

# The CBI business agenda



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March 2005

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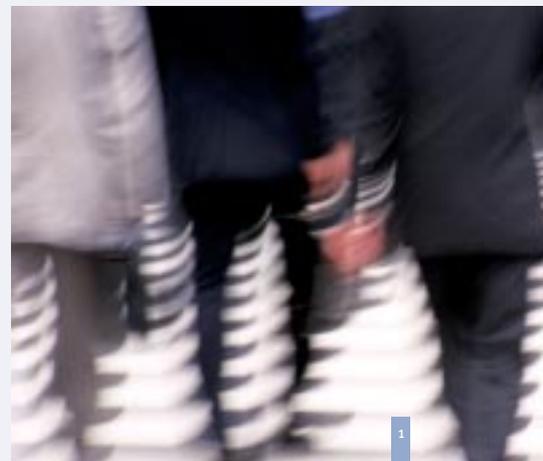
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# Foreword

by Sir Digby Jones

The Voice of Business must be at the heart of the 2005 General Election. It is only business that creates wealth and jobs for everyone. But it can only succeed in this if the government supports business and creates the conditions in which it can flourish.

Constructing a society that values wealth creation and entrepreneurship is vital if we are to see sustainable jobs being created and tax revenues generated to pay for schools, hospitals and public service improvements – everyone sharing in the benefits of the success of responsible business.

I like to call it socially inclusive wealth creation. It means recognising that ‘profit’ isn’t a dirty word – but also that profit-making and wealth creation isn’t the end of the story and that the fruits of economic success must be distributed fairly across society.

During the pending General Election campaign, I will be calling on politicians of all parties to applaud companies that make good profits, acclaim rising share prices which in turn make all our pension funds worth more, and give credit where it is due to those businesses which show sensitivity to the environment, train their people well and invest in tomorrow.

The common theme that underpins our recommendations for government is ensuring that the UK is ‘fighting fit’ to meet the challenges of globalisation both here in the UK and in overseas markets, where government can help by championing the business cause.

But beyond that, action is needed on a range of fronts – boosting skills, encouraging science and innovation and slashing red tape – if we are to maintain the long-term competitiveness of UK plc.

So business has a crucial role to play in shaping the election debate and ensuring that all the political parties pursue a pro-growth, pro-jobs, pro-business agenda.

To enable proper scrutiny of the business credentials of all political parties, I would like to see them publish a business impact assessment of their commitments alongside their election manifestos. This would ensure they meant what they said and would provide a way of keeping them true to their word.

All political parties should subscribe to the recommendations set out in this agenda. Collective action on them would help us to deliver the strong and dynamic economy we all want to see and which we must have if we are to build a United Kingdom which wins the global race for the benefit of our children ... and their children.



SIR DIGBY JONES  
DIRECTOR-GENERAL



# Ten priority challenges for the next government

- 1 Bring about a skills revolution
- 2 Improve Britain's transport infrastructure
- 3 Boost Britain's competence in science and innovation
- 4 Begin to tackle the pensions crisis
- 5 Work with business to address climate change
- 6 Achieve meaningful deregulation of business
- 7 Keep the labour market flexible
- 8 Create a tax environment conducive to business growth
- 9 Build efficient public services
- 10 Make the European Union work for business



# The business agenda

The global economic landscape has changed dramatically over the last century and especially in the last decade. Globalisation has become the defining feature of our times and is increasingly becoming the key driver for change in economic and social life.



The growing economic interdependence of countries worldwide – through the increasing volume and variety of cross-border transactions in goods and services, of international capital flows and through the widespread diffusion of technology – is here to stay. There is no turning the clock back.

### **Meeting the challenge of globalisation**

Globalisation presents numerous challenges, but also immense opportunities for the UK. Those who seek to reverse these developments are condemning Britain to the second division of world economies. Sustained economic growth and rising living standards going forward are dependent on the UK's ability to harness the potential of globalisation.

The key challenge for government over the next ten years is to create and sustain the conditions in which British business can continue to compete and prosper in the evolving global environment.

The UK is already well placed to take advantage of these opportunities, having enjoyed a long period of macro-economic stability. The priority now is to build on these strengths and tackle the underlying weaknesses that are holding us back.

To ensure future prosperity, we should:

- Aim to increase the 2.5 – 2.75% trend rate of growth over the longer term, by increasing the productive capacity of the economy.

To deliver such growth, over the course of the next Parliament we will require:

- Our productivity to rise relative to our key international competitors, in order to close the productivity gap with France, Germany and the US
- Greater levels of capital investment, to close the 25% capital intensity gap with the US

- An increase in our innovative capacity, with expenditure on research and development rising to 2.5% of GDP
- An upskilling of the workforce to match the forecast that by 2010 80% of new jobs will require higher-level qualifications
- A growth in entrepreneurial businesses, with an increase in the three-year survival rate of VAT registered businesses above the 1997 peak of 67.4%
- The UK to maintain its share of world exports at the 5.3% average seen over the past 12 years
- The UK to maintain its share of world Foreign Direct Investment at the 6.8% share of inflows and 11.7% share of outflows averaged over the past 12 years
- Government spending as a percentage of GDP to be reduced, so that it does not exceed 40%.

Like all governments, the next government will be focused on winning the following General Election in 4-5 years time. Business needs more than this from government. There is an urgent need to sustain long-term investment beyond the course of the election cycle in critical areas of capability and capacity building.

### **Immediate and long-term challenges**

The CBI urges all political parties to commit to long-term investment in skills, science and innovation, and in transport infrastructure. Too often in the past, governments have under-invested in these critically important areas because of concentration on immediate challenges.

Business nonetheless recognises the significance of two such immediate challenges that will face the next government and which business needs addressed in a business-friendly manner. These are tackling the pensions crisis and working with business to address climate change.

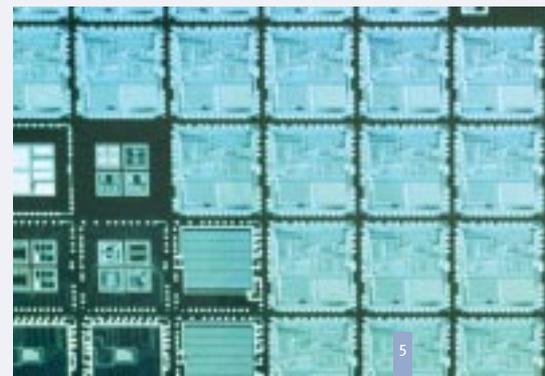
### **Removing barriers to economic success**

Finally, a key function of government in a market economy is to remove barriers to economic success – inhibitors that prevent wealth creation and entrepreneurship.

Business fundamentally believes in smaller government, and believes that any further increase in UK government expenditure, with an associated rise in the tax burden, would be undesirable.

Concern among companies about unnecessary constraints on their activities has grown in recent years. Over the period of the next Parliament, we look to government to deliver meaningful deregulation of business, a reduction in business taxation, a more flexible labour market, more efficient public services and a more business-friendly European Union.

These are the essentials if UK business is to flourish in the 21st century global economy. This agenda sets out in greater detail what the government must – and must not – do to help make it a reality.



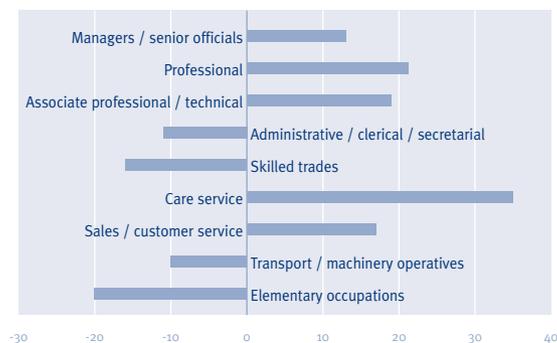
# 1. Bring about a **skills** revolution

High skill levels are vital for companies to remain competitive, playing a key role in productivity improvement, profitability and job growth. By 2010, 80% of all new jobs in the UK will require higher-level skills. Business requires adaptable employees who are willing and able to upgrade their skills throughout their working lives.



- Raise standards of English and Maths at 16
- Improve the basic skills of 15 million adults
- Ensure that vocational education and training meet business needs
- Focus on quality not quantity of graduates
- Make the funding of vocational education demand-led
- Simplify and streamline government skills agencies to ensure employers can easily access high quality training provision.

% Forecast change in employment level by occupation 2002-2012



Source: CE/IER estimates

## 2. Improve Britain's **transport** infrastructure

A good transport infrastructure is critical to the functioning of a modern economy. Efficient links provide access to markets, enhance operational efficiency, support labour mobility, enable economies of scale and help stimulate competition. Over two billion tonnes of goods are moved annually within the UK and nearly half of all trips made by people in a year involve some form of interaction with business.

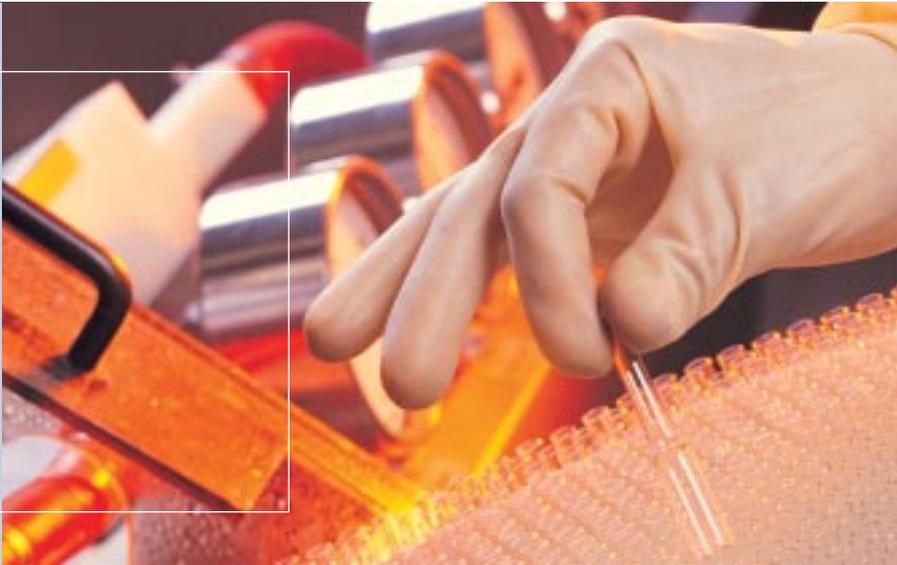


- Commit to at least £300bn of public and private investment in UK transport over the next ten years
- Publish a clear long-term vision for an integrated transport system backed up with specific projects, milestones and funding commitments
- Integrate transport with housing, employment and planning policies at local, regional and national levels
- Commit to increased capacity on both road and rail networks to support projected demand
- Enlarge airport and seaport capacity, with improved road and rail access, vital for international links
- Commit to flexible road user charging to support transport improvements.



### 3. Boost Britain's competence in **science** and innovation

A global competence in science, engineering and technology is essential for all businesses. Competence in the UK science base is essential for boosting R&D and innovation, and therefore productivity and competitiveness. Innovation drives technological and structural change, leading to new products, services, processes and market opportunities. The UK should be spending 2.5% of GDP on research & development by 2014.



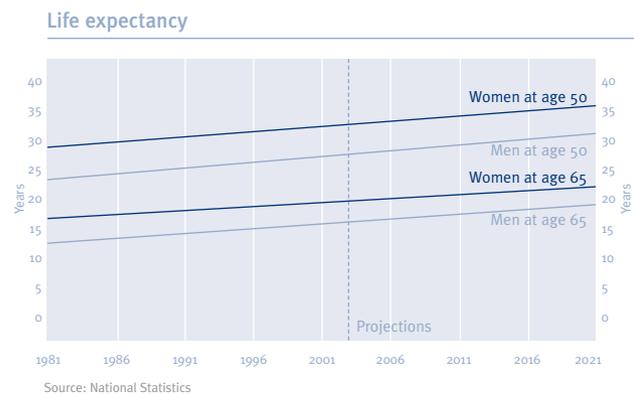
- Improve the science, engineering and technology skills of graduates and school leavers to meet business demand through increasing numbers, funding and salaries
- Reform Higher Education Institute funding mechanisms so that they properly support and reward business university collaboration, including business-relevant research
- Develop an overarching national technology strategy, involving all stakeholders, that co-ordinates government priorities and investment in research and development across Whitehall
- Ensure that public procurement acts as a stimulus for investment and innovation and supports the development and maintenance of internationally competitive supply chains
- Ensure the UK is the best location for business to exploit technology by recognising the important role played by innovation and development, and supporting this through the skills base and fiscal incentives.

## 4. Begin to tackle the pensions crisis

A secure and sustainable pensions regime is an essential part of a successful and dynamic economy. The number of pensioners in the UK is expected to increase from 10.8m today to 15.3m by 2041. But as a society, even though we are living longer we are saving less. The cost of occupational pension provision has risen due to increasing life expectancy, falling investment returns and adverse government taxation changes. The net result is that nine million people are not saving enough to ensure an adequate income in old age – a long-term drain on the economy which we cannot afford.



- Strengthen tax reliefs on private pensions and reduce regulatory burdens on occupational schemes
- Rule out additional compulsory employer pensions contributions
- Make a commitment over the medium term to raise the basic state pension to the level of the Pension Credit, as the state pension age rises from 2020 to 2030
- Retain and develop a contributory second state pension
- Increase savings through new incentives targeted at smaller firms and lower earners
- Raise participation rates among older workers.



## 5. Work with business to address **climate** change

Business is committed to playing its part in global, co-ordinated action to tackle climate change. Total business-related CO<sub>2</sub> emissions have fallen by 8.4% since 1990. Climate change has major implications for a wide range of policies that are essential to the effective functioning of business and the wider economy, including transport, housing, energy policy and environmental regulation.



- Develop a co-ordinated global response to climate change - including comparable international commitments under a post-Kyoto regime - so that Britain is not at a competitive disadvantage
- Recognise that tackling climate change is the responsibility of all parts of society, and the burden must be shared
- Set emissions reduction targets based on sound statistical data and that are sensitive to the need not to simply drive business overseas
- Keep the nuclear power option open, as part of a sustainable long-term energy policy aimed at achieving a low-carbon economy and security of energy supply
- Provide early clarification on the rules and scope of the second phase of the EU emissions trading scheme to provide certainty for business
- Seek new ways of exploiting technology as a solution to climate change.

Fall in CO<sub>2</sub> emissions since 1990



Source: CBI estimates based on DEFRA figures

## 6. Achieve meaningful **deregulation** of business

Ninety-five percent of business leaders feel that the time spent on regulation has increased over the past five years<sup>1</sup>. Regulation needs to be sufficiently flexible to allow business to innovate and meet the rapid response times required in global, dynamic markets. Equally, it is important that implementation and enforcement of regulation is consistent and applied in a manner that does not disadvantage the UK from our international competitors.



- Reverse the trend of a rising ‘compensation culture’ where risk is entirely eliminated and individuals do not take responsibility for their actions
- Improve the regulatory process by re-enforcing the ‘think small first’ principle, application of common commencement dates, strengthening impact assessments, and making greater use of sunset clauses
- Ensure that inspection is targeted on the basis of risk assessment, enforcement is proportionate and that greater use is made of incentives to reward good compliance
- Recognise that UK companies are among the world leaders in corporate governance, law and social responsibility and do not impose requirements, frameworks or regulation that impede their ability to operate in an increasingly globalised business environment
- Commit to simplifying current and impending environmental regulation and enhance the efficiency and proportionality of implementation and enforcement
- Secure a moratorium on any further financial services legislation, until business has digested the Financial Services Action Plan.



<sup>1</sup> CBI/MORI survey on ‘The UK as a place to do business’, November 2003

## 7. Keep the **labour** market flexible

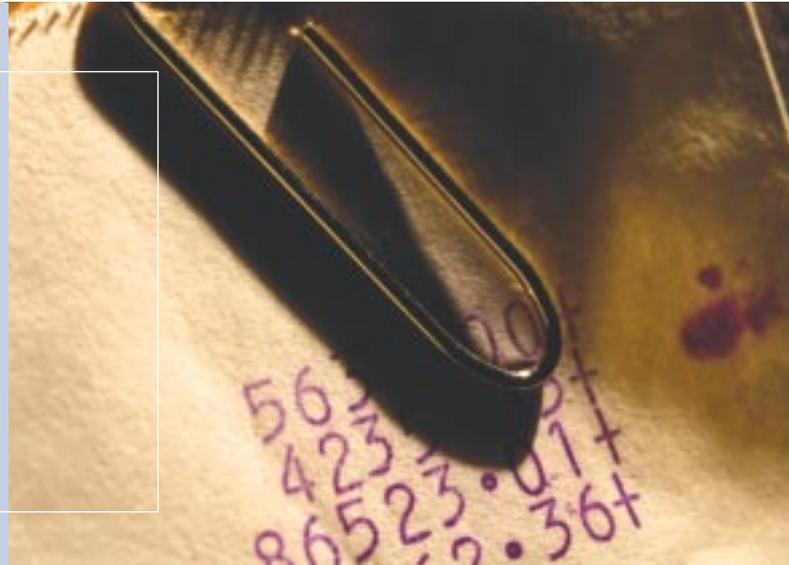
Labour market flexibility is the single most important factor in determining where globally mobile companies locate, with 90% of business leaders believing it to be influential.<sup>2</sup> It is critical to enable employers and individuals to organise work patterns in a way that meets their needs. It is particularly important for business because it allows employers to manage resources efficiently, improving productivity and competitiveness, create jobs, and adapt to changing market conditions and fluctuating demand.



- Refrain from introducing additional employment legislation, giving existing legislation the chance to bed down
- Defend the UK's individual opt-out from the Working Time Directive
- Protect the flexible employment opportunities offered by agency work by opposing an unsuitable European directive
- Commit to a transparent and managed immigration policy for low and high-skilled workers
- Any extensions to maternity and paternity rights must be implemented in a business-friendly manner and the administrative burden must be minimised
- The new commission for Equality and Human Rights must be business-friendly and focused on promotion rather than enforcement, and should not be seen as a stepping stone to a Single Equality Act
- Restrain rises in the National Minimum Wage.

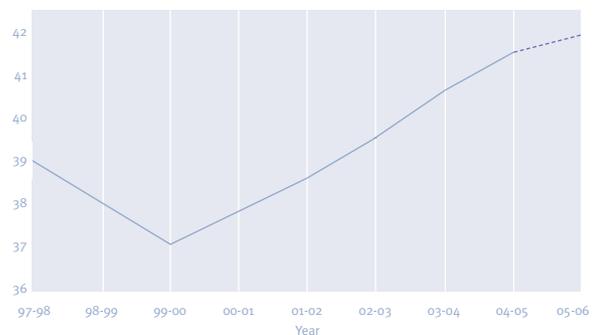
## 8. Create a **tax** environment conducive to business growth

The level of taxation is an influential factor for 80% of companies in determining international investment location decisions.<sup>3</sup> The cost of business taxation determines the returns required for investment decisions to be viable, the level of personal taxation determines the attractiveness of the UK for world-class talent, and tax complexity can add to businesses' compliance costs and affect certainty and confidence. OECD figures put the UK's main business taxes as a percentage of GDP at 9.9% – of our top five trading partners, only France is significantly higher.



- The business tax framework should optimise the risk-reward balance, and avoid a heavy reliance on taxes unrelated to profits
- Add to existing fiscal rules a 'Third golden rule' that public sector spend should not exceed more than 40% GDP
- Commit to reducing the business tax burden over the lifetime of the next Parliament
- Develop a simple and transparent approach to taxation, with no tax shocks
- Ensure that overall UK business taxation is lower than that of key international competitors
- Ensure that the tax regime is sustainable under international Treaty obligations.

Government spending % of GDP



Source: HM Treasury

## 9. Build efficient public services

World-class public services and a competitive economy go hand in hand. On procurement alone, government spends £109bn annually. As funders, users and suppliers of public services, business has a triple stake in the debate about the future of public service reform. Business is committed to supporting the delivery of world-class public services through the introduction of greater diversity in provision to improve the efficiency and effectiveness of public services.



- Implement the Gershon and Lyons Reviews to bring about greater efficiency and productivity in the public sector, and put in place new incentives and mechanisms to embed efficiency beyond 2008
- Ensure infrastructure renewal programmes such as 'Building Schools for the Future' place emphasis on the delivery of service outcomes
- Deliver a step change in commercial management of public sector markets by establishing commercial directorates in major spending departments and devising a national system for the collection, monitoring and dissemination of key data on supply market performance
- Establish the principle of competitive neutrality in the public sector by establishing a level playing field to govern the delivery of public services
- Prioritise long-term quality over short-term price considerations in public procurement
- Take care not to restrict the scope for innovation and change by introducing prescriptive new regulations that undermine the value of public-private partnerships
- Outsource administrative functions of police officers, teachers and nurses, to free up more productive time for frontline activity
- Deliver internationally comparable export credit finance and overseas trade promotion for both large and small businesses.

# 10. Make the European Union work for business

The future shape and direction of the European Union will have a critical influence on British business. The EU is now the world's largest trading bloc, with a population of 450m and a GDP of approximately €9,200bn. The achievement of the goals set out in the Lisbon agenda – to make Europe the most competitive and knowledge-based economy in the world by 2010 – would result in increased opportunity for business. Conversely, measures that result in reduced flexibility would be damaging to the ability of British business to compete in global markets.



- Push the European Union to identify and implement practical measures to re-invigorate progress towards the Lisbon goals
- Reinforce the importance of a multilateral framework for trade and investment, with priority given to completion of the Doha Development Agenda as soon as possible. The Hong Kong Ministerial must deliver substantial advances towards concluding negotiations
- Maintain the UK's competence over tax and social policy
- Make progress towards completing the single market with particular focus on services, but with a pause on further financial services legislation
- Ensure consistent implementation and enforcement of directives across member states
- Push for major improvements to the REACH proposal including a significant rationalisation in its scope, adequate provisions for downstream users, protection of commercial confidentiality and a solution to the issue of substances in finished goods
- Ensure that Europe-level interventions on research and development, innovation and enterprise add value, encourage business involvement and are focused on developing international competitiveness.





