain access to capital at keen prices.

4.68 As a first step, and in response to the Review's recommendations, **the Government announces a package of measures to extend and enhance retail competition in the water markets for large non-domestic customers in England.** The Government will lower the usage threshold above which businesses and other non-domestic customers are eligible to switch supplier from 50 ML to 5 ML, extend the competition regime to retail wastewater services, remove the current access pricing arrangement for water from legislation (replacing it with simplified criteria to be introduced by Ofwat), and introduce nationally agreed codes to be coordinated by Ofwat in conjunction with stakeholders. The Government is strongly minded to mandate the legal separation of the retail arm of a company from the rest of its operations, in order to deliver further efficiencies and drive non-domestic competition. It will respond to this, and any further recommendations of the Cave Review, once it receives the final report.

4.69 **The Government will also keep the merger regime for water companies under review.** The Department for Environment, Food and Rural Affairs will launch a public consultation on the implementation of the 5 ML eligibility threshold early in 2009, and will consult on the implementation of the other reforms as part of the Floods and Water Bill. Water is a devolved matter and the Welsh Assembly Government will await further analysis on Wales-specific issues in the final report before providing a response.

Public service markets **4.70** As announced in Budget 2008, HM Treasury and other Government Departments have considered ways to make competition more effective in mixed markets for public services. This has focused on the markets for childcare, prisons and probation and the Train to Gain adult skills market. Box 4.7 sets out emerging findings from this work. The Ministry of Justice (MoJ), DIUS and the Department for Children, Schools and Families are taking forward these issues

⁸www.defra.gov.uk

in forthcoming documents, and the Government will subsequently publish a short report summarising the analysis and key issues.

4.71 This work has built on the BERR-led public services industry review, led by Dr DeAnne Julius, which reported in July 2008. The review analysed this sector and the factors that have contributed to success, and made recommendations as to what more the Government can do to realise its full potential. The Government is presently developing its response to this review.

Box 4.7 Public service markets – emerging findings

Emerging findings from work to date have suggested five broad success factors for effective public service markets:

- strategic market management – for example, MoJ and the National Offender Management Service Agency (NOMS) developing an offender management competition strategy and programme, to help drive value for money and build supplier capacity;
- effective commissioning and procurement frameworks – DIUS and the Learning and Skills Council (LSC) strengthening commissioning processes, including more effective contracts and enhancing market information for providers, employers and individuals;
- capability and capacity of commissioners – local authorities building capacity to undertake the childcare sufficiency duty effectively, mapping and managing markets to deliver sufficiency;
- competitive neutrality – MoJ and NOMS developing ways to treat all prison providers equally, during the bidding process, performance management, and ethical walls to separate the commissioner and provider functions of NOMS; and
- low barriers to entry and exit – DIUS and LSC tackling barriers for training providers to enter the Train to Gain market.

Given that each public service market is very different in terms of structure, design and management, it is important to tailor the approach and strategy to best deliver value for money, in terms of efficiency, quality of service, and impact on the workforce.

Energy markets **4.72** The Government's energy strategy is focused on ensuring secure, affordable and clean energy, based on the principle that independently regulated, competitive energy markets are the most cost-efficient means of delivering its objectives. In October 2008, EU leaders agreed on a new package of legislation to take forward energy market liberalisation across Europe. The package will help to improve the way that electricity and gas markets function and, in the medium term, deliver more competitive prices and greater energy security for EU citizens and businesses.

4.73 Chapter 7 sets out measures to accelerate the move towards a low-carbon economy, including measures to support renewables, and the Government's action to help businesses realise the opportunities of nuclear energy.

The Lisbon Strategy for Growth and Jobs

4.74 The EU is one of the most important markets for UK business. Challenging economic circumstances emphasise the importance of implementing structural reform in the EU, now and in the future, to boost both resilience and responsiveness during the downturn. Looking ahead, the Lisbon Strategy – the EU's current agenda for structural reform – ends in 2010. A successor strategy needs to set the framework for further and faster progress, still rooted in jobs and growth in a low-carbon economy. **The Government believes the strategy should have: a clear set of goals that are based on the principles of openness, flexibility, fairness and**

sustainability; a refined scope that recognises the new realities of the global economy; and a reformed governance structure that better drives reforms.

Devolving responsibilities to city-regions

4.75 *The UK Economy: addressing the long-term strategic challenges* sets out the increasingly vital role that cities and their city-regions will play in driving regional and national prosperity and responding to new challenges. Building on the Sub-National Review, and Multi-Area Agreements in particular, **the Government will support city-regions to fulfil this role by agreeing, on a voluntary and tailored basis, a set of devolutionary proposals with local authorities in city-regions, to increase further their ability to drive economic growth and contribute to sustainable development.** The Government intends to announce new agreements with at least two forerunner city-regions at Budget 2009.

4.76 These proposals will support stronger integration of planning, housing, transport, regeneration, employment and skills to drive sustainable growth and economic development, ensuring policy decisions are made at the right spatial level. **The proposals will be underpinned by new statutory arrangements for sub-regional cooperation between local authorities, supporting strong local capacity, governance and accountability at the city-region level.**

4.77 RDAs will play a key role supporting sustainable growth within city-regions, as part of their broader role in driving up regional economic performance, and ensuring that city-region policies remain coordinated with those of other sub-regional and local economies. RDAs will support city-regions in developing proposals for devolutionary measures and work with city-regions to increase capacity where it is needed, as they increasingly take on a strategic programme management role. RDAs will also support strong city-regions through their role in formulating regional strategies.

4.78 New agreements will be developed with the local authority city-region leadership, in order to suit particular needs. The Government envisages that the following components will be available:

- increased statutory responsibilities for strategic transport issues;
- integration of the DWP three levels of devolution model, as announced in the Welfare Reform Green Paper;
- a city-region Employment and Skills Board, with strong employer representation and formal powers to influence provision in line with employer demand;
- a joint board between the city-region and the Homes and Communities Agency to provide strategic direction of housing and regeneration spending, in line with the Agency's area-based approach to working with local and regional partners;
- integrated city-region planning within the context of the Single Regional Strategy; and
- joint investment planning with key partners. As part of this, Government would consider the merits of greater flexibility over capital funding to support the more effective programme management of projects.