

Following a year in which the global economy entered the most severe and synchronised recession since the Great Depression, the Government is determined to ensure that the UK remains an attractive place to do business, and to create a strong and stable platform for future growth.

The action that the Government is taking to put the public finances onto a sustainable footing, and to ensure that the financial markets are properly functioning, is key to providing the macroeconomic stability that business needs.

In addition to action economy-wide, the Government continues to take targeted measures to:

- support businesses into the recovery: by **continuing the Business Payment Support Service** that has already enabled over 160,000 businesses to spread over £4 billion of tax; **extending the temporary increase in the threshold for empty property rate relief**; and **further deferring the increase in the Small Companies' Rate of corporation tax**;
- ensure that business has access to the capital it needs: through the legally binding lending commitments made by the Royal Bank of Scotland and Lloyds Banking Group; by making an additional £500 million of lending available to small and medium-sized enterprises through **a 12-month continuation of the Enterprise Finance Guarantee**; and by **creating a new Growth Capital Fund**, along with the £325 million UK Innovation Investment Fund;
- build on the unprecedented investment in infrastructure over the last decade and ensure the UK is ready to face the challenges of the transition to a low-carbon economy by **creating Infrastructure UK**, which will help facilitate private sector investment in infrastructure, and help ensure that publicly-funded infrastructure is effectively prioritised and delivered; and
- drive innovation by **introducing a Patent Box**, a reduced rate of corporation tax applying to income from patents from April 2013, to strengthen the incentives to invest in innovative industries, and through **additional funding of £200 million for the Strategic Investment Fund** that will include £150 million to support low-carbon investment, as set out in Chapter 7.

4.1 The world was hit by a succession of severe shocks during 2007 and 2008, creating a difficult environment in which to do business. As Chapter 2 sets out, the Government has taken timely action to protect the UK economy, and the substantial monetary policy support that is in place will provide an ongoing and powerful stimulus to spending by businesses and individuals. In addition, the Government's decisive action to support the financial system (as set out in Chapter 3) was vital to ensure that the financial markets could continue to meet the needs of business and the economy as a whole.

4.2 The Government has also provided a substantial amount of targeted support to help all businesses through the recession. This chapter describes how these measures, added to the underlying flexibility of the UK economy following a decade of investment and supply-side reforms, have helped UK firms to withstand the recession. Looking forward, the Government will ensure that the UK is well-placed to meet challenges and opportunities as the world economy recovers. This means creating a stable macroeconomic platform that gives UK firms the confidence to make long-term investment plans and provides businesses with access to the finance they need to support growth. It also means ensuring that the UK's infrastructure meets the needs of the future, particularly during the move to a low-carbon economy. Finally, it means creating the conditions that foster innovation and enterprise, including by maintaining open and competitive markets, and equipping people with the skills they need for the jobs of the future.

Sustainable public finances **4.3** Ensuring sound public finances is key to macroeconomic stability. The action that the Government is taking to reduce public sector borrowing, as set out in Chapter 2, will help to maintain low long-term interest rates. While some consolidation will come through increased taxation, the majority of the planned action will be through measures to reduce the growth in public expenditure. This action to reduce the deficit follows a decade of unprecedented levels of investment in transport infrastructure, skills, higher education, science and research, and action to support enterprise, innovation and competition. As set out in Chapter 5, further increases to national insurance contributions are also announced in this Pre-Budget Report in order to protect priority public services.

SUPPORTING THE RECOVERY

4.4 The Government has provided substantial support for cashflow and investment to help viable businesses through the downturn. Evidence suggests businesses are weathering this recession better than in the past. For example, in the 1990s recession, the average company liquidation rate in England and Wales was around two and a half times higher than the levels seen over the last four quarters. As the economy moves towards recovery, the Government will continue to provide support where it is needed.

Business Payment Support Service **4.5** The 2008 Pre-Budget Report launched HMRC's Business Payment Support Service to help viable businesses facing temporary financial difficulties to spread tax payments over an agreed timetable. The service has supported over 160,000 businesses, collectively employing more than 1.2 million people, spread over £4 billion of tax. Of this, more than £3 billion has already been repaid. All requests continue to be assessed on the same basis as when the service was introduced. **HMRC will continue to offer this service as part of its time to pay arrangements.**

Business Rates **4.6** The Government has provided business rates support worth in the region of £1 billion in 2009-10 to help businesses manage their cashflow. In March 2009, the Government announced that businesses could spread payment of the April 2009 inflation up-rating to business rates over three years, helping ratepayers for an estimated 1.8 million properties in Britain. The Government also temporarily increased the threshold at which empty properties are liable for business rates to £15,000, exempting an estimated 70 per cent of empty properties. In addition, the Government has legislated to allow certain businesses facing significant backdated business rates bills, including occupiers of ports, more time to pay their liability. On 18 September 2009, the Government removed the requirement for businesses receiving small business rate relief to reapply for relief at revaluation.

4.7 To give support during the transition to recovery, **the Government is maintaining for a further year the temporary increase in the threshold at which an empty property becomes liable for business rates.** For financial year 2010-11, empty properties with a rateable value of less than £18,000 will be exempt from business rates, exempting an estimated 70 per cent of empty properties. This higher threshold reflects the effects of business rates revaluation. 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 reuse empty property, and avoids subsidising owners of empty properties.

Small Companies' Rate of corporation tax **4.8** To provide further support for small companies during the recovery, **the Government is deferring, for an extra year, the planned increase in the Small Companies' Rate of corporation tax.** The rate will remain at 21 per cent during 2010-11. This will help around 850,000 payers of the Small Companies' Rate in the UK. The Government remains committed to the aims of the business package announced at Budget 2007, to refocus incentives towards investment and growth, and to reduce the differential between incorporated and unincorporated businesses.

Capital allowances **4.9** At Budget 2009, to encourage private sector investment, the Government temporarily introduced an enhanced first-year capital allowance of 40 per cent for expenditure incurred in 2009-10. This is providing substantial support for business investment during the worst of the downturn and the transition to recovery, and will come to an end as planned in April 2010. As long as the obligation to pay becomes unconditional during 2009-10, the enhanced capital allowance can be claimed, even if payment is not due for up to four months after. All businesses that invest will continue to benefit from the Annual Investment Allowance, which allows the first £50,000 of capital expenditure to be offset against taxable profits.

Loss carry-back **4.10** The temporary extension of trading loss carry-back from one to three years, for losses up to £50,000, continues to give loss-making businesses greater tax repayments to support their cashflow. This support applies for two years until 23 November 2010 for companies, and for the 2008-09 and 2009-10 tax years for unincorporated businesses. It allows an estimated 90 per cent of eligible businesses to claim full relief on their losses and is providing an average repayment worth more than £4,000.

Automotive sector **4.11** The temporary vehicle scrappage scheme was announced at Budget 2009. Over 274,000 orders have already been placed through the scheme. This has provided a timely boost to the automotive and trades sector. Building on this success, the Government announced in September 2009 that it would provide a further £100 million for the scheme, to support up to a total of 400,000 vehicle sales. The Automotive Assistance Programme also remains open to provide support where necessary for ongoing investment in the automotive sector.

VAT rates **4.12** As announced in the 2008 Pre-Budget Report, the standard rate of VAT will return to 17.5 per cent on 1 January 2010. The Government is working to minimise the associated administrative costs for businesses. The Government has given certainty about the end of the temporary reduction with a long lead-time from the announcement at the 2008 Pre-Budget Report. HMRC has also set out the arrangements for a period of grace for those businesses trading across midnight. The Department for Business, Innovation and Skills (BIS) is amending the rules enforced by trading standards on pricing to give retailers more time to display any changes to prices. **Rates for the VAT Flat Rate Scheme are also updated to reflect the standard rate change and the latest sectoral payment data from 1 January 2010.**

Trade Credit Insurance **4.13** The Trade Credit Insurance top-up scheme delivers targeted help for businesses, providing top-up cover for six months where suppliers have faced reductions in private sector insurance since October 2008. On 20 August 2009, the price of participating in the Government scheme was reduced and eligibility criteria were loosened. The scheme has given businesses breathing space to adapt to the new situation in the trade credit insurance market. As planned, the scheme will close to new customers at the end of December 2009.

ENSURING ACCESS TO FINANCE

4.14 The Government has taken decisive action to maintain financial stability, with the aim of restoring confidence in the banking sector and ensuring that creditworthy borrowers have access to funding. The Government and authorities will continue to strengthen stability and confidence in the UK financial services industry, to protect and enhance competitiveness in financial services, and to promote and ensure a fair deal for consumers. Further details are set out in Chapter 3.

Lending commitments **4.15** To help provide continued confidence to businesses in accessing bank finance, the Royal Bank of Scotland (RBS) and Lloyds Banking Group (Lloyds) lending commitments will remain in place until March 2011.

Bank Customer Charters **4.16** The Government also recognises that some small and medium-sized enterprises (SMEs) are still having problems accessing affordable finance. To help address this issue the Government has agreed Customer Charters with RBS and Lloyds. The Charters increase the transparency of pricing for SMEs, which will help these businesses understand the conditions of their loan and how the price they are paying has been arrived at. The Charters also include promises to cap fees on lending for the majority of SMEs. The Charters apply to over 98 per cent of these banks' customer base. More information can be found on the Lloyds and RBS websites¹.

Enterprise Finance Guarantee **4.17** The Enterprise Finance Guarantee (EFG) provides participating lenders with a 75 per cent Government guarantee on individual loans to viable businesses with turnover of less than £25 million, that are at the margins of commercial lending. Since its launch in January 2009, nearly £1 billion of eligible applications from almost 9,000 SMEs have been granted, are being processed or are being assessed. Recognising the continuing challenges that smaller businesses face in accessing finance, **the EFG will be continued for a further 12 months.** This will enable £500 million of additional bank lending to SMEs between April 2010 and March 2011 – lending that would not otherwise take place.

European Investment Bank funding **4.18** The 2008 Pre-Budget Report announced that small businesses stand to benefit from up to £4 billion of funding from the European Investment Bank (EIB) by the end of 2011 and that UK banks would secure £1 billion of this finance by the end of 2008. Box 4.1 sets out how the Government has supported UK businesses in accessing EIB funding over the last year.

Box 4.1: Access to lending from the European Investment Bank

Since the start of 2009, the EIB has signed or approved £8 billion worth of loans to the UK, which is £3.5 billion more than in 2008. The Government is committed to helping UK businesses and projects to continue to access EIB finance.

Following on from Government announcements since the 2008 Pre-Budget Report:

- UK banks have secured £1.39 billion of SME funding from the EIB and approved over £700 million for lending to small businesses;
- the EIB has approved £515 million worth of loans for green research and development to UK automotive companies;
- the EIB is helping to finance several UK energy and renewables projects by providing up to £4.5 billion of lending, supporting up to £9 billion of investment; and
- over £3 billion of EIB finance has also been agreed for vital UK infrastructure projects, such as Crossrail and the London Array offshore wind farm.

The EIB is also supporting JEREMIE regional lending schemes for SMEs in the North East, North West, and Yorkshire and Humber, worth a total of £380 million including grant support from the European Regional Development Fund.

Working Capital Scheme **4.19** The Working Capital Scheme (WCS) was introduced in January 2009 to encourage additional lending to business, by providing guarantees on the working capital loan portfolios of participating banks. Guarantees totalling over £2 billion have now been provided through the WCS and, as similar Government support is now available through the broader Asset Protection Scheme, the WCS will not be extending any further guarantees.

Capital for Enterprise Fund **4.20** Launched in January 2009 to support viable, but over-leveraged, businesses, the Capital for Enterprise Fund has so far made offers totalling over £45 million, which will convert debt into equity to support business growth. This temporary support measure will be closed to new investments, as planned, in March 2010.

¹www.lloydsbankinggroup.com and www.rbs.com.

Growth Capital Fund **4.21** The *Rowlands Growth Capital Review*², published in November 2009, concludes that there is a structural problem in the availability of growth capital to SMEs. The Review recommends the creation of a growth capital fund to provide a new channel to attract private sector investment into UK SMEs seeking £2-10 million.

4.22 **The Government accepts these recommendations and announces the creation of a Growth Capital Fund that will target SMEs for which traditional bank finance is either inappropriate or unavailable.** Following an initial approach from the investment banking community and further contact with the retail banks, the Government is in discussions with a group of global and UK banks that want to ensure that they are able to play a meaningful role in ensuring the UK's economic recovery. The Government will work rapidly with these banks to establish a world-class, fully commercial Growth Capital Fund that will work for the benefit of the economy and will be announcing initial investors and fund structure in 2010.

UK Innovation Investment Fund **4.23** The UK Innovation Investment Fund (UKIIF) was launched by the Prime Minister in June 2009 as part of the Government's strategy for Building Britain's Future. It will invest venture capital in technology companies with high growth potential across important sectors such as life sciences, clean technologies, digital and advanced manufacturing. **The Government announces that, following a competitive tendering process and detailed due diligence, and subject to contract, the fund of funds manager mandates will be awarded to Hermes Private Equity and the European Investment Fund.** The UKIIF will provide for total funding of £325 million at first closing, which it is hoped will take place in January 2010. This funding will be divided as follows:

- £125 million for targeted investment in a fund of funds, focussed on low-carbon technology, to be managed by Hermes Private Equity; and
- £200 million for investment in a general technology fund of funds, to be managed by the European Investment Fund.

Tax-advantaged venture capital schemes **4.24** In April 2009, the Government received formal state aids approval from the European Commission for the UK's three tax-advantaged venture capital schemes: the Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCTs) and the Corporate Venturing Scheme. To date, the schemes have raised around £10 billion, which has been invested in around 16,000 small companies.

4.25 A final set of changes are required to secure state aids approval. **Alongside this Pre-Budget Report the Government has published draft legislation on these changes, allowing time to consult before the legislation is introduced in Finance Bill 2010.** Introducing these changes will provide certainty to the venture capital industry, investors and small companies over the future of these important schemes. To ensure the EIS and VCT schemes continue to be targeted on companies affected by the equity gap, **the Government will also begin immediate discussions with industry to ensure the effectiveness of the current thresholds for qualifying companies, based on draft legislation also published alongside this Pre-Budget Report.**

Non-bank lending channels **4.26** The Government is looking at ways to diversify sources of finance available to business by facilitating the development of non-bank lending channels. Working closely with the Bank of England, HM Treasury has been exploring with a range of stakeholders the different factors that could constitute barriers to some businesses accessing non-bank lending. As set out in Chapter 3, HM Treasury will launch a discussion paper on non-bank lending channels in the UK. HM Treasury will be advised by the Bank of England and the Financial Services Authority, working with BIS.

²Rowlands Growth Capital Review, BIS, November 2009.

INVESTING IN INFRASTRUCTURE

Supporting infrastructure investment **4.27** Modern, resilient infrastructure is critical to the UK's economic growth and competitiveness. The Government has a strong track record of direct investment and supporting private sector investment in infrastructure. To support continued investment that enables economic growth, the Government will:

- proceed with a **£1.1 billion rail electrification programme for the Great Western Main Line and Liverpool to Manchester. A further announcement on electrification will be made shortly, and the Government will also continue to evaluate the case for electrification of the Midland Main Line from London to Sheffield;**
- **start work in December 2009 on the £400 million M1 improvement scheme. The Scheme will increase capacity from Junctions 10 to 13 through hard-shoulder running. This continues the Government's innovative and cost-effective 'managed motorways programme'; and**
- **respond in the first quarter of 2010 to proposals from High Speed 2 Ltd for a new high speed line from London to the West Midlands and to Scotland.**

Facilitating private sector infrastructure investment **4.28** Over the last 10 years, the stable regulatory framework has led to over £100 billion in private sector infrastructure investment, which the Government continues to take action to facilitate. This includes making reforms to the planning arrangements for nationally significant infrastructure projects, most recently by publishing the first draft National Policy Statements, covering energy and ports³. The Government also supports private sector incentives to invest, such as through the Renewables Obligation, which has tripled the UK's renewable capacity since its introduction. Chapter 7 sets out further measures to facilitate and support investment in low-carbon infrastructure. In March 2009, the Government created The Infrastructure Finance Unit (TIFU) to ensure Private Finance Initiative (PFI) projects continue to reach financial close.

Improving market frameworks **4.29** The Government continues to take action to ensure that economic regulatory structures can meet the needs of the future. Following extensive consultation, **the Department for Transport (DfT) will publish shortly a package of measures to reform the economic regulation of airports, to encourage timely and appropriate investment in airport infrastructure, and to improve the passenger experience.** As set out in Chapter 7, the Government is also announcing that it is assessing the energy market and policy framework to facilitate investment in low-carbon infrastructure.

Infrastructure UK **4.30** Looking to the decades ahead, and as the UK moves to a low-carbon economy, the challenge to modernise and adapt the UK's infrastructure will only intensify. Up to £200 billion in infrastructure investment could be required over the next decade. While the majority of funding will need to come from the private sector, there is an important role for Government to facilitate the necessary investment. In Building Britain's Future the Government announced that it would establish Infrastructure UK, to identify the country's long-term infrastructure needs over a 5 to 50 year horizon and to consider the interdependencies between different types of infrastructure, and where there are efficiencies and synergies to be exploited.

4.31 The stakeholder consultation exercise carried out by Lord Davies of Abersoch has shown that Infrastructure UK has widespread support, with appetite from business for the long-term focus on infrastructure and clarity on priorities it will help bring. The Government intends to build on this, and establish Infrastructure UK as a focal point for the

³Published by the Department of Energy and Climate Change, and the Department for Transport, November 2009.

UK's infrastructure strategy and its long-term development and delivery. It will work with government departments, private sector infrastructure investors, contractors and operators, and with the independent regulators where appropriate, to ensure the UK develops and delivers the national infrastructure businesses and citizens need.

4.32 To achieve this **the Government intends, within Infrastructure UK, to bring together TIFU, HM Treasury's Public-Private Partnership (PPP) policy team and the capabilities within Partnerships UK (PUK), which support the delivery of major projects and programmes.** The Treasury has commenced discussions with PUK's Board with a view to achieving this during 2010. **Infrastructure UK will be based in HM Treasury and will be chaired by Paul Skinner,** former Chair of Rio Tinto, and previously a Group Managing Director of Royal Dutch Shell, who has a wealth of experience in the development of major capital projects. **The immediate priorities for Infrastructure UK are set out in box 4.2.**

Box 4.2: Infrastructure UK

Infrastructure UK's immediate priorities will be to:

- develop a strategy for the UK's infrastructure over the next 5 to 50 years, to be published at Budget 2010;
- work closely with infrastructure developers and funders to make recommendations at Budget 2010 to stimulate increased private sector investment in infrastructure, focussing on unlocking new sources of private capital and developing new funding models, building on the success of PFI/PPP;
- manage the Government's investment in the 2020 European Fund for Energy, Climate Change and Infrastructure;
- support HM Treasury in prioritising the Government's investment in infrastructure, to ensure value for money is achieved in a period of fiscal consolidation;
- consider how technological innovation can be supported by our future infrastructure; and
- work closely with the Office of Government Commerce and other government departments to support the delivery of major infrastructure projects and programmes and to build stronger infrastructure delivery capability across government.

Infrastructure UK's initial work programme will also include:

- supporting HM Treasury and the Department of Energy and Climate Change (DECC) in their work to report on how to ensure the electricity market framework can most effectively deliver the low-carbon investment needed in the long term. Infrastructure UK will explore, among other options, the case for a low-carbon investment institution;
- working with DfT on the Government's response to proposals for a new high speed line to the West Midlands and beyond, including on options for how such a new line could be funded and delivered; and
- supporting BIS in delivering a Universal Service Commitment in broadband by 2012 and providing further support to achieve private sector roll-out of next generation broadband to 90 per cent of the population by 2017.

North Sea fiscal regime

4.33 Maximising the economic production of the UK's oil and gas reserves is important to ensuring access to secure and affordable energy supplies. Following discussions with industry stakeholders, **the Government announces changes to the criteria for the Ultra High Pressure, High Temperature field allowance.** These changes could support the recovery of up to 300 million additional barrels of oil and gas from the North Sea. **The Government also announces a package of further technical changes to ensure the fiscal regime is effective in supporting investment.**

4.34 The area to the west of the Shetland Islands is still largely underdeveloped, and could contain up to 20 per cent of the UK's remaining reserves. The Government is currently in discussions with industry regarding the economics of developing infrastructure in this area, and the case for any fiscal support.

Local investment **4.35** Local government and city regions (further details of which are set out in Chapter 6) have a vital role in driving economic outcomes, including through delivering the investment in infrastructure and housing needed for growth. To support local infrastructure provision, following consultation the Government will shortly announce detailed arrangements for the implementation of the Community Infrastructure Levy (CIL) from April 2010. The Government is also interested in exploring, subject to the overall fiscal position, what further finance mechanisms, powers and flexibilities could support local authorities to drive growth and innovation most effectively.

4.36 In light of this, **the Government will continue to examine the framework that would be needed to implement Tax Increment Financing and consider the primary legislation that would be needed if schemes were to be introduced. The Government will also examine the scope for local authorities to borrow against:**

- **future CIL revenues, to enable further investment in the infrastructure required to support growth;**
- **Renewable Heat Incentive and Feed-in Tariff revenue streams, to support further investment in low-carbon technologies; and**
- **revenues from new council homes, to support the delivery of housing where this offers value for money, and the Government will consider interactions with wider reforms of the council housing finance system.**

Planning regime **4.37** An effective planning regime is a key enabler of investment and the Government is continuing to reform the planning system to deliver speed, clarity and consistency, supporting business, productivity and economic growth. The Infrastructure Planning Commission was launched in October 2009 to increase the speed and certainty of decision making for major projects. It will unite eight former consents regimes into a single process, cutting the time taken to make decisions from up to seven years to under a year and providing savings of up to £300 million a year. Alongside this, the local planning process is being reformed and streamlined, saving business £50-100 million per year. The Government will shortly publish a revised Planning Policy Statement for economic development, to ensure planning applications that secure sustainable economic growth are considered favourably.

DRIVING INNOVATION

4.38 Innovation is a key driver of productivity, and an innovative economy will help ensure that the UK is competitive in the global upturn. In support of this, the Government has more than doubled public investment in the research base and encouraged greater private sector investment through the R&D tax credit. It has also created the Technology Strategy Board (TSB) which, alongside the Research Councils and the Regional Development Agencies, will invest over £1 billion in business innovation between 2008 and 2011, and will be investing £150 million in knowledge exchange in 2010-11 to support innovative start-up companies. As a result, research is increasingly being translated into commercial products and economic benefit: patent applications have doubled since 2000, to 1,913 in 2006-07; 31 university spinout companies were launched between 2003 and 2007; and TSB investment is benefiting 3,000 businesses and 98 Higher Education Institutions.

New Industry, New Jobs **4.39** *Building Britain's Future: New Industry, New Jobs*⁴, set out how the UK must further develop its strengths to drive business innovation in areas where there are major opportunities for growth. This is reflected in recent sector strategies covering a range of industries:

- Composites: the *UK Composites Strategy*⁵ set out how the Government is supporting innovation in this area, for example through the 'Grand Challenge in Affordable Composites Manufacturing';
- Automotive: as set out in the *Government Response to the New Automotive Innovation & Growth Team Report*⁶, the Government is working closely with business to drive further innovative activity in the sector, including £140 million investment in the Low Carbon Vehicle Innovation Platform over 2008-2011;
- Life Sciences: the *Life Sciences Blueprint*⁷, published in July 2009 by the Office for Life Sciences, outlines a strategy for the pharmaceuticals, biotechnology and medical devices sectors to improve support for innovation in the NHS. The introduction of an 'innovation pass' to make selected innovative medicines available on the NHS for a time-limited period (to be piloted in 2010-11 with a budget of £25 million). In addition, the TSB is investing £18 million, in collaboration with other funders, to support commercial research and development in regenerative medicines.
- Low-carbon: *The UK Low Carbon Industrial Society*⁸, published in July 2009, set out a blueprint for supporting low-carbon economic activity and enabling firms across the economy to realise growth opportunities presented by the transition to a low-carbon economy.

Taxation of innovative activity **4.40** Budget 2009 announced that the Government would work with business to examine the balance of taxation on innovative activity, including intellectual property (IP). As part of this work, the Government has looked at the case for a reduced rate of corporation tax applied to income from patents (a so-called "Patent Box"). **The Government announces that it will introduce a Patent Box applying to income from April 2013 to strengthen the incentives to invest in innovative industries and ensure the UK remains an attractive location for innovation.** The Government will consult with business in time for Finance Bill 2011 on the detailed design of the Patent Box, which will apply to patents granted after the legislation is passed.

R&D tax credits **4.41** The Government remains committed to promoting innovation through the R&D tax credit schemes. Since the introduction of the schemes, over 36,000 claims have been made for R&D tax credits with over £3 billion of relief claimed, supporting over £32 billion of research and development activity by companies.

4.42 To enable innovative companies to access more easily the R&D tax credit scheme for SMEs, **the Government announces the removal of the condition that any IP deriving from the research and development must be owned by the company making the claim.** This will allow companies to benefit from the UK's generous R&D tax credit for SMEs without distorting their commercial arrangements in relation to IP.

⁴*Building Britain's Future: New Industry, New Jobs*, HM Government, April 2009.

⁵*UK Composites Strategy*, BIS, November 2009.

⁶*Government Response to the New Automotive Innovation & Growth Team Report*, BIS, November 2009.

⁷*Life Sciences Blueprint*, Office for Life Sciences, July 2009.

⁸*The UK Low Carbon Industrial Strategy*, HM Government, July 2009.

Strategic Investment Fund **4.43** The £750 million Strategic Investment Fund was introduced in Budget 2009 to support advanced, innovative industrial projects of strategic importance, including £250 million for low-carbon projects. Box 4.3 sets out the projects benefitting from investment from the Fund so far.

Box 4.3: Projects benefitting from the Strategic Investment Fund

- £50 million addition to the TSB and £10 million temporary uplift to UK Trade & Investment (UKTI) funding over the Comprehensive Spending Review (both announced at Budget 2009);
- £61 million under the Advanced Manufacturing Strategy;
- £15 million for a Nuclear Advanced Manufacturing Research Centre;
- major projects under the £250 million low-carbon element of the Fund including £116 million to develop a UK-based offshore wind energy industry, and £30 million for the wave and tidal energy sectors;
- £75 million (out of a total Government investment of £150 million) for the UKIIF;
- contributions to total Government investments of £340 million to Airbus and £60 million to GKN Launch Investments for the A350XWB extra-wide body aircraft;
- a contribution to the total Government investment of £200 million for the roll-out of universal broadband under the Digital Britain programme; and
- projects put forward from across the UK including: investment in facilities for new life sciences companies in Edinburgh and the creation of a High Performance Computing Institute in Wales.

Further funding allocations are being developed with announcements covering the full £750 million likely before the end of the financial year.

Additional funding for the Strategic Investment Fund **4.44** The Government announces additional funding of £200 million for the Strategic Investment Fund. This will include a major contribution of £150 million to low-carbon investment as set out in Box 7.1. **The Government announces that £5 million from the Fund will be allocated to a new prize fund for open competition in key areas for innovative development.** £45 million of the extension of the Fund remains to be allocated.

Digital Britain **4.45** The *Digital Britain* White Paper⁹, published in June 2009, gave a comprehensive strategic analysis of the UK's digital economy. It committed to achieving a Universal Service Commitment in broadband, to be achieved by 2012. Since publication of the White Paper, the Government has moved to enact a number of *Digital Britain's* policies through the Digital Economy Bill, which has received second reading in the House of Lords, and has published a consultation on proposals to enable the release of new spectrum to the market. *Putting the Frontline First: smarter government*¹⁰ gives further impetus to online delivery of public services, and announces an investment of £30 million with UK Online to support development of the National Plan for Digital Participation to get more than 1 million people online in the next three years.

4.46 *Digital Britain* also announced a duty on fixed telephone lines to be used to help encourage private sector investment in digital infrastructure. **A consultation on the practical aspects of the new Landline Duty will be launched shortly and will be followed by a consultation on the procurement approach to investing in Next Generation Access.**

⁹ *Digital Britain*, BIS and Department for Culture, Media and Sport, June 2009.

¹⁰ *Putting the Frontline First: smarter government*, HM Government, December 2009.

Creative industries 4.47 The creative industries, including the video games industry, make a valuable economic and cultural contribution to the UK. The Government committed in *Digital Britain* to work with the video games industry to collect and review the evidence for the introduction of a tax incentive to promote the development of culturally British video games. While recognising the challenges currently faced by the sector in competing internationally, the Government is not currently persuaded that the evidence is sufficiently compelling to justify the introduction of a tax incentive for the development of culturally British video games at this time.

ENHANCING SKILLS

Skills for Growth 4.48 The *Skills for Growth* White Paper¹¹, published in November 2009, builds on the progress made since the *Leitch Review of Skills*¹² was published in 2006. It sets out a more strategic approach to ensure the skills system can anticipate and respond to the needs of the industries and sectors of the future. Box 4.4 sets out the main announcements.

Box 4.4: Skills for Growth main announcements

- Expand apprenticeships to create a modern class of technicians, with 35,000 more advanced and higher-level apprenticeships for 19-30 year olds over the next two years;
- work with the Regional Development Agencies, the UKCES and Sector Skills Councils, to prioritise more funding within Train to Gain at Levels 2 and 3, and in sectors key for future growth, and to pilot a Joint Investment Scheme at Levels 3 and 4;
- renew the commitment to the introduction of Skills Accounts to support progression and social mobility, and opening up the market by trebling the number of providers where entitlements can be used; and
- simplify the skills landscape, working with the UKCES to implement a reduction in the number of separate publicly funded agencies by over 30.

Higher Education 4.49 *Higher Ambitions*¹³, published in November 2009, set the forward-looking framework for the Higher Education sector, and identified the challenges and opportunities facing the sector if it is to remain world-class. In November 2009, the Independent Review of Higher Education Funding and Student Finance was also launched. The Review, due to report in 2010, will examine the balance of contributions to higher education funding by taxpayers, students, graduates and employers.

Support for internships 4.50 *Unleashing Aspiration: The Final Report of the Panel on Fair Access to the Professions*¹⁴ recommended that financial constraints be addressed to ensure students from poorer backgrounds could benefit from the opportunities internships offer. In response, **the Government will contribute £8 million towards a financial support scheme to provide bursary-style support for undergraduates undertaking short unpaid internships in professions with historically poor access.** The details of the scheme will be developed with the Higher Education sector and the professions, and it is intended that the Government funding will be used to leverage in other contributions. Support will be available as early as Summer 2010 and once fully operational the scheme will support around 10,000 internships a year. Further details will be published in the Government's full response to the Report, due early in 2010.

¹¹ *Skills for Growth*, BIS, November 2009.

¹² *Leitch Review of Skills*, HM Treasury, December 2006.

¹³ *Higher Ambitions*, BIS, November 2009.

¹⁴ *Unleashing Aspiration: The Final Report of the Panel on Fair Access to the Professions*, Cabinet Office, July 2009.

SUPPORTING ENTERPRISE

Enterprise support for ex-Service personnel **4.51** As part of the Government's commitment to supporting Service personnel returning from conflict, including those disabled as a result of their service, the Government announces new funding of up to £5 million for enterprise support. This funding will assist returning personnel by reducing the costs and barriers associated with self-employment and setting up a new business. It will also allow targeted mentoring support to help more businesses operated by ex-Service personnel to thrive and grow.

Prompt Payment Initiative **4.52** In November 2008 all central government departments committed to pay their suppliers within 10 working days. Since then, the median performance by departments against this target has risen to 95.7 per cent, an improvement of 24 percentage points since November 2008. **Prompt payment is essential to business survival and the Government remains committed to paying over 90 per cent of invoices within the ten-day target.** Payment times to suppliers have also improved in the NHS and local authorities, with a recent Audit Commission report showing that 89 per cent of local authorities have now introduced measures to reduce payment times to 20 days or fewer¹⁵.

Policy through Procurement **4.53** Later in December 2009, **the Government will publish a Policy through Procurement Action Plan**, which will demonstrate how the Government will use procurement to deliver the Government's policy priorities of apprenticeships, skills and youth employment, small businesses, and low-carbon resource efficiency to stimulate economic growth.

Public procurement for SMEs **4.54** Good progress has been made in implementing the recommendations of the Glover Committee's report¹⁶. The Government announces further detail in this Pre-Budget Report:

- online training aimed at increasing SME understanding of the public procurement process is being enhanced and will be free of charge when it is re-launched on Learn Direct in January 2010;
- the Government will increase the transparency of its spend and **will publish in Summer 2010 the level of central government spend with SMEs**; and
- a free online portal will be delivered by HMRC and **accessed via the businesslink.gov.uk website by the end of 2010**. This will enable all contract opportunities above £20,000 from across the public sector to be viewed in one place.

Better Regulation **4.55** The Government remains committed to increasing transparency and certainty around regulatory plans, and to strengthening the way regulation and its costs are managed. In October 2009, the Government published its first *Forward Regulatory Programme*¹⁷, including details of £3.5 billion worth of regulation that will be delayed to April 2011 or beyond. This short-term saving is reinforced by a longer-term commitment to cut a further £6.5 billion from the ongoing cost of regulation in 2010-15. The Government will approach its new simplification targets by theme rather than by department to tackle regulation in the way business experiences it. This more joined-up approach will address all policy areas where regulation impacts on business, including: business law, employment and skills, consumer law, workplace health and safety, natural environment, health and social welfare, built environment, and transport. So far, using this approach the Government has **identified proposals with the potential to deliver savings of over £1 billion**, towards the overall target of £6.5 billion by 2015. The Government has also established a new independent scrutiny

¹⁵www.audit-commission.gov.uk.

¹⁶*Accelerating the SME economic engine: through transparent, simple and strategic procurement*, HM Treasury, November 2008.

¹⁷*Forward Regulatory Programme*, BIS, October 2009.

body, the Regulatory Policy Committee, to ensure that regulation is challenged, underpinned by robust evidence and analysis, and effectively minimises costs and maximises benefits.

Business Support Simplification Programme **4.56** The Government announced in Budget 2006 that it would reduce the total number of publicly-funded business support products from the 3,000-plus products available in 2006 to no more than 100 by March 2010, and the Government is on track to meet this objective. The focus between now and March 2010 will be to ensure that any remaining non-aligned business support products at regional or local level are closed or moved to the Solutions for Business portfolio. Detail on progress to date, including the mapping of business support products nationally, regionally and locally, has been published on BIS's website¹⁸.

Tax simplification **4.57** To further reduce burdens on business, the Government is progressing its three tax simplification reviews:

- VAT rules and administration: the Government is continuing discussions with business on simplification of the partial exemption regime and option to tax rules;
- Anti-avoidance legislation: the **Government is publishing alongside this Pre-Budget Report a summary of responses to the consultation on transactions in securities legislation and the discussion document on greater alignment of purpose tests in tax law¹⁹**; and
- Corporation tax rules for related companies: the Government is consulting on further simplification of the associated company rules and **will publish a consultation document on simplifying capital gains legislation for groups of companies in early 2010**.

4.58 The Government will consult on legislation to reduce administrative burdens on business by enabling connected employers to pool their PAYE references, returns and payment obligations. Subject to consultation, the Government plans to introduce this by 2011.

MAINTAINING OPEN AND COMPETITIVE MARKETS

Taxation of foreign profits **4.59** Following the announcement made in the 2008 Pre-Budget Report to reform the taxation of foreign profits, the Government is now focused on reforming the Controlled Foreign Company rules. A policy principles document was published in July 2009 setting out the framework within which the reform should take place, with the overall aim of enhancing UK competitiveness while providing adequate protection of the UK tax base. Productive discussions and working groups have taken place in recent months, and the Government aims to release a document on the shape of the new regime early in 2010.

Foreign branch taxation **4.60** The Government recognises that foreign branch taxation is a matter of growing importance and will engage with business to identify and explore issues relevant to any potential future rule changes.

Debt cap legislation **4.61** In line with its announcement on 9 November 2009, the Government publishes, alongside this Pre-Budget Report, draft legislation aimed at improving the working of the debt cap rules, which will come into effect on 1 January 2010.

Competitive markets **4.62** The competition regime has an important role to play in ensuring markets are conducive to long-term productivity growth. Competitive markets help UK businesses by

¹⁸ <http://www.bis.gov.uk>

¹⁹ *Simplifying Transactions in Securities Legislation and Simplifying Unallowable Purpose Tests*, HMRC, December 2009.

keeping the price of inputs low and encouraging them to develop the high standards needed to be successful in global export markets. Competition also delivers significant benefits for UK households by lowering prices and increasing choice. The Government remains committed to maintaining a strong and effective competition regime in the UK. It will continue to examine the regime and will bring forward reforms as necessary to ensure it continues to rank amongst the world's best.

Trade finance 4.63 Trade finance serves as the life-blood of day-to-day international trade in goods and services, through providing financing for transactions between buyers and sellers around the globe. In response to concerns around the effects of scarcity and high pricing of short-term trade finance as a result of the financial crisis, the G20 agreed at the London Summit to ensure the availability of at least \$250 billion to support trade finance in 2009-10 and 2010-11. In Pittsburgh, G20 Leaders welcomed the successful implementation of the trade finance initiative, which they will continue to monitor during 2010.

Additional support for exporters

4.64 The Government has provided further support to exporters:

- the Export Credits Guarantee Department (ECGD) introduced the Letter of Credit Guarantee Scheme on 20 October 2009. This new facility provides temporary support for exporters selling goods in emerging markets by risk-sharing with banks confirming letters of credit. In addition, ECGD's Fixed Rate Export Finance scheme has been extended until March 2011 within its existing budget;
- at Budget 2009 the Government announced a review of ECGD's operating framework to consider how to improve ECGD's services during the economic recovery. As a result of the review, ECGD is introducing some progressive changes that will make it more responsive and competitive in its support for exporters. ECGD has recently launched a public consultation on the operation of its Business Principles and ancillary policies. Further measures include introducing flexibility to enable ECGD to charge more competitive prices in some markets and strengthening its links with UKTI; and
- in the 2008 Pre-Budget Report BIS and HMRC were asked to report on simplifying trade regulation to help facilitate international trade. An action plan was published on 2 December 2009, setting out wide ranging proposals including an increased role for the UK Border Agency in the co-ordination of border regulators, development of an EU strategy for trade regulation, and new proposals for an International Trade Single Window with the ultimate goal of a single platform for trade clearances and forms. The cost of trade procedures is estimated at 2-15 per cent of the value of traded goods. An efficiency saving of one per cent of the value of traded goods would save almost £6 billion annually.