4 Supporting business

As set out in Chapter 2, the financial crisis has caused a steep and synchronised global downturn. This chapter outlines how Government support, alongside action to restore the flow of credit in the financial system, is helping businesses across the UK. Budget 2009 builds on this support with targeted measures that will help businesses' short-term cashflow, including:

- **further support to loss-making businesses, by extending the enhanced loss relief announced in the 2008 Pre-Budget Report for an additional year and expanding HMRC's Business Payment Support Service;**
- **enabling businesses to spread payment of this year's inflation up-rating to business rates over three years, as announced on 31 March 2009;**
- **a 'top-up' trade credit insurance scheme to help businesses maintain their finances, in which Government will offer to match private sector trade credit insurance provision, for a temporary period, if insurers reduce cover to any UK business; and**
- **for a temporary period, a vehicle scrappage scheme, co-funded with industry, that will enable consumers who scrap vehicles older than ten years to replace them with new vehicles at a discount of £2,000.**

Over the last decade, the UK has built up key strengths that provide a platform for growth as the UK emerges from the recession. Consistent with the strategic vision set out in *Building Britain's Future: New Industry, New Jobs*[a] published 20 April 2009, Budget 2009 announces a package of measures that will support the adjustment towards renewed economic growth and improve the UK's competitiveness, offering:

- **an increase in capital allowances for new investment to 40 per cent for one year, with effect from April 2009, to allow a higher proportion of private investment to be offset in that year against taxable profits;**
- **a £750 million Strategic Investment Fund to support advanced industrial projects of strategic importance, of which a third of the funding will be earmarked specifically for low carbon projects; and**
- **the implementation of a package of reforms to the taxation of foreign profits, including the introduction of an exemption for foreign dividends, supported by a limited restriction to the interest deduction rules.**

[a] *Building Britain's Future: New Industry, New Jobs*, HM Government, April 2009

Supporting business: response to the immediate challenges

4.1 The global downturn has hit confidence across the UK economy, with the recent British Chambers of Commerce *Quarterly Economic Survey* reporting historically low levels of business confidence across manufacturing and service sectors. The recession has put UK company finances under increasing pressure, with profits falling in the second half of 2008. Businesses have had to respond by drawing on cash deposits, cutting back on hiring and reducing investment.

Action to restore the flow of credit

4.2 The instability experienced in credit markets has had a widespread impact on all businesses, leading to restricted credit conditions and a decline in market confidence. As the global downturn intensified, the Government responded by taking decisive action to restore the flow of credit to credit-worthy businesses and individuals, as outlined in Chapter 3. In October 2008, the Government introduced a support package that prevented the collapse of the banking system, stabilised the financial sector and protected savers. As set out in Chapter 3, the Government has secured commitments to additional business lending by banks participating in the Asset Protection Scheme. This will help improve confidence in the financial sector as a whole, as well as support business lending and investment.

Supporting the economy

4.3 As global demand for goods and services has fallen, the Government took action in the 2008 Pre-Budget Report to stimulate the economy to help UK businesses through the recession, announcing a package equivalent to 1 per cent of GDP in 2009-10. As part of this stimulus package, the Government reduced the standard rate of VAT to 15 per cent on 1 December 2008. This temporary reduction has provided support to businesses by stimulating consumer spending, helping reduce business debt, and supporting demand. In addition, the 2008 Pre-Budget Report announced the bringing forward of £3 billion of public investment from 2010-11 to 2008-09 and 2009-10. To date, investment in energy efficiency, transport, further and higher education, and improving the social housing stock, has helped secure jobs and sustain businesses across the UK.

Ensuring sound public finances

4.4 Sound public finances are essential for macroeconomic stability, which gives businesses and individuals the confidence to plan and invest for the long term. The Government has set out its strategy to reduce borrowing as the economy recovers, as outlined in Chapter 2.

HELPING BUSINESSES: SUPPORT FOR CASHFLOW

4.5 Alongside measures to stabilise the financial system and boost demand, the Government has taken action to address the specific cashflow problems facing business as a result of the recession.

HMRC Business Support Service

4.6 The 2008 Pre-Budget Report launched HMRC's new Business Payment Support Service to offer help to businesses facing temporary financial difficulties to spread tax payments over a timetable they can afford. Box 4.1 sets out the number of businesses that have benefited from this service so far. HMRC will continue to offer this service for as long as it is needed **and, from 22 April 2009, this service will be expanded to allow businesses expecting to make losses to offset these against tax bills due on profits from the previous year which they are unable to pay.**

Box 4.1: Business Payment Support Service

In total, by 19 April 2009, the service has helped over 100,000 businesses, who collectively employ over 600,000 people, spread tax payments worth almost £2 billion. This has included corporation tax, VAT and payroll taxes including employers' National Insurance Contributions. Support has been provided across UK regions and sectors.

Table 4.1: Regional impacts of HMRC Business Support Service

Region	Number of agreements	Value of support received (£ million)
East Midlands	8,470	147
East of England	10,200	177
London	12,660	286
North East	3,430	59
North West	12,460	212
Northern Ireland	3,140	59
Scotland	7,250	132
South East	17,650	318
South West	13,170	186
Wales	4,540	63
West Midlands	9,790	179
Yorkshire & Humberside	9,200	156

Source: HM Revenue & Customs

Loss carry-back

4.7 The 2008 Pre-Budget Report announced a temporary, one-year extension of trading loss carry-back for businesses from one to three years, for losses up to £50,000. **To support more businesses through the downturn, this temporary extension will now apply for two years from 24 November 2008 for companies, and for the 2008-09 and 2009-10 tax years for unincorporated businesses.** Together, these changes are expected to give around 140,000 loss-making businesses greater tax repayments to support their cashflow.

Business rates

4.8 As announced on 31 March 2009, the Government will enable businesses to spread the payment of the April 2009 inflation up-rating to business rates over three years. The Government will also allow those affected by the end of the 2005 transitional relief scheme to spread payment of the increase in their bills over three years. Business ratepayers are now able to defer around £700 million across 1.8 million properties.

4.9 In the 2008 Pre-Budget Report, the Government announced a temporary increase for the year 2009-10 to the threshold at which an empty property becomes liable for business rates. This change came into effect on 1 April 2009, and over 70 per cent of business properties will not be liable for business rates in 2009-10 if they fall empty. This will be of particular help to small businesses managing the short-term pressures arising from difficult property market conditions.

Wider support for SMEs

4.10 To help those small businesses affected by the recession, the 2008 Pre-Budget Report announced that the small companies' rate of corporation tax would remain at 21 per cent for 2009-10. This will help around 800,000 payers of the small companies' rate in the UK. **In addition, the Government will increase from 1 May 2009 the VAT registration threshold in line with inflation from £67,000 to £68,000,** keeping around 6,000 small businesses out of the VAT system.

Access to finance

4.11 Recognising the problems that businesses across the country have faced as a result of tightened credit conditions, the Government has announced measures to improve the availability of finance to credit-worthy businesses. The delivery of these measures has helped businesses gain access to finance and improved short-term cashflow, as set out in Box 4.2.

Box 4.2 Improving the availability of finance for Small and Medium-sized Enterprises (SMEs)

Over the last six months the Government has introduced four new schemes to help businesses that are experiencing problems accessing finance. Progress against these schemes is detailed below:

- **Enterprise Finance Guarantee** – provides participating banks with a 75 per cent Government guarantee on individual loans to viable businesses with less than £25 million turnover. Since its launch on 14 January 2009, nearly £290 million of eligible applications from over 2,500 small businesses have been assessed, are being processed, or have been granted.
- **Working Capital Scheme** – delivering against its commitments, the scheme was launched on 2 March 2009 and since then the Government has signed £1 billion of guarantees with banks for their working capital lending portfolios totaling £2 billion, freeing up capital to enable banks to provide additional lending to businesses. The additional lending delivered as a result of the Working Capital Scheme will contribute to the lending agreements agreed by banks from 1 March 2009.
- **The Capital for Enterprise Fund** – is being delivered by fund managers Aberdeen Assets and Octopus Investments. Applications for £49 million of investment (out of a total fund size of £75 million) have been received and are being assessed.
- **RDA transition loan funds** – these funds have enabled 156 businesses to borrow almost £18 million to date, out of the total £56 million. As the Enterprise Finance Guarantee is now fully operational, these funds will close once fully committed.

Working capital scheme

4.12 Together with other Government interventions, including the Asset Proctection Scheme, the Working Capital Scheme (WCS) is helping to stabilise the financial system, providing banks with the capital required to meet businesses' lending requirements. In addition, the Government will be using the WCS to introduce new schemes aimed at improving firms' cashflow, including the Trade Credit Insurance Scheme, and the proposed new Export Credits Guarantee Department letters of credit – further detailed below.

Prompt Payment

4.13 To offer further support and help SMEs' cashflow, all central government departments have signed up to the Prompt Payment initiative helping bring forward payments from 30 to 10 working days. Government departments have made good progress against this target and, in March 2009, 90 per cent of payments against a total annual value of around £66 billion were made within 10 days. Payment times to suppliers have also improved in Local Authorities and, based on current performance, up to £16 billion of payments will be made within 10 days.

Trade Credit Insurance

4.14 In line with the Government's objective of providing targeted support to address specific challenges that business are facing, the **Government announces a 'top-up' trade credit insurance scheme to help UK businesses maintain their finances.** Under this scheme, the Government will offer to 'top-up' private sector trade credit insurance provision for six months, as outlined in Box 4.3. The scheme will be available to the 14,000 businesses that already use trade credit insurance and will mitigate against disruption to the supply chain and cashflow of the 250,000 companies they do business with, if their trade credit limits are reduced.

Box 4.3 Government Trade Credit Insurance

14,000 companies of all sizes currently buy trade credit insurance against supplies to over 250,000 UK businesses as a guarantee that their bills will be paid. Suppliers who experience reductions in credit limits may choose to stop future deliveries or refuse to extend credit, adding to pressures on firms potentially already facing difficulties and tending to reduce the level of trade.

From May 2009 until end December 2009, suppliers will be able to purchase six-months' 'top-up' insurance from the Government if credit limits on their UK customers are reduced, backdated to 1 April 2009, providing another alternative to the abrupt disruption of supply and cashflow, and giving time for the businesses affected to adjust to changing circumstances.

The Government has worked collaboratively with the private sector insurers, who will provide this product on the Government's behalf, to design a scheme that is well targeted and protects taxpayers' interests. Therefore, the amount available to each supplier if a company's credit limit is reduced will be that which either restores cover to the original amount, doubles the amount the company is able to obtain from the private sector, or £1 million, whichever is the lower.

The aggregate level of insurance provided under the scheme will be capped at £5 billion, and companies from all sectors of industry and from all stages of the UK supply chain will benefit from the increased certainty that this scheme provides.

ECGD Letters of Credit Scheme

4.15 To further support trade and short-term cashflow, the **Export Credits Guarantee Department (ECGD) will consult shortly on a new facility to provide Government support for short-term trade finance through sharing risks with banks in confirming letters of credit** – a facility that would give exporters greater certainty of payment when selling goods in difficult markets. Before the summer, the Government will conclude a review into what other support ECGD could provide to help exporters deal with the consequences of the current instability in financial markets.

Vehicle scrappage scheme

4.16 To give a boost to the car industry during the current downturn, the **Government announces the introduction of a vehicle scrappage scheme.** A discount of £2,000 will be offered to consumers buying a new vehicle to replace a vehicle more than ten years old which they have owned for more than twelve months. The Government will set aside £300 million for this scheme with funding matched by manufacturers participating in the scheme. The Government will work with industry to introduce the scheme next month. The scheme will end by the start of March 2010, or when funding for the scheme has been used if earlier.

Business rescue procedures

4.17 The Government will work to ensure that the regulations and procedures for dealing with troubled companies work to facilitate company rescues whenever they are appropriate, that the maximum economic value is rescued from companies that get into difficulties, and that the knock-on effects of company insolvencies on their creditors are minimised. **Budget 2009 announces that the Insolvency Service will consult on:**

- **providing for new funding lent to companies in Company Voluntary Arrangement (CVA) or administration to have absolute priority status, to allow firms in difficulties to access the funding they need to get back on track; and**
- **extending the moratorium on creditor action against small companies trying to agree a Company Voluntary Arrangement to medium and large companies, so giving them breathing space to try to reach agreement with creditors.**

4.18 To prevent creditors from being treated unfairly through abuse of pre-pack sales, **the Insolvency Service will also publish a report in June 2009 on the operation of the first six months of the regime monitoring pre-pack sales and will then publish further follow-up reports on an annual basis.**

PREPARING FOR THE RECOVERY: ENCOURAGING INVESTMENT

4.19 The global recession has triggered a restructuring of economies around the world. As the UK economy begins to recover and rebalance towards saving, investment and exports, private sector investment is likely to account for a larger proportion of economic growth. The Government will aid this rebalancing with support for private investment in the short term, alongside the highest level of public sector net investment as a share of the economy for 30 years in 2009-10, as outlined in Chapter 6. The Government will also continue to build on the various reforms and investment programmes of the last decade to enhance productivity growth.

Supporting private investment

4.20 Private sector investment drives economic growth and prosperity. Business investment accounts for around 10 per cent of GDP, and also affects future growth through improvements to productivity. Tighter credit conditions coupled with demand uncertainty, caused by the global economic downturn, have led to a reduction in private investment over the past year, and investment is expected to fall further this year. The Government is implementing targeted action that will support business investment and help the economic recovery.

First-year capital allowances

4.21 To encourage investment, **the Government will introduce a first-year capital allowance of 40 per cent for one year with effect from April 2009. Firms investing over £50,000 in qualifying plant and machinery in 2009-10 will benefit from a higher rate of tax relief on investment.** The 95 per cent of firms that currently invest up to £50,000 will continue to benefit from the Annual Investment Allowance that enables business to offset their capital expenditure against taxable profits.

Investment in energy and infrastructure

4.22 The Government recognises the important role that investment in infrastructure will play in securing a prosperous economic future. Government spending on transport has increased by 70 per cent in real terms over the last ten years, helping to deliver over 130 major road schemes and improve journey time reliability on the railways. In addition, the UK will need to replace the equivalent of half of its current energy generation capacity over the next two decades, with an expected £100 billion of investment over the next 10 years to deliver the Government's renewable energy target.

Regulated sectors

4.23 Companies in the regulated sectors will be making significant investment over the coming years, as set out in Box 4.4. As well as supporting the economy now, this investment will help ensure that the UK has the right infrastructure in place to prosper in the recovery. The Government strongly encourages companies in these sectors to work with the regulators to bring more investment forward where it is also in the interests of customers.

Box 4.4 Investment in regulated sectors

The regulated sectors will undertake a significant amount of investment over future years:

- in the regulated gas and electricity networks, investment for 2009-10 and 2010-11 is expected to be over £4 billion a year – nearly 50 per cent higher than the level of five years ago. This includes network enhancement projects and additional investment to help prepare the networks for renewable generation to meet energy security and climate change objectives for 2020 and beyond. Ofgem is also currently consulting on approval for a further £450 million of investment to connect two of the Scottish Islands' grids to the UK mainland;
- in the rail sector, Network Rail published an expenditure programme of some £34.6 billion last month for the five-year period commencing April 2009, with capital investment expected to be in excess of £4.5 billion in both 2009-10 and 2010-11. There is around £7 billion more capital investment in the new regulatory period compared with the last five years. This investment will see the completion of a wide programme of platform extensions, the rebuilding of Reading and Birmingham New Street stations, and completion of significant phases of the Thameslink upgrade. This is in addition to the significant programme of non-regulated investment in the rail industry;
- in the water industry, company business plans identify investment of £8.5 billion between 2008 to 2010, with nearly £4 billion expected in 2009-10 alone. This investment will contribute to the continued maintenance of infrastructure and the improvement of quality standards. Ofwat is working with water companies to agree substantial levels of investment for the next price review period and has given a preliminary assessment that £19 billion of investment should be financed over the period. The earlier certainty this gives companies should enable investment during 2010-11 to show a smooth transition to the new regulatory period; and
- the current settlement for the regulated airports (Heathrow, Gatwick and Stansted) allows for investment of £1.5 billion in 2009-10 and £1.3 billion in 2010-11, an increase of around 12 per cent compared to investment in 2007-09. This represents a substantial investment programme at a challenging time for the aviation industry.

Investment in UK's future energy sources

4.24 Following the consultation launched at the 2008 Pre-Budget Report, **the Government announces a package of measures to encourage the economic recovery of the UK's oil and gas reserves. This package will include the introduction of incentives to encourage investment in small and technically challenging fields,** which could assist in unlocking around 2 billion barrels of the UK's remaining oil and gas reserves. The package also includes **measures to assist asset trades and give companies the certainty and stability they need to underpin investment.**

4.25 The Government's energy policy is driving £50 billion of low-carbon investment, as outlined in Chapter 7. Budget 2009 introduces measures that will benefit businesses in the transition to a low-carbon economy, such as loans to increase energy efficiency. Other measures will drive low-carbon energy projects, such as action to improve the project economics for combined heat and power, offshore wind, and support for low-carbon manufacturing. The Government is also taking action to encourage the use of renewable heat and microgeneration technologies. These measures will support investment and job creation in the energy sector.

Road and rail networks

4.26 Budget 2009 confirms investment that will improve rail services for passengers and freight customers. Over £15 billion of Government investment in the rail industry has been confirmed for the next 5 years, underpinning investment in passenger rail operations and Network Rail's infrastructure investment programme, as set out in Box 4.4. In addition, around £200 million will fund the development of a Strategic Freight Network, improving links between major ports, freight terminals and distribution depots. This will help reduce costs to industry and support green objectives by switching freight traffic from road to rail. The Government also remains committed to maximising value for money from future sale of the key assets of London and Continental Railways Ltd., following completion of its restructuring.

4.27 An important part of the Government's infrastructure strategy targets the reduction of road congestion and journey times on strategic road corridors. As part of the National Roads Programme, the Highways Agency is in the final stages of negotiations to sign the M25 widening contract, with works planned to begin next month. This project will deliver significant journey time reliability benefits as well as employing up to 4,000 people a year during the construction period.

Efficient water markets

4.28 In the face of economic and environmental challenges, there is an increasing need to find ways to allocate, treat and use water more efficiently. The Government welcomes the independent *Cave Review: Competition and Innovation in Water Markets*[1], which publishes its final report alongside Budget 2009, as set out in Box 4.5.

Box 4.5 The Cave Review: Competition and Innovation in Water Markets

The Government welcomes the Review's findings on competition and innovation and will now take them forward in England. The Government will consult with stakeholders on the implementation of:

- the legal separation of large companies' retail operations to drive competition and deliver efficiencies in the supply of water to business users, following further work by Ofwat to establish whether it would be appropriate to introduce a threshold below which the Government would not mandate small companies to separate and, if so, the level at which this should be set;
- a package of further reforms to the upstream water supply licensing regime which includes the creation of new licenses and replacing the cost principle for supplies to incumbents, retailers, or large customers with a criteria to be determined by Ofwat outside legislation; and
- reforming the mergers regime for water and the inset regime that allow suppliers to replace another under limited circumstances.

The Government will take forward further work on the Review's recommendation to assign a value to water to drive efficiency in the usage of the underlying resource, and will discuss with stakeholders ways to take forward proposals to improve the water industry's ability to innovate.

The Government agrees with the Review's conclusions that the current case for extending competition to households is not convincing. Extending retail competition will remain a decision for the UK and Welsh Assembly Governments, on the basis of advice from Ofwat and industry stakeholders. The Department for Environment, Food and Rural Affairs will, before the summer recess, issue a consultation on the retail competition package in its entirety so that its outcome can be included in the final Floods and Water Management Bill, and will also set out in detail how the Government intends to take forward the rest of the Review's recommendations.

[1] *Cave Review: Competition and Innovation in Water Markets*, DEFRA, April 2009.

4.29 Maintaining a regulatory system that allows companies access to appropriate finance at affordable prices is a key priority for the Government. As part of a gradual approach to furthering competition in water markets, the Government will look to take forward measures following consultation with companies, investors, and other stakeholders.

Improving the UK's skills base

Supporting development of skills

4.30 The economic downturn presents new challenges and the Government has responded through measures to support businesses and individuals, as set out in Box 4.6. Budget 2009 announces further support through extra training places for 18-24 year olds, as part of the package to support the long-term unemployed set out in Chapter 5. Over the longer term, the Government remains committed to a more demand-led system for skills and achieving a world-class skills base by 2020, as outlined in the 2006 Leitch Review of skills.[2]

Box 4.6 Skills

Since October 2008 the Government has announced a package of measures that will help businesses and individuals develop their skills during the downturn. Progress on these schemes is detailed below:

- the Government has enhanced its offer to SMEs, making them the focus of the £350 million increase in Train to Gain resources between now and 2010-11. From January 2009, SMEs have been able to access a more flexible offer, including funding for units of qualifications in business-critical areas. This has been well received by employers;
- in January 2009 the Government committed to delivering 35,000 additional apprenticeships this year. At least 21,000 of these will be in the public sector. The new National Apprenticeship Service launched this month is fully functional and working to expand apprenticeships and provide a single point of contact for employers and apprentices; and
- the Economic Challenge Investment Fund is a matched funding scheme backed by the Higher Education Funding Council for England. This will provide investment totalling £59 million, which will give support to businesses and others as a route to economic recovery. In total the fund will benefit over 10,000 businesses and nearly 50,000 individuals.

The Government has also taken action to respond to growing unemployment, including support now available for over 100,000 individuals made redundant or reaching six months of unemployment, as outlined in Chapter 5.

Train to Gain

4.31 The established Train to Gain service is responding to the needs of employers with total funding available rising to £925 million in 2009-10 and over £1 billion by 2010-11. From April 2009, Train to Gain and Business Link brokers have come together under the Business Link brand offering a fully integrated information, diagnostic and brokerage service to employers. The Train to Gain service is providing sector specific support through Compacts agreed with Sector Skills Councils. These Compacts, now worth over £600 million, offer flexibilities to respond to the specific needs of employers within a sector, for example by providing support for repeat qualifications or higher level skills.

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

Focussing on innovation

4.32 The UK has one of the strongest science and research bases in the world, and future prosperity will depend increasingly on making the UK a leading knowledge economy. Budget 2009 sets out progress in delivering the Government's long-term strategy and further steps to support business innovation.

Access to growth capital

4.33 To address under-provision of venture capital for technology and high-growth businesses, the Government launched Enterprise Capital Funds. Over the last decade we have seen providers of development capital moving further away from smaller investments. As set out in *Building Britain's Future: New Industry, New jobs*, the Government will launch a review to consider whether, and in what form, further intervention could increase the supply of long-term growth capital to small and medium sized businesses. This will include options for a Public-Private Partnership similar to the predecessor of 3i, the Industrial and Commercial Finance Corporation, leveraging private sector capital to address gaps in growth finance and risk capital.

Tax and innovation

4.34 As part of the Government's commitments to examine the challenges facing the UK tax system and ensure its competitiveness, and its focus on supporting the high-value added priority sectors in which the UK can excell in the future, the Government will consider the evidence for changes to the way the tax system encourages innovative activity and the relative attractiveness to global firms as they make decisions on where to locate their research and development and other innovation activities. Working with representatives across the business community, the Government will examine the balance of taxation of innovative activity, including intellectual property. The Government will assess the evidence on the potential impacts of any reforms on economic activity, such as the development and exploitation of patents and other intellectual property, location of manufacturing, research and development, investment and employment (as well as where intellectual property assets are held), and on tax receipts. The Government will consider further with industry and set out its assessment and proposed approach before the 2009 Pre-Budget Report. This assessment will draw on the expertise of the Business-Government Forum on Tax and Globalisation and on existing analysis such as the *Review and Refresh of Bioscience 2015* report, as well as a wider range of stakeholders.

Technology Strategy Board

4.35 The Technology Strategy Board (TSB) is the Government's lead agency for supporting business innovation. Building on international best practice, the TSB is investing in new challenge-led funding mechanisms, and will launch four more Innovation Platforms in the current spending period. It is also investing in technology demonstration projects, such as the Low Carbon Vehicles Demonstrator Competition, and will implement a reformed Small Business Research Initiative (SBRI) across Government from April 2009, to help SMEs gain better access to Government research and development procurement opportunities. **The Government will set aside £50 million as part of the new Strategic Investment Fund to enable the TSB to increase its capacity to support innovation in areas which have high potential to drive future growth, such as low-carbon technologies, advanced manufacturing and the life sciences.**

STEM skills

4.36 To further improve the teaching and learning of science, technology, engineering and mathematics (STEM), the Department for Children, Schools and Families (DCSF) has announced investment of £3 million in the coming year for the Triple Science Support Programme to provide additional training for 2,000 teachers, roll out a national mentoring programme for non-specialist chemistry and physics teachers, and launch a pilot programme to target up to 20 Local Authorities with low or no uptake of triple science. **DCSF will also invest £2 million over the next two years on additional support to widen post-16 participation in physics and mathematics,** including specialist professional development programmes for teachers and working with schools to review whole school attitudes to science and maths.

Enhancing the UK's competitiveness

Strategic Investment Fund

4.37 *Building Britain's Future: New Industry, New Jobs* identifies the way that Government action can support the UK's economic renewal and future growth, for example by building on the UK's strengths in manufacturing, services and the science base. In support of this, to ensure the UK is in a stronger position to take advantage of opportunities as the global economy returns to growth, **the Government will establish a £750 million Strategic Investment Fund** to support advanced industrial projects of strategic importance. £250 million of this fund will be earmarked for low-carbon investments, a further £50 million for the TSB and £10 million for UK Trade and Investment (UKTI).

Supporting exports

4.38 The UK's trading strengths and its ability to access export markets will be an important contributor to future prosperity. The April 2009 London Summit set out an ambitious programme to promote global trade, including ensuring the availability of at least $250 billion over the next two years to support trade finance through national export credit and investment agencies and through the Multilateral Development Banks. To improve the availability of support for trade, **the Government will look at the existing and potential support offered by ECGD, and the ECGD's operating framework, with the aim of ensuring the organisation can play a significant role in supporting UK exporters during the economic recovery.** This review will be concluded before the autumn. In addition, to help UK businesses better showcase their strengths to overseas customers and markets, **the Government is channelling £10 million of the Strategic Investment Fund into UKTI to be spent on events to promote UK sector expertise both in the UK and abroad.**

Digital Britain

4.39 A modern knowledge-based economy will need to be underpinned by a strong communications infrastructure. Building on the UK's strong wired and wireless digital communications networks, the Government's ongoing Digital Britain Report has identified further challenges that need to be addressed now in order to ensure an even stronger platform for the future.

4.40 Budget 2009 announces that **the Government will pursue Universal Service in broadband, at a speed of 2 Megabits per second, by no later than 2012**. This target will allow virtually everyone to experience the benefits of broadband, including the increasing delivery of public services online. It will also offer advantages to UK businesses, both those located in areas that will benefit from the network upgrade and those that make use of online channels to engage with their customers. Universal Service will be complemented with **further support to improve basic digital skills and promote broadband take-up**, in order to ensure that adoption of broadband continues to grow in line with the expanding opportunities available. The Government will consult with the BBC Trust on how the emerging underspend from the Digital Switchover Help Scheme can be drawn on to fund Universal Service and take-up. If necessary, the cost would also be met through additional funding mechanisms, as set out in the Digital Britain Interim Report. Details will be set out in the Final Digital Britain Report.

4.41 The Government also recognises the important role that next-generation broadband can play in developing the UK's digital communications infrastructure. In advance of the Digital Britain final report, **the Government will review the powers and duties of Ofcom to ensure it can strike the right balance between delivering competition and encouraging investment in the communications infrastructure**. In addition, the temporary increase in capital allowances for new investment, outlined above, will support businesses investing in the communications infrastructure. To stimulate economic activity, **the Government has also approved 'Digital Region', a £100 million project led by Yorkshire Forward**, which will roll out next-generation broadband to South Yorkshire.

4.42 Access to suitable radio spectrum is critical to the future extension of mobile communications technologies. The Digital Britain Report is currently concluding the Spectrum Modernisation Programme to enable the early deployment of next-generation mobile networks. Internationally, it will also be important to agree this summer a revised EU Telecommunications Framework. These actions will provide the sector with further opportunities for innovation, competitiveness and growth, including through commitments to move towards greater liberalisation of spectrum, which supports up to 2.5 per cent of the EU's GDP.

Creative industries

4.43 In 2008, the Government published *Creative Britain*[3] - a strategy for supporting this important sector of the economy. Since then, the Government has launched a number of programmes in support of this strategy. These include ten Find your Talent pathways, a £25 million programme to provide children with opportunities to take part in a wide range of high quality cultural experiences, and a £10 million programme of research and development for the creative industries, led by the TSB, which is awarding grants to almost 300 UK-based companies and academic institutions. The Government will continue to build on this work. In June 2009, the Government will publish national best-practice advice on business support for the creative industries for Business Links in each participating region. In July 2009, the Local Government Association and the Work Foundation will publish a toolkit of actions to help Local Authorities support creative industries in their areas. In October 2009, the first Creativity and Business International Network (C&binet) conference will take place, which will raise the international profile of the UK's creative industries and address a range of issues of importance to creative sectors, including intellectual property. To improve the skills base of the creative industries, Sector Compacts with the Sector Skills Councils that cover the creative industries will tailor Train to Gain provision to meet the particular needs of employers.

Life sciences

4.44 Life sciences research presents significant potential for new applications and markets in advanced economies with ageing populations. The Government has created a new Office for the Life Sciences (OLS), which will work with industry to make further improvements in the operating environment for the pharmaceutical, medical biotechnology, and healthcare technology industries in the UK, culminating in the publication of a Life Sciences Industrial Strategy this summer. As a first step, the Government will publish its response to Sir David Cooksey's *Review and Refresh of Bioscience 2015* in May 2009. This will set out action in a number of priority areas, including stronger incentives to support participation in clinical research and steps to promote innovation in the NHS, and action to tackle regulatory barriers and skills gaps.

Low-carbon

4.45 The low carbon and environmental goods and services sector in the UK is projected to grow by up to £45 billion by 2015, taking its total up to £150 billion, as set out in Chapter 7. By then the sector could employ 1.3 million, up by 400,000 from today. The shift towards a more sustainable economy and the rising demand for low carbon products and services will present further challenges and opportunities for UK businesses.

4.46 In support of further opportunities for wind and marine energy, manufacturing and other low carbon investments, **£250 million will be allocated from the new Strategic Investment Fund to help UK industry benefit from low-carbon investment opportunities. Combined with further funding set out in Chapter 7, this will mean £405 million to support the development of the low-carbon energy and advanced green manufacturing sector in the UK.** The funding will not only support the development and deployment of low-carbon technologies but will also help attract and protect investment in the UK's renewables sector.

[3] *Creative Britain: New Talents for the New Economy*, DCMS, February 2008.

Investment across the regions

4.47 Successful regions and places are essential in a globalised economy to drive competitiveness and support businesses in the UK. Over the past decade, the Government has devolved decision-making to the most appropriate administrative level, recognising the need for programmes to take account of regional and local economic conditions and to be tailored to meet local needs effectively.

4.48 Recognising the importance of city-regions to future growth, **the Government announces new pilot city-regions in Greater Manchester and Leeds.** The pilots will be overseen at ministerial level, and will draw on recent work from the Manchester Independent Economic Review and on innovation in the Leeds city-region in order to agree joint priorities with the Government that will support economic growth. The Government will work with the pilots to develop proposals for new strategy-setting powers over adult skills funding, expected to be in place within three to six months, new joint investment boards with RDAs, the Home and Communities Agency (HCA) and other partners to coordinate and align investment and pilot new employment programmes.

4.49 The Government is also interested in developing new opportunities for innovative financing mechanisms to support locally driven investment in growth and regeneration. **The Government will work with interested local authorities and city-regions to assess the scope for accelerating development by allowing investment in infrastructure to be financed from the increased property tax base that could be enabled by the existence of improved infrastructure.** As part of this, the Government will explore with local authorities the potential benefits, costs and feasibility of piloting such an approach. In the 2009 Pre-Budget Report, the Government will report on this analysis and the options for taking it forward.

ENSURING THE UK REMAINS AN ATTRACTIVE PLACE TO DO BUSINESS

Reforming tax and regulation

Foreign profits

4.50 The 2008 Pre-Budget Report announced reforms to the taxation of foreign profits, representing a move towards a more territorial system of taxing foreign subsidiaries. **The Government announces the introduction from 1 July 2009 of an exemption from tax for foreign dividends received by all companies. This will be supported by a limited restriction to the interest deduction rules, which has been refined following discussions with business and will be introduced for accounting periods beginning on or after 1 January 2010.** Furthermore, consequential changes to the controlled foreign companies (CFC) rules and replacement of the Treasury Consent rules with a post-transaction reporting requirement will be introduced from 1 July 2009.

4.51 In addition, **the Government announces that it will exempt from tax dividends received from UK companies by corporate members of the Lloyd's insurance market; this will align their tax treatment with that of general insurance companies.**

4.52 The 2008 Pre-Budget Report signalled the Government's intention to continue to examine longer-term options to reform the UK's CFC rules. The reform aims to enhance UK competitiveness by seeking to improve the way the CFC rules achieve their objective of taxing profits diverted from the UK. Initial evidence gathering is under way and a liaison committee has been established to strengthen business involvement and complement wider consultation with stakeholders.

Tax simplification

4.53 The Government announces further progress on tax simplification from its four reviews:

- **VAT rules and administration: from 1 April 2009, the Government simplified the operation of the VAT standard partial exemption method, reducing compliance costs for up to 120,000 mainly smaller businesses.**
- **anti-avoidance legislation: the Government will consult this summer on proposed improvements to transactions in securities legislation and publish a discussion document on the greater alignment of purpose tests in tax law.**
- **corporation tax rules for related companies: the Government will simplify the corporate gains rules for notional transfers within a group of companies and will publish a discussion document on further simplification of group aspects of corporate gains by the summer. The Government will also consult this summer on further simplification of the associated company rules.**
- **corporation tax calculations and returns for smaller companies:** responses to the 2008 Pre-Budget Report discussion document, a summary of which will be published shortly, indicated little support for the options outlined and the Government will not pursue these. There was greater interest in simplifying accounting requirements, and BERR will draw on these responses when considering the scope to simplify accounting rules for micro companies under European Commission proposals. HMRC will consider whether any changes create scope to make simplifications to the tax calculations for micro companies.

4.54 As set out in this and other chapters, the Government also announces further targeted tax simplifications to reduce burdens on business, benefiting sectors across the UK economy. These measures include **permanently aligning the three-line account threshold for income tax self-assessment with the VAT registration threshold, enabling around an additional 800,000 businesses to submit shorter tax returns.**

4.55 Since 2006, the Government has implemented or committed to new measures that will deliver savings to business of around £540 million a year. **Alongside Budget 2009, HMRC is publishing an update on progress against its administrative burden reduction targets along with details of measures it is taking to support businesses.**[4]

Regulation

4.56 The Government is continuing its drive to minimise regulatory burdens, to improve the quality of new regulation and to review and simplify existing regulation. Departments are on track to reduce administrative burdens of regulation by 25 per cent between 2005 and 2010, saving business £3.4 billion a year. To ensure that national and local regulators help business to comply with the law efficiently, the recently launched voluntary Primary Authority Scheme will provide greater certainty to businesses that deal with multiple local authorities.

4.57 To improve the quality of regulation and ensure that it is assessed as to whether it has achieved its objectives, in 2008 the Government committed to publishing reviews of all Acts of Parliament passed since 2005 within three to five years of Royal Assent. The Cabinet Office is working with all departments to ensure that Government delivers on this commitment. The first such review was published in December 2008 and all reviews on other Acts of Parliament passed in 2005 will be published by 2010.

[4] *Delivering a new relationship with business: Reducing burdens and supporting business*, HMRC, April 2009.

4.58 The Government has announced that it will establish a new regulatory management framework, which will include a sub-committee of the National Economic Council and a new advisory panel, the Regulatory Policy Committee. The Government has also committed to publish its forward programme of regulation regularly to increase the transparency of the regulatory process, and to set further targets for simplifying regulation between 2010 and 2015. The Government will work closely with EU partners to strengthen the EU better regulation agenda and ensure the current pressures on business are taken into account when new European regulation is being considered.

Supporting enterprise

Public procurement for SMEs

4.59 Following the recommendations of the Glover Committee, the Government will introduce a series of reforms by the end of this year to improve access to Government contracts for SMEs. These include the measurement of SME spend, flagging SME-friendly contracts, guidance and tools for simplified pre-qualification procedures, and training for procurers and SMEs. A single, free of charge, opportunities portal will be delivered by December 2010.

Business Support Simplification Programme

4.60 The Government launched in March 2009 the Solutions for Business portfolio, which defines the range of business support provided by all levels of Government – nationally, regionally and locally. All new forms of business support will also be delivered through this portfolio. This is a step towards delivering the Business Support Simplification Programme, which will reduce the number of Government schemes from over 3,000 to no more than 100 by March 2010. Building on this, the Government will publish, alongside the 2009 Pre-Budget Report, a detailed report on progress against delivery that will set out what has been achieved, give early indications of the associated benefits, and outline the strategy for maintaining and building on this simplified framework in the future.

Venture Capital Schemes

4.61 In addition, **the Government announces four legislative changes to the Enterprise Investment Scheme (EIS), as a result of consultation last year, that will simplify and improve the operation of the scheme.** One of the changes, relaxing the timing rules for employing money raised from an EIS share issue, will also be applied to the Venture Capital Trust and Corporate Venturing Schemes.