4 SUPPORTING BUSINESS AND GROWTH

The Government took decisive action to support the economy during the financial crisis and its aftermath. As the UK emerges from recession, it remains vital to maintain some targeted assistance to support the recovery through 2010. This Budget announces action to promote sustainable economic growth over the decade ahead, by providing a stable platform for growth and through targeted government action to unlock private sector investment. These measures will support start-ups and small and medium-sized enterprises (SMEs), position the UK as a leading centre for research and innovation, and ensure that the UK is equipped with skills for growth and the infrastructure it needs to be successful in a low-carbon economy. The Government is:

- **continuing to offer Time to Pay arrangements,** which will help viable businesses spread their tax payments as part of a package of measures that continue to support business through the recovery;
- supporting start-ups, SMEs and growing businesses by **providing a temporary increase in the level of small business rate relief; launching UK Finance for Growth** to oversee more than £4 billion of the Government's SME finance products including the Growth Capital Fund; **doubling the Annual Investment Allowance to £100,000** and the **Entrepreneurs' Relief lifetime limit to £2 million**;
- **launching a University Enterprise Capital Fund** to exploit the commercial potential of the UK's world-class research base; and, subject to state aid clearance, **introducing a tax relief for the UK's video games industry**;
- **providing a £270 million Modernisation Fund** to drive efficiencies in Higher Education and fund the teaching costs of **20,000 extra undergraduate places in key courses in September 2010;** and
- meeting the UK's infrastructure and energy challenges by: **publishing a *Strategy for national infrastructure,* including an intention to create a Green Investment Bank;** acting on the findings of the **Energy Market Assessment**; **creating a £120 million grant for Accelerated Development Zones; providing a £100 million fund to repair local roads** following recent cold weather; and **investing £250 million in the road network** to improve capacity.

SUPPORTING A SUSTAINABLE RECOVERY

Supporting a return to growth

4.1 The Government took decisive action to support the economy during the recession: restoring stability to the financial system; enabling monetary policy support; and providing a fiscal stimulus of one per cent of GDP in 2009-10. This action has been successful in averting the more severe economic risks posed by the global financial crisis and limiting the severity of the recession.

Box 4.1: Time to Pay

HM Revenue and Customs' (HMRC) Business Payment Support Service (BPSS) has been at the heart of the Government's support for businesses through the recession, enabling viable businesses experiencing temporary financial difficulties to spread their tax payments over an agreed timetable. Since it was launched at the 2008 Pre-Budget Report, the service has reached over 300,000 arrangements to give over 200,000 businesses, who collectively employ more than 1.4 million people, more time to pay over £5.2 billion of tax. The vast majority of these arrangements have been with SMEs.

Data: HMRC estimates.

Time to Pay – support for the recovery

4.2 As the economy recovers, the Government recognises that some viable businesses will still struggle to pay their tax bills. For these businesses it is important that the support received through Time to Pay remains in place (see Box 4.1), so **HMRC will continue to offer Time to Pay, as part of its support for all viable businesses having difficulty in meeting their tax obligations.** In addition, to ensure that all requests continue to be assessed on a consistent basis, businesses that need to use the service more than once will be directed to a specialist team.

Continued support for the recovery

4.3 Alongside Time to Pay and the bank lending commitments agreed for 2010-11 and set out in Chapter 3, a number of measures were extended in the 2009 Pre-Budget Report to support business through the recovery:

- **Enterprise Finance Guarantee (EFG):** the EFG is a loan guarantee scheme which has provided around £900 million of support to almost 9,000 SMEs since its introduction in January 2009. The EFG will continue for 12 months from April 2010 as announced in the 2009 Pre-Budget Report.
- **Small companies' rate of corporation tax:** to provide further support for small companies during the recovery, the 2009 Pre-Budget Report announced that the small companies' rate of corporation tax will remain at 21 per cent for 2010-11, helping around 850,000 businesses.[1]
- **Empty Property Relief (EPR):** as announced at 2009 Pre-Budget Report, the temporary increase in the threshold for EPR will be extended to £18,000 for a further year, continuing the exemption from business rates for an estimated 70 per cent of empty properties in 2010-11.

4.4 In addition, the **Automotive Assistance Programme** is supporting the automotive industry through the recovery. A £270 million loan guarantee offered to General Motors Europe will support its European restructuring and enhance job security by improving its viability. In addition, the Government has offered Ford a £378 million guarantee, to back a proposed loan from the European Investment Bank (EIB), which will help support its £1.55 billion UK investment programme to develop environmentally-friendly engines and vehicle technologies.

4.5 While these measures continue to support business through the recovery, it is now right to end some of the exceptional, time-limited measures that successfully helped industry during the recession. By 16 March 2010, the Department for Business, Innovation and Skills (BIS) had received over 388,000 orders for new vehicles under the scrappage scheme. This scheme is due to close either by the end of March or earlier if the limit of 400,000 sales has been reached.[2]

PROVIDING A STABLE PLATFORM FOR GROWTH

Fiscal consolidation

4.6 Macroeconomic stability will provide the foundation for future growth and investment in the UK. The Government has set out plans to more than halve public sector net borrowing by 2013-14, and these have been enshrined in law through the Fiscal Responsibility Act.

Tax framework for business

4.7 A stable environment for growth also includes ensuring that the business tax system is stable and competitive. The UK has the lowest corporation tax rate in the G7, and as part of its strategy to improve certainty for business, on 25 March 2010, **the Government will**

[1] HMRC estimate.

[2] Data provided by the Department of Business, Innovation and Skills (BIS): http://www.berr.gov.uk/whatwedo/sectors/automotive/scrappage/page51068.html

publish a Tax Framework for Business, which sets out six principles it will consider when reviewing, revising and developing business tax policy. These principles were developed in conjunction with the business members of the Business-Government Forum on Tax and Globalisation and were published for consultation ahead of this Budget.

International trade

4.8 International trade is worth in the region of $14 trillion and UK trade performance will be a key driver of growth and stability. During this period of continued global uncertainty, the Government will continue to work with international partners to combat protectionism and to drive forward a global trade agreement that will keep markets open and further strengthen the multilateral trading system. The Government will work for further commitments to market opening at the forthcoming G20 summit in June and push for liberalisation in green goods to demonstrate best practice in breaking down trade barriers. As part of this agenda, the UK is working through the European Union (EU) to deliver a long-term strategy for growth and jobs – see Box 4.2.

Box 4.2: EU growth strategy

Europe is crucial to the UK's economic prospects: it is the world's largest single market, and around 50 per cent of the UK's international trade is with the EU. That is why the Government has called for an EU Compact for Jobs and Growth to promote strong, sustainable and balanced growth through, for example: scaling up existing EU venture capital funds; assessing whether EU better regulation programmes are delivering; and reform of the EU budget to increase the proportion spent on research and innovation, climate change, and poverty reduction. The Government is committed to a stronger and deeper Single Market, prioritising the digital economy, the "green" Single Market for low-carbon goods and services, and the implementation of the Services Directive to ensure its full potential economic benefits. On 3 March 2010, the European Commission published its proposals for a Europe 2020 strategy to promote smart, sustainable and inclusive growth in Europe over the next 10 years. EU Heads will discuss the proposals in the coming months.

Reference: *Europe 2020 - A strategy for smart, sustainable and inclusive growth,* European Commission, March 2010.

BUILDING AN ENTERPRISE ECONOMY

Finance for growing businesses

Access to bank lending

4.9 SMEs make up the large majority of UK businesses and will need reliable access to bank lending to make the most of recovering demand. Chapter 3 sets out the action which the Government has taken to improve bank lending conditions and increase competition in the banking sector, including measures to promote lending to SMEs. As part of this, as announced in Chapter 3, **the Government will create a new statutory Small Business Credit Adjudicator** to ensure that viable SMEs have access to the finance they need. This will work closely with an expanded Financial Intermediary Service in order to ensure that small businesses are treated fairly when applying for a loan.

EIB and EIF lending to SMEs

4.10 The Government has also put forward proposals to mobilise the EU's key financial institutions – the European Investment Bank (EIB) and the European Investment Fund (EIF) - to stimulate the provision of venture capital and loans for SMEs. As a result:

- **the European Commission has agreed to coordinate an initiative with the EIF and EIB to raise additional capital for funding innovative and growing businesses.** The Government is calling for €3 billion to be raised; and

- **the EIB has developed risk-sharing products that will help banks to accept greater levels of risk when lending to early-stage small businesses.** The Government will now work with the EIB on a plan to ensure these products are quickly used by SME lenders in the UK.

4.11 The Government continues to work with UK banks and the EIB to ensure small businesses can access up to £4 billion of EIB funds by the end of 2011. Participating UK banks have so far secured £1.39 billion from the EIB and made nearly £800 million available to SMEs nationwide.

UK Finance for Growth

4.12 **This Budget announces the launch of UK Finance for Growth (UKFG), which will be responsible for overseeing the Government's stock of over £4 billion of SME finance products**, including the Growth Capital Fund (see below). UKFG will streamline and simplify the Government's finance support for business, and provide a strong channel for private sector investment into SME-focused funds. It will work in partnership with the Department for Business, Innovation and Skills (BIS), the Department of Energy and Climate Change (DECC) and Regional Development Agencies to co-ordinate public equity SME finance schemes, including the UK Innovation Investment Fund and its low-carbon focused fund-of-funds, and Carbon Trust venture capital activities. This will ensure that government-backed funds form a single, coherent portfolio and that there is a consistent government package of support for viable businesses, wherever they are in the country and whatever stage they are at on their growth path.

Growth Capital Fund

4.13 Working in partnership with retail banks, **the Government has raised £200 million of cornerstone investment for the Growth Capital Fund** that was announced at the 2009 Pre-Budget Report. The fund will act as a new channel for attracting private sector investment into UK SMEs who need £2-10 million of financing to support their growth and who struggle to access the finance they need. Alongside the Government, Lloyds Banking Group, the Royal Bank of Scotland (RBS), Santander, and Clydesdale/National Australia Bank have all committed to investing in the Fund. This initial cornerstone investment will enable the fund to raise additional investment from financial institutions so as to achieve the ambition to raise £500 million.

Increase to Annual Investment Allowance

4.14 The temporary 40 per cent first year capital allowance has supported business investment during the recession. This will end as planned in April 2010. Businesses continue to benefit from the Annual Investment Allowance (AIA), which allows the first £50,000 of capital expenditure in a given year to be fully offset against taxable profits. In order to provide further cashflow support and an incentive to increase business investment, **the Government will increase the threshold of the AIA to £100,000 for expenditure incurred from April 2010.** Capital expenditure above this threshold will continue to be eligible for standard capital allowances against taxable profits. **The Government will introduce a targeted anti-avoidance rule from 24 March 2010 to ensure this measure is focused on support for genuine business investment.**

Extending Entrepreneurs' Relief

4.15 Entrepreneurs' Relief supports business owners and those investing in businesses with growth potential by providing an effective 10 per cent Capital Gains Tax rate on qualifying disposals. **This Budget announces an extension of Entrepreneurs' Relief from the first £1 million to the first £2 million of gains made over a lifetime.** This change will take effect from 6 April 2010.

Tax-advantaged venture capital schemes

4.16 The Enterprise Investment Scheme and Venture Capital Trusts are a vital component of the Government's strategy to support investment in small companies, with over 17,000 companies benefiting from over £10.5 billion of investment raised through the schemes since their inception.[3] **The Government confirms the changes required as a condition for**

[3] HMRC estimates.

state aid approval and announces that, following consultation, the European small enterprise definition will not be introduced. In addition, in light of new evidence from the Rowlands Review of the structural gap facing SMEs looking for finance, the Government believes there may be a case for reviewing the investment criteria for these schemes.[4] **The Government will work with industry to examine the evidence base for modifications to the schemes, including increasing: the employee limit to either 100 or 250 employees; the gross assets limit to £15 million before the investment, and £16 million after; and the annual investment limit to £5 million for qualifying companies.**

Non-bank lending

4.17 The development of non-bank lending channels for larger mid-sized businesses will allow more firms to reduce their reliance on bank finance and improve the resilience of the economy. The Government welcomes the responses submitted on HM Treasury's *Discussion paper on non-bank lending*.[5] As Chapter 3 sets out, the evidence and feedback from the discussion paper process has highlighted a number of areas where Government could play a role in supporting market-led solutions.

Real Estate Investment Trusts

4.18 In order to provide greater flexibility for UK Real Estate Investment Trusts (UK-REITs) to invest in the future, the Government intends to legislate, as soon as possible in the next Parliament, **an amendment to allow UK-REITs to issue optional stock dividends as an alternative to cash** as part of their property income distribution requirement.

Improved support for SMEs

Small business rate relief

4.19 To provide help with the fixed costs of starting and running a small business, **the Government will fund a temporary increase in the level of small business rate relief, so that eligible small businesses occupying properties with rateable values up to £6,000 will pay no business rates for one year from October.** In addition, small businesses benefiting from the rate relief taper (rateable values up to £12,000) will receive significant reductions. It is estimated that over half a million businesses across England will benefit, many by well over £1,000. Around three quarters of all small business units, two thirds of smaller shops and over half of offices and smaller industrial premises will qualify if occupied by an eligible business.[6]

Enhanced online services for SMEs

4.20 Time to Pay has demonstrated the value of HMRC engaging with businesses early and offering a single point of contact (see Box 4.1). To build on the UK's reputation as a world-class environment for business, HMRC will further reduce the burdens of starting a business and personalise the online support it provides by the end of 2011. It will:

- **personalise businesslink.gov.uk for those starting up in business and enhance online services for all SMEs,** providing better access to relevant tax guidance and flexible tax payment plans to help businesses manage their cash flow;
- **help start-ups and new employers by introducing a single interactive form to enable businesses to register for multiple taxes online and to authorise tax agents;** and
- **provide an online facility that reduces the need for businesses, or their agents, to provide the same information to HMRC multiple times and allows them a single online view of current tax liabilities or repayments due.**

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[4] *Rowlands Growth Capital Review*, BIS, November 2009.
[5] *Discussion paper on non-bank lending*, HM Treasury, January 2010.
[6] HMRC estimates.

Business Support Simplification Programme

4.21 The Government provides a range of business support services, working with key delivery partners such as Regional Development Agencies, local authorities, the Technology Strategy Board and UK Trade and Investment (UKTI). **This Budget announces that the Business Support Simplification Programme has succeeded in its target of simplifying the landscape of business support products, from over 3,000 in 2006 to fewer than 100 today.** The Government will continue to take action to provide a streamlined service for business, focusing support on what matters most for the future growth of the economy.

Support for exporters

4.22 UKTI and the Export Credits Guarantee Department (ECGD) have both stepped up their support for exporters. UKTI helped 22,800 businesses last year, 20 per cent more than the previous year,[7] and ECGD estimate that the value of exports that they will have supported this financial year will be about 40 per cent higher than in 2008-09. In order to provide a better coordinated and more efficient service to UK exporters, **the Government will co-locate ECGD and UKTI in the same headquarters building. This will provide a one-stop-shop for exporting businesses and deliver better value for money.** In addition, following a public consultation on its business principles and ancillary policies, ECGD has published an Interim Government Response announcing changes to its procedures that will help it to provide a more streamlined service to UK exporters.[8]

Procurement and SMEs

Procurement

4.23 Based on current spending levels, if the whole public sector increased the amount of procurement that went to SMEs by 15 per cent throughout the supply chain, this would mean up to an extra £15 billion of business for SMEs. **The Government will deliver this change in central departments by agreeing departmental targets to increase the proportion of central government procurement spend that goes to SMEs by 15 per cent throughout the supply chain.** This summer, the Government will publish for the first time the level of spend that goes to SMEs, which will be used as a baseline for these targets.

4.24 The increase in central government spend going to SMEs will be achieved by agreeing targets with departments and continuing to deliver on the Glover Committee's recommendations:

- **requiring departments to publish contracting and sub-contracting opportunities through a single portal** that suppliers will be able to access free of charge from December 2010 (an SME has been awarded the sub-contract for the portal, which will be hosted on businesslink.gov.uk);
- **challenging departments to make more use of SMEs,** including flagging contract opportunities as SME-friendly and increasing training to institutionalise SME-friendly procurement practices;
- **providing direct support to SMEs** through the free-to-use training package, Winning the Contract; and
- working with main contractors to open up supply chains to SMEs.

4.25 To build further on recent prompt payment success, **all central government departments will now aim to pay 80 per cent of all undisputed invoices within five days and will explore the option of moving to immediate payment, in time, through electronic invoicing for all suppliers. The Government will also encourage all NHS Trusts and local authorities to publish their prompt payment performance data on data.gov.uk.** In addition,

[7] *BIS Autumn Performance Report 2009*, BIS, December 2009.
[8] *Interim Government Response to the public consultation on proposed revisions to ECGD's business principles and ancillary policies*, ECGD, March 2010.

to ensure the benefits of procurement and payment improvements are shared with small businesses, **all central government departments will be required to include a clause in their contracts with suppliers to ensure that suppliers pay their subcontractors within 30 days.**

Suppliers' Charter

4.26 Following the Government's publication of a Policy through Procurement Action Plan on driving growth through public procurement,[9] **the Government is launching a consultation on a charter enlisting industry's support for its priority policies.** Suppliers will be encouraged to engage voluntarily with the commitments, creating a collaborative approach which will contribute towards growth in the economy.

Procurement for Growth principles

4.27 To further support the agenda set out in *Building Britain's Future: New Industry, New Jobs*,[10] **the Government is launching a set of 10 key Procurement for Growth principles**, calling for effective industry engagement before procurement, to better enable suppliers to meet government's forward demands. Procurers' take-up of the principles will help level the playing field to enable UK companies to bid successfully where they are able to offer value for money.

Reforming regulation

Better regulation

4.28 Regulation is a key tool for delivering policy objectives, but it brings with it significant costs for businesses. To reduce the burden of administration and to enable firms to focus their efforts on taking advantage of the opportunities that arise as the global economy returns to growth, this Budget announces measures to strengthen the UK and EU frameworks for new regulation and to simplify the stock of existing law. These will ensure that regulation is only used where it is the most appropriate policy lever, and after all non-regulatory approaches have been fully explored.

Improving the framework for new regulation

4.29 To ensure that the costs of regulation to business are always fully taken into account in the design of new regulation, the Government will:

- **set out from the next Parliament a Draft Forward Programme of the measures affecting business that it intends to consult on over the following 12 months.** The Government will consult both on this Draft Programme and on ideas for offsetting simplifications in the areas covered by new proposals;
- **consult on strengthening the Consultation Code to require departments to set out the implications of non-intervention and, wherever possible, to present a non-regulatory alternative alongside any regulatory options.** To support this, the Better Regulation Executive will develop a toolkit to help departments better identify alternatives to regulation;
- **consider whether there is a case for a benefit-cost ratio threshold** for new regulation and **whether it is feasible to conduct affordability analysis**; and
- **press for the European Commission to consult on individual Impact Assessments before making policy decisions, and to assess the overall costs and benefits of new measures in the pipeline. The Government will work to ensure that the EU updates its Impact Assessments where proposals are significantly changed during the legislative process.**

Simplifying existing regulation

4.30 To make further progress on reducing the burdens of existing regulation, the Government will develop a public assessment framework for departments' performance on better regulation, and work with those agencies and public bodies that are directly

[9] *Policy Through Procurement Action Plan*, Office of Government Commerce, January 2010.
[10] *Building Britain's Future: New Industry, New Jobs*, HM Government, April 2009.

responsible for enforcing regulation to identify regulations that could be simplified. The 2009 Pre-Budget Report set out the Government's plan to save £6.5 billion in regulatory costs over 2010-15. **To support delivery, the Government has set the following indicative ranges from each theme:** Employment and Skills £1-1.5 billion; Business Law £500-750 million; Consumer Issues £500-750 million; Built Environment £1-1.25 billion; Transport £500-750 million; Natural Environment £400-750 million; Workplace Health and Safety £250-500 million; Health and Social Welfare £250-500 million; and a further £500-750 million from other regulations that do not fall under any of the major themes. These ranges will be reviewed as the programme develops, with each theme publishing its first Delivery Plan in autumn 2010.

THE UK AS A CENTRE FOR RESEARCH AND INNOVATION

4.31 The future success of UK companies in winning business in global markets will depend on their ability to innovate and to take advantage of the UK's world-class research base. Following this Budget, **an update on *Building Britain's Future: New Industry, New Jobs* one year on will outline progress on the Government's strategy to support the development of key sectors of the economy.** This Budget also announces measures to support universities and encourage innovation, to facilitate the commercialisation of research and intellectual property, and to improve skills in the key jobs and industries that will drive the UK's future growth.

Encouraging investment and collaboration

Patent Box

4.32 The Government is committed to ensuring the UK remains an attractive location to invest in and exploit innovation. Building on a range of policies already in place to support the UK's innovative industries, the 2009 Pre-Budget Report announced the introduction of a Patent Box, applying a 10 per cent corporation tax rate to income from patents from April 2013. The Government will work with business to design a practical and competitive regime for patents to support the UK's strengths in innovative industries. This will include looking at how to identify and value embedded patent income and how to give relief to acquired patents. In addition to patents granted after legislation is passed in 2011, the consultation will also consider how to include patents not yet commercialised at that point, and how the regime will apply to equivalent overseas patents held by UK companies. **The Government will consult with business during summer 2010 on this basis.**

Creative industries

4.33 The creative industries, including the video games industry, make a valuable economic and cultural contribution to the UK. **The Government announces that, following consultation on design, it will introduce a tax relief for the UK's video games industry,** subject to state aid approval from the European Commission.

Hauser review

4.34 The UK is a world leader in research, but the Hauser review, which will be published on 25 March 2010, has identified a strategic gap in commercialising this knowledge. It recommends that the Government should capitalise on the UK's research strengths by providing focused investment in a new model for Technology and Innovation Centres. These centres aim to research, prove and develop technologies where the UK has world-leading expertise and which provide the greatest opportunity for future growth. **The Government will take forward this recommendation and develop a strategy by the 2010 Pre-Budget Report that identifies key strategic technologies and outlines a 10 year vision for the UK.**

University Enterprise Capital Funds

4.35 UK universities are among the best in the world. To further exploit their commercial potential, **the Government will invest up to £25 million in a University Enterprise Capital Fund**, through UK Finance for Growth, which will provide crucial early stage funding for the commercialisation of some of the most promising university innovations. This will draw in private funding of at least £10 million, giving universities more opportunities to develop and demonstrate their innovative techniques and processes.

IP Pooling 4.36 In addition, **the Government is facilitating discussions between a group of universities to explore options for a collaborative vehicle to commercialise Intellectual Property from their research, and to help access finance from private sector investors.** These measures will harness the excellence of the UK's research base to build profitable and innovative businesses that will drive future economic prosperity.

NHS intellectual property 4.37 **The Government plans to consult on a new gateway for the export of NHS intellectual property and services.** By taking commercial advantage of cutting edge medical and managerial innovations, leading UK institutions, including the five academic health science centres, will be able to raise new funds to invest in frontline patient care.

Institute of Web Science 4.38 To ensure that the UK remains at the forefront of developments in the internet and fully exploits its economic potential, **the Government confirms £30 million of funding for the Institute of Web Science,** a joint venture between Southampton and Oxford Universities.

Developing skills for growth

4.39 Growing firms and innovative industries require a world-class skills base. The Government set out its strategies to achieve this and to build on the excellence of the UK Higher Education sector in the *Skills for Growth*[11] White Paper and *Higher Ambitions*,[12] both published in November 2009. As part of this agenda, an independent review of Higher Education funding and student finance, led by Lord Browne, will report back later in 2010.

UKCES Skills Audit 4.40 The UK Commission for Employment and Skills (UKCES) published the first national Skills Audit on the 17th March 2010, providing a high-level assessment of current and future skill needs. The Government welcomed the report and has set out actions to follow up its findings, including through a new Joint Investment Programme to support skills in high priority sectors.

Higher Education Modernisation Fund 4.41 Higher Education is a key priority for growth. **This Budget announces a £270 million Modernisation Fund, which will be made available to universities in 2010-11** to enable them to identify and deliver efficiencies over the next four years, and fund extra undergraduate places. To ensure that growth sectors of the future have access to a talent pool with the right skills, and in the light of unprecedented demand for university places this year, **the Government is funding universities to recruit 20,000 extra undergraduates** on courses starting in 2010-11 which support the strategy set out in *Building Britain's Future: New Industry, New Jobs.*

Shared Service pilots 4.42 **The Modernisation Fund will include £20 million for a Shared Services Pilot Scheme to support a number of pilots between universities in 2010-11.** To ensure efficiencies are also realised in Further Education, **the Government has also allocated £15 millon for Shared Service pilots between Further Education institutions.**

EIB finance for Higher Education 4.43 In support of its strategy to maintain world-class Higher Education, **the Government welcomes the approval of £350 million from the European Investment Bank (EIB) to finance Higher Education construction and improvement works, including science parks and incubators,** through Barclays Bank.

Enterprise Education 4.44 The next generation of entrepreneurs will drive the future growth of the UK. This Budget provides updates on wide-ranging improvements to enterprise education:

[11] *Skills for Growth*, BIS, November 2009.
[12] *Higher Ambitions*, BIS, November 2009.

- £15 million to extend enterprise education into primary schools and Further Education colleges, on top of the £55 million already dedicated to enterprise education in secondary schools;
- **a £2 million expansion of the National Council for Graduate Entrepreneurship's Flying Start programmes to support current university students and recent graduates to set up their own businesses.** In 2010-11, these programmes will be made available in all English universities; and
- working with the Prince's Trust, **the Government will increase the support available to young people interested in starting their own businesses by developing a new 'Be Enterprising' toolkit to be available online, free of charge.** Alongside this Budget, UK banks have also issued a statement confirming their support for young people with good business plans.

MEETING THE UK'S INFRASTRUCTURE AND ENERGY CHALLENGES

Investment in infrastructure

Infrastructure UK

4.45 In the 2009 Pre-Budget Report, the Government established Infrastructure UK to act as a focal point for the UK's infrastructure strategy and its long-term development and delivery. Alongside this Budget, Infrastructure UK publishes a *Strategy for national infrastructure.*[13] This provides an overview of the current state of the UK's infrastructure, identifies overarching challenges and opportunities, and outlines areas for action. Box 4.3 sets out the key announcements that Infrastructure UK will take forward to meet the challenges that this work has identified.

Box 4.3: Announcements in the *Strategy for national infrastructure*

Infrastructure UK will:

- be responsible for managing the establishment of the Green Investment Bank, to be funded from asset sale receipts and private sector investment, and will publish a consultation on its establishment in summer 2010;
- work with key stakeholders within government and the private sector to identify where changes in policies and regulation are required to encourage investment in infrastructure in the UK;
- develop a National Infrastructure Framework, alongside the process for the next Spending Review, so that effective decisions on prioritisation and timing can be made with a long-term, cross-sectoral view of infrastructure needs;
- work with government bodies and the private sector to identify the interdependencies that impact on infrastructure investment needs, and publish an action plan setting out the response to them by spring 2011;
- commission an investigation into the cost of civil engineering works for major infrastructure projects in the UK and publish the conclusions and recommendations by the end of 2010; and
- work with departments to develop and publish an Infrastructure Technology Strategy that coordinates future investment in research, development and innovation for infrastructure in line with the priorities set out in the National Investment Framework.

Further details are provided in the *Strategy for national infrastructure,* which is published alongside this Budget.

[13] *Strategy for national infrastructure*, HM Treasury and Infrastructure UK, April 2010.

Green Investment Bank

4.46 Infrastructure UK and other stakeholders have identified that there is a significant risk of a gap emerging in the provision of equity capital to large complex infrastructure projects within the next few years. To bridge this gap, **the Government intends to establish a Green Investment Bank, operating on a commercial basis and involving both public and private sector capital.** The Government will start by investing up to £1 billion from the sale of mature, government owned infrastructure-related assets and will seek to match this with at least £1 billion of private sector investment. The Green Investment Bank's mandate will be to invest in the low-carbon sector where the equity gap is expected to be most critical. Further details are provided in Chapter 7.

Private Finance Initiative

4.47 To ensure that Private Finance Initiative (PFI) projects continued as planned through the downturn, the Infrastructure Financing Unit was established in March 2009 to lend to PFI projects that are unable to raise sufficient debt finance on acceptable terms, to reach financial close on a timely basis. Thirty-five PFI projects, involving £4.6 billion of finance, have reached financial close in 2009-10, compared to 18 projects involving approximately £1 billion in 2008-09.

High Speed 2

4.48 The Government welcomed the High Speed 2 Limited report, which set out detailed route proposals for a new high-speed line between London and the West Midlands.[14] The Secretary of State for Transport has published a formal response to the report and will proceed later in the year with public consultation on the proposed route from London to Birmingham.

Local authority transport

4.49 The Government continues to support the local transport needed to maintain growth, improve access to jobs and to help regenerate the UK's cities and regions. This includes recent funding commitments to support projects worth over £900 million, and the Government has given initial approval for further schemes worth over £550 million.

Local and national roads

4.50 **This Budget announces an additional £100 million to fund repairs for local roads damaged by the recent cold weather. The Government also announces an additional £285 million investment to enable further progress on the Managed Motorways programme and other major road projects,** part funded by reductions in the Department for Transport's marketing and communications budgets and other low value spend.

Progress on Digital Britain

4.51 The 2009 Pre-Budget Report provided an update on action following from the *Digital Britain* White Paper,[15] a comprehensive strategic analysis of the UK's digital economy published in June 2009. Box 4.4 sets out further progress.

[14] *High Speed Rail: London to the West Midlands and Beyond,* High Speed 2 Limited, March 2010.
[15] *Digital Britain,* BIS and Department for Culture, Media and Sport, June 2009.

Box 4.4: Progress on Digital Britain

The *Digital Britain* White Paper committed to providing a Universal Service Commitment (USC) in broadband by the end of 2012. It also announced a new Landline Duty, which will be implemented on 1 October 2010 and will raise funds to help the roll-out of Next Generation Access (NGA) super-fast broadband to 90 per cent of the country by 2017. Since the 2009 Pre-Budget Report, the Government has:

- consulted on the draft legislation and impacts of the new Landline Duty and is publishing a response alongside this Budget;
- announced the creation of 'Broadband Delivery UK', which will implement the USC and NGA projects. The body, which will report to BIS, is currently working with the industry to develop an effective model to maximize the benefits of public funding;
- consulted on relaxing restrictions on deployment of new overhead telecommunication lines, which will reduce the costs of rollout of broadband in rural areas. BIS will publish a full response to its consultation shortly and will consult again on the detailed amendments to the Electronic Communications Code; and
- laid before Parliament a direction to Ofcom which aims to unblock the release of valuable radio spectrum for use in wireless communications and to facilitate the early deployment of next generation mobile networks.

Securing the UK's future energy supply

Energy Market Assessment

4.52 At the 2009 Pre-Budget Report, the Government launched an assessment of whether current market arrangements will deliver the levels of investment needed to make the transition to a low-carbon economy and deliver a fair deal for consumers. As Chapter 7 explains, **the Government is launching a second phase of work to build on the interim findings published alongside this Budget.**

UK oil and gas fiscal regime

4.53 Maximising the economic production of the UK's oil and gas reserves is vital to ensuring access to secure and affordable energy supplies, to support the UK's transition to a low-carbon economy. As a result of discussions with industry, the Government has introduced an extension of the field allowance to support the development of remote deep water gas fields as found in the West of Shetland area, which may contain up to 20 per cent of the UK's remaining reserves.

4.54 The Government **announces a technical change to enable ring fence reinvestment relief to be available, as originally intended, when a group company makes the reinvestment.**

SIMPLIFYING AND MODERNISING TAX

Tax simplification

4.55 The Government aims to reduce the administrative burden of tax on business. Since 2006, the Government has implemented or committed to new measures that will deliver savings to business of £564 million a year. Alongside this Budget, **HMRC is publishing an update on progress against its administrative burden reduction targets along with details of measures it is taking to help business.**[16]

4.56 This Budget also announces further measures to simplify tax burdens on business through the Government's three tax simplification reviews:

[16] *Delivering a new relationship with business: reducing burdens and helping businesses get it right*, HMRC, March 2010.

- **VAT rules and administration:** the Government has announced further simplification of the VAT partial exemption rules and the option to tax rules for otherwise exempt supplies of land and buildings.
- **anti-avoidance legislation:** following consultation, **the Government announces a simplification of the legislation on transactions in securities** that also better targets transactions involving avoidance.
- **corporation tax rules for related companies:** the Government will discuss responses to the recent consultation with stakeholders and **introduce a further simplification of the associated company rules as they apply to the small companies' rate in Finance Bill 2011.** The Government is also consulting on detailed proposals for simplifying capital gains legislation for groups of companies.

VAT registration threshold

4.57 **From 1 April 2010, the Government will increase the VAT registration threshold in line with inflation from £68,000 to £70,000,** keeping more small businesses from having to join the VAT system.

VAT electronic invoicing

4.58 VAT invoices are the single most burdensome VAT information obligation for UK businesses, contributing £473 million to business costs.[17] To enable the use of electronic invoicing to relieve this burden, the EU has recently agreed, with strong support from the UK, that if businesses choose electronic invoicing VAT authorities can no longer dictate the technology that should be applied.

Consortium Relief

4.59 The Government intends to **amend those aspects of corporation tax group relief rules that cover Consortium Relief,** to allow EU and EEA-resident companies engaged in UK consortia to pass on relief for the losses of those consortia to their UK-resident subsidiaries. At the same time, it plans to strengthen rules designed to ensure that access to Consortium Relief is given only in proper proportion to the member company's involvement in the consortium.

Capital distributions

4.60 As announced on 24 February 2010, the Government will legislate to end uncertainty over the tax treatment of some types of distributions made to UK companies as part of commercial transactions. **Distributions will not be excluded from the distribution exemption regime solely because they are of a capital nature.** The change will have retrospective effect for the benefit of companies in relation to distributions already paid, but they will also be able to elect for the legislation not to apply retrospectively.

Controlled Foreign Companies

4.61 The Government remains committed to reforming the UK tax treatment of Controlled Foreign Companies (CFCs), to enhance the competitiveness of the UK while providing adequate protection of the UK tax base. A discussion document was published in January 2010, which set out proposals for modernising the current rules.[18] The Government aims to publish more detailed proposals and draft legislation for consultation later in 2010, and to legislate in Finance Bill 2011.

Taxation of foreign branches

4.62 The Government is bringing forward a review of foreign branch taxation to be conducted alongside the reform of the CFC rules, with any legislative changes also intended for Finance Bill 2011.

[17] *Administrative Burdens - HMRC Measurement Project*, KPMG, March 2006.

[18] *Proposals for controlled foreign companies reform: discussion paper*, HM Treasury, January 2010.

SUPPORTING INCLUSIVE ECONOMIC GROWTH

4.63 Over the last decade, the Government has put in place policies designed to ensure that all parts of the UK benefit from economic growth. But it is important that policy takes account of the different characteristics and prospects of different places. The Government's regeneration interventions will be focused on tackling worklessness, investing strategically for the regeneration of places that offer realistic opportunities for transforming their economic performance, and on connecting people to economic opportunities in places with lower prospects. To this end, this Budget announces further measures to strengthen the ability of local government and government bodies in the regions and city-regions to support inclusive economic growth.

Reforming the regional tier

4.64 To better align investment in growth at the regional level, **this Budget announces an enhanced role for Regional Ministers to promote growth and inclusion and champion public service reform.** To support this new role, the Regional Funding Allocation process will be aligned with the Spending Review cycle, and Regional Ministers will recommend flexing funding to meet regional priorities as they emerge. **A regional growth fund will be established by the Regional Development Agences (RDAs) within their capital budgets for 2011-12, to promote high-value investment in support of regional and national growth and industrial policy.** To simplify the regional tier, **the Government will also act to co-locate the RDAs, Homes and Communities Agency and Government Offices, saving £255 million from 2012-13.**

Empowering city-regions

4.65 Strong city-regions will be given more autonomy under new regional arrangements. The 2009 Pre-Budget Report announced city-region agreements with Manchester and Leeds. Greater Manchester is consulting on proposals to put city-region governance on a statutory footing, to oversee delegations and devolved powers agreed with the Government, including on skills, transport and housing. Leeds city-region is making progress towards similar powers as well as trialling new approaches to asset and capital management. **This Budget announces that Birmingham city-region has been granted powers to set the adult skills strategy across its area.**

Accelerated Development Zones

4.66 **The Government will support investment in infrastructure in our cities and other centres of growth through an Accelerated Development Zone (ADZ) pilot programme. The pilot schemes will be introduced in locations across England in 2011-12.** Combined authorities, as they are agreed, and selected local authorities, will receive capital grant funding to a total of £120 million to help support projects that deliver key infrastructure and commercial development to unlock growth. The Government will assess the impact of the investment on business rates growth within the defined ADZ area to further understand the case for introducing Tax Increment Financing.

Supporting inclusive growth

4.67 The above reforms will enable local and regional government bodies to tackle more effectively the challenge of ensuring that everyone benefits from growth. They will play their part in a wider programme of measures included in this Budget and the *Total Place* report,[19] for example action to:

- support the unemployed to find work quickly and gain the skills needed for a job;
- connect people to jobs by investing in local transport;
- use government procurement to promote enterprise; and
- reform the public sector.

[19] *Total Place: a whole-area approach to public services*, HM Treasury and Department for Communities and Local Government, March 2010.