



# ICAEW REPRESENTATION 48/17

ICAEW welcomes the opportunity to comment on the *Green Paper on Industrial Strategy* published by on 23 January 2017, a copy of which is available from this [link](#).

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 147,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

Our members work across all major sectors in the UK economy, providing expert financial and business advice to 2 million business in the UK. ICAEW Chartered Accountants within local communities advise entrepreneurs and growth businesses, they work within and lead businesses of all sizes, providing advice and expertise and they form a key element of some of the largest global accountancy networks and professional services firms. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

This response of 20 April 2017 has been prepared in consultation with ICAEW's Corporate Finance Faculty and its Finance and Management Faculty.

Recognised internationally as a source of expertise on corporate finance issues and for its monthly Corporate Financier magazine, the Corporate Finance Faculty is responsible for ICAEW policy on corporate finance issues including submissions to consultations. The Faculty's membership is drawn from professional services groups, advisory firms, companies, banks, private equity, law firms, consultants, academics and brokers.

The Finance and Management Faculty is recognised internationally as a source of expertise on financial management issues and for its monthly Finance and Management magazine. Members include CEOs, CFOs, Financial Controllers and a broad range of finance professionals in business.

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## MAJOR POINTS

### Introduction

1. ICAEW is particularly well placed to respond to the HM Government Green Paper, Building our Industrial Strategy<sup>1</sup>. ICAEW Chartered Accountants are a major force driving British and international economic growth, innovation and export earnings. Our 147,000 members advise over 2 million businesses in the UK. We are experts in skills development and training, providing the market-leading, international accountancy qualification, the ACA as well as life-long Continuing Professional Development (CPD) to our members. Our Royal Charter demonstrates our commitment to work in the public interest, and our response reflects this mandate with a recognition of what is in the UK's long-term interest.
2. ICAEW Chartered Accountants are a key part of the Professional and Business Services sector (PBS). As a professional body we are a member of the Professional and Business Services Council (PBSC). The global accountancy firms have their roots in the UK and strong historical ties with the country. Our PBS sector is considered the gold standard around the world and, as 11% of the UK's economy, is key to its success). It functions as an enabling sector for the UK economy, supporting a wide range of industries to flourish. Previous industrial strategies recognised the importance of the PBS sector and the UK's pioneering role in developing the sector and we believe that the PBS should be firmly at the core of this new strategy for the 21<sup>st</sup> century.
3. The Government's intention to develop a new Industrial Strategy provides a golden opportunity to shape the UK economy and establish this country's position as a leading player in a world of stronger economies for the next decade and beyond. The Green Paper successfully identifies some of the most pressing long-term challenges for the UK economy, specifically: 'increasing productivity and driving growth across the whole country'. However, the omission of some key areas, most notably a clear articulation of the challenges and opportunities of Brexit, other than those set out at high level within the ministerial introductions, is a major concern. For Britain's Industrial Strategy to work effectively, post-Brexit, it will be necessary to integrate the aspirations of this industrial strategy, not only across UK Government, but also internationally and to address the challenges and opportunities that Brexit represents to the achievement of the strategy's objectives.

### Measurement for success

4. While the broad objectives are the right ones, ICAEW believes that this industrial strategy needs to include clearer goals, metrics, and greater consideration of systems of delivery. We fear that without this framework to draw the initiatives together it risks being executed as a disparate group of policies with not enough strategic direction or accountability for successes and failures. Government should introduce a set of metrics to unify the strategy and demonstrate, specifically, whether policy changes are making a positive impact and attaining value for money. To demonstrate the long-term commitment from Government, we do not believe that it is necessary to establish a new body. We recommend that this monitoring and reporting should be delegated to the Office of Budget Responsibility (OBR).
5. ICAEW has responded with particular focus on the Green Paper's "pillars" of developing skills (pillar 2), upgrading infrastructure (pillar 3) and supporting businesses to start and grow (pillar 4), on which we can provide expert input. Nevertheless we have an interest in all ten pillars, and commend the government's efforts in these areas. Specifically we believe that there is the potential to create much value through pillar 10 (creating the right institutions to bring together sectors and places) which is close to ICAEW's own priority of fostering growth and prosperity through the creation of connected communities. We hope this consultation response forms part

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<sup>1</sup> [https://beisgovuk.citizenspace.com/strategy/industrial-strategy/supporting\\_documents/buildingourindustrialstrategygreenpaper.pdf](https://beisgovuk.citizenspace.com/strategy/industrial-strategy/supporting_documents/buildingourindustrialstrategygreenpaper.pdf)

of an ongoing dialogue with Government in which ICAEW are constructive partners with the shared goal of supporting the UK economy to reach its potential.

### Supporting businesses to start and grow

6. Adequate, timely and practicable access to expansion capital is vital to help businesses take advantage of new commercial opportunities, 'scale-up', and so provide innovation, economic growth and long-term, high-quality employment. We therefore recommend that the Government, in partnership with the private sector and bodies such as ICAEW:
  - continues in its commitment to minimising red tape for businesses, particularly at the smaller, entrepreneurial, end of the scale. We note the government's commitment to making tax digital and highlight the support businesses will need to address the incremental compliance costs that will result from this initiative;
  - assesses the progress that has been made in implementing the recommendations of the Kay Review in increasing long-term investment by quoted companies;
  - researches the effectiveness of public sector investment, funding agencies, indirect public support via tax incentives, and private investment, and their combined effectiveness, in channelling investment to growth companies across the UK;
  - plans how it will support equity investment in growth companies once EU-derived funds, such as the European Investment Fund, are withdrawn after 2020, particularly in those parts of the UK that do not currently benefit from major regional or devolved-government programmes;
  - ensures that relatively new forms of consumer investment, such as equity crowdfunding, are well understood in terms of their risks, due diligence, disclosure and impact on business growth, and therefore proportionately supported and regulated; and
  - supports the provision of expert financial advice to companies that are raising expansion/scale-up capital, including from incubators, accelerators, Innovate UK's KTN, LEPs/growth hubs, and professional organisations such as ICAEW.

### Developing skills

7. Improving the UK's skills base is necessary to improve productivity and living standards, allowing people to access skilled jobs and higher wages. The Green Paper rightfully recognises that the UK has lagged behind competitors in developing a world-class technical education system, alongside poor performance in more basic numeracy and literacy. To improve skill levels in the UK, Government must:
  - continue to focus on increasing the quality of training, particularly as it establishes the Institute for Apprenticeships and Technical Education;
  - remove the stigma around apprenticeships and strive for 'parity of esteem' among qualifications;
  - rectify the skewing of school culture towards supporting students to access university courses;
  - include a stronger element of 'place' in skills policy, to close the regional disparity;
  - involve Mayoral and Combined Authorities and local enterprise partnerships (LEPs) in setting skills priorities and spending; and
  - give business a clearer picture of the intended post-Brexit immigration system, with skilled immigrants remaining crucial to so many industries.

### Upgrading infrastructure

8. High-quality infrastructure is an important enabler of economic growth and could provide a national competitive advantage for the UK. ICAEW believes the Industrial Strategy must focus as much on the capability of public bodies to deliver projects as on outlining the projects themselves. To successfully deliver planned infrastructure Government should:

- further focus on the internal architecture within Government necessary to deliver infrastructure projects. In particular;
- establish a dedicated Infrastructure Delivery Group to achieve a step change in delivery performance. We believe these measures will encourage private capital investment. And,
- establish a central fund for local infrastructure, to provide funding for local infrastructure projects that help to meet national priorities.

**We have also included responses to questions relating to the “10 Pillars” where ICAEW plays an important role as an institution that spans all sectors and places in the UK economy.**

## **RESPONSES TO SPECIFIC QUESTIONS**

Questions responded to: 1, 2, 7, 10, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 33, 35.

### **Q1. Does this document identity the right areas of focus:**

9. The Government’s Green paper correctly identifies many of the areas it will be necessary to focus on to achieve the government’s objective of boosting productivity, raising living standards and balancing regional growth.

#### **Extending our strengths;**

10. *Extending our strengths:* The UK is a world leader in many sectors and Government must play to the country’s strengths as we engage internationally in the run up to, and after, Brexit. ICAEW is pleased to see the opportunity in the Brexit negotiation process to make sector deals, and we will look to support the PBS sector in agreeing such a deal, either through the PBSC or separately negotiated. However, we would welcome greater guidance from Government on what criteria these deals will be based and the process for establishing them. As the [BEIS Select Committee Report on Industrial Strategy](#) recognises, there is a risk that without greater transparency, engagement will lack focus and become a talking shop.

#### **Closing the gaps;**

11. The Green Paper is right to argue we must close the gaps in the UK economy, and the government may be able to help address this through regional spending, or employment policy. However, the Green Paper lacks a coherent set of metrics by which Government can be held to account for progress in closing these gaps. ICAEW Chartered Accountants know that what gets measured, matters. We suggest the Government considers these metrics to unify and guide the Industrial Strategy:
  - Establish a national productivity target of 2%;
  - Increase R&D spending to 3% of GDP;
  - Increase the proportion of people with technical qualifications such that the UK enters the top 10 of countries in the OECD;
  - Reduce the gap in per capita infrastructure spending between the North and London<sup>2</sup>;
  - Commit to raising public funding for infrastructure to at least the OECD average; and
  - Increase the proportion of Small and Medium Enterprises (SMEs) exporting.
12. Government should delegate reporting on Industrial Strategy to the OBR, to show commitment to supporting business in a long-term and strategic fashion. Alongside standard reporting on individual policies eg, costs and value for money, it should be demonstrated how policies are likely to contribute to the Government’s selected metrics to encourage strategic thinking in Whitehall.

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<sup>2</sup> <http://www.ippr.org/news-and-media/press-releases/transport-secretary-urged-to-close-1-600-per-person-london-north-spending-gap>

13. ICAEW supports the BEIS Select Committee's recommendation that such metrics should be presented together in an annual update to Parliament.

### **Making the UK one of the most competitive places to start or grow a business?**

14. ICAEW recognises leaving the European Union will present both challenges and opportunities for UK business. Aside from the ministerial introductions to the Green Paper, it is therefore both surprising and disappointing that there is barely a handful of references to the impact of leaving the European Union in the Green Paper. While there are inherent problems in planning ahead of a negotiation, the sooner Government can provide a roadmap for business, including how changes from Brexit will dovetail with the Industrial Strategy, the better for maintaining confidence and allowing businesses to plan. The consequences of Brexit have the potential to be as influential, or more so, on the economic and business environment than the agenda outlined in the Green Paper. In particular, we believe the government should prioritise the following:

- Protecting the movement of skilled labour, by establishing an immigration policy that allows businesses to easily access and deploy talent in an efficient manner, regardless of residency or location of work. The UK is the primary coordination centre of the international accounting networks and associations, disseminating technical and strategy expertise from UK member firms. This would be jeopardised by restrictive immigration policies.
- Ensuring UK qualifications are recognised across the EU, by securing an agreement which replicates the existing recognition framework, as well as the status of UK auditors and Chartered Accountants. Outside the single market, a new agreement would need to be renegotiated, potentially on a bilateral basis.

### **Q2. Are the 10 pillars suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?**

15. There is a strong case for the inclusion of each of the 10 pillars identified in the Industrial Strategy aimed at boosting productivity and rebalancing the economy.
16. There are several other key areas of business policy omitted from the Green Paper which ICAEW believes will be of critical importance to UK business and reaching the Government's aims:
17. Brexit (see response to Q1).
18. ICAEW is surprised the Green Paper makes no reference to the regulatory framework within which all businesses need to operate. A supportive regulatory system can enable and promote enterprise in any economy, but excessive or 'bad' regulation can act as a barrier to competition, stifle growth and reduce productivity. We are concerned that the proposed Industrial Strategy could inadvertently increase the burden of regulation on businesses and compromise the Government's current work on reducing the total cost of regulation to business via its 'Business Impact Target' and 'Better Regulation' initiatives. We note that simultaneous to it pursuing the Industrial Strategy the government will also be proceeding with a tax digitisation initiative that will significantly increase tax compliance costs for business – particularly small entrepreneurial businesses. ICAEW has set out our response to these proposals in [ICAEW REP 171/16](#) and we urge Government as it implements 'Making Tax Digital' to consider carefully the compliance burden that accelerated tax reporting will place on business.
19. Indeed, ICAEW notes there is no mention of the wider taxation system in the Green Paper, despite its instrumental role in the UK economy, over investment, employment and growth. Government should consider how the business tax roadmap complements or supports the Industrial Strategy to ensure incentives are aligned across Government policy.

## Investing in science, research and innovation

### Q7. What else can the UK do to create an environment that supports the commercialisation of ideas?

20. The Government should identify and build on areas where government and business support for the interplay of different forms of investment is leading to successful commercialisation. For example, ICAEW's recent research with the Institution of Engineering & Technology for the policy discussion paper [\*Boosting Finance for Engineering & Technology\*](#) highlighted how grants, regional funds, debt and equity investors are each important building blocks in the successful development of many spin-outs and growth companies. ICAEW therefore welcomes the Government's aim to invest an extra £4.7bn by 2020-21 in research, innovation and industrial strategy.
21. The £400m of additional funding committed by the British Business Bank to its VC Catalyst programme is very welcome. ICAEW members have reported that some high-technology start-ups (including those based on the commercialisation of R&D developed within academic, research and technology institutions) often struggle to raise 'Series A' and 'series B' follow-up funds. In spite of the steady expansion of Enterprise Capital Funds – a programme developed and supported by successive governments since 2003 – the population of 'Series A' investors in the UK is still small and fragmented, particularly outside the London-Oxford-Cambridge 'golden triangle'. The additional £400m for VC Catalyst begins to address this problem for 'scale-up' and 'later-stage' investment.
22. In line with paragraph 23, above, a proportion of the additional £400m VC Catalyst capital could be targeted by the British Business Bank at new VCs funds that specifically invest in university spin-outs and other forms of commercialisation across the UK's regions, as could new, even longer-term funds that might emerge from the Patient Capital Review.
23. ICAEW suggests Government offer more support to universities to establish enterprise funds to attract private capital into their spin-out companies. For example, in December 2016, the University of Cambridge launched its fifth enterprise fund. It has raised a total of £10m since the first such fund was launched in 2012 by the university's commercialisation arm, Cambridge Enterprise. These funds at least partly depend on the generous targeted tax breaks in the Enterprise Investment Scheme (EIS) and Seed EIS (SEIS). The university has also initiated the creation of a follow-on fund, Cambridge Innovation Capital, which has a different funding structure. This could help the UK overcome the 'lag in some aspects of commercialisation, particularly beyond the 'golden triangle'. But ICAEW also recognises that the pipeline of innovation – including substantial commercial licensing activities – and therefore potential investments is relatively strong at the very top universities, therefore attracting more private and institutional investors than may be possible in other individual universities. There is also a relative lack of depth and variety in the number of sophisticated professional managers of such specialist funds – again, particularly beyond the few fund management firms already engaged with the golden triangle.
24. With government encouragement and support, UK higher education institutes could take a more innovative approach to raise investment for the commercialisation of IP and spin-out ventures. For example, InnovationRCA is the enterprise and commercialisation centre of the Royal College of Art (the world's top university for post-graduate art and design in the QS World University Rankings). It has developed an incubation programme, complemented by collaboration with large industrial and high-tech companies and a growing network of business angels. InnovationRCA has seen 60 graduates launch 39 start-ups, which have attracted a total of £39m in external investment and are now generating more than £40m in revenues, and have created more 500 jobs in the UK.
25. New specialist VC funds for university spin-outs/commercialisation could also be considered by the Patient Capital, in which ICAEW is participating. The review could also consider the creation of a UK Government-sponsored fund-of-funds specifically aimed at attracting more

investment in early-stage venture capital by major UK financial institutions, such as pension funds, insurance companies and banks. Such funds should be structured to invest for the longer term ie, with flexible investment hold periods up to and perhaps exceeding 10 years.

26. ICAEW welcomes the creation of the Industrial Strategy Challenge Fund to provide additional finance for the development of 'deep' technologies in eight 'challenge' areas that are likely to make up the industries of the (very near) future – and the announcement in the Spring 2017 Budget of an initial £270m to launch the programme.
27. The Government could also consider creating specific venture capital funds – to follow on from the new Industrial Strategy Challenge Fund – for emerging sectors of 'deep technology', such as those listed on page 15 of the Green Paper. Research evidence set out in *Boosting Finance for Engineering & Technology*, from case studies of advanced engineering and technology businesses across the UK demonstrates that the capital-intensive nature of technology adoption and commercialisation in many forms of advanced engineering means that there is still a significant funding gap between R&D funding programmes (from universities, Innovate UK etc) and when such businesses 'go to market'. Traditional models of institutional venture capital may not find the technological and market risks of such investments or the scale of investment required acceptable.
28. This Green Paper and previous government reports have included evidence that the UK's R&D investment as a proportion of GDP is well below the OECD average and the level of many other economically developed nations. The Government could assess whether there is a good case for the proposal by Jumpstart that HMRC could increase enhancement rates for R&D tax credits in the sub-sectors and technologies that the Government intends to prioritise. ICAEW believes that R&D tax credits have played a positive role in encouraging the commercialisation of intellectual property since the credits were first introduced in 2000.

## Developing skills

**Q10. What more can we do to improve basic skills? How can we make a success of the new transition year? Should we change the way that those resitting basic qualifications study, to focus more on basic skills excellence?**

29. It is positive that the Government has recognised the importance of basic skills and followed up with a commitment to put in place a transition year that will benefit those learners that are the most in need. The curriculum for this transition year needs to involve the input of key stakeholders, particularly employers representing a wide range of industries, to identify exactly which basic skills are lacking. A recent survey, commissioned by ICAEW of 500 UK businesses, reveals that the most important skills that businesses want school leavers to have are numeracy and literacy skills (27%) and a work ethic (27%).
30. In addition to the proposed introduction of a transition year to address the basic skills gap, Government should focus on removing the stigma of certain technical educational programmes and apprenticeships. The perception that apprenticeships and workplace training are sub-standard to a more traditional academic route is embedded in British culture. Tackling this 'parity of esteem' issue will require a long-term strategy to ensure alternative routes into a career are placed on an equal footing with higher education.
31. The push towards higher education has also impacted on the preparation which schools offer young people. We have examples of schools in England refusing employers and professional bodies the opportunity to talk about the various routes into careers such as apprenticeships, professional qualifications, and workplace training.
32. ICAEW has been a leading participant in the development of the Government's Trailblazers apprenticeships. It has proven to be a challenging and resource intensive process to create a high-quality apprenticeship to give young people and students the right knowledge, skills, and behaviours required to contribute effectively in today's economy. Whilst it is important that the



Government is seeking to enhance the quality of modern apprenticeships, it remains an additional challenge to communicate with young people and schools the value of these apprenticeships. A clear view of career progression is also important in modern apprenticeships.

**Q11. Do you agree with the different elements of the vision for the new technical education system set out here? Are there further lessons from other countries' systems?**

33. ICAEW supports the Government's ambition to restructure technical education, as this would enhance quality of qualifications and streamline choice for employers and students.
34. ICAEW further supports the principle of employer-led routes with employer panels, as the participation of employers is key to ensuring that skills that will be required in the new routes and qualifications will be those that employers are looking for in the work place.
35. ICAEW is pleased that one of these routes will be the legal, finance and accounting route and will be overseen by a panel of professionals who will be responsible for developing the new standards for the technical education routes.
36. These reforms need to keep at their heart, the focus on quality. The Government's policy decision to integrate technical education and apprenticeships into the new national body called the Institute for Apprenticeships and Technical Education is a major undertaking, and it will be a challenge for the sector and the Government to ensure that there is necessary funding committed to delivering a high quality technical education system.
37. In funding this proposed change government needs to be mindful of the burden already placed on industry by the apprenticeship levy. It is crucial that there is adequate government funding to augment that already being raised from business.
38. In implementing policy Government must take into account the UK's specific economic structure. It also needs to be mindful of the significant impact on the labour market that would result from a change in immigration policy following Brexit.
39. Nevertheless, there is clear evidence that other OECD countries, such as Germany, have successfully embedded technical education routes into their educational culture with well-recognised qualifications considered to be of good quality and that lead to secure employment. There are lessons here for the UK.

**Q13. What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas?**

40. As the Government indicates in the Industrial Strategy, the skills gap contributes to regional disparities in productivity within the UK. As ICAEW's research into the Northern Powerhouse has noted, developing centres of excellence or minimum levels of support for strategically important sectors like the PBS sector are essential to realise the economic growth envisaged for our regional economies. It is therefore essential that educational and training provision take into account the significant regional differences in skills.
41. Beyond the Government's own research showing that students lack basic numeracy and English skills; for employers the skills gap may be more tangible. ICAEW employers, for example, have shown that there is clear evidence that educational programmes must be better placed to provide the skills needed in the workplace, and employers are now looking past academic results to a competency-based approach with skills such as team-building, self-reflection, organisational and management acumen, communication and IT skills when selecting graduates for employment. Education and training should catch-up with these trends to ensure that the character and skills necessary for success are developed in all students.

**Q14. How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?**

42. Lifelong learning and re-training are also of great importance to keeping up with the fast paced changes in the work and business environment, particularly technology, which is evolving at such a pace that few countries, industries, and employers can keep up. As a leading professional body, ICAEW stays ahead by developing qualifications that ensure that professionals have the skills and knowledge to address change, and adapt to changes in technology and business systems.
43. It is therefore, positive that the Government proposes legislation to introduce digital skills training and embed this in the technical education and apprenticeships routes.
44. Furthermore, ICAEW's CPD model may serve as an example not just for the accountancy sector, but for professional skills and training models. ICAEW recognizes that Chartered Accountants, like all workers, must maintain their professional competence through continued training, education, and development.

**Upgrading infrastructure**

**Q15. Are there further actions we could take to support private investment in infrastructure?**

45. ICAEW believes that high quality infrastructure is an important enabler of economic growth. However it is important to ensure that actual investment, both in infrastructure projects and in the capability of public bodies to deliver them keeps pace with government rhetoric.
46. More action is required to remove the barriers to the delivery of projects. What is needed further focus on which projects should be done; many of these projects are household names long before spades enter the soil. Rather, the focus should be on the internal architecture within Government to be able to deliver these projects, so that private capital is encouraged to invest in them.
47. This includes:
  - demonstrating commitment by raising public funding for infrastructure to at least the OECD average;
  - ensuring the budget framework supports infrastructure delivery; ensuring permissions are granted in tandem with the inception of projects; and
  - ensuring that government departments actually have the specialised skills to design, procure, contract for and deliver well-conceived projects.

**Q16. How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively?**

48. ICAEW believes there are many international examples where central governments include local infrastructure within national policy. One good example is the US Department of Transport TIFIA scheme. Federal grants and loans are available to meet a proportion of the capital cost of economically viable projects, subject to their meeting a set of criteria. It is possible to envisage a fund being established for local infrastructure in the UK, which could make loans or provide guarantees for a proportion of the capital cost of projects subject to their being consistent with a set of national policy guidelines.
49. This would help to promote the development of projects that meet national policy objectives and assist local authorities prioritise their development plans on the basis of an overall national plan. Policy guidelines are for Government to design, however they might be framed in terms of, the reduction of congestion, access to markets for industry and building sustainable economic growth.

**17. What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK?**

50. ICAEW believes that a step change in delivery performance could be achieved by creating a dedicated infrastructure delivery group to manage the end-to-end delivery of infrastructure within Government that sat outside normal departmental structures and skills envelopes. Such an expert group would deliver projects based on the priorities set out in the National Infrastructure Plan (the Plan) with ring-fenced funding.
51. Another step to improve delivery performance would be to ensure that at the time a project entered the National Infrastructure Pipeline, all the permissions required to implement it were in place.
52. Government should reduce the frequency of reviews of the Plan to ensure stability in the programme. This combined approach would provide industry with confidence in both the ability of Government to fund and to deliver the National Infrastructure Pipeline, boosting willingness to invest development equity in projects and to build and maintain pipelines.

**Supporting businesses to start and grow**

**Q18. What are the most important causes of lower rates of fixed capital investment in the UK compared to other countries, and how can they be addressed?**

53. There are three major components of Gross Fixed Capital Formation:
54. Business Investment: This includes business expenditure in plant and machinery, buildings, etc,. A recent Bank of England report into business investment and financing decisions found that two thirds of UK businesses have been able to invest at the appropriate level over the past five years based on their own interpretation of the term. However, one third of businesses reported investing too little due to a variety of perceived financial and real economic barriers. These barriers include using 'rules of thumb' rather than using economic models in investment decisions, which may result in businesses being less responsive to changes in Bank Rate and the cost of finance. Another issue concerned using excessive 'hurdle rates' when making investment decisions. For businesses that underinvested, lack of internal funds was the most common obstacle to investment. Financial obstacles were also cited including, the high cost of finance, lack of access to finance and financial market pressures for short-term returns.
55. Public Investment & Infrastructure: This includes expenditure on schools, roads, rail, etc. The Upgrading Infrastructure section of the Industrial Strategy sets out comprehensive plans for Government to increase this expenditure. These include the National Productivity Investment Fund to spend £23bn in high value investment from 2017/18 to 2022/23. This includes £2.6bn for improvements to transport projects and £740m to improve the roll out of fibre broadband connects. Overall the plan is to increase capital spending from 13% of current spending in 2012-13 to 21% by 2020-21. However, the pressures on day-to-day spending on the NHS, Social Care, Aging population, etc, may mean that such an objective is unachievable.
56. Intangibles: This includes spending on non-physical property such as investments in research and development, software, etc. Including intangibles in the definition of Gross Fixed Capital Formation improves the UK standings in the international league table of Fixed Capital Investment. However, it presents two problems. Firstly, such expenditure can be hard to measure. Secondly, given recent productivity performance, such investments seem less effective at increasing growth.
57. To support Gross Capital Formation via widespread investment by small and medium sized businesses ICAEW has long advocated the Government keeps the Annual Investment Allowance (AIA) stable. This provides businesses with predictability in business capital expenditure decision making. The Government has listened and it is currently £200,000.

**Q19. What are the most important factors which constrain quoted companies and fund managers from making longer term investment decisions, and how can we best address these factors?**

58. The question of long-term investment by quoted companies was considered by the coalition government's Kay Review of UK equity markets and long-term decision-making, to which ICAEW was a contributor. The UK Government's own response, published in November 2012, recognised that intermediation, 'misaligned incentives' and the highly transactional nature of the UK's capital markets tended to prevent some long-term investment<sup>3</sup>. It outlined 10 principles for equity markets that would guide market participants, the Government and regulators.
59. ICAEW recommends that the Government now assesses its progress and that of market participants in implementing the 10 principles, and also assesses the progress of regulators in taking steps that 'favour investing over trading' – therefore improving long-term investment.
60. The review made recommendations in particular 'to encourage asset managers to act as long-term stewards of more concentrated, less liquid equity portfolios', so that there would be 'greater willingness to invest funds across a broader range of companies, including smaller businesses who wish to raise equity finance, but are currently unable to do so.'
61. In its submission to the review ([ICAEW Rep 106/11](#), 18 November 2011), ICAEW noted that the regulatory obligations of institutional trustees to minimise risk, and in particular trustees of pension funds, tended to push them towards other forms of long-term, lower risk investment assets (such as gilts) instead of equity. This regulatory induced prudence may then have in turn contributed to significant deficits in many UK corporate pension schemes.
62. ICAEW also recognises that this question of long-term investment will also be greatly influenced by the future alignment or otherwise of UK policy and regulation of capital markets and corporate governance with European Union directives that have helped to shape UK capital markets over the past four decades.

**Q20. Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East?**

63. It is ICAEW's view that increasing equity investment in growth companies ('scale ups') could have a beneficial effect on economic growth beyond the South East of England.
64. ICAEW recommends that Government should do more research on the interplay between public sectors investment, indirect public support via generous tax incentives (such as SEIS and EIS) and private investment. ICAEW also notes new developments in this area of academic research, such as University College London's announcement in January 2017 of a new Institute for Innovation & Public Purpose.
65. Publicly sponsored grant programmes play a very important role in underpinning or catalysing equity investment from private sources, as do equity matched-funding programmes such as those managed by the British Business Bank. The provision of debt on affordable and practicable terms is also vital. For example, in the recent policy paper Boosting Finance for Engineering & Technology published by ICAEW with the IET, it was noted that: 'Innovate UK's system of grants – including programmes for emerging and enabling technologies, manufacturing and materials, open funding competitions and innovation vouchers for small companies – has played a significant part in de-risking the development of many new technologies and ventures, also making them more attractive to external private investors and lenders.'

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<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/253457/bis-12-1188-equity-markets-support-growth-response-to-kay-review.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253457/bis-12-1188-equity-markets-support-growth-response-to-kay-review.pdf)

66. Private equity and venture capital deals (including early-stage tech investments and expansion capital) in the range of about £5m to £20m are a key indicator of the levels of investment in growing companies that are of sufficient scale to add significantly to the economy, innovation and long-term employment. According to data ICAEW has obtained from Unquote/Mergermarket, the total number of such deals in the UK rose steadily from 62 in 2011 to 101 in 2015, although it dropped again, to 76, in 2016.
67. London and the South East's predominance in such growth deals (£5m-£20m) is exemplified by analysis of activity in 2015, when the region accounted for 64 of the 101 reported deals and 64% of the total £972.4m deal size. By contrast, the next busiest region was the South West, which accounted for six deals and 8% of the total value. Data obtained by ICAEW from Beauhurst shows a similar weighting – London and the South East represented 60% of all equity investment deals by number, of whatever size.
68. Many ICAEW members have also voiced concerns about how EU-originated investment programmes that have helped to catalyse investment in other UK regions, such as European Regional Development Funds and the European Investment Fund, might be renewed or replaced after 2020. The creation of the £400m Northern Powerhouse Investment Fund and the £250m Midlands Engine Investment Fund have been broadly welcomed by ICAEW's members. Scotland is already well-served by Scottish Enterprise and its related investment funds, as is Wales by Finance Wales.
69. A significant number of private equity firms provide investment to growth companies across the UK. Many of these are involved in deals for companies with between £1m and £100m of annual revenues. These are small and mid-sized companies that account for a significant proportion of the UK's total business revenues and long-term employment. For example, the Business Growth Fund operates nine offices, LDC has 10 offices, and Foresight Group manages a £40m regional fund and a £40m Nottingham fund. Other private equity firms, such as ECI Partners and NorthEdge Capital for example, also have significant regional bases or, in many other cases, invest across the UK from their London offices.
70. As evidenced by ICAEW's research, later reproduced by the British Business Bank, – the UK's Enterprise Capital Funds programme (started in 2003) has helped to stimulate the formation of many new growth equity funds (now numbering 25 and worth a total of approximately £1bn) and new fund managers that are operating across the UK's nations and regions. ICAEW supports the steady continuation and extension of the ECFs programme by the British Business Bank<sup>45</sup>.
71. The provision of expert business advice across the UK is a vital component of investment. ICAEW has invested heavily in supporting its own members to provide companies with accountancy, business and corporate finance advice. This has included initiatives such as its [Business Advice Service](#). ICAEW has worked very closely with the British Business Bank and other government agencies since 2014 to publish and distribute (in print and digital form) approximately one million copies of the [Business Finance Guide](#).

**Q21. How can we drive the adoption of new funding opportunities like crowdfunding across the country?**

72. It is important to distinguish very clearly between 'reward-based crowdfunding' platforms and 'equity crowdfunding'. They both utilise digital platforms to promote investment opportunities and raise money. But rewards-based crowdfunding is effectively based on donations to the development of a new project, technology or creative activity. 'Investors' are often primarily motivated by philanthropic, social, communal or creative aims.

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<sup>4</sup> <http://viewer.zmags.com/publication/20a52123#/20a52123/18>

<sup>5</sup> <http://british-business-bank.co.uk/british-business-bank-strategic-plan/>

73. Equity crowdfunding is based on retail investors backing early-stage businesses in order to make a financial return. It can be a high-risk and highly speculative activity for investors.
74. The many equity crowdfunding platforms now operating in the UK have played a part in boosting start-up activity, particularly in sectors where the start-ups' business models can be easily understood and fundraising complements start-ups' own marketing efforts. This is particularly the case in sectors such as consumer products, video games, entertainment, restaurants/hospitality, and online retail.
75. Since the Breedon Report in 2014, to which ICAEW was a significant contributor, equity crowdfunding has received considerable capital from and promotion by the British Business Bank – as have other forms of alternative investment<sup>6</sup>. But, as detailed in the Business Finance Guide published by ICAEW and the British Business Bank, equity crowdfunding is one of several forms of equity investment that is suitable for early-stage companies, and so should be regarded as part of a mix of forms of investment to be promoted across the country<sup>7</sup>. Similarly, the operators of many crowdfunding platforms are highly commercial in their approach and so may not require public investment indefinitely, above and beyond the substantial tax breaks such as those conferred by SEIS and EIS.
76. ICAEW has also expressed concerns [in its response to a call for evidence about the level of customer risk, consumer understanding, disclosure and risk of 'mis-selling' involved in some aspects of equity crowdfunding [ICAEW Representation 137/16](#)]. ICAEW hopes that these concerns will be addressed by the Financial Conduct Authority in its crowdfunding rules.

**Q22. What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers?**

77. There are many forms of financial and practical support for growth companies, including the provision of support in kind, fiscal incentives, grants, loans and equity investment. ICAEW agrees with the Green Paper in that 'patient capital' is an important factor if the UK is to increase investment in growth (scale-up) companies and welcomes the announcement of the Patient Capital Review.
78. Public funding will continue to play a large and vital role in many aspects of investment in early-stage companies, particularly in terms of grants and equity investment. Early-stage ventures have to achieve very significant milestones with relatively small amounts of investment. The universe of investors at seed and start-up stages is very fragmented in the UK, which also makes it more difficult to raise sizeable rounds in good time to take advantage of new business opportunities – or, in some cases, merely to stay in business. Many UK institutional venture capital funds are reluctant to back companies that are not already generating revenues of at least £1m per annum. In the case of early-stage companies that are based on capital-intensive technologies, small start-up loans and other existing support may not be sufficient for them to scale up. Increased grant support from government agencies such as Innovate UK is crucial, as evidenced in the policy paper *Boosting Finance for Engineering & Technology*, published by ICAEW with the IET.
79. ICAEW continues to work very closely with the British Business Bank, which since its launch in 2014 has helped to 'catalyse private-sector equity investment', as described in the Green Paper (page 64).
80. Access to term loans and overdraft facilities from mainstream banks, crucially on an affordable and practicable basis is vital for growing companies across the UK. But according to evidence submitted for the House of Commons Business, Energy & Industrial Strategy Committee report on access to finance, in spite of several policy initiatives by the UK Government since 2010,

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<sup>6</sup> <https://www.gov.uk/government/publications/improving-business-access-to-finance>

<sup>7</sup> <http://www.businessfinanceguide.com/>

credit conditions for smaller SMEs remain constrained and lending conditions had improved 'only marginally' since the financial crisis of 2008-2010<sup>8</sup>. Although conditions had eased until mid-2016, the committee also noted evidence of 'discouraged demand', wherein some companies had been put off approaching banks for loans. This is in line with the experience reported by a significant number of ICAEW members. There is also a risk that, in some cases, potential customers who represent marginal credit risks may be deterred by banks from making loan applications because banks want to be able to report more positive lending statistics.

81. There are positive signs about the provision of forms of 'alternative' debt throughout the UK. Shawbrook Bank, for example, which provides various forms of lending, such as asset-based finance, has recently expanded to seven regional centres across Britain. In May 2017 ICAEW intends to publish a guide to asset-based lending alongside the Asset Based Finance Association. This new publication will be made widely available to businesses and advisers.
82. Venture debt could play a bigger role in the UK for some fast-growing, innovative companies. ICAEW is working to increase the awareness of businesses and advisers about this form of lending, particularly in the regions. For example, Clydesdale Bank's Growth Finance arm – providing what is sometimes described as 'venture debt' – lends across Britain. Since its inception six years ago, the bank's Growth Finance team has lent a total of more than £100m to more than 30 fast-growing businesses, including companies in software, engineering, communications, life sciences, semiconductors and oil & gas.
83. The EIS and SEIS remain at the heart of a large part of start-up, growth company and 'scale-up' activity in the UK. EIS has underpinned £24.2bn of capital raised by new ventures and small companies since 1993. In its recent submission to the HMRC consultation about tax-advantaged venture capital schemes ([ICAEW Representation 19/17](#)), ICAEW restated the crucial role of advance assurance services in EIS and how that service could be enhanced.
84. The UK's departure from the EU may give the Government the opportunity to reassess some restrictions to EIS, SEIS and Venture Capital Trusts (VCTs) that currently apply under State Aid Rules, but could be regarded as inflexible. These could include the £5m maximum total that a company can receive, so that fast-growing can find it easier to raise scale-up funds. It could also include the seven-year limit for EIS and restrictions as to the application of funds from VCTs.

**Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?**

85. ICAEW's commitment to increasing business support has included the Business Advice Service and the Business Finance Guide. The [Business Finance Guide](#) was produced by ICAEW together with the British Business Bank and over 20 of the UK's leading business organisations. It is also available via an interactive digital format and has reached over one million businesses throughout the United Kingdom.
86. ICAEW is also working closely with LEPs, the LEP Network and Growth Hubs. Many ICAEW members are heavily involved in many of these business support initiatives.
87. In terms of business advice networks, it is ICAEW's experience that some national programmes have been particularly effective. For example, the Knowledge Transfer Network of Innovate UK provides high-quality advice and information to researchers, technologists, entrepreneurs and companies across the UK and throughout important emerging business sectors. The introduction of the Catapult programme by Innovate UK has begun to create some additional high-quality business support and related networks.

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[https://www.publications.parliament.uk/pa/cm201617/cmselect/cmbeis/84/84.pdf?utm\\_source=84&utm\\_campaign=modulereports&utm\\_medium=module](https://www.publications.parliament.uk/pa/cm201617/cmselect/cmbeis/84/84.pdf?utm_source=84&utm_campaign=modulereports&utm_medium=module)

88. Incubator and accelerator programmes have multiplied significantly in the past few years. They can play an important role in stimulating start-up and investment activity. For example, The Accelerator Network, which ICAEW is supporting in two of its projects, provides 'investment readiness' help, information, training and finance for many technology and digital entrepreneurs. In the past five years, it has assisted more than 300 start-up and early-stage ventures, which between them have raised a total of about £100m.
89. London's early-stage funding 'infrastructure' shows the way that many different public and private agencies can together provide an extensive network of financial support, ranging from well-known accelerator programmes such as Telefónica's Wayra, to Tech City, to investment managers such as Funding London, and well-established formal investment networks such as London Business Angels.

### **Improving procurement**

#### **Q23. Are there further steps that the Government can take to support innovation through public procurement?**

90. To support innovation Government should ensure that an appropriate share of government contracts are with SMEs, in particular early stage ventures and start-ups where innovation can often be found.
91. One way to encourage more SMEs to bid for government work and to gain innovation would be to issue smaller contracts and to have a simplified tender process under a monetary threshold. Such an approach would require more contract management effort from government procurement teams so that what is needed is a way of ensuring that the value of innovation is properly recognised against the increased cost of contract management.
92. Very often small firms are put off bidding for government work due to the high cost of bidding for such contracts, the high levels of compliance required and the finance costs due to the delays between tendering and payment. The large size, duration and winner takes all nature of many government contracts can also shut SMEs out of the market.

#### **Q24. What further steps can be taken to use public procurement to drive the industrial strategy in areas where government is the main client, such as healthcare and defence? Do we have the right institutions and policies in place in these sectors to exploit government's purchasing power to drive economic growth?**

93. Where Government is the main procurer in certain areas to maintain innovation and value it is doubly important to maintain a vibrant, competitive market for the supply of goods and services. Government should to avoid the temptation to collapse the market to a small number of suppliers as has happened in the defence sector with the development of a monopolistic market to the detriment of value. Set against this is the need to preserve national capabilities for strategic reasons such as the capability to build nuclear submarines or to ensure an appropriate reward for pharmaceutical companies who have invested heavily in the development of new drugs.
94. Stronger regulatory oversight is needed in the case of national capabilities, where there is no choice but to procure from what are effectively monopoly suppliers. While the creation of Single Source Regulation Office is a welcome step, we believe it needs a stronger and more independent mandate than it currently has and stronger powers to regulate profit levels on single source work. Where competition is not possible at prime contract level, it should have the powers to mandate competition where possible in the supply chain. To avoid inappropriate pricing strategies being used on single source work and to reduce 'entryism', we advocate a similar approach to the system used by the Federal Government in the US, where tenders for Federal work must be accompanied by a certificate from a registered auditor certifying that the



work is deliverable within the price indicated in the bid, which includes making an allowable level of return. Failure by the tenderer to deliver the work for the prices quoted is an offence.

95. In the case of ensuring an appropriate return on research, we advocate a similar approach. A regulatory office could stipulate an acceptable level of return on government contracts where there was limited or no scope for competition. Again, certification of tender prices by an auditor would ensure the costs to be recovered within them were wholly, necessarily and specifically incurred in the creation of the 'product' together with an acceptable apportionment of overhead.
96. These approaches would help to deliver better value for Government, with greater reliability of cost and with the added certainty of an appropriate return to industry.

### Encouraging trade and inward investment

**Q25. What can the Government do to improve our support for firms wanting to start exporting? What can the Government do to improve support for firms in increasing their exports?**

97. Government should introduce an export voucher or tax credit to help businesses overcome the initial costs and to receive expert advice on exporting. With the possibility of new exporting opportunities arising from the UK's withdrawal from the EU, UK business must be primed to take advantage and start trading. Minimising any additional burdens on businesses wishing to export to the EU must also be a priority of Brexit negotiations.
98. Technology and transportation are opening up exporting opportunities for entrepreneurs. A recent survey found close to 70% of exporters have always exported – they were 'born global'. Come 2020, the OBR expects the value of UK exports to be just £630bn, around a third lower than the Government's £1 trillion target. An export voucher could help those businesses in the early stages become exporters from the outset.

### Cultivating world-leading sectors

**Q33. How can the Government and industry collaborate to enable growth in new sectors of the future that emerge around new technologies and new business models?**

99. ICAEW notes the concern raised by the BEIS Select Committee [\[in its report\]](#) that it is unclear how the Government decided on the five sectors for its early 'sector deals', and that it is questionable whether some of the 'sectors' identified are in fact usefully defined, especially because 'innovation happens at the boundaries between sectors'.
100. ICAEW therefore agrees that the emphasis of many aspects of a new Industrial Strategy should be on some of the emerging technologies and 'industries of the future' – examples of which are listed on page 15 of the Green Paper – whether or not these are regarded as 'sectors' or cross-sector technologies. This is in fact the thrust of the new Industrial Strategy Challenge Fund and the ongoing work of Innovate UK.
101. It is important to note that in all business sectors it is vital to understand how different forms of investment – public and private – interact to create a successful 'ecosystem'. A good example is ICAEW's continuing participation in the Government-sponsored Creative Industries Council and ICAEW's work with 52 organisations to devise [Creative Industries – Routes to Finance](#) as the first detailed, free guide for UK organisations and businesses.

### Driving growth across the whole country

**Q35. What are the most important new approaches to raising skill levels in areas where they are lower?**

102. ICAEW thinks Government should adopt the principle of setting skills policy at ‘the lowest level possible’. If there is a relevant and equipped local body which can decide on priorities and allocate funding then Government should empower those bodies.
103. As part of the continuing effort to empower regional bodies, Government should consider allocating funding from the apprenticeships levy to Mayoral and Combined Authorities to give local leaders a greater say over local spending decisions<sup>9</sup>.
104. LEPs should identify local skills needs in their constituent business communities. They are then well placed to facilitate collaboration between business and leaders and further education institutions. The aim should be to develop a local skills system which is more responsive to local needs and attractive to businesses looking for somewhere to invest<sup>10</sup>.
105. Careers advice also plays a pivotal role in students meeting the needs of local labour market demands. Students need better careers advice to fully understand their options and the routes available to them to skilled jobs. Careers advisers need to be properly funded and have adequate training. They should be equipped with information on local and national labour market needs, alongside being in dialogue with local business.

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<sup>9</sup> [https://www.london.gov.uk/sites/default/files/devolution - a capital idea lfc 2017.pdf](https://www.london.gov.uk/sites/default/files/devolution_-_a_capital_idea_lfc_2017.pdf)

<sup>10</sup> [http://www.ippr.org/files/publications/pdf/business-skills\\_Nov2016.pdf?noredirect=1](http://www.ippr.org/files/publications/pdf/business-skills_Nov2016.pdf?noredirect=1)