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An affordable voice for business

Reforming the Department for Business, Enterprise and Regulatory Reform

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About the author

Ben Farrugia has worked at the TaxPayers' Alliance since 2007. He has written numerous studies on the structure of government and the effectiveness of public sector organisations, including a study into the quango state – *The Unseen Government of the United Kingdom* – and an assessment of Regional Development Agency performance – *The Case for Abolishing Regional Development Agencies*.

Executive Summary

While credit and consumers become scarce in the private sector, government borrowing has reached unsustainable levels. Enormous liabilities are being accumulated which will cost ordinary taxpayers and their children a fortune in the years to come.

Official public sector net debt is due to reach over £1 trillion by 2013-14. Every effort must be made to identify areas of public expenditure where spending can be scaled back, and the Department for Business, Enterprise and Regulatory Reform (BERR) is a good place to start.

Reforming BERR could save the taxpayer almost £1 billion a year. The department provides no essential services directly, and despite over £13.5 billion being spent on business objectives since 2000, BERR (and its predecessor the DTI) have left British business overtaxed and over-regulated, ill-prepared for the worsening recession. Indeed if Britain is to emerge successfully from this economic crisis, it is vital that government stops trying to *manage* businesses into succeeding and, instead, frees them from excessive regulation and taxation. As the past shows, throwing money at complex business support schemes does not deliver results:

The Government has failed to create a better environment for business

- There was only a **0.3 per cent rise in the number of VAT registered businesses between 1997 and 2006**;
- It 2008 it took **the average UK entrepreneur 13 days to start a business**, compared to 6 in the US and 7 in France; this means there has been no change since 2004;
- Only **4 per cent of small businesses used taxpayer funded support programmes in 2006**, down from 16 per cent in 2004.

The burden of regulation and taxation has increased

- The **annual cost of regulation is now 10 to 12 per cent of GDP – £150 billion** – roughly equivalent to the 2008 take from income tax;
- The **UK corporate tax rate is 1.2 points higher than the OECD average** of 26.8 per cent;
- In international comparisons, **the UK has fallen back in many key measurements of competitiveness.** The advantages enjoyed by British businesses in the 1990's have all but disappeared.

Productivity trends have not improved significantly

▪ Despite Government claims, **the rate of catch up between UK productivity and those of competitors has not increased significantly;** UK labour productivity as a percentage of US labour productivity rose from 46.59 per cent to 52.96 per cent between 1979 and 1997, but only 53.17 per cent to 53.24 per cent between 1998 and 2006;

▪ Government interventions in the economy over the past twenty years have not increased productivity. Instead, **deregulation and increased competition appear to be the key.**

Despite suggestions to the contrary, much of BERR is not integral to the Government's recession planning. Industry bail outs are negotiated by the Secretary of State with a few civil servants, and then financed directly by the Treasury. Delivery of the loan guarantee schemes is "fully delegated to the participating lenders" (the banks).[1] Capital investment in businesses is administered by deliberately independent quangos, from outside BERR. A vastly slimmed down department could continue to oversee the recession policies already put in place.

BERR's important public bodies – such as the Competition Commission – should be re-established as non-ministerial departments, genuinely outside the interference of politicians. Agencies such as the RDAs should be scrapped immediately. Without many of its current responsibilities, BERR could be re-organised on much smaller lines, with a small civil service to support the Secretary of State for Business.

Scaling back the department could save the taxpayer almost £1 billion, out of the BERR's **£1.5 billion potential operating cost for 2008-09.** Scrapping the RDAs – as recommended in an earlier TaxPayers' Alliance report, *The Case for Abolishing Regional Development Agencies* – would add another £2 billion in savings; leaving a total saving of almost **£3 billion**.

[1] Bussiness Link website – Grants and Support Directory
www.businesslink.gov.uk/bdotg/action/gsdDetail?type=GSD&page=16&category=3&itemId=1081834978&refpage=3

1. Introduction

These are rough times to be in business. Imperilled by the credit crunch and an attendant fall in consumer demand, many firms now face an uncertain future and action is needed.

In such circumstances it may seem odd to question the need for the Department for Business, Enterprise and Regulatory Reform (BERR). Its Secretary of State (Lord Mandelson of Foy) is omnipresent in the media, and BERR's Loan Guarantee Schemes are central to the Government's response to the continuing dearth of credit.

But it is not the role of the Business Secretary, or the success of the Loan Guarantee Schemes, which is in question. Like its predecessor – the Department for Trade and Industry (DTI) – BERR has done little to improve conditions for businesses in the UK, and taxpayers should ask if we need such a department, particularly when public funds are so stretched.

1.1 What is BERR?

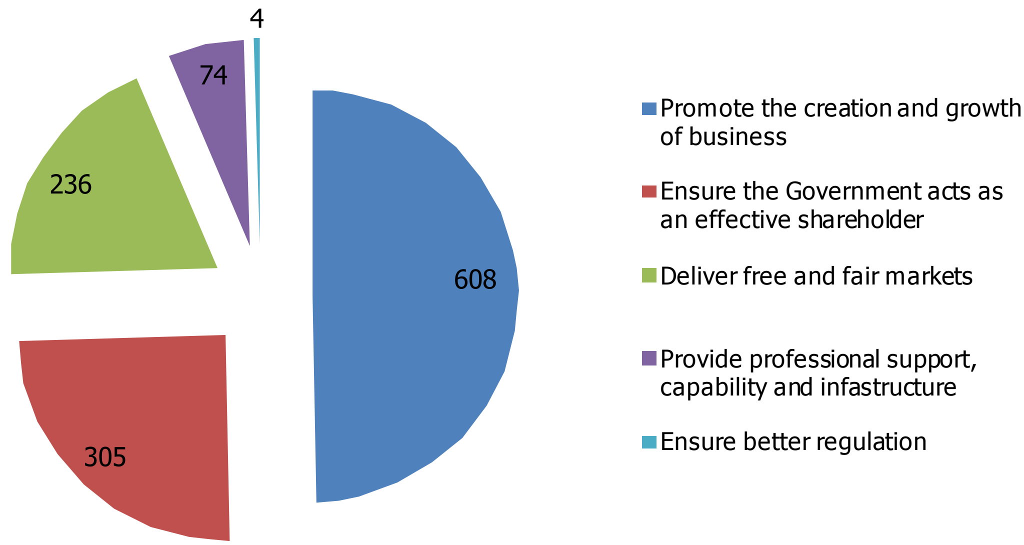
BERR is notionally the 'voice for business' in government, aimed to ensure the UK is an environment in which business can thrive.[2] Created in 2007 it is essentially a rebranded DTI, but unlike its much maligned predecessor BERR is not responsible for Government 'science funding' in the UK and is in charge of the 'better regulation' agenda.

The Cabinet reshuffle of October 2008 saw the transfer of energy policy to a new Department for Energy and Climate Change, reducing BERR's financial commitments (by over £3.5 billion) and its size (losing at least 8 delivery bodies and their 16,000 staff).[3]

The remaining department – with an estimated £1.5 billion budget, 39 public bodies and over 12,000 staff either directly or indirectly under its control – is dedicated to improving the conditions for business; regulating commercial activity; and managing the shareholdings held by Government in private firms (British Energy) and public businesses (Royal Mail). [4]

[2] Department for Business, Enterprise and Regulatory Reform Business Plan 2008 – 2011; p. 1
[3] Calculated on data from BERR's Annual Report and Accounts 2007-08
[4] Ibid

Figure 1.1.1: Planned spending breakdown by Departmental Strategic Objectives, 2008-09, £ million[5]



1.2 Why BERR?

Evidence from the past decade suggests that the approach to business issues embodied by BERR – and previously the DTI – fails to deliver the environment in which enterprise can thrive. Neither BERR nor the DTI significantly improved UK productivity or competitiveness. Regulation and taxation have actually increased. Money is being spent pursing objectives BERR can not achieve (such as 'better regulation' and 'business creation').

On those objectives in which BERR appears to be doing well – safeguarding competition rules, increasing foreign direct investment, managing public assets – responsibility has either already been devolved out to Executive Agencies – funded by BERR but operationally distinct from it – or given to divisions which are effectively agencies already.[6]

The Department could not be scrapped entirely; there is a role for a Business Secretary, and civil servants will be needed to oversee quangos and 'recession' policy. However if the Government reconsidered how to build an environment in which business can thrive, chose to pursue less not just better regulation, and lower taxes instead of hand-outs, BERR could be dramatically scaled down. To understand how, it is important to consider the Government's record so far.

[5] Department for Business, Enterprise and Regulatory Reform Business Plan 2008 – 2011; pp. 22 – 23; Budget items 'managing energy liabilities' and 'clean, safe and competitively priced energy' have been excluded as they are no longer BERR's responsibility.

[6] The Shareholder Executive remains organisationally within BERR, but functions as a separate Executive. A 2007 NAO report into the Executive expressed concern about the Executive's place in BERR, suggesting that it might be better to be more removed.

2. Delivering the right conditions for business

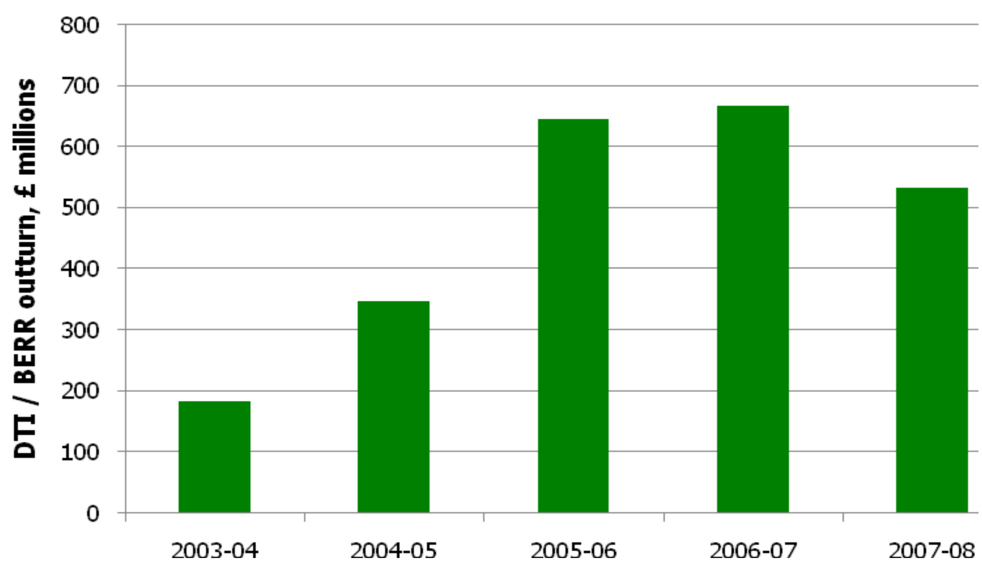
Establishing an environment in which businesses can prosper is the primary function of BERR. But unlike increasing productivity – an objective which (as we will discuss in Section 3) BERR cannot hope to significantly affect – 'delivering the conditions for business' is an objective in which BERR has simply failed to deliver.

2.1 Business creation

Over £608 million is committed to promoting the creation and growth of business in 2009.[7] Tellingly, the first indicator used by BERR to measure its success over this objective is a survey of businesses, questioned on their perception of the relevance and success of BERR. In 2008 a majority of respondents replied that they did not think BERR had the ability to make a positive contribution to business; a less then positive endorsement.[8]

The majority of the resources marked for this objective are earmarked for the RDAs, which are the primary delivery agent for BERR. The graph below illustrates DTI and BERR financial outturn on the particular budget item 'regional economies' since 2003-04.

Figure 2.1.1: DTI / BERR spending on 'regional economies', 2003-04 to 2007-08[9]



[7] BERR Annual Report and Accounts 2007-08, p.252-256
[8] BERR (December 08), 'Progress on CSR07 DSOs', *Autumn Performance Report 2008*, p.8
[9] BERR Annual Report and Accounts 2005-06, 2006-07 & 2007-08; total resource and capital expenditure

The performance of RDAs has been analysed in depth by an earlier TaxPayers' Alliance report – *The Case for Abolishing Regional Development Agencies* – but numerous studies have concluded that despite the considerable amounts of money spent by the RDAs, they have done little to improve English regional economies.[10] Annual increases in the number of jobs, and the number of people in work, have actually slowed since 1999. Apart from London and South East, England's regions grew faster in the seven years before RDAs were introduced then in the seven years after.[11] RDAs have been an expensive failure since their creation in 1999, and should be scrapped immediately.

However, even with BERR's commitments to RDAs ended, the Government should still not spend valuable taxpayers' money on business creation schemes. Its record has been poor, and when considered in relation to the financial outlay (at least £3 billion since 2000), very poor value.[12]

From the end of 2008 the Office for National Statistics (ONS) and BERR launched a new methodology for measuring the creation and closure of UK businesses; 'births' and 'deaths'. This measure captures those businesses which do not register for VAT, enabling in the future a more accurate analysis of those enterprises opening and closing over a year.[13]

While this measure presents a fairly positive picture of enterprise growth in the past few years – 302,000 new births in 2007, compared to 243,000 in 2002 – the data series is potentially misleading. 2007 is the first year in which data was systematically collected for this new method, and totals for previous years were done retrospectively, potentially overstating the rate in 2007 relative to earlier years.[14]

The conventional indicator of business creation and closure, VAT registration and deregistration, suggests there has been little progress in improving the rate of new business creation. With 181,530 businesses registering for VAT in 1997 and 182,055 businesses registering in 2006 – a 0.3 per cent increase, significantly less than population growth over that period – this suggests a decade of efforts to encourage people to start businesses has not had the desired result. Indeed the rise and fall in VAT registrations and deregistrations simply reflects the growth and decline in the economy; for example, access to credit was far more

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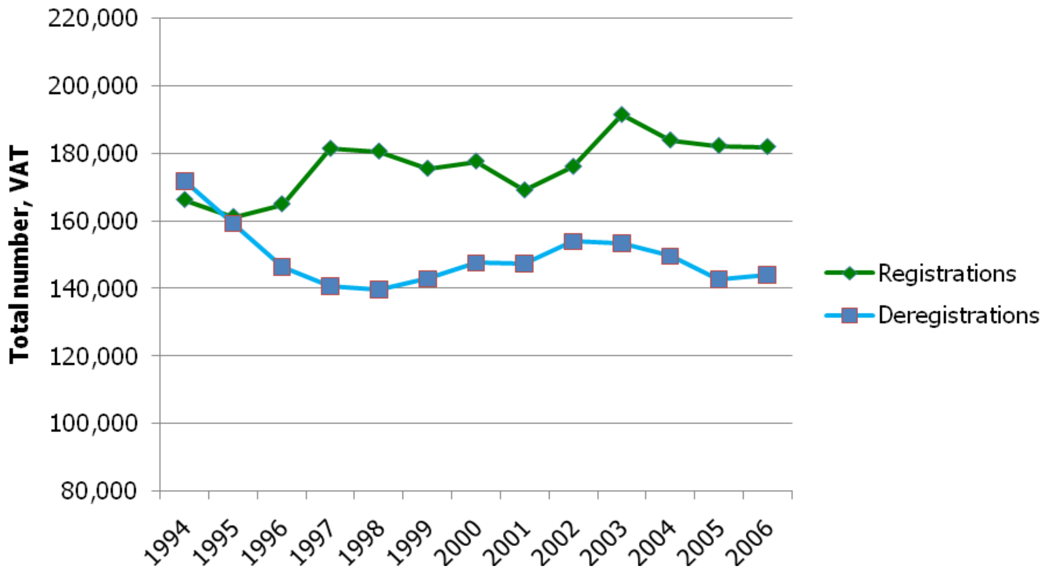
[10] See Shakespeare, T (June 2008) 'The Future for Regional Governance', *Localis Research Notes*; Marshall, A (December 2008), 'The Future of Regional Development Agencies', *Centre for Cities*
[11] TaxPayers' Alliance (August 2008), 'The Case for Abolishing Regional Development Agencies', *Structure of Government Paper 3*
[12] BERR Annual Report and Accounts 2005-06, 2006-07 & 2007-08; total resource and capital expenditure; budget item 'Enterprise Growth and Business Investment' only.
[13] ONS, (November 2008), Business demography 2007: Enterprise births, deaths and survival
[14] Ibid, p.1

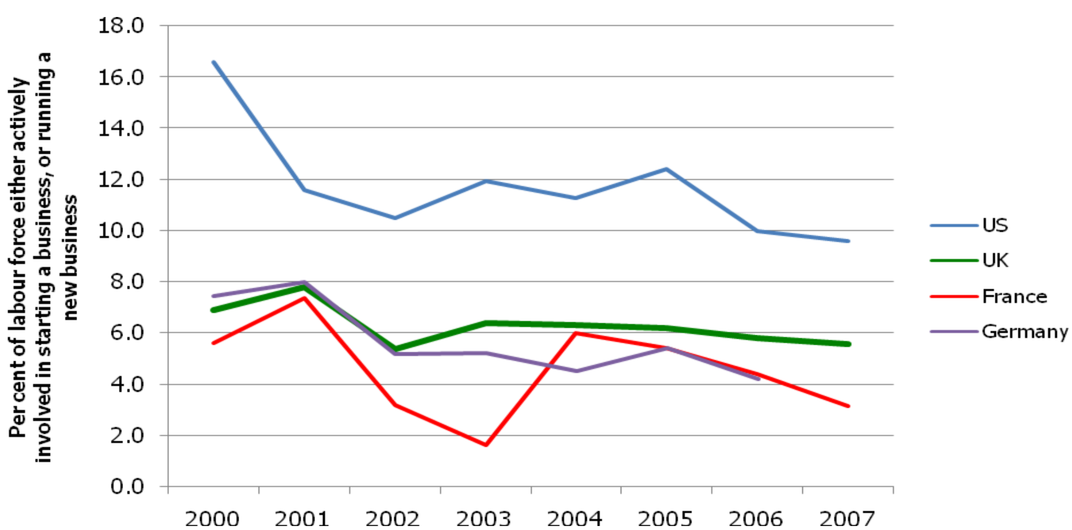
important than Government schemes.[15] As numerous businesses now face possible closure, the work of BERR and the DTI look increasingly superficial.

Figure 2.1.2: UK VAT registrations and deregistrations, 1994 – 2006[16]



If unable to significantly affect the number of businesses being created, BERR has had substantially more opportunity to affect how many people are considering a career in business, and how easy it is for an entrepreneur to start a new venture in the UK.

Figure 2.1.4: Business Start-ups, 2000 – 2007[17]

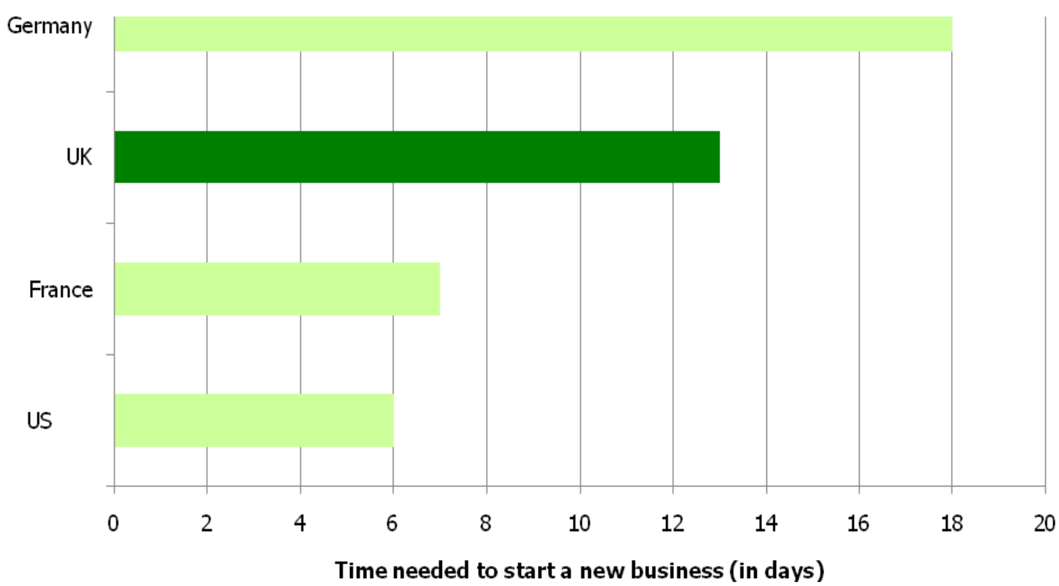


[15] Blanchflower, D. & Oswald, A. J. 'What makes an entrepreneur?', *Journal of Labour Economics*, 16(1), pp. 26-60
[16] BERR (2008) Guide to Business Start-ups and Clousures; Table 1a & Table 1b
[17] Bosma, N et al (2008), 'Global Entrepreneurship Monitor 2007'; *Babson College and the London Business School*, fig.3 & fig.4

Even on the Department's preferred measure – the Household survey of Entrepreneurship 2005 – the number of people considering going into business between 2001 and 2005 has remained static at 11.6 per cent of adults.[18] Data from the Global Entrepreneurship Monitor suggests that the numbers of people either actively involved in starting a business or running a new business has actually dropped since 2000, albeit a trend visible in all major economies.[19]

As to the time it takes to start a new business, World Bank figures suggest that the UK still lags far behind its peer countries. In 2008 the average time needed in France was 7 days, in the USA only 6. A UK entrepreneur still needs at least 13 days.

Figure 2.1.5: Time needed to start a new business (in days), 2008[20]



Considering the average time needed to start a business in the UK in 2004 was also 13 days, there clearly has been little actual progress towards creating the 'enterprise culture' ministers have often spoke of. By contrast, the number of days needed in France has dropped from 41 to 7 over the past four years, a pattern found across European countries. Australia and New Zealand are the easiest places to start a business, requiring 2 days and 1 day respectively.[21]

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[18] BERR (December 08), 'Progress on CSR07 DSOs', *Autumn Performance Report 2008*, p.56
[19] Bosma, N et al (2008), 'Global Entrepreneurship Monitor 2007'; *Babson College and the London Business School*; TEA (Total Entrepreneurial Activity) Index
[20] Doing Business 2008, *The World Bank and the International Bank for Reconstruction*, 2007
[21] Doing Business 2009, *The World Bank and the International Bank for Reconstruction* - www.doingbusiness.org/

2.2 Business support

BERR itself admits that 'more can be done to cultivate the growth aspirations of businesses and potential entrepreneurs'.[22] It concedes that small businesses struggle to find their way through the maze of provision, and that 'such confusion means the system is neither cost-effective nor efficient to deliver'.

"This is not good for business [or] for the taxpayers who foot the bill."[23]

The Department's *Small Business Service Survey 2005* found that 50 per cent of small businesses wanted government help.[24] However, a Federation of Small Business (FSB) survey in 2006 revealed that only 4 per cent of small businesses had actually used government funded business support in the preceding year.[25] While business may want 'help', they clearly balk at the reality of the schemes on offer from BERR.

Figure 2.2.1: FSB Survey: Sources of Business Advice 2004 and 2006[26]

Source	Per cent of FSB respondents	
	2004	2006
Accountant	74.1	53.7
Solicitor	30.4	28.4
Family	17.3	16.9
Other business owners	28.7	17.3
Customers	21.9	15.4
Bank	33.8	8.7
Suppliers	18.4	8
Trade Association	20.2	6.3
Government funded business support	**16.7**	**4.4**
Enterprise Agency	4.3	4.4
Commercial business consultants	-	2.9
Tourist board	2.6	2
RDA	**4**	**1.1**
Central Government	**4**	**1.1**
University	-	1
Local Government	3.8	1
Export Partnership	1.9	0.8
Did not seek advice	11.4	12.5

[22] BERR (March 2008), 'Simple Support, Better Business: Business Support in 2010', pp. 1-3
[23] Ibid, p.2
[24] Ibid, p.2
[25] Carter, S, Mason, C & Tagg, S (2006), Lifting the Barriers to Growth, *FSB report*, p.61
[26] Ibid, p.61

In 2006 the Government announced that it would simplify its business support services, consolidating over 3,000 separate schemes down to fewer than a hundred.[27] Progress on the *Business Support Simplification Programme* is due to be reported in March 2009, but since the problem was initially identified in 2003 – if not earlier – and there has been little apparent change so far, there is scepticism that much has actually been achieved.

Finally, 60 per cent of those businesses surveyed by the FSB claimed they did not know that a reduction to 100 products would make them more likely to use government funded business support.[28] Despite reform, businesses and the taxpayer look unlikely to get good value for money from government-run business support.

2.3 Regulation

Regulation remains one of the most serious grievances for UK business.[29] Current estimates put the cost of regulation in the UK at between 10 and 12 per cent of GDP – around £150 billion a year[30] – and while the European Union is responsible for a large part of this, the UK Government itself is a major part of the problem.[31]

Over-legislating and frequent gold-plating by Parliament and Whitehall, combined with zealous enforcement, restricts the flexibility of British businesses and reduces their competitiveness. BERR is responsible for tackling this problem, tasked with reducing the administrative burden, maintaining the UK's international standing and improving the general perception of regulation.[32]

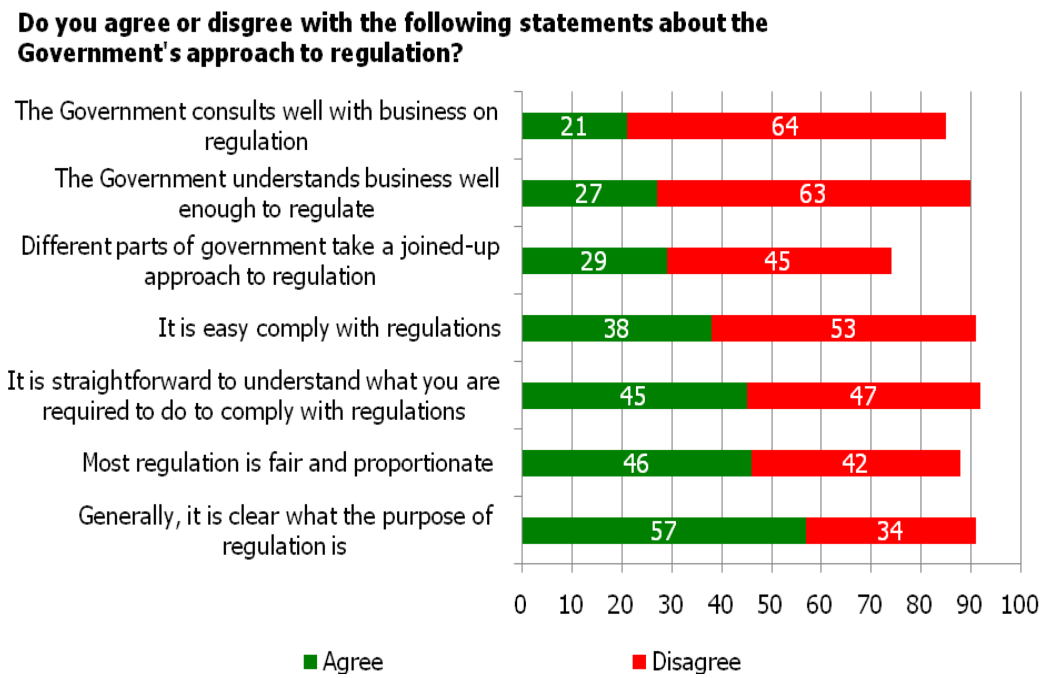
On none of these measures however, is BERR making progress. The 2008 Burdens Barometer puts the total cost of business regulations passed since 1998 at over £65 billion.[33] In this context, the 'reported' savings achieved through BERR's *Administrative Burdens Reduction Programme* are marginal; £800 million by December 2007.[34]

[27] Budget 2006 (March), *Supporting Small Business*, p.56
[28] FSB (September 2007) The small business view of … business support, *FSB report*, p.2
[29] FSB (September 2008), 'Regulation volumes too high', *Press Release 28th September*
[30] Sir David Arculus, (4 July 2005), Speech to the Financial Services Authority. Cost based on projected 2008-09 GDP
[31] TaxPayers' Alliance (October 2008), 'Brussels or Whitehall: Locating the source of the UK's Regulatory Burden, *Research Note 36*
[32] CSR 2007 PSA 2: Better Regulation; CSR 2007 (DSO 2): Ensure that all Government Departments and agencies deliver better regulation for the private, public and third sectors
[33] Burdens Barometer 2008 – *British Chamber of Commerce* - www.britishchambers.org.uk/policy/pdf/Burdens_Barometer_2008.pdf
[34] BERR Annual Report and Accounts 2007-08, p.47

Moreover, a National Audit Office (NAO) report into BERR's *Burden Reduction Programme* advised against taking BERR's reported savings at face-value. Imprecision in the measurement techniques meant that the £800 million was only the roughest estimate of savings.[35]

Nor does business acknowledge a lightening of the burden; in early 2008 businesses reported that they felt the time taken to comply with regulation had increased over the preceeding twelve months, and almost none of the respondents considered regulation to have been reduced.[36]

Figure 2.3.1: Business perception of the Government's approach to regulating 2008; percentage agree or disagree[37]



As figure 2.3.1 above illustrates, BERR has also failed to improve the perception of regulation. 64 per cent believe that Government fails to consult well with business over regulation, and 63 per cent disagree with the idea that Government understands business. A slim majority (46 per cent against 42 per cent) thought most regulations were fair and proportionate, but overall the feeling was that Government does not handle regulation well.

In international rankings, the UK's regulatory regime does continue to compare well. The World Bank's *Doing Business* survey 2009 puts the UK as the 6th best place in the world to do business, no change from its 2008 and 2007 position.[38]

[35] NAO (October 2008) The Administrative Burdens Reduction Programme, 2008, p.6
[36] Ibid, p.18
[37] NAO (October 2008) The Administrative Burdens Reduction Programme, 2008, p.18

However a closer look at the variables which underpin this position reveals a year on year decline in the UK's business environment (see figure 2.3.2). On all but one of the ten measures used by the World Bank, the UK has either remained static or fallen down the rankings since 2008; 3 static to 7 declines. The only indicator in which the UK has improved is in the ease of closing a business.

Figure 2.3.2: World Bank 'Doing Business' indicators, UK, 2008 and 2009[39]

Ease of ...	2008 rank	2009 rank	Change in rank
Starting a business	6	8	-2
Dealing with construction permits	54	61	-7
Employing workers	22	28	-6
Registering property	19	22	-3
Getting credit	2	2	0
Protecting Investors	9	9	0
Paying Taxes	15	16	-1
Trading across borders	27	28	-1
Enforcing contracts	24	24	0
Closing a business	10	9	1
Overall Global rank	**6**	**6**	**0**

Much like the World Bank's, the Organisation for Economic Cooperation and Development's (OECD) 2003 indicators show that while most European Countries had cut red tape since 1998, the UK has been considerably less proactive.[40]

In its use of 'command and control' regulation, the UK has actually increased, falling from 9th to 21st in the OECD rankings, alongside ex-communist countries such as Hungary and the Czech Republic. In its 'general involvement in business operation' the UK has slipped from 6th in 1998 to 14th in 2003, being overtaken by both Germany and the Netherlands.[41]

According to the OECD, in 2003 the UK was the least regulated economy in the EU, with Denmark, Sweden and Finland close behind. The World Bank's survey in 2009 confirms that Denmark has now overtaken the UK.[42] If the 1998 to 2003 trend continues, Sweden and Finland will soon do so as well. Competitors have closed the regulatory gap, eliminating the advantage UK businesses long enjoyed. The fact that the UK had established such a significant advantage by the early 1990s – so much so that it remains near the top of international league tables – and that this advantage has not been completely eroded, should not be considered a success.

[38] Doing Business 2009, *The World Bank and the International Bank for Reconstruction and Development* - www.doingbusiness.org/
[39] Ibid; UK Statistics
[40] OECD Stat (2004), Indicators of Product Market Regulation – www.oecd.org
[41] Ibid
[42] Doing Business 2009, *The World Bank and the International Bank for Reconstruction and Development* - www.doingbusiness.org/

2.4 Taxation

In the run up to the 2008 budget, numerous reports and advisory groups drew attention to the UK's declining tax competitiveness. A CBI report – *UK Business tax: A compelling case for change* – argued that the ever rising business tax burden was endangering the future of the UK's corporate sector[43]; Mervyn Davies – then the Chairman of Standard Chartered, now a BERR minister – told the Financial Times that the UK tax regime was at risk of inflicting a "hugely damaging" blow.[44]

Taxation is not the responsibility of BERR. However tax remains the primary concern for businesses of all sizes, and BERR has roundly failed as the 'voice of business' on this issue.[45] In terms of direct corporate tax, the UK's effective average tax rate is now the eighth highest in the OECD.[46] While other countries have made bold steps to cut business rates (Netherlands and Portugal to 25 per cent, Ireland to 12.5 per cent) the UK has failed to keep up. Despite a cut to 28 per cent in April 2008 (down from 30 per cent), the UK corporate tax rate remains 1.2 points higher than the OECD average of 26.8 per cent.

If BERR is unwilling – and unable – to address the primary concern of businesses in the UK, it is far from an effective voice for business. What then is the logic in keeping this department, at an annual cost of over £1 billion each year?

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[43] CBI Tax Task Force (March 2008), 'UK Business Tax: A compelling case for change', *Confederation of British Industry*

[44] Financial Times (March 3 2008), *'Prime minister's adviser warns on UK tax'*

[45] Hiscox Risk Barometer 2007 - www.bytestart.co.uk/content/news/statistics/hiscox-2007-risk-barometer.shtml

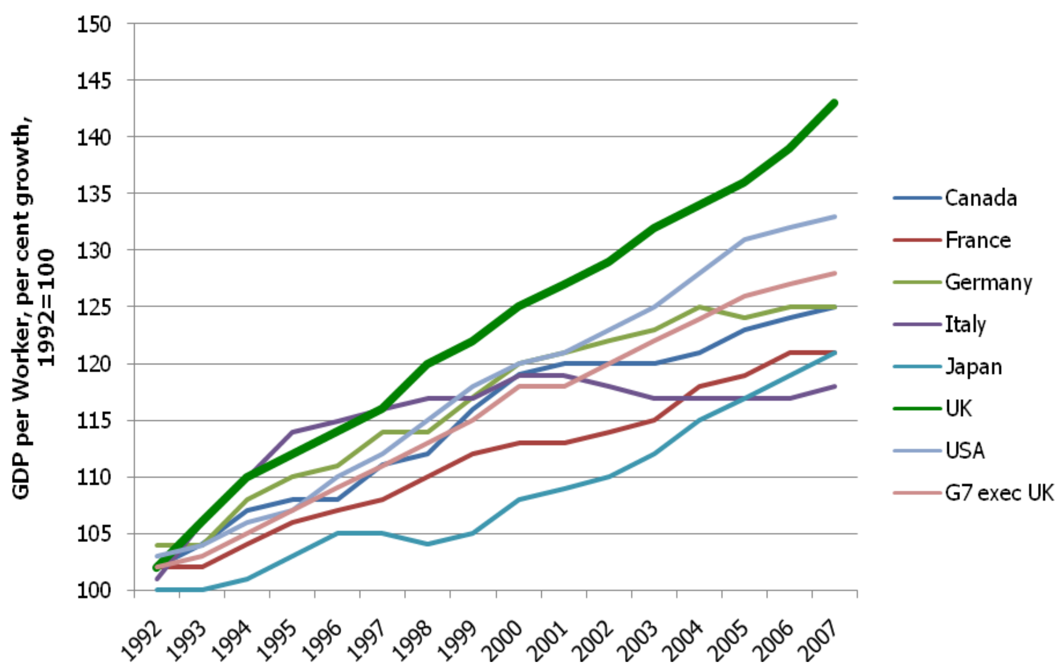
[46] CBI Tax Task Force (March 2008), 'UK Business Tax: A compelling case for change', *Confederation of British Industry,* p.4; OECD stat.

3. Productivity

Raising labour productivity and competitiveness has been a stated objective of the Government since 1997, and the pursuit of it has been a key justification for maintaining DTI and BERR.

Billions of pounds have been pumped into schemes and initiatives to improve the UK's performance, but it is difficult to establish if any of this spending has had any discernable effect. As the RDAs have shown on a smaller scale in the regions, efforts to artificially stimulate productivity and competitiveness do not appear to yield results; the real stimulus appears to come from the increased competition that comes from globalisation.[47]

Figure 3.1.1: GDP per worker, per cent growth 1992 = 100[48]



The graph above replicates the ONS's estimates of growth in output per worker since 1992. On this measure the UK has consistently increased its output per worker at a faster rate then its competitors. Between 1992 and 2007 output per worker increased by 43 per cent compared to a G7 (excluding UK) average of 28 per cent.

[47] TaxPayers' Alliance (August 2008), 'The Case for Abolishing Regional Development Agencies', *Structure of Government Paper 3*

[48] ONS (October 2008), International comparisons of productivity, p.8

Adjusted to take account of hours worked (length of working week, differences in holiday entitlement, etc), the UK has also improved since 1992. But the differences between the UK and its competitors remain considerable; at 15 per cent at least, which suggests that while UK workers may now get roughly the same output as a German worker over a year, they still have to work much longer hours in order to do so.[49]

In fact the OECD's analysis paints a rather different picture to the Government's. Jean-Philippe Cotis, the OECD's Chief Economist, observed in a 2006 speech that UK productivity growth had "not picked up over the past two decades", while other developed countries had experienced a significant productivity acceleration.[50] Secondly, if current productivity growth rates were maintained, Mr Cotis noted that the UK would be catching up very slowly to the higher productivity levels found in the US and some EU economies.[51] What then, we may ask, is BERR contributing to the UK's productivity?

The importance of competition in corporate performance and productivity should be considered in this context (1992-2007). Stephen Nickell's study found that intensity of product market competition forces companies to innovate and perform better, which in turn raises productivity.[52]

Table 3.1.1: Productivity improvements following privatisation[53]

Privatised Utility	Turnover/ output per person, pre-privatisation (1992 prices)	Turnover/ output per person Post privatisation (1992 prices)	Productivity per person gain
British Coal	2.72 tonnes per person shift	12 tonnes per person shift	420%
BT	£29,460	£172,229	180%
British Gas	£75,510	£130,806	71%
BAA	£60,136	£129,176	114%

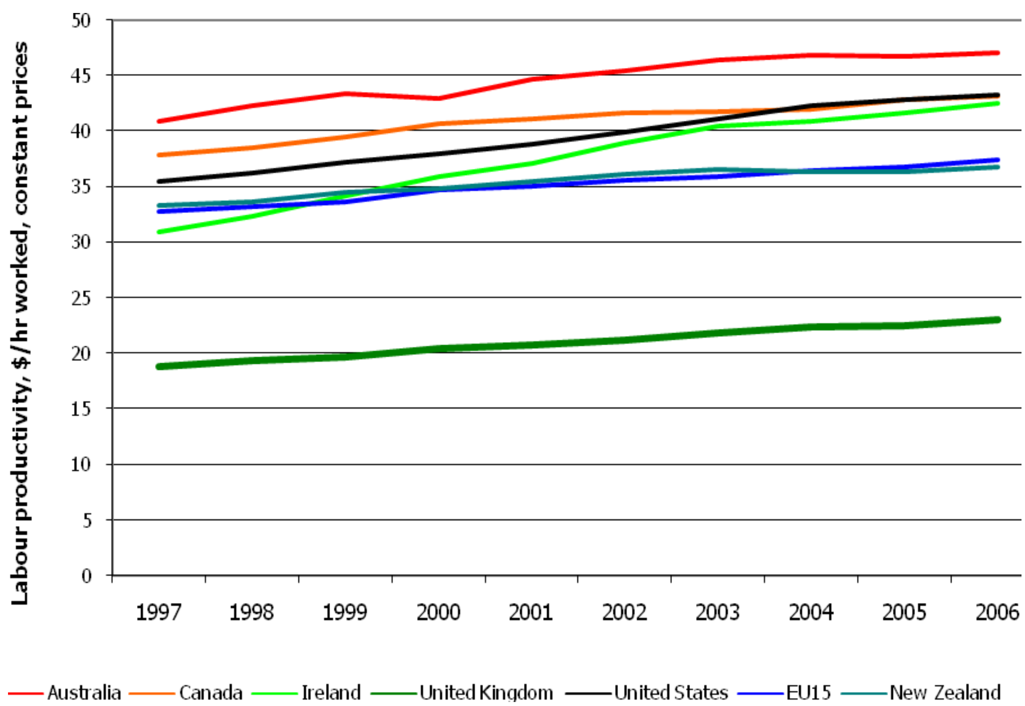
As the table above shows, previously nationalised industries increased productivity significantly following privatisation. By their own efforts, and renewed competition that forced improvements at other firms, productivity in general increased.

[49] ESRC (2005), The UK's Productivity Gap, ESRC Seminar Series: Mapping the policy landscape, p. 9
[50] Cotis, Jean Philippe (July 2006) 'Economic Growth and Productivity', *Annual Conference Government Economic Service,* p.16
[51] Ibid, p.16
[52] Nickell, Stephen (1996), 'Competition and Corporate Performance', *Journal of Political Economy* (August 1996)
[53] The Work Foundation (2004), Efficiency, Efficiency, Efficiency; p.18

UK productivity improvements are perhaps as much then – if not more – to do with the privatisation and deregulation agenda of the 1980s and early 1990s – which significantly increased market competition in the UK economy – than with more recent initiatives.

Finally, while standard international comparisons show a narrowing of the productivity gap, if the comparison is made against the EU 15 and English-speaking countries, there appears to be little significant progress at all since 1997.

Figure 3.1.3: Labour productivity, $/hr worked, constant prices[54]



As the graph above illustrates, productivity has increased in all cases, with little catch up shown by the UK. Indeed in comparison to earlier years, recent productivity improvements have been negligible.

Between 1979 and 1997 UK labour productivity as a percentage of US labour productivity rose from 46.59 per cent to 52.96 per cent. Between 1998 and 2006 the rise was from 53.17 per cent to 53.24 per cent. Which means the annual catch-up between 1979 and 1997 was nearly 39 times as fast as the annual catch-up between 1998 and 2006.[55]

54 OECD.Stat - http://puck.sourceoecd.org
55 OECD.Stat – http://puck.sourceoecd.org

There remains a significant and persistent productivity gap between the UK and other developed economies. Any progress is likely to have been the result of increased market competition since 1992, rather than direct Government involvement since 1997. Indeed the evidence suggests that concerted deregulation and less government involvement in the economy is the best driver to increased productivity.

4. Reforming BERR

Lord Jones of Birmingham – until recently the BERR minister for trade – told the House of Commons' Public Administration Committee on January 14th 2009 that the work of the civil service "could be done with half as many" personnel, and that it could, in short, be "more efficient, productive [and] deliver a lot more value for money for the taxpayer."[56]

This is certainly true of BERR. Some of its objectives are important (regulating competition, managing Government shareholdings) but many are managed badly (business support) or are entirely unnecessary (business creation). Political rather than business needs have dictated BERR's work, and Britain has lost many of the competitive advantages it once held.

But just as positive changes were made in the past, there is scope for such change now, offering taxpayers a cost effective service and delivering to business a genuinely better environment in which to trade.

4.1 An Office for Business

At present the Department controls – directly or indirectly – 39 public bodies and delivery agencies. (For a full list see Appendix B.1). Not all of these are funded by BERR; some receive grants from other departments and many generate their own income. But at a total cost to taxpayers of £2.5 billion in 2007-08 (£2.4 billion in 2006-07), BERR is still administratively responsible for a staggeringly diverse and expensive range of quangos – dealing with everything from the Government Loan Guarantee Schemes to the standards of hearing aids.

Many of these bodies should be cut completely (RDAs, Union Modernisation Fund, Hearing Aid Council). Government in general now does too much, depriving civil society of responsibilities which it is more than capable of carrying out itself.

Other bodies should be reconstituted as separate non-departmental government entities. For instance responsibility for BERR's market competition objectives ('delivering free and fair markets') is already carried out on its behalf by large agencies (the Competition Commission and Competition Service), funded by Government but actually operationally independent of BERR. The much publicised capital investment schemes are also already handled by a non-departmental body (Capital for Enterprise), to ensure independence and impartiality.

Similarly, some work currently done within the department could easily be moved beyond direct departmental oversight. The Shareholder Executive for instance (managing public assets and Government businesses) currently works within BERR, but could easily be reconstituted as a small executive agency. In fact a 2007 NAO report on the working of the Executive expressed concern over the possible conflicts of interests that might follow from BERR's dual role as 'shareholder' and 'regulator' of the Royal Mail, which suggests such a move would be in taxpayers' and consumers' interests.[57]

Perhaps most pertinently, the Loan Guarantees currently on offer from the Government (from January 2009, this will principally be the £1.3 billion Enterprise for Finance scheme) are not directly administered by BERR.[58] While politically accountable for its success, and operationally responsible for getting the banks to originally sign up, the actual delivery of the scheme is carried out by the banks themselves.

Figure 4.1.2: Departmental Expenditure by objective 2007-08; planned Expenditure for 2008-09; and potential cost of an Office for Business.[59]

Objective	2007-08 £ million	2008-09 £ million	Future Office
Clean, safe and competitively priced energy	68	-	-
Promote the creation and growth of business	521	608	110
Ensure the Government acts as an effective shareholder	458	305	200
Manage energy liabilities responsibly	1,530	-	-
Deliver free and fair markets	201	236	240
Provide professional support, capability and infrastructure	432	74	-
Ensure better regulation	2	4	-
Administrative activities	n/a	273	20
Total	**3,212**	**1,500**	**570**

According to BERR's autumn plans, £608 million will be spent on 'promoting the creation and growth of businesses in 2008-09. Much of this will be diverted towards the 'single pot' from which RDAs are funded, but assuming £200 million remains, this should be cut drastically, leaving only enough to support an internet based, centrally administered advice network for small businesses (helping them navigate the mass of regulation they face), and the work of UK Trade and Investment.

[56] Telegraph (January 15 2009), *Many civil servants 'deserve the sack' says Lord Jones*
[57] NAO (February 2007), The Shareholder Executive and Public Sector Businesses, Value for Money Report
[58] BERR 'Enterprise for Finance' webpage - www.berr.gov.uk/whatwedo/enterprise/enterprisesmes/info-business-owners/access-to-finance/sflg/page37607.html
[59] Annual Report 2007-08 and BERR Autumn Performance Report 2008; expenditures for 'Future Office' are estimated and rounded; administrative expenditures are estimates from.

BERR's 'better regulation' programme should be scrapped completely. Quite apart from the fact that the EU is the source of most business regulations – which BERR has no control over – the burden reduction programme has not delivered. Like many such Government initiatives, it may be costing the taxpayer more than it saves. As the Government's own investigation concluded, in regulation 'less is more'. This must be the aim of future policy.

As other objectives are taken from BERR ('ensuring the Government acts as an effective shareholder' or 'delivering free and fair markets') the administrative costs of the department should fall. A headcount of over 2,000 (core department) civil servants could be reduced to less than 1,000, as a new department limits its activities to overseeing the work of its executive agencies and relevant non-ministerial departments. Millions could be saved, while still allowing BERR to carry out its more useful functions.

4.2 A Secretary of State for Business and Trade

Nor does reform of BERR have to entail the scrapping of the Secretary of State for Business. Lord Mandelson's success in the role has in fact weakened the case for keeping BERR, revealing that it is the Minister in charge – rather than the department – who speaks as the voice for business. An effective minister could continue to perform the advocacy role for business from a vastly pared down organisation.

4.3 The case for reforming BERR

BERR at present pursues objectives and strategies which do little to improve the UK's business environment. Since the DTI's resurrection in the 1990's, the Department has come to be more the hand of Government in business than the voice of business in Government.

Its schemes to improve competitiveness and the level of enterprise have failed. There has not been an uptake in entrepreneurship, the regulatory burden has grown, and corporate taxation, relative to the UK's competitors, has increased. Taxpayer funded business support programmes have had an inconsequential uptake. RDAs have not had any discernable impact on England's regions.[60]

The point of any Department for Business must be to represent the interests of business. Less Government, rather than more, is what business in the UK now needs. The recession will test sound companies as well as weak ones, and all

[60] See TaxPayers' Alliance (August 2008), 'The Case for Abolishing Regional Development Agencies', *Structure of Government Paper 3*

would benefit from concerted Government efforts to lower tax and minimize regulation. Just as policies to free up business put Britain in a position to benefit from the end of the last recession, similar moves now would prepare Britain to make the most of the future beyond this current recession.

Britain is now a less hospitable place to do business than it once was. There can be no greater indictment for a Department for Business. The need to reduce public spending in the face of mounting public debt is now paramount, and the taxpayer should no longer have to pay for a Department that does not deliver.

Appendix A.1:

Total Departmental 'Business' Outturn* (Capital and Resource expenditure), 2000-2008, £000

Budget Item	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Total 2000- 2008
Knowledge Transfer and Innovation	140,099	165,962	186,046	58,591	242,606	263,661	292,097	10,660	**1,359,722**
Extending Competitive Markets	60,226	45,440	91,473	169,218	116,881	94,407	80,039	97,710	**755,394**
Enterprise Growth and Business Investment	402,321	468,286	619,902	750,171	327,824	203,377	99,311	91,328	**2,962,520**
Regional Economies	235,155	343,065	311,536	182,748	347,255	645,339	667,339	532,739	**3,265,176**
Trade and Investment	27,145	31,408	32,071	35,199	34,333	33,234	30,889	46,016	**270,295**
Maximising Potential in the Workplace	63,825	62,344	78,386	99,113	117,457	124,726	71,286	99,931	**717,068**
Corporate Activity and Insolvency Framework	196,034	236,653	312,896	261,315	196,432	279,389	243,883	226,467	**1,953,069**
Activities in support of all objectives	241,970	310,369	269,534	312,275	298,483	271,867	293,514	428,323	**2,426,335**
Total	**1,366,775**	**1,663,527**	**1,901,844**	**1,868,630**	**1,681,271**	**1,916,000**	**1,778,358**	**1,533,174**	**13,709,579**

* Department 'Business' outturn refers to DTI and BERR spending on 'business' objectives, so excluding the energy and science budget outlays which the DTI and BERR administered in the past.

Budget item 1 (Knowledge Transfer and Innovation) may contain some science spending, but this is not separated out in the Departmental Accounts.

Budget item 8 (Activities in support of all objectives) will also contain spending on energy policy and science funding (prior to 2007-08). This is not separated out in the accounts, so the total for the department is used.

All figures are taken from Departmental Annual Reports, in particular DTI 2003-04, DTI 2006-07 and BERR 2007-08; figures for early years where adjusted in each set of accounts to enable year on year comparisons.

Appendix B.1:

BERR Public Bodies and Delivery Partners, November 2008

Name	Staff		Government Funding* £000		Total Income £000		Expenditure £000	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
Advantage West Midlands	327	341	211,678	253,139	239,166	281,487	284,909	270,294
Advisory Conciliation and Arbitration Service	789	749	48,435	45,123	54,283	49,064	53,165	48,881
British Shipbuilders	0	-	0	-	0	-	9,226	-
Business Council for Britain	-	-	-	-	-	-	-	-
Capital for Enterprise Ltd	n/a	12	n/a	-	n/a	-	n/a	-
Central Arbitration Committee	10	11	740	695	740	695	739	694
Citizens Advice	411	420	39,509	36,145	46,692	45,683	42,877	50,223
Citizens Advice Scotland	-	*2,500*	-	2,900	3,900	5,500	4,300	5,000
Companies House	1,247	1,175	0	0	72,220	69,747	69,450	64,335
Competition Appeal Tribunal								
Competition Commission	151	179	20,107	22,500	2,907	25,298	21,617	24,207
Competition Service	17	17	3,372	4,194	3,372	4,194	3,641	3,567
Consumer Direct	-	-	-	-	-	-	-	-
East Midlands Regional Development Agency	247	261	160,115	161,000	191,673	193,169	188,224	195,923
East of England RDA	223	243	136,789	115,218	149,018	136,440	149,015	162,662
Financial Reporting Council	55	58	3,415	3,467	14,786	16,182	15,599	16,986
Fuel Poverty Advisory Group	1	*1*	10	*10*	10	*10*	0	*0*
Hearing Aid Council	5	6	-	116	-	1,224	1,122	1,224
Industrial Development Advisory Board	3	*3*	0	0	0	0	0	0
Insolvency Service	2,146	2,529	48,672	39,568	121,979	143,053	157,612	180,986

Name	Staff		Government Funding* £000		Total Income £000		Expenditure £000	
Insolvency Practioners Tribunal								
Local Better Regulation Office	-	21	-	1,621	-	1,625	-	1,532
London Development Agency	385	468	415,630	416,921	528,398	427,323	546,585	417,372
Low Pay Commission	9	8	880	*880*	880	*880*	862	*862*
North West Development Agency	402	431	369,000	381,000	443,530	448,922	462,748	462,226
Office of Communications (Ofcom)	789	810	82,640	81,566	143,608	142,396	125,175	133,942
One North East	446	437	246,000	267,000	275,000	293,875	305,952	304,230
Persons Hearing Consumer Credit Licensing Appeals	-	-	-	-	-	-	-	-
Persons Hearing Estate Agents Appeals	-	-	-	-	-	-	-	-
Postcomm	61	62	0	0	8,762	9,158	8,763	9,159
Regional Industrial Development Boards (x7)	-	-	-	-	-	-	-	-
Risk and Regulation Advisory Council	-	-	-	-	-	-	-	-
SITPRO	8	9	903	767	1,040	914	1,044	915
South East England Development Agency	358	356	136,889	154,001	180,410	193,983	195,409	193,933
South West of England Development Agency	303	348	159,915	163,927	186,188	193,653	188,591	184,679
UK Chemical Weapons Convention National Authority Advisory Committee	1	*1*	-	-	-	-	-	-
UK Trade and Investment	25	12	94,088	87,807	94,091	90,188	95,764	90,132
Union Modernisation Fund Supervisory Board	1	*1*	-	-	-	-	-	-
Yorkshire Forward	428	435	286,000	300,000	330,049	365,160	339,492	364,598
Total	**8,869**	**11,927**	**2,461,372**	**2,536,098**	**3,093,712**	**3,141,083**	**3,271,841**	**3,188,562**

* Government funding does not reflect money given by BERR alone, but from the Government as a whole. These bodies are the responsibility of BERR, but some receive funding from multiple departments.
- A dash indicates No Information Available.
1 Numbers written in italics are previous year figures, restated to enable comparison.