

Sustainable Prosperity and Jobs

Policy Paper 105



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Executive Summary

In the years since the financial crisis first struck, economic recovery has been fragile. The national economy is £250 billion smaller in 2012 than was forecast by the last government in 2008 – and this impacts on us all.

Hard-pressed households need relief from the relentless rise in prices while their income remains static; young people need more job opportunities; and we all need an economy that supports a civilised level of welfare support, public services and the peace of mind they bring.

However, the UK's current difficulties are not solely a product of the recent crisis; they are also the result of longer-term structural problems in our economy. Several regions have economies that are far less vibrant and robust than those in London and the south-east, our banking sector is highly consolidated and needs reform, educational outcomes across the UK are unequal and below the level we need in an increasingly technological and competitive world, and we consistently struggle to bridge the gap between academic research and successful commercial exploitation.

Labour repeatedly sought to achieve GDP growth by spending tomorrow's income today through public and private borrowing. Despite the much-vaunted claims of "an end to boom and bust" made by the previous Labour Government, these policies resulted in a credit-driven boom followed by a financial crisis that put the whole economy at risk.

Conservative policies have traditionally been based on the hope that prosperity will 'trickle down' from more successful or advantaged areas and individuals to those less so. This approach didn't work thirty years ago and it won't work today.

The Liberal Democrats' approach is different. We believe that individuals and local communities have the potential to flourish if they are empowered and provided with the opportunities needed for them to have a fair chance. Economic policies will only be sustainable if they address the underlying problems that hamper long-term development.

The three pillars of our vision for sustainable prosperity are:

- **Social sustainability:** a society in which every individual has a stake and in which all can participate and shape their own future.
- **Environmental sustainability:** such that we will not squander the natural environment's assets which will be needed by future generations
- **Economic sustainability:** an economic system where the current generation can enjoy the fruits of its endeavours without relying for its living standards on a legacy of debt left to the next generation.

In short, we look to build an economy that 'meets the needs of the present without compromising the ability of future generations to meet their own needs'¹.

Each chapter of this paper tackles a different aspect of this challenge - setting out not just to identify issues, but also to suggest practical policies to address them; policies that will enable

people, whatever their situation, in all parts of the country, to develop skills, pursue their ideas, derive purpose from work and benefit from renewed prosperity.

Reviving Local Economies

Our proposals are based on the belief that local areas, working through people, institutions and local government, need sufficient freedom, resources and support to build robust and sustainable local economies.

We want to create an environment whereby the public, private, not-for-profit sectors and local communities can work together so that businesses can enhance their competitiveness and individuals can secure employment and fund improved living standards. This can be done through a combination of national funding of locally targeted infrastructure investment, improving Local Enterprise Partnerships (LEPs) and empowering local authorities.

Examples of our proposals in these areas include:

- Allocation of a portion of future rounds of the Regional Growth Fund so that LEPs can bid for a pot of money to hold their own Growth Funds.
- Giving responsibility for business rates to local authorities and creating a fairer system where rates are based on undeveloped site values.

We would also pioneer two new institutions:

- Small Business Zones, which will provide a space where new businesses, co-ops and social enterprises are encouraged and local spending can kick-start a more diverse and robust local economy, and New Enterprise Hubs, which will increase the support provided by existing institutions to improve the success rate of business start-ups.

Opening Access to Finance

We are determined to make banking more competitive and to reduce the barriers that currently inhibit the emergence of alternative forms of lending institution in the UK to encourage new entrants and innovation.

Examples of our proposals in these areas include:

- Giving the new Financial Conduct Authority a statutory responsibility to foster a diverse banking system in the UK, which is capable of meeting the needs of small and micro business and new enterprise.
- Opening up the payment system to be genuinely accessible to new financial institutions
- Facilitating the emergence and growth of new lenders, in particular by restructuring parts of RBS into local and community banks.

Realising our Potential

We believe that a population having the right balance of skills is crucial both to achieving a highly productive economy and to achieving full employment. We also believe that everyone, wherever they live and learn, should have the opportunity to realise their full potential.

Examples of our proposals in these areas include:

- Extending OFSTED's inspection focus on behaviour in schools to cover the wider aspects of 'employability' and 'life' skills.
- Guaranteeing the wide availability of 'higher level' apprenticeships; and ensuring the availability of 'foundation level' and 'advance level' apprenticeships where more appropriate.
- Focusing on re-skilling unemployed people through expansion of apprenticeships in part by specifying local content on major public infrastructure projects.

Unlocking Innovation

Innovative firms grow twice as fast, both in terms of employment and sales, as firms that fail to innovate. Our proposals are based on the belief that encouraging excellence and innovation is a key way of generating employment and opportunity.

Examples of our proposals in these areas include:

- Working with the Technology Strategy Board to expand its activities, and allow it to improve its working practises and be more agile in collaborating with small businesses.
- Channelling a greater proportion of public procurement through the Technology Strategy Board, particularly the Small Business Research Initiative ('SBRI') and Smart programmes, to encourage innovation in the public sector supply-chain.
- Reviewing patent law relating to the ownership of ideas between companies and individuals to ensure that new ideas are encouraged and commercialised.

Fulfilling our Low-Carbon Vision for Britain

The rise of the UK green economy in recent years has been a major success story. Yet the sector suffers from a lack of access to capital. We will take action to improve the flow of capital to green investments, and we will lead by example, using government procurement policy to stimulate the market for green products and services.

Examples of our proposals in these areas include:

- Expanding the Green Investment Bank's scale and remit as fast as possible, including relaxing the restriction on its ability to borrow before total public sector debt begins to fall.

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- Taking additional actions to increase the flow of capital to low carbon investments including fulfilling the coalition commitment to create innovative financial products.
- Using Government procurement policies to stimulate the market for green products.

Resource efficiency is not only a core long term environmental sustainability goal of ours, it will also help to insulate UK businesses from increases in material and energy costs and help to improve the UK's competitiveness. An example of our proposals in this area is as follows:

- Adopting a 'closed loop' approach, whereby use of materials is reduced, reused where possible and recycled for further use and work through the EU to require clear marking of all products and materials for end-of-life recycling – not just packaging – meaning more jobs in the recycling industry, rather than bulk materials going straight to landfill or incineration.

Introducing a World of Opportunity

The shifting balance of world economic power brings rising incomes and new customers for Britain's exports. We need to take advantage of this opportunity. In particular, increasing exports from Small and Medium Sized Enterprises ('SMEs') is vital to strengthening the UK's trade performance, as is the completion of the European single market.

Examples of our proposals in this area include:

- Introducing a 'supply chain buddying' programme, whereby large companies already engaged in export undertake to support SMEs in their supply chain to find new overseas customers. This could include joint overseas visits, introductions to relevant overseas customers, partnering on stands at trade fairs and inclusion of SME suppliers in trade missions.
- Extending the 'Passport to Export' to include SMEs that are more than five years old, as long as they meet criteria for competitiveness and innovation. We should also include companies in the service sectors.

Our proposals expand on work that is already being spearheaded by our party in the Coalition Government. From access to finance, through the unlocking of innovation, to ensuring that people are equipped with the skills they need to secure employment, they chart a course to realise a flourishing and environmentally sustainable economy which allows everybody to fulfill their potential wherever they start in life. Sustainable prosperity will not be achieved by simply trying to turn the clock back and returning to how things were. We should instead rebalance our economy now to make it fit for the future.

Note: In preparing this paper, we have found that there is natural crossover into areas that will be covered by the FPC's forthcoming working group on skills and post-16 education. We have referred relevant evidence and proposals to this group rather than include policy ideas in this paper which should more properly be addressed elsewhere. Issues relating to housing which would otherwise have been addressed in this paper are dealt with in policy paper 104 *Decent Homes for All*.

¹ World Commission on Environment and Development (WCED). *Our common future*. Oxford: Oxford University Press, 1987 p. 43 (The 'Brundtland Report')

Reviving our Local Economies

1.1 Introduction

1.1.1 At the heart of liberalism is the belief that individuals and communities should have the opportunity to flourish by taking their own decisions about what goals to pursue and how to achieve them. We want to see public, private, not-for-profit organisations and local communities working to make their local businesses more competitive and creating more and better paid jobs. We believe that local government, local businesses and local people, working within their communities, are capable of building robust and sustainable local economies if they are provided with the resources, responsibilities and freedom needed to determine and pursue economic strategies appropriate for their own area.

1.1.2 This objective is a long way from being achieved across the whole of the UK however. Many regions are far from vibrant, do not feel in control of their own destiny and offer limited opportunities. Market failures mean that free market economic policies often bypass such areas; and centralist interventions, like creating public sector jobs, often prove unsustainable. This is why local economies lie at the heart of our vision for sustainable prosperity and full employment.

1.1.3 Areas that are currently struggling are capable of being - and will be – successful, if they can better exploit their own currently underused resources. The most obvious of these resources are the know-how, enterprise and imagination of local people – this human capital is too often overlooked when thinking about how the various factors contributing to prosperity can be put to use.

1.1.4 Local areas also need the infrastructure that allows people to access opportunities and attracts the investors to create them. They also need appropriate powers that allow local government to focus on supporting enterprise and not just mitigate decline.

1.1.5 The potential resources for local revival have been neglected for too long, but there is already an economic energy beginning to bubble up from local people tackling local economic problems directly. There are now 5,400 co-ops trading in the UK with a combined turnover of £33 billion, spreading their profits more widely than conventional business. There are over 8,000 social enterprises. The Department of Energy and Climate Change has been pump priming more than 200 local energy-generating projects. There are over 400 Transition Town² initiatives in the UK alone.

1.1.6 This section outlines our plans to unleash untapped local vitality for recovery even more widely through:

- Investing in infrastructure: from broadband to public transport.
- Giving local authorities the responsibility and power to lead local economies.
- Strengthening and giving sustained support to Local Enterprise Partnerships (LEPs).
- Encouraging the public sector to spend more of their procurement budgets within their own local area.

- Improving the success rate of start-ups and supporting small and medium sized enterprises (SMEs) through local support networks.

1.2 Infrastructure

1.2.1 Local economies need infrastructure to attract inward investment and to allow local people to access jobs and opportunities. We believe infrastructure investment should be increased and responsibility for decision-making devolved more to the local level.

1.2.2 In January 2012, the Coalition Government made the £500million Growing Places Fund³ available to help stimulate the economy. The purpose of the fund is to enable the creation of new jobs and homes by getting stalled projects in local areas moving again. The Fund will put local businesses and organisations in the driving seat, with the 38 LEPs able to apply for the funding and then take decisions about what to prioritise locally. Councils will support these plans with their technical and financial expertise – leaving LEPs to ensure the funds go to where they will be used most effectively. Through this, LEPs will be able to offer secure funding to developers in their area, making it quicker for projects to get off the ground but also getting a return on that investment for that local area.

1.2.3 Public infrastructure, primarily energy supply, transport and communications, is a long-term driver to economic growth in a developed economy. As such, the way public infrastructure is delivered in the UK should be, in part, removed from the arena of short-term political interference.

1.2.4 The lack of a concerted long-term view on infrastructure has led to the UK being placed 33rd in the world for infrastructure according to the Global Competitiveness Report produced by the World Economic Forum⁴.

1.2.5 The UK infrastructure-funding requirement is estimated to be in the order of £500bn in the next decade⁵. The increased cost of private capital in the aftermath of the credit crunch has meant that in many cases the Labour model of PFI now looks even less attractive. Combining this with the obvious constraints on the public finances it is clear that new solutions are needed for the funding of major infrastructure projects. We will:

- Set up a United Kingdom Infrastructure Bank (UKIB) to make available a new route to provide capital, guarantees and equity to infrastructure projects. We see UKIB as a stand-alone public entity, independent from Government - an extension of the Green Investment Bank (see section 5.1), with a much broader long term strategic remit. UKIB would increase the funding available from the private sector by tapping into the funds of institutional investors, namely annuity funds looking for a home in the UK, and will see the cost of long-term funding reduced as compared with PFI. This is a tried and tested model of infrastructure funding that exists in most western countries (e.g. the European Investment Bank). Recent loans from EIB have helped provide new rolling stock for London Overground, Enhancements to the DLR, supported construction and operation of offshore wind farms, and upgrading and expansion of four gas distribution networks. In Germany they have KfW, in Ireland they have NTMA. UKIB will also provide the opportunity for retail investors to save in safe long-term assets. It will be an attractive investment since there will be a connection between where they put their money and

where that money is invested. It would have the ability to reject or accept proposals based on whether they are financially viable or within its remit.

1.2.6 We also propose the following:

- Accelerate the National Infrastructure Plan, in particular in relation to projects that rebuild a more sustainable economy such as investment in energy networks, public transport and super-fast broadband.
- Expand the Government's current 'City Deal' process to partnerships of county and district councils. No two City Deals are the same, but all are negotiated on the premise that, in exchange for local leadership, central government is prepared to pass down unprecedented control over budgets and powers in areas such as transport, housing, skills and business support.

1.2.7 We acknowledge the need for a government-led programme for the construction of more affordable housing, both to create employment and to remedy the significant shortfall of availability of such housing in Britain today. This is outside the scope of the current paper and falls within the remit of the FPC's working group on Housing.

1.3 Local Authorities

1.3.1 Every community has distinct problems, priorities and solutions. Centrally imposed 'one size fits all' measures not only reduce the autonomy of a community but will often fail to achieve the hoped for outcomes by ignoring the power of local information.

1.3.2 We believe that local authorities should have the responsibility and powers needed to lead the development of local economies. Localism is otherwise meaningless.

1.3.3 The Coalition Government introduced the Localism Act⁶, which received Royal Assent in November 2011. It will make sure that significant power is handed back from central government to local authorities and the communities and individuals they represent. This is done in a wide range of ways, including greater local control over business rates, the new ability of Ministers to transfer local public functions from central government to local authorities, community right to bid for local assets and more control over council tax rises.

1.3.4 We also propose the following:

- Give responsibility for business rates to local authorities and create a fairer system where rates are based on undeveloped site values.
- Local authorities should be designated as consumer bodies capable of making 'super-complaints' to the Office of Fair Trading concerning anti-competitive practices in their local area.
- Develop crisis management approaches to help regional economies cope with local economic shocks, such as the closure of a major employer. Each shock will require a different response to promote the long-term health of the area – so it does not help to be prescriptive in advance. But any central government aid must be carefully coordinated

with local authorities, Local Enterprise Partnerships (LEPs) and other locally centred bodies.

1.4 LEPs

1.4.1 Local Enterprise Partnerships, which replaced Regional Development Agencies (RDAs), are well placed to gauge the needs and potential of different regions and facilitate co-ordination between local authorities, local businesses as well as local finance and training providers. LEPs must build long-term, sustainable relationships and learn the lessons of successful regeneration. This means they must have a sustained period of government support.

1.4.2 We will:

- Allocate a portion of future rounds of the Regional Growth Fund for 'programme bids' - where LEPs can bid for a pot of money to operate their own Growth Funds.
- Increase the size of the LEPs' Capacity Fund (the £4 million fund made available to LEPs by the Coalition Government, over four years, to allow them to develop and prioritise action plans) using an additional round for the funding to be allocated. Ensure that, as a priority, part of the extra funding is used by LEPs to access advice and resources and liaise with national organisations and such as the Technology Strategy Board ('TSB') and UK Trade & Investment (UKTI).
- Create a national coordination body for LEPs, with representatives from each LEP or local group of LEPs, supported by relevant BIS staff, to manage strategy on larger projects and make it easier for large potential investors to find information and make direct investment.
- Report regularly on the performance of LEPs, using Office of National Statistics data, once they have been in operation for two to three years, in order to encourage the adoption of good practice (learning from RDAs where there were significant variations in effectiveness).
- Second civil servants from relevant departments (e.g. BIS, DWP etc) to LEPs, so that LEPs can benefit from their expertise and also improve awareness within central Government of the needs of different regions and the ingredients of successful regional policy.

1.5 Small Business Zones

1.5.1 Small Business Zones (SBZs) will provide a space where new businesses, co-ops and social enterprises are encouraged and where local spending can kick-start a more diverse and robust local economy that will also boost local employment. These new zones will be set up by partnerships between public institutions, such as local authorities, universities and hospitals.

1.5.2 They will:

- Agree to transition part of the procurement budgets of the partners into regenerating the local economy, commissioning some services from new local co-operatives by using the powers in the Public Services (Social Value) Act 2012.

- Remove mandatory size limits for bids for public service contracts in order to encourage small, local suppliers and provide incentives for local commissioners to be creative in the construction of local procurement contracts.
- Encourage businesses in the Small Business Zones to trade with each other, to encourage better circulation of local earnings around the local economy and more effective use of local resources.

1.5.3 More broadly, public procurement policy – of both central and local government – should ensure procurement from a diversity of sources. It should be used to maximise local economic impact, using local labour, goods and services (with due regard to EU procurement legislation) to fulfil public sector contracts. In addition to stimulating local economies, this would encourage sustainable local sourcing of materials.

1.6 New Enterprise Hubs

1.6.1 Businesses require appropriate finance and support that is sensitive to local conditions. We believe that the finance proposals set out in the following chapter should over time increase the availability of credit to small businesses.

1.6.2 The success rate of start-ups can also be increased significantly if they have access to good, flexible and supportive local business advice, rather than tick box online training. For instance, 90 per cent of start-ups supported by BizFizz, an organisation developed by the New Economics Foundation and the Civic Trust to provide such support, were still going after four years.

1.6.3 Existing resources and partners such as Business Link, UKTI, mentorsme, Go On UK and the British Chamber of Commerce provide support for Small & Medium Sized Enterprises (SMEs) and micro businesses to help them grow.

1.6.4 We will:

- Trial a new kind of institution that brings small business expertise together. These will be set up at local authority level where required, will incorporate Enterprise Clubs and similar bodies where appropriate and will be paid for by a negotiated levy on the high street banks – in lieu of the money they are not able to lend through their own networks (see Chapter 2). They will be based on partnerships between local businesses and other organisations willing to participate.

1.6.5 These centres will be given the legal space to be creative in the way they work, but are expected to:

- Include a community finance lending institution (CDFI), a local community-run lending institution, as pioneered in Chicago and other cities.
- Provide a panel of local business people from volunteer organisations to give regular advice to start-ups, as well as mentoring and other support.
- Give start-ups access to small-scale, low rent business space.

- Help channel credit to worthwhile and commercially viable projects through links between the Enterprise Centres and other local finance providers, as well as providing access to lottery and other enterprise grants.
- Pilot local currencies and other new exchange techniques that can provide local business through very low cost credit, or innovative new kinds of factoring,⁷ as used in Switzerland and parts of Latin America.
- Support disadvantaged, young future entrepreneurs from underprivileged backgrounds, with mentors, training in life skills, networking, marketing and loans.

1.6.6 New Enterprise Hubs should have a particular focus on helping communities realise their 'community right to challenge' local services under the Localism Act 2011. This means providing legal, financial and business advice, as well as providing service-specific know-how, that would enable local communities to retain ownership and operational control of important loss-making public services that would otherwise be closed down or privatised.

1.6.7 We believe that devolving power to the local level and providing frameworks for more effective local coordination will help local people, institutions and businesses to reclaim responsibility for their own economic destiny and that the projects they choose are more likely to succeed than those imposed on them from the centre.

1.6.8 The emergence of a variety of regional approaches should intensify competition for investment and allow local areas to learn from each other. However, these proposals will not be sufficient in themselves. Businesses also require access to appropriate finance and the huge disparities in income levels across the UK arise in large part because of regional variations in skills levels and mismatches between skills and opportunities.

1.6.9 These issues are addressed in the next two chapters.

² <http://www.transitionnetwork.org/about>

³ <http://www.communities.gov.uk/publications/regeneration/growingplacesfund>

⁴ Page 332, <http://www.weforum.org/pdf/GCR09/GCR20092010fullreport.pdf>

⁵ http://www.policyexchange.org.uk/assets/Infrastructure_UK_PR.pdf

⁶ <http://www.legislation.gov.uk/ukpga/2011/20/contents/enacted>

⁷ **Factoring** is a financial transaction whereby a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount.

Opening Access to Finance

2.1 In the aftermath of the financial crisis, UK SMEs have regularly expressed concern about the limited availability and high cost of finance. To some extent this reflects short-term constraints arising from successive credit crunches that should ease over time. The perceived dearth of borrowing opportunities is also, however, a product of the structure of the UK domestic banking market.

2.2 The UK's banking sector is dominated by five universal banks, which look for the most profitable lending and investment opportunities across global markets. The capacity and willingness of universal banks to lend to businesses in their home country can be undermined significantly by developments in global financial markets, where many of their investments are located. This outward-looking approach can produce very high returns for their shareholders in boom years, but as a result, UK-based small and micro businesses may find finance difficult to obtain.

2.3 Furthermore, within the UK, relationship banking has declined along with the number of high street banks. Lending decisions are increasingly taken on an automated or 'tick-box' basis by computer systems or individuals with little knowledge of the relevant business or local economic conditions. As a result, banks have increasingly favoured property loans rather than loans to develop businesses, in particular SMEs, which are harder to evaluate.

2.4 We believe that the excessive barriers to entry for new UK banking institutions have perpetuated these issues, creating an unbalanced ecosystem that favours larger institutions that neglect lower margin local operations.

2.5 Many successful developed economies have more diverse domestic banking sectors that have been better at lending to small and micro businesses during this period of economic downturn. For instance, local savings banks in European countries such as Germany and Switzerland have, as a result of their local focus, been able to provide an in depth service to domestic SMEs through good times and bad. Recent research by the Global Alliance for Banking Values confirms that this approach to banking has yielded returns on assets and equity that are comparable with returns on universal banking, whilst being less volatile.

2.6 This is not just a European phenomenon; a much greater diversity of banking institutions supports the US economy too, an economy that is conspicuously more successful than ours in supporting business start-ups

2.7 The top heavy nature of the UK banking system makes it harder for SMEs and regional businesses to access credit reliably and this in turn undermines our long-term international competitiveness, as well as undermining many local economies. This structural gap is not due to a shortage of money for investment in the UK. Rather, the problem is that the current regulatory framework, designed to protect investors and prevent 'cowboys' from undermining the industry, unduly hampers the emergence, diversity and growth of new banking institutions.

2.8 The Independent Commission on Banking ('ICB'), chaired by Sir John Vickers, was set up by the Coalition Government last year to review the financial sector after the crisis. The ICB published its final report on 12 September 2011 and recommended that:

- British banks must separate their high street and investment banking operations.
- Banks will have to hold equity of at least 10 per cent, risk-weighted.
- A new industry-wide switching service should be introduced to allow people to move providers more quickly and easily.
- Banks should provide more detail on charging structures.

2.9 The Government intends to implement these recommendations. The Government has also introduced a package of other measures intended to free the flow of credit to SMEs, including the Enterprise Finance Guarantee ('EFG') which is a loan guarantee scheme intended to facilitate additional bank lending to viable SMEs lacking adequate security for a normal commercial loan.

2.10 The market has also partly responded to the shortfall in SME lending with the development of innovative, online lending platforms that bring together potential borrowers with potential lenders - often referred to as 'crowd financing' or 'peer-to-peer lending'. This approach avoids the regulatory obstacles facing banks but the sector is increasingly concerned that lack of regulation puts it at risk of entry by irresponsible players and is calling for proportionate regulation to help this fringe activity become mainstream.

2.11 Our policy proposals aim to reduce the barriers that currently prevent alternative forms of lending institution from emerging and to support innovation and new entrants to the banking sector.

2.12 We will:

- Give the new Financial Conduct Authority a statutory responsibility to foster a diverse banking system in the UK, capable of meeting the legitimate needs of small and micro business and new enterprise.
- Develop an off-the-shelf package for banking start-ups. This would include basic regulatory approval, a standard software package and other support, to speed up and facilitate new entries to the market, especially from the social enterprise sector and charities.
- Open up the payment system to be genuinely accessible to new financial institutions.
- Set out a new regulatory framework for local authorities that want to start banks in their own areas for investment in local businesses.
- Adopt a proportionate and coherent regulatory framework for online peer-to-peer lending and investment platforms to give confidence to the sector and facilitate its growth.
- Make capital requirements and other regulations for smaller, narrower institutions more favourable than those for larger, systematically important ones and make capital adequacy requirements counter-cyclical to prevent pro-cyclical exacerbation of credit flood/crunch.

- Agree a process for the quick resolution of failing banks (such as the Federal Deposit Insurance Corporation in the US) to reduce regulatory resistance to new banks.
- Relax the restriction on Green Investment Bank borrowing powers. Among other things, this would enable the Green Investment Bank to broaden its remit to provide support to early-stage green technology projects, often developed by SMEs. (See further in Section 5.1.)
- Facilitate the emergence and growth of new lenders, in particular by restructuring parts of RBS into local and community banks.
- Ensure that future government agreements with major UK banks increase transparency about lending patterns, including an appropriate measure for lending data at the regional and sector level and, where necessary, set out a procedure where they can improve access to credit by funding community lending organisations and New Enterprise Hubs (see Chapter 1, Section 1.6).

Realising our Potential

3.1 Introduction

3.1.1 Having the right level and balance of skills in the general population is central to achieving a sustainable, highly productive economy. Successful public services and internationally competitive businesses require high-quality management, technical, teamwork and communication skills. Yet of 30 OECD countries, the UK is ranked 12th, 18th and 17th on high, intermediate and low level skills respectively, contributing to a 15% productivity gap with major competitors such as France, Germany and the US.⁸

3.1.2 In addition, our skills have a big impact on our quality of life. They determine the likelihood of securing gainful employment, which is crucial for our sense of well being and financial security. At the moment there is huge UK-wide variation in educational attainment, by both social class and region: children born to wealthy parents or schooled in London achieve higher than average qualifications. This undermines the core liberal goal of equality of opportunity.

3.2 Schools

3.2.1 We believe that Government should not only work to raise the overall level of school qualifications, but also strive to eradicate educational inequalities, by introducing policies to improve preschool development and school readiness. Resources need to be focused on underperforming schools and regions with particularly low levels of educational attainment.

3.2.2 We will:

- Increase the Pupil Premium and expand the number of pupils eligible to receive it.
- Roll out The London Challenge (under which the poorest-performing schools benefit from advisory support and mentoring from the most successful schools) countrywide.
- Provide face-to-face careers advice from age 13-14, as recommended by the Hughes Report.

3.2.3 We often hear universities and employers expressing concern that school leavers lack certain skills - in particular 'employability' and 'life' skills (such as problem solving, critical thinking, self-awareness raising skills, coping with stress, interpersonal skills, and team building) as well as modern technical skills. These skills are likely to become even more important in the future, as fewer routine jobs remain in the UK. They are being replaced by a growing number of non-routine service jobs, which may not need high levels of formal educational attainment, but which do need good interpersonal skills and initiative. We will:

- Extend OFSTED's inspection focus on behaviour in schools to cover the wider aspects of 'employability' and 'life' skills. Following the policy adopted by the working party for *Quality of Life* we also want to see personal, social, health and economic education (PHSEE) treated as a core subject in schools and subject to higher levels of scrutiny by OFSTED, after consultation with the appropriate professional bodies.

3.2.4 We believe that our education system should foster a more creative and entrepreneurial culture, such as that which exists in the US and many of the emerging Asian economies. We would like young adults to leave school with the flexibility, resilience, self-motivation and tools they need to change career, should it prove necessary, as well as a commitment to life-long learning.

3.2.5 This process needs to start at primary school and be carried through secondary and further/higher education. The key is to encourage the teaching of creative and entrepreneurial skills in parallel with facts. In secondary school, these skills could be developed by setting aside time for the exploration of ideas in groups and discussions arising experience from activities such as work placements, Young Enterprise, Duke of Edinburgh and other forms of charitable volunteering. We recommend:

- Reform of the school funding formula so that students taking 'A' level maths and science have their 'per student' weighting uplifted as knowledge and understanding of these subjects in particular is demanded by industry and is important for many technical jobs.

3.3 Higher and Further Education

3.3.1 We need to break down the elitism inherent in considering only academic learning as 'higher education'. In our increasingly technological and complex world, practical and technical learning can be more valuable than the more narrowly academic programmes. Students should be able to make informed decisions about what type of course is best for them.

3.3.2 Currently, the vocational qualification system is complex and information about its courses not particularly accessible. As a result, the pathways for students wishing to pursue vocational training are nowhere near as clear as for those pursuing academic courses.

3.3.3 In addition, Government should not adopt prescriptive goals of increasing university participation (such as Labour's 50% goal), nor should it prevent appropriately qualified students, who are willing to pay, from attending university through artificial caps on student numbers.

3.3.4 We recommend the FPC's forthcoming working group on *Skills and Post-16 Education* to consider the following proposals:

- Reduce the complexity of the vocational qualification system and provide more accessible information about its courses, so that there are clear pathways for students pursuing vocational training (at the moment these pathways are far more complicated and less well known than for those pursuing academic courses).
- Encourage higher education institutions to offer more sandwich courses (i.e. active participation in business/industry) and to offer credits for placements and vocational courses.
- Support the National Apprenticeship Service in devising an application service similar to UCAS.
- Guarantee wide availability of 'higher level' apprenticeships; ensure availability of 'foundation level' and 'advance level' for those who do not qualify for higher.

- Extend the 'A' level points system to all further and higher education courses to align achievement in academic and vocational qualifications.
- Include information on the levels of employment and income associated with different higher education courses as part of the Key Information Set, so that students can make informed choices. The student loans company already holds some such information on university courses, which could easily be anonymised and published.
- Allow universities to expand undergraduate numbers without limit if they reduce fees (or increase waivers) so that the impact for the Government on the student loan book for the extra students is zero.
- Expand income contingent loans for post-graduate courses, with eligibility and repayment criteria set so as not to impose additional costs on the taxpayer over the medium term. Investigate whether loans could be made available on a similar basis for (at least some) mixed academic and vocational courses.

3.4 Continuing Skills Development

3.4.1 Formal education provides the qualifications essential to making individuals employable, but beyond this most skills are acquired in the workplace. Good employers are well aware of this and provide a wide range of training opportunities both as a requirement of work and for individuals to take up on their own initiative. The economy as a whole would benefit if these practices were more widespread.

3.4.2 It is ineffective, however, to force best practice on employers through government regulation, as too often this simply adds to the administrative burden of employment while adding few substantive benefits. We believe that a more constructive approach is for large employers to show greater transparency to potential employees, to ensure that market forces do more to encourage good practice.

3.4.3 We will:

- Implement existing Liberal Democrat policy to make it easier for employees to undertake their own training, for example, the recent *Quality of Life* Group proposals requiring all large organisations to publish the extent to which they promote flexible working. We would fast track the extension of the right to request flexible working that is currently available to those with young families to include any employee who is pursuing training or skills development.
- Focus on re-skilling unemployed people through expansion of apprenticeships, in part by specifying local content on major public infrastructure projects.

3.5 Addressing Current Skills Shortages

3.5.1 The viability of some businesses relies on being able to recruit a proportion of their specialist staff from overseas. We will:

- Simplify the currently very complex sponsorship application system administered by the UK Border Agency to ease the administrative burden on businesses.

3.5.2 In the UK we have world-class universities that generate significant export income. There should be no limit on the immigration exemption for students who wish to gain qualifications in areas desirable for UK business and are seeking to study at *bona fide*, inspected institutions. We will:

- Simplify the visa application system for overseas students who have completed a degree course and wish to apply for a postgraduate course without travelling back to their place of origin to do so.
- Where sponsorship is available, relax the regulations for non-EU employees with qualifications that are in short supply in the UK. We will also consider enabling individuals who are highly skilled in areas desirable for UK business to gain exceptional recognition under the points based immigration system.
- Enable science and engineering students from overseas to look for work in related industries in the UK for up to two years after graduation.
- Remove international students from the net immigration figures for the duration of their studies.

⁸ Ambition 2020: World Class Skills and Jobs for the UK, UK Commission for Employment and Skills.

Unlocking Innovation

4.1 Introduction

4.1.1 Innovation is the process by which new ideas are brought into the products, services and processes that comprise our economy. It is the only long-term guarantor of economic progress and environmental sustainability.

4.1.2 Innovative firms grow twice as fast as other firms, both in terms of employment and sales.⁹ For the economy as a whole to move forward it is vital that businesses and other agencies are more innovative.

4.2 Research & Development

4.2.1 Britain's research and development landscape compares favourably with that in other countries, with excellent public and private research facilities in many fields and a better published research output than any other G8 nation.¹⁰

4.2.2 This excellence often translates into economic advantage and although the direct and immediate returns on R&D investment can be hard to quantify there is evidence that increased public and private R&D spending can directly boost economic development, raise quality of life (by technological and medical advances) and provide a source of highly-skilled jobs.¹¹

4.2.3 However with investment in R&D (from all sources) failing to keep track with either GDP or with spending in other countries¹², maintaining the UK's advantage in this vital field is challenging – not least because, despite retaining the government's research budget in cash terms, capital spending has been substantially cut back. Furthermore, the UK's R&D investment depends more heavily on government funding than many other countries' (because of low levels of business spending on R&D) and cuts to the public spend on R&D will have a disproportionate effect on research output.

4.2.4 We believe that both the Government and the private sector should increase investment in scientific research – particularly that spent on capital and know-how, to meet the EU target of 3% of GDP (currently 1.8%, lower than any other G7 country except Italy). The short-term cost of the Government's contribution should be absorbed by the increased number of high skill jobs, world-class research and associated taxes that this investment will attract.

4.2.5 The large companies R&D tax credit was 'below the line' in that it helped the financial result after tax – but not the pre-tax results that are usually used to assess financial performance. The Coalition Government made a commitment in the 2011 Autumn Statement to introduce an 'above the line' tax credit in 2013 to further encourage R&D activity by larger companies.

4.2.6 This approach has been widely welcomed in industry, but will need to be carefully evaluated as academic evidence suggests that blanket tax credits without accountability for how that money is spent or results obtained are not necessarily efficient for the economy as a whole.

4.2.7 We will:

- Simplify the system of government-funded prize competitions in key sectors, developing a single distributor and advertiser, which will help improve awareness of these prizes and encourage creative ideas to emerge.

4.3 The Gap Between Academic Research and Commercial Application

4.3.1 Innovation is most effective when research bodies (often universities), capital funding and commercial companies work closely together. One of the biggest challenges is to bridge the gap between academic research and commercial application (the so called 'valley of death').

4.3.2 The vision of the government-sponsored Technology Strategy Board ('TSB') is for the UK to be a global leader in innovation and a magnet for innovative businesses, where technology is applied rapidly, effectively and sustainably to create wealth and enhance quality of life. Funding for Research, Development and Demonstration projects ranges from small proof-of-concept grants and feasibility studies through to large multi-partner collaborative Research and Development ('R&D') and demonstration projects. The businesses they support range from pre start-up, start-up and early stage micro businesses, to large multi-nationals. They also provide academic-business knowledge transfer opportunities, open innovation networking platforms, the route for UK businesses to access European support for innovation and technology and opportunities for innovative businesses through our growing network of Catapult Centres. Initial studies show that the TSB's work to date, albeit on a small scale, has been successful - for instance, the work done by independent consultancy PACEC, which showed that collaborative R&D projects which had been completed by the end of 2009 estimated a gross value added of £6.71 per £1 of government funding, has been useful in showing the impact of the TSB¹³. A review of the TSB will be carried out this year¹⁴.

4.3.3 We will:

- Work with the Technology Strategy Board to expand its activities, and allow it to improve its working practises and be more agile in collaborating with small businesses - in particular following examples of successful public support for innovation and R&D such as DARPA in the USA and the Fraunhofer Institutes in Germany.
- Provide support to the Technology Strategy Board's Catapult Centres, to enable them to use existing resources to form physical and virtual networks between the various stakeholders, along the lines of Germany's Fraunhofer Institutes. The 'Fraunhofer Model' essentially states that for every euro Fraunhofer earns from contract research, the Government will match with a euro of base funding. This ensures that Government support ends up where it works most effectively – in commercially relevant projects.
- Channel a greater proportion of public procurement through the Technology Strategy Board, particularly the Small Business Research Initiative (SBRI)¹⁵ and Smart programmes, to encourage innovation in the public sector supply-chain.

4.4 Encouraging Creativity within Businesses

4.4.1 All businesses employ people who have the potential to be creative, but not all businesses encourage creativity in their staff. Risk aversion is greatest when the economy is weak or a business is struggling – when, perversely, new ideas and ways of doing things may be most needed.

4.4.2 Commercial confidentiality can also be a barrier to seeking outside help, even when problems or opportunities have been identified. Some businesses, especially SMEs may be reluctant to patent ideas, due to the up-front costs and concern about future costs to protect infringements – especially in a global market. Instead they may seek to keep the information secret, especially production methods. This slows the process of innovation in the economy as a whole.

4.4.3 Where a patent held by one company applies to a non-competing product, but is not implemented, an opportunity is being missed. Where such patents are identified, the individual(s) names on the patent should be enabled to take forward such ideas without penalty from their employer after a reasonable period of time.

4.4.4 To help overcome these issues we would:

- Promote the setting up of mutual problem-solving groups, similar to the Hargreaves Group in Australia, where people from different businesses can seek solutions, with clear levels of confidentiality.
- Review patent law relating to the ownership of ideas between companies and individuals to ensure that new ideas are encouraged and commercialised.

⁹ http://www.nesta.org.uk/events/assets/features/the_vital_6_per_cent

¹⁰ <http://royalsociety.org/policy/publications/2010/scientific-century>

¹¹ <http://www.sciencecampaign.org.uk/documents/2010/CaSEJunebudgetbriefing2010.pdf> and <http://royalsociety.org/policy/publications/2010/scientific-century>

¹² <http://sciencecampaign.org.uk/?p=9652>

¹³ <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmsctech/writev/valley/valley81.htm>

¹⁴ <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmsctech/writev/valley/valley80.htm>

¹⁵ A revised version of the SBRI, managed by the Technology Strategy Board was launched in the UK in April 2009 after a successful pilot. Since its re-launch SBRI has awarded 425 contracts to the value of £27 million to small businesses.

Fulfilling our Low-Carbon Vision for Britain

5.1 Investment

5.1.1 The rise of the UK green economy (formally, the low-carbon and environmental goods and services sector) in recent years has been a major, and largely unrecognised, success story. Even in the depths of recession, figures published by the Department for Business, Innovation and Skills¹⁶ show that the UK's green economy grew by £5.4 billion in 2011. It generates £122 billion of economic activity here in the UK, and a trade surplus of £5 billion; supporting 940,000 jobs in 52,000 companies right across the country.

5.1.2 Britain's real strengths in technologies such as offshore wind power, marine renewables, and carbon capture and storage position us well to benefit from a rapidly expanding global market, laying the foundations of future prosperity.

5.1.3 Furthermore, investment in low carbon and environmental technologies will improve energy security, reduce dependence on imports of fossil fuels and protect businesses and consumers from oil and gas price shocks.

5.1.4 In the short term, the investment needed to replace Britain's ageing power stations and to insulate its notoriously leaky homes and offices will help to stimulate the economy right across the country. Yet many green technologies are new and relatively untested and green infrastructure investments are therefore both high capital and high-risk. As a consequence, the sector suffers from a lack of access to capital; major institutional investors such as pension funds tend to steer clear of areas in which they have little knowledge. We can help counter this in three ways:

- We will set an ambitious policy framework that stimulates demand for green infrastructure and technologies. This will include existing measures such as the Green Deal, electricity market reform and support for low-carbon transport. This area will be examined in depth in the party's forthcoming policy paper on the transition to a zero-carbon economy.
- We will lead by example, using Government procurement policy to stimulate the market for green products and services. The UK already has a positive record in some areas (e.g. on timber and wood products) but there are many other sectors in which green procurement policies could be used with effect, such as construction products, food, clothing, energy, office machinery and furniture as well as services such as construction, maintenance, printing and transport. Central government should also encourage and facilitate local authorities to adopt their own green procurement policies.
- We will take action to improve the flow of capital to green investments.

5.1.5 This includes, most notably, the Green Investment Bank established by the Coalition Government in 2012. It is the world's first national development bank dedicated to the green economy, using public money to unlock private investment in growing companies in environmental sectors. A reduction of the risks to investors will unlock new sources of capital such

as pension funds, significantly reducing costs for taxpayers and consumers. Its reach will extend far beyond the City, steering new investment into green infrastructure and technology, including offshore wind power, waste management and energy efficiency, both domestic and industrial.

5.1.6 The Green Investment Bank clearly needs to take some time to set up and establish a track record of lending to major green projects. Nevertheless, the scale of the challenge of the transition to a low carbon economy is immense, and government should signal its intention to see the Bank's operation expand as rapidly as possible.

5.1.7 We would:

- Expand the Green Investment Bank's scale and remit as fast as possible. We believe that the Green Investment Bank's borrowings should not be considered as part of the national debt and, as a result, the state of public debt as a whole should not restrict the Green Investment Bank's ability to borrow.
- Give the Green Investment Bank the powers to issue a range of Green Bonds. Such products should be designed to meet individual and institutional investors' needs, including their fiduciary duty to achieve the best possible risk adjusted returns for their clients and beneficiaries.
- Provide significant seed-corn funding for innovative technological solutions to the challenge of decarbonising the UK economy, including investment in early-stage green technologies that are often developed by small businesses.
- Ensure that the Green Investment Bank plays a full role in implementing the Green Deal energy efficiency initiative for homes.

5.1.8 Important though it is, the Green Investment Bank cannot provide all the capital needed for green investments.

5.1.9 We will:

- Take additional actions to increase the flow of capital to low carbon investments, including fulfilling the coalition commitment to create innovative financial products – such as green ISAs – as a source of significant additional capital for low carbon and environmental solutions.
- Investigate the scope for further capital allowances against tax for green capital expenditure, and more favourable treatment of green venture capital funds.
- Maintain and, when possible, increase direct support for technological innovation – for example for wave and tidal power – and small-scale community projects, such as in energy efficiency and renewable energy.

5.2 Resource Efficiency of Businesses

5.2.1 In this resource-constrained environment in which we now live, we believe that UK businesses must innovate to reduce costs through resource minimisation and develop products and services that are resource efficient.

5.2.2 Resource efficiency is not only a core long term environmental sustainability goal, it will also help to insulate UK businesses from increases in material and energy costs and help to improve the UK's competitiveness.

5.2.3 We will:

- Encourage a new 'responsibility deal', along the lines of the Courtauld Commitment¹⁷, for many more items to be designed and manufactured to facilitate their repair – looking at whole life cycle not just single use.
- Set a common minimum standard throughout the UK for recycling collection.
- Adopt a 'closed loop' approach, whereby use of materials is reduced, reused where possible and recycled for further use and work through the EU to require clear marking of all products and materials for end-of-life recycling – not just packaging – meaning more jobs in the recycling industry, rather than bulk materials going straight to landfill or incineration.

¹⁶ <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/l/12-p143-low-carbon-environmental-goods-and-services-2010-11.pdf>

¹⁷ http://ec.europa.eu/environment/waste/prevention/pdf/Courtauld_Commitment_Factsheet.pdf

Introducing a World of Opportunity

6.1 Introduction

6.1.1 Under the previous government's irresponsible management of the economy, Britain built up a large and unsustainable trade deficit. The shifting balance of world economic power brings rising incomes and new customers for Britain's exports. We believe, therefore, that net exports can play a critical role in Britain's economic recovery.

6.1.2 The top five markets for both goods and services exports from the UK have remained the USA, Germany, the Netherlands, France and Ireland for decades. The difficult situation in the Eurozone is worrying for UK exporters, particularly as Europe will remain our biggest trading partner for some time.

6.1.3 In recent years, however, emerging markets have changed substantially in their importance for UK exporters. Now more than ever, UK firms should be able to benefit from export and investment opportunities across all markets to accelerate their recovery from the downturn in domestic demand.

6.1.4 The UK has the potential to benefit from an increasing demand for high quality goods and services from the middle classes in these emerging economies. Exploiting these overseas opportunities will be especially important for the innovative, high productivity and technology intensive firms who will underpin sustainable economic development. Furthermore, the UK's experience in providing public and private services, across healthcare, education and infrastructure, could also be channelled into supporting development in these markets.

6.1.5 Government policy in this area should focus on improving the productivity and technical quality of industry – and making businesses (especially SMEs) more effective in the process of making export sales. This includes ensuring that the export promotion agencies UK Export Finance (previously the Export Credit Guarantee Department) and UK Trade & Investment ('UKTI') play a major role in supporting the objectives set out elsewhere in this paper. This includes in particular, supporting the expansion of exports of low-carbon and environmental goods and services and ending all support for fossil fuel-related exports, in line with the Coalition Agreement.

6.2 Supporting SME Exports

6.2.1 Improving SME exports is vital to strengthening the UK's trade performance. Only one in five British SMEs currently export, compared with the EU average of one in four.

6.2.2 Barriers to entry are high. Firms wishing to export for the first time must research the market and adapt products and services accordingly. They must overcome legal and regulatory barriers, cultural and linguistic differences and lack of networks and contacts, in order to build recognition and market share. These barriers remain particularly high in many of the biggest fast-growing markets, particularly in the BRICs (Brazil, Russia, India and China) and in the less advanced

emerging markets. We urgently need to help UK firms, particularly SMEs, to overcome such barriers.

6.2.3 The Government's agency UKTI helps companies participate in trade fairs and trade missions and also provides information on markets of interest to companies, for a fee.

6.2.4 UKTI also provides a service called 'Passport to Export' that assists SMEs with no export experience. However, the programme is limited to companies between one and five years old, excluding the family-owned and managed businesses that the CBI says are in greatest need of help.

6.2.5 The Export Market Research Scheme is a bespoke service offered to companies by UK Trade & Investment. General advice is free to companies with between 5 and 250 employees and is administered through local Chambers of Commerce. The scheme offers companies subsidised help with desk research and field trips. International Trade Advisors are also located in 40 offices around the UK and offer face-to-face assistance to companies wanting to export.

6.2.6 UKTI currently has a contract with West Midlands Chamber of Commerce to provide services to businesses in the region. This is an efficient and cost effective service that can be expanded to other regions.

6.2.7 In November 2011 the Government launched a major initiative to boost the number of SMEs that export – setting the target of getting up to 100,000 SMEs to either start exporting for the first time or spread to new markets over the next four or five years.

6.2.8 There are some success stories, but the perception amongst businesses is that there is still a significant gap between the support that businesses want and what the Government currently offers¹⁸. There needs to be a greater focus on services for medium-sized businesses, a better understanding of the role of supply chains in supporting and boosting export performance and concentrating limited resources on helping businesses access fast-growing markets.

6.2.9 We will:

- Focus on concluding trade negotiations and open up new markets through freer trade agreements between the EU, India and Mercosur¹⁹ (South American nations including Brazil).
- Extend contracts with Chambers of Commerce and other organisations, giving them responsibility for helping local companies, particularly SMEs, to build up intercultural skills and the confidence to trade in new and unfamiliar markets.
- Improve the efficiency and reach of UK Trade & Investment by introducing an online database as an alternative to face to face consultancy, where companies can search for the information they need on export markets.
- Improve the organisation and planning of political trade delegations, to include not only large businesses, but also SMEs.
- Introduce a 'supply chain buddying' programme, whereby large companies already engaged in export undertake to support SMEs in their supply chain to find new overseas

customers. This could include joint overseas visits, introductions to relevant overseas customers, partnering on stands at trade fairs and inclusion of SME suppliers in trade missions.

- Extend the 'Passport to Export' to include SMEs that are more than five years old, as long as they meet criteria for competitiveness and innovation. This should also include companies in the service sector.
- Assist companies in accessing new markets through IT improvements, including faster rollout of high speed broadband and using existing resources and partners such as Business Link and Go On UK to provide high quality advice and support in developing effective websites and improvements to online cross-border payment systems.
- Provide an online forum for businesses to help one another through the sharing of market intelligence, peer-to-peer networking and to showcase regional export champions in order to get firms thinking about exporting and new markets.
- Support language training as a core activity in schools.

6.3 Barriers to the Completion of the Single Market

6.3.1 The EU single market offers huge benefits to UK business:

- The EU's Single Market gives British companies free trade access to the world's biggest single market. 50% of Britain's international trade, worth £450bn a year²⁰, is with other EU member states. Over 100,000 British firms, 94,000 of which are SMEs, export to other EU countries²¹. Over 200,000 UK companies trade with the EU every year²².
- The EU is vital to opening up new trading opportunities for the UK around the world. By negotiating as part of the world's biggest single market bloc, the UK is able to get much better terms and access than it would if it were negotiating by itself.
- The EU is also critical to delivering British objectives on climate change, energy security and creating a low carbon economy. EU targets and actions stimulate investment in UK renewables and low carbon technologies and generate low carbon markets across the EU that the UK could exploit.

6.3.2 There are still considerable barriers to the completion of the European Single Market however, for example, the gold plating of EU directives (i.e. exceeding the terms of European Community directives when implementing them into national law), the many types of contract law which businesses have to deal with, and the legal obstacles which still hinder people from moving to another EU country or doing certain types of work there.

6.3.3 The Coalition Government has secured support from EU Ministers for the exemption of micro-businesses from certain EU accounting rules. Provided the European Parliament endorses this, this will deliver savings to UK small businesses.

6.3.4 In December 2010 Vince Cable introduced new measures to end the 'gold-plating' of European legislation when it is transposed into UK law. Underpinning these measures is the principle of copying out the text of European directives directly into UK law. This direct 'copy out'

principle will mean that the way European law is interpreted does not unfairly restrict British companies.

6.3.5 We will continue to work towards the following objectives:

- Liberalisation of trade within the EU in strategic and growing areas such as energy, digital, services and green technology.
- The creation of a Single Digital Market by updating EU Single Market rules for the digital era. This will establish a single area for online payments and further protect EU consumers in cyberspace.
- Enhanced mobility for qualified workers through modernization of the rules for recognising professional qualifications through the issuance of a European Professional Card.

¹⁸ http://www.cbi.org.uk/media/1168506/exports_report_a4_final_indd__2_.pdf

¹⁹ <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/mercosur/>

²⁰ <http://www.theyworkforyou.com/wrans/?id=2012-03-27a.101662.h&s=section%3Awrans+speaker%3A11823#g101662.q0>

²¹ 2006 MORI Poll

²² <http://www.theyworkforyou.com/wrans/?id=2012-03-27a.101662.h&s=section%3Awrans+speaker%3A11823#g101662.q0>

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This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats, the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. The Party in England has chosen to pass up policy-making to the Federal level. If approved by Conference, this paper will therefore form the policy of the Federal Party on federal issues and the Party in England on English issues. In appropriate policy areas, Scottish, Welsh and Northern Ireland party policy would take precedence.

Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to implement all these proposals immediately. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.

Working Group on Sustainable Prosperity and Jobs

Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every statement or every proposal in this Paper.

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