Growth & Productivity Roundtable
Whitehall & Industry Group | 01 Feb 2023

Attendees

[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	The Whitehall & Industry Group
Joanna Key (Speaker)	Director – Growth and Infrastructure	HM Treasury
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	ExxonMobil
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	3M United Kingdom plc
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	PepsiCo International
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Mars UK
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Lloyds Banking Group plc
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Tesco plc
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Hargreaves Lansdown
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Co-operative Group
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Centrica plc
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Tata Ltd
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Associated British Foods plc
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Vodafone Group plc

[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Airbus
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Jacobs
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Mondelez
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Lego
[REDACTED Regulation 13 - personal data]	[REDACTED Regulation 13 - personal data]	Lendlease, Investment and Infrastructure Forum

Suggested Discussion Points

1. **Can members think of an example countries that offer an environment more attractive to investment than the UK?** What are the key reasons why that environment is more attractive (for example tax, skill levels, labour market flexibility, infrastructure, government grants)?

2. **Can members provide advice on possible causes of low investment among smaller companies?** Could members provide examples of what smaller firms that do invest tend to look like (e.g. in terms of skills, finance)? How could policy incentivise greater investment among smaller firms?

3. Regulation is a critical lever for growth. Government believes that regulatory reform must support competitiveness, remove uncertainty, and support investment and innovation. **Can members provide examples of regulatory opportunities that would enable British businesses to grow and succeed?**

Write-up of session

Executive Summary

- The UK **competes** with other countries to persuade businesses for their finite pot of business investment by levers of regulatory environment, fiscal incentives, and strategic framework. The UK used to have a long-standing reputation for **reliability and predictability**, but this has recently declined, with factors of **hidden costs**, **misaligned incentives**, **skills deficit**, an **obstructive planning system**, and **regulatory churn** all raised for concern.

- Emerging regulatory divergence with the EU was seen as a **net disadvantage** due to greater alignment costs, insufficient stakeholder engagement and clarity on strategy, and even devolution. However, some opportunities were flagged to grow a **comparative advantage** in net zero advanced manufacturing and encourage innovation.

- Businesses raised the range of solutions they have been trailing to tackle the **labour market inactivity** problem. Sideways moves, flexible working policies, and (for a finance firm) helping funding new start-ups to coax back the near-retired inactive were raised. The businesses would like to see more government work on the Apprenticeship Levy, support '**shadow work**', and **connecting the 'distant'** to the labour market.

Follow-ups from the below

- [REDACTED – Section 41]
- [REDACTED – Section 41]
- [REDACTED – Section 41]
- Jo to hear from DEFRA on the Extender Producer Responsibility policy

Discussion

The UK still has strengths: business environment, industry diverseness, high skill base and research potential. But growth & productivity have faltered. We have weak business investment and poor performance across cities.

What makes **other countries more attractive** than the UK?

- The government under-recognises the extent to which the UK is in direct competition with EU for FDI and additional business investment. A theme that emerged across speakers was of sector-specific instances where regulations in other countries were more attractive and aligned with long-term strategic aims of international companies, provoking them to invest there instead of the UK.

- The government could improve the clarity of the 'investment offer' to firms looking to choose where to invest.
  ex: Poland: 68-page document of 'manufacturing investments offer'. Offers clear and targeted guidance attracting investment
  One manifestation of this was that the UK has too many hidden costs compared to other countries. Stealth taxes in energy, product standardisation, and regulatory costs (ex: MHRA fees have increased by 10%) confused the investment attractiveness offer.

- Sector-specific examples of misaligned incentives were raised.
  ex: The European position on utilising Pension Funds for infrastructure investments was highlighted as beneficial. The speaker is keen to see the effects of the latest changes to pensions from the Edinburgh Reforms/Jan '23 Growth Speech
  ex: No caps on incentives was flagged. Poland has no caps on incentives, Polish Tax Incentive Guide https://www.podatki.gov.pl/en/news/investors-tax-guide/
  France has a much higher cap on incentive at €100m/annum

- The skills and immigration systems were voiced as a concern (ex: this firm was unable to fill a factory in Lancaster in a hiring cycle).

- The UK infrastructure pipeline used to be fast-growing and stable, with strong skills support contributing to attractiveness (in energy and engineering). However, this has slowed down recently; the speaker attributed this to political changes and voiced an interest in seeing a renewed and strong commitment.
  Firm supply capacity for infrastructure provision (ex: for construction companies) is instead going to the US: basic and large infrastructure expansion; Eastern Europe: energy schemes; and Middle East: major schemes, such as NEOM

- The planning system was flagged across speakers, under the notion that it currently acted as a severe barrier to investment and growth, when it should be a facilitator
ex: One speaker's company permissioned and constructed a factory in Poland in less time than it took the factory to be just approved in the UK

- Regulatory instability was frequently mentioned for the UK's relative unattractiveness. Examples raised have been summarised into the sections below.

The UK is moving to a position of **greater regulatory divergence** (with the EU). Can regulatory divergence ever be good, and which areas should the UK explore?

- Net zero reform is a clear regulatory opportunity (mentioned by a few speakers). One speaker described this as a low-hanging fruit opportunity, which the UK should seize via regulatory reform (ex: the speaker highlighted CfD for sustainable aviation fuel)

- Some regulatory divergence could be beneficial (ex: in the agricultural manufacturing sector, Precision Breeding and widening allowed production methods). However, product standards, (ex: CE marks etc) was mentioned as a clear negative divergence.

- In heavily regulated sectors, innovation is driven "by the appetite of the regulator". A speaker questioned whether regulators should consider wider strategy (ex: encouraging innovation) rather than what they observed as a focus on stability or risk minimisation (ex: reform suggested on allowing personalised and targeted advice in FinTech).

Do businesses perceive new and differing arbitrage opportunities with potential productivity gains? How might we consider the **balance between benefits and costs of divergence**?

- Diverging from the EU creates additional barriers and costs borne by businesses in compliance.

- Creating divergence now is akin to "ripping up" a current regulatory rulebook, introducing uncertainty and new adaptation costs on account of the UK's long history of businesses already conforming to EU rules. Regulatory instability is a particular problem among infrastructure investment/construction groups, who deliver projects for commissions. They note the long time horizons and that policy/strategy direction-changes can create time inconsistency problems.
One speaker discussed how investors tend to have smaller pots allocated to truly long-term investments (as would be appropriate for infrastructure). As a result, investment for UK infrastructure faces more competition from a smaller pot, and the UK's unattractive regulatory environment makes it harder to win those investments. ***The speaker can follow-up with investor report where they collected this feedback.***

- One speaker noted that the UK has historically had a reputation for stable and reliable decision-making, but competitors took note, and have overtaken. Better regulatory frameworks have emerged in the content on carbon (ex: timber building)
ex: Italy and France have according carbon frameworks with the company's interests and as a result, they have chosen to establish new projects there

- Strategy and implementation were raised as an important factor to easing uncertainty associated with regulatory change. Strategic changes should be backed by serious regulatory (and sometimes fiscal) action to be effective in signalling to businesses that they are credible
South Korea: on the 5G/digital infrastructure rollout, offered clear messaging, direct funding for public goods, and tax credits. ***The speaker can follow-up with a report summarising the initiative***

- Additional 'hard landing' of regulatory churn could come from concern that business stakeholders are not being consulted enough over new regulations (ex: Extender Producer Responsibility – DEFRA). The speaker considers this to be the case with an additional tax on plastic – and fears this will cause undue price rises on food, is not effective in reducing plastic use, and could have been formed better if they as a stakeholder were consulted) ***HMT to get an update from officials on Extender Producer Responsibility***

- Devolution has caused different regulatory requirements within the UK, raising costs. One speaker expressed dissatisfaction with this and said that as one market, it should all be unified.

How are businesses hoping to engage with the **inactive workforce**?

- Businesses observe losing many to early retirement, the same as our overview from national figures. This company describes burnout (dissatisfaction with outcomes) from unwillingness to deal with perceived unnecessary barriers (ex: churn in dealing with real estate policies, regulatory requirements, and one-after-another planning consent applications rejected)

- The changing nature of care and shadow work was mentioned. One company discussed observing greater interest among workers in moving to take care of older generation, and renewed consideration of time spent with children and the family. With this intention towards living out of the city and flexible working, concern was raised that transport infrastructure doesn't support continued in-person work.

- Many companies have investigated or increased the allowances of part-time working.

- One company has started policies of 'sideways moves' for those near the top, as best practice for avoiding negative connotations of a demotion, whilst renewing interest and passion in work, and making room for rising junior workers.

- Encouraging self-employment could be a routes back into work for the inactive. In their labour market analysis, this company finds the lure of self-employment has helped 're-activate' some workers. This FinTech has sought to create new ISA packages to make them attractive as vehicles to support self-employed businesses and pay patterns.

- Concerned over the disincentives associated with benefits/pension system were raised, noting that working brings more money than collecting benefits, but has uncertainty associated with it.

- More could be done for less-represented groups (ex: ex-offenders, learning difficulty groups) in engaging them to the workplace.

- It was suggested that the Apprenticeship Levy could be rebranded in terms of re/upskilling.

What is causing under-investment among smaller suppliers?

- Some speakers expressed dissatisfaction with the government's targeted growth sector approach. Whilst the aggregate benefits of innovation and disruptiveness was noted, concern was raised over missing support for important-because-large sectors, (ex: agricultural manufacturing). Doubt was expressed over small businesses' scaling issues, capacity to invest in training, and innovation investment potential.

- Most SMEs cite inflation and recession as reasons for serious uncertainty hindering investment. In general, instability makes it harder to seize economic opportunity for smaller businesses and permits only big businesses to weather losses caused by macroeconomic or policy changes.
- One company listed access to finance (and guidance in using finance) as a key reason. *Insights could be gained from a report on a trial partnership this company took with a bank on a sustainable finance initiative offered to small businesses*

Conclusion draws from the various key points raised on planning, regulatory divergence, investment competition, and little-by-little labour market changes. Suggestion that previous planning reform approaches have been too focussed on housing rather than wider industry concerns.