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# Good Jobs, Better Businesses, Stronger Communities: Proposals for a new economy that really works for everyone

## Policy Paper 133

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# 1. Overview and approach

## 1.1 Introduction

1.1.1 Our current economy is simply not working for enough people in Britain today and is not fit to face the coming challenges of tomorrow. We need a new economy – prosperous, fair and sustainable – right for the 21<sup>st</sup> century, one that really works for everyone.

1.1.2 Previously people knew that if they worked hard, got educated, tried to save and played by the rules, they could expect to get a fair deal – with decent wages, rising living standards, an affordable home, good public services and a secure pension. They could reasonably expect things would be better for their children and grandchildren.

1.1.3 Today's reality is different. In the last decade since the financial crisis, some have done extremely well, especially those owning assets such as shares in companies or multiple properties. For the majority, however, this is not the case – indeed many feel they are going backwards and are fearful for the future. Meanwhile little is being done to address the long-standing endemic weaknesses in the British economy – which remains unbalanced geographically, over-reliant on financial services and too light on investment in productive capacity.

1.1.4 Liberal Democrats want to build a new economy that really works for everyone – one that provides good jobs and opportunity at work, that ensures business serves the common good and consumers benefit, and that sustains strong communities and thriving places. We want to harness the technological changes that are coming to build a better future. We will stand up to the vested interests who use monopoly power to grab disproportionate gains. We will nurture the environment and respect the one planet on which all life depends. We will bring back fairness and restore opportunity for all.

## 1.2 Our proposals

1.2.1 Our proposals are presented in three parts as follows:

- Chapter Two: Good Jobs, Greater Opportunity – focused on the labour market, with policy proposals for a fair economy that works for all.
- Chapter Three: Better Business, Empowered Consumers – focused on companies, finance and innovation, with policy proposals for a sustainable economy that works for future generations.
- Chapter Four: Stronger Communities, Thriving Places – focused on local government and infrastructure investment, with policy proposals for a balanced economy that works for the whole UK.

1.2.2 In summary, Liberal Democrats will create a new opportunity economy that really works for everyone through three powerful strands of action.

*For jobs and work:*

- Reforming the labour market to give control and choice back to workers, with additional rights for those in the gig economy, a powerful new Worker Protection Enforcement Authority to protect those in precarious work, and a 'Good Employer' kite mark to promote good firms.
- Investing in skills, in particular in lifelong opportunities for retraining, so people can better adjust to the fast-moving economy of the 21st Century, with a national skills strategy, an expanded Skills and Training Levy and a new initiative - Lifelong Learning Entitlements.
- Setting immigration policies that support growth and meet key skills gaps, with a Canadian-style international mobility programme.
- Strengthening diversity and equality of opportunity in the workplace, with mandatory reporting of pay ratios and corrective action plans, and a fresh approach to modern trade unionism for stronger representation in new workplaces.

*For business and consumers:*

- Reforming the ways companies and markets are governed to entrench a longer-term, more sustainable approach, with a new Companies Act for the 21<sup>st</sup> Century, so large companies fully reflect the interests of all stakeholders, serve the common good and are accountable for their actions – including an annual Fair Pay report and action plans on diversity.
- Making the UK a laboratory for new forms of enterprise, with a big boost to employee ownership by extending the Liberal Democrat ‘employee ownership trust’ scheme.
- An extended public interest test for takeovers that conflict with the national industrial strategy.
- Challenging the growing concentration of market power – including in energy, banking and the new ‘tech titans’ – with stronger regulation of monopolies, enhanced consumer protections, greater rights over data and by sharing economic benefits more widely through an innovative Citizens’ Wealth Fund.
- Introducing a new ‘right to repair’ for consumer products, setting lifetime manufacturing standards and curbing costly waste and pollution.
- Harnessing the strength of the public sector balance sheet to open additional sources of finance for innovative business, the green economy and vital national infrastructure including hyper-fast broadband.
- Helping businesses to adapt to the challenges of the digital economy, with forward thinking ‘automation plans’ to prepare for change and a new approach to potentially disruptive technology with a ‘Hippocratic oath’ for innovators.

*For communities and thriving places across the UK:*

- Devolving more powers on economic development to cities and regions within England, with enhanced flexibility on revenue generation and a focus on increasing local purchasing power.
- Developing sustainable cities as hubs of growth, concentrated around skills, housing and healthy environments – with increased transport connectivity within and between regions an essential component.
- City and region integrated economic development plans, aligned with the national industrial strategy, based on specialist sector clusters and with close links to universities.
- Increasing access to finance and investment, with an enhanced mandate for the British Business Bank to catalyse private sector investment equally across the UK.

### **1.3 The state we are in now – and what to do**

1.3.1 These proposals respond to problems with the current British economy and anticipate coming changes.

1.3.2 At the root of Britain's disappointing economic performance is historically low productivity compared to other leading Western countries. British productivity per hour worked was already about 15% behind the G7 average before the 2008/9 crash, and since then it has hardly grown at all. In the long run it will be impossible to see a general improvement in incomes without boosting productivity.

1.3.3 Like all Western countries the UK faces the challenges of an ageing society, with the proportion of the population in the prime earning years steadily falling. This trend would be much worse if it were not for migration, but the current government's self-destructive anti-

immigrant stance risks making the demographic pressures much worse.

1.3.4 While the UK is relatively good at producing highly-skilled graduates, we lag behind in technical, intermediate and basic skills, and we also fail to give people opportunities to retrain mid-career which are increasingly needed in the knowledge-based economy.

1.3.5 Linked to the skills shortage is the growth of a very insecure labour market, with growing numbers of workers on zero hours contracts and without traditional labour protections such as paid sick leave. This arises from a lack of bargaining power for low-skilled workers and the weakening of union representation. While flexibility can be beneficial for employers and workers, we must ensure people are treated like human beings not merely units of production. In addition to the direct effects on the individuals concerned, the more people are trapped in low-paid and insecure employment, the less they will be able to contribute to tax revenues and to generate savings.

1.3.6 New threats are emerging to competitive markets, with big online platforms exploiting their sheer scale and taking on the mantle of the nineteenth century oil and steel monopolists. These are often challenges too big for individual countries to meet alone. Britain has its own particular failures in regulation of domestic monopolies such as the railways which harm overall economic performance.

1.3.7 Despite our world-leading financial services sector, there is a lack of finance for innovative new businesses to scale up, and this is linked to short-termism in investment decisions. Overall spending on innovation and R & D by both government and the private sector is low by international standards.

1.3.8 Furthermore much of current economic activity is inherently unsustainable. Big strides in energy efficiency and renewable energy will need to be made if we are to achieve our goal of a Zero-Carbon Britain by 2050. This transition can create new jobs (already over a

quarter of a million people work in the UK's low carbon and renewable industries, according to the ONS). Further opportunities will arise in the shift in manufacturing and services towards a so-called circular economy.

1.3.9 The problems of economic underperformance and unsustainable models of growth are exacerbated by very unfair distribution of economic rewards. Partly this unfairness is place-based – investment, productivity and incomes are much higher in London and parts of the South East of England, while seven of the ten poorest regions in northern Europe are in the UK. Partly we have a model of capitalism in which existing holders of wealth have seen high returns in recent years while those dependent on earned income have struggled, particularly younger people. Partly we continue to see continuing injustices with the persistence of worse opportunities for disadvantaged groups.

1.3.10 The Conservative government has produced an Industrial Strategy, but it is long on analysis while short on practical policies, and it carries very limited funding with it. It is particularly inadequate in addressing skills shortages, fails to grasp the opportunity offered by Britain's existing leadership position in green technology, and does little to promote entrepreneurship and innovation.

1.3.11 The backdrop to all these problems is great uncertainty about the possible impact of Artificial Intelligence. Some fear that this will lead to the replacement of many if not most jobs done by humans at present within the next 25 years and a potential dystopia of worklessness. Others believe the effects will be less drastic, the removal of the need for people to do relatively routine jobs will be a liberation and new jobs will emerge that need human skills.

1.3.12 What is not in doubt is that a fourth industrial revolution is underway, as powerful in transforming every part of the economy and society as previous shifts from water power and coal, to electricity and now digitalisation. The question is whether we can harness the change

both to address Britain's long running economic malaise and to build a new fair and sustainable economy.

## **1.4 Our approach**

1.4.1 The Liberal Democrats exist to build and safeguard a fair, free and open society. An essential component of that goal is a strong economy that encourages wealth creation, develops and uses the skills of people, operates through free and competitive markets, and distributes the rewards of success fairly. However we know that market forces alone cannot achieve this and that the dynamic power of big business, if left unchannelled, tends towards environmental exploitation and, with size and success, the potential abuse of market position.

1.4.2 In seeking to build a new economy for the 21<sup>st</sup> century, we therefore believe the state should allow market to operate freely where possible but intervene where necessary. This combination of an enabling, activist state and well-regulated, competitive markets marks a fundamental shift from the anti-interventionist approach of the last three or four decades.

1.4.3 This is not a return to the days of 'we know best' big government; rather it is about using the legitimate power of the state to change the framework of rules within which markets operate – the economic system – to achieve better outcomes for people and the planet. As Liberal Democrats, we believe that happens when individual citizens have greater power and rights in the economy, often by working together, and when they are not simply seen as customers and workers, to be used or exploited according to market forces alone.

1.4.4 Therefore we want a dynamic and prosperous economy which offers greater fairness and equality of opportunity, providing individuals with fulfilling work; one that allows for genuinely sustainable growth, respecting the environmental limits of our one planet while

providing consumers with the goods and services they aspire to; and one that enables communities across the whole UK to thrive.

1.4.5 To achieve this, we embrace the opportunities which the new technologies present, while seeking to protect individuals and society during the transition. We identify the need for increased spending on infrastructure, both human such as skills and physical such as transport and broadband, and acknowledge this requires a step change in the provision of finance, funding and new forms of investment. Ultimately the outcome we seek is increased well-being, not just wealth, and we recognise this needs new ways to measure economic progress.

## **1.5 Measuring economic progress**

1.5.1 There is widespread agreement GDP is a narrow and flawed measure of success. Progress towards good jobs, better businesses and stronger communities needs new ways to assess whether growth is fair, green and improves people's lives.

1.5.2 Some progress has been made towards this in the UK – the Coalition government introduced an annual measure of personal well-being, based on perceptions about four issues (satisfaction, sense of life being worthwhile, anxiety, and happiness). The ONS has also recently developed an at-a-glance basket of 10 additional economic well-being indicators. However, these are complex and are not used in government decision-making or in resource allocation.

1.5.3 Across all three strands of our proposals, we propose a new approach based on three elements.

1.5.4 First, we will develop an alternative calculation of GDP and make it central to decision making, so that it includes important elements currently missing or undervalued, namely:

- Environmental aspects covering capital, costs and benefits associated with 'non-produced' assets such as fish stocks, water and carbon dioxide.

- Unpaid work, including volunteering and personal care.
- The impacts of inequality.
- Creation of intangible assets such as intellectual property.

1.5.5 Second, alongside this reformed GDP measure, we will use a small basket of readily understandable measures of real quality of life, to create a national 'good growth' index, with regional and city-level assessment too. Our 'good growth' index will cover aspects such as good jobs, well-being, the environment, fairness and health.

1.5.6 Third, the reformed GDP and our well-being index will be used in impact assessments of all new government initiatives, in central government funding of devolved tiers of government and Local Enterprise Partnerships and in major infrastructure investment.

## **1.6 Impact of Brexit**

1.6.1 Liberal Democrats – along with most informed economists – believe that withdrawing from the European Union will damage the UK's medium- to long-term prospects for prosperity, as well as making it harder to achieve the international cooperation needed to ensure the global economy becomes fairer and more sustainable. Britain will inevitably move from being a 'rules shaper' to become a 'rules taker'.

1.6.2 Although that is the threat, in this paper we have focused on local, regional and national interventions that can make the UK more productive and competitive on the global economic stage irrespective of the shape of our trading relationships and economic borders.

1.6.3 This paper therefore primarily covers policies which Britain should be pursuing regardless of our EU membership and we have avoided commenting on international trade specifically. Our focus has been on making sure that our businesses, workers and communities are in the best place possible to compete and thrive, no matter what our global relationships look like.

1.6.4 Of course we are mindful of the huge consequences of any exit from the European Union, which will make the problems outlined in this paper far more difficult to solve. This is particularly true of the problems of growing global monopolies, which can only be tackled at the European level. We are also horrified by the trade policies of the Trump administration and the threat they pose to the open rules-based trade system, which remains a key interest of the UK and of the world economies.

## 2. Good Jobs, Greater Opportunity

### 2.1 Introduction

2.1.1 Good jobs, which provide well-rewarded and meaningful work, are central to our individual wellbeing and to the wellbeing of our communities. Previous generations have enjoyed rising living standards, more protection as employees, greater security of employment, and a comfortable retirement. Today, however, high levels of employment mask the precarious nature of many jobs, as work becomes 'flexible' and the 'gig economy' grows.

2.1.2 Looking forward, predictions differ about the impact as businesses embrace new technologies. Some say whole swathes of the labour market will be replaced through automation and artificial intelligence, while others say jobs in new sectors will open up and employment patterns adjust in time. No-one denies major changes are coming.

2.1.3 As Liberal Democrats, we see opportunities if these big shifts are anticipated and prepared for. We want to protect and upskill workers so that they are able to navigate the changing job market. This requires action by government, employers and individuals themselves, who – properly supported – can take more responsibility for their own employability. The education sector, at all levels, will need to adapt. The labour market must remain open to welcome talent from overseas, while those most at risk from low pay or abusive employers needs increased protection. Indeed the willingness of people to accept economic change in coming years depends on tackling the evident problems now.

### 2.2 Our proposals

2.2.1 Our proposals to achieve these goals are presented as follows:

- Reforming the labour market.

- Investing in skills, with lifelong opportunities for retraining, so people can better adjust to the fast-moving economy of the 21st century.
- Setting immigration policies that support growth and meet key skills gaps.
- Promoting diversity in the workforce.
- Strengthening representation at work.

## **2.3 Reforming the labour market**

2.3.1 Recent years have seen increased polarisation of work, with growth in lower-skilled jobs and also in high skills jobs, but weaker growth in-between, reducing opportunities for people to develop and progress in their careers or better fulfil their aspirations in life. One example of this is the increasing number of graduates unable to find relevant work and instead working in roles that don't use their knowledge. Meanwhile for individuals in the workplace, routes and options to improve their skills are not clear. Low wages particularly affect the young, those in the private sector, and those in service industries. It's no coincidence that fewer than 10 per cent of the lowest-paid private sector workers are union members, compared with 66 per cent of the highest-paid public sector workers.

2.3.2 We want to encourage business to ensure that all the jobs they create, across the skill spectrum, provide those carrying them out with:

- A good level of security, both week-to-week and in the longer run.
- A sense of personal empowerment and the feeling that they are valued.
- A sense of community and belonging and good relationships with colleagues.
- Opportunities to develop.
- Fair pay that reflects the cost of living locally.

2.3.3 So we will:

- Embed into the national industrial strategy a new emphasis that moves the UK away from low-pay, low-skill business models.
- Tackle the current prevalence of low pay through measures that include a focus on improving productivity, training and development in sectors that generate large levels of employment at minimum wages, such as retail and hospitality.
- Provide greater protection for those in precarious work and support and encourage businesses to improve their management procedures to enable them to plan shifts properly, achieve better work-life balance among staff and provide better recognition to help motivate their workforce.
- Provide better support and protection for workers with care responsibilities.
- Create healthier environments for people to live, work and travel in by promoting transport and planning policies that maximise safe, attractive opportunities for walking and cycling.
- Encourage the creation of a 'Good Employer' Kite mark covering areas such as paying a living wage, not using unpaid interns and use of name blind job applications to reward good practice, so making it easier for customers and investors to exercise choice and influence.

2.3.4 Despite instances of abuse, we believe flexibility in the world of work can be positive – some individuals positively chose this option, and in a period of great economic change, it aids innovation. However individuals need to have more control and a real choice over this flexibility. It needs both active enforcement of existing employment rights and new forms of rights to match the greater flexibility. The Taylor Review published in July 2017 made a number of positive recommendations for modernising the regulatory framework for labour market, but the government's response so far has been disappointing (and graded only four out of ten by Taylor himself).

2.3.5 Our proposals, which build on the recommendations of the Taylor review, include:

- Establishing a new 'dependent contractor' employment status in between employment and self-employment, with entitlements to basic rights such as minimum earnings levels, sick pay and holiday entitlement.
- Reviewing the tax and national insurance status of employees, dependent contractors and freelancers to ensure fair and comparable treatment, seeking to protect and enhance the take-home earnings of those on the lowest pay rates.
- Introducing a higher minimum wage for hours not guaranteed as part of a contract – determined by the Low Pay Commission, monitored against the effect on guaranteed hours and increased further if required to increase the proportion of guaranteed hours.
- Giving a right to request a permanent contract of employment after 12 months for 'zero hours' and agency workers, not to be unreasonably refused.
- Encouraging gig platforms to allow workers to carry approval ratings with them.
- Reviewing rules concerning pensions, in the spirit of auto enrolment, so that those in the gig economy don't lose out, and portability between roles is protected.
- Shifting the burden of proof in employment tribunals regarding employment status from individual to employer.
- Develop advice for people embarking on self-employment and dependent contractor work including at Job Centre Plus, with a thorough overhaul of the job centre network as a whole for it is fit for purpose in a modern economy.

2.3.6 We also believe there is a need to achieve greater coordination and coherence between the patchwork of existing government agencies – Gang Masters and Labour Abuse authority licensing, HMRC, Director of Labour Market Forces – currently responsible for protecting

workers at the 'bottom end' of the labour market. We propose a new streamlined Worker Protection Enforcement Authority which would both enforce rights more effectively and give employers a simplified institutional contact. It would among other things deliver stronger enforcement of core rights – minimum wage, sick pay and holiday pay – for all dependent contractors as well as employees, and actively enforce tribunal findings, naming and shaming bad employers.

## **2.4 Investing in skills, with lifelong opportunities for retraining, so people can better adjust to the fast-moving economy of the 21st century**

2.4.1 We believe that people need more opportunities to gain new skills as adults throughout their working lives and that academic success should not be seen as the only route to satisfying careers.

2.4.2 Business often complains that young people are not prepared for the world of work, while the information and processes available to students to enable good career choices are inadequate. Some areas of the country have struggled to provide higher-skill labour, making them less attractive places for businesses to locate.

2.4.3 In a modern economy, there needs to be a shift in focus from quantity of work to quality of work and towards an emphasis on job satisfaction, development and with a balance between paid work and family/leisure/voluntary work.

2.4.4 The recently introduced apprenticeship levy is in effect a return to the old industrial training board model of the 1960s but with private sector unplanned training. Only standards are set centrally – meanwhile the UK economy is left with major skill shortages and no plan to meet them. We believe that the UK should have a National Skills Strategy, with a Minister for Training and Skills to take responsibility for its development and implementation, which should include a boost to on-the-job training, mentoring and development.

### *Lifelong Learning Entitlements*

2.4.5 The changing nature of work brings increased need to change careers and retrain multiple times. The World Economic Forum predicts that two thirds of children who started primary school in 2016 will work in jobs that do not exist today by the time they are adults. As work changes, it is vital that all people, young and older, lower and higher-skilled, are able to change with it, so they get the most out of the changing economy. We will:

- Introduce Lifelong Learning Entitlements - individual ring-fenced funds to enable access to high-quality training schemes for adults – to boost productivity and allow for re-skilling. Individuals and employers could also make contributions to the funds.
- Ensure close regulation of training providers, to address risks of fraud (given prior experience) and to overcome the potential for poor provision.
- Include in the Entitlement opportunities to develop ‘soft skills’ such as communications, leadership, teamwork, confidence.
- Provide easier access to training e.g. night schools, distance learning.
- Consult with business on innovative ways to substantially boost employers’ investment in on-the-job training, mentoring and development.
- Support the Entitlement with a right to request time off or flexible working from your current employer to undertake training. We will consult with business on how best to design a right to time off.

2.4.6 We will also promote an expansion of ‘returnships’ – such as a 13-week scheme to help someone with existing skills to get back into work force.

2.4.7 We welcome the establishment of an Independent Commission on Lifelong Learning by Liberal Democrat Leader Vince Cable MP, which will develop these and other ideas further.

*Vocational training and enhanced apprenticeships*

2.4.8 Vocational qualifications are often wrongly seen as inferior to academic qualifications – just a fall-back option for those who don't achieve academically in school. We believe that apprenticeships offer a great opportunity for high-quality, on the job training, but there are a number of problems with the current system. The brand 'apprenticeship' has been devalued in the rush to ramp up numbers by the inclusion of short training courses. The problem for apprenticeships is not lack of demand, it is lack of quality training places.

2.4.9 Since its introduction in May 2017, the apprenticeship levy has run into difficulties and is increasingly unpopular with business, who see it as bureaucratic, convoluted and unnecessarily restrictive. Not only has it led to a general fall in apprenticeship starts (year on year) over two consecutive quarters, but it has affected non-levy paying SMEs particularly badly. Non-levy payers are far less likely than levy payers to increase recruitment under the new system, and to make matters worse there has been great uncertainty surrounding long-term funding for non-levy payers. Our proposals to address these issues include:

- Focus on boosting the quality as well as the quantity of apprenticeships by dropping the government's three million apprenticeships target.
- Build on the work of the Institute for Apprenticeships, and regional bodies, to set standards and frameworks for the full range of apprenticeships across all sectors and through all levels.
- Promote the apprenticeship frameworks as routes for lifelong learning, at all ages, showing how individuals can use them to build on existing skills.

- Introduce new targets requiring a proportion of apprenticeships to be above level three, and a proportion above level four. The requirement for a recognised qualification to be part of an apprenticeship would be reinstated.
- Retain 'degree apprenticeships' as a well understood name for higher level apprenticeship courses which businesses, young people and parents recognise.
- Develop and promote an application system similar to UCAS for apprenticeships.
- Encourage a diversity of transferable, accredited units within apprenticeships. Any training being branded as an apprenticeship should include transferable skills not be company specific. Apprenticeships should conclude with a sector-recognised transferable qualification.
- Ensure that employers and professional institutions maintain their place in setting the standards and frameworks for apprenticeships.
- Promote the accelerated creation of standards and frameworks in national skill shortage areas and direct additional funds to ensure the recruitment of students into these areas.
- Establish Level 3 as the minimum to be considered as a full apprenticeship and implement a minimum length before the term apprenticeship can be used e.g. two-year minimum for 16-18 year olds.
- Rebrand level 2 training as 'traineeships' and promote them as a foundation to a level 3 qualification.
- Explore the potential for a 'right to restart' for students who have completed level 1 or 2 at level 3 after a gap year.
- Introduce formal branding of Higher Apprenticeship for a Level 4 qualification.
- To drive upskilling across disadvantaged demographic groups, introduce specific targets for women, the disabled and those from a Black, Asian and Minority Ethnic (BAME) background.

2.4.10 In addition:

- Liberal Democrats will expand the apprenticeship levy into a wider 'Skills and Training Levy' to help prepare the UK's workforce for the economic challenges ahead.
- The cash raised will be redeemable not just for apprenticeship training, but for a wider range of high-quality training, but only when companies have proved that they have an apprenticeship programme. This will ensure that a wider variety of people's upskilling needs are taken into account, not just young people at the beginning of their careers.
- 25% of the funds raised by the levy will go into a 'Social Mobility Fund' targeted at areas with the greatest skill needs and worth £750 million a year by 2020. This would be used to help address the UK's productivity gap and ensure money flows to where it's most needed, rather than just the wealthiest areas with the largest companies.
- This Social Mobility fund will drive upskilling across underrepresented and disadvantaged demographic groups; we would introduce specific targets for women, disabled people and those from a Black, Asian and Minority Ethnic (BAME) background.
- Responding to concerns around SME engagement with the levy system, we would abolish the 10% 'co-investment' requirement for non-levy payers and simultaneously end the 10% funding top-up for levy paying firms. We would also increase the percentage of funds that can be passed down the supply chain by levy payers.
- There should be a Cabinet Committee on skills, lifelong learning and workplace development. The current Minister of State for Apprenticeships and Skills should be replaced with a cross-departmental 'Minister for Training and Skills' representing both BEIS and DfE and bringing together the government agendas on skills and industrial strategy into a National Skills Strategy.
- Local providers of training funded by the levy, including further education (FE) colleges and private companies, need to have

their voices heard. This engagement should take place under the Industrial Strategy, through the sector deals and the LEPs tasked with local implementation.

- Once the reformed levy has proved effective in raising both the quantity and quality of training, we will aim to raise the rate paid by the largest businesses to further boost investment in skills and training across the economy.

## **2.5 Setting immigration policies that support growth and meet key skills gaps**

2.5.1 Liberal Democrats welcome people to the UK who have come here to work, filling skills gaps in vital industries. We do not accept the idea that migrant workers suppress wages or ‘steal jobs’ from British workers – this is simply not supported by the evidence.

2.5.2 While it is obviously vital that we invest in improving the skills those born in Britain, it will always be that case in a constantly changing international economy that shortages in particular skill areas occur from time to time. There are also some very high levels of skills for which there is a global competition and Britain should not be shy about trying to attract the brightest and best to use their skills to build up our economy. Skilled migrants can also play a valuable role in helping to train up British co-workers.

2.5.3 Higher Education is one of the UK’s most successful export markets. Students travelling to the United Kingdom to study generated an estimated £25 billion for the economy in 2014-15 (Universities UK figures). There will also be further, unquantified benefits from UK-educated foreign graduates later in their careers not just from graduates’ familiarity with and use of British practice and products when working in their home countries, but also as export ambassadors for UK firms who employ them here.

2.5.4 Student migration is hugely beneficial to the UK economy, and there is fierce international competition to recruit students by countries

such as the USA and Australia as a consequence. Current policy and rhetoric around student migration has not been helpful in this respect and is likely to encourage students to consider studying in other countries: universities are already reporting foreign students and researchers choosing to study elsewhere and this is only partly explained by Brexit. We must ensure that the UK remains competitive as a destination for international students.

2.5.5 To ensure Britain can access the skills it needs to make its economy fit for the 21<sup>st</sup> century, we will:

- Incorporate aspects of the Canadian approach by adopting a merit-based system and a temporary workers scheme, so that employers who haven't been able to find people who already have the right to work in the UK for the jobs they have available would be able to get permission to hire workers from other countries for nearly any type of job.
- Promote a British equivalent of Canada's International Mobility Programme – classifying professions who can be hired without needing permission from the government on fixed-term contracts, this would include researchers, health and social care professionals and other workers with in-demand and specialized knowledge.
- Abolish arbitrary caps on work-related visas, to ensure that people are able to enter the country to work when there is demand.
- Establish a “Training up Britain” programme – a mentorship scheme to get highly skilled migrants working with British workers to help them develop their skills.
- Create a new tier of visa enabling international graduates to stay for up to two years after study, provided they graduate and have an offer of employment within six months, so they can contribute positively to the economy after undertaking a course of study here.

2.5.6 More details on our proposals for immigration policy are set out in Policy Paper 131 *A Fair Deal for Everyone: Prosperity and Dignity in Migration*.

## **2.6 Promote diversity in the workforce**

2.6.1 At this crucial time for Britain, it has never been more vital that everyone in society can use their talents to the full. It is also in employers' interests that the workforce, including a company's most senior executives, has been truly selected on merit without discrimination.

2.6.2 Race discrimination, whether direct, indirect, inadvertent or institutional, remains a major problem affecting both the public sector and the private sector. Gender discrimination in the workplace also remains a major issue as evidenced by publication of pay gaps (a Liberal Democrat achievement in coalition) and by the '#MeToo' sexual harassment disclosures. Disability discrimination and failure to assist people with disabilities to make their fullest contribution in the workplace is shown by their very substantial under-representation in the workforce.

2.6.3 The increase in casualisation and the gig economy have exacerbated the unemployment of people with disabilities. The prevalence of casualisation and underemployment among BAME workers lessens their chances of progression, as temporary workers are less likely to gain access to in-house training or to be able to access networks within organisations that facilitate advancement and less likely to gain experience in key roles in an organisation's career ladder. We will:

- Require private sector and third sector organisations to undertake and publish meaningful equality monitoring covering at least gender, race and disability at all levels of the company.
- Require this data be published in the annual report, with listed companies and all businesses and public bodies with more than

250 employees also publishing five-year aspirational targets with a specific action plan to achieve them, reporting activity undertaken and progress achieved annually.

- On pay levels, require listed companies and all businesses and public bodies with more than 250 employees to publish a breakdown of employees by race and pay band as well as gender and pay band.
- Encourage greater use of pay bands in setting pay rates, rather than individual pay negotiations.
- Fully implement the Equality Act 2010, including implementation of the Codes of Practice.
- Review paternity provisions, as a major factor in gender pay gap over age of 30 is that only 2% of men taking up shared parental leave. Options include dedicated paternity leave, higher minimum paternity pay for fathers on shared leave and opening up shared parental leave for the self-employed.
- Firms with over 250 employees should publish parental leave and pay policies on their websites to help reduce discrimination in the labour market against prospective parents, particularly women.

## **2.7 Strengthening representation at work**

2.7.1 At the same time as increasing diversity, we want to strengthen protection of worker rights more generally. We believe that trade unions can play a vital role in the creation of a fairer, stronger economy by defending the rights of ordinary working people, making their voice heard, and striving for better pay, working conditions and equality. Research indicates that those in unionised workplaces are likely to have higher pay, better working conditions and access to more training than non-unionised workplaces.

2.7.2 However for the last 40 years until very recently trade union membership was in constant decline. The fall has been especially precipitate among young workers, and membership among the under

35s would have to increase dramatically just for the total to stand still, given the rate older workers will leave the workforce over the next decade.

2.7.3 Some unions are working to expand their 'offer' to under 35s on low or median incomes in the private sector – where just 6.3% of whom are currently members. This includes offering tools to help them plan their working lives and develop themselves, peer support mechanisms, and practical help for problems at work, like salary checkers and rights information when doing 'gig' economy work. At the same time digital platforms offer routes for new forms of organising in the workplace, even if collective bargaining is weaker.

2.7.4 Unions can also move more strongly into providing services to freelancers, such as cost-effective insurance cover and legal advice, and even opening up premises as work space. The move is from narrowly protecting current members from exploitative employers to actively supporting those working flexibly. We will:

- Continue to defend the 'check off' method of collecting union subscriptions.
- Review the current laws so unions can represent their members effectively including consideration of:
  - Thresholds for entitlement to statutory recognition.
  - Recognition in smaller companies.
  - Right of access of trade unions to workplaces in order to recruit and organise members and to enable employees to meet union representatives at their place of work.
  - Encouraging wider participation in trade union ballots, including electronic voting.
  - Statutory rights for trade union equality representatives.
  - The role of ACAS in promoting collective bargaining.

2.7.5 We will also examine whether more can be done to enable trades unions to represent workers in the 'gig' economy, both self-employed and dependent contractor status. Ideas include:

- Introducing a Right of Access to grant unions a physical right to enter on to workplaces and also to have digital contact with workers, subject to sensible conditions.
- Ensure gig economy workers are notified of their right to join a union with the ability of union subs to be deducted at source from payments, provided the ability to donate to a political fund is one of their choosing.
- Review the regulation of and obligations on employment agencies to strengthen opportunities for networking among those who work independently and flexibly.
- Promote sectoral collective bargaining in low-paid sectors in order to boost productivity and ensure competition does not drive down pay.
- Introduce a 'Union Innovation Fund' to support unions to innovate. The fund would be supported by a surcharge on compensation payments paid by employers at employment tribunals.

## **3. Better Business, Empowered Consumers**

### **3.1 Introduction**

3.1.1 Despite fears about change, the Liberal Democrat approach is to look positively to the future – we believe in the benefits that technology can bring and the prosperity it can generate. Dynamic, entrepreneurial business can be a force for good. So we will embrace change and ensure that everyone benefits from growing prosperity. A successful 21<sup>st</sup> century economy is one based on innovation and initiative, not entrenched wealth or unfair advantages.

3.1.2 To achieve our goals and unlock these benefits, however, some fundamental questions must be addressed:

3.1.3 Which are the businesses that will lead the new economy and how do we support them to succeed? How do we help the businesses of the 'old' economy to adapt and transition?

3.1.4 Whether new or old, what constitutes a 'good' business? How do we ensure all businesses meet the standards that society now demands, if they want to benefit from advantages that society endows – such as the protection which limited liability gives capital providers and the use of state institutions to enforce business contracts?

3.1.5 And when businesses succeed, how do we ensure the benefits are distributed equitably to those who provide labour as well as capital and that, in harnessing other factors of production, they respect the limits of the one planet on which all life - and all prosperity - depends?

### **3.2 Our proposals**

3.2.1 Our proposals to address these objectives are presented as follows:

- Promoting responsible, sustainable companies.

- Empowering consumers, providing choice and safeguarding digital rights.
- Supporting innovative businesses to realise opportunities and develop new technologies.
- Assisting existing businesses as they adapt to the new economy.

### **3.3 Promoting responsible, sustainable companies**

3.3.1 Public trust in business is at an all-time low while scepticism is high about the impact of future technological changes.

- According to polling for IPPR, eight in 10 people (79%) see profitable businesses as important to the community but only a fifth (22%) think businesses are likely to do the right thing in their community.
- 60% of people think that businesses focus too much on making money and not enough investing in their communities.
- Only 16% of the UK public think that the benefits of new technology will be shared evenly across society, according to a survey by Demos (2017).

3.3.2 This poor perception about business has been exacerbated by a succession of recent scandals – the mismanagement of banks, behaviour of senior executives, and the collapse of Carillion. Underlying these findings, however, is a deeper perception that most people lack a real stake in the economy and feel left behind or at the mercy of forces beyond their control.

3.3.3 Fixing this loss of trust is not simply about improved behaviour; it needs to start by addressing why companies exist, how they are constituted and governed, and whether they operate for short term private gain or for long term widespread public good.

3.3.4 Our proposed policies are intended to strengthen the regulatory framework around corporate structures and behaviours with the aim of creating a culture of 'good business' throughout the UK

economy, one that takes a long term view in order to serve consumers, communities and citizens and not just shareholders and executives.

*Creating more 'good' businesses and diversifying ownership*

3.3.5 We believe that businesses who are inspired by a clear statement of their corporate purpose, based around meeting the expectations of all their stakeholders over the long term, are more likely to prosper and outperform their peers, and so create value for shareholders. Rather than being a mere PR add-on, this should be embedded in how the business is governed, managed and held accountable.

3.3.6 Accordingly, at the heart of our proposals is the need for a new Companies Act for the 21st century to reset the contract between big business and society. This will:

- Place an explicit and enforceable obligation on directors of large firms to articulate a clear corporate purpose around the long-term interests of the company and of its employees, suppliers, customers, the community and the environment; this duty should embrace the company's extended value chain where it exercises control or significant influence and should include a 'duty of care' for the common good.
- Create under UK law the option for a new form of incorporation, explicitly with a dual purpose to be profit-making and have a positive impact on society, workers, communities and the environment. Modelled on benefit corporations now permissible under company law in 35 America states, this model would be available to new start-ups and to existing businesses, large and small, who wish to convert.
- Allow for large companies that mainly deliver public sector contracts while operating on a commercial basis to have specific additional duties imposed on directors to act in the public interest (as recently proposed by the Institute of Directors). This will allow transparency over the proper pricing

and risk management associated with large public sector contracts.

3.3.7 To broaden ownership and strengthen participation, we will promote more employee stakes in listed companies. This builds on changes made by the Coalition government in 2014 to allow for employee ownership trusts - a special form of employee benefit trust – under which shareholders are able to sell their shares to the trust without paying capital gains if certain conditions are fulfilled. The trust is then able to pay employees a tax-free bonus every year and pay back shareholders over time using dividends from the shares they hold.

3.3.8 We now want to go further and consider establishing a right for employees of large corporations to require the creation of an ownership fund. These could be funded from a small fractional levy on senior executive options and/or annual shareholder dividends – the amount set by the company itself – and over time build up a shareholding with dividends payable to employees. In this way the interests of shareholders, senior executives and ordinary workers are more closely aligned.

3.3.9 More broadly, we support the conclusions of the recent Ownership Effect Inquiry from an independent panel of business leaders and industry experts chaired by Baroness Sharon Bowles which identified evidence of an ‘ownership dividend’ from having more employee ownership in the UK economy. We believe that an economy with a greater diversity of types of business is more competitive, resilient and productive over the long term. So we will make it explicit government policy to encourage the creation and maintenance of more mutuals, co-operatives, social enterprises, community-interest companies and to support additional moves to increase employee ownership.

*Strengthening corporate governance to encouraging long term and inclusive thinking*

3.3.10 More than 25 years on from the original Cadbury Code, a fundamental reform of the UK's corporate governance arrangements is overdue. We believe that the current narrow focus on shareholders – instead of embracing all the factors which make for corporate success – has contributed to short-termism and under performance in the UK economy. For a 21<sup>st</sup> century economy, inclusive governance is needed. On boards of directors and their duties, we propose to:

- Require large corporations to establish stakeholder advisory panels, covering the interests of employees, customers, communities and the natural environment, with designated non-executive directors overseeing their input to the board's deliberations under its 'inclusive' duties (Section 172 of the Companies Act) and with enhanced reporting of actions taken.
- Encourage greater diversity on boards among all under-represented groups, notably including BAME communities and people with disabilities, building on the success in increasing the number of women by Liberal Democrats when in government, by extending corporate reporting and requiring corrective action plans to be put in place and carried forward.
- Require all UK listed companies and all private companies with more than 250 employees to have at least one employee representative on their boards with the same legal duties and responsibilities as other directors.
- Extend corporate reporting of performance under these requirements - including of diversity ratios in management and of pay gaps perhaps through an annual Fair Pay Report, as well as how s172 inclusive duties have been carried out.

3.3.11 On shareholders and their duties, we propose to:

- Allow shareholders to designate some or all of their holdings as a 'stewardship stake', with enhanced voting power and the right to be consulted, in return for a minimum lock-in before the shares can be sold.

- Encourage institutional and large shareholders to exercise their stewardship functions more broadly by voting at company AGMs, including on executive pay, with mandatory disclosure of voting records and rationale.
- Support moves to give more control to individual savers directly over their pension fund investments whether in Self-Invested Personal Pensions or managed funds, with the right to vote at corporate AGMs exercised by the beneficial owner not the nominee, and by encouraging asset owner initiatives that increase accountability such as the Association of Member Nominated Trustees' Red Line Voting on environmental, social and corporate governance issues.
- For large privately-held or by overseas-owned companies, extend corporate governance provisions that apply to publicly listed companies, based on adherence to the underlying principles of good governance rather than a prescriptive set of requirements and disclosures.

3.3.12 On excessive executive pay, we propose to:

- Speed up plans to publish pay ratios of the difference between top and median earnings, and require these to be examined annually by our proposed stakeholder panels and at board meetings, and reported on publicly each year.
- Put actual executive pay arrangements (as distinct from future pay policy) to an annual approval vote by shareholders.
- Extend the time periods over which executive performance is judged and link them to the long term value of the company, not against selective short term performance indicators, with legally-effective claw-back provisions for failure.
- Restrict the ability of companies to buy-back their own shares, where this amounts to share price manipulation and hinders the company's ability to use its capital for long term productive investments.

*Extending the public interest test in takeovers and increasing accountability over share ownership*

3.3.13 We will:

- Extend the scope of the existing 'public interest' test when considering approvals for takeovers of large or strategically significant companies by overseas-based owners to recognise the benefits to the UK economy, workers and consumers of protecting UK companies (particularly medium-sized enterprises with growth potential and innovative technology) from speculative or short-term interests. The current public interest test is limited to national security and financial stability issues; extensions to the criteria should be explicitly linked to objectives in the national industrial strategy.
- Require verification of public declarations of the beneficial owners of companies registered in the United Kingdom, its overseas territories and crown dependencies, to ensure this defence against money laundering and tax abuse is robust, and enhance disclosure of the beneficial ownership of real estate including by overseas companies owning property in the UK.
- Strengthen the law on criminal responsibility for harm arising from a blameworthy corporate failure, so companies pay an effective penalty, and abolish the need to establish intent or the guilt of a senior executive.

*Moving to genuinely sustainable business models*

3.3.14 Businesses around the world are moving rapidly to new models of production and consumption that respect the environment. This is a shift encouraged in the Sustainable Development Goals which provide a comprehensive framework of globally-agreed objectives covering economic, social and environmental outcomes to be achieved by 2030. Around the world, new markets are opening up for low-carbon and resource-efficient technologies – but while Britain has made progress in industries such as offshore wind power, low-carbon vehicles and green

finance, government has neglected the broader agenda of ensuring industry uses natural resources as efficiently as possible. Government action is needed to ensure British businesses move towards 'circular-economy' models where waste and the use of non-renewable resources are minimised and recovery, reuse and recycling are maximised. Britain has a real opportunity to lead the way, generating sustainable prosperity and jobs. Our policy is to:

- Bring in a Resource Efficiency and Zero Waste Act to set long-term strategy and task the Natural Capital Committee with producing a 'Stern report' on resource risk, recommending legally binding targets for reducing the net consumption of key natural resources.
- Set high product design standards for reparability, reuse and recyclability (at least as good as those in the EU's Circular Economy package of measures), unlocking benefits for business and directly for consumers (as explained in the next section).
- Extend producer responsibility schemes so that companies consider the 'whole life' impacts of their products, and thereby shift the burden of waste management from local authorities and taxpayers to the producers, encouraging innovation in recovery and reuse.
- Promote 'industrial symbiosis', where one company's waste is another's material input, through creating industry clusters and better data provision.
- Set lower VAT rates to encourage repair and recycling (as Sweden has done for products such as bicycles and white goods) and speed up 'product-to-service' shifts in the economy.
- Use public procurement to grow the market for resource-efficient, waste-minimising and reusable products.
- Reform the tax and regulatory framework for landfill, incineration and waste collection to drive continuous increases in reuse and recycling rates and ensure only non-recyclable waste is incinerated.

### **3.4 Empowering consumers, providing choice and safeguarding digital rights**

3.4.1 A key risk of modern capitalism is lack of competition and abuse of monopoly or significant power concentrations in some markets. Many of the issues arise from natural monopolies or conditions where the externalities of networks favour a single owner, leading to the need for regulation. The competition authorities, sectoral regulators and government have sought to inject competition, but the benefits to consumers are patchy at best – so continuing active regulation is essential.

3.4.2 Some markets remain stubbornly concentrated: retail and investment banking (despite the entry of some challengers); audit and accounting (where despite reforms the Big Four continue to dominate); media and news; government outsourcing; house building (with a decline in competition from small builders); manufacturing (notably aerospace, motor vehicles and chemicals). The new information industries meanwhile rely heavily on single operating systems (Microsoft, Google), data gathering platforms (Google, Facebook) or digital market places (Amazon, eBay) where monopoly control can be imposed and competition suppressed. Once established, dominant tech companies can in time be eclipsed by a radical shift in technology but are rarely displaced simply through market forces.

3.4.3 The problems of size and monopoly are far from new. The oil majors; the railroad companies; telephone monopolies; steel and chemicals cartels: earlier generations of trust busting have tackled them. But underlying much of the current dissatisfaction and anger around business behaviour is the inability of national regulators and competition authorities to deal effectively with the 'economic rent' – which appears in profits or executive pay – arising from new forms of monopoly capitalism, including its activities across borders. Abuse of market power is bad for the economy - by contrast, consumer-driven,

competitive markets help to improve efficiency, reduce prices and boost economic growth.

3.4.4 At the same time, some modern economic trends especially in digital technology are opening up new opportunities for consumers, with revolutionary new products and transformative ways of accessing services. However consumer protection and competition policy has lagged behind, while those in low income households are especially vulnerable, and the environmental implications are only slowly being addressed.

3.4.5 Here we have developed proposals to increase competition, protect vulnerable consumers, enhance environmental sustainability and extend citizens' rights in the digital age.

*Strengthening competition and protecting vulnerable consumers*

3.4.6 We will:

- Strengthen the objectives, powers and operational culture of sector regulators including the FCA, Ofcom, Ofgem and Ofwat and of other competition bodies to:
  - Increase their focus on the needs and experience of vulnerable consumer groups, including the elderly, disabled people and those on low incomes
  - Recognise that markets may work less well in some parts of the UK than others and tailor regulation accordingly
  - Ensure that all consumers have access to essential services at affordable prices, including high-speed broadband and core financial services
  - Get tough on providers that offer poor customer service to residential consumers and small business customers (e.g. poor mobile coverage, or delayed broadband connections)
- Promote fairer outcomes and make markets work for all.  
Actions include:

- Deter banks, insurers, energy and communications companies and other providers from offering low prices to new customers only, while continuing to charge high prices for loyal customers.
- Tackle the problem of people on low incomes paying more for the same goods and services than is paid by households on higher incomes (e.g. reliance on pre-payment utility meters; paying for transport per usage not monthly/annual travel cards; not able to use direct debits to make payments).
- Develop an annual 'poverty premium' measure to calculate the extent that low income households are paying extra for the same essential goods and services as other households on credit, insurance, pre-paid meters, direct debit discounts, fee-charging ATMs and public transport season tickets, as proposed by the Social Market Foundation, for use by regulators to monitor the impact of policies.
- Strengthen competition and consumer focused regulation in key consumer sectors which are currently poorly regulated, including rail and bus services, legal services, estate agents and house builders, and concert/theatre/sports ticketing agencies.
- Modernise competition policy for the digital era, empowering it to deal with growing market concentration in the technology sector. Competition policy should not just focus on the prices consumers pay, but other factors such as the impact of takeovers and mergers on innovation and consumer choice.
- Encourage alternative forms of ownership, including mutuals, not-for-profits and arms-length public providers, as a means of providing competition and investment within regulated sectors – particularly rail and water – rather than pursuing expensive nationalisations as an end in itself.

*Benefiting consumers by extending product lifecycles*

3.4.7 The shift towards a 'circular economy', as noted above, will directly benefit consumers. By extending product lifetimes, scarce natural resources are protected and waste reduced, saving on disposal costs, while the economic value embedded in our products is preserved. This creates a win-win outcome for the environment, for businesses which gain efficiencies, for public authorities who save on waste and recycling costs, and for consumers who gain better products and greater value for money. However it needs governments to set the framework of standards within which business can compete and innovate on a level playing field.

3.4.8 We will therefore introduce a statutory 'Right to Repair' as many states in the USA are now doing, to boost small independent repair firms and equip individuals to fix their own products. This will require manufacturers and large firms to provide consumers and alternative repair shops with the same service documentation, tools, access to software and spare parts that they make available to authorised service providers.

3.4.9 In addition to a Right to Repair, we will also introduce:

- Mandatory disclosure of life-time ownership costs (covering purchase, use and disposal) for selected consumer products – similar to energy efficiency ratings.
- Restrictions on planned obsolescence, such as the length of time spares must be made available (as in France).
- Extensions to the default norm on warranties to two years (as in Portugal).
- Enhanced rights over access to control software and data (as set out below).
- Sector-wide manufacturing standards to facilitate durability, repairability and deconstruction rather than end disposal.

3.4.10 Taken together, these will radically shift the balance of power towards consumers and enhance sustainability.

*Increasing digital rights and protections*

3.4.11 The digital economy relies on data. New advances, such as AI (artificial intelligence) and machine learning have huge potential to boost our economy, empower consumers and create innovative products. However, for such innovation to thrive it is vital that UK citizens can have confidence that their data is safe and secure and that they have a real say over how it is used.

3.4.12 Significant progress has been made through the EU's General Data Protection Regulation, (GDPR) to give certainty about the usage of personal data. Looking ahead more needs to be done to ensure that the development of new technologies is guided by firm ethical principles that puts protecting citizens' rights at its heart. We want to see greater strengthening of rules in this area, including a new 'Hippocratic oath' for computer programmers. Following age-old principles – to do no harm, respect the patient and share scientific knowledge freely – this will help ensure all new tech products are ethical by design and protect against practices such as racial bias, addictive content or exploitive methods.

3.4.13 Liberal Democrats also recognise that the data used by technology and other companies is ultimately owned by individual users. Therefore users should be able to reap the benefits of their data being used in AI and other products. Ideally we would like people to be individually compensated for the use of their data, but we recognise the complexities in practice of making this viable. So we believe that there is a role for the state to act on our collective behalf in securing the benefits of our data usage. We are attracted to ideas being developed for using the vehicle of sovereign wealth funds as a mechanism to vest assets for public benefit.

3.4.14 In recent years there have been several examples of the state agencies opening up national data to support innovation, for example by making carefully anonymized health data available for medical and social research. We support this approach, but believe that this should not come cost-free and that the gains should be shared. Therefore any company using such data must provide either direct financial compensation or a stake in their venture - and the proceeds of such data usage could then be used to support the creation of a sovereign wealth fund, to invest wealth on behalf of all UK citizens.

3.4.15 This would both be a major step in giving individuals economic power over the data they generate, and ensure that the revenues generated by their data were invested for the long-term rather than used to fund day-to-day public spending.

### **3.5 Supporting innovative businesses to realise opportunities and develop new technologies**

3.5.1 A thriving 21st century economy will rely on innovation as well as effective investment in new technologies. Our objectives are to ensure that this investment and support is in place while not stifling new ideas and entrepreneurial activity with burdensome regulation or process.

3.5.2 We want to back sectors that can excel in a 21<sup>st</sup> century economy. Such sectors are built around high skilled jobs where innovation is key to retaining a competitive edge. Sustaining that requires a focus on education and spending on innovation.

3.5.3 Our strong higher education sector is already good, though not yet good enough, at supporting spin-offs from research at HE institutions. Overall Britain lags behind in research and development spending across all sectors. Existing Lib Dem policy is to double R&D spending from current levels, to around 3.4% of GDP. The large majority of this increase will need to come from the private sector, with access to new forms of finance.

3.5.4 Here the UK has been successful in securing access to alternative funding, particularly some aspects of venture capital funding, and the UK is the largest home for investment in tech businesses in Europe. However the need for additional investment in shifting to a sustainable economy is huge – estimated by the EU at €180 billion of additional investments a year in energy and related sectors if the Paris climate change targets are to be achieved. The Commission has developed an action plan for the financial sector to mobilise large amounts of private capital.

3.5.5 The UK is well placed to profit from the shift to a ‘green’ economy and to benefit from the increasing value of data to the economy – where we already outperform as an international hub for data driven industry.

*Supporting future markets and business sectors with R&D investment*

3.5.6 Our proposals include:

- Year on year real increases in public funding on R&D for the next 10 years so the nation achieves our 3.4% GDP goal.
- Setting national goals on key R&D priorities through an agreed road-map jointly with industry and the higher education sector, focused on those that help the whole economy move to a more productive and sustainable footing.
- Creating a UK research collaboration fund alongside and based on Horizon 2020 programmes, to engage with business and academia outside Europe – recognising that ‘long term’ in academic spin-offs is often not 3 to 5 years but 15 or more before full commercialisation.
- Reviewing Capital Gains Tax rules so as to encourage long term investment through a taper rate while increasing the rate on ordinary gains closer to income tax levels.
- Accelerating national investment in our digital infrastructure – for example achieving full hyperfast 1Gb broadband roll-out by 2025.

*Expanding access to financing*

3.5.7 Key to realising the potential of a new 21st century economy is mobilising the necessary finance for investment, both in national infrastructure and for individual growing businesses. As Secretary of State for Business, Innovation and Skills, Vince Cable launched the British Business Bank as a state-owned economic development bank with £1 billion of funding. It is successfully, albeit slowly, increasing the supply of credit to small and medium enterprises and providing business advice services.

3.5.8 We propose expanding the remit of the BBB, to catalyse a major increase in private finance for direct lending to fast-growing medium-sized enterprises, so-called 'gazelles', with ambitious plans to exploit technological innovation. The UK is historically weak in providing mid-market secured lending for loans above £50m. We believe the BBB could also act as a channel to aggregate peer-to-peer lending, beyond the reach of the new and fast-growing online platforms.

3.5.9 In addition we will give the BBB an enhanced mandate to diversify its investment support around the UK, so that viable investment prospects in slower growing regions do not lose out – and hold it to account to deliver on this mission. We believe there is considerable scope to use the public sector 'balance sheet' at a time of historically low borrowing costs to leverage and de-risk long term 'patient capital' for economic productive and socially and environmentally beneficial projects. A recent initiative by the BBB to establish British Patient Capital is welcome in intent, but is underfunded and largely reallocates existing funding streams, and so is unlikely to get sufficient traction with private funders on the scale required.

3.5.10 At the last election, the Liberal Democrats proposed providing £5 billion of initial capital for a new Housing and Infrastructure Development Bank, using public money to attract private investment for renewable energy, transport, broadband and housing. We would

have preferred to expand the remit of the Green Investment Bank, however the current government has short-sightedly privatised it. We believe there is much to learn from its early success and the need for an Infrastructure Development Bank will become more acute with the potential withdrawal of the European Investment Bank – which signed new contracts worth some €6 billion in the UK during 2016 alone.

3.5.11 In addition to debt finance, equity markets have an important role in financing the new economy. Recently they have been playing a much-diminished role compared to their core purpose of raising equity capital, as distinct from trading and providing liquidity. Government has an important role - in furtherance of the national industrial strategy - to set frameworks and give direction to markets, especially asset managers such as pension funds.

3.5.12 As a step towards good practice, we propose establishing a Patient Capital Obligation so that a fraction of investments by pension funds are allocated as patient capital, following Treasury definitions, say 0.25% initially, and reported as such to beneficiaries. The core purpose of pension funds, and much of the asset management sector as a whole, is to enhance long term value creation for their ultimate beneficiaries. That is dependent on making a success of the new economy.

#### *Realising the potential of innovative technology*

3.5.13 Down the years, shifts in technology have been the principal driver of productivity growth – and entire industrial revolutions (water to coal, then electricity and now digital) – ultimately resulting in dramatically improved living standards. However the change involved can be hard to accept, raise fears about unintended consequences, and result in non-beneficial outcomes or sometimes actual harm.

3.5.14 A case in point today are the new sciences of biotechnology, gene editing, synthetic biology, nanotechnology and the like – which appear to offer huge potential to create new products and services and

enable the development of entirely new kinds of businesses and industries. Proponents trumpet the benefits, but society struggles to understand or accept them. GMOs were once offered as a solution to feeding the world, yet today are largely excluded from Europe through a combination of consumer reluctance and government regulation.

3.5.15 The UK has the potential to be world-leaders in some of these areas. However unlocking the potential will require a new approach, not driven by hype or mere hope about outcomes. Rather than be technology-led, we believe the starting point for governments and innovators should be the social benefits desired – a problem-led approach that identifies current needs. Trusted mechanisms are then required to present and debate the scientific evidence objectively, and seek ‘informed consent’ before advancing – with less delight in ‘disruption’ and more focus on responsibility and accountability.

3.5.16 Government has a crucial enabling role to play. Public resources can then be aligned around the consensus priorities, with control regimes that protect, not restrict, innovation. We believe that developments in life sciences over the coming decade can be as powerful as those in digital technologies have been over the last. Whether this is for good or ill, and for whom, depends on how we unlock the potential.

## **3.6 Assisting existing businesses as they adapt to the new economy**

3.6.1 The UK is home to some of the most advanced businesses in the world. However, while we succeed at the very top, the gap between these ventures and the majority of businesses is increasing as existing businesses fail to digitise and invest in the future. The UK’s productivity challenge is largely down to the types of businesses that have failed to adapt and embrace new ways of working that reduce cost and increase productivity. In 2015, for example, still only half of businesses in the UK had a website.

### *Create new incentives for digitisation and growth by SMEs*

3.6.2 Small and medium sized enterprises form a critical piece of our regional and national economies and are often the most significant employer in local areas. However many SMEs struggle to take advantage of the opportunities opened up by new technologies or to gain the wider skills they need to grow sustainably. We want to make sure that our SMEs have access to the skills and finance that they need to thrive. A vital part of this is ensuring that all business leaders can access training in new technologies and support in understanding how such measures can support their business and boost their productivity. As noted above, it is also vital to ensure that small firms can access capital to grow into independent medium sized firms without having to sell out prematurely to larger, often overseas businesses.

3.6.3 We support ideas put forward in the recent independent 'Made Smarter' Review to increase the pace of adoption of industrial digital technologies and to speed up innovation. Specifically we support the proposal for a National Adoption Programme, to be piloted in the North West, to test ways of increasing the capacity of existing businesses and growth clusters. The Review's recommendations about upskilling industrial workers in digital technologies focused through an Industrial Digitalisation Skills Strategy accords with our own approach, set out above in the Good jobs, Greater opportunity chapter.

3.6.4 In addition our further proposals are to:

- Introduce a new productivity allowance – allowing offset against a list of approved productivity boosting measures.
- Create a new ENTREST scheme to encourage investment in manufacturing.
- Reform capital expenditure tax relief to ensure that licensing and subscription software can qualify for the same level of reductions.
- Introduce a public training programme for directors and purchasing managers to understand industry developments.

- Reform HMRC's Making Tax Digital programme to create new incentives and ease the transition to quarterly reporting of VAT and other taxes.

3.6.5 To share the benefits of digitalisation more widely, we will:

- Create a requirement for all companies over 250 employees to set out an Automation Plan that assesses and prescribes support for any workers judged to be at risk from automation.
- Enable resource-pooling from companies to allow sectors to share resources targeted at training and development into larger funds. We will consider match funding for sectors that do so.

*Preparing for further technological change, beyond current policy proposals*

3.6.6 Recent technological changes have already impacted some sections of our economy. Many have benefited, particularly consumers, but there are multiple examples where change has happened faster than legislation and regulation can keep up, to the detriment of some workers' well-being. As technological change accelerates, particularly with artificial intelligence and robotics, we must prepare for changes before they happen so that the benefits can reach as widely as possible - whether that is in greening our economy, making goods and services cheaper and more effective, or improving the nature of work or the tasks that people do.

3.6.7 Already we should be taking advantage of better technology by:

- Using automation/technology to expand access to education and training.
- Promoting ways that technology can help workers to add more value or free them repetitive, boring or dangerous tasks.
- Reviewing what skills are needed, and mapping skill shortage areas with a database that allows businesses to report what skills they need – evidence that can then shift the approach taken to training and skills.

3.6.8 Artificial intelligence and robotics are already having a big impact on how we live and work, and are likely to do so even more in the future. Crucially, these changes are likely to be seen at the business-to-business level, rather than to be consumer-facing, but the impacts will still be profound on every individual.

3.6.9 We must begin to address some of the challenges that this will create now, as the pace of technology will make it harder to address failings after the fact. Several potential (non-mutually exclusive) scenarios of varying likelihoods are possible, for example:

- Technology drastically and quickly changes the skills required in the workforce; here, better national monitoring of what skills are needed will help expand access to education and training and adapt more quickly.
- Certain groups of workers are disproportionately affected with unemployment, for instance if driverless vehicles reduce the number of professional drivers; targeted retraining programmes will need to be devised and rapidly deployed.
- Automation shifts the labour market further towards lower-skill, lower-paid work; this may require more fundamental reforms, including to the structure of tax and benefits to shift their distributional impacts and to the education system as it prepares children for a changing world of work.
- Automation reduces the absolute need for human labour, causing significantly higher unemployment; even more radical reforms may be needed, including how tax is raised (if less is raised from workers) and how the wider population has enough income to generate economic demand to sustain UK business. This could include reviewing the length of the working week, retirement age, the role of the minimum wage, the benefits system and possibly a universal basic income.

3.6.10 The available evidence suggests that we are unlikely to see a situation where technology creates mass unemployment across

generations. However, there is a very real chance that failure to support retraining, better education and flexible careers means that those whose jobs might be replaced by automation are left on the scrap heap. Such a scenario will only happen if governments let it. That is why Liberal Democrats believe it is vital that we are prepared to take radical action in the future.

3.6.11 In addition, we recognise that the last ten years of policy development around technology has focused on privacy; the next will focus on how our data is used and on the ethical choices made by those using it. We must ensure that those building the technologies of the future are themselves conscious of the risks that they take. This includes recognising that AI can cause significant negative unintended consequences should systems be poorly designed. That is why we must put ethics – and a Hippocratic oath for innovators – at the heart of new technological development.

## 4. Stronger Communities, Thriving Places

### 4.1 Introduction

4.1.1 We want to help create better places to live and work using solutions that recognise local character, challenges and opportunities.

4.1.2 In a 21<sup>st</sup> century economy, successful local economies are characterised by good skills levels in the workforce, and a focus on certain industries and sectors where the area has a particular strength (without becoming over-dependent on just one or two big employers).

4.1.3 Outside the South East, the biggest urban areas have lower productivity than the places around them, despite cities tending to be more productive worldwide. This gap needs to be addressed to resolve the inequalities between different regions of the UK.

4.1.4 To develop and maintain high skill levels, areas need first of all excellent local schools, colleges and universities, and a strategy for supporting lifelong learning so that the local supply of skills is strong. They then need to make themselves attractive places to live and work, so that local skilled workers don't feel they have to move away and highly-skilled people are attracted into the area. Affordable local housing, a vibrant culture, a good social 'infrastructure' and positive quality of life are crucial.

4.1.5 To attract and retain firms in growing sectors, they also need the right specific combination of skills and infrastructure such as transport and broadband, and active local leadership to champion the area.

4.1.6 This means one size does not fit all: we need empowered local, city and regional leadership which is able bring together all these strands in a way that responds to local conditions. Our goal is to create a network of successful towns and cities across the whole country that also gets the most from rural and local economies to ensure the benefits of economic growth are felt as widely as possible.

## **4.2 Our proposals**

4.2.1 Our proposals to achieve these objectives are presented as follows:

- Devolving decision-making to empower places to improve their economies.
- Planning for more sustainable, successful and better-connected places.
- Supporting balanced growth across the UK.

## **4.3 Devolving decision-making to empower places to improve their economies**

4.3.1 Economic development in regions and localities outside London and its peripheral areas has been held back by central control of structures and investment, and by government policies which change at short notice and without due regard to the circumstances of different regions.

4.3.2 The first step to developing a stronger place-based response to industrial policy and economic development is to liberate democratic local government from central government micromanagement and to give it greater financial autonomy. Liberal Democrats have a programme of well-established policies for achieving this.

4.3.3 Some strategic functions, in particular economic development and infrastructure, cannot effectively be delivered at a local authority level, and we welcome as a first step the start that has been made in further devolution to some Combined Authority areas. However the existing governance arrangements for Combined Authorities are deeply flawed. The Mayoral model has led to overconcentration of power in a single person and has been disastrous for diversity, with the new metro mayors overwhelmingly white and male.

4.3.4 Over the course of the next Parliament further devolution should be achieved across England, within the following framework:

- The geographical makeup of the devolved authorities should reflect local opinion. The decision should reflect local views, traditional boundaries and community identification as well as economic units, current council boundaries and travel to work areas. In some areas this will be city regions, in others sub-regions or a whole region as one unit. Existing Combined Authorities could be (but will not have to be) the basis for these areas.
- We will legislate to empower groups of authorities to come together to establish devolved governance. We will proceed by consensus as far as possible, but will not allow one local authority to veto a coherent proposal.
- Devolution must include democracy, and all authorities must have a democratically elected assembly or council (not just a mayor).
- Devolution should be downwards from government, not taking decisions or responsibilities away from local government.
- Newly empowered devolved authorities should have a fair allocation of central resources. With a democratic mandate should also come the power to raise their own revenues, for example through land value capture mechanisms, to invest in local priorities such as skills and infrastructure.
- In the long run and as part of our commitment towards developing a written constitution, the place of this devolved tier within England should be entrenched so that it cannot simply be swept away by central government if it suits them.

4.3.5 Both devolved authorities and local authorities can take a key leadership role in championing inward investment to their respective areas, and should work with other players such as businesses and universities to seek to retain purchasing power in the local economy where possible and prudent. Within the overall National Industrial Strategy, local industrial Strategies should be developed at both regional and local levels, with local authorities working in partnership with LEPs.

4.3.6 More details of our proposals for local and devolved government within England are set out in Policy Paper 130 *Power for People and Communities*.

#### **4.4 Planning for more sustainable, successful and better-connected places**

4.4.1 Achieving dynamic local economies, with vibrant productive cities economically connected with their suburban, industrial and rural hinterlands, requires changes to spatial planning and improvements to infrastructure such as transport and broadband.

4.4.2 It also requires each area to understand and focus on its strengths, addressing its weaknesses and making hard choices – recognising that businesses will locate and thrive in places that give them what they need – with the ability to recruit and retain workers with the right skills perhaps the most important. For major cities and other urban areas, a key way to increase their attractiveness to business is to enable more workers to be within easy reach of where businesses locate.

4.4.3 So the efficiency of public transport links is central to achieving this. Encouraging cities to become denser and more compact as they grow means walking and cycling become options for more commuters as well. It can also increase the rate of housing delivery, ensuring workers can afford to live within easy reach of their jobs.

4.4.4 This approach, where cities are designed for people first, not vehicles, has a number of other benefits. These include improved public health, lower CO<sub>2</sub> emissions, cleaner air and safer roads. Higher density doesn't have to mean high rise, and can in turn make public transport services and local businesses more viable, creating vibrant, attractive locations. This then helps make cities places where people with skills want to stay after their training, reducing the effect of London 'draining' talent away from other areas of the country.

4.4.5 To support this approach, we will:

- Change the National Planning Policy Framework to provide clearer direction and support for urban areas to pursue denser and less car dependent new development.
- Prioritise walking and cycling in how urban streets are designed and managed and reducing vehicle dominance, car dependency and road danger (while reflecting local circumstances and appetite for change).
- Invest in new and upgraded public transport links, particularly between city centres and their hinterland and devolve more transport powers, including the option to reintroduce bus regulation.
- Allow a greater role for the public sector in providing new housing, including alongside new and improved public transport links.
- Ensure that transport infrastructure and services (as well as planning of new development) is coordinated across administrative boundaries, such as by creating single integrated transport bodies.
- Ensure any regeneration not only includes physical measures to improve places, but is accompanied by measures to reduce the differing aspects of deprivation, such as training, employment opportunities, investment in health and education services, and measures to tackle crime. Housing provided as part of these changes should look to provide sufficient quantities to ensure people are not priced out of an area.

4.4.6 Rural areas are also vital to the UK, accounting for ten million people, three million jobs and 17% of GVA. Agriculture, tourism, energy and manufacturing are some of the particularly important sectors to the UK's rural economies. Investment should to be encouraged to build on these strengths, enabling clusters of sectors that set areas apart from the rest of the country.

4.4.7 As technology develops and digital connectivity becomes an ever-increasing part of the modern technology, it is vital that digital infrastructure keeps up, particularly in rural areas where it can reduce people's need to travel longer distances. Fast broadband is needed more widely, as is good mobile signal coverage. We will:

- Work with Local Enterprise Partnerships to support the development of rural and coastal economic strategies, including a housing element.
- Encourage more private investment into renewable energy – where rural areas have a real opportunity to diversify income streams away from dependence on agriculture - and make saving energy a top infrastructure priority, through a programme of public investment, market regulation and tax incentives.
- Encourage sector industry clusters, such as energy, agri-tech and agriculture, especially in towns that have universities and colleges.
- Invest in the co-location of services around existing local infrastructure, such as primary care services, post offices and pubs - and helping protect the rural post office.
- Ensure households and businesses have access to fast broadband and push for complete mobile coverage across networks.
- Expand the BritRail scheme to UK citizens to promote tourism and make it affordable for everyone to explore the country.
- Explore opportunities for new transport technology to help people travel around rural areas, towns and villages where conventional services has struggled to be viable, providing more people access to jobs and services. This could include demand responsive transport and autonomous vehicles and should go alongside a switch to electric from fossil fuelled vehicles.

4.4.8 The case for local authorities to have the remit and resources to be pro-active in supporting and developing their local economies is

evident from the pressures currently being faced by many high streets. Many big brand names are shrinking their physical real estate, in part because of the shift to on-line retailing and home delivery. However some areas are seeing a return of independent and specialist shops, where councils and landlords are supportive, and some town centres are repositioning themselves as cultural and entertainment hubs, at the heart of their communities.

4.4.9 To sustain this trend, we favour reviewing taxation of business to ensure fair treatment between town centre, edge of town and out of town properties. We also want councils and business to work more closely to prevent closure of the last bank or post office in isolated communities, with regulatory intervention if necessary.

## **4.5 Supporting balanced growth across the UK**

4.5.1 Alongside the national industrial strategy, city and regional economic plans should be aligned and integrated. This will allow individual areas to promote a particular strength and become nationally supported champions.

4.5.2 National support for balanced growth across the UK should also come from getting a bigger impact from public sector expenditure which is typically worth 50% or more as a share of GDP (lower in London and the South East). Without sacrificing value for money requirements, we will review the procurement strategy of all government departments, especially the NHS, with a view to encouraging local economic development and facilitating 'whole-place' public spending. This will require breaking up central and local government procurement contracts into smaller units to allow more involvement by smaller and local companies.

4.5.3 The scale of procurement for infrastructure alone is demonstrated by the recent report of the National Infrastructure Commission, which sets out a long-term plan including an additional £43bn for better transport networks to boost growth, with stable,

devolved budgets to regional cities, investment in renewable energy, and nationwide full fibre broadband to reach every community.

*Refocus public investment to support local economies*

4.5.4 So we will:

- Examine the government's current £270bn a year procurement budget to ensure a more decentralised and devolved approach benefits regional economies.
- Use public sector procurement and infrastructure investment to leverage private sector investment.
- Set a goal for public sector procurement to benefit local businesses and enhance the effectiveness of the Social Value Act. Specifically we will encourage local authorities and NHS bodies to change their approach to tenders to allow for greater participation by local and regional companies.
- Increase regional investment in digital and physical infrastructure as an important economic stimulus; more of this will be directed to the regions.
- Encourage local councils to use their whole asset base including premises, going beyond procurement, to support small business hubs, incubator space and facilities for freelancers. Instead of selling off unused assets for a one-time windfall, councils should lease vacant property to innovative local entrepreneurs, thereby earning income and regenerating their communities while maintaining ownership. Transparent and easily accessible public asset registers could help facilitate this.

*New independent local-based investment funds linked to the British Business Bank*

4.5.5 We will also:

- Seek to re-align incentives in financial markets towards long-term investment in productive enterprises. We are keen to

develop new policies to support innovative forms of business finance.

- Expand the British Business Bank to perform a more central role in the economy, with a remit to help rebalance the UK economy geographically, tackling the shortage of equity capital for start-up and growing firms and providing long-term capital for medium-sized businesses.
- Support fast growing businesses seeking to scale up, through the provision of mentoring support and the development of capital funding streams with £5m-£100m investments via the British Business Bank and partners.
- Consider creating a new 'start up allowance' to help those starting a new business with their living costs in the crucial first weeks of their business.
- Support investment in the next generation of business by reforming Entrepreneur's Relief to enable investors to retain more of their money on exit providing it is reinvested in new projects.

*Invest in university research and commercialisation as a driver of regional economies.*

4.5.6 In addition, we will:

- Learn lessons from the existing 'catapult' innovation and technology centres – which are fewer in number, smaller in scale and with much less collaboration with business than their German counterparts – and selectively expand the programme and strengthen the diffusion of productivity-enhancing innovative technology, with cities and regions making proposals to host new centres.
- Maintain current levels of investment in research equivalent to the £80bn EU Horizon 2020 research and innovation investment which UK universities have been successful in bidding for.

- Continue to support technology-driven university spin out companies. We will encourage pension funds to invest a greater proportion of their assets in this area.
- Encourage investment in technology companies especially those engaged in AI.
- Task the British Business Bank to invest more in high technology manufacturing to support regional economic development, producing higher skilled jobs.
- Focus more investment in local energy companies. Employment in low carbon and renewables industries has reached 250,000, creating a new £43bn industry sector which is set to grow significantly in the next 10 years (ONS).

**Good jobs, better businesses, stronger communities:  
Proposals for a new economy that really works for everyone**

**Policy Paper 133**

This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 8.4 of the Federal Constitution.

Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom.

The Party in England, the Scottish Liberal Democrats, the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas.

The Party in England has chosen to pass up policymaking to the Federal level. If approved by Conference, this paper will therefore form the policy of the Federal Party on federal issues and the Party in England on English issues. In appropriate policy areas, Scottish, Welsh and Northern Ireland party policy would take precedence.

## **Working Group on 21st Century Economy**

Note: Membership of the working group should not be taken to indicate that every member necessarily agrees with every statement of every proposal in this paper.

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