

Over the last decade, coinciding with significant reform programmes, UK productivity has improved and levels of employment have risen to record highs. However, at a time of far-reaching change in the global economy, the Government must continue to provide a stable policy framework, so that business has the certainty to plan ahead, while ensuring that policy remains responsive to changing circumstances.

Budget 2008 includes short-term measures to enable small and growing businesses to access the resources they need during a time of global financial market disruption. At the same time it builds on progress to date by announcing longer-term measures designed around the levers available to Government to encourage productivity growth. These measures include:

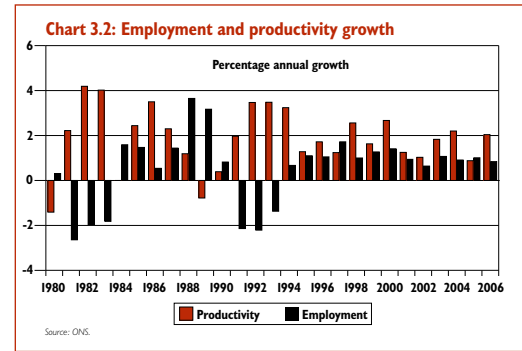
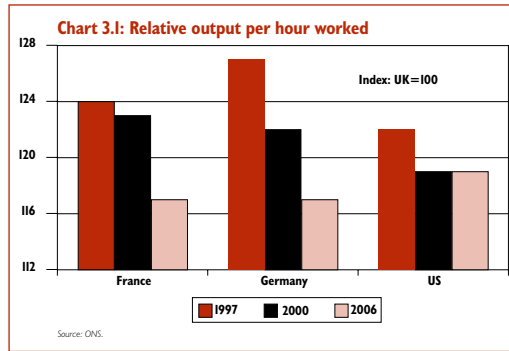
- **access to finance measures including enhancing the Small Firms Loan Guarantee Scheme and Enterprise Capital Funds** to support small firms in accessing the resources they need to start up and grow;
- **a package of reforms on regulation and tax simplification and implementation of the business tax reforms announced in Budget 2007**, including the lowest rate of Corporation Tax in the G7;
- **further implementation of the Leitch^a and Sainsbury^b Reviews** to build on improvements in the UK skills base and to provide a world-class science base and innovation framework;
- **exploring options to make better use of transport infrastructure, on top of the major programme of investment** announced in the 2007 Comprehensive Spending Review;
- **progress on business support simplification and measures to ensure better access to Government procurement for small firms;** and
- **a study of public service markets and a new framework for infrastructure procurement.**

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

^b *The Race to the Top: A review of Government's science and innovation policies*, Lord Sainsbury of Turville, October 2007.

3.1 The Government's objective of promoting sustainable growth and prosperity depends on continuing improvements in the productivity¹ of the UK economy, alongside growth in employment. Over the last decade, the UK has increased its rate of productivity growth and has narrowed the productivity gap with comparator countries (Chart 3.1), while at the same time maintaining strong employment growth (Chart 3.2). This has been based on maintaining macroeconomic stability and the UK's openness to trade, investment and migration. It has also been driven by a programme of microeconomic reforms.

¹ Supported by the renewed Public Service Agreements on UK productivity growth and regional growth.



3.2 Budget 2008 sets out measures designed around the levers which are available to Government to improve productivity: **taxes and regulation, investing in the workforce and skills, investing in infrastructure, strengthening competition and market frameworks, and improving public sector efficiency.** Alongside Budget 2008, the Government is publishing *Enterprise: Unlocking the UK's talent* and *Innovation nation* which provide more detail on the policy framework that applies to these important drivers of productivity.

RESPONDING TO THE NEEDS OF BUSINESS

3.3 The global economy is in a period of far-reaching transformation. *The UK economy: analysis of long-term performance and strategic challenges*, published alongside Budget 2008, links analysis of the performance of the UK economy over the past decade with recent work on the challenges ahead – demographic change, environmental change, continuing globalisation, and rapid technological change global uncertainty.

Working in partnership

3.4 The new and changing context facing the UK has implications for society as a whole. The Government alone cannot ensure that the UK will meet the challenges and seize the opportunities ahead. The Government will work in partnership with individuals, communities, businesses and government at all levels to address these issues. Firms of all types have a major role to play: seizing opportunities and making the most of favourable and competitive market conditions, working with the Government to identify and develop the future reform priorities and helping to ensure that the implementation of existing policies and reforms is as effective as possible.

3.5 At this time it is even more important for Government to provide a stable policy framework within which business can plan ahead. Evidence² shows that the UK is one of the best places in the world to do business. The Government will maintain an environment that encourages investment and growth. Where policy change is necessary to reflect changing circumstances, the Government is committed to work in partnership with business to ensure that policy is responsive to business needs and objectives. As an important part of this, it will continue to consult business wherever possible, building on the increased number of tax consultations over the past year, and will maintain its consultative groups to discuss tax issues with business representatives.

3.6 The Government also recognises the need to respond to short-term challenges swiftly and flexibly. Budget 2008 coincides with a period of disruption in global financial markets. This presents specific challenges to business, particularly around access to finance for small and medium-sized firms (SMEs).

Access to finance 3.7 Budget 2008 announces an access to finance package to ensure that small and growing firms have access to the resources they need:

² *Doing Business 2008*, World Bank.

- a temporary 20 per cent increase in the funds available through the Small Firms Loan Guarantee (SFLG);
- extending eligibility for SFLG to businesses with growth aspirations over five years old;
- support for mezzanine finance provision through additional Enterprise Capital Funds (ECFs);
- a new capital fund for female entrepreneurs;
- an increase in the investor limit of the Enterprise Investment Scheme (EIS) from £400,000 to £500,000 (subject to state aid approval) and a consultation on how best to simplify the operation of the scheme; and
- an increase in the individual option grant limit from £100,000 to £120,000 for the Enterprise Management Incentive scheme (EMI).

3.8 To secure EIS, EMI, Venture Capital Trusts and the Corporate Venturing Scheme under state aid guidelines, **shipbuilding and coal and steel production will be excluded as qualifying trades**. In order to focus EMI more closely on SMEs and to bring it into line with state aid rules, **only companies with fewer than 250 employees will be able to make new grants of EMI share options**.

3.9 Since introduction in 1981, SFLG has guaranteed £5 billion of lending through around 100,000 loans. EIS has already helped raise over £6.1 billion, invested in over 14,000 smaller, higher-risk, unquoted trading companies. EMI allows smaller, higher-risk companies to grant tax-advantaged share options to their employees. Around 70,000 employees across 7,000 companies currently benefit from it.

Box 3.1 Enterprise: Unlocking the UK's talent

Focusing on SMEs, this outlines a new policy framework and sets out how the Government will encourage further business start up and growth. Measures include:

- improving access to finance for SMEs (see paragraph 3.7 for more detail);
- a consultation on the introduction of regulatory budgets, which would cap the new, annually-recurring cost of regulation for business, including whether to pilot this approach for SMEs or a particular sector;
- an increased focus on minimising the impact of regulation on SMEs;
- an independent review of regulatory guidance to reduce compliance costs;
- further development of enterprise education in secondary schools and extension of it, where possible, into primary and further education (underpinned by a £210 million funding package, as agreed at the 2007 CSR); and
- establishing a National Enterprise Academy (NEA).

BUSINESS TAXES AND REGULATION

3.10 The Government has taken steps to ensure that the UK has a world class environment for business investment and growth, by modernising and simplifying the tax system, improving the relationship between large business taxpayers and HMRC,³ and by bearing down on the regulatory burden faced by business.

³ *Framework for a better relationship: making a difference. Review of Links with Large Businesses*. HM Revenue and Customs, March 2008.

Better regulation

3.11 *Enterprise: Unlocking the UK's talent*, sets out the next steps on this agenda.

3.12 The Government seeks to provide an effective regulatory system, which enables businesses to start up, grow and stay competitive. It is undertaking radical reform that will deliver genuine reductions in the cost to business while continuing to deliver the necessary regulatory outcomes. It has already committed to a reduction of 25 per cent in the administrative burden through regulation and to ensuring that the benefits of regulation justify the costs. £800 million of savings have already been achieved, with a further £3.5 billion planned by 2010.

A simpler and more competitive tax system

Business tax reforms

3.13 Following extensive consultation on its implementation, the major package of business tax reforms announced in Budget 2007 will take effect from April 2008. The reduction in the main rate of Corporation Tax (CT) to 28 per cent will deliver the lowest ever rate in the UK and the lowest in the G7, improving competitiveness and encouraging investment. The reforms to the capital allowances system will improve economic efficiency by removing distortions to investment decisions. Budget 2008 announces, in response to consultation:

- **the 10 per cent rate of allowance for the new classification of integral features of buildings will apply to both initial and replacement expenditure, from April 2008; and**
- **a measure to allow over 500,000 businesses to write-off small, unrelieved capital allowances pools.** (Further detail in Box 3.5)

Taxation of foreign profits

3.14 Following last spring's discussion document⁴ on the taxation of foreign profits, the Government has been engaged in a constructive, ongoing dialogue with business. **Budget 2008 announces that the Government will bring forward proposals and publish a consultation document before summer 2008.** The objective of any reform is to enhance the competitiveness of the UK tax framework, while being broadly revenue neutral.

North Sea fiscal regime

3.15 The Government is determined to ensure that the North Sea fiscal regime promotes investment and production, while ensuring a fair return for the UK taxpayer. Following the publication of the consultation document *Securing a sustainable future* in December 2007, **Budget 2008 announces reforms to the North Sea fiscal regime. These include changes to the treatment of CT losses created by decommissioning, extension of 100 per cent capital allowances to long-life assets and mid-life decommissioning, and reforms to Petroleum Revenue Tax.** These will encourage further investment in the UK Continental Shelf by providing certainty for investors, helping facilitate asset trade, and simplifying the regime. The Government will continue to engage with oil and gas stakeholders on outstanding issues.

Tax simplification reviews

3.16 Building on the Budget 2007 reforms, the 2007 Pre-Budget Report launched a significant programme of tax simplification and announced three simplification reviews. Following discussions with business and tax professionals, Budget 2008 announces the initial outcomes of each review:

- **VAT rules and administration: the Government will consult on simplifying the operation of the partial exemption regime and the capital goods scheme, and explore the need for business to seek permission from HMRC before taxing otherwise VAT-exempt supplies of land and property;**

⁴*Taxation of the foreign profits of companies: a discussion document*, HM Treasury (HMT) and HMRC, June 2007.

- **anti-avoidance legislation:** the Government will, as a first step, repeal certain outdated and complex anti-avoidance provisions on bond washing, employment securities and other transactions in securities; and
- **CT rules for related companies:** the Government will, as a first step in simplifying associated companies rules, modify the current rules relating to the small companies rate where a director or shareholder is separately in a partnership.

3.17 Further work will continue to address other priorities outlined by business.⁵ **Budget 2008 announces a new simplification review, which will look at how to simplify CT calculations and returns for smaller companies.**⁶ Updates on all four reviews will be announced at the 2008 Pre-Budget Report.

Delivering further simplifications **3.18** **Budget 2008 announces over 20 further tax simplification measures** (see Box 3.5). Alongside Budget 2008, HMRC is publishing details on how it is improving services for small businesses and an update on progress against its administrative burdens reduction targets.⁷

VAT registration threshold **3.19** **From 1 April 2008 the Government will increase the VAT registration threshold in line with inflation from £64,000 to £67,000**, maintaining the highest threshold in Europe and keeping around 6,000 small businesses out of the VAT system.

Financial services

A competitive financial centre **3.20** The Government is committed to ensuring that the City of London remains the world's leading international financial centre. The financial services sector makes a significant contribution to the UK economy, accounting for 9.4 per cent of GDP in 2006, up from 6.2 per cent in 1997, and supporting over 1 million jobs. The continued prosperity of the sector is vital to the UK's national economic interest.

Working collaboratively **3.21** The Government recognises the importance of working collaboratively with the financial services industry to ensure its continued competitiveness. The Chancellor's High Level Group on financial services remains a key forum for senior-level engagement between the Government and this industry and will next meet on 14 May 2008. The Government is working closely with industry experts to frame and lead the international community's response to the recent financial market disruption, and is consulting widely and actively on a considered and proportionate set of reforms to strengthen the resilience of the banking system⁸ while maintaining competitiveness. **Budget 2008 extends collaboration with the establishment of an industry-led working group to examine proposals to improve the supply of mortgage funding** (see Chapter 5). These actions build on the introduction of a new legislative framework for UK covered bonds.

3.22 The financial services sector will benefit significantly from the reduction in the CT rate to 28 per cent from April 2008. Following extensive discussion with industry stakeholders, **Budget 2008 introduces a series of new measures to improve the taxation of asset management, enable the expansion of securitisation transactions in the UK** (see Box 3.2) and

⁵ Detailed updates on the VAT and related companies reviews were provided to stakeholders in December 2007 and can be found at: http://www.hm-treasury.gov.uk/pbr_csr/documents/pbr_csr07_tax.cfm. HMRC is publishing alongside Budget 2008 *Simplifying anti-avoidance legislation: a progress report on anti-avoidance simplification*. All three updates highlight areas of future work to be progressed post-Budget 2008.

⁶ Further details of this review and how to participate are available at: http://www.hm-treasury.gov.uk/budget/budget_08/bud_bud08_index.cfm

⁷ *Delivering a new relationship with business: Progress on HMRC's plans to improve the SME customer experience*, HMRC, March 2008.

⁸ *Financial stability and depositor protection: Strengthening the framework*, HM Treasury, January 2008.

promote the expansion of the market in Islamic finance. The Government would like to take a similarly collaborative approach when considering other areas of financial services taxation. Where evidence-based, targeted changes can be identified that will increase competitiveness without impeding broader objectives, the Government will take action.

Islamic finance 3.23 In order to promote the City of London as a centre for global Islamic finance and put in place a level-playing field between conventional and alternative financing instruments, **Budget 2008 announces:**

- **the Government's aim to legislate, following consultation, in Finance Bill 2009 to provide relief from stamp duty land tax (SDLT) for alternative finance investment bonds;**
- **amendments to legislation to classify alternative finance investment bonds as loan capital for stamp duty and stamp duty reserve tax (SDRT);**
- **adjustments to legislation to allow existing CT and income tax rules on alternative finance arrangements to be amended by regulation; and**
- **work with the Financial Services Authority and stakeholders to clarify the regulatory treatment of sukuk.**

3.24 The Government will continue to examine the feasibility of a sovereign sukuk issue. It will also, in Finance Bill 2008, take legal powers to facilitate any future sovereign issuance, and provide a full response to the recently closed public consultation on sukuk issuance in the summer of 2008.

Box 3.2: Enhancing the competitiveness of UK financial services

Recent steps to support competitiveness include:

- agreement on a joint funding package for Crossrail;
- working with the financial sector to create an International Centre for Financial Regulation in London;
- actively supporting work to expand and develop carbon markets, and to promote the role of London as a key centre of expertise in carbon trading (see Box 6.1);
- a better regulation package for the asset management sector that will save it up to £290 million per year;
- consulting on a Legislative Reform Order to modernise the governance arrangements of the Lloyd's insurance market, complementing Lloyd's own reforms and helping it continue to compete in the global insurance market; and
- strengthening economic and financial dialogue with China and India, providing a strong focus on financial markets and related opportunities for UK-based firms.

Budget 2008 announces improvements to **asset management taxation**:

- following extensive consultation, launching a new tax regime for Property Authorised Investment Funds on 6 April 2008;
- working further with industry on options for reform of SDRT Schedule 19;
- engaging with industry to consider a direct tax exemption for Authorised Investment Funds, taxing the investor as if they held the underlying assets directly;
- removing tax barriers impacting the development of offshore funds in Finance Bill 2008;
- introducing new tax rules to facilitate the development of the proposed regulatory regime for Funds of Alternative Investment Funds;
- announcing that the Government is minded to simplify the tax rules for the qualified investor scheme by replacing the substantial holding rule; and
- considering proposals to adapt the tax rules for Investment Trust Companies to enable tax-efficient investment in a wider range of asset classes.

On **securitisation**, Budget 2008 also announces:

- the introduction later this year of regulations enabling expansion of securitisation transactions into real estate.

The Government is taking steps towards modernising **insurance taxation** by:

- continuing the consultation on the taxation of general insurance reserves; and
- announcing further discussions with industry on the use of general insurance losses and on the possible extension of the tax rules applying to equalisation reserves to the Lloyd's market.

Simplification measures on life insurance, insurance premium tax for overseas insurers and on securitisation, which will also enhance the competitiveness of UK financial services, are in Box 3.5.

INVESTING IN WORKFORCE AND SKILLS

3.25 Budget 2008 announces measures which, building on a decade of investment and reform, help deliver a skilled workforce and a flexible labour market complemented by world-class science and innovation.

Science and Innovation

3.26 The Sainsbury Review concluded that the UK is well placed to benefit from the opportunities of globalisation, but that further action is needed to secure the UK's comparative advantage in high-value, knowledge-intensive sectors. The review recognised that measures such as research and development expenditure do not capture the UK's significant strengths in non-scientific innovative activity.

Implementing Sainsbury 3.27 Good progress is being made in the implementation the Sainsbury Review recommendations. The Technology Strategy Board (TSB) is delivering on its leadership role and will shortly publish its strategy, including joint initiatives with the Regional Development Agencies and Research Councils and programmes to support innovation across a wider range of sectors. The Department for Innovation, Universities and Skills (DIUS) will pilot a reformed Small Business Research Initiative (SBRI) with the Ministry of Defence, Department of Health and other selected partners, prior to wider roll-out in 2009. DIUS and the Department for Children, Schools and Families (DCSF) are delivering a new campaign on Science, Technology, Engineering and Mathematics (STEM) skills, including a new £6 million communications campaign, working towards better careers guidance for pupils, and planning for a National Science Competition from 2008-09.

Project Enthuse 3.28 The Wellcome Trust has created Project Enthuse, which will provide a comprehensive funding and support package to enable all secondary schools to develop the skills of their science teachers at the National Science Learning Centre. The Government will invest £10 million over five years to support the scheme, leveraging up to £20 million investment from business and the Wellcome Trust.

3.29 Alongside Budget 2008, the Government is publishing *Innovation nation* (see Box 3.3), which sets out a vision for supporting innovation across all sectors of the economy.

3.30 Some businesses and Higher Education Institutions (HEI) are uncertain about whether knowledge transfer activity has charitable status and how this impacts on its CT treatment HMRC will continue to work with the sectors and regulators to provide greater certainty. The Government will also continue to support links between HEIs and business and promote knowledge transfer.

Box 3.3: *Innovation nation*

Commitments include:

- development of an independent Innovation Index to capture a wider range of innovation, to be piloted in 2009, with a fuller system in place in 2010;
- working with the TSB and its partners to double the number of Knowledge Transfer Partnerships, and to pilot a new Further Education (FE) Specialisation and Innovation Fund to support knowledge transfer between FE and business;
- improving the innovative capability of the public sector, including a new Public Sector Innovation Laboratory and Whitehall Innovation Hub;
- further action on Intellectual Property (IP), building on the Gowers Review,^a including dedicated IP management training for all Business Link and UKTI advisers; and
- publication of the first Annual Innovation Review for the UK in the autumn.

^a Gowers Review of intellectual property, HM Treasury, December 2006.

A flexible labour market and strong skills base

3.31 The flexibility of the UK's labour market has increased to historically high levels since the 1990s.⁹ This allows firms to adjust smoothly to changing circumstances, helps maintain high levels of employment and is vital for a resilient economy. Net migration has helped to fill skill gaps and accounted for an estimated 15-20 per cent of average economic growth in the UK between 2001 and 2006.¹⁰

Implementing Leitch 3.32 In its plans for implementing the Leitch Review's¹¹ recommendations, the Government set out the ambition to achieve a world-class skills profile for the UK by 2020. Over 1.8 million people have improved their functional literacy and numeracy skills since 2001, over 100,000 people complete apprenticeships in England now compared to 40,000 in 2001-02, and more than 72,000 employers and 160,000 employees have benefited from Train to Gain. The 2007 Comprehensive Spending Review set out an increase in resources for adult training, from £3 billion in 2007-08 to £3.6 billion in 2010-11, to enable almost 2.8 million adults to gain higher-level skills (see Chapter 4 for further details on welfare and skills).

Train to Gain 3.33 As a key part of the skills reforms, the Government will expand and improve Train to Gain, with Government funding rising to over £1 billion by 2010-11. If employer demand exceeds the amount of skills support on offer within the resources already committed to Train to Gain, the Government will reassess the position, exploring how such demand can be met. Through Train to Gain employers have a choice over their training provider. Providers can only access Train to Gain funding if they deliver training that meets employers' needs.

Skills Accounts 3.34 The principles of customer choice will also underpin Skills Accounts, which will give learners purchasing power through 'virtual vouchers'. **Skills Accounts will be rolled out nationally from 2010 and will mirror the operation of Train to Gain, with the learner's choice directing the flow of funding to the wide range of accredited, high quality providers not just Further Education (FE) colleges.** This funding will be re-balanced between providers throughout the year to respond to the actual choice of learners.

3.35 Through Skills Accounts the Government will ensure that every adult can access investment in their skills. To expand this investment, **Budget 2008 announces £60 million of additional funding for adult skills**, focused on Level 3, which will support increased opportunity and progression. This will provide new opportunities for people to realise their talents, offer adults a second chance to retrain, and will be used to test new ways of delivering training. It will also enable leading employers to take on more adult apprentices.

3.36 **To help inform learners' choices a new advancement and careers service for adults in England will be trialled over the next two years and be fully operational from 2010-11. DIUS will set out the framework for the development of this service shortly.**

Improving quality 3.37 FE success rates have improved significantly from 59 per cent in 2000-01 to 77 per cent in 2005-06. Evidence¹² shows that, in the current inspection cycle, over 90 per cent of inspected FE colleges have been graded satisfactory or better. **For 2008-09 the minimum performance standards for providers has been raised, and the intention is to continue to raise it each year.**

⁹ *Developing an index of labour market adaptability for the UK*, BERR Employment relations research series, No.85, November 2007.

¹⁰ *The Economic and Fiscal Impact of Immigration*, Home Office, October 2007.

¹¹ *World Class Skills: Implementing the Leitch Review of Skills in England*, Department for Innovation, Universities and Skills, July 2007.

¹² Office for standards in education, children's services and skills.

Skills Academies 3.38 The Government is developing a programme of National Skills Academies to drive employer-led excellence in the delivery of skills training by sector. There will be twelve in place by the end of 2008.

Employer qualifications 3.39 DIUS are working with employers to end the outdated distinction between company training and national qualifications. Three major employers are now recognised to award their own qualifications. Around thirty more have had their training recognised and DIUS will expand the scheme further over the next year.

INVESTING IN INFRASTRUCTURE

Crossrail 3.40 The Eddington Review¹³ made clear the importance of transport infrastructure for the UK's economic performance. The 2007 Comprehensive Spending Review set out the Government's plans to increase capital investment in transport from £6.7 billion in 2007-08 to £8.1 billion in 2010-11 including provision for Crossrail. This will provide a direct link between London's main economic centres of the West End, the City and Canary Wharf and connect these directly with Heathrow Airport and the Thames Gateway. Crossrail is projected to generate economic benefits of more than double its cost and to create up to 30,000 jobs.

Heathrow 3.41 Improving the passenger experience at the UK's major airports, particularly Heathrow, is critical to UK competitiveness. **To reduce delays for travellers at Heathrow, Budget 2008 announces new measures with airport operators to improve average and maximum waiting times at immigration. This will be accompanied by greater use of automated biometric technology and fast-track routes through immigration.**

Road pricing and active traffic management 3.42 Costs of congestion are forecast to more than double by 2025. Budget 2008 reaffirms the commitment to exploring national road pricing to tackle congestion and emissions. **It announces an invitation to the private sector to run a number of projects based on charging by time of day, distance travelled and route chosen. The Government will make available sufficient funding to ensure that these projects help answer the crucial questions on feasibility, cost effectiveness, privacy and the impact of real financial incentives on driver behaviour.** Budget 2008 also confirms additional funding to help local authorities develop proposals for charging schemes, which will be taken forward consistent with consideration of a national scheme.

3.43 For motorways, the Government will set out the scope for introducing hard shoulder running by Pre-Budget Report 2008, and for locking in the benefits of extra capacity, such as lanes reserved for car-sharers or those willing to pay a toll.

Supporting the road haulage industry 3.44 The Haulage Industry Task Group found that when hauliers break the law, for example on overloading or drivers' hours, they gain an unfair competitive advantage. Budget 2007 announced significant increases to the resources devoted to enforcement activity. Alongside this the Government conducted the Freight Data Feasibility Study to look at options for creating a database of foreign hauliers, including a vignette scheme. The conclusions, to be published next week, find that the options produce limited safety, congestion and environmental benefits. **The Government will therefore not take forward a vignette at this time but will instead focus on improving the UK's enforcement system. To support this and understand better the movement of foreign vehicles within the UK, the Government will refresh the 2003 Foreign Vehicle Data Survey.**

¹³ *Transport's role in sustaining the UK's productivity and competitiveness*, HM Treasury, December 2006.

STRENGTHENING COMPETITION AND MARKET FRAMEWORKS

3.45 The Government recognises the importance of strong market frameworks for businesses. Measures on the environment set out in Chapter 6 develop the frameworks to give businesses incentives to reduce carbon emissions and bring forward investment in a wide range of low-carbon technologies.

Business support simplification 3.46 The advice, financial assistance and other support provided through the Government's business support schemes enable many businesses to start up and grow. To improve the effectiveness of these schemes the Government is reducing their number from over 3,000 to no more than 100 by 2010. The launch of all new products will be completed by March 2009, to enable closure or notice of closure of all obsolete schemes by the start of 2010. **Budget 2008 announces the merger into Business Link, with the associated resources, of all information, diagnosis and brokerage services associated with: all Regional Development Agency (RDA) support by March 2009, UK Trade and Investment (UKTI) support by June 2009, Protecting the Natural Environment support by April 2010, and Resource Efficiency support by October 2009.**¹⁴

Competition in utilities 3.47 An effective competition regime makes a key contribution to market frameworks. The Government has implemented significant reforms to ensure that the UK has a world-class competition regime. To achieve further progress it announced in February 2008 an independent review of competition and innovation in the water sector. This will explore options to increase the efficiency of water use and deliver benefits to both businesses and households through increased competition and innovation.

3.48 The Government takes seriously the need to tackle fuel poverty to ensure that vulnerable households can afford to heat their homes adequately (see Chapter 4). In the medium to longer-term low energy prices are determined by competitive energy markets. The Government will therefore continue to press for the liberalisation of EU energy markets and welcomes Ofgem's investigation into the markets in electricity and gas for households and small businesses.

Commercial use of public information 3.49 The Office of Fair Trading's (OFT) market study into the commercial use of public information¹⁵ highlighted important issues around access to public sector information for commercial or other re-use. The Government commissioned Cambridge University to analyse the pricing of this information. This analysis is published alongside Budget 2008. **The Government will look closely at public sector information held by trading funds to distinguish more clearly what is required by Government for public tasks and ensure that this information is made available as widely as possible for use in downstream markets.** In the lead up to the next Spending Review the Government will ensure that information collected for public purposes is priced so that the need for access is balanced with ensuring that customers pay a fair contribution to the cost of collecting this information in the long term. These issues will be considered in conjunction with the assessment of trading funds (see Chapter 5).

Improved procurement for SMEs 3.50 The Government wants to see SMEs compete more effectively for public sector contracts, since this is likely to provide greater choice and better value for money, as well as encouraging innovation and enterprise. **Enterprise: Unlocking the UK's talent announces free trial periods for all suppliers newly registering with Supply2Gov. It also announces that firms**

¹⁴ Further details of launch timetable are set out on <http://www.berr.gov.uk/bbf/simplifying-business-support/page45200.html>

¹⁵ *The commercial use of public information (CUPI)*, OFT, December 2006.

supplying services to Government will be able to sell public sector invoices to debt specialists, which will be particularly advantageous to SMEs in managing their cash flow.

3.51 In addition, the Government will set up an advisory committee, chaired by Anne Glover (Chief Executive of Amadeus Capital Partners Limited). This will provide advice for the 2008 Pre-Budget Report on necessary Government action to reduce the barriers to SMEs competing for public sector contracts, within the scope of EU law and the policy objective of value for money, and advise on the practicality of setting a goal for SMEs to win 30 per cent of all public sector business in the next five years. The Science and Innovation White Paper published alongside Budget 2008 includes reforms of the SBRI which provides for a proportion of Government departments' research and development budgets to be spent with SME suppliers. (For more detail on how improved public procurement can also help achieve some of the Government's social and environmental objectives see Chapter 4 and Chapter 6 respectively.)

Box 3.4: The Lisbon Strategy for Growth and Jobs

The EU plays a significant role in promoting productivity growth and securing prosperity for the UK's citizens and businesses. The Spring 2008 European Council will launch the next cycle of the Lisbon Strategy for Growth and Jobs – the EU's structural reform agenda designed to raise the rate of growth and employment to underpin social cohesion and environmental sustainability. The measures set out in Budget 2008 are fully consistent with the Lisbon Strategy's objectives. The priorities at EU level include moving ahead with the proposals for liberalisation of the telecoms and energy sectors, implementing the Services Directive, delivering EU targets for reducing administrative burdens and assessing the EU's skills needs. The Strategy is approaching its 2010 deadline and the EU must therefore start to prepare a comprehensive economic reform strategy for post-2010, which is robust to new trends and continues to ensure sustainable growth with opportunity for all.

3.52 The Varney Review of taxation in Northern Ireland¹⁶ concluded that there is no clear case for changing corporation taxation in Northern Ireland. Sir David's second review, which is expected to report soon, is seeking to identify ways of improving Northern Ireland's competitive position and increasing the size of the private sector. In England, *The Review of sub-national economic development and regeneration*¹⁷ set out a package of institutional reforms of regional, sub-regional and local governance and decision-making to enable every spatial area to improve its competitiveness and fulfil its economic potential. The Department for Business Enterprise and Regulatory Reform (BERR) and the Department for Communities and Local Government (CLG) will consult on implementing these reforms shortly.

IMPROVING PUBLIC SECTOR PRODUCTIVITY

3.53 The public sector represents a significant proportion of the economy. Chapter 5 sets out progress on delivering the Government's vision of improved public sector efficiency and effectiveness. Public sector productivity is not only about reducing cost but also about delivering world-class public services that match people's expectations. This section outlines measures to ensure that, where Government delivers infrastructure and services in partnership with business, it obtains high quality outcomes and value for money.

Fairer public service markets

3.54 Where public services are delivered by a combination of public, private and voluntary sector providers, fair competition means that services are provided by whichever can offer the best value for money – with high quality and innovative services for citizens that are responsive

¹⁶ *Review of tax policy in Northern Ireland*, HM Treasury, December 2007.

¹⁷ HM Treasury, BERR and CLG, July 2007.

to their needs. BERR has commissioned a review of the emerging public services industry to identify opportunities to support its competitiveness, led by Dr DeAnne Julius. It will report in summer 2008.

3.55 Building on this, HM Treasury, together with other Government Departments, will study a number of key public service markets where the Government is committed to mixed provision. This work will consider opportunities for fair competition to deliver better quality public services and improve value for money.

Infrastructure procurement **3.56** *Infrastructure Procurement: delivering long-term value*, published alongside Budget 2008, sets out the Government's next steps to improve its procurement of significant assets, infrastructure and long-term service provision. It recognises the evolving needs of the public sector and explores new approaches to complex procurement, building on the experience of the Private Finance Initiative. It outlines a framework that will secure value for money while ensuring effective scrutiny and continuing to improve the commercial skills of procurers.

Box 3.5: Delivering tax simplification

To enhance UK productivity and competitiveness, Budget 2008 announces more than 20 tax simplification measures benefiting sectors across the UK economy:

Business

- from April 2008, allowing businesses to write-off unrelieved expenditure when certain capital allowances pools reach a de minimis of £1,000. This removes the need for over 500,000 businesses to track small pools over several years to receive comparatively small amounts of relief;
- as outlined earlier in Chapter 3, consulting on simplifying the rules and processes that govern the Enterprise Investment Scheme;
- from 1 July 2008, increasing voluntary disclosure limits for indirect tax returns to the greater of £10,000 or 1 per cent of turnover, up to a maximum of £50,000, removing the need for business to report up to 8000 errors each year;
- from 1 June 2008, simplifying legislation on taxing otherwise VAT-exempt supplies of land and property;
- introducing an online system from 1 January 2010, which will facilitate the recovery of overseas VAT by UK business;
- working with EU partners, aiming to reduce the Intrastat burden on business by lowering the coverage requirement to 95 per cent, which would remove the need for around a quarter of Intrastat declarants to complete returns on their imports of EU goods;
- modernising Pay As You Earn processes to simplify arrangements for all working students and reduce burdens on their employers. HMRC published a consultation document on 20 February 2008;
- as outlined earlier in Chapter 3, simplifying the North Sea fiscal regime;
- removing the requirement for energy suppliers to identify their energy bills as accounting documents for the climate change levy, reducing administrative burdens; and
- removing the requirement for new heavy goods vehicles and buses with an appropriate manufacturers' certificate of conformity to undergo a physical examination before being issued with a reduced pollution certificate.

Savings and Assets

- from April 2009, reducing administrative burdens by making it voluntary for Child Trust Fund (CTF) providers to receive the CTF voucher in order to open an account;
- from April 2008, introducing a package of measures to simplify the administration of ISAs and the Tax Deduction Scheme for Interest, including consolidating regulations, and reducing requirements for information returns and records retention;
- consulting this summer on simplifying and clarifying the tax treatment of dividends paid by Real Estate Investment Trusts (REITs) into Share Incentive Plans (SIPs);
- from today, abolishing the stamp duty (SDLT) lease duty rule for all residential transactions, and for non-residential transactions, increasing the threshold from £600 to £1,000; and

- from today, abolishing the requirement to complete an SDLT 60 certificate verifying that no SDLT return is required for most property transactions below £40,000, leading to a reduction in the need to submit about 270,000 returns per year.

Financial Sector

- removing the requirement for overseas insurers to appoint a jointly and severally liable tax representative in the UK for insurance premium tax;
- responding to representations from the securitisation industry, removing certain stamp duty and stamp duty reserve tax barriers to securitisation transactions; and
- following consultation, simplifying and clarifying aspects of the life insurance taxation system through a package of measures on funding rules, the tax treatment of structural assets, rules on foreign currency assets, and the facilitation of transfers of business between friendly societies.

As set out earlier in Chapter 3, Budget 2008 announces simplification of the tax rules for offshore funds and that the Government is minded to simplify a tax rule for the qualified investor scheme.

Charities

- following consultation, introducing a package of measures to make the Gift Aid system easier to use, including simplifying record-keeping and auditing processes (for further detail on the consultation see Chapter 5); and
- consulting with charities on anti-avoidance legislation relating to substantial donors to simplify the system for charities and prevent innocent transactions from being caught.

Modernising tax administration

- consulting later this year on how to harmonise and simplify the rules about interest on tax paid late and on repayments of tax overpaid, and
- following consultation and in the context of wider tribunal reform, announcing streamlined and more consistent processes across taxes for reviewing decisions and handling appeals before they come before a tribunal.

