



## THE BRITISH CHAMBERS OF COMMERCE ECONOMIC RECOVERY PLAN

FEBRUARY 2009

### **INTRODUCTION**

The UK economy continues to deteriorate. There are undoubtedly good news stories to be told and many of our members continue to perform well. However, large parts of the economy are in very real trouble.

Politicians are focusing very much on short-term issues and too much energy is being spent on rhetoric around things such as banker's bonuses, rather than looking at a vision and the future direction of the UK economy.

Collectively, we need to be looking at what sort of economy we want to see in the future and importantly what action will need to be taken to get us there.

There are massive challenges. UK debt as a percentage of GDP is likely to leap from 44% in 2008 to 70% in 2012. The UK budget deficit, already the highest amongst major economies, will rise to 8% next year, almost twice that for the rest of Europe.

The economy is imbalanced. Financial services, on which so much attention has been focused over the last 20 years, has been seriously damaged. Our manufacturing sector, at 13% of GDP, is not big enough and has to be stimulated: whilst the public sector has been allowed to expand far too long and at too fast a rate.

There will need to be a significant re-adjustment. This country will need to start producing far more goods that people in the rest of the world will want to buy. There will need to be a renewed focus on exports. We have many world class companies, but we need more.

In the medium term, public finances must be restored to health. The public sector will need to be slimmed down, whilst ensuring that capital expenditure does not suffer in order to hold up high levels of public sector employment. Public sector pensions liabilities will have to be tackled head on.

The private sector, as exemplified by members of Chambers of Commerce, will be the engine of growth for the new economy. However, the shackles need to be taken off them, and through a low tax regime they should be allowed to create both wealth and jobs.

Some locations will have to re-invent themselves. This will require a true partnership between business, as represented by Chambers of Commerce, and local government.

We have to re-invent the spirit of enterprise in the UK, more self-employment and less welfare dependency.

The agenda is huge and we face a very difficult future. Chambers of Commerce have shown themselves to be adept at meeting the challenges that are placed before them. They, and their members, will do so again.

This, the British Chambers of Commerce Economic Recovery Plan, sets out the policies that should be implemented now, including tax proposals and measures to restore confidence, and policies that will benefit the UK economy in the medium and long-term, such as skills development and infrastructure incentives.

A handwritten signature in black ink, appearing to read 'David Frost', with a stylized flourish underneath.

David Frost,  
Director General, BCC

## **TACKLING RECESSION: SHORT-TERM MEASURES**

Some semblance of normality has to return to the banks' lending practices, but remedying this alone will not restore the economy to a sound footing. While it is undoubtedly true that there has been a shock to the supply of credit lines, a chronic lack of confidence is deterring businesses from investment and expansion, affecting demand for loans.

To restore confidence, government intervention is necessary. If markets are failing, measures to correct these failures are required.

The perfect opportunity for intervention is to include the following policy proposals in the forthcoming Budget report.

**1.1 Fiscal Measures** – All fiscal initiatives should be considered within a template of medium-term fiscal stability.

The BCC's 2008 Q4 Quarterly Economic Survey reported the worst results for cash flow on record, in both the manufacturing and service sectors. The government's creation of the HMRC Business Payment Support Service in the 2008 Pre-Budget Report was recognition of the problem, and that tax obligations are adding to the difficulties.

The BCC welcomed the introduction of the Payment Support Service, but a response to the cash flow problem needs to go further, and each tax that a business pays should be analysed to establish if a temporary tax holiday can further ease cash flow difficulties.

Further to this, the tax measures below will act to stimulate activity within the business community and subsequently boost demand in the wider economy:

- The reintroduction of Empty Property Rate Relief – the Pre-Budget Report (PBR) measures for a temporary threshold increase do not go far enough.
- A reduction of the small companies' rate of corporation tax to 20% – a recent BCC survey showed that the freeze in the small companies' rate was the PBR measure that most businesses said helped them.
- Scrap the Fuel Duty increase of 1.84 pence, planned for April 2009.
- Tax credits for those who continue to train.
- Scrap the employer NIC increase planned for 2011-12.
- Automation of Small Business Rate Relief - the requirement for SMEs to have to register for the relief and the local restrictions on applicability currently hamper take-up. Government should increase the take-up of these funds by changing the regulations to ensure that the relief becomes automatic.

**1.2 Public Investment and Infrastructure** – Fiscal measures should also include reversing infrastructure cuts and expanding building programmes. In particular, the government should focus on investment in transport infrastructure. Underinvestment in transport infrastructure has been a drag on economic development.

Investment during a recession has the dual benefit of stimulating employment and improving long-term growth prospects. Projects that have been cut back or sidelined

should be revived and begun as soon as is possible, such as the road widening projects for the M6, M1, M62 and M25 that have been dropped in favour of hard shoulder running. Widening should go ahead as originally planned.

Given the threats of sharp increases in unemployment in the near term, and major bottlenecks inhibiting recovery in output when demand picks up, the BCC supports increases in infrastructure projects totalling £20bn over the next 12 months. An increase in spending needs to take account of the UK's fiscal position. But we believe the risks that the UK faces fully justify a programme of investment now in the country's depleted infrastructure.

**1.3 Interest Rates** – With the recession worsening, and deflation a distinct risk, there is still scope for further interest rate cuts in the next few months, to almost zero.

As quantitative easing will inevitably become an important policy tool in the near future, it is important for the Bank of England and the government to explain more clearly how such measures would be implemented, and how they would affect the relationship between the Bank and the Treasury. The main aims must be increasing the money supply and removing blockages in the credit markets.

**1.4 Bank Lending** – Given the nature of the recent global financial shock, it is inevitable that the cost of borrowing will increase, but when billions of pounds of guarantees and support are being pumped into the banking system all it does is serve as a stark reminder that the financial network is not functioning correctly.

Furthermore, the message coming from the Chamber network about their dealings with banks in recent months is a refusal of credit lines, arbitrary changes in the terms of credit facilities, increased arrangement fees and a longer time taken to make decisions on lending.

The Enterprise Finance Guarantee was a step in the right direction, but the government needs to be transparent about how successful its attempts to restore normality to the banks are. It is also crucial that banks communicate down their hierarchy to local branches the progress that is being made on the operation of new government schemes.

Worryingly, some BCC members have reported that they have asked their local banks about possible access to the Enterprise Finance Guarantee, but the banks seemed to have had no knowledge of how to access it.

This is clearly unacceptable: while some degree of patience is necessary for new schemes, basic knowledge of the banks ability to utilise it should be known throughout the institution. This should be the case for all new banking initiatives.

**1.5 Employment** – It is essential that the skills base within the economy is protected from the downturn. The loss of skills will only act to stifle growth and economic development in the long-term. Successful initiatives from previous recessions should be revisited and applied to the present climate.

The BCC believes that the Temporary Short Time Working Compensation Scheme, which ran from April 1979 to March 1984, should be one of these initiatives. It was

designed to encourage employers to adopt short-time working as an alternative to redundancy. Employers received 50% of normal wages paid to staff that worked short-time for up to 9 months.

There have already been examples of similar schemes being implemented in other countries – in the Netherlands and Germany to name but two.

Furthermore, the government should freeze the National Minimum Wage (NMW) in 2009. When the economy grows, inflationary NMW increases can and should be absorbed by businesses. However, the results of a BCC survey in December 2008 showed that 43 per cent of businesses would be freezing wages in 2009, indicating that there is little spare capacity for an enforced increase of wage costs. Freezing the NMW in 2009 would offer genuine help to businesses and support employment, with the added benefit of being a minimal cost to the government.

**1.6 Prompt Payment** – Customers are extending the amount of time that it takes to pay an invoice and, in some cases, even going beyond agreed periods. This is occurring at the top of the supply chain and spreading downwards, further contributing to the squeeze on cash flow in otherwise sound businesses.

The Prompt Payment Code was launched in December by BERR, but has not yet been as successful as has been hoped, with a limited numbers of signatories. For the Code to be a success, large firms at the top of the supply chain need to sign up, and it needs to be promoted so that awareness of it and accountability to it can be achieved.

Further to this, prompt payment needs to be the norm across all the whole of the public sector. A Local Government Association survey from November 2008 returned results that showed only 29% of responding Local Authorities (LAs) were paying their bills quicker in an attempt to help businesses. LAs should speed up the payment of their bills and should be made to submit evidence on why payment within a specified time period/faster payment is not achievable.

Linked to the prompt payment issue is the withdrawal of trade credit insurance. The Government announced in January that it was in discussions with trade credit insurers. An update on these discussions is needed.

**1.7 Joined up approach from Whitehall** – As the recession bites, government departments are continuing with projects that are simply not suitable for implementation during an economic downturn. The consequences of these actions need to be recognised.

The following are examples:

- Implementation of the Temporary and Agency Workers directive should not occur until the last common commencement date, in October 2011. Although the directive will have to be implemented, it can be done in a way that will minimise burdens on business, e.g. using the definition of basic pay, defining holidays as the statutory minimum and not providing for the use of the hypothetical comparator.
- The Equalities Bill will simplify legislation relating to discrimination, but in doing so will burden the business community, which will have to familiarise itself with the

new rules. Not only should assistance and training be provided for this, but the plans to place an equality requirement on the private sector when procuring public sector contracts should be abandoned.

- Pensions reform is due to be implemented in October 2012. This includes a compulsory 3% employer contribution and a significant administrative burden. The implementation date should be kept under continuous review with particular reference to any other burdens that could be imposed at the time. For example, an increase in employers' National Insurance Contributions.

A 3-year moratorium on non-essential government activity that imposes a cost on business should be implemented. The Treasury need to create a dedicated team to identify projects that should have their implementation suspended. As stated before, there should be attempts to stimulate demand, but more needs to be done with reference to the supply side of the equation.

**1.8 The Role of Local Authorities** – Local Authorities have a vital part to play in easing the pain of the downturn for businesses. It is positive to see that some councils have generated ideas to help businesses, but action should be more widespread and commonplace, rather than an exception. Examples include:

- Easing cash flow difficulties – as mentioned above, commitments on prompt payment should be implemented. Tamworth Borough Council and Slough Borough Council have already done this.
- Easier procurement – Derbyshire County Council has pioneered an internet database that advertises the council's contracts and encourages local companies to tender for them. The database also highlights recurring contracts which firms could bid for in the future.
- Business Engagement – East Sussex County Council is working with the local Chamber of Commerce on a free programme to support local businesses. The programme consists of a review of business followed by an action plan, telephone support and assistance in finding further specialist help.

**1.9 Grants/Tax Credits for Continuing Apprenticeships** – Apprenticeships are vital for the much needed increase in the skill set of the British economy. However, many employers may feel it necessary to lay off apprentices before they have completed their training because of the recession. This is not in the medium or long-term interests of the economy, despite the short-term expediency of such measures. Therefore, the government should introduce tax credits or further training grants to ensure that businesses can retain apprentices.

**1.10 Practical help for SMEs** - In addition to this, business support should focus on the gaps in the knowledge of business owners to aid business survival. For example, a low level of financial literacy that is not uncommon amongst small businesses. Due to the credit conditions squeezing cash flow, poor skills in this area is exacerbating their problems. While the government has offered free health checks for businesses, it should be the case that businesses do not get into the position of needing advice in the first place. The BCC is launching a series of Business Clubs, which will match expert companies with businesses who are in need of help or skills development. Through this, firms will get a practical introduction to a particular subject and the opportunity to establish a relationship with a mentor. Government should support initiatives like Business Clubs that are private sector delivered. This

may be financial particularly if there is no obvious opportunity for private investment, but it could also be public sector endorsement from a Regional Development Agency or other appropriate bodies.

## **BUILDING FOR GROWTH: MEDIUM AND LONG-TERM MEASURES**

The implementation of the below medium and long-term measures will generate the environment to ensure that the economic recovery can occur as quickly as is possible.

The BCC expect to see some of these measures implemented by the middle of this year, with plans to implement the other initiatives announced before the end of 2009.

**2.1 Reverse the Planned Increase in NICs** – The Chancellor announced in the 2008 Pre-Budget Report that he would increase employer National Insurance Contributions (NICs) from April 2011.

Unemployment is likely to rise far higher than its current level and firms should be given every incentive possible to take on staff when growth returns to the economy. Raising NIC rates, following the undoubted pain that the business community will feel in the near future, will act as a barrier to employers wanting to grow their workforce.

The Chancellor should scrap plans to increase employer NICs in 2011.

**2.2 Enterprise Zones** – Lessons should be learnt from previous recessions. 25 Enterprise Zones (EZs) were created in the early 1980s. These areas were granted:

- Exemption from land development tax.
- Exemption from business rates on industrial and commercial property.
- 100% allowances for corporation and income tax purposes for capital expenditure on industrial and commercial buildings.
- A simplified planning regime – developments that conformed with the published development scheme for each zone didn't need individual planning permission.

This concept should be updated, with areas offering economic incentives running in tandem with the bringing forward of capital investment projects.

The key benefits of previous EZs are as follows:

- Estimates have suggested that about 58,000 jobs were additional to those which would otherwise have been created in the local areas. These additional jobs were highest within the manufacturing industry.
- There were environmental benefits to the Zones through the removal of dereliction, which also impacted on companies' decisions to move to the zones.
- More than £2 billion (1994/95 prices) of private capital was invested in property on the twenty two Zones between 1981/82 and 1992/93. This represents a public to private leverage ratio of about 1:2.3.
- There is evidence that a significant number of businesses that relocated to EZs increased their productivity.

With the depreciation of the pound, there is a huge opportunity for current exporters, and businesses that aren't currently exporting but want to identify new markets. Manufacturing and exporters should be the particular focus of Enterprise Zones, with representatives from UKTI being designated to each zone.

**2.3 Transport Infrastructure Investment** – A package of capital projects should be developed to roll out as the economy recovers (inclusive of solutions to planning obstacles and logistical problems). These should be ready to start in 2011-12, as growth begins to return.

Projects take time to develop, so planning is needed now. Even with immediate start, fast-tracking of potential obstacles, such as planning restrictions, will be necessary. Therefore they will be ready to be put into operation at short notice, or “shovel ready”. This would essentially be ready-to-hand economic stimulus and, ideally, capital projects will be identified across all regions of the country.

Potential projects include:

- Expansion of the trunk road network.
- The expansion of Heathrow should be fast-tracked, as should other airport expansion, such as Stansted.
- Development of a high speed rail network.

The emphasis should be on, but not confined to the transport network. Other infrastructure that will support long term growth should be prepared, such as digital communication and wireless networks.

**2.4 International Trade** – There are huge opportunities for UK exporters to exploit, given that the increased competitive position of sterling.

In the short-term, there are difficulties associated with taking advantage of the drop in the value of the currency. The economic slowdown is global and demand is therefore weaker in the UK’s main export markets; history tells us that depreciation of the currency has led to exporters raising their sterling prices in the short-term to boost profits; and, it inevitably takes time for exporters, or potential exporters, to identify opportunity and exploit it.

Further to the benefits to exporters, a weaker pound will benefit UK producers as businesses substitute their consumption away from imports and towards domestic goods. However, this is not necessarily an instant win and the benefits will take time to filter through to the economy.

Taking full advantage requires the intervention of government. This help should include:

- Reform of UKTI programmes;
- Analysis of strategic exports to prepare for the recovery of demand in world markets (along the lines of Germany’s strategic nation exporting plans);
- Support for strategic exporting companies who are currently facing problems; and,
- “Trade Skills” National Skills Academy.

The speed of the recovery in the UK will be dependant on the speed of the recovery globally. One of the unique aspects of the slowdown is how synchronised it is around the world.

Worryingly, there have been nods towards protectionist policies in major economies. Despite statements by global leaders that this will do more harm than good, standing

firmly behind open trade is of absolute paramount importance to recovery, not least because of the increased competitive position of sterling. The BCC will be working with the International Chamber Network to mobilise business to support for trade. Governments around the world need to resist domestic political pressures for protective measures, in order to defend the recent progress made in freeing international trade.

**2.5 Training and Skills** – Train to Gain is the government's flagship programme to encourage employers to train their staff. Previously, Train to Gain would only fully fund employees who had no Level 2 qualifications (equivalent to 5 GCSEs at grade C or above). Employers did not take up the scheme in the numbers expected and there was an underspend in 2008.

Since January 2008, flexibility has been introduced that mean a wider variety of short courses are available with funding. Early analysis shows that more employers are taking up the offer because of this. However, a greater number of strategic skills courses should be covered, and that the policy of not funding people with "equivalent or lower qualifications" should be revised. Strategic skills are those that are vital to the success of the economy and are in industries that are of high value.

**2.6 Reskilling (Learning new skills)** – The Leitch review of skills argued that the British economy required extensive up-skilling (the improvement and upgrading of existing skills). However, the present economic climate is very different to that which Leitch was designed for, and now the economy will require extensive re-skilling, (the acquisition of entirely new skills), in order for people to adapt to the post recession economy.

While the government has made monies available for the unemployed, this must be separate from the Train to Gain budget, and focused on skills that will be required by the economy in potential growth industries. During the recession of the early 1990s, funding was made available for retraining, but little thought was given to the nature of skills acquired, which eventually failed to benefit the post recession economy.

## **THE ROLE OF CHAMBERS OF COMMERCE**

The British Chambers of Commerce represents 100,000 businesses who together employ more than 5 million employees. Every Chamber sits at the very heart of its local community working with businesses to grow and develop by sharing opportunities, knowledge and know-how.

The Chamber network has been pro-active in helping its members through the downturn. Examples of this, amongst others, are as follows:

- Workshops, seminars and networking events.
- Business clinics.
- Confidential help lines for business advice.
- Payment pledges.
- Training Support.
- Legal Advice.
- Help for exporters.
- The development of tools to help British businesses make contacts in foreign markets, focusing on China as the first of these markets.
- The BCC's Business Network Online will develop from its current local scope to a nationwide resource for businesses to find new suppliers and customers.

In addition to this, the British Chambers of Commerce is continuing to represent business sentiment through the Quarterly Economic Survey and its new Monthly Business Survey, which asks questions on recession specific issues. The BCC also contributes to government working groups (such as the Small Business Finance Forum and National Economic Council), set-up in light of the economic downturn.