



New Industry, New Jobs

Part 1

The foundations of UK competitiveness

After more than a decade of supply side reform, Britain's economy ranks highly on openness and flexibility. Britain has a strong set of competition rules that guarantee a dynamic market, boosted by the European Union's relative openness to trade.

Britain's flexible labour markets enable businesses to respond quickly to changes in the marketplace, but also ensure that there are fair standards and support for people when they need to move between jobs. These strengths have drawn high levels of inward investment to Britain and helped narrow the productivity gap between Britain and other major economies. Britain is now ranked by the World Bank as sixth in the world for ease of doing business. There is, however, little room for complacency, as others are investing heavily in their own strengths.

There are four immediate priority areas for action and reform in Britain: innovation, skills, finance and infrastructure. The Department for Business, Innovation and Skills (BIS) must also continue to ensure that British businesses are able to access growing global markets.

Turning excellence in science and technology into innovation and new opportunities

Over the last decade, sustained investment has given Britain one of the strongest science and research bases in the world. Britain is now a world leader in potential growth markets such as low-carbon technologies.

Government support for innovation is also provided through a successful research and development (R&D) tax credit which has provided £3 billion of support to UK businesses since 2000. The establishment of the Technology Strategy Board in 2007 has given Britain a successful business-led body whose programmes channel public funds into driving business innovation in areas where there are major opportunities for future growth.

Despite this extra investment the UK has two important weaknesses. First, although those British businesses that do invest in innovation do so successfully, both UK-based businesses and the Government itself continue to invest less in R&D as a percentage of GDP than other comparator economies.

Second, businesses' excellence in generating knowledge is not consistently translated into innovative and commercially successful goods and services.

The *Innovation Nation* White Paper published in 2008 set out in detail the Government's policy for addressing this, in particular through

research, development and skills. It also set out how businesses could use public sector procurement, regulation and investments in infrastructure to encourage and enable innovation.

Stable, ringfenced government funding and support for the science and research base provides an essential foundation to support economic growth in the short, medium and longer term. BIS will continue to protect and raise investment in science and research in the years ahead.

The science base this creates is a key resource for the high-technology companies and start-ups that will grow into the world-beating businesses of the future. Encouraging closer ties between the UK's growing pool of scientific and engineering researchers and industry and private investors is now key to ensuring that the UK is able to benefit economically from groundbreaking science.

To help small businesses in particular work with the UK knowledge base, for the first time, the Government is now providing Innovation Vouchers worth up to £10,000. Through the new Solutions for Business Portfolio BIS has made it easier for small high-technology businesses to access support from the Technology Strategy Board, English Regional Development Agencies, universities and others.

As well as delivering on this and other Innovation Nation commitments:

- BIS will work with the research funding bodies to create a stronger framework to drive up the economic impact of the research they fund. Since April 2009, grant applicants to all Research Councils have to set out the economic impact of their proposed research;
- The Higher Education Funding Council for England will consult later in 2009 on a new Research Excellence Framework (REF) that will take better account of the impact research makes on the economy. Decisions on the REF will be announced early in 2010 and will create incentives for changed behaviour from that point;
- The Technology Strategy Board has had a successful start and will continue to spearhead innovation in areas where there are business opportunities for future growth, including advanced manufacturing, clean technology, life sciences and the digital economy.

Fostering a talented workforce

Innovative businesses need educated, entrepreneurial and skilled people. Investment in education and skills is an important part of the Government's economic and industrial policy.

Building on the reforms of the past decade, BIS now needs more systematically to address Britain's comparative weakness in low and intermediate skills, and in the specific skills – such as handling information technology – that are essential for a modern economy.

In reforming the training system BIS will ensure that it meets tomorrow's as well as today's skills needs. As new and established businesses grow to meet the opportunities in the new economy, the Department will ensure it is able to get the skilled workers it needs in the right place and at the right time.

As set out in the Government's response to the Leitch report in England, the Government is implementing a demand-led skills system that delivers what individuals and employers need. In particular, Train to Gain is successfully delivering high quality work-based training for employers and learners.

However, the UK will require a skills system that not only responds to demand but is also able to anticipate future growth in the economy in areas such as low carbon or bioscience, or in those driven by broader demographic change such as the care, hospitality and leisure sectors. As more women chose to enter the workforce, the Government also needs to ensure that the UK is equipped to train people with the highest quality childcare skills to meet the demand created by its approach to developing a fair and family-friendly labour market for the future.

An active approach to the UK's skills base will be particularly important where skills capabilities determine the UK's ability to secure jobs at the top of global value chains. It is also important to ensure that UK businesses and their employees have the skills to compete for government procurement or the demand created by other significant government action. This is discussed further in the next section.

Later in 2009 the Government will publish a new Higher Education Framework that will set out how higher education in England will take a more active approach to building British competitive strengths through higher skills levels, research and knowledge transfer. It will also publish an 'active skills' paper, detailing how the skills system as a whole will support these developing policies.

Key elements of this work will include:

- Developing with employers, Sector Skills Councils and the UK Commission for Employment and Skills the practical and analytical capability to collect, process and deploy intelligence on skills needs in key sectors and markets quickly and effectively;
- Creating a new Skills Funding Agency to ensure that the skills system has the capacity and funding available to rapidly support development in areas of strategic importance to the economy;
- Developing a rapid and more responsive approach to the development of new qualifications and apprenticeship frameworks so that employers in strategic sectors can access accredited learning which meets their current and future skills needs;
- Strengthening the employer voice on employment and skills, including through Local and Multi-Area Agreements and Employment and Skills Boards, giving them leverage over provision in their areas to make it responsive to local needs while taking into account national and regional priorities;
- Further integrating employment and skills policy so that those seeking jobs have the opportunity to move into those sectors that will drive future growth;
- Ensuring our universities have clear incentives to respond quickly to support areas of potential growth, including by evolving our current funding models;
- Ensuring that public procurement, regulators and regulatory frameworks all make a full contribution to raising skills levels.

Of course, such government action must be embedded in a wider education system in Britain that is accessible to all and targeted on producing talented, skilled and adaptable people. For example, the Government's historic commitment to raising the participation age in England for education and training will be a key driver to enhancing intermediate skills and provide a broader base of candidates for higher education.

Ensuring access to capital for growing businesses

The credit crunch and economic downturn has had a negative impact on the availability of finance for businesses; Government has taken a range of measures to restore stability and liquidity to capital markets.

However, even before the credit crunch, it was recognised that finance for some kinds of business is significantly affected by market failures. Research shows that start-ups and young businesses in particular consistently experience greater difficulties in accessing finance than more established businesses. For example, just over one quarter of young businesses seeking bank finance in 2006 attributed difficulties to a lack of financial track record or insufficient collateral.

Government has intervened to correct this market failure, in the past through the Small Firms Loan Guarantee Scheme and now through the Enterprise Finance Guarantee Scheme. In addition, Enterprise Capital Funds are aimed at supplying venture capital for technology and high-growth businesses, addressing an equity gap that has been identified for the provision of small amounts of venture capital between £250,000 and £2 million. This 'equity gap' exists in finance markets due to the relative costs of making small investments and the difficulty in assessing risks.

Over the last decade the UK has seen providers of development capital moving further away from smaller investments and focusing on larger, leveraged transactions. For example, in 1998 one leading provider invested £908 million in 600 companies at an average investment size of £1.5 million. By 2007, it was investing £1.5 billion in 62 companies with an average investment size of £25 million.

This creates an issue for smaller firms or social enterprises with growth aspirations, especially as conventional bank finance may not match their risk profile and growth aspirations. Experience also shows this is likely to become an even more acute problem as the economy picks up, order books begin to recover and demand for growth finance increases. To address these issues the Government will launch a review to consider whether and in what form further intervention could help increase the supply of long-term growth capital to small and medium-sized businesses. This will include options for a Public Private Partnership similar to the predecessor of 3i – the Industrial and Commercial Finance Corporation – leveraging private sector capital to address gaps in growth finance and risk capital.

Any new government initiative in this area could build on the success of the eight Enterprise Capital Funds currently part-funded by Government, as well as the Capital for Enterprise Fund announced in January 2009 to increase the supply of risk capital to innovative businesses throughout the downturn.

Investing in the necessary infrastructure

Effective modern infrastructure is fundamental to the competitiveness of British business. From energy and communications to transport and airports, in the decades ahead the country needs to make significant investments in new infrastructure. Much of this infrastructure development will be in response to public policy, although it will be funded and delivered by the private sector. The economic regulators will determine the terms for many of these investments, whose successful completion will shape Britain's prosperity for decades ahead.

For this reason, the UK needs an environment in which it is attractive to invest in infrastructure, and in which those investments are made in good time and without unnecessary planning delays or uncertainty. It is therefore vital that Britain has an environment – from the planning system to independent economic regulation – which secures the infrastructure investment the country needs.

To improve the planning process for nationally significant infrastructure projects, this summer the Government will consult on the first National Policy Statements setting out a view of what new infrastructure is needed. These statements will set the policy framework for the Infrastructure Planning Commission in considering and deciding applications. The Infrastructure Planning Commission will offer advice to potential applicants from autumn 2009 and commence operation in spring 2010.

The Government is also legislating through the Local Democracy, Economic Development and Construction Bill to introduce integrated regional strategies that will coordinate and prioritise key infrastructure projects for sustainable economic growth.

Other important work in upgrading Britain's infrastructure in the months ahead will include:

- The Government's Digital Britain review, which will establish the for a fundamental transformation of our broadband infrastructure. The aim will be for almost all of Britain's homes and businesses to have access to high-speed broadband within the next three years;
- A clear programme for adapting Britain's energy grid to link homes and businesses to the new forms of power generation, including renewables and nuclear, and for helping them reduce their energy demands;
- The report to the Prime Minister later in 2009 from the Council for Science and Technology on the interconnectivity and resilience of the major components of the national infrastructure, and the innovation and strategic science and technology gaps that need to be filled to create a modern, integrated national infrastructure that meets the big global challenges.

Britain's trading strengths and its ability to access export markets will be central to its future prosperity. Of British productivity growth between 1996 and 2004, 60 per cent came from businesses that export. The rising incomes of the emerging economies and the massive expansion of the purchasing power of the global middle class will present significant opportunities for UK businesses, alongside the developed markets of the Organisation for Economic Co-operation and Development (OECD).

Britain will make the continued effectiveness and openness of the European Single Market a priority of its European policy. The Government will work to ensure that flexibilities introduced to the European Union's state aid rules as an exceptional response to the financial crisis are removed when economic conditions stabilise. Britain will also make the continued openness of the global trading system and the progressive removal of trade barriers a priority.

The Government will ensure that the scope and effectiveness of its assistance to UK companies – and especially small and medium-sized businesses looking to break into new export markets – remains of the highest calibre. UK Trade and Investment (UKTI) has acted as an extremely effective catalyst for UK exporters and will continue to be the

chief means of doing this. This year's G20 London summit set out an ambitious programme to promote global trade and investment and reject protectionism. To reflect this, and to further improve BIS support for trade, the Export Credits Guarantee Department (ECGD) will consult on a new facility to provide government support for short-term trade finance through sharing risks with banks in confirming letters of credit. In addition, the Government will look at existing and potential support offered by ECGD with the aim of ensuring the organisation plays a significant role in supporting UK exporters when demand picks up.

Summary of key next steps

From April 2009 all applications to Research Councils for academic funding have to set out the economic impact of proposed research.

The key next steps are:

- Decisions on a new Research Excellence Framework that will take greater account of the economic value of research will be announced early in 2010. We expect this to influence university behaviour from that point, prior to the first framework exercise in 2013;
- Later in 2009 we will set out a new strategic approach to skills in England, through the Higher Education Framework and a paper on skills activism;
- In the weeks ahead a review will be launched to consider whether and in what form further intervention could help increase the supply of long-term growth capital to small and medium-sized businesses;
- The final Digital Britain report will set out in summer 2009 how the UK's digital infrastructure can be upgraded for a broadband-enabled world;
- In summer 2009 proposals will be published for adapting Britain's energy grid to link homes and businesses to the new forms of power generation;
- In the weeks ahead the ECGD will consult on ways of further supporting levels of credit for UK exporters. The Government will ensure that the support offered by ECGD plays a significant role supporting UK exporters when demand picks up.



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