



# The Growth Initiative

CEO Insights





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# Foreword

There is little doubt that restoring growth is the greatest imperative facing governments and policymakers at home and across Europe today. The UK is in danger of slipping back into recession with Q4 2012 data suggesting the economy shrank again. Some are even talking of a Japan-style extended period of stagflation. But rather than simply concluding that the Government needs to do more as many have done, the private equity and venture capital community have committed to making a positive and substantial contribution to the debate. We propose some innovative policy ideas that could be put quickly into practice.



So much has been written about what needs to be done to restore growth, including from the government's own Plan for Growth as well as many outside organisations. As such we believe the policy landscape is now a cluttered one, especially with many announced but unimplemented initiatives. But there are some things we can be sure of. The UK's fiscal position remains precarious and so there is a limit to what stimulus can be delivered without adding to an already large debt burden. Similarly, the consumers who did so much to finance the previous protracted growth period are now paying off their credit cards as well as their mortgage, against a backdrop of concerns over the value of their properties. In addition, with negative real earnings, depressing consumer spending has led to a dramatic drop in disposable incomes over the past few years. This situation is unlikely to change given prevailing economic uncertainty. If we are to foster an investment-led recovery, British business will be at its forefront. This is where private equity and venture capital, and the businesses we back, can add real value.

It is true that not all businesses aspire to grow and invest, particularly in the current climate. There is a lot of uncertainty, not just around the Eurozone, but also in the policy and regulatory domain here in the UK as well. The banks are saying they are lending, businesses groups are saying they are not. But where there exists a population of companies who are fixated on growth is in the portfolios of private equity and venture capital funds. In order to make a return for our investors, we simply have to grow our businesses and we have to move fast to make that growth happen. We cannot sit on our hands, lamenting the Eurozone, the difficulty of the export markets, or the uncertainty of regulation; we have to get on with it, and create value within our 5-7 year investment horizon. BVCA members, large and small have

capital to invest and we must strain every sinew to encourage that capital to come to Europe, and in particular to the UK which remains the heart of the European private equity and venture capital industry.

So that is why we have gone out to speak to around 50 CEOs of leading companies backed by BVCA members, to get their insights on how they are growing their businesses and also what policy interventions would help them grow faster. We interviewed leaders of small biotech companies spun out of universities right through to large multinational companies. We believe their insights will inform the government's policymaking process on growth.

There is now qualified support for a targeted industrial policy, with real energy and enthusiasm for supporting key sectors where the UK has a comparative advantage. However, the feedback we received was that we are still spreading our resource too thinly in an effort to give something to everyone – we need to concentrate our effort to build critical mass. On skills we found vacancies unfilled because of lack of domestic talent and a challenging visa regime – both need to be addressed and we suggest ways of doing this. We also found positive support for investment-friendly tax policy, notably corporation tax cuts and R&D tax credits and capital gains tax changes; we note that direction of travel on this front is encouraging and should help investment, as should lifting the annual investment allowance on qualifying investments in plant and machinery. On business finance, the key is how to get capital into businesses with the highest growth potential. To do this, we need to encourage investors to take a long-term approach as well as use the Business Bank as a catalyst for a new culture of long-term lending focused on key industrial strengths, just like in Germany.

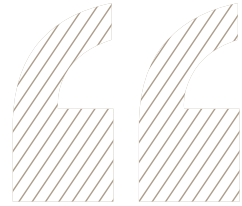
Most importantly in this report, where we have uncovered difficulties businesses are facing we have asked them for viable solutions as well as drawing their attention to Government activity in that area that may already address their concerns. I hope it will add real value to the debate and lead to meaningful policy change to help businesses grow faster, and create more jobs. After all this is a goal that politicians, the business community and other key stakeholders unanimously agree on. I want to thank all the private equity and venture capital funds who agreed to participate and, in particular, the CEOs of the businesses we invest in who have driven this project, and provided us with the real coalface insights and excellent suggestions that underpin the recommendations in this report.



**Dr Robert Easton**

BVCA Chairman  
Managing Director, The Carlyle Group

February 2013



**The key is how to get capital into businesses with the highest growth potential.**



# Executive Summary and Key Policy Recommendations



We have spoken to 50 companies, backed by private equity and venture capital to ask them what would help them grow their business faster, hire more people and invest more in the UK.

Private equity and venture capital funds managed in the UK currently back around 3,800 companies and are responsible for employing over 500,000 people across the country. Ninety percent of the businesses we backed in 2011 were small and medium-sized enterprises (SMEs), and our funds have invested £40bn into British businesses in the last five years.

In order to produce this report and develop the recommendations below we have spoken to 50 companies, backed by private equity and venture capital to ask them what would help them grow their business faster, hire more people and invest more in the UK. They range from small biotech start-ups to large exporting multinationals and well-known high street brands. Our policy recommendations cover a variety of areas and we have grouped them under four themes for ease of reference. Our aim is to inform the Government's policy process and spur dynamic growth again.

## A. Labour Market

### Skills and Training

Youth unemployment in the UK is now higher than every other OECD country apart from Spain and Greece and tackling it should be the number one priority. In doing so we can also address the needs of businesses in improving the skills of would-be recruits.

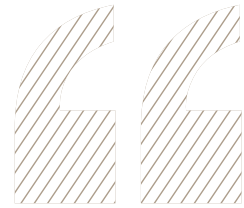
1. Introduce an apprenticeship tax credit to work in the same way as R&D tax credits. Just as research and development should be incentivised, so too should hiring young people. This must be focussed on professions that demand high skills.
2. A module focusing on “workplace readiness” should be included in the national curriculum for school leavers.
3. Introduce a training tax credit. Union Learn estimates that a 130% tax credit would cost the Exchequer £550m for companies currently paying corporation tax. The tax relief could be restricted to training which leads to a qualification.

4. As recommended in the Beecroft Report, a fee which employees themselves have to meet should be introduced into the tribunal system.

## Visa Reform

Hiring the right people is imperative for growth and productivity and in the current context should be prioritised, wherever they may come from, alongside measures to upskill our domestic labour force.

1. The annual cap on “exceptional talent” visas should be abolished.
2. The graduate entrepreneur scheme should be amended – the quota of 1,000 places should be lifted, and the restriction of ten endorsements per academic institution should be amended to ensure that universities with a concentration of talented students do not lose out.
3. The Government should maintain its ‘no limit’ approach to employee transfers between international companies, but the qualifying salary should be reduced from £40,000 to £24,000, thereby harmonising provisions on long and short term staff.
4. Non-EEA graduates should be granted an automatic one-year visa to search for work in the UK (with particular attention paid to graduates achieving good grades in Science, Technology, Engineering and Maths).



**Taper relief for SME investment could deliver new sources of long-term patient capital for SMEs.**

## B. Tax and Regulation

Tax and Regulatory Policy needs to be refocused with one question in mind: that is, will this help bring new investment into the UK economy?

1. The Road Map for Corporation Tax is an important innovation but other taxes need similar approaches to deliver simplicity and foster certainty, notably VAT.
2. Introduce a more favourable rate of capital gains tax for investing in small companies. Taper relief for SME investment could deliver new sources of long-term patient capital for SMEs.
3. Fast track planning applications that have significant job creation implications.
4. The Financial Conduct Authority should have as one of its guiding principles the promotion of growth and innovation. It is important that consumers are protected but this objective can be delivered alongside a focus on growth.
5. Prioritise growth in pending and future decisions on gold-plating EU regulation – the current stance on CRD IV and Solvency II should be reviewed as they will curtail the flow of capital into the UK, by potentially many billions.

## C. Business Finance

Banks are not lending to first time customers, especially small companies, even those with large growth potential. Diverting all the capital we can muster towards viable companies in this space should be a priority.



1. The Business Bank must do more than relieve our short to medium term credit shortage. It should be the financial element of a long-term, strategic industry policy. Lessons should be drawn from the German model of long-term, regional, industrial approach to lending. Local Enterprise Partnerships (LEPs) should assist with regional finance by building funds to invest alongside businesses in their locality.
2. Use the Business Bank to provide financial guarantees for high growth companies deemed unsuitable for conventional bank lending.
3. Pension funds should be given tax credits on dividends for their other investments, in return for investing in venture capital funds to help encourage long term financial commitments to UK SMEs.
4. Credit easing: the Government should extend 'Funding for Lending' and guarantee a certain amount of committed capital from institutional investors as well as other non-bank channels when it is invested in the UK.
5. Zombie companies: Banks should be required to publicise data on so-called "zombie" companies, one year after a default on the principal where the bank (or syndicate of banks) have not provided "new money" cash injections.



**Infrastructure projects, should be underwritten and guaranteed by governments, across multiple parliaments over long horizons. This will lower risk and reduce the cost of capital.**

## **D. Industrial Policy**

Britain needs a well-targeted industrial policy if it is to win the 'global race'. The Government must not use political frameworks in designing policy. Instead it must select clusters to back those that have a key sectoral advantage and a geographic critical mass.

1. Changes to government policy in long-term investments, such as energy and infrastructure projects, should be underwritten and guaranteed by governments, across multiple parliaments over long horizons. This will lower risk and reduce the cost of capital, lowering the overall cost of the project and potentially increasing the quantum of capital available.
2. Graphene, a potentially revolutionary material, is a key example. Pioneered at a facility out of the University of Manchester, more should be done to help this facility compete globally. In South Korea, with the help of Samsung, more than five times as much investment has been directed at their graphene facility.
3. Further tax and related incentives should be put in place to enhance further university technology spin-out company activities so that where strategic advantages exist in certain clusters, they can further benefit from the tax system.
4. UKTI was widely recognised as being an excellent facilitator for businesses looking to export, particularly in Asia. A renewed focus on South America should be the next step.



# Introduction

**The BVCA supports deficit reduction as a key means to restore the health and long-term competitiveness of the UK economy. This requires public spending cuts which the Government has committed to but it also requires growth and it is this that is perhaps most urgent.**

For the second year running the Office for Budget Responsibility (OBR) has used the Autumn Statement to recalibrate its forecasts dramatically. At the time of the March 2012 Budget the OBR was predicting growth of 0.8% in 2012, 2.0% in 2013, 2.7% in 2014 and 3.0% in 2015. It is now anticipating growth of -0.1% in 2012, 1.2% in 2013, 2.0% in 2014 and 2.3% in 2015. It has also shifted the moment when it thinks the UK economy will return to the size that it was when the present financial crisis started (Q3, 2008) back from the third quarter of 2013 to the last quarter of 2014 (or, put differently, a duration of time longer than World War II). The net consequence of this is that public borrowing will be far higher over the next few years than the Chancellor had set out at the beginning of this Parliament, the point when national debt as a proportion of GDP starts to decline has been shifted back from 2015/16 to 2016/17, the economy will not return to “trend” rate until 2016 and the age of austerity in terms of spending and taxation will stretch to 2018.

The single biggest mystery, both in the OBR numbers and the UK economy more broadly is why unemployment has not been and is not today much higher than it is. There are more people in work today than in September 2008 despite the economy being more than 3% smaller. Most economic modelling implies that unemployment in the UK should be at least one million higher today.

Some of this mystery is explained by the fact that workers have been much more flexible than in the past in order to maintain their employment status. Employees have accepted cuts in hours and also real wages with little protest to avoid unemployment. Companies have kept hold of labour out of fear of being caught short if a sustained recovery comes. Almost a quarter of those in work today are in part-time or self-employment (up from one in seven in 2008). The mismatch between relatively strong employment and static GDP is therefore mainly due to permanent capacity being taken out of the economy, resulting in wage deflation, and output growing less fast than employment relative to previous trends as the GDP-employment relationship moves to its new equilibrium level.

The other possible explanation is that one million or more people in the UK today may be working for Zombie Companies, surviving only because of very low interest

rates and the reluctance of the banks (especially those banks where the Government is a major shareholder) to put them into insolvency or administration, as they did in previous recessions. With a few exceptions, these companies are more unlikely to recover. If growth remains low, then the oxygen will eventually be sucked out of them. If the economy recovers and there is any hint that interest rates will increase then that factor will cripple them. This zombie element could prove a major drag on the economy moving forwards.

Furthermore, the OBR also highlights another significant factor that affects our ability to grow – that is the date at which average earnings for those in work will reach the point where it matches inflation – it has now been pushed back from mid 2013 to mid 2014.

Assuming this is correct (which it will not be if the OBR analysis proves to be inaccurate), then at that point median full-time wages will be 7.4% lower in real terms than they were at their peak in the middle of 2008.

Furthermore, consumers have been devoting a larger proportion of these lower real wages to dealing with their own debt burdens (although many still have far to travel in this regard). The entirety of the OBR assertion that growth will “jump” to 2.0% in 2014 and 2.3% in 2015 is based on the notion that consumers will devote the whole of their increase in real wages (when it eventually arrives) directly to consumption and will not merely stop but reverse their attempt to bring their own wider finances under control. In other words, the Government’s chances of achieving fiscal responsibility depend on its citizens moving in the other direction. If real wages do not start to rise and/or if consumers remain focused on cutting their debts then the outlook for growth and hence the deficit is distinctly negative.

Be it either domestically or internationally, it has proved to be a very slow recovery. Every Western economy has been going through a period of low to nil growth. So in this challenging context the options available to generate growth are few.

### **What are the options to restore growth?**

- Demand-side recovery driven by fiscal and monetary policy.
- Supply-side recovery based on radical deregulation and taxation reform.
- Export-led recovery.
- Investment-led recovery.

A demand side led recovery driven by an expansionary fiscal policy is wholly inconsistent with deficit reduction so is not being considered by the Government – policy focus must be on growth, but in such a way as to not materially impact the reduction in public expenditure, which leaves the other three possibilities. Little consensus has emerged around them in the shape of a growth plan which explains why it does not yet resemble a strategy, but rather a set of piecemeal initiatives, issued by different departments but not necessarily endorsed by the Government as a whole.

## What others are saying

The Confederation of British Industry has focused on exports with a call for a National Exports Strategy. The Federation of Small Businesses has focused on access to finance by supporting a state-run business bank as have the British Chamber of Commerce. The Institute for Directors have proposed radical tax reduction and simplification. From the think-tank community, Policy Exchange have suggested freeing up ISAs to allow savings to be channelled into small company debt and the IPPR want to increase infrastructure spending to be paid for by new taxes. NESTA suggests more investment in science, innovation and early stage companies.<sup>1</sup>

A more expansive literature review of growth policy can be found in the Appendix.

## The Growth Credentials of Private Equity and Venture Capital

Private equity (PE) and venture capital (VC), as an asset class, is one relentlessly focussed on growth. We invest in businesses for the long-term in order to help them expand, create jobs and grow. This is how we generate returns for our investors and sell healthy businesses on to public markets or other forms of ownership.

- Private equity and venture capital funds managed in the UK back 3,800 companies and employs over 500,000 people across the country.
- We have invested £40bn in the last five years, and in 2011, ninety-percent of the businesses we backed were SMEs

The BVCA has recently commissioned a study looking at growth in private equity backed companies in the UK going back to 1995, comparing them to other forms of ownership<sup>2</sup>.

The report looks at the differences in performance, using various metrics, between private equity backed companies in the UK and a matched dataset selected from the whole population of private and public companies in the UK. Particularly, it explores the differences that private equity's increased capital (capex) and operational expenditure (opex), as well as operational improvement, make to the growth of a business, compared to other types of ownership.

The findings of this report are illuminating, providing an insight into both the immediate impact that private equity backing has on a business (where we would expect to see the increase in opex feed through in the early years), as well as the continued impact over the lifetime of the private equity investment (where we would expect to see a lagged impact from any capex). Taken together, they show the positive transformational effect that private equity investment can have on a company.

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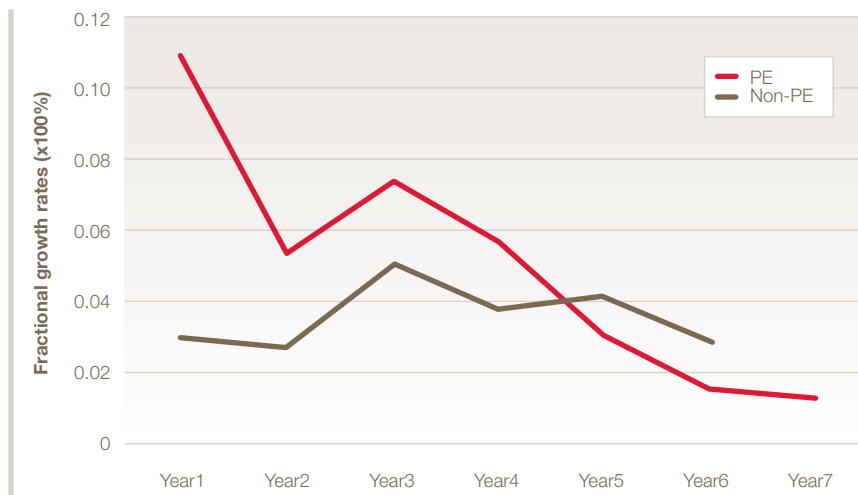
1 For more see 'Growing Pains', Civitas 2012 – <http://www.civitas.org.uk/economy/GaskarthGrowingPains.pdf>

2 Convenient Truth: Private Equity and Portfolio Company Growth', Wilson and Wright, Forthcoming 2013

The key findings of the report are:

There is a consistent pattern of PE-backed buyouts showing higher growth rates than non-PE-backed companies for the first four years post buyout (Chart 1). After this period, the picture is less clear but non-PE backed buyouts tend to display higher average growth. There is clear evidence of growth and performance improvement post-buyout when compared to the pre-buyout period of the company. This marked difference in initial growth rates, as well as sustained growth rates over the first four years post buyout may point towards the immediate impact of increased opex and the sustained impact of capex.

**Chart 1: Growth rates of PE backed buyouts against non PE backed buyouts (All Buyouts – Value Added CAGR, 3 years)**



- PE-backed buyouts proved more resilient during the recessionary period of 2008-2011, with mean growth greater than for both listed companies and private control group companies. During the boom years 2003-2007, whilst overall mean growth in listed companies was generally greater than for PE-backed buyouts, PE-backed buyouts did have higher mean growth rates in respect of some measures, notably equity, employment, value-added and sales growth
- The UK experience of PE-backed firms is positively associated with growth in value-added, assets, sales, equity and employment. PE-backed buyouts appear to use operating cash flows more effectively than private companies in generating growth.
- Regionally, PE-backed companies generally show higher growth rates than private companies in all regions in the 1998-2003 and for 2004-2007 sub-period, for regions other than the North East, South West and Wales.

## Our approach for this work

Given private equity and venture capital's commitment to growing UK businesses and its successful track record in doing so, the BVCA has utilised our members' knowledge and experience in sourcing ideas to restore growth to the UK economy. However, we did not do this by talking just to private equity and venture capital practitioners. Much more importantly we spoke directly to the CEOs of the businesses we have been investing in to assess what their needs are in terms of growing their operation more quickly. We have not sought to conduct any kind of quantitative survey, other than the sample set mentioned above, but rather using the existing policy landscape set out above, and the Government's own 'Plan for Growth', we have talked to business leaders about what works and what does not, and searched for new ideas to stimulate faster economic growth. So this is by no means a criticism of Government policy and indeed several existing policy initiatives were praised by CEOs and where this was so, we have highlighted it.

We interviewed around 50 CEOs of UK businesses and their private equity and venture capital investors and the ones that agreed to be named are below. We have tried to group their insights and they largely fall into four categories which make up the next chapters: labour market, tax and regulation, access to finance and industrial policy. The policy ideas are not the BVCA's, they are the direct suggestions of business leaders from a variety of companies and answer the question, 'What can Government do to help you grow your business here in the UK?'

## List of interviews respondents

Companies included for this initiative include the following:

<b>Achilles</b>	<b>Foxtons</b>	<b>Pets at Home</b>
<b>Active Assistance</b>	<b>Graze</b>	<b>Peveler Group</b>
<b>Aesica Pharmaceuticals</b>	<b>HellermanTyton</b>	<b>Phase 4 Ventures</b>
<b>Albion Ventures</b>	<b>HG Capital</b>	<b>Phoenix Private Equity</b>
<b>Arvia</b>	<b>ISIS</b>	<b>Phones4U</b>
<b>Audley Retirement</b>	<b>Kirona</b>	<b>Poundland</b>
<b>August Equity</b>	<b>KKR</b>	<b>Process System Enterprise</b>
<b>Bain Capital</b>	<b>LDC</b>	<b>Renephra</b>
<b>BC Partners</b>	<b>Moorfield</b>	<b>Silverfleet</b>
<b>Brakes Group</b>	<b>Morgan Stanley Private Equity</b>	<b>Survitec</b>
<b>Business Growth Fund</b>	<b>Nanoco</b>	<b>Towry</b>
<b>The Carlyle Group</b>	<b>Nextwave Partners</b>	<b>UMI3</b>
<b>Chroma Therapeutics</b>	<b>NFT</b>	<b>Voyage Care</b>
<b>Digico</b>	<b>Norland Managed Services</b>	<b>Warburg Pincus</b>
<b>Doughty Hanson</b>	<b>Palantine Private Equity</b>	<b>Weldex</b>
<b>Dunedin</b>	<b>Palomon Capital Partners</b>	<b>Zenith</b>
<b>Epistem</b>	<b>Parabis Group</b>	





## CHAPTER 1

# The Labour Market

### Introduction

The UK labour market, despite its comparative flexibility by Western standards still has a number of problems and by interviewing a cross section of prominent British businesses the BVCA has begun to identify which require urgent attention from Government.

The first and perhaps most striking problem, is this country's stubbornly high unemployment rate, even accounting for the zombie company dynamics outlined above which only suggests that cyclically it is comparatively low. The latest figures from the Office for National Statistics (ONS) show that the unemployment rate for August to October 2012 was 7.8% of the economically active population<sup>3</sup>. The number of businesses across the country that have neither the confidence nor the capacity to take on additional staff is concerning, with SMEs in particular often fretting about the costs associated with hiring new staff, should the relationship go wrong.

**“We need to fix employment tribunals. The situation at the moment is conducive to us taking on fewer employees.”**

The skills base of the labour force is also an issue that should remain front and centre in the minds of policy makers. The UK Commission's Employer Skills Survey of 2011 states that last year around 1.5 million employees in this country did not have the required skills to do their job.<sup>4</sup>

**“Those people who are not going to go on to further education, we need to be a lot more practical in terms of the skills we give them in the final years of school.”**

**“We urgently need more top quality UK engineers – going “offshore” is usually the only viable route to get the right people, but is still fraught with difficulty.”**

Finally, there is the politically sensitive topic of immigration. This is an issue in which politics often takes precedence over economic rationale. As long as the skills shortage highlighted still blights the UK's labour force, firms will naturally look abroad for the talent they cannot find at home. By cutting off this source of labour however (The Tier 1 Visa category for people of “exceptional talent” has an annual cap of 1,000), the Government is inflicting significant damage on the country's economic prosperity.

<sup>3</sup> ONS Labour Market Statistics, 12 December 2012- [http://www.ons.gov.uk/ons/dcp171778\\_287888.pdf](http://www.ons.gov.uk/ons/dcp171778_287888.pdf)

<sup>4</sup> UKCES, May 2012 – <http://www.ukces.org.uk/assets/ukces/docs/publications/ukces-employer-skills-survey-11.pdf>

**“The current Visa system is slow and inefficient – there can often be a 3 to 6 month lag for getting the right people. This needs addressing.”**

These are troubling dynamics that should be addressed with some urgency. If rectified, businesses will rise to the challenge and deliver the investment-led growth this country needs.

Three main issues have emerged during the course of the interview process.

1. Falling competitiveness;
2. A skills shortage;
3. An overly-bureaucratic visa application procedure.

## 1. Labour market competitiveness

The Government has shown signs of recognising how vital a competitive labour market is to securing economic prosperity, and the BVCA is very supportive of a number of measures that have been taken.

**What steps have the government taken?**

### ✓ **Qualifying period for unfair dismissal increase**

For all employees employed on or after 6th April 2012, the qualifying period for unfair dismissal (and requests for a statement of reasons for dismissal) increases to two years. Employees whose period of continuous employment began on or before 5th April 2012 will still be subject to the one year qualifying period.

### ✓ **Employee-ownership**

Under this scheme, employees can agree to waive certain statutory workplace rules in return for an equity stake in the company. The intention from Government is that this policy will enable Britain's small businesses to take on more employees.

### ✓ **Employment tribunal fees**

Employment tribunal fees have been tailored to encourage businesses and workers to mediate or settle a dispute rather than go to a full hearing from summer 2013.

The review conducted by Adrian Beecroft in this area has opened the debate yet further: the government should seek to re-examine the merits of his proposals on no-fault dismissal, having sensibly accepted a reduction in the maximum compensation cap for unfair dismissal.

### ✓ **Consultation on: “Ending the employment relationship”**

Here, the Government requested feedback considering employment relationships that are not working out and what the State can do to support the parties to make informed decisions and give more certainty about outcomes when the parties separate.

### ✗ **Richard review of apprenticeships**

Apprenticeships are a viable alternative to higher education for those individuals looking for a route by which they can (re) enter the workforce. A proper

apprenticeship is more than just a route to work however as the experience and skills it can provide allow people to thrive in their respective careers while generating realistic aspirations to progress.

The Richard Review of Apprenticeships represents a timely and much needed evaluation of the state of play in this area. It presents 10 different recommendations which focus on driving up standards in apprenticeship schemes, by focusing more on output as opposed to process, along with ensuring testing and validation are independent and genuinely respected by industry. The report highlights the potential for apprenticeships to be funded via a tax credit, potentially similar to that seen in the R&D space. “The funding system should be kept simple and accessible, including for small firms” it adds<sup>5</sup> – its findings should be acted on.

### What more can be done?

- A more balanced approach to employment tribunals

Too much responsibility is placed on the shoulders of companies to inform their employees as to the parameters of dismissal procedures – presumptions in favour of employees should be more balanced.

**“Tribunals can often be quite flippant encounters – the amount of money put forward in settlement proposals by lawyers on behalf of their clients often has no bearing on reality.”**

- A further point has been made during the interview process, that – because of the legal costs involved, insurers are more likely to settle spurious claims. This is another example of where businesses need more protection from ‘claims culture’.

## 2. Skills shortage

A thriving economy requires a skilled workforce, as there is evidence that higher skills lead to higher business growth<sup>6</sup>. Unfortunately, and despite the surge in popularity of university education over the last ten years, British businesses still complain of a skills shortage – applicants not being sufficiently qualified to perform jobs that are advertised.

### What steps have the government taken?

#### ✓ Scrapping university placement targets

The Coalition has scrapped the Labour government’s target to get 50% of young people to university, and has instead made a commitment to increase the number of apprenticeships available during the course of this parliament and beyond. Either unprompted, or when asked about the policy, all respondents were in favour of this approach citing the need to strengthen our commitment and boost the status of vocational education.

5 Doug Richard, 2012, The Richard Review of Apprenticeships, 2012 -<http://www.schoolforstartups.co.uk/richard-review/richard-review-full.pdf>

6 “Fast-growing firms, product strategies and skills development”, Nesta Working Paper November 2012 – <http://www.nesta.org.uk/library/documents/fastgrowingfirmsswp.pdf>

## ✓ Apprenticeship grant for SMEs

From 1 April 2012, a £1500 grant is available to SMEs who recruit their first apprentice. This should increase the provision of apprenticeships to smaller businesses, and help increase diversity of choice in terms of content.

## What more can be done?

- Increase incentives for businesses to train staff.

41% of businesses surveyed in the last year's UK Commission's Employer Skills Survey 2011 have not carried out any training at all. Statistically, businesses are more likely to close if they do not train.

**“Businesses should be incentivised to spend more on training – this is an area of business that inevitably suffers during an economic downturn.”**

- Ensure school-leavers and graduates are ready for work.

Employers are often surprised at how “green” new hires are when they turn up for their first day of work. The Government should consider including a “readiness for work” module in the curriculum to ensure that school-leavers are aware of what will be expected of them – punctuality, presentation etc.

**“A much greater degree of practicality is needed in the education system. A lot of these principles also apply to people who go to Universities that are not in the “top tier”.”**

- Explore the merit in commissioning a new UK computer science university.

The UK's higher education sector remains hugely competitive, but there is considerable scope to improve its effectiveness in producing the high-skilled employees of the future. One potential avenue of opportunity may be to lay the foundations for a new a leader in the field of computer science. A role model would be the position held by the London School of Economics currently in the field of economics, social and political science, only in the domain of computer science.

**“To get the skills set in new starters we require we have no choice but to look overseas. The government should be actively exploring how it can develop home grown talent in the field of maths, science and IT.”**

**“We employ over 500 in a technology based business near Old Street and we typically run with over 50 vacancies.”**

### 3. A cumbersome visa process

Britain is phenomenally well-placed to leverage its geographical position as the only English speaking country in Europe, as our native tongue continues to enjoy pre-eminent status as the language of trade and business. Unfortunately, the UK's immigration policy acts as a disincentive for the world's best and brightest to come to these shores, both to study and to work. Referred to recently as "The Tories' barmiest policy" by The Economist<sup>7</sup>, this requires urgent attention if British business is to compete in the 21<sup>st</sup> century, a view supported by many of our respondents.

#### What steps have the government taken?

The current application procedure for visas received very little support from business leaders, with numerous CEOs complaining of a system that is restrictive and overly bureaucratic.

**X The Coalition has reformed the student visa system**

In the year to June 2012, there was a 30% decrease in the number of student visas issued compared to the year to June 2011. This was cited as a notable achievement for the government but the damage being done to our economy both in the short and long term is significant.

**X The number of visas available for "highly skilled" individuals (Tier 1) is very small**

One category, for people of exceptional talent (within Tier 1) has an annual cap of 1,000. Last year 37 such visas were granted. One respondent remarked that the notion of setting a cap on the number of permitted immigrants with 'exceptional talent' was in itself "crazy".

**X Recent changes have increased the burden of bureaucracy considerably.**

It still takes far too long for visa applications to be processed. While larger firms can put up with the hassle of transferring a highly-skilled worker from the Far East for example, this is not the case for smaller businesses. The government's policy in this area is also counter-intuitive to the government's ambition to generate large numbers of high-growth potential technology firms in the UK – evidenced by the recent announcement of the London Stock Exchange to ease listing requirements for companies in this field. The current visa procedure means British businesses of this ilk simply do not have the time and resources to guide foreign talent through the mire of immigration controls, which inhibits their chances of expanding and investing.

#### What more can be done?

- The system for processing visa applications requires urgent streamlining.

Clearly the length of time taken to process Visa applications is damaging to business performance, but the negative perception being created is equally destructive – companies may turn away from foreign hires altogether, put-off by the bureaucracy involved, of assessing specialist talent from overseas.

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<sup>7</sup> Economist, 20<sup>th</sup> October 2012 – <http://www.economist.com/news/leaders/21564841-britains-immigration-policy-cripling-business-and-economy-wake-up-mr-cameron-tones>

**“We need interventions on visas. It must be easier to transact in labour terms – it isn’t at the moment.”**

- Remove any limits on visas awarded to individuals of exceptional talent.

It is illogical that the government should see fit to impose limits on the distribution of visas to individuals with exceptional talent – this should be addressed.

The Graduate Entrepreneur<sup>8</sup> scheme also warrants urgent attention. A successful applicant requires endorsement of a ‘genuine, credible and innovative business idea’ – suggesting that a fairly sophisticated business model is required – from an officially accredited higher education institution as part of his or her application. As drafted, this test sets a high bar, and leaves very little margin for error as it is only through trial and error at the development stages that many businesses take shape and become successful<sup>9</sup>.

Also, the policy as it stands only permits a maximum of 10 endorsements per institution, a state of affairs that clearly penalises applicants who attend Universities which have a concentrated amount of talent – Oxford and Cambridge being the most obvious examples.

The UK’s record in this department does not compare favourably to three of our major competitors for dynamic foreign talent<sup>10</sup>. We should take particular note of developments in the US where President Obama recently called on Congress to create a special visa category that allows foreign-born entrepreneurs to live in the US as long as they raise a minimum level of financing and employ a certain number of workers.

- Visas should grant an increased degree of mobility to the recipient. Foreign graduates from UK universities should enjoy more freedom to seek work in this country.

**“The Government should not tighten immigration and should even consider a system drawing on the US policy of one year visa following graduation.”**

## Other

- Peculiarities in the tax system

For those individuals working on minimum wage, there is a clear disincentive from working full-time or overtime in many cases because they may be penalised in terms of the benefits they can claim. This anomaly should be addressed as it actively prevents industrious people from taking on additional hours, should they so wish.

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8 UK Border Agency, 2012, Tier 1 (Graduate Entrepreneur) of the Points Based System – Policy Guidance – <http://www.ukba.homeoffice.gov.uk/sitecontent/applicationforms/pbs/t1-ge-guidance1.pdf>

9 ‘UK immigration policy ‘destroying entrepreneurship’, 22/01/13, Relocatemagazine.com – <http://www.relocatemagazine.com/immigration-a-visas/immigration-a-visa-news-main/7063-uk-immigration-policy-destroying-entrepreneurship>

10 In 2010, the Australian government commissioned a review of the student visa programme in recognition of the importance of international education to Australia’s society and economy. Its recommendations are currently being implemented, and include provision of post study work visas which can be granted for up to four years and allow graduates to gain practical experience in Australia after completing their studies. Foreign graduates in Canada are able to apply under the Post-Graduation Work Permit Program (PGWPP) and gain Canadian work experience which will in turn help graduates qualify for permanent residence.

**“Finding the right balance between benefits and tax for generally unskilled employees earning around £7 per hour is very difficult. Employees do not want to work more for fear they will lose benefits – this is damaging the potential for their employers to grow their businesses.”**

## Summary

The Coalition government clearly recognises the importance of a flexible and dynamic labour market for the British economy, and this should be applauded. Positive steps have been made in the field of apprenticeships and employment tribunals, but unfortunately the political benefits associated with immigration caps do not extend to economic ones, in the eyes of respondents. Given the vocal nature of respondents to this survey, the Government must recognise the damage its perceived anti-foreigner and anti-immigrant rhetoric and policies are having on the country's ability to fashion itself as the premier English-speaking domicile of fast-growing businesses in the world.

## Policy Recommendations

### Skills and Training

Youth unemployment in the UK is now higher than every other OECD country apart from Spain and Greece and tackling it should be the number one priority. In doing so we can also address the needs of businesses in improving the skills of would-be recruits.

1. Introduce an apprenticeship tax credit to work in the same way as R&D tax credits. Just as research and development should be incentivised, so too should hiring young people. This must be focussed on professions that demand high skills.
2. A module focusing on “workplace readiness” should be included in the national curriculum for school leavers.
3. Introduce a training tax credit. Union Learn estimates that a 130% tax credit would cost the Exchequer £550m for companies currently paying corporation tax. The tax relief could be restricted to training which leads to a qualification.
4. As recommended in the Beecroft Report, a fee which employees themselves have to meet should be introduced into the tribunal system.

## Visa Reform

Hiring the right people is imperative for growth and productivity and in the current context should be prioritised, wherever they may come from, alongside measures to upskill our domestic labour force.

1. The annual cap on “exceptional talent” visas should be abolished.
2. The graduate entrepreneur scheme should be amended – the quota of 1,000 places should be lifted, and the restriction of ten endorsements per academic institution should be amended to ensure that universities with a concentration of talented students do not lose out.
3. The Government should maintain its ‘no limit’ approach to employee transfers between international companies, but the qualifying salary should be reduced from £40,000 to £24,000, thereby harmonising provisions on long and short term staff.
4. Non-EEA graduates should be granted an automatic one-year visa to search for work in the UK (with particular attention paid to graduates achieving good grades in Science, Technology, Engineering and Maths).



## CHAPTER 2

# Tax and Regulation

### Introduction

The current government's commitment to get Britain's public finances under control is one that should be applauded, and has served as the driving force behind a number of policy initiatives that the BVCA welcomes. Indeed there was a prevailing sense of realism about what policy initiatives could be attempted given the state of the public finances. For example, the decision to reduce the headline rate of corporation tax represents a statement of intent from the Coalition, and as the Chancellor says, confirms that "Britain is open for business". This must remain the country's mantra if it is to continue to compete on a global scale in the 21<sup>st</sup> century.

The scale of the economic challenge remains significant, however, and there are still a number of areas which require attention both domestically and abroad. At home, the Coalition should strive to match rhetoric with more concrete action on cutting regulation. The Red Tape Challenge (although more focused on the micro-level) was a good initiative, but one that struggled to elicit constructive policy suggestions from businesses who responded.

**"There is nothing but talk from government about cutting regulation. Not one cut of note in the care industry when it comes to both starting and growing businesses."**

Returning to the wider issues, however, the government should consider very carefully whether or not it wishes to "goldplate" internationally agreed regulations on reserve capital requirements for banks and insurance companies. It stands to reason that as the UK economy remains disproportionately reliant on tax receipts from the financial sector, the Government should mandate stronger safeguards for it.

These should not come in the form of crude increases in the level of capital reserves such firms hold, as we can clearly see that these are restricting investment and stifling the economic recovery. This is the line that the UK should be taking to Brussels, not an insistence that capital reserve levels should be even *higher* in the UK than those set out in Basel III / CRD IV / Solvency II.

**"With Solvency II – the cost is huge, and it has now been gold-plated. It may now not even happen so all this cost will be for nothing."**

Again, a lack of action in the areas highlighted above is preventing British business from leading a revival in investment-led economic growth.

Emerging issues split into two, high level categories.

1. UK fiscal, tax, and regulatory issues
2. The EU

## 1. UK fiscal, tax, and regulatory issues

In a world in which people, goods, capital and services are increasingly mobile, a country's taxation policy can play a large part in its respective attractiveness to such flighty commodities. The Coalition is aware of this, evidenced by George Osborne's commitment to make the UK's corporation tax rate the most competitive in the G20. Of course, a sound tax policy is necessary but not sufficient in establishing broader economic competitiveness, and the Government has made positive noises if not demonstrable progress on the issue of regulatory overload in this country.

What steps have the government taken?

### ✓ Decisive action on the precarious state of public finances

According to the 2012 Autumn Statement, the government's budget deficit has been reduced by a quarter over the two years since 2009-10. Although progress has undoubtedly been slower than anticipated, the general direction of travel is encouraging and should be maintained.

**"We won't get a consumer led recovery until we get the fundamentals right...and that means fixing the state of public finances."**

### ✓ Reduced the headline rate of corporation tax

From April 1 2014, the corporation tax rate of the UK will be 21%. This move was welcomed more or less unanimously by the business leaders interviewed for this initiative.

**"You would struggle to find many businesses come out against a decrease in the rate of corporation tax. The reassurance from government that the trend will be downwards or static for the foreseeable future is also welcome."**

### ✗ Failed to match action with rhetoric on the Red Tape Challenge

This initiative is a laudable one that should be pursued. Unfortunately, the reality on the ground has failed to live up to expectation following its announcement.

**"Regulation surrounding planning permission can be very difficult to manage. Although we invariably get the green light to proceed, the uncertainty and waiting means we often have to put other, job-creating projects on hold."**

**X Established a new regulatory framework for financial services**

There can be little doubt that the so-called “tripartite system” of regulation failed to identify the onset of economic crisis, but the response from government to split the FSA may have a number of unintended consequences. The government should be mindful of an unhealthy concentration of power in the Bank of England, while businesses are concerned about an increase in the number of site visits from multiple regulators.

**“With the PRA and FCA in place, we will have twice as many visits now than before. We also need to provide feedback on outsourcing to the regulator – why?”**

**X The Vickers Reforms**

Higher capital reserve requirements and recent statements on ‘electrifying the ring-fence’ will potentially increase the cost of capital going into our economy.

**X Carbon Reduction Commitments (CRC)**

The Government have announced that this scheme is not working in terms of changing the behaviour of businesses but it remains in force until 2016 when it is up for review. In the mean time compliance costs continue to rise as does uncertainty as to what comes next.

## What more can be done?

- Ensure the FSA and later the FCA respects the rights of business to operate.

The regulatory architecture must be more sensitive to the needs of business – the system of fines is often unreasonable and should be reviewed.

**“The FSA has gone too far with regards to financial regulation – fines are currently used to raise revenue, not change behaviour.”**

- Fast-track planning applications for projects with high growth potential.

The Government’s Red Tape Challenge provides a golden opportunity to drive growth at local level – the initiative should be turbo charged, with a particular emphasis speeding up applications for new build that will create 50 jobs or more.

- Use the tax system to incentivise more investment into SMEs to plug the gap left by banks. A lower rate of CGT for small companies would be a start.
- Prioritise efforts to simplify the UK tax code, particularly with regard to VAT.

Despite the progress made by the Office for Tax Simplification (OTS), the administrative burden for business in merely complying with the tax code is considerable. This must be addressed as a matter of urgency.

**“We have a full time Finance Director here, but when it comes to calculating tax returns, the level of complexity is so large that we have little other choice than to bring in outside help from the Big Four at considerable expense.”**

## 2. UK in Europe

The EU is at the forefront of renewed efforts to regulate the continent's financial services industry, and given the sectors strategic importance to the UK economy, it is more exposed than most to a hard-line implementation of Brussels-born regulations and directives. The Government has often handled delicate negotiations with fellow EU member states with care and attention, but in certain areas it could be doing more to protect British businesses.

### ✓ Support for EU recovery measures

The EU remains the repository for a significant portion of UK exports, and it is certainly in this country's interest that the continent emerges from its current trials in as robust health as feasibly possible. The Government's support for a Eurozone banking union demonstrated that the UK was committed to achieving this aim.

**“The single market in Europe represents a fantastic achievement – the Government should seek to defend it at every turn moving forward.”**

### ✓ Resistance to the implementation of a Financial Transactions Tax in the UK

There remains no compelling evidence to suggest that the implementation of a Financial Transactions Tax in Europe would do anything other than increase costs for the end users of financial services, as opposed to curbing financial speculation. It was pleasing to see the Government recognise this.

**“A Financial Transactions Tax is by no means the key to curbing financial speculation on the continent.”**

### ✗ Gold-plating of EU regulation

The government intends to legislate that banks and insurance firms hold even more capital in reserve than that required under EU regulation. Unfortunately, such an approach is damaging an economic recovery that remains fragile.

**“Regulators are outright hostile to insurance even though it had no role in the crisis...what are the Chinese doing in regulation? They are looking to deliver whatever is most competitive.”**

## What more can be done?

- Prioritise growth in any pending decision on whether to “gold-plate” EU regulation.

The BVCA is supportive of increased consumer protection, but this must not come at the cost of significantly dampened economic activity. The government should be mindful of this when evaluating whether or not to gold-plate EU regulation. The Alternative Investment Managers Directive is a good example. Implemented well it could foster a stronger private equity investment industry with its marketing passport allowing for more pan-European fund raising and investment. Done poorly, it could simply add to the compliance cost of funds thereby restricting the flow of capital being directed to SMEs.

## Summary

The macroeconomic outlook for the UK remains uncertain, as strong headwinds from the continent continue to buffet a recovery that has remained feeble over the last two years. The government's stance on fiscal policy is encouraging, however, as is the commitment to achieve and then maintain global competitiveness in the field of corporate tax rates.

There is a fine line between caution and dynamism when it comes to regulation however, and there is not yet sufficient focus on how our approach to regulation, particularly financial, will impact the investment decisions of businesses, and discourage capital from flowing into the UK economy. Every decision to implement or even gold-plate regulations should be viewed through this prism.

## Policy Recommendations

Tax and Regulatory Policy needs to be refocused with one question in mind: that is, will this help bring new investment into the UK economy?

1. The Road Map for Corporation Tax is an important innovation but other taxes need similar approaches to deliver simplicity and foster certainty, notably VAT
2. Introduce a more favourable rate of capital gains tax for investing in small companies. Taper relief for SME investment could deliver new sources of long-term patient capital for SMEs
3. Fast track planning applications that have significant job creation implications.
4. The Financial Conduct Authority should have as one of its guiding principles the promotion of growth and innovation. It is important that consumers are protected but this objective can be delivered alongside a focus on growth.
5. Prioritise growth in pending and future decisions on gold-plating EU regulation – the current stance on CRD IV and Solvency II should be reviewed as they will curtail the flow of capital into the UK, by potentially many billions.



## CHAPTER 3

# Business Finance

### Introduction

There can be little doubt that businesses' ability to access the necessary finance, whether this is equity, expansion capital or just essential overdraft facilities, is a significant determinant of whether they can grow. With a concentrated banking sector under severe duress from regulators to repair their balance sheets and hold more, good quality capital, conditions are far from optimal.

**“We are getting the borrowing we need but are having to jump through a lot of hoops to get it from RBS.”**

**“Every large European market is dominated by a few large financial institutions. In the US, there is an “alphabet soup” of lending providers.”**

The Bank of England's latest 'Trends in Lending' report highlights a contraction in the total stock of lending to UK businesses in the three months to November 2012<sup>11</sup>. This immediately lends support to the 'banks won't lend' narrative at the SME Finance Monitor is more illuminating still. Its Q3 report highlights that for all loan and overdraft requests and renewals, 71% were successful, an effective total decline rate of just 3%. However, if we break open this dataset and just look at first time applicants, only 42% are successful<sup>12</sup>.

We should, though, exercise caution before leaping on this data since of these declines, a certain number will be poor prospects for finance regardless of risk profile. It is only right that any bank takes a considered approach here. We only need to ensure that the Government is doing enough to generate capital to match *viable* demand. This is vital, as it is likely to be these companies with the highest growth potential. We cannot afford for these companies to miss out on finance because the bank doesn't have the risk appetite for funding small, innovative companies. Focus on these is essential as two-thirds of SMEs are deemed 'happy non-seekers' in that they have not sought finance because they do not want it<sup>13</sup>.

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<sup>11</sup> Trends in Lending, BoE 2012 – see <http://www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjanuary13.pdf>

<sup>12</sup> SME Finance Monitor – <http://www.sme-finance-monitor.co.uk/>

<sup>13</sup> *Ibid*

## What steps have the government taken?

### ✓ Funding for Lending

This scheme was launched in August 2012 and works by allowing banks to borrow Treasury bonds at a reduced rate, provided they increase lending. In Q3 2012, participating banks took up £4.4bn via the Funding for Lending scheme, and their total net lending rose by £496m. However, lending from RBS, Lloyds, Santander and the Coop actually fell during this same period.

### ✓ Business Finance Partnership

This programme aims to stimulate new non-bank sources of finance and has invested £600 million and raised another £650 million from the private sector to create four new funds that will lend to mid-sized companies

### ✓ Small Business Bank:

£1 billion of additional capital has been provided to 'address structural gaps in the supply of finance to SMEs and stimulate the provision of long-term capital, including by leveraging in substantial private sector finance. In addition it will bring together, review and rationalise existing government schemes aimed at supporting access to finance for businesses under a single organisation, in order to increase access to and awareness of these interventions.'<sup>14</sup>. However it is not yet up and running so we do not know how successful it will be.

### ✓ UK Exports:

A scheme designed to provide up to £1.5 billion of loans for the purchase of UK exports has been established.

When it comes to funding high growth companies, however, there may be a limit to what conventional bank lending can do. Some of these businesses may be pre-profit or even pre-revenue and unlikely to suit the risk appetite of a bank's regional loan manager. Indeed, the latest credit conditions report suggests Funding for Lending benefits smaller firms the least.

**“The capacity of VC funds is a concern. Greater economies of scale in this space are required to plug the “funding gap”.”**

**“There is a start-up funding gap – 18 months to 2 years into the lifecycle of a company... It was the risk appetite of this company that explains the growth trajectory – the journey from 1 customer to 10 is the essential phase that needs support.”**

Private equity and venture capital is an important source of patient capital and the UK is a leading provider of it. Indeed half of all Europe's activity comes from the UK. However, there are challenges on the horizon and the case of venture capital, these challenges are here already. The most acute one in the case of VC is fundraising and it is manifested by an increasing reliance on public sector investment in venture funds. In 2007, public sector investment was a relatively insignificant percentage of the total investment into

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<sup>14</sup> Autumn Statement, HMT 2012, see [http://cdn.hm-treasury.gov.uk/autumn\\_statement\\_2012\\_complete.pdf](http://cdn.hm-treasury.gov.uk/autumn_statement_2012_complete.pdf)



European venture capital at 10%. It is now comfortably the largest investor at 57%.<sup>15</sup> How this public sector capital is deployed is now more crucial than ever.

- ✘ Many respondents highlighted the paucity of large funds and how this could hamper the growth of companies in need of follow-on funding. This may be a symptom of spreading public sector commitments too thinly, or an insufficient focus on using public capital to catalyse private sector investment to create larger funds. It is clear though, that further incentives may be needed to induce pension funds to invest in venture capital – respondents suggested this could come through underwriting or tax incentives.

### What more can be done?

- We should examine the merits of establishing much larger venture capital funds, supplied by institutional investors, private investors and government support in order to create broader and deeper portfolios and greater economies of scale capable of sustaining multiple funding rounds. Indeed private equity is investing alongside government funds but this needs to be on a larger more consolidated scale since there seem to be so many fragmented government backed funding schemes. There is a case to be made that Capital for Enterprise, the organisation responsible for managing public VC funds, should target larger, consolidated funds for example.
- The Government could also reignite interest in venture capital from institutional investors as part of the current Credit Easing Programme. We believe that, if certain guarantees were offered for commitments to VC or SME funds, this could make them more attractive. It would also help offset the potential damage wrought by European Directives such as Basel III, Solvency II and revisions to IORP, all of which discourage investment into real economy assets like SMEs.

These measures would certainly boost equity finance for fast growing companies but there is also a need to catalyse the market further with innovative debt finance products. The Business Finance Partnership is an excellent first step that we applaud but it should only be seen as a start.

**“Quantitative easing in the UK assist banks only whereas in Belgium the government assists the companies in asset purchases by guaranteeing up to 50% of finance thus making it easier to finance equipment.”**

**“Any initiative in this area would be a good thing but we would rather see further use of government guarantees than a new institution.”**

Amongst respondents, the proposal for a UK business bank had caught the eye of many, but few were keen on the idea of direct lending to businesses. Yet many cited what they saw as a ‘market failure’ in a present banking sector. If new provision is to be made then the Government could play a role in catalysing it with guarantees.

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<sup>15</sup> EVCA data

## Zombie companies

This issue is worth mentioning as it has certainly risen up the policy and media agenda and was mentioned by a large number of interview respondents. R3, the insolvency trade association puts the number at 1 in 10.<sup>16</sup> This comes in a period when insolvencies are at a record low for a recessionary period, and employment continues to be higher than economists predict. The presence of so many of these companies may explain this as instead of being liquidated, the company is kept on life support by low interest rates and the staff retained. This should be viewed as good thing – any job loss is a bad for the individuals concerned and we should not lose sight of that in a search to maximise productivity.

However, for the long-term viability of the UK economy this issue does need to be addressed to make sure the dynamism of our economy is not unduly harmed.

The key aspect of this is getting fresh capital into these companies that, with restructuring, may still have growth potential. The banks, though, are naturally worried about capital write downs, and the destabilising impact these could have on their balance sheet. A scheme should therefore be devised, with regulators, banks and investors present, to help open up these companies to new capital from non-bank sources.

## Policy Recommendations

Banks are not lending to first time customers, especially small companies, even those with large growth potential. Diverting all the capital we can muster towards viable companies in this space should be a priority.

1. The Business Bank must do more than relieve our short to medium term credit shortage. It should be the financial element of a long-term, strategic industry policy. Lessons should be drawn from the German model of long-term, regional, industrial approach to lending. LEPs should assist with regional finance by building funds to invest alongside businesses in their locality
2. Use the Business Bank to provide financial guarantees for high growth companies unsuitable for conventional bank lending.
3. Pension funds should be given tax credits on dividends for their other investments, in return for investing in venture capital funds to help encourage long term financial commitments to UK SMEs.
4. Credit easing: the Government should extend 'Funding for Lending' and guarantee a certain amount of committed capital from institutional investors as well as other non-bank channels when it is invested in the UK.
5. Zombie companies: Banks should be required to publicise data on so-called "zombie" companies, one year after a default on the principal where the bank (or syndicate of banks) have not provided "new money" cash injections.

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<sup>16</sup> Financial Times – <http://www.ft.com/cms/s/0/d1ecf0d0-316f-11e2-b68b-00144feabdc0.html#axzz2GnITdKNj>

## CHAPTER 4

# Industrial strategy

### Introduction

The prevailing perception is that the British economy has long been focused on financial services and now needs to be re-orientated in favour of manufacturing to ensure more balanced economic growth. We would not fully endorse this view given that financial services remain a critical part of our economy and a key exporter. However, maximising long-term sectoral growth in diverse areas of our economy will help drive innovation and productivity across the UK. How to develop industrial policy is therefore a key challenge that needs to be addressed, so we can compete with those with effective industrial strategies, notably Germany and the US. This issue is intrinsically long-term and warrants a cautious approach. As outlined by Dr Vince Cable in his vision for the future of British industry, such long-term industrial strategy needs consistency and everything but short term tactical decisions<sup>17</sup>.

Although the Government in no way wants to “pick winners”, they recommend that some sectors of the economy are worthy of particular attention. It is also the view of the BVCA that sectors of key strategic importance for the economy should be supported, financially or otherwise. Private equity and venture capital are playing an instrumental role in this regard.

Interview feedback does point to the need for an industrial strategy, underpinned by sectors where our companies have a competitive advantage and by geographies where clusters are pre-existing, in order to marry Government’s objectives with economic realities – as opposed to imposing them.

### 1. Sector specific initiatives

A crucial strand of any industrial strategy is to build a collaborative strategic partnership with key sectors

#### What steps have the Government taken?

- ✓ The BVCA supports the Government’s supply-side reforms agenda to help the UK’s long-term economic potential – such as deregulation, tax competitiveness, ‘cutting red tape’, or infrastructure investment.
- ✓ More specifically, the Government has started to set out an industrial strategy, structured around eight technologies where Britain has a competitive advantage:

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<sup>17</sup> Vince Cable’s oral statement, Industrial strategy, September 2012 <https://www.gov.uk/government/speeches/industrial-strategy-cable-outlines-vision-for-future-of-british-industry>

The Big Data Revolution and energy-efficient computing, Synthetic Biology, Regenerative Medicine, Agri-Science, Energy Storage for the Nation: Stockpiling Electricity, Advanced Materials and Nano-technology, Robotics and Autonomous Systems, Satellites and commercial applications of Space. We welcome this strategy as well as the allocation of an extra £600m to be invested in facilities for technological research and development and Research Council infrastructure<sup>18</sup>.

- ✓ The BVCA welcomes our strategic partnership signed with UK Trade and Investment (UKTI) and believes there is a great potential here to build on more international trade by connecting with UKTI some successful innovative companies seeking new overseas trade opportunities. Indeed we are connecting our companies more and more with UKTI offices across the world so they can benefit from the business support available. The feedback of our interview respondents on the results achieved by UKTI is very positive. Some CEOs suggested though that the institution could focus its efforts more on South America, beyond Asia. Also the implementation of the Bribery Act is viewed by UK SMEs as a particular concern. We would need to ensure that such provisions don't brake the necessity to reorient UK trade to developing markets where corruption rates are higher and would urge the UK Government to provide as much guidance as possible to SMEs operating in those markets, under the restrictions defined by the Bribery Act.

**“South America, as opposed to Asia, should attract more interest, especially Brazil which enjoys a strong manufacturing base.”**

- ✓ Recent changes to the Research and Development regime are to be welcomed. In particular, the patent box and the increase in the rate of the additional deduction for qualifying R&D expenditure given to SMEs have been very helpful. The BVCA emphasises the continuing importance of R&D tax credits to SMEs as a source of critical funding as well as encouraging innovation.

**“Patent box and R&D tax credits constitute positive policies. With more intellectual property in the UK, R&D departments could be moved to the UK because of it.”**

- ✓ The Technology Strategy Board could be a catalyst for business-led innovation but is currently under-used. Catapult Centres, the elite network of technology and innovation centres, aimed at building on the UK's world-class research expertise to be business-focused centres, supporting SMEs and large enterprises as part of a coordinated investment in innovation. This effort is to be welcomed but should be strengthened.

## What more can be done?

- The BVCA considers that there has to be some prioritisation connecting public spending in areas which contribute to recovery and growth.

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<sup>18</sup> “Eight Great Technologies”, David Willetts, Policy Exchange <http://www.policyexchange.org.uk/images/publications/eight%20great%20technologies.pdf>

- There was clear support from interviewees to move beyond a nervousness about ‘picking winners’ born from the failures in 1970s industrial policy, like British Leyland.

**“The government should identify sectors which have companies that are important to create ‘critical mass’ to help build expertise in these areas.”**

- As emphasized in the forthcoming March 2013 BVCA report Tech Country, Britain is rich with technological activity in a variety of forms. The significant technological clusters and centres of excellence which exist across the country need to be expanded, to make the best use of our existing industrial base, as opposed to creating it from scratch.

The Government needs to avoid the trap of trying to find a Silicon Valley as well as the attempt to create clusters with grand infrastructure schemes. Instead the Government should embrace the universe of existing British clusters and invest in them.

- Amongst these clusters is the life-sciences industry in Greater Manchester through its world-class research university, with the Graphene<sup>19</sup> facility being a key example.

**“More should be done to help the Graphene facility compete globally. It is currently underinvested in the UK. So far, the South Korean Government invested c£200m into Graphene matched by c£200m from Samsung and the Singaporean Government put £20m into its Graphene hub, while the UK Government put £50m plus an extra for grants of another £10m.”**

- As part of this strategy to back key technologies, not only investments but incentives as well as assistance should be provided to these key sectors. Relevant companies willing to move in the cluster should be encouraged to do so, for example through assistance with rents. The Government should maximise the broad UK industrial base by taking it into account in the public procurement of specialist technologies.

**“The Government needs to support UK manufacturing by giving preferences/contracts to UK businesses.”**

- The Government should encourage collaboration with Universities/the research community in order to develop excellence centres. Catapult centres are a useful initiative, but feedback here suggests they are spread too thinly across different geographies. A bigger ambition and focused investment are needed for to create critical mass within clusters.

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<sup>19</sup> Graphene is a material with many potential applications whose form was isolated in 2004 by researchers at The University of Manchester. The researchers involved won the Nobel Prize in physics for their work.

The Technology Strategy Board needs to enhance its support for early research phases as its Catapult programme is more focused on late-stage research and development while the timeline in this sector is very long. We need a more sustained support to get blue skies research closer to commercialisation, and bridge the so-called “valley of death”.

It is important that more tax and related incentives are put in place to enhance further university technology spin-out company activities. The encouragement of stronger relationships between venture capital and university spin-outs is very important. The recent consultation from HMRC to look at tax rules for research institution spin-outs companies instead of changes to Enterprise Management Incentive for academic employees, is a step in the right direction.

- The BVCA invites the Government to provide long-term certainty and consistency for investors in innovative sectors – in particular in energy, renewables and infrastructure sectors.

**“It is of critical importance that much-needed scale investment projects such as Heathrow’s third runway are launched. Infrastructure warrants a long-term and cross-party commitment.”**

Subsequent changes to already implemented government policy in long-term investments, such as energy and infrastructure projects, should be underwritten and guaranteed by the government. We believe that this really would attract a significant investment to the UK, and at much lower internal rate of return and so a lower cost to the consumer.

**“When it comes to green infrastructure projects, at the moment, the UK in uninvestable.”**

- Several interview respondents also emphasized the need to incentivize long-term investment projects through pension funds and to instill a change in cultural mindset as well as a better understanding of the Private Finance 2 (PF2), the new approach to public private partnerships, in order to secure investment in public infrastructure. Local authority pension funds are certainly an instrument to bolster investment in local infrastructure projects.

## 2. Regional development

Building on our existing regional clusters to ensure geographic critical mass across the whole country – especially in the north and west where economic growth is more challenging, should form the bedrock of a successful Industrial Strategy. As the direct impact of sector performance is more location specific, it is important for the Government to draw policies that are not ‘spatially-blind’.

## What steps have the government taken?

- ✓ Since 2010, 39 partnerships between local authorities and businesses, entitled LEPs, have been created. Their geography aims at reflecting the natural economic areas of the country. These Partnerships decide what the priorities should be for investment in roads, buildings and facilities in their area of competency, using the total £730m Growing Places Fund to support infrastructure. LEPs can also apply to become an Enterprise Zone (24 existing enterprise zones), taking advantage of tax incentives and simplified local planning regulations.
- ✓ The Government has recently announced in the Autumn Statement 2012 that a greater proportion of growth-related public spending will be devolved to local areas from April 2015, in response to Lord Heseltine's review of economic growth. LEPs will be provided with £10m per year for capacity building and will be able to apply for up to £250,000 additional funding per year to support the development and delivery of their strategic plan, though this is a very modest amount.
- ✓ The pledge by the Government in the Autumn Statement 2012 to empower LEPs by taking into account the role for the private sector in promoting growth through local and overseas chambers of commerce and national industry representatives, constitutes a step in the right direction.
- ✓ A fourth round of the Regional Growth Fund was opened in January 2013 with a further £350m cash pot for private investors to bid for. The Regional Growth Fund provides support for jobs and growth across the country, for a total of £2.6bn from 2011 to 2016. So far the first three rounds have supported 180 projects which have pledged to create or safeguard a total of 500,000 jobs along with an injection of £13bn private sector investment into the economy. The BVCA supports the Regional Growth Fund, provided it represents genuinely 'new' investment.
- ✗ Too much emphasis is placed on certain sectors, e.g. manufacturing whilst important is not the only one.

## What more can be done?

- It is of vital importance in order to rebalance the economy that links are developed between regional and national hubs to avoid overconcentration. Beyond Tech City, defined as the inner East London cluster of high-tech and digital firms around Old Street and Shoreditch<sup>20</sup>, we should help the Government identify and expand regional clusters across the whole country.

**“We need to set out a strategy where the regions focus on a sector centre and gravitate into a national hub at the same time.”**

The nine English Regional Venture Capital Funds, established in 2001/2002 have reached the end of their investment period and are supporting their portfolio companies in their growth and development. Future regional venture capital should be more focused on regional clusters.

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<sup>20</sup> A tale of tech-City, the future of inner east London's digital economy, the Centre for London, June 2012 – [http://centreforlondon.co.uk/wp-content/uploads/2013/01/A\\_Tale\\_of\\_Tech\\_City\\_web.pdf](http://centreforlondon.co.uk/wp-content/uploads/2013/01/A_Tale_of_Tech_City_web.pdf)

- The BVCA recommends reaching a fair balance between national and local agendas, bearing in mind that a localism agenda in some cases may hinder strategic investments which could constitute national priorities.
- Businesses invest in areas of deprivation that may not necessarily be in the far north of England and as a result no support is available. A more nuanced understanding of regional growth is important, because there are pockets of deprivation across the UK.
- The Regional Development Agencies were highly regarded in some areas but they were abolished in March 2012 and been replaced by Local Enterprise Partnerships. This will have a material impact on the local economy. Therefore it is important that LEPs are given statutory status with adequate funding. Government should continue to review the effectiveness of LEPs.

## Summary

Britain needs smart, targeted industrial policy if it is to win the 'global race' and create a significant impact on local communities across the UK. But the Government should not use political frameworks in designing policy, but select clusters that have a key sectoral advantage and a geographic critical mass.

The Government might also consider expanding strategic partnerships with stakeholders to improve business competitiveness in a wide range of sectors, with the leading ones being advanced manufacturing, knowledge-intensive traded services and enabling industries such as energy and construction.

## Policy Recommendations

Britain needs a well-targeted industrial policy if it is to win the 'global race'. The Government must not use political frameworks in designing policy. Instead it must select clusters to back those that have a key sectoral advantage and a geographic critical mass.

1. Changes to government policy in long-term investments, such as energy and infrastructure projects, should be underwritten and guaranteed by governments, across multiple parliaments over long horizons. This will lower risk and reduce the cost of capital, lowering the overall cost of the project for investors.
2. Graphene, a potentially revolutionary material, is a key example. Pioneered at a facility out of the University of Manchester, more should be done to help this facility compete globally. In South Korea, with the help of Samsung, more than five times as much investment has been directed at their graphene facility.
3. Further tax and related incentives should be put in place to enhance further university technology spin-out company activities so that where strategic advantages exist in certain clusters, they can further benefit from the tax system.
4. UKTI was widely recognised as being an excellent facilitator for businesses looking to export, particularly in Asia. A renewed focus on South America should be the next step.



# Conclusion – A Roadmap for Growth

The economic damage wrought by the financial crisis will shape Government policy for years to come and there is no silver bullet. By highlighting some of the priorities identified by our business leaders, this report has, at the very least, laid down some markers which can act as a framework for any future growth strategy.

The businessmen and women across the country who helped produce this report, help paint a picture of what UK businesses want from Government policy. In order to stimulate growth and put Britain back on the road to recovery, their views are an illuminating insight into what British companies, of all sizes and across all sectors, require in order to propel the UK to the front of the global race.

The imperative now is to ensure Britain starts running again. It is extremely hard to reduce deficit levels dramatically and to ignite economic expansion at the same time. Yet this is the challenge faced by the British Government and the role of private equity and venture capital in achieving this goal is vital.

Private equity has already established itself as a key component of the British economy, backing new enterprises and enhancing and rehabilitating the fortunes of others. It is a proven driver of sustainable growth and industrial progress, funding innovation and supporting entrepreneurship through operational expertise, sound management and a relentless focus on creating value. Private equity is about factories, not finance. It is, in short, about backing and building better businesses. Through interviews with key executives, these businesses have shown us what challenges they are grappling with on a day to day business. Some policy suggestions would help businesses grow quicker and take on new staff immediately. Some are more about the future of the UK economy and how to build on strategic strengths. But by taking heed of both, Government can do much to restore short term growth, close the deficit, and build the sustainable economy of the future.



A handwritten signature in black ink that reads "Mark Florman". The signature is fluid and cursive, with a period at the end.

**Mark Florman**

CEO BVCA

February 2013

# Appendix

## Literature Review

The scale of the task to restore sustainable economic growth remains daunting, but think tanks, trade associations and NGOs from across the political spectrum have emerged to provide the government with policy proposals.

The following list contains both an overview of and extracts from some of the most notable contributions on the growth debate made over the last 18 months.

Areas in which there is common ground with interviewees' responses underlined

### December 2012 – Civitas – How to restore economic growth and rebalance the UK economy

A report that recommends a number of policies also advocated within the BVCA's own growth initiative, such as reducing capital requirements for banks to internationally agreed levels. Other suggestions include reforming the Bribery Act to ease trade relations with the "BRIC" countries – Brazil, Russia, India, and China<sup>21</sup>.

### November 2012 – Demos – Everyone's business

This report encourages the Government to celebrate entrepreneurship, given that the jobs that will return the country to the path of secure growth will surely come from SMEs, as opposed to global multinationals:

**"The Government should celebrate and support the role of established companies in nurturing start-ups by using the Department for Business Innovation and Skills to create a scheme to match big corporations to small start-ups. Such a scheme would encourage responsible corporations to establish links with start-ups related to (but not in competition with) their business."** <sup>22</sup>

### November 2012 – IPPR North – Northern prosperity is national prosperity: A strategy for revitalising the UK economy

IPPR's contribution to the growth debate highlights how vital it is that that the country strives to promote economic development in the north of England. Its argument is based along the lines that the economic fortunes of the region are too great to ignore, a claim that gains more traction when the following is taken in to account:

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<sup>21</sup> Growing Pains', Civitas 2012 – <http://www.civitas.org.uk/economy/GaskarthGrowingPains.pdf>

<sup>22</sup> Everyone's Business, Demos, 2012 – [http://www.demos.co.uk/files/Demos - Everyone's Business - web.pdf?1352911450](http://www.demos.co.uk/files/Demos_-_Everyone_s_Business_-_web.pdf?1352911450)

**“The northern economy is twice the size of Scotland and, if it were a nation, it would rank as the eighth-largest in the EU, ahead of Sweden, Denmark and Belgium.”**

Specific recommendations include expanding the National Apprenticeship scheme, and devolving a significant proportion of skills and welfare-to-work funding to local authorities and their partners in city regions.<sup>23</sup>

### October 2012 – CBI – The UK’s growth landscape

The CBI’s key recommendations include the following:

- Consider giving LEPs statutory status so they can take responsibility of funding streams and have greater flexibility on how they design and deliver programmes
- Central government must incentivise LEPs to collaborate on policies like transport planning, for example by making future funding streams dependent on collaboration over a wider spatial area.<sup>24</sup>

### October 2012 – Rt Hon the Lord Heseltine – No stone unturned

The report produced by Lord Heseltine echoes a number of the sentiments contained in the CBI’s contribution. Localism again comes to the fore, with one recommendation advising £49m be moved from central government to the English regions to help local leaders and businesses – the aim being to devolve power from Whitehall and re-invigorate the big cities that had fuelled both growth and wealth creation in decades gone by.<sup>25</sup>

### September 2012 – The Smith Institute – Local Authority Pension Funds: Investing for Growth

This report examines how local authority pension funds should be seen as vehicles of paramount importance when it comes to financing growth projects.

Specific recommendations include:

- Local authority pension funds should work with the Local Authority Pension Fund Forum (LAPFF), relevant government departments, external investment fund managers etc to develop technical papers and guidance on impact investment and pooled investment vehicles.
- The government should consider reviewing and exploring potential changes to restrictions on investments (as set out in The Local Government Pension Scheme Schedule – Management and Investment of Funds), to enable local authorities to have sufficient flexibility to address the issues and recommendations set out in this report, in particular those relating to limits for investment in limited partnerships.<sup>26</sup>

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23 Northern prosperity is national prosperity: A strategy for revitalising the UK economy, IPPR North, 2012 – [http://www.astrid-online.it/La-produtt/Studi-ric/IPPR\\_northern-prosperity\\_Nov2012.pdf](http://www.astrid-online.it/La-produtt/Studi-ric/IPPR_northern-prosperity_Nov2012.pdf)

24 The UK’s growth landscape, CBI, 2012 – [http://www.cbi.org.uk/media/1805639/cbi\\_the\\_uk\\_s\\_growth\\_landscape\\_oct\\_2012.pdf](http://www.cbi.org.uk/media/1805639/cbi_the_uk_s_growth_landscape_oct_2012.pdf)

25 No Stone Unturned, Lord Heseltine, 2012 – <http://www.bis.gov.uk/assets/biscore/corporate/docs/n/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf>

26 Local Authority Pension Funds: Investing for Growth, The Smith Institute, 2012 – <http://www.smith-institute.org.uk/file/local%20authority%20pension%20funds%20-%20investing%20for%20growth.pdf>

## June 2012 – Open Europe – Seizing the moment: Aligning the EU budget with Europe’s economic needs

Although focused on the EU’s operating practices, some of these policies could bear fruit in the UK:

- “Focusing the EU’s structural funds on less wealthy member states and stopping the recycling exercise whereby richer member states subsidise each other’s regional development policies would save just over €20bn.
- Over one quarter of the EU budget is spent on subsidies to farmers and landowners, irrespective of whether they are engaged in any meaningful economic activity. Slimming down and re-focusing the CAP would bolster both rural job creation and the delivery of environmental benefits, while also achieving a saving of almost €24bn.
- Despite the importance of trade and the single market, only 2.6% of the EU budget is explicitly dedicated to facilitating these policies. Aside from the EU’s six highly specialised joint undertakings, general R&D – the one area where the EU budget really can add value – only accounts for around 4.5% of EU spending in 2012. This amount should be radically increased.”<sup>27</sup>

## May 2012 – Compass – Plan B: What Britain can learn from the German economic recovery

The report urges the UK Government to follow the example set by Germany in the following five areas:

- Local banking
- Employee empowerment
- More control over working hours
- Benign constraints on employers
- Industrial policy<sup>28</sup>

## March 2012 – Centre for Policy Studies – 2012 Budget: 21 policies for growth and wealth creation

The Centre for Policy Studies recommended that the 2012 budget should have significantly cut spending in areas that do not enhance medium-term growth, and use the savings to cut taxes – not to stimulate the economy, but to improve the supply side and the underlying growth rate.

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<sup>27</sup> Seizing the moment: Aligning the EU budget with Europe’s economic needs, Open Europe, 2012 – <http://www.openeurope.org.uk/Content/Documents/Pdfs/2012EUBudget.pdf>

<sup>28</sup> Plan B: What Britain can learn from the German economic recovery, Compass, 2012 – [http://clients.squareeye.net/uploads/compass/documents/Compass%20Plan%20B\\_2.pdf](http://clients.squareeye.net/uploads/compass/documents/Compass%20Plan%20B_2.pdf)

The report's policy suggestions include:

- Increasing the income tax personal allowance to £9,000 this year and £10,000 next year;
- An immediate cut in the main rate of Corporation Tax to 20%, accompanied by a clear announcement to cut the main rate further (subject to closing avoidance loopholes).
- A 1% cut in employers NICs and two-year holidays for small firms on their next four employees.
- Abolition of the 50% income tax band.
- A bold programme of employment deregulation for small businesses.
- The reintroduction of the 10p tax rebate on pension assets' income.<sup>29</sup>

### February 2012 – Fabian Society – The Economic Alternative

The report claims that powerful rhetoric has not been matched with action when it comes to forging a new kind of capitalism. While advocating Labour's plan not to deviate from the government's programme of spending cuts should they win the next election, a radical short term programme proportionate to the scale of the economic troubles we face is outlined, including plans for a state investment bank, major tax cuts and a significant job-creation scheme.<sup>30</sup>

### February 2012 – Social Market Foundation – Osborne's choice: combining fiscal credibility and growth

It calls for immediate implementation of five specific growth-friendly cuts: halving higher rate tax relief on pension contributions (In the 2012 Autumn Statement, the limit on how much savers can put into their pension pots each year without paying any tax on it was reduced by Chancellor George Osborne from £50,000 to £40,000), capping maximum ISA holdings at £15,000; rolling child benefit into the existing tax credits system; cutting winter fuel payments and free TV licenses to better off pensioners; and scrapping free bus travel for the over 60s.

**“This new approach breaks out of the artificial debate that sees deficit reduction and growth as a trade-off, allowing the Government to act on both fronts simultaneously”.**<sup>31</sup>

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29 2012 Budget: 21 policies for growth and wealth creation, Centre for Policy Studies, 2012 – <http://www.cps.org.uk/files/reports/original/120312120716-AbudgetforGrowthandWealthCreation.pdf>

30 The Economic Alternative, Fabian Society, 2012 – <http://www.fabians.org.uk/wp-content/uploads/2012/04/TheEconomicAlternative.pdf>

31 Osborne's choice: combining fiscal credibility and growth, Social Market Foundation, 2012 – [http://www.smf.co.uk/files/2413/2968/6130/20120219\\_Osbornes\\_choice\\_final\\_final.pdf](http://www.smf.co.uk/files/2413/2968/6130/20120219_Osbornes_choice_final_final.pdf)

## November 2011 – Policy Exchange – Looking to the Future of Growth

This report contains a number of essays, and while each offers a different perspective on the growth debate, they advocate some common themes. These include:

- Meeting the fiscal mandate;
- Providing businesses with certainty and encouraging investment via the tax system; and
- Easing access to finance.<sup>32</sup>

## November 2011 – Reform – The long game: increasing UK economic growth

This report produces a list of sensible recommendations, given the financial constraints the country faces:

- Sound public finances, characterised by on-going fiscal discipline that eliminates deficits and then reduces debt. “Plan A” is the start;
- More flexible labour markets, including a greater openness to immigration of skilled labour;
- Higher private sector and public sector productivity growth, driven by the “creative destruction” of organisational success and failure;
- A more consistent and transparent tax policy;
- A more consistent and transparent regulatory policy. The overall regulatory burden must fall; and
- Infrastructure, including energy infrastructure, justified by returns in the market.<sup>33</sup>

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<sup>32</sup> Looking to the future of growth, Policy Exchange, 2011 – <http://www.policyexchange.org.uk/images/publications/looking%20to%20the%20future%20of%20growth%20-%20nov%2011.pdf>

<sup>33</sup> The long game: increasing UK economic growth, Reform, 2012 – [http://www.reform.co.uk/resources/0000/0325/The\\_Long\\_Game\\_Final.pdf](http://www.reform.co.uk/resources/0000/0325/The_Long_Game_Final.pdf)





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