

Building Britain's Future

June 2009



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Presented to Parliament by the
Prime Minister by Command
of Her Majesty

June 2009

This paper outlines the action that the UK Government is taking to move the UK from recession to recovery and forge a new model of economic growth; restore trust and accountability to the political system through democratic reform and renewal; and modernise our public services and national infrastructure.

Much of the work outlined applies across the UK, in those policy areas where Government's responsibilities extend across England, Northern Ireland, Scotland and Wales.

However, many other aspects of policy highlighted in the document are devolved, in differing settlements, to the administrations in Northern Ireland, Scotland and Wales. It is the benefit of devolution that the Devolved Administrations can tailor their policies and thus deliver public services to meet the specific needs of their countries.

Government and the Devolved Administrations will continue to work closely together to build a more prosperous, stronger, fairer UK, whilst recognising their particular and varying responsibilities.

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Foreword



This is a moment of profound change in our country driven by the global economic downturn and the crisis of trust in our political system. We recognise that recent events have badly shaken the public's confidence, both in the financial markets and in politicians of all parties. We will take the tough action necessary to restore confidence.

We know that bold reforms and the setting out of clear priorities – based on a new strategy for governing – are needed to restore people's trust in public life.

All of our work is driven by the best of British values – responsibility and fair play. We want those values to underpin every institution in our country – whether public or private – to keep them accountable to the people they serve.

We also know that if we take the right decisions now, we can come through these immediate difficulties and create a better future for our country. In this plan for building Britain's future we are determined to take forward the reforms of the last decade. Since 1997, we have demonstrated that strong, active government works: saving the NHS for a generation, expanding educational opportunity, a National Minimum Wage, employment rights for millions of workers, tackling child and pensioner poverty, devolution in Scotland, Wales and Northern Ireland, and ensuring that Britain is engaged in Europe and the wider world.

Equally, this Government has cut corporation tax to the lowest rate ever, helped to grow millions

of small and medium-sized businesses, and driven the expansion of both London and the regions as engines of growth in the new global economy. We have shown that social justice and competitiveness are not mutually incompatible, but two sides of the same coin. That is a record of which any government can be proud.

After more than a decade in government, I am ever more convinced of a profound but simple truth: our greatest successes and our most enduring reforms have come when we are boldest and most determined in overcoming those forces and vested interests holding back change.

We believe that dynamic markets and energetic government are more vital than ever to ensure that opportunity and security are available to everyone in our country. But the lesson of the banking crisis and the expenses crisis is that banks and politicians cannot be above the law: the work of markets and of governments have to be underpinned by the sensible, decent values of the hard working majority of families – values founded on responsibility and fair play. Indeed, we cannot be agnostic or neutral about the ethical values that are needed to underpin our banks, our politics, our economy and our society.

Our institutions must be rebuilt for the global age so that they are held to account by a set of values we can all share – based on a fair balance between duties and rewards, opportunities and obligations to the wider society in which we live. Markets need morals, and so too do government and politics.

A society based on shared values also means standing up for the British people who believe that rights and rewards have to be earned, not taken for granted. So we will fight hard to get Britain back to work. We will encourage companies to invest for long-term return, not short-term deal-making. We will strengthen communities by tackling fear of crime and disorder. We will ensure that citizenship is earned by those who give something back to the communities in which they choose to make their home. And we will fight to ensure that every British family has full access to the next generation of high-quality, personalised, public services.

When we, as a people, are optimistic about the country's prospects, Britain thrives. When we have confidence in our capacity to rise to new challenges with our genius for invention, discovery, manufacturing and trade, Britain's talent rises up. When we invest in world class public services today, we all achieve more of our potential tomorrow, and our economy grows faster. When we stand up for ordinary hard working families against the irresponsible few, our nation responds with one voice. And when we face outwards to the world, and draw on the goodwill and respect we have earned on the international stage, the world speaks with a more coherent voice and finds solutions to humanity's greatest problems.

Our task after three terms in office is not merely to defend Britain's achievements over the last decade but to work harder and drive forward so as to meet new challenges with the same sense of conviction that has always brought us through stronger. In these extraordinary times, we must fight even harder for the ordinary hard working majority:

- We will not accept those who block change or protect narrow vested interests. We embrace radical modernisation in the welfare state and public services. We are committed to an

enabling government that, wherever possible, wants national targets turned into individual entitlements in service delivery.

- We do not tax for its own sake. We govern for the whole country in the national interest. We seek support from entrepreneurs and business as well as the trade unions, and we govern with a sense of fiscal responsibility and the economic realism that comes with experience.
- We are a government of the people and serve no other interest. Our purpose remains to break down the barriers that hold people back, to extend opportunity, and to protect the most vulnerable in our society.

We will push ahead further and faster over the months ahead with a bold, reformist agenda that will build a better future for our country.

Our first and most urgent priority as we fight for the interests of the British people is to clean up our politics. Britain's future cannot be built when our politics is still governed by the rules of a Victorian past.

We stand for a decent, honest politics in this country in which politicians are dedicated to serving the public, not themselves. We are introducing legislation to create an independent regulator for Parliamentary standards, and a tough, legally binding Code of Conduct for MPs. Every claim made by MPs over the last four years will be audited: those who have broken the rules will be held to account. But we need to go further in responding to the crisis of trust in the political system, opening up our constitution and Britain's political institutions to reconnect citizens with our representative democracy. The task of modernising the British constitutional settlement is not yet complete: we must be prepared to give power away, reforming Parliament and devolving and decentralising power even further throughout our country.

We will fight hard to expand opportunities for the British people, by getting Britain back to work quickly and by developing new, stable, sources of growth. We will build Britain's future by investing in that future – all the way from guaranteeing jobs or training for young people who have been out of work for a year, to carefully targeted investments in vibrant new sectors like advanced and green manufacturing.

Above all, we will fight hard to deliver world-class public services that give those who contribute to our society a chance to get on. We stand for fair rules and believe that a strong economy and a strong society go hand-in-hand. This will involve a radical dispersal of power: in the future, patients and parents must drive the system, with real rights of redress where their entitlements are not delivered. Neighbourhood policing teams should serve, and work with, their communities by cracking down on the irresponsible few who create fear. We must ensure that everyone, not only those with wealth and privilege, is able to enjoy world-class health and education. That requires the next generation of public service reforms spelt out in this plan.

The current economic climate is not an excuse for drift or inaction, but the moment to forge a new economic and constitutional settlement for Britain. Doing nothing is not an option. To have no plan for taking us through recession or building for recovery is to fail the British people. We will not walk away from people in challenging times. We will continue to fight for a fairer prosperity and a responsible society on the basis of our enduring values. This is not a job just for the Government but for the country as a whole. Together, we can do it.

A handwritten signature in black ink that reads "Gordon Brown". The script is cursive and slightly slanted to the right.

Gordon Brown
Prime Minister

The challenges of a new era



1. Britain's place in the world is changing. Our success in responding to new global and domestic challenges will determine our future prosperity.

Meeting the challenges and opportunities of globalisation

2. The global downturn revealed fundamental weaknesses in corporate governance, financial markets, global institutions and the interdependence of nations. Its intensity has required action on an historic scale and changed our demand and conception of government's role in securing our prosperity.
3. At the same time, the potential for rapid growth in the future is huge: by 2020 China will be the second and India the sixth largest economy in the world, with 40 per cent of the world's labour force between them.¹ But the entry of China and India and other emerging economies increased the labour supply and trade and pushed down prices. The global imbalance this has created needs to unwind.
4. We also need more effective regulation of financial sectors so that systemic risk is more tightly controlled and regulated. We need the real cost of carbon emissions to be reflected in every market and investment decision. And we need to ensure that Britain is ready for the greater competition a more highly educated world will bring.
5. Countries are now more affected than ever by the decisions of states far beyond our borders, whilst new and changing security threats, climate change, and the dangers of extreme poverty and human rights abuses require a global response.
6. Events in recent months have vividly demonstrated the complexity and interdependence of the modern world. Most recently, the swine flu pandemic has reminded us of the unpredictability of global crises, as a disease swiftly transmits from one continent to another.
7. All this means that Britain's ability to shape the international agenda will depend ever more on our ability to work effectively with other countries and international institutions, rather than withdraw into isolation.

Responding and adapting to the threat of climate change

8. Climate change, driven by human activity, is the greatest long-term threat facing the world today. The potential costs of climate change are huge, estimated at up to 20 per cent of global GDP. Taking action to mitigate it is possible, but will require decisive action in every country. Britain will also need to act to protect vital infrastructure, including transport and energy, from the unavoidable impacts of climate change. Putting adaptation at the heart of the planning system will be critical to guard against the increased risk of flooding and storm damage.
9. It will also require changes in attitudes and behaviours across the public and private sector, and in people's own lives. But Britain

should also look to take advantage of vast new markets in environmental technologies (with the global carbon market valued at \$30 billion) and lead the transition to a low carbon, resource efficient economy.² 400,000 people in the UK already have jobs in environmental goods and services, and this market is expected to at least double in size over the next ten years.³

Restoring public trust in politics and democracy

10. The revelations around MP's expenses demand urgent reform but they have also brought the longer term problem of public disengagement from politics into a sharper focus. There is an increasing alienation in political and civic participation – with the young and disadvantaged half as likely to participate in politics as other groups.⁴ People increasingly feel they are not able to influence political decisions, and are less willing to take things on trust.
11. This demands further democratic and constitutional reform, and the reform of government institutions, which need to provide increased opportunities and influence for people to be involved in decision-making (nationally and locally). It demands a response to public calls for greater transparency and accountability in all areas of life, driven by the internet, a more questioning media and a decline in deference to authority. Without a genuine stake and a real say in the decisions that affect people, cynicism and disengagement will grow.

Meeting rising expectations of public services

12. Public and individual expectations of public services will continue to rise. People will increasingly access information and opinion from more diverse sources, impacting not only on their attitudes, but also their values, expectations and behaviours. Our public services must match these changing

aspirations, and not settle for delivering the minimum.⁵

13. But responding to these higher expectations, must not come at the expense of ensuring that services are universal, and that everyone is given a fair chance. For example, in our education system, gaps persist in the likelihood of success between people with different social, economic, ethnic and other backgrounds, so we need a school system that delivers excellence for every child, not just the majority. The potential benefits are enormous: countries with strong investment in early years rank highly on measures of educational excellence and equity, laying firm foundations for future growth.⁶ So reform must ensure that public services are the engines of fairness and opportunity, as well as growth.

Supporting families in an ageing society

14. Demographic change will bring a complex set of challenges. In 2007 the UK went through a demographic tipping-point – the number of people of working age compared to those over State Pension age began to decline for the first time in 25 years.⁷ By 2020 the number of people over 85 is expected to grow by 50 per cent. This is a profound shift that will create new opportunities; older age can become a time of leisure and liberation as we live longer and enjoy healthier lives. New jobs are created to provide the services and facilities that older people need; new ways of working that better suit an ageing society will be established. But this will also add further pressures to health, social care and other services.
15. At the same time family life will continue to change with average family size continuing to get smaller, more women delaying or having no children, more people living alone or further from family. All of this has diverse and complex impacts on housing demand, childcare needs and wider services.

But despite all these changes we know that good family relationships remain crucial to wellbeing and quality of life.

16. These trends are in turn placing new pressures on family life, as hard pressed parents try to reconcile the demands of new patterns of work with their responsibilities to care for both their children and elderly relatives. New forms of family life are emerging as relatives and friends help each other to cope with the stresses and strains of modern life. So this can mean greater pressure on families themselves as well as public services, for example as the numbers of people with greater health and care needs grows, demand for informal care from family, friends and community members is projected to rise by 40 per cent by 2022.⁸

Strengthening civic responsibility

17. Whilst long term trends suggest people are becoming more aspirational, less deferential and more assertive of their individual identities, they still look to the wider community for shared values and social bonds.⁹ People remain strongly concerned about the places where they live, work and play. They are especially interested in things that are close to home – such as how safe their streets are, how clean the environment is, and how good local schools are.¹⁰
18. At the same time, increasing population diversity, rising mobility, easier communications, and better technology are all likely to impact on the places we enjoy living in and how we feel about our local neighbourhoods.
19. Given these social and demographic changes, a key challenge will be to find ways of renewing a strong sense of community. Government's role is not just the drive to improve the material quality of life and the security of local people, but to enable the majority to assert the common values of decency, respect and responsibility which are

the foundations of a strong community. In a minority of communities where there are disproportionately high levels of anti-social behaviour, local people can feel that these values are being undermined and quality of life threatened. The tough action we are taking on anti-social behaviour is critical to maintaining a strong sense of community.

20. We must also ensure that in every community, our national policies such as managing migration or building and allocating social housing, are tangible, real, and seen to be fair. When we are treated fairly we naturally treat others in the same way: but when a minority break the rules, try to cheat the system, or fail to contribute, the majority rightly expect a tough response: that is what fairness demands. Our society and our communities are strongest when those who work hard and play by the rules have a say in how their communities are run. This is the best way to ensure that people have institutions they can rely on and that we all have a fairer, more responsible society in which talent and hard work are rewarded.

Building Britain's future

21. This plan sets out how we will work with the British people to respond to these challenges over the coming months and years, building on a clear understanding of how the world is changing and the opportunities this brings. The energy of the government in the years ahead will be focused on three clear priorities:
 - Cleaning up politics and reforming our democracy
 - Taking Britain out of recession into recovery, so as to put in place the conditions for future economic success; and
 - Further reforming Britain's public services and modernising our national infrastructure.

Real help now that builds a stronger Britain



Summary

The global downturn has affected every country in the world with many, like Germany and Japan, experiencing severe falls both in output and employment. No government can fully protect people from its impact. But the decision to act now, and the action we take will play a key role in helping people through the recession and shaping Britain's future.

Past recessions have often seen long term unemployment turn into permanent worklessness, with repossession affecting families and communities, and otherwise decent businesses having to close. We have learnt these lessons and taken action to ensure that people and businesses do not bear the full impact of an economic storm that was not of their making.

Thanks to a strong and flexible economy, and high employment levels, Britain will be well placed to recover from the downturn. In the first quarter of 2009 the UK contracted at a slower rate than many European countries with UK GDP falling by 1.9 per cent compared to a fall of 2.5 per cent for the Euro area.¹

Our response to the downturn has been comprehensive. Since the causes of this crisis are international, we have acted internationally. To protect the British economy and thousands of jobs, we have acted to stabilise the financial system. And we will act to ensure that it is properly regulated in future. To help maintain demand we have temporarily reduced VAT and brought forward public investment. We are helping businesses with cash flow and credit so

they can come through the recession and grow in the future. We are helping people who lose their jobs with concerted action to ensure that short term joblessness does not become long term unemployment. And we are helping those in difficulties with mortgage payments so that people can stay in their homes and investing to help the housing market recover quickly.

Looking ahead, we will continue to do everything necessary to make sure that people receive the real help they need to come through the recession and build a stronger, more prosperous future.

So this year **we will guarantee a sixth form, college or apprenticeship place to all school leavers. From next year every young person under 25 who has been unemployed for a year will be required to take up a guaranteed job, work experience or training place. The £1 billion Future Jobs Fund will provide 100,000 jobs for young people and a further 50,000 new jobs in areas of high unemployment. Adults who have been unemployed for six months will get access to jobs supported by recruitment subsidies, help setting up a business, skills training or volunteering opportunities.**

And a combination of public and private investment in the economy will ensure that it can create 1.5 million new skilled jobs in the coming years, enabling us to move back towards full employment in the next Parliament.

We have already committed to investing an extra £1.2 billion this year to build new houses.

But to ensure that we meet the needs of young families across the country, we will expand this building programme by investing a further £1.5 billion over the next two years to deliver 20,000 additional energy efficient, affordable homes to rent or buy. This housing investment package will also create an estimated 45,000 additional jobs in the construction and related industries.

A national response to a global crisis

1. The financial crisis of the last year has swept through a global economy that is deeply interdependent. From its origins in the US sub-prime mortgage market the crisis affected first financial markets and then, through a sharp contraction of credit and demand, the real global economy.
2. World trade has been severely affected, with the IMF forecasting that global GDP will fall by 1.3 per cent in 2009², the first time the global economy has contracted since World War II. The net result has been extremely steep falls in industrial production in many countries, with advanced economies being hit the hardest. In the first quarter of this year output fell by 6.9 per cent in Germany, 8.4 per cent in Japan and 4.3 per cent across the G7 as a whole compared to the previous year³. In 54 out of 57 countries for which data is available, industrial output fell in the last three months of 2008. This has led to steep rises in unemployment with unemployment rates almost doubling in the US, Spain and Ireland and the US rate now at a 26 year high.
3. While world trade has been hit hard, UK exports have been hit less hard than in many other major economies. In the year to April, German exports fell by almost 29 per cent, Japanese exports fell by 32 per cent and Chinese exports fell by 26 per cent. UK export volumes are 13 per cent lower than April last year.⁴
4. No country could avoid being affected to some degree. This is particularly true of the UK: our position as a leading financial and trading centre means that while we benefit so much from global prosperity in good times, we remain linked to the global economy when times are tougher.
5. However, Britain entered recession from a strong starting point, with low levels of debt by OECD standards, high employment, low inflation and interest rates, a skilled workforce and flexible labour markets. Since 1997 the UK experienced the fastest average productivity growth of all G7 economies. These strong economic foundations meant that we have been able to invest to protect the economy. In the first quarter of 2009 the UK contracted at a slower rate than many European countries with UK GDP falling by 1.9 per cent compared to a fall of 2.5 per cent for the Euro area.⁵
6. Because this global crisis requires global solutions we have worked with Europe, the G8 and the G20 to coordinate a Global Plan for Recovery and Reform to ensure that we do whatever it takes to stabilise the global economy and restore jobs and growth.
7. And we have worked with Europe, the G8 and the G20 to ensure that our approach to boosting the economy, including through giving extra support from the public finances, has been adopted internationally as the essential step to steering the global economy through the downturn. As the Managing Director of the International Monetary Fund has said, the “UK was probably the first country in doing the right thing and they have shown a lot of leadership on this question”⁶.

Protecting savers and stabilising the banks

Stabilising the financial system

8. The world economy was hit by a succession of economic shocks during 2007 and 2008. Starting in the US sub-prime mortgage market in mid 2007, the global credit shock caused a tightening of credit conditions and a number of bank failures across advanced economies.
9. The UK's first priority was to prevent the British banking system from collapsing. We took bold action to get us through this financial crisis and are acting now to make regulation more effective in the future.
10. The Government demonstrated its commitment to protecting retail depositors by preventing the collapse of Northern Rock in February last year.
11. Subsequently, the Government took further decisive action. Instead of standing back and allowing the financial system to collapse with devastating consequences for businesses and individuals following the collapse of Lehman Brothers, we intervened decisively, leading the world in recapitalising the banks and bringing in an innovative way of guaranteeing new bank lending (via the Credit Guarantee Scheme). In October we took a stabilising equity stake in RBS, Lloyds and HBOS. This was no 'bail-out': it was a commercial investment in the banks in return for shares.⁷ It came with strict requirements that banks maintain lending.
12. Then in January 2009 to further boost confidence to lending markets, the government launched the Asset Protection Scheme (APS) which insures lenders against potential bank losses and in doing so encourages a return to normalised lending and capital markets. The lending commitments associated with the APS put a legal obligation on banks and will ensure that over the 12 months from March this year, RBS

and Lloyds will lend, on a commercial basis and subject to demand, an extra £27 billion to businesses and £12 billion for mortgages.

Improving regulation

13. We have gone further to ensure that our financial system does not again get into such difficulties. The Banking Act of 2009 created new powers to resolve failed banks via the Special Resolution Regime and we have published a new tax code for banks so that they change behaviours and attitudes towards tax avoidance. It introduces a new level of transparency and attributes direct reputation risk to any bank that does not sign up.
14. We have set up the Walker review to ensure that far more responsibility over risk is taken in the boardroom, improving corporate governance in the financial sector, while the Financial Services Authority is reviewing compensation to ensure that financial companies design their rewards systems to incentivise only sustainable, long-term profitability and take full account of risk. As a lead stakeholder in several banks the Government will ensure that there will be no taxpayer-funded rewards for failure.
15. In addition we have worked hard internationally, in particular through the G20 process, to ensure that we have global standards and harmonised rules. This includes strengthening cross-border supervision (via colleges of supervisors), tackling tax havens via a new OECD code and moving to strengthen financial regulation within the EU while respecting the national fiscal authority of member states.
16. The forthcoming Financial Services White Paper, building on all this work and that of the Turner review of March 2009, will bring together our analysis, including on key issues like macro-prudential regulation. The White Paper will help lay the foundations of a new financial regime. The solutions must be based on better corporate governance, better

systems for dealing with bank failure and greater focus on system-wide risks.

17. Without our action to stabilise the financial system, it is likely that the recession would be more severe today. Without strong action to reform financial regulation, investors, businesses and families could not go forward to build the recovery with the confidence that the banking sector is there to serve them.

Maintaining demand in the UK economy

18. We acted quickly to make the recession as short and shallow as possible with a combination of tax cuts and investment brought forward. These measures help pay for themselves, as they limit increased spending on unemployment and the fall in tax receipts. The UK's leadership at the London Summit of the G20 nations was a crucial part of building a concerted and coordinated global stimulus, so that each country benefits from stronger demand in both domestic and export markets and we avoid a vicious circle of declining expectations and cautious spending resulting in lower growth.
19. In the 2008 Pre Budget Report we provided a £20 billion boost to the UK economy primarily through a temporary cut in VAT and bringing forward public investment in infrastructure projects. The Centre for Economics and Business Research has said: "Our calculations suggest that retail sales for the year are likely to be £8-9 billion higher than would have been the case without the VAT cut. The VAT cut therefore appears to be good value for the taxpayer".⁸
20. Our action to maintain demand has been backed up by a coordinated response from the Bank of England. Interest rates have fallen from 4.5 per cent in October 2008 to 0.5 per cent in March 2009. In March we authorised the Bank to inject up to £150 billion into the capital markets to ensure falling inflation does not act as a brake on the economy.
21. Using the public finances to support the economy in the short term has been critical to preventing a deeper slump in demand in the UK, with all that implies for the erosion of our productive base, businesses and skills and hence of the size of the debt. We must continue to place sound public finances at the heart of our economic strategy but we must do that in an economically sensible way. As experience in the past from Japan and other countries has shown, to begin to tighten fiscally too early could prolong and even deepen recession so we have stuck to our spending plans, while bringing forward some capital spending from 2010/11 to 2009/10 to help get us back to growth faster.
22. Our budget projections are for continued rises in total current spending this year and next so that we support the economy through the recession. We have increased investment in our frontline services this year and our plans for 2010/11 show we are able to make £5 billion extra efficiency savings while protecting the increased budgets promised to schools, primary care trusts, the police and local government. Our budget projections are for continued real terms growth of 0.7 per cent in current spending from 2011/12 onwards.
23. We have set out our intention to pursue £16 billion of asset and property disposals over 2011/12 to 2013/14. These disposals will allow us to free up additional resources on top of capital budgets to fund investment priorities. To assist in driving delivery of this agenda the Shareholder Executive will be strengthened by the appointment of a Board of external experts, including Gerry Grimstone and Lord Carter of Coles, to oversee this work. The Board will advise departments on making the best use of their property assets and identify further surplus assets, assist with overall portfolio coordination across the wider public sector; act as a source of expertise, for example in formulating and appraising

disposal commitments, alternative financing options and incentive structures; and support complex land and property transactions and help manage disposals into the market.

24. To ensure sound and sustainable public finances in the medium term once economic shocks have worked themselves through the system, the Government has set out in the Budget plans that will halve borrowing within five years, and ensure debt is on a declining path in the medium term: debt will be falling as a proportion of GDP once the global shocks have worked their way through the economy in full. Our plans for future public spending will support the resilience of the UK economy and help deliver these sustainable public finances. Over the next decade the key driver of sound public finances will be the speed and strength with which the economy recovers. That is why Chapter 3 sets out our new drive for growth in a post-recession era so that we make the most of global opportunities and lead the world in the sectors of the future. And it is why we are taking radical action, as set out in this chapter, to prevent short term unemployment turning into widespread inactivity.

Providing real help now to people and businesses

Real help for businesses under pressure

25. Our help for business through this crisis has had three clear aims: first, to ensure the banking system continues to provide credit to businesses that depend upon it to fund their investments and day-to-day activities; second, to deliver targeted specific interventions to improve cash flow and working capital; and third, to encourage investment so that businesses come through the recession ready to grow and take advantage of new global and domestic growth.
26. The Government's focus, through the bank recapitalisation programme and the introduction of the Credit Guarantee and Asset Protection Schemes has been to ensure, first, that the banks have sufficient capital, funding and liquidity and, second, that they utilise this to lend to individuals and businesses. As set out above, the Government has secured binding agreements with Lloyds Banking Group and Royal Bank of Scotland. In addition, major UK banks whose capital and balance sheets are not directly supported by the Government have also announced increased lending. For example, Barclays announced £11 billion of additional lending to be split equally between mortgage and business lending, while HSBC has announced that it will lend up to £15 billion to homeowners in 2009. This means around £50 billion in additional lending by the main banks above their 2008 levels of lending.
27. The Government monitors lending regularly and has established a Lending Panel of major banks and Ministers to monitor the flow of lending and recommend action to increase lending where necessary.
28. These overarching measures to repair the banking system are designed to ensure appropriate lending to businesses on commercial terms: it is not government policy, and nor would it be viable, for government to substitute for commercial bank lending. However, we recognised that certain market failures persist and have therefore introduced a number of targeted schemes.
29. We have put in place the Enterprise Finance Guarantee to encourage banks to lend to more businesses by guaranteeing a large part of the loan. This scheme has already agreed or is processing £490 million of loans to over 4,000 companies who would have otherwise been too marginal for bank lending.
30. We have established a working capital scheme to free bank capital for additional business lending. And because it has emerged that a major constraint on working capital

has been the reduction in credit insurance provision, we have allocated up to £5 billion from the working capital scheme to support a top up trade credit insurance scheme. This will provide extra cover to give businesses the confidence to offer credit to those placing large orders with them by insuring against the risk of non-payment.

31. The Transition Loan Funds have maintained lending to businesses in each Regional Development Agency's area, and are estimated to have helped save over 7,000 jobs.
32. This has been backed by a range of further support for businesses under pressure. As of 14 June, an estimated 140,000 businesses have deferred £2.6 billion in business taxes through the HM Revenue and Customs Business Payment Support Service. An estimated 140,000 loss-making businesses will be helped by changes to rules that allow them to temporarily extend trading loss carry-back from one to three years for losses up to £50,000. The Government is also allowing businesses to spread this year's business rates inflation up-rating over three years.
33. The Government has committed to making all its payments to suppliers within 10 days.
34. The Capital for Enterprise Fund was established at the 2008 Pre Budget Report and offers £75 million investment for potentially high growth businesses that cannot attract finance from other sources.
35. We have taken action to address the exceptional challenges faced by UK-based automotive companies and their supply chains. Our action reflects the fact that while the UK automotive car sector clearly needs to invest heavily in order to maintain future competitiveness, the UK should not allow the recession to destroy its viable productive base. After discussions with car makers, suppliers and unions we developed the Automotive Assistance Programme (AAP)

to provide loan guarantees that could enable lending of up to £2.3 billion to the sector, with the condition that investments be made

in the transition to lower carbon vehicles.

We also created a temporary, but already very successful, Vehicle Scrappage Scheme, which offers a £2,000 discount on the purchase of a new car and has already resulted in nearly 90,000 orders, providing a vital lifeline for manufacturers and the UK's car dealer network.

36. We have also taken action to encourage business investment through the downturn. This includes the introduction of a first year capital allowance of 40 per cent for one year with effect from April 2009, which will mean that firms investing over £50,000 in qualifying plant and machinery in 2009/10 will benefit from a higher rate of tax relief on investment. This will support around £50 billion of investment in 2009/10.
37. The ability of businesses to access key export markets is central to the UK's economic recovery. The Export Credits Guarantee Department (ECGD) is already consulting on a new 'letter of credit' facility to help exporters ensure that they are paid when their goods are shipped and is working on the future of the international trade credit market with the private credit insurers.⁹ The Government is also reviewing whether ECGD's operating framework has the necessary flexibility to provide exporters with the support they need, and will propose reforms in the autumn.

Real help for people out of work

38. The lesson from previous UK recessions is that government has a critical role to play in ensuring that those who find themselves without work in a downturn can access help in retraining and finding new employment. The Government is committed to ensuring that a cyclical rise in unemployment because of this recession does not result, as it has before, in people drifting over time into

long term unemployment and dependency on sickness and disability related benefits. Britain simply cannot afford to lose a generation of young people to unemployment.

39. These lessons have been built into our economy over the last decade. Our labour market reforms have created a more flexible job market that continues to create vacancies all over the country, and our welfare reforms have created a more active and supportive welfare to work system.
40. To help as many people as possible return to work quickly, we are investing an extra £5 billion to help people back to work. This includes £3 billion being invested in JobCentre Plus and other contracted providers; guaranteeing new support from day one, including help with writing CVs and applications. We are quadrupling funding for the JobCentre Plus Rapid Response Service; we recruited 6,000 extra staff for Jobcentre Plus by April with plans to recruit another 10,000 by autumn. Over 300,000 people are currently leaving Job Seeker's Allowance each month, while over 10,000 new vacancies are being notified to JobCentre Plus every working day. Around half of new claimants leave Job Seeker's Allowance within three months and three quarters within six months, and the number of people claiming inactive benefits is not rising, as it did in previous recessions.

Investing for a return to full employment

41. The challenge of returning Britain to full employment will be one of the defining missions for the Government over the next five years. It is not just a moral and social priority but also one of the critical challenges to ensuring medium-term stability in the public finances.
42. So this year **we will guarantee a sixth form, college or apprenticeship place to all school leavers. From next year every**

young person under 25 who has been unemployed for a year will be required to take up a guaranteed job, work experience or training place. The £1 billion Future Jobs Fund will provide 100,000 jobs for young people and a further 50,000 new jobs in areas of high unemployment. Adults who have been unemployed for six months will get access to jobs supported by recruitment subsidies, help setting up a business, skills training or volunteering opportunities.

43. And a combination of public and private investment in the economy will ensure that it can create 1.5 million new skilled jobs in the coming years, enabling us to move back towards full employment in the next Parliament.
44. To give more young people the skills they need to find work, we have provided £650 million to support the September guarantee of education and training for all 16 and 17 year olds who want a place. We have increased funding to create 35,000 new apprenticeship places, taking the total number to over a quarter of a million for the first time. And we want to ensure apprentices have a fair deal while avoiding undue burdens on business so we have already increased minimum pay and have now asked the Low Pay Commission to consider introducing a National Minimum Wage for apprentices.
45. Later on this year, we will consult on proposals to reform Housing Benefit to make it fairer, ensure it encourages people into work and supports access to decent, affordable housing.
46. Through a £1 billion Future Jobs Fund we will work with local authorities, social enterprises and the voluntary sector to create 100,000 jobs for young people and a further 50,000 jobs specifically targeted at unemployment hotspots. These will last

for at least six months, be paid at least at National Minimum Wage, deliver real benefit to local communities and underpin the Young Person's Guarantee.

47. The Government will set out further proposals for supporting a return to full employment in a joint Treasury, Business, Innovation and Skills and Department for Work and Pensions White Paper in the autumn that will set out: how we can best focus and manage our skills investment to help people get back to work; strengthen links with employers at local level, looking at how Jobcentre Plus, through Local Employment Partnerships, and local authorities engage with employers; strengthen work incentives within the welfare system and across the income distribution as a whole, including looking at how we can ensure that everyone who is unemployed will be better off in work; and what further support we can provide to support employment for all of those on benefits, including what further role the childcare system can play. The White Paper will set out plans for major reform across these overlapping areas in time for the Pre-Budget Report and will form a central component of our plan to provide medium term stability in the public finances, by delivering savings as the economy recovers through reducing the costs of welfare, and will build on the pace of reform set out in *Raising expectations and increasing support: reforming welfare for the future*.
48. Our investment in skills and jobs programmes will provide people with opportunities to gain experience which will be needed in the economy and public services of the future, such as low carbon, digital and new technologies and the care sector.

Real help to help people keep their homes

49. This support for employment and business will help Britain return to growth quickly. However because the housing market underpins

economic confidence we have also taken action to help prevent the hugely damaging effects of double digit interest rates and the surge in repossessions that characterised the early 1990s, when repossessions reached 75,500 in 1991. Even with a million more homeowners now than in 1991, we are working hard so that this year's repossessions will not reach these levels and welcome the recent reduction by the Council of Mortgage Lenders of its repossession projections for 2009 to 65,000 from 75,000.¹⁰ We have taken six major steps to keep people in their homes and support the housing market:

- We are working to strengthen protection through the courts. A new mortgage pre-action protocol issued last November means lenders must treat their customers fairly and treat repossession as a last resort;
- We have reformed support for Mortgage Interest for people out of work to help meet their mortgage interest payments, reducing the waiting period to 13 weeks and raising the amount of support to cover loans of up to £200,000. This scheme is already helping over 200,000 households stay in their homes;
- We have created Homeowners Mortgage Support, which allows households suffering a temporary fall in income to defer some of their mortgage interest payments for up to two years while they get their family finances back on track, as long as they can pay at least 30 per cent of the monthly mortgage interest payment;
- We have created the Mortgage Rescue Scheme which will allow up to 6,000 eligible vulnerable households to either sell a part share in their home and reduce monthly payments or sell their home and remain in the property as a tenant paying an affordable rent;
- We have taken action through the Financial Services Authority to ensure responsible lending and the fair treatment of customers, which has been taken further by mortgage

trade associations agreeing a number of voluntary initiatives to extend forbearance; and

- We have provided £15 million for debt advice services and a support desk in nearly every court to provide free advice to people working to keep their homes.

A more affordable housing market for the future

50. This support, combined with record low interest rates will help ensure that repossessions remain as rare as possible and help stabilise the housing market to create a stable platform for growth. But as we look ahead, we need to take action to ensure that house building picks up rapidly in a recovery.
51. We have introduced a stamp duty holiday on property sold for £175,000 or less and we are increasing mortgage finance with the Mortgage Backed Securities Guarantee scheme.
52. In addition to the £8 billion we are investing between 2008/11 in affordable housing through the Homes and Communities Agency's Affordable Housing Programme, in this year's budget we announced £500 million of new money to support housing construction in local communities, including a £400 million housing kick-start scheme which will deliver up to 9,000 additional homes and get building work restarted across the country. We are also investing £100 million in new council-built and owned social rented homes, which will meet high environmental standards. This funding, for provision of both social rent and low cost home ownership, represents a 50 per cent increase on the previous three years' investment.
53. These programmes to increase housing supply will mean there are more houses. But we also need to make them more affordable. So we are building on our work to help over 110,000 households into home ownership through shared ownership and shared equity over the past 10 years, through our "Homebuy" Low Cost Home Ownership programmes. These enable families to buy a stake in their own home, and get onto the property ladder.
54. **We have already committed to investing an extra £1.2 billion this year to build new houses. But to ensure that we meet the needs of young families across the country, we will expand this building programme by investing a further £1.5 billion over the next two years to deliver 20,000 additional energy efficient, affordable homes to rent or buy. This housing investment package will also create an estimated 45,000 additional jobs in the construction and related industries over the full three-year construction period.**
55. This pledge marks a new role for local authorities in the delivery of housing, making them key to Building Britain's Future. This package will enable local authorities to build 3,000 additional council homes over the next two years. A four-fold expansion of the scheme announced at the Budget. In addition this package will also deliver 10,000 new homes for private sale on mixed tenure developments. Overall, the package will be delivered by:
- Expanding the programme announced in Budget to enable local authorities to deliver an extra 3,000 new council social rented houses.
 - Expanding the existing affordable housing programme to enable Registered Social Landlords to deliver up to an additional 12,500 affordable homes;
 - Expanding the Kickstart Housing Delivery programme that aims to unlock stalled housing sites, with the aim of delivering an additional 13,000 homes, of which 4,000 will be affordable; and
 - Investing in the development of public sector land owned by the HCA to deliver an additional 1,250 units of which 500 will be affordable.

56. But, as we provide this new housing we must not forget about the need for quality and sustainability. We have set a ground breaking target for all new homes to be zero carbon from 2016, and are making this a reality. We published on 18 June detailed proposals for the first step, a 25 per cent improvement in the energy efficiency standards of new homes from 2010, cutting energy bills and reducing carbon emissions.
57. Alongside this, our eco-towns programme will mean a new generation of environmentally friendly new towns over the next decade. The first new towns since the 1960s to be built in England, they will be zero-carbon developments ensuring high levels of sustainability, while maximising affordability.
58. Good quality housing and urban infrastructure is an integral part of a strong community. It sends a powerful message about the pride people feel for their local area and contributes to a culture of prosperity. Learning from previous recessions, we will continue to invest in the communities that need our support most, not allowing them to become run down. We will spend more than £6.5 billion over the next two years to promote the growth and regeneration of our cities, towns, and communities and to prepare them for the upturn. And as we set out in the PBR, we have brought forward £180 million to support key regeneration projects threatened by the economic downturn. Chapter 6 sets out how we will match our new investment in social housing with continuing reforms that deliver value for money to the taxpayer and recognise the rights and responsibilities of those living in social housing.
- in people's pockets and ensuring that they have access to the credit they need. We put pressure on utility companies to pass on falling energy costs and on banks to pass on lower mortgage rates.
60. In September and April we increased tax free allowances on income tax so that 22 million people are on average £145 better off per year. We raised child tax credit so that 3.9 million families per year are £150 better off.
61. As a result of government pressure on mortgage lenders and the Bank of England's action the 4.5 million people on tracker mortgages are saving an average of £230 a month.
62. To help pensioners get by we have increased the Pension Credit standard minimum income guarantee from April so that no single pensioner will now need to live on less than £130 a week. In addition we made a payment of £60 to all pensioners in early 2009 which took the total value of the Christmas bonus to £70 last winter. From November 2009 we will help another 500,000 pensioner households by an average of £4 a week by increasing the capital disregard in Pension Credit, Housing Benefit and Council Tax Benefit for Pensioners to £10,000.
63. Although falling interest rates are essential to boosting the economy they also have an impact on those who rely on income from their savings. So we are raising the tax free ISA limits for people aged 50 and over to £10,200 (up to £5,100 of which can be saved in cash) from October 2009. We are extending these increases in the ISA limits to everyone from 6 April 2010.

Real help for those who need it most

59. Our measures on getting Britain back to work and restoring the health of the housing market will lay the foundations for future growth. To help people feel confident in the future, we are also putting extra money
64. People on low incomes who depend on credit have also been particularly affected by the credit crisis. Exploitation of vulnerable consumers by ruthless loan sharks and credit companies is completely unacceptable and is

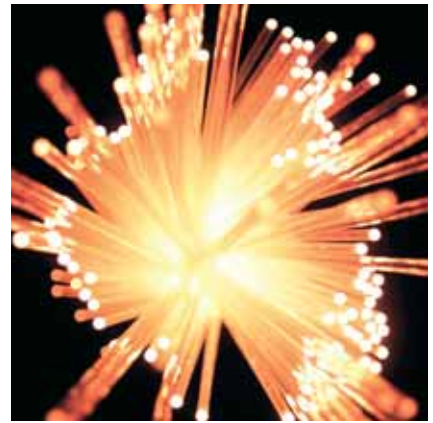
now the subject of a concerted government campaign. Illegal Money Lending teams will crack down on loan sharks and a single number helpline is available for concerned borrowers. Debt relief orders now allow debts to be written off, and there is now extra breathing space for consumers overburdened with arrears on their utility bills and other unsecured debts. We have announced we will legislate to prohibit the aggressive practice of sending unsolicited credit card cheques. In the forthcoming Consumer White Paper we will set out plans to make the relationship between lenders and consumers fairer and more transparent.

65. At the Budget we announced that an extra £270 million will be allocated to the Social Fund to fund around an additional two million loans over the next two years. The Government also committed an extra £18.75 million for the Growth Fund to support credit unions and so help those on low incomes who cannot get the credit they need. This will fund an extra 85,000 affordable loans to people on low incomes.
66. For those struggling with debts or worried about their finances we are also increasing free financial advice, funding more advisors at the National Debt line and extended opening hours for the Citizens Advice Bureau. From next year we intend to roll out the free Money Guidance service, if it proves to be effective. And looking further forward, we will introduce The Saving Gateway nationally, with the first accounts available in 2010, to encourage saving for those on lower incomes and to promote engagement with mainstream financial services, with eight million people eligible.

Conclusion

67. The measures outlined in this chapter show how we have taken a clear and considered response to the recession. We have acted to stabilise the banking system and support demand in the economy. We have also provided real help to people and business to weather an economic storm.
68. That help has addressed the challenges of maintaining decent businesses and helping people return to employment and keep their homes. It has also looked forward: to the skills and investment we will need to prevent long term unemployment and to build the businesses of the future. It is laying the foundations for a stronger and more prosperous Britain.
69. As the economic situation develops over the coming months, we will continue to take an active approach to providing the support that people and businesses need. Where help is no longer needed we will end programmes, where more is required we will reprioritise investment accordingly. We will balance the action we are taking now with measures which will ensure sound public finances to underpin the UK's economic recovery.

Investing for the future: Building tomorrow's economy today



Summary

This chapter sets out the Government's vision for the British economy over the next decade. Our aim is to put in place a framework to underpin sustained economic growth and high levels of employment in the medium term. We need to ensure that after the recovery Britain's economic base remains highly competitive within a rapidly changing global economy. And we need to meet the challenge and exploit the opportunities of building a low carbon economy. We will create good, skilled jobs that provide those on middle and modest incomes with rising living standards, as well as the confidence that they are equipped with the skills required in the labour market of tomorrow. Our new growth model is about increasing investment and up-skilling our people, industries and services so that we become ever more productive as a nation. This new drive for growth and jobs, based on increased investment, is at the heart of our plan for ensuring that Britain comes out of the recession a stronger nation with sound and sustainable public finances, ready to take full advantage of the opportunities of the future.

The progress made over the last ten years to create a productive and diversified economy has helped the British economy to remain resilient in the face of the global recession. As Chapter 2 highlights, the reduction in output has been less severe than that in many other industrialised nations, and the evidence is that although the recession is imposing serious hardship on many companies and people, our underlying strengths remain and provide a sound base from which we can now build.

Building for the future is the next great economic challenge for Britain. So to secure continued, investment-led economic growth we will ensure the stability of the financial system and make it work better to support investment and business; reform our approach to skills; secure the modern network infrastructure that our economy will need to thrive in the future; allow our regional economies and our city regions to become engines of growth; and adopt an activist approach to industrial policy with a focus on key markets and sectors with demonstrable potential for growth.

We will pursue a new, more active industrial policy to drive growth and create the high-value jobs of the future.

We will invest to ensure that Britain can lead in the new industries of the global economy, ensuring broadband access for all by 2012 and working towards a nationwide high-speed broadband network by 2016.

We will ensure that Britain's economy is underpinned by a world class modern infrastructure and that we have world-leading capabilities in the 'network' industries of the future – low carbon, biotechnology, life sciences, digital, advanced manufacturing and financial services. To support the key technology-based sectors of the future we will establish a new £150 million Innovation Fund which will over time lever in up to £1 billion of private sector funding.

To ensure the renewed British economy is a green one, we have set the world's first legally-binding carbon targets, cutting UK

emissions by a third over the next decade. We are investing in energy efficiency and the next generation of renewables, nuclear and clean coal technology to make Britain a global leader in low carbon industries.

As part of our continued shift towards low carbon modes of transport, we will shortly set out plans for a major programme of rail electrification and in the coming year we will publish a feasibility study for a new North-South high speed rail line.

These are the foundations of Britain's long-term prosperity.

Why is a new approach needed?

1. The Government's policies since 1997 helped build strong conditions for growth. We acted swiftly to secure macroeconomic stability which helped deliver a long period of low inflation and low interest rates. We went for bold micro-economic reform to boost productivity and growth through the drivers of productivity – for instance bringing in R&D tax credits to boost innovation; a big expansion in skills training and education more generally to boost human capital; a major stepping up in the competition regime; and substantial and sustained increases in investment in science.
2. These policies helped produce a strong record on growth and productivity. We grew by an average of three per cent a year, with our per capita growth outstripping even the United States. But the global financial crisis was a major shock that has inevitably pushed us back. While it does not undermine any of our previous approaches, it has revealed that we need better regulation of our financial markets and has required us to look again at how effectively our financial system supports productivity and real business growth and innovation. And it has made us reflect on what the new challenges are and hence what our approach to growth needs to be as we move forward.
3. Our new investment-led growth model will have a number of important drivers:
 - The need to ensure that UK firms and workers have the capacity to secure comparative advantage at the top of the global value chain, as the global economy returns to steady growth. Our tailored approaches in the key global network industries of the future like digital, life sciences and low carbon will support this and we will work to ensure we have world class infrastructure as part of a world-leading environment for business;
 - The need for UK firms and workers to respond to the transformation in technologies, above all the shift to low carbon. Our new Innovation Fund will foster early stage technology businesses with real potential;

Strategic Investment Fund

Budget 2009 announced a Strategic Investment Fund of £750 million. This is being invested over the next two years with £250 million going to low carbon projects which, Combined with separate funding of £155 million for DECC, also provided in the Budget, will mean £405 million of extra funding to support the development of the low carbon energy and advanced green manufacturing sector in the UK. £50 million of the Strategic

Investment Fund is being invested through the Technology Strategy Board, including additional support for the UK's transition to low emission vehicles, while UK Trade and Investment is investing £10 million in additional support for exports. Decisions on how to use the remainder of the fund will take account of the Government's other commitments to support advanced industrial projects, and will be announced in the months ahead.

- The need to improve productivity in all sectors including those going through structural change and in the non-traded areas, so that we can raise living standards;
 - The need to ensure that the UK economy remains resilient and diversified, both regionally and in the balance of sectors and markets; and
 - The need to ensure public spending supports areas of growth and the development of our productive base where industrial policy pays for itself through higher growth in the future. Our support for science, research and development and skills is a vital part of our effort to ensure Britain is a location of choice for global businesses and inward investment.
4. The need to ensure that Britain secures a strong and growing share of global inward investment, by maintaining our competitive business environment and an openness to international capital and talent, will mean redoubling our efforts to support business in identifying export and inward investment opportunities. The strength of the economy and level of employment are the primary drivers of the public finances now and into the future. Our drive for growth, together with our action to avoid short term unemployment becoming long term inactivity set out in the previous chapter, will be a key factor in reducing debt and maintaining sound and sustainable public finances.
5. Competing in the global economy requires strong and coordinated government action with effective, responsive, seamless institutions nationally and locally. We have therefore brought together key Whitehall resources in a new Department for Business, Innovation and Skills. This has created a single department committed to building Britain's future economic strengths, working alongside its counterparts in the devolved administrations. The new department will drive forward the strategy set out in *New*
- Industry, New Jobs*¹ in April 2009 and our commitments to:
- Support all businesses through continuing our world class competition policy, maintaining a climate that supports innovation and entrepreneurship, and creating a skilled workforce;
 - Ensure that the consideration of business opportunities is central to policy making in all government departments;
 - Tailor additional help to reflect the circumstances experienced by business – including by size, by markets, and by location. Where prudent and targeted government intervention can help unlock productive or competitive potential or remove barriers to market for UK firms in specific sectors or markets, we will not hesitate to take such action.
6. This co-ordination is also about helping people move between industries, where global restructuring means that new jobs are replacing old ones. And we will support successful industries with real career opportunities and well paid work in sectors where international trade is not such a natural force for change, such as retail, health and social care, education, and public services more widely. In all of these areas, we will make training and the development of new skills integral to people's working lives, so that they have the opportunity develop their full potential.
- Finance: the lifeblood of the British economy**
7. Getting the right finance to the right businesses at the right time and on the right terms is crucial if we are to build a strong and growing economy. Access to finance is the lifeblood of the British economy, and must be built on a strong and confident relationship between our lenders and our businesses and consumers. The forthcoming white papers on Financial Markets and Consumer Policy will shape a new settlement that is:

- Open, competitive and effective, able to meet the needs of business and families;
 - Inspires trust and confidence on the part of businesses and consumers, with fair and transparent information and pricing;
 - Subject to robust regulation that reduces the likelihood of damaging market, institutional and personal failures without preventing sensible innovation; and
 - Has effective mechanisms for dealing with the failure of financial institutions when, nevertheless, they do occur.
8. Our first priority must be to return stability to financial markets and take decisive action to reduce the frequency and impact of systemic financial crises. We believe the Financial Services Authority (FSA) is the primary mechanism through which we should regulate the financial markets. Through the future **Financial Services and Business Bill**, the Government will toughen the regulation of the financial system, ensuring that the FSA has sufficient powers to do its job and improve efficiency and competition. We will consider how to make it easier for new entrants to join the banking market and make existing participants more diverse.
 9. Looking to the future we need our banking system and other sources of capital to support innovation and growth. We will seek ways to encourage capital investors to take a longer term view of their investments so that the best ideas receive ready finance.
 10. Where private finance is not forthcoming but real potential exists, we will build on the existing public support – in line with state aid rules – to foster early stage technology businesses through a new Innovation Fund (see box). We are also undertaking a review, led by Christopher Rowlands, of the need for further solutions to help small businesses access growth capital. Such a mechanism could resemble the Industrial and Commercial Finance Corporation (later known as 3i), set up by the Government in 1945 to facilitate private sector investment in SMEs. Following its listing in 1994, 3i's average deal size increased and the number of SME investments it made fell. This has left a gap in the market, which combined with the contraction of funding linked to the financial crisis, has led to calls for the Government to take action to fill the gap. The Growth Capital Review is scheduled to report ahead of the Pre-Budget Report. The Innovation Fund and the Rowlands review on growth capital are both targeted at ensuring that SMEs are able to access the capital they need to be able to grow, whether they are high-tech high-growth innovative businesses in sectors like advanced manufacturing, low carbon and life sciences or medium sized manufacturing businesses looking to expand.
 11. Through guarantee and insurance schemes and the Bank of England's Asset Purchase Facility, we will continue to provide support to lenders and markets in providing the credit necessary to fund growth as long as is necessary for our economy to emerge from the recession.

Innovation Fund

To address the problems technology based companies face in accessing equity finance, the Government will launch a UK Innovation Fund. This will create a Fund of Funds based on a cornerstone investment of £150 million from the Government, and will leverage additional funding from the private sector, with the aim of building this into a £1 billion fund over 10 years. The UK Innovation Fund will invest in the sectors on which our future prosperity will be based, such as life sciences, ICT, advanced manufacturing and low carbon.

Continuing to be a world leader in financial and professional services

12. Although the financial markets have been heavily disrupted by global shocks over recent months, financial services remain a dynamic and vibrant sector of the British economy and one we want to succeed. We will continue to support our financial services sector in the context of necessary reforms to the regulatory environment to protect consumers and taxpayers from potential future systemic risks. The UK will continue to provide regulatory stability, as well as high quality infrastructure and skills.
13. Professional services such as consulting, accountancy, and architecture will also form an important part of our export-driven, high value-added economy. Working to provide access to talent, strong infrastructure and access to foreign markets is the way for Government to support this cutting edge sector.

Building world class infrastructure

14. Seizing the opportunities of the future depends on having truly nationwide, high-quality business and technical infrastructure. That is why we must give priority to bringing greater focus to building and modernising our economic infrastructure in energy, water, waste, communications, as well as transport and housing.
15. We are creating an environment in which it is attractive to invest in Britain's infrastructure, ensuring a stable long term framework and getting rid of the unnecessary planning delays and uncertainty that has often bedevilled our progress. To improve the planning process for nationally-significant infrastructure projects, the Government will consult on the first National Policy Statements. These statements will set the policy framework for the new Infrastructure Planning Commission in considering and deciding applications.
16. But we need to ensure we are also delivering the very best infrastructure in the most efficient and resilient way. So we will establish an advisory body – 'Infrastructure UK' – bringing a sharper focus to the Government's strategic work in enabling the development of the most up to date infrastructure for the economy in areas like energy, waste, water, communications and transport. It will identify the country's long-term infrastructure needs over a 5 to 50 year horizon, take stock of what existing plans are likely to deliver in the long term, and assess where more could be done, considering the interdependencies between different types of infrastructure and where there are efficiencies and synergies to be exploited. The body will build on the Council for Science and Technology's review of infrastructure for the Prime Minister, *A National Infrastructure for the 21st Century*.² Lord Davies of Abersoch will lead the development of Infrastructure UK. He will consult widely with key stakeholders and be supported with expert advice from Sir Adrian Montague and Paul Skinner. Full details of the new body will be announced and a Chair appointed in time for the Pre Budget Report.
17. We will strengthen our transport infrastructure to ensure that people are linked to jobs, that goods and services flow easily around the economy, and that international trade is facilitated. Through an existing £10 billion investment package our rail network will be transformed. This will involve significant redevelopment schemes including Reading station, Thameslink, Birmingham New Street, and Kings Cross, alongside smaller schemes like 500 longer platforms. **We will shortly set out our plans for a major programme of rail electrification.** We will also improve the quality and number of trains: our contract for a new generation of Intercity trains is worth £7.5 billion, offering shorter journey times and greater capacity. We are also

delivering 1,300 extra carriages that will provide around 10,000 extra seats per day.

18. Our major investments will include the £16 billion Crossrail project and up to £6 billion for the national roads programme. We will also support the expansion of Heathrow airport

subject to planning permission. This will provide up to 60,000 jobs during construction and will help maintain Heathrow's position as our most important international gateway.³ Additional flights will be subject to strict local environmental limits, and we are setting a new target to ensure that aviation generally

Infrastructure investment – creating opportunities for people and businesses

Olympic and Paralympic Games

Our investment of £9.3 billion in the 2012 Olympic and Paralympic Games will create new infrastructure and provide jobs for 30,000 people on the construction of the Olympic Park and Village in East London, and still more in companies involved in fulfilling the 75,000 supply chain opportunities throughout the UK.

Crossrail

The overall funding package for Crossrail is £16 billion. 14,000 jobs will be created at the

peak of construction, with a further 30,000 jobs supported by Crossrail during the construction period. Crossrail will improve access from where people want to live to where the high productivity job areas are – Canary Wharf, the City of London, West End and Heathrow – and facilitate the continued sustainable development of London's primary finance and business service activities. It will add around £20 billion to the UK's economy and increase London transport capacity by 10 per cent.

More information on how public investment projects are creating opportunities across the UK can be found at www.hmg.gov.uk/buildingbritainsfuture

Digital Britain

On 16 June 2009 the Government published the Digital Britain Final Report, which underscored the importance of the Digital Economy to the UK's future development, and secured the UK's position as one of the world's leading digital knowledge economies. This is a sector where we have internationally recognised strengths and, by taking the right decisions now, Britain can continue to be at the forefront of the digital revolution.

The Digital Britain Report sets out how we will strengthen and modernise the UK's Digital Infrastructure so the UK can compete and lead globally, the steps we need to take to ensure that everyone can share in the benefits of Digital Britain and how we make the UK one of the world's main creative capitals.

This will bring significant benefits to citizens, consumers and UK plc by delivering universal broadband coverage across the UK by 2012. It will help to ensure that everyone has access to broadband and the benefits it brings, through proposals to accelerate the roll-out of next generation superfast broadband across the UK and to accelerate current and next generation mobile coverage and services. It also sets out how we will ensure that our creative sectors flourish both domestically and internationally, ensuring that people have the capabilities and skills to flourish in the digital economy, and that Government continues to modernise and improve its services to the taxpayer through digital procurement and the digital delivery of public services.⁴

plays its part in securing carbon reductions across the sector. **And in the coming year we will publish a feasibility study for a new North-South high speed rail line.** This will be carried by a company, High Speed. ²

19. The 2009 Budget announced funding to work towards nationwide connectivity for high speed broadband, and to pursue access to broadband at 2 Megabits per second for virtually everyone by 2012.⁵ This infrastructure is not only critical for the UK's creative industries, but for every sector of the UK economy. The recent Digital Britain report set out our plans to secure the UK's place at the forefront of innovation, investment and quality in the digital and communications industries as well as in the creative economy. We will also review Ofcom's powers to ensure that it can strike the right balance between encouraging investment and delivering competition in the communications infrastructure. The **Digital Economy Bill** will enable many of the steps necessary to ensure a world-class digital future.
20. Although postal services are under pressure from technological change and growing competition, the Post Office network and letters service remain vital to our economy. The Hooper Report clearly set out the need to modernise and how this should be done. We are committed to maintaining a universal letters service and to do what is needed to place Royal Mail on a sustainable footing for the future.
21. We will also continue to build housing infrastructure that meets the demands of the future economy, and we are currently considering what extra work the Government could do to improve innovation, competition, capacity, resilience and diversity across the housing construction sector, preparing the ground for market recovery.

Skills for the future

22. It is the skills, knowledge-base and human capital potential of the entire workforce that will determine Britain's industrial future. As we set out in the *New Opportunities* White Paper, four specific factors are crucial to building people's capabilities: support for parents and children in the early years that have a profound impact on subsequent life chances; world-class standards in our schools, as educational attainment at 16 remains one of the most important determinants of future success; investment during the critical transition years from compulsory education through further and higher education and into work; and fresh opportunities to get on in the labour market throughout people's lives, ensuring they have continuing chances to fulfil their potential.
23. It is essential that we develop a fair and family-friendly economy where everyone has the opportunity to develop their skills and experience. This will increase productivity as well as giving our economy competitive advantage when competing globally. Our plans to further improve childcare are set out in Chapter 6.
24. However, the vast majority of Britain's current workforce have already left education and are already over 25. We are committed to providing lifelong chances to those who need to update their skills with public funds for training. Since 2001 over 5.7 million people have benefited from our Skills for Life strategy, helping to improve their grasp of the basics in literacy, language and numeracy. To help people meet their aspirations, we are increasing funding for on-the-job training through Train to Gain.
25. Our skills policy has two central priorities. First, it will focus on the immediate priority of getting people back into work, ensuring that they can get on and make progress in their careers. Second, in the long term, skills

policy and the resources we devote to skills training need to be properly strategic and responsive both to the demands of business and to global trends. An activist approach will be particularly important where people's intermediate and higher skills will determine the UK's ability to secure high-value jobs in the global economy.

26. We will ensure that our learning institutions are increasingly responsive to skills needs in key sectors of the economy. Working with business, unions, Sector Skills Councils and the UK Commission for Employment and Skills (UKCES) will ensure an approach that allows us to identify and respond to skills needs in key areas of the economy quickly and effectively.
27. The Government will ensure that public procurement and regulatory reform make a full contribution to raising skill levels. We are now committed to routinely considering skills issues and promoting training through procurement across government. We will ensure that there are sufficient incentives for employers throughout the economy to invest in skills, and that we strike the right balance between government and employer funding.
28. We recognise the social and economic benefits that migration has brought to the UK. We are using the flexibility built into the Points-Based System to ensure we have the right blend of skills in the UK. We will use the system to help meet temporary skills needs where it is appropriate to do so, but to avoid long term dependence on migrant labour. A flexible immigration system rather than protectionism is best for British business and the British economy.
29. We will publish a **National Skills Strategy** later in 2009. Complementing the *Getting Britain Back to Work* White Paper, this will set out how we plan to put in place an approach to skills policy which prepares Britain for the

upturn and beyond. It will address specifically how further and higher education can promote enterprise and provide clear routes into self employment.

Building capacity to secure comparative advantage: a strong enterprise environment

30. Over the last decade Britain's economy has transformed to take full advantage of an unprecedented period of global integration. Our workforce has become more skilled and productive, and we have secured a disproportionately high and growing share of world trade in key markets from communications services to aerospace.
31. Britain has become a comparatively advantageous place to start and grow a business, and now ranks among the top ten economies in the world in this respect. However, we need to do more to ensure that growth in Britain continues to be driven by entrepreneurialism as well as long term investment in productive potential.
32. The Government's Enterprise Strategy will ensure that small businesses are well positioned to make the most of new opportunities when the upturn arrives – with a particular focus on how we can help people hone good ideas and turn those ideas into a growing business; what further measures we might take to enable graduates to acquire enterprise skills or to start their own business; and what further measures we need to stimulate business start ups for women. And we have appointed Sir Alan Sugar as the Government's Enterprise Champion. He will act as an adviser to the Government and to small businesses to ensure small firms and entrepreneurs make the most of the real help available from Government and other organisations.
33. We are also reducing the burden of red tape on business: our plans will save UK

based businesses £3.4 billion between 2005 and 2010. We are setting up a new external regulatory policy body to ensure that regulation is risk-based, proportionate and forward-looking. And to help business plan for the future more easily, from this summer we will publish our existing and potential regulatory proposals and set new simplification targets.

34. Both of these objectives are fundamental to small and medium sized businesses in the UK, which make up the bulk of the UK economy. We will continue to create opportunities to start and grow SMEs in Britain, including taking action to ensure that more SMEs are able to access, bid for and win contract opportunities in public services.

35. We still need to do more to unleash enterprise and innovation. We have asked Peter Jones to explore what the further education sector can do for those wanting to start a new business. But the direction of travel is clear. Some colleges already offer courses that integrate advice on starting a business with vocational skills. We need to build on this to define a broader range of 'qualify with a business' offers that could be delivered through our further education system. We will explore how to bring together coherent packages of business support, vocational and practical skills development, and advice and guidance into a single joined-up package for budding entrepreneurs. Not only would they gain the practical skills necessary, for example in trades like plumbing and hairdressing, but they will complete their courses fully prepared to start a successful business.

Changing technologies: innovation and the best science base in the world

36. Britain's leading-edge economy, especially in key strengths such as advanced manufacturing, green technologies and life sciences, is rooted in our science and research base. Sustained investment over the last

decade has given the UK one of the strongest science and research bases in the world – Britain is ranked first in the G8 for productivity of research papers,⁶ for example. Britain leads the world in many areas, for example in the life sciences and green technologies.

37. Many UK businesses have invested heavily in innovation over the last decade, supported by a Research and Development tax credit that has already provided £3 billion of support to UK businesses since 2000.

38. We know how important science and research will be for building Britain's future. We are allowing the Research Councils to refocus £106 million of efficiency savings in sectors which are expected to be central to future economic growth and the health and well-being of the UK: in green technologies, life sciences, the digital economy, high-value manufacturing systems and services, and the cultural and creative industries.

39. The establishment of the Technology Strategy Board (TSB) in 2007 has created a business-led body whose programmes channel public funds into driving business innovation in areas with major opportunities for future growth. Between 2008-11, the TSB in partnership with the RDAs, Devolved Administrations and Research Councils, will invest over £1 billion to support technology development in the sectors of the future, including life sciences, ICT and clean technologies. The TSB's budget was strengthened in the 2009 Budget. It prioritises its investments to stimulate business innovation to address specific societal challenges or maintain core expertise in leading edge technologies where the UK has real strength and where there is greatest scope for boosting UK growth and productivity. This is exemplified by an increased focus on challenge-led innovation activities in areas such as low carbon vehicles and assisted living. For example, the recently announced support for eight new low carbon

vehicle projects, providing £25 million to run real life trials of over 340 new vehicles and making this the biggest initiative of its kind.

40. The Higher Education Funding Council for England will this year develop a new Research Excellence Framework (REF) that will take better account of the impact research makes on the economy, and provide greater incentives to encourage mobility between universities and business and public services.
41. The creation of a single department to cover business, innovation, science and skills is a demonstration of our strong desire to focus efforts in research, development, demonstration, deployment and diffusion; build our skills base; and tie scientific and process innovation to productivity growth.

World class life sciences

42. The UK life sciences industry – pharmaceuticals, medical biotechnology, and medical technology – ranks second in the world after the United States, and is at the forefront of future growth areas such as regenerative and stratified medicine.
43. The UK has a competitive advantage in the National Health Service, offering vast resource for clinical trials and studies, and opportunities for driving innovation through procurement across the entire industry. As well as providing jobs and growth, the life sciences industries will also make a vital contribution to tackling future challenges such as an ageing population and obesity. In the next few months, we will publish a Life Sciences Blueprint, which will set out the action we are taking to support the UK life sciences industry.

The shift to a low carbon economy

44. Tackling climate change is among the greatest economic challenges facing the world in the 21st century. Moving to a resource efficient, low carbon climate resilient

economy and ensuring that we are resilient to the impacts of climate change will require major structural changes, particularly in our energy supply and transport infrastructure, the resource efficiency of our businesses and the management of water, waste and land. But these changes will also be a significant opportunity for future economic growth. Through the combination of a comprehensive long term policy framework – to reduce emissions, develop new technologies and adapt to climate impacts – and an active industrial strategy, we will maximise the economic and employment benefits to Britain of the green economy.

45. The 2008 Climate Change Act provides the foundations for action. Following the advice of the independent Committee on Climate Change, the 2009 Budget set out our legally-binding carbon budgets under the Act, reducing the UK's greenhouse gas emissions by 34 per cent by 2020 and 80 per cent by 2050. This summer we will publish a comprehensive Climate Change and Energy White Paper showing how we will meet our budgets – at the same time as ensuring the security of energy supplies, maximising economic benefit and bearing down on energy prices, particularly for the most vulnerable households. It will include details of:
 - Our renewable energy strategy, through which we will achieve 15 per cent of energy coming from renewable sources by 2020;
 - Our programme to facilitate the building of new nuclear power stations to replace those being decommissioned over the coming period;
 - A new funding mechanism to support up to four carbon capture and storage (CCS) demonstration projects, including any new coal-fired power stations for which it will be a condition of planning consent;
 - The 'Great British Refurb', our investment programme in insulation and energy efficiency in the housing stock, through

which every loft and cavity wall will be insulated by 2015 and smart meters installed in every home by 2020;

- Our new feed-in tariff and renewable heat incentive to promote household and community-based energy generation and district heating schemes;
 - Our strategies to reduce carbon emissions from transport, waste management and land use.
46. These policies will generate significant economic and employment opportunities for British-based businesses. The global market for low carbon goods and services is already worth £3 trillion and is projected to grow to over £4.3 trillion by 2015. In the UK this sector is currently worth over £100 billion, employing around 880,000 people and representing 7.4 per cent of GDP. Under the Government's policy framework it is expected to grow by around 400,000 jobs by 2017.
47. The Government aims to ensure that the UK is among the best places in the world to locate and develop a low carbon business and our plans were set out in *Investing in a low-carbon Britain*, published alongside the Budget.⁷ Next month we will set out full details in our Low Carbon Industrial Strategy. To finance the strategy, Budget 2009 provided £1.4 billion in new support for the low carbon energy sector, coupled with £4 billion in new lending from the European Investment Bank. This will generate an estimated additional £10.4 billion of low carbon and energy investment over the next three years, a major green stimulus. The package included £375 million additional spending on energy and resource efficiency programmes for homes, businesses, public buildings and waste infrastructure; £70 million of additional spending on decentralised energy; extended fiscal incentives for Combined Heat and Power (CHP) plants, bringing forward an estimated £2.5 billion in new investment; and an increase in support for offshore wind, to protect around £9 billion of investment.
48. The Budget also provided £405 million of new funding to support the development of UK-based businesses in low carbon and green manufacturing sectors.⁸ This will be used across the field of business support, inward investment, training and skills and R&D, with a focus on those sectors in which Britain has particular competitive advantage. These include carbon capture and storage, where the Government's new commercial demonstration programme will make the UK a global leader; offshore wind, where the UK already has more installed capacity than any other country in the world; and ultra-low carbon vehicles, where the Government's actions to incentivise the market for ultra-low carbon vehicles – including research and development, vehicle demonstrations and, from 2011, consumer incentives to help make vehicles more affordable and provide the infrastructure to support them – all of which should help to support a major British manufacturing base. Other key sectors include marine energy and carbon finance, where the UK is the world centre for carbon trading and home to Europe's largest low carbon venture capital market, attracting around 30 per cent of all European 'clean tech' investment over the last decade.
49. We will also work to develop a strong and growing contribution to energy supply from Nuclear Power. The process for approving the development of new nuclear capacity is now well underway and our aim is to commission the first new stations within the next decade, marking the beginning of a sustained period of growth which will both reduce the UK's dependence on imported supplies of oil and gas and contribute materially to the target of reducing emissions. In support of this development we will also be focusing on the development of specialist and technical skills in an area of great global potential. We will also be supporting advanced work on

the development of the nuclear fuel cycle to reduce the risks of proliferation and to facilitate the secure development of civil nuclear power around the world.

50. As well as the low carbon sectors, there are significant economic opportunities to be gained from developing technologies and services designed to enable adaptation to climate change. The UK already leads the world in many of the analytical tools necessary for effective adaptation planning. The new UK Climate Projections launched earlier this month set out the changes we can expect to see in temperature, rainfall and rising sea levels over this century.⁹ Alongside the Projections, we are consulting on our proposals to ask public sector organisations and statutory undertakers – such as energy and water utilities – to undertake risk assessment and adaptation plans. And to help address the immediate effects of climate change in the UK, we will introduce a **Flood and Water Management Bill** aimed at improving the management of flooding and water emergencies.

We have set the world's first legally-binding carbon targets, cutting UK emissions by a third over the next decade. We are investing in energy efficiency and the next generation of renewables, nuclear and clean coal technology to make Britain a global leader in low carbon industries.

A diversified and balanced economy: promoting British manufacturing

51. Advanced manufacturing, which utilises a high level of design, scientific and innovative skills to produce technologically complex manufactured products and processes, is an area where there are strong global market opportunities and where the UK is currently a world leader. *New Industry, New Jobs* explained how we will build on the Manufacturing Strategy to help industry

compete successfully in the high growth areas of the future.¹⁰

52. We have also identified a range of new industrial technologies that offer the potential for UK sectors to maintain and develop their positions as leading advanced manufacturers. These include the development of non-oil based chemicals, the shift from metal to composite materials across a wide range of potential applications, and in plastic electronics technology that enables electronic circuits to be printed cheaply onto flexible surfaces. There are also considerable potential opportunities for UK sectors in the decarbonisation of aerospace and other transport technologies. The Government will help support industry to unlock these and other opportunities.

Driving productivity growth across the economy

53. Increasing productivity is the key to increasing prosperity in Britain because it pays for rising wages, underwrites our continued innovation and ensures we use our national economic resources in the most efficient way. Many parts of the British economy are fully open to international competition, which requires them constantly to innovate and improve productivity.
54. But these open sectors are balanced by a large 'non-traded' sector that is relatively closed to international competition. A large part of our economy is made up of these domestically focused, labour-intensive industries. In the private sector, retail and construction are prime examples. In almost all cases, employment in these areas has been growing solidly for many years, though growth associated with innovation has been fragmented, often confined to high performing businesses rather than occurring on average across sectors. We face the challenge of improving productivity in these sectors without the spur of international competition.

55. The introduction of the National Minimum Wage has spurred the development of these sectors, helping to raise productivity without harming employment. Future improvements will be driven by effective management, capital investment and appropriate planning schemes – using government procurement to support development in areas such as health and education. Government can and should work with these sectors to ensure quality and output is second to none.
56. The Government is already improving standards and skill levels in many of these markets such as social care and childcare. And so that people in all areas of the economy are better able to progress in work and compete in the upturn, we are putting in place a new Integrated Employment and Skills Service. This will give people better support to gain new skills through the advice of a new adult advancement and careers service. New personal skills accounts, clarifying their entitlements to training, will give them more control over how they improve their skills, including through their employer using ‘Train to Gain’. This will allow people to train for employment opportunities in their local labour market, getting the skills that local businesses need.
57. Our diverse economy, with strengths in many sectors, is an important source of resilience. We will continue to ensure that all regions and localities are able to respond to global challenges and take advantage of emerging opportunities. We are ensuring that city-regions are increasingly able to act as local champions of growth. The **Local Democracy, Economic Development and Construction Bill** will further strengthen the work of the Regional Development Agencies and local authorities in supporting economic growth within a clear framework of national priorities.¹¹

Conclusion

58. This new growth model for Britain is right for our future. It builds on our experience in taking the country through both benign and challenging global economic conditions. Our intention is to build an economy which is diverse, creative and competitive – which can both enable us to pay our way in the world and provide the high quality jobs that are essential if everyone is to be able to fulfil their personal talents and aspirations.
59. Our approach rejects isolationism, recognising that the UK can only prosper in a strong and stable European and global economy. It is active in its commitment to building the capabilities of British workers, and in providing the resources on which British-based firms will need to draw. It regards the extension of opportunity as fundamental to our competitiveness. The UK cannot afford to waste the potential of any of its people.