

Scores of red tape: 20 reforms to unleash growth after coronavirus

June 2020



Executive summary

Coronavirus is the most significant new health emergency in a lifetime. But its economic fallout could dwarf the great recession. To maximise the chances of bouncing back, the government should pledge that there will be no austerity for taxpayers and deliver a package of tax and regulatory reforms to sharpen the supply side of the economy, both to fix long-term problems and to enable the economy to best adapt to consequences from the pandemic. The enormity of the emergency means bold, ambitious reforms are needed fast.

We set out the tax reforms needed in *Tax changes to ensure a recovery after coronavirus*.

We now follow up that tax reform agenda and set out the 20 regulatory reforms needed to free up enterprise to help us recover from one of the sharpest economic contractions in history. These reforms cut red tape to build more housing, promote employment, recover high streets, enhance product offerings in goods and services, and make accessing finance less burdensome for smaller businesses.

The five **key themes for reform** are:

1. Housing:

The housing crisis is still with us and the experience of coronavirus has shown the importance of overcrowding. **Give home-owners on individual streets the right to build up to six storeys**, subject to a vote on their street and give home-owners a **'permitted development' right to add loft conversions at the front** as well as the rear, outside conservation areas.

2. Jobs:

Numbers claiming out-of-work benefits have soared even ignoring the furlough schemes. Action to avoid unprecedented mass unemployment is vital. Let firms **offer employment benefits to self-employed workers**, **remove redundancy consultation periods**, **raise the pensions auto-enrolment threshold** and **make home-working more practical** by amending data laws.

3. High streets:

High streets, particularly in the hospitality sector, are in distress. Salvaging as much of the prosperity and employment they create will be crucial. **Abolish Sunday trading restrictions**, let pubs, cafes and restaurants **sell takeaway food and drink permanently**, and let them **use nearby parking spaces and parkland for customer seating**. Let pharmacies with no fitness to practice concerns **open without restriction**.

4. Products:

Getting products to the market and people to their destinations are essential aspects of a functioning economy. Enhance access to goods and services by allowing **outdoor weddings and civil partnerships**, **grant medicines approval automatically** if the Americans, Europeans or Japanese already have, **relax driver training** frequencies, **legalise e-scooters**, create a **single cost of capital** for all regulated markets and **let childcare staff look after more children**.

5. Finance:

Smaller, growing businesses need to focus as much of their resources as possible on their commercial needs rather than red tape. Replace time-consuming InnovateUK competitions for grants and loans with **matched funding for venture capital firms** and exempt larger small firms from mandatory audit requirements by **increasing the thresholds for small companies status**.

Summary of recommendations

To maximise our economic prospects as the UK emerges from the pandemic, the government should pursue a systematic programme of regulatory reform targeted at unleashing enterprise and employment in five key areas: housing, jobs, high streets, products and finance.

Housing

1. Allow individual **street votes on whether to build more housing**
2. Grant permitted development rights for **larger loft extensions**
3. Grant permitted development rights for **two-storey rear extensions**

Jobs

4. Allow firms to offer **sick pay and other employment benefits** without jeopardising self-employment status
5. Remove the requirement for a **consultation period on redundancy**
6. Raise the minimum earnings required for **pension auto-enrolment to £12,500**
7. Amend data laws to **enable employers to better monitor workers remotely**

High streets

8. **Abolish Sunday trading restrictions**
9. Make the right of **restaurants, pubs and cafes to offer takeaway food** permanent
10. Allow **all licenced venues to sell alcohol for takeaway** consumption
11. Allow **new NHS pharmacies** to open subject only to fitness to practise restrictions
12. Allow **cafes, restaurants and pubs to use nearby parking spaces and parks** for tables

Products

13. Allow **weddings and civil partnerships to be held outdoors**
14. Automatically **grant medicines approval** if any two of American, Japanese or European authorities have done so
15. **Change driver training** from five to seven year frequency
16. Create a **single official cost of capital** for all regulated markets
17. **Legalise e-scooters**
18. Allow childminders and nursery teachers to **look after more children**

Finance

19. Replace InnovateUK competitions with **match-funding of venture capital** firms
20. Exempt more smaller firms from **audit requirements**

Coronavirus aftermath

At the time of writing, coronavirus has caused over 40,000 covid-19 deaths, or over 60,000 excess deaths. The virus has had a substantial impact on our health and many experts believe that these figures would be substantially greater were it not for the government's interventions. The impact on the UK economy is also enormous, already in a "recession like we've never seen before" according to the chancellor, Rishi Sunak.

Supply and demand

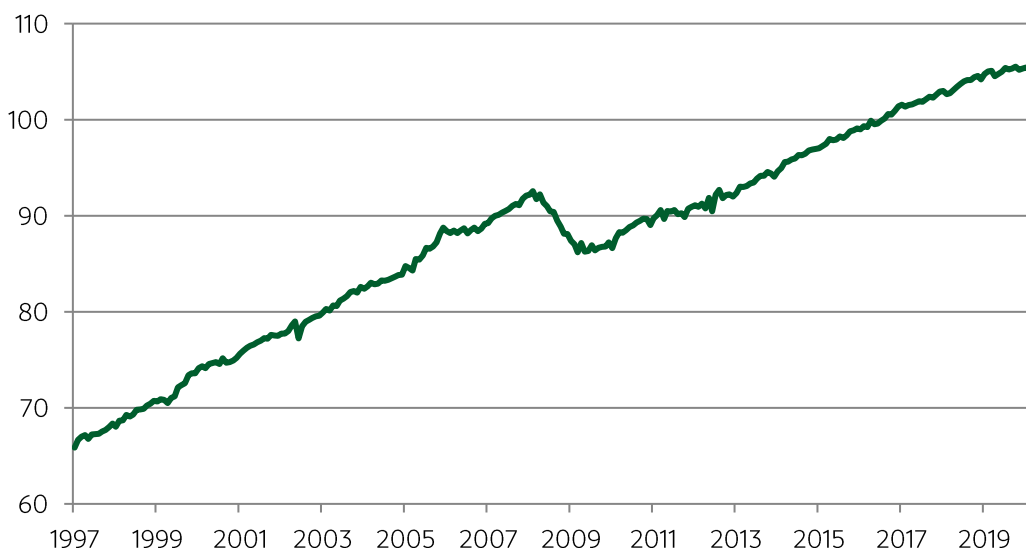
That recession is a policy outcome by virtue of it being an inevitable consequence of the public health measures taken to control the virus. But as the virus becomes ever more contained and the measures are lifted, much of the lost demand will be likely to return. Furloughed staff will return to their jobs, suspended spending patterns will to some extent return and deferred spending decisions will begin to be executed.

Some, however, have lost their jobs already while others will find their jobs no longer exist, partly because spending patterns (such as consumption associated with commuting) may have shifted permanently and partly because others served employees who are now themselves unemployed.

Economic contraction

The economy shrank by 5.9 per cent in March and then a further 20.4 per cent in April.¹ This is the biggest, fastest contraction on record, far eclipsing the great financial crash of 2008 and even the great depression. While prospects are not necessarily as bad as either of those two events because of the induced, deliberate nature of the contraction, it remains to be seen whether sliding into a prolonged depression can be averted.

Chart 1: monthly gross domestic product, January 1997 – April 2020 (2016 = 100)



¹ ONS, *Monthly gross domestic product: time series*, 12 June 2020, www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/gdpmonthlyestimateuktimeseriesdataset, (accessed 14 June 2020).

Employment after coronavirus

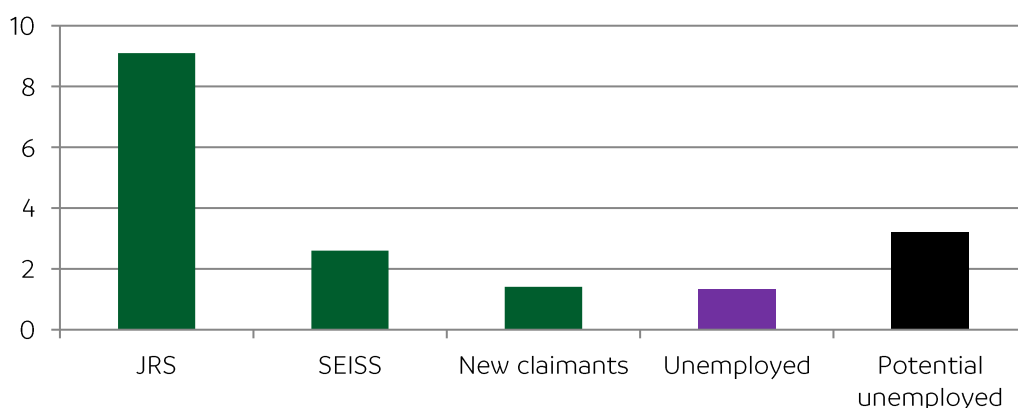
Already, the claimant count for unemployment benefits has soared by 1.4 million to 2.7 million in May.² By 21 June, another 9.2 million employees³ have been furloughed at taxpayers' expense, plus a further 2.6 million claimants of the self-employment income support scheme, and the proportion of these who are likely to join the unemployment register grows the longer the crisis goes on.

Chart 2: monthly UK claimant count, January 2000 – April 2020 (millions)



The 1.3 million unemployed estimated by the most recent Labour Force Survey account for just 10 per cent of the total now unemployed or furloughed. Furloughed employees in the jobs retention scheme (JRS) account for 63 per cent while the self-employed claimants of the self-employment income support scheme (SEISS) account for another 18 per cent. Even if only a tenth of these furloughed staff and half of new claimants fail to retain their jobs, unemployment could potentially swell by another 1.9 million to 3.2 million (see chart 2). But ministers are reported to be concerned that the impact could be much worse than this, fearing that unemployment might rise to an unprecedented 4.5 million over the next year.⁴

Chart 3: unemployed and furloughed UK workers (millions)



² ONS, *Claimant count and vacancies time series*, 16 June 2020, www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/datasets/claimantcountandvacanciesdataset (accessed 19 June 2020).

³ HMRC, *HMRC coronavirus (COVID-19) statistics*, 16 June 2020, www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics, (accessed 19 June 2020).

⁴ Shipman, T., Coronavirus: jobless total to hit 4.5m as firms wield axe, *The Sunday Times*, 14 June 2020.

Optimistic economic forecasters assume that economic activity will rebound as soon as the virus is beaten, with only a one-off reduction in economic activity and temporary employment and fiscal consequences. But there is a risk that the economic slump could last much longer, leaving a scarred economy and devastating health, financial and wellbeing consequences.

Scale

Coronavirus, both directly through disease and indirectly through wider effects, including government interventions, has had a huge impact beyond the shocking loss of life. Civil liberties have been curtailed, fiscal support for businesses and employees introduced, public transport use has reduced and road space has been reallocated all on a scale and at a pace never before seen.

Bold, powerful action will be needed to reinvigorate the economy in the aftermath of the virus to avoid a prolonged, painful slump which entrenches the structural weaknesses of the economy which have long existed. The pressing need to take radical action requires a package of reforms that ordinarily would appear daunting and nowhere more so than in the tax system.

But as well as a substantial programme of tax cuts, methodically adjusting regulatory barriers will also be needed to allow the economy to adapt and thrive. That's why we propose reform of 20 separate regulations.

Debt, deficit and fiscal policy

The weakness of the economy during a contraction that is likely to be the largest ever has led to preparation to inflate economic output, such as the EU's recovery fund. The primary purpose of these regulatory reforms is the same as that for the tax reforms we proposed, to enhance economic efficiency. Simplifying unnecessarily stringent or complex regulations will raise productivity and therefore incomes. Strengthening economic competitiveness with non-fiscal measures is critically important now, when looser fiscal policy is highly likely to happen. Not only will doing so raise incomes by enhancing efficiency, the additional income and output generated will also strengthen the government's finances and ameliorate the impact of looser fiscal policy on the national accounts.

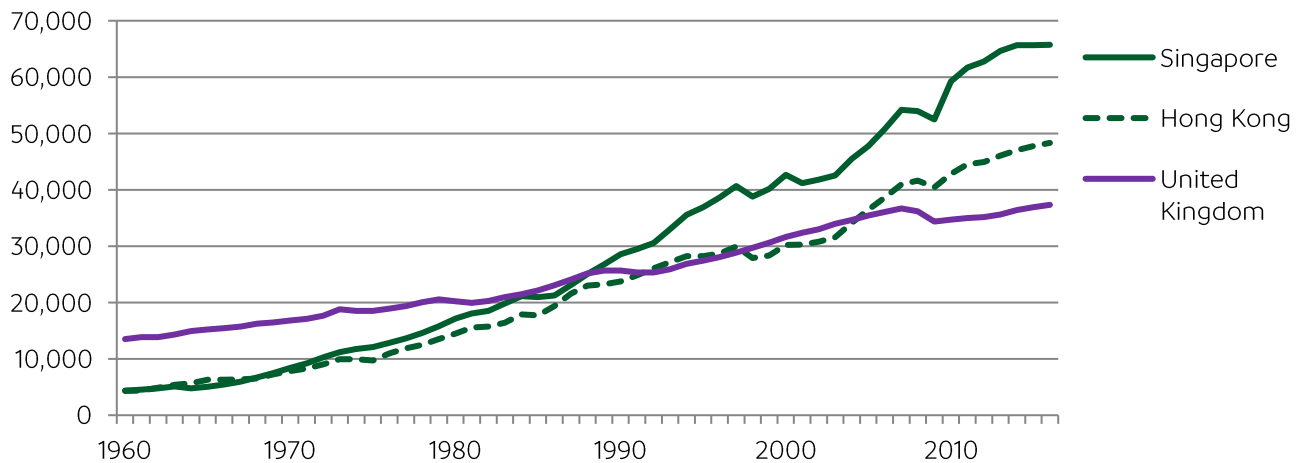
Tax burden

There is a well-established relationship between the tax burden, economic growth and productivity, with lower-tax economies out-performing those with higher taxes. For example, European Central Bank research found that raising the tax burden by 1 percentage point reduces growth by 0.13 per cent.⁵ The relative performance of incomes in low-tax Singapore and Hong Kong to the UK's is startling.⁶

⁵ Afonso, A. & Fuceri, D., *Government Size, Composition, Volatility and Economic Growth*, ECB Working Paper 849, European Journal of Political Economy, www.ecb.europa.eu/pub/pdf/scpwps/ecbwp849.pdf, (accessed 25 May 2020).

⁶ Maddison Project Database, 2018, ourworldindata.org/grapher/maddison-data-gdp-per-capita-in-2011us-single-benchmark?time=1940..2016&country=HKG+SGP+GBR, (accessed 25 May 2020).

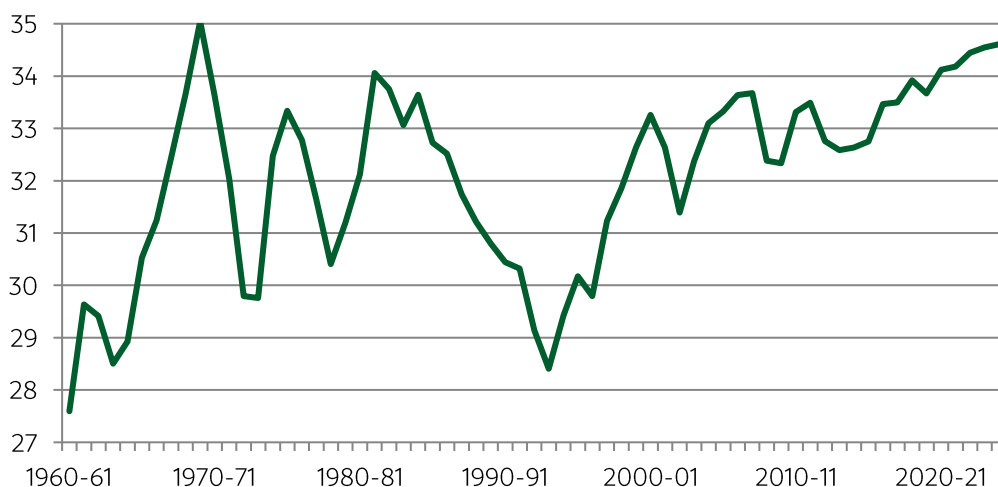
Chart 4: GDP per capita in selected economies, 1960-2016 (\$, 2011 prices)



But recent TaxPayers' Alliance research has shown that the UK's tax burden has been stuck at a 50-year high and was already at risk of deteriorating even further before the pandemic. The latest OBR forecasts show the burden steadily growing to 34.6 per cent of GDP by 2024-25.⁷ This would create the highest tax burden in 55 years.

Economic reform is crucial if the UK is to avoid this threat. Regulatory reform can expand economic output, reducing the tax burden required to generate the same level of receipts. This lower tax burden in turn can further enhance economic efficiency, expanding output and incomes further still.

Chart 5: national account taxes, 1960-61 to 2024-25 (per cent of GDP)



⁷ OBR, *Public finances databank*, 27 May 2020, obr.uk/data/, (accessed 20 June 2020).

Recommendations

To maximise our economic prospects as the UK emerges from the pandemic, the government should pursue a systematic programme of regulatory reform targeted at unleashing enterprise and employment in five key areas: housing, jobs, high streets, products and finance.

Housing

A consensus is emerging among economists that supplying more housing near where good jobs are located is the most important reform available for the government. Allowing more homes to be built should be one of the most important objectives for the government, to enable more people to take advantage of high-paying, high-productivity jobs by reducing the cost of housing near where they exist. This wider imperative reinforces the more direct benefits of these reforms in allowing people to build and expand their homes and their streets to suit their circumstances.

1. **Allow individual street votes on whether to build more housing**

Introduce a new town and country planning act which provides residents on individual streets, outside conservation areas, the right to organise a vote of that street's residents on a proposal to build more housing on the street by permitting taller buildings that cover more of the plot, subject to a street design code and national limits in the act. For example, the act might limit the right to six storeys with stricter protections where the rear gardens of the abutting properties at the rear are small.

The design codes might stipulate materials such as a particular brick type or features such as bay windows or pitched roofs. These details would be a matter for the proposer of the vote and the residents to decide when voting.

This would allow densification of streets to occur where it is popular, for instance by replacing two-storey semi-detached homes with four, five or six-storey terraced homes which may project closer to the property boundary at the front, or extend further at the rear. Plot coverage might double or triple and so too might heights. Such a combination could increase housing supply by as much as a factor of nine in a way that is popular with local residents. As well as unlocking construction work it would also accelerate productivity by creating more housing near good jobs, allowing more people to take advantage of them.

2. **Grant permitted development rights for larger loft extensions**

Amend planning rules which allow loft conversions by right subject to certain criteria so that the front of a property's roof space can also be extended. This would be achieved by amending class B in part one of schedule two of the Town and Country Planning General Permitted Development Order 2015 to remove the restriction on roof extensions to the front of a property and replace it with a requirement that the front and rear planes must not have a pitch of more than 80 degrees, while also doubling the space allowances from 40 and 50 cubic metres to 80 and 100 cubic metres.

This would allow greater densification than already occurs using the existing rights, making more loft conversion projects viable, reducing the need to move homes when family circumstances change.

3. **Grant permitted development rights for two-storey rear extensions**

Amend planning rules which allow loft conversions by right (subject to certain criteria) so that two-storey rear extensions are permitted instead of just a single storey. This would be achieved by amending class A in part one of schedule two of the Town and Country Planning General

Permitted Development Order 2015 to change the restriction on rear extensions to two storeys instead of a single storey, while also doubling the space allowances from 40 and 50 cubic metres to 80 and 100 cubic metres. The maximum height of the extension and eaves on the second storey would need to be increased from four and three metres to perhaps seven and six metres. The maximum extension of the second storey could be limited to four metres.

This would allow greater densification than already occurs using the existing rights, making more loft conversion projects viable, reducing the need to move homes when family circumstances change.

Jobs

The government should take as many steps as possible to avoid mass unemployment and restore the success it has enjoyed since the labour market started to improve rapidly in 2013. Administrative costs of hiring and retaining staff should be reduced wherever possible to achieve this.

4. **Allow firms to offer sick pay and other employment benefits without jeopardising self-employment status**

Amend regulation 16 of The Statutory Sick Pay (General) Regulations 1982. Allow firms to offer benefits of employment, especially sick pay, without risking a change in self-employment status. This would enable companies to treat self-employed workers more flexibly without worrying about the implications of losing that status, which would in turn encourage self-employment among those who might otherwise be dissuaded. It would also reduce the incentive to start a redundancy procedure for furloughed staff when employers are uncertain about their future while allowing them to facilitate more stable employment to self-employed workers.

5. **Remove the requirement for a consultation period on redundancy**

Amend section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992 to eliminate the requirement for a consultation period on redundancy. Consultation periods are perfunctory and have little effect other than slowing down staff changes, delaying the period before which firms can hire new staff.

This would enable companies to react faster to changing circumstances, giving them more confidence to start projects and hire staff in the first place.

6. **Raise the minimum earnings required for pension auto-enrolment to £12,500**

Amend the Pensions Act 2008 and the Automatic Enrolment (Earning Trigger and Qualifying Earnings Band) Order 2020 to change the minimum annual earnings for auto-enrolment from £10,000 to the income tax personal allowance, currently £12,500.

This would reduce the number of thresholds that employers must monitor and, because it is higher than the current threshold, it would also reduce the number of enrolments employers are required to make automatically. This is important because administering enrolment in pensions entails the same costs regardless of the contribution size.

7. **Amend data laws to enable employers to better monitor workers remotely**

Amend the Data Protection Act 2018 –which implements the EU General Data Protection Regulations – to simplify the process for using software to remotely monitor employees. This could be done by removing the requirement to undertake privacy impact analyses, so long as the software in question meets certain privacy standards. Monitoring of audio could remain a capability that needs to meet the data protection principles, for example, because of the risk of capturing audio material that employees cannot easily control but would expect to remain private. However, keystrokes recording, attention monitoring through video capture and ‘screen grabbing’ on employer-provided equipment should be standard features which do not require privacy assessments.

This would encourage firms to offer working from home more readily and enable productivity monitoring, which would in turn raise productivity and result in higher output and incomes, while reducing the cost of compliance with data protection principles.

High streets

High streets are already under pressure from online shopping, a trend which has been accelerated by the pandemic. The government should not seek to frustrate changing consumer preferences, but it should be doing as little as possible that makes business more difficult on the high street, particularly in the hospitality sector, which has been hit hardest by the restrictions.

8. **Abolish Sunday trading restrictions**

Amend the Sunday Trading Act 1994 to remove the restrictions on shops with a floor space over 280 square metres from opening longer than six hours on Sundays. This would complement the removal of restrictions on food delivery announced on 13 March 2020, as well as the temporary relaxation of restrictions on delivery drivers' hours.

The prohibition on larger shops from opening longer than six hours on Sundays distorts retail operations, wasting premises during the hours which they would otherwise be open. As well as forcing customers to use smaller outlets with higher prices and a narrower range of stock, it also has the effect of making premises more scarce which lowers labour productivity among retail employees, which results in lower incomes for them. Abolition would enable customers to shop where the value is best, land use to be more efficient and retail worker wages to rise. Existing employees at affected premises should be granted a right not be required to work longer hours than their existing arrangements, to last for perhaps three years.

9. **Make the right of restaurants, pubs and cafes to offer takeaway food permanent**

Amend article 4 of the Town and Country Planning Act (General Permitted Development) (England) Order 2015 to remove the expiry date. This would mean restaurants, pubs and cafes would permanently remain entitled to offer takeaway services and remove the need to apply for a change of use for the premises. This would secure jobs in the premises which may not be viable without takeaway provision, as well as allow businesses that wished to do so to permanently transform into takeaway delivery businesses.

10. **Allow all licensed venues to sell alcohol for takeaway consumption**

Amend part three of the Licensing Act 2003 to clarify that all premises licences shall permit the sale of alcohol for consumption off the premises. This would allow pubs, clubs and restaurants with a licence only for the sale of alcohol for consumption on their premises to sell it to takeaway customers, without opening up this possibility to those without any form of alcohol licence.

This could be crucial in the event of reintroduced restrictions but it would also help businesses even when restrictions are lifted. It would secure jobs in the premises which may not be viable without takeaway provision.

11. **Allow new NHS pharmacies to open subject only to fitness to practise restrictions**

Amend the National Health Service (Pharmaceutical and Local Pharmaceutical Services) Regulations 2013 to remove restrictions on opening pharmacies which do not relate to fitness to practice. This would eliminate the requirement to demonstrate pharmaceutical needs in the area and the commercial need for competing pharmacies to spend time monitoring and objecting to new entrants. As well as enabling more pharmacy jobs to be created, the enhanced competitive pressure would result in lower prices and higher levels of service for consumers.

12. **Allow cafes, restaurants and pubs to use nearby parking spaces and parks for tables**

Introduce a new law to allow any premises which hold a licence to sell food or alcohol for consumption on the premises to use vehicle parking spaces and nearby parkland for customer seating. The first right should be indefinite and relate to the part of the highway dedicated to parking spaces on the road immediately outside the premises. This space should be available for the premises to place seating and tables for customers, except when parking restrictions apply or where the speed limit on the road is more than 30 miles per hour. The second part should be temporary for the duration of coronavirus restrictions and apply to parkland no more than 200 metres from the entrance to the premises, and where the surface is covered in grass (to protect flower beds, etc), up to the same area as the premises already has for indoor customer seating. The premises should be entitled to restrict entry to the parking space area but not to the parkland, where the right would only extend to placing tables and chairs and recovering them from non-customers who had occupied the space.

This would restore some of the capacity of hospitality venues to serve customers and protect jobs in the sector, as well as enhancing the atmosphere of the street.

Products

Getting products to the market and people to their destinations are essential aspects of a functioning economy. The government should enhance access to goods and services, by reducing the cost of doing business and removing restrictions which have been proven unnecessary in other advanced economies.

13. **Allow weddings and civil partnerships to be held outdoors**

Amend the Marriages and Civil Partnerships (Approved Premises) Regulations 2005 to add references to outdoor places as well as rooms so that all weddings and civil partnerships can take place outdoors. Currently only Quaker and Jewish ones can. This will increase the number of weddings that can take place while social contact remains an infection risk and provide engaged couples with outdoor venues that better suit their preferences.

14. **Automatically grant medicines approval if any two of American, Japanese or European authorities have done so**

Amend the Human Medicines Regulations 2012 to automatically grant deemed approval for medicines which already have gained approval from any two of the relevant agencies in the United States (Food and Drug Administration), European Union (European Medicines Agency) and Japan (Pharmaceuticals and Medical Devices Agency). Medical device approval is handled at the member state level in the European Union, so either of the agencies of France or Germany should be substituted. The Medicines and Healthcare products Regulatory Agency would remain only for use when companies wish for faster approval than this route and to continue its process of retrospective reviews and recalls of medicines and medical devices.

This would reduce the cost of obtaining a licence to market medicines and medical devices in the UK, improving the productivity of UK firms. It would also enable consumers to access new healthcare products more rapidly in cases where the UK authority fails to work in as timely a fashion as the second fastest of either the US, the EU or Japan. Other national agencies could be added to the schedule to afford British patients with a still more competitive regulatory environment if others are judged to uphold similarly robust safety standards.

15. **Change driver training from five to seven year frequency**
Amend the Vehicle Drivers (Certificates of Professional Competence) Regulations 2007 to relax the requirement to do 35 hours of periodic training from every five years to every seven years. This is required to keep a driver certificate of professional competence to drive a lorry, bus or coach. To maintain the viability of the training sector during the transition from five to seven years, the increase should be staggered over four years.
This would reduce the cost of employing professional drivers permanently with a more substantial reduction over the first four years.
16. **Create a single official cost of capital for all regulated markets**
Create a single assessment of capital costs for regulated markets, especially utilities. Requirements to comply with different assessments discourage businesses from entering and competing in multiple regulated markets due to contradictions between the regimes. For example, different regulators have their own formula for the return on investment. Imposing a single regime would enhance competition, lower prices and create new jobs as businesses enter markets they had previously avoided.
17. **Legalise e-scooters**
Amend the Road Traffic Act 1988 and the Traffic Signs Regulations and General Directions 2016 to add e-scooters as a class of vehicle permitted to use the roads and cycleways where electrically assisted pedal cycles are already permitted and to remove the requirement to conform to motorcycle standards. This would create jobs with e-scooter suppliers, reduce the cost of mobility, enhance consumer choice in transport and enable those making journeys to choose a more environmentally friendly option compared to other modes not including walking and cycling. By enhancing non-public transport options, it would also enhance UK resilience to infectious diseases as coronavirus restrictions were lifted.
18. **Allow childminders and nursery teachers to look after more children**
Amend childcare regulations to allow childminding and nursery staff to look after eight toddlers aged one or two each (or five babies under the age of one), instead of the current three for under twos and four for those aged two. This would bring UK regulation into line with France, but would remain more regulated than Germany and Sweden, where maximum ratios do not apply. Relaxing ratios will reduce the cost of childcare and particularly benefit smaller nurseries and daycare centres, as well as making employment more viable for some parents who would prefer to work but are currently prevented from doing so by childcare concerns.

Finance

Smaller, growing businesses need to focus as much of their resources as possible on their commercial needs rather than red tape. The government should remove duplication and bureaucracy wherever possible.

19. **Replace InnovateUK competitions with match-funding of venture capital firms**
Abolish InnovateUK competitions for grants to start-ups and growing businesses and instead offer match funding to venture capital firms. This will save start-ups from spending time filling out lengthy competition proposals (and save InnovateUK time in assessing the competitions), leaving more management time to focus on substantive commercial imperatives. Match funding requirements will ensure that grants are not handed out without any assessment of

the viability of the investment. InnovateUK already exercise due diligence to prevent misuse of funds and this should continue while match-funding requirements will ensure money is only distributed to commercially viable projects

20. **Exempt more smaller firms from audit requirements**

Amend section 382 of the Companies Act 2006 to increase the thresholds for the criteria to define a small company from £10.2 to £15 million in turnover and from £5.1 million to £7.5 million in balance sheet total. This will remove the requirement on some larger small businesses to comply with the mandatory audit requirements (which can still be triggered by shareholders if at least 10 per cent request one).