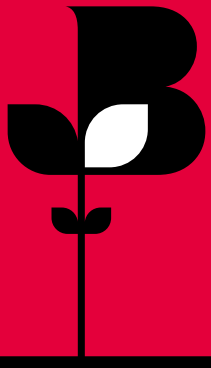
BURSTING THE BUBBLE

10 ways Westminster gets it wrong on business and the economy



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FOREWORD

Business organisations that work in Whitehall and Westminster can sometimes be afraid of rocking the boat, choosing to avoid direct criticism of policies, actions and positions even when these are detrimental to the interests of businesses across the UK.

Not so the British Chambers of Commerce. As part of our mission to be an authentic voice for businesses of all sizes, and in all regions and nations of the UK, we are committed to making the case for business without fear or favour.

This series of short think-pieces was born from our desire to tell it like it is. Each article is based on the fact that the prevailing view we encounter in the 'Westminster bubble' often bears no resemblance whatsoever to what businesses are experiencing on the ground.

More than anything else, this is an exercise in myth-busting, on behalf of the many businesspeople out there who struggle to link pronouncements from Westminster with conditions in the real world.

It is not party political. It does not take aim at individual politicians. Yet it does take aim at the received wisdom of the political and media class. Declaring that something is sorted – broadband, bank finance, infrastructure, etc – doesn't necessarily mean that it actually is. In business, it's the outcomes that matter, not the announcements and pronouncements. And all too often, those outcomes still seem a long way away.

I hope you enjoy reading – and would welcome thoughts on other 'business myths' we can explore in the weeks and months ahead.

John Longworth, Director General, BCC, September 2015

1. "ALL PUBLIC SECTOR DEBT IS BAD"

Tackling the deficit, fixing the roof when the sun is shining, balancing the books – these have all become well-worn phrases in the media and from our politicians over recent years, as paying off our public sector debt has become something of a national obsession – but is all public sector debt bad?

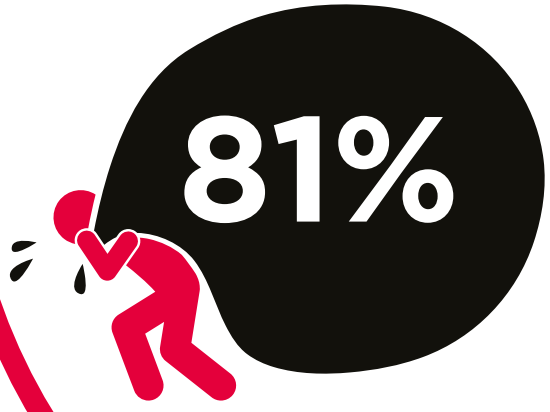
In truth there is both good and bad debt. There is of course nothing wrong with a company accessing finance to help it grow whether moving from being a small to mid-sized business or looking to export for the first time, should be actively encouraged or we will continue to miss out on a British Google, Apple or Samsung. But on the flip side, they should not leave themselves over- leveraged should economic conditions deteriorate, as happened in 2008. Similarly someone getting an affordable mortgage in order to buy a house which can be an important nest egg in later life, but, taking out a loan to fund a round the world cruise might not be the most prudent idea.

So what about government? Well the same rules apply, there can be both good and bad government debt. Greece is one of the most recent high profile cases of where it can go spectacularly wrong. Greece, as one of the most indebted countries, became the centre of Europe's sovereign debt crisis as the global financial crisis hit in 2008. Greece was subsequently shut out from borrowing in the financial markets and have been on life support ever since with government debt currently standing at an eye watering 180% of its GDP.

However, investing so the UK can finally punch its weight on growth, productivity and international trade makes much more sense - that is a sensible investment in our economic future, which would leave us better off in the long-term.

Politicians are well versed in telling the electorate that we shouldn't leave today's debt for tomorrow's generation. They are right of course, but it would be equally calamitous to leave the next generation with an economy ill-equipped to compete on the global stage. Despite the welcome publication of a Productivity Plan, securing the UK's long term economic prosperity continues to be held back by the deep-rooted, structural problems, including rebuilding Britain's inadequate economic infrastructure.

Public sector net debt, excluding public sector banks, currently



of UK GDP

1. "ALL PUBLIC SECTOR DEBT IS BAD"

Investing in capital assets such as transport, energy, digital and other local economic infrastructure remains vital to our economic future.

Without significant efforts from government to accelerate the pace of infrastructure delivery, the UK's ability to compete internationally will be further undermined.

I should point out that the BCC continues to support the government's attempts to eliminate the deficit. However, the 'demonisation of debt', particularly public sector debt, has made justification for public investment more difficult in the current economic climate. This also means that the UK economy has not been able to fully benefit from the fact that cost of borrowing for the UK government remains close to a historic low.

Solutions need to be found whereby government is able to maintain a credible commitment to keeping public finances under control, whilst simultaneously increasing public investment in economic infrastructure.

This is why we believe that any move to constrain future spending should explicitly exclude infrastructure, which is an investment rather than just a cost. This could be achieved through the removal of infrastructure investment of national importance from the national debt targets. We would like to see investment relating to the delivery of the national infrastructure plan to be classified as a new category of government spending. Accounting decisions such as this are not unprecedented, with the government using a similar strategy with its bailing out of the banking sector. The change to the classification would mean that specific investments directly related to the National Infrastructure Plan would go into the new classification, thereby opening up much needed headroom within government spending for additional key economic infrastructure investments of national importance.

To reassure financial markets of the government's commitment to responsible management of the national debt, a 'Privatisation Pipeline' for assets financed in this way could be created, whereby a timeline of commitments to the sale of parts of the assets is given.

If we are to secure our economic future there must be a recognition among policymakers that while too much debt can be damaging for an economy, so can too little.

2. "BUSINESSPEOPLE ARE TO BLAME FOR BRITAIN'S POOR PRODUCTIVITY"

The real 'productivity gap' in Britain is not the one said to exist with our overseas rivals. It is between the rhetoric of policymakers and businesspeople's understanding of the most slippery concept now in public discourse.

Once upon a time, the term 'productivity' was a technical one, rarely seen outside of economics textbooks. In that context it referred – and still does – to the economy's ability to produce goods and services with the resources it has. As resources are finite, getting more from the same – being more productive overall - is the key to a richer society.

But in recent years 'productivity' has taken on a life of its own. No longer a creature of academia and the Treasury it has broken into the policy mainstream. It can be seen in speeches from Ministers of every government department; rampaging across Whitehall and dominating policy seminars. It has even given birth to a government 'productivity plan' for the UK that was given equal billing with July's Budget.

As it has done so, the concept has become distorted from its original meaning and in the process a myth has taken hold: that instead of the fundamentals that underpin all economic activity, the thing that is really holding back Britain's productivity is businesspeople themselves – the investment decisions they make; their perceived culture of short-termism, especially in respect of innovation. So businesses are now exhorted to 'up their productivity game' because Britain is in the grip of a 'productivity crisis'; has 'stubbornly poor productivity'; and lags its international competitors in the great 'productivity race'.

A claim often made in support of this is that "French workers can produce in four days what British workers can only do in five". That unemployment is running at roughly half the rate it is in France; that British firms create more jobs and by necessity employ a workforce with a broader range of abilities is left unmentioned. So is the fact that, on the latest data, Britain produces slightly more output per head of population than does France.

Meanwhile, back on planet Earth, British businesspeople are left scratching their heads. You won't find the term 'productivity' in any management accounts with their more prosaic notions of costs and revenue, profit and loss. It's unlikely you'll see it in any annual report to shareholders. Because the link between the profitability of an individual business and productivity at the national level is not clear cut.

Factors well beyond the reach of policy – the success of a marketing campaign or the performance of a rival – impact on profitability. But so do factors beyond the control of businesses – say the impact of poor infrastructure on shipping costs, widespread access to loan capital or the availability of skilled labour in the local area.

It isn't the place of government to tell business leaders how to run their companies or what investments to make. If they fail to maintain their competitiveness the market will find them out soon enough. But it is the place of government to ensure businesses are advantaged by a first-rate economic infrastructure when competing against those from countries whose economy-wide productivity they hold up as exemplary.

That's why for this upcoming Spending Review the BCC is calling on government to focus on fixing the fundamentals, not to waste money or become distracted by initiatives that are aimed, ultimately, at the way businesses make decisions about their future. It means rebuilding our ailing infrastructure which costs Britain's businesses billions ever year; a relentless focus on quality in our vocational education and skills training; reforming the financial system so that it works to enable long-term business investment.

It's high-time we rescued 'productivity' from the 'productivity prophets' and targeted the real barriers to growth.

British firms create

more jobs

and employ a workforce with a broader range of abilities

3. "THE CREDIT CRUNCH IS OVER – AND IT'S BACK TO NORMAL FOR BUSINESS AND BANKS"

Remember the credit crunch? Six or seven years ago, you'll have heard of little else. The whole financial system, starved for liquidity, seized up – carrying individuals and businesses in its wake.

Fast-forward to the present day, however, and the problems in business finance that were so apparent in the late Noughties appear to have slipped off the Westminster radar screen.

After several years of solid economic growth, it seems that many politicians have been lulled into thinking that businesses are getting all the capital they need to grow. Around Westminster, you no longer hear so much around business access to finance – nor about the relationship problems between companies and financial institutions that so severely damaged confidence and trust. As far as politicians are concerned, the credit crunch is over, and it's back to normal for businesses and banks. Unfortunately, that would be wishful thinking.

Relationships between businesses and banks remain at a low ebb. The trust that took decades to create, will take many years to build back up again.

Thousands of businesses have become 'non-seekers' of finance – cowed by the fear that any attempt to approach their financial institutions for support will result in an unwanted review of their banking facilities. There is now both overt and covert 'discouraged demand' – companies being turned away, and those that are not even bothering to darken the bank's front door.

Worst of all, the structural gap in business finance — first identified as the Macmillan Gap a century ago – remains alive and well. If your company is well-known to the bank, you may get what you need. But if you're not one of the usual suspects, for example if you're new and fast-growing or a business that has grown organically and is only looking for external finance for the first time, you're not likely to get the help you need.

From the point of view of commercial banks, these sorts of businesses are often seen as too risky – except for a small number who get to know companies well and choose to back them. What's depressing is that they have never been well-served by financial institutions, despite their importance to a dynamic and growing economy. The unfortunate outcome is that they end up taking big equity investments, lose control, or get bought out by foreign multinationals.

While efforts to boost minority equity investments, access to market listings and Britain's excellent peer-to-peer finance industry are welcome, they can only make a difference at the margin when over 80% of Britain's business finance requirements are met through debt. It will take time to develop a stronger equity culture, for businesses to tap the markets for finance, and for peer-to-peer finance to carve out a strong market position.

Over 80%

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3. "THE CREDIT CRUNCH IS OVER – AND IT'S BACK TO NORMAL FOR BUSINESS AND BANKS"

What's needed now is a vast expansion of patient debt capital. And so much of what Westminster has been doing has worked precisely against that aim.

Challenger banks – an absolute prerequisite to boosting competition and choice for businesses – have been flattened by the Chancellor's decision to impose an additional levy on Corporation Tax. They've also not exactly been supported by the regulators, who have made market entry unnecessarily complicated.

Regulators, too, have further blunted risk appetite amongst lenders, with draconian capital requirements making it nearly impossible for many banks to take risks on new and growing businesses.

There are bright spots...

The establishment of the British Business Bank (BBB) by the Coalition government was a recognition that all is not well in our business finance market – and that the state could play a role in helping to fix this fundamental issue. The BBB now deserves both political support and the resources needed to play a much bigger role, more akin to its German, Canadian and American counterparts. Without a strong, state-backed business bank, our chances of overcoming the Macmillan Gap once and for all are slim to none.

The return of UK Export Finance to the SME market is also important, as it means companies trading internationally can access similar finance options to their competitors abroad.

The Business Banking Insight, an independent comparison website backed and delivered by the BCC and the FSB, allows companies to check how their peers have rated bank services – and make decisions accordingly. We're doing our bit to boost competition through transparency, with welcome support from the big high street lenders.

Finally, the decision of the Competition and Markets Authority to conduct a full investigation of SME banking is crucial. A root-and-branch review is needed to restore trust between SMEs and financial institutions, with wide-ranging remedies if needed to promote competition and an appropriate level of risk-taking.

Much remains to be done to make finance work for SMEs – rather than the other way round.

So the next time anyone tells you that the credit crunch is over for British business, and that all is back to normal, don't let them get away with it.

The market for business finance still isn't working properly – and there is a long-term role for the State in making it work. **If other free-market capitalist economies, from the United States and Canada to Korea and Australia, recognise this fact, then why can't we here in the UK?**

4. "EXAM RESULTS ARE THE PASSPORT TO SUCCESS IN WORK"

88%

of firms saying school leavers are unprepared for work

Businesses want an education system that prepares young people to be the productive, innovative workforce of the future. Yet the principal focus of education policy in recent years has been on exams and results. The perceived wisdom is that if you drive up exam results, young people will be more likely to succeed later in life, more likely to find work; and businesses will benefit from a more productive workforce. This simple argument has been repeated in different guises by politicians of all stripes, time and time again.

But our current examination system can actually hinder the efforts of schools to prepare their pupils for work. Think for a moment about the type of work this encourages: working silently, alone, with minimal collaboration and limited interaction with technology. This is the polar opposite to the skills needed in the workplace.

With youth unemployment at three times the total unemployment rate and 88% of firms saying school leavers are unprepared for work, we need to think hard about how our education system can better support young people to make a successful transition to the workplace.

We need an exam system that encourages the skills employers are crying out for such as problem solving, collaboration, risk taking, communication and creativity. If these skills are stifled we will be in danger of losing the ability - which sets us apart globally – to produce brilliant designers, engineers, and scientists.

Most importantly we need a system where schools are assessed against a standard other than exam results and progression to university alone. Business people know intuitively that how you define and measure success will in turn drive the behaviour and priorities of a company. It is no different for schools, whose main benchmark of success is the number of A*-C grades achieved.

This is why we've proposed that school inspectorates such as Ofsted, evaluate secondary schools based on the destination and earning outcomes of their pupils. This will encourage and incentivise schools to put in place comprehensive strategies to prepare their pupils for life and work after they finish their education.

An effort to rank schools based on how they help get young people into work should also be complemented by a business governor on the board of every secondary school. These governors can provide strategic advice and support, linking the school to the business community.

We also need to drastically increase the number of high quality interactions between education and business to expose young people to the world of work, providing them with role models and guidance. Contact with employers can be pivotal in helping inform and guide a young person navigate their career. This is especially so for pupils from lower socio-economic backgrounds who are less likely to have connections with people in careers they want to pursue. For this reason there needs to be a drastic increase in the provision of high quality 'experiences of work' in schools, ranging from work placements for pupils and teachers to business talks and mentoring programmes.

There is currently a lack of integrated and national support to help young people interact with business. That's why the BCC is doing its part by unleashing the hundreds of thousands of business connections that we have across the UK, to better support schools and colleges. We are doing this by launching a new membership offer specifically designed for schools and colleges called Young Chamber.

We also recognise that businesses can do more. Three quarters of firms say work experience is the most important element of preparing young people for work, yet only half of them report offering it. Preparing the next generation for business and the workplace is a joint responsibility between business, the education sector and government. Policy makers need to recognise exam results alone will only get us so far. It is crucial we fix this, so firms can access the entry level talent necessary for their business to thrive.

5. "BRITAIN'S INFRASTRUCTURE IS GETTING ON THE RIGHT TRACK"

Despite the fact that the UK languishes in 27th place on quality of overall infrastructure, our politicians never miss an opportunity to promote their strategies and plans to improve our transport, energy and digital networks.

We're told, on a regular basis, that Britain's infrastructure is now on the right track after years of under-investment – and that the commitments being made are exceptional, particularly at a time of spending restraint. Except that neither of those pronouncements is actually true.

Britain's infrastructure remains woefully inadequate for a dynamic economy with a growing population, and our politicians know it.

They also know that current levels of investment are inadequate to deliver the transport capacity, energy security, and digital connectivity that UK businesses and households require. Despite personal efforts from the Chancellor of the Exchequer and others, the amounts set aside for infrastructure improvements pale in comparison to what the UK government spends on short-term needs.

No one in business believes that our infrastructure is improving at an adequate rate. Consider what businesses are experiencing:

- Inadequate road maintenance and improvements, with funding for maintenance under further threat, let alone the funding required to deal with chronic congestion
- Rail improvements vital to the performance of regional economies, and for greater freight use of the railways, 'paused' indefinitely, plus slow progress toward HS2
- Claims of progress on digital and mobile connectivity that are completely divorced from the reality of delays, difficulties and lack of service businesses face in the real world
- Lack of progress on other important projects where government has given its strong support, such as shale gas extraction
- Prevarication on some of the major projects businesses need in order to grow and export – such as new nuclear power stations to provide energy security, and airport expansion to ensure links to key destinations in emerging markets around the world

There is a strange level of self-satisfaction around Westminster, where the belief seems to be that things are improving, and that Britain's business infrastructure is in increasingly better shape. Yet these continuing, real-world difficulties demonstrate that much remains to be done. Our calls for action on infrastructure will continue until action is taken.

First, ministers should depoliticise infrastructure planning and decision-making as far as possible, by establishing an independent body along the lines of the recommendations made by Sir John Armitt.

Second, as we set out in our discussion on public-sector debt, ministers should take infrastructure investment that boosts economic growth out of the national debt target – enabling the UK to take advantage of rock-bottom borrowing costs to make a once-in-a-lifetime investment in our national infrastructure. Just as there is a myth in political circles that infrastructure is getting sorted, there's a related myth that we can't afford to build world-class infrastructure. If we can intervene in the banks, and account for those interventions separately to general government expenditure, why can't we do the same thing with our national infrastructure?

Third, politicians need to take the decisions. Don't duck Heathrow expansion. Commit not just to a first phase of HS2, but a full national network. Sign contracts for new nuclear power stations. Force regulators to guarantee digital connectivity.

Infrastructure investment has so many hidden dividends that it should be a no-brainer for politicians. We get new skills and jobs. We get immovable assets, which can be maintained in state ownership or privatised with benefit to the taxpayer. We also get huge additional business investment on the coat-tails of transport, energy and digital improvements – plus the exports that come with this.

Will Britain's politicians buy their own rhetoric, and assume that Britain's infrastructure is on the right track? Or will they see that incremental improvements aren't doing the job – and take a radical approach? Businesses can cope with make-do-and-mend. But is coping the sum total of our ambition for this country – when what we really want to see is dynamic growth?

6. "INWARD INVESTMENT IS ALWAYS BRILLIANT FOR THE UK"

The attraction of inward investment has been seen as an article of faith for UK governments over the course of the last few decades.

However, it's time to stop lying to ourselves. Not all foreign investment is good for us. We need to lift the lid on each major deal, and look carefully at whether the contents of each investment truly match what we're being sold on the tin.

No other country seems to have the almost religious adherence to inward investment that British politicians have professed, now, for several decades. They speak of our 'open economy' with great reverence, despite the fact that no other country would comfortably see so many of its assets, whether private or public, pass into foreign ownership. We may have excellent financial services companies – making a crucial contribution to GDP – but some of them have learned their trade flogging bits of the British economy, with questionable results.

For most of our key competitors around the world, the long-term prosperity and sustainability of the national economy – and the key business sectors that drive it – condition governments' approaches to inward investment. In Britain, by contrast, our 'anything goes' approach has played a role in our poor record of domestic business investment, to our failure to exploit technological breakthroughs here at home, and even our rampant property price growth.

Much foreign investment is undeniably good for the UK's economic prospects. Overseas institutions and pension funds, which are interested in stability and long-term returns, should always be welcome on these shores. After all, they make the sorts of commitments that help to unlock major housing and infrastructure developments, which in turn create 'sticky' jobs and activity.

Investments that result in the transfer of production – whether manufacturing or services – to the UK, and investments in existing businesses that retain their head offices and R&D functions here, should also be welcomed. I can name many foreign investors, big and small, whose commitment to doing business in the UK for the long-term is unshakeable.

Yet, sadly, many of the inward investment 'successes' trumpeted by government agencies fall well outside these criteria.

Some 'investment' bounces in, and then bounces out, with tax efficiency rather than economic value the primary objective.

Some 'investment' is actually just the creation of sales offices for products made elsewhere, increasing our trade deficit. Much of the profit from these investments is then 'booked' elsewhere.

Some 'investment' in UK brands leads to the removal of head office decision-making, the plundering of technology and know-how, and the eventual relocation of operations overseas. That sounds more like asset-stripping than anything that adds value.

For these reasons, and more, the BCC has repeatedly called for ministers to change the law to introduce a new set of competition tests – weighing the long-term economic value of takeovers to the UK.

Throughout my business career, I have observed governments around the world take steps to ensure that corporate takeovers badged as investment actually deliver for their national economies. And I have watched as British ministers, in the name of our 'open economy' and the M&A cheerleaders in the City, have done nothing at all.

It is about time that the British establishment – and Whitehall in particular – woke up to the fact that, in a highly competitive world, it is not just businesses who compete, it is nations. In a world inhabited by multinational giants, nation-states can and should protect the interests of their citizens and their businesses. Successive UK governments have been trapped in an Adam Smith, looking-glass world, and have done a lamentable job.

So before another set of inward investment figures is published, showing just how much more of the family silver has been sold off to finance our twin addictions of consumption and government debt, let's pause to consider the effects of 'openness' on the UK's economic prospects. And let's bust the myth that all inward investment is good for us, once and for all.

7. "OUR APPROACH TO TRADE AND EXPORTS IS WORKING"

The UK accounted for **10%** of world exports in **1950**. This has fallen to **3%** today

In 2012, the Prime Minister set out an ambition to double UK exports to £1 Trillion by 2020.

At the current time there appears almost no chance of the UK achieving this target. In fact, if exports continue growing at current rates, the PM's target will be missed by a staggering 14 years.

The likelihood that the UK will fail to achieve this target should come as no surprise, given some of the global economic headwinds and structural imbalances we currently face.

Yet politicians have by and large continued to trumpet the success of the UK's export drive – spending tens of millions of pounds on advertising campaigns, pouring money into a wide variety of centrally-directed trade-related activities, and publishing annual reports proclaiming the success of Government export promotion and inward investment efforts.

Put simply, while Government support may have helped individual businesses succeed over the years, it has failed to move the dial on exports overall. The story of UK exports is one of a continuing long-term decline in world market share. The UK accounted for 10% of world exports in 1950 but this has fallen to 3% recently. Other developed countries have lost market share, too, but not at the rate that the UK has done so.

Further disappointment lies in the deterioration of the trade deficit, which has continued to increase between 2011 and 2014 despite the decline in the value of Sterling following the 2008 financial crisis. This acts as a reminder that we are still a long way from rebalancing our economy, and clearly highlights export support to date is not working.

There are pockets of great success but these do not add up to a positive balance overall. The UK has world leading capability in financial services and business services, which has led to a positive trade balance in a number of other service sectors. By contrast, the UK has found it much harder to succeed as an exporter of goods. This to a large extent reflects the limited presence of the UK in certain fast growing markets, and the mismatch of the UK's goods portfolio to global demand.

A former trade minister referred to the task of turning around Britain's trade deficit as "a marathon not a sprint". But three years into the race, we are undoubtedly off the pace.

An ambitious target - but is it achievable?

The UK has inventive and talented businesses and individuals, capable of providing the rest of the world with everything from Airbuses and English tea to intellectual expertise in financial services and innovative engineering and manufacturing. There are plenty of great companies, but too many talk about servicing the domestic market versus the international market. There should be no trade-off. It should be just as attractive to explore international markets.

At present British businesses do not perform as well in terms of exporting as their French and German counterparts. Clearly there is ground to make up. Of the five million companies in the UK, only one in five are exporters – compared with one in four in Germany. We know that there are enormous benefits to exporting. On average, businesses which export grow 20pc more than businesses that don't.

If the UK is to hit this target, then not only do we have to maintain our current market share in advanced markets such as the US and Europe, but also secure new exports to the faster growing emerging markets.

7. "OUR APPROACH TO TRADE AND EXPORTS IS WORKING"

In recent years, especially compared to our peers in Europe, the UK has failed to move both market focus and product portfolio fast enough to exploit the opportunities created by the growth of the BRICs. And as Brazil and Russia drop from the list of high-growth markets, the UK needs to be quick enough to respond and move on to the next opportunities. Far too often, others get there first.

So it's time to rip up the established rule-book and start again.

First, we need to be more agile – focusing Government resources on making sure that we can get into markets fast, and change our focus if economic conditions require it.

Second, we need a better split of who does what. Government should be focusing its activities on helping to open up markets for British business, and helping businesses when they need help with foreign Governments to finalise individual deals or contracts. Meantime, it should pull back from business-to-business trade promotion activities, which should really be the preserve of the private sector. Private-sector led trade promotion activities are likely to be more sustainable over the long term – because public-sector programmes are often short-term in nature, and subject to very large budget changes year-on-year.

Third, Government can support exports and trade indirectly by fixing the fundamentals for business here at home.

In the near-term it is increasingly important that the Government addresses infrastructure deficiencies and the skills gaps in order to support UK export growth. Businesses of all sizes, not just large businesses, need the access to finance, to grow and fulfil orders. They need the vital infrastructure to move goods, to do business and to communicate – roads, railways and airport connectivity.

While the Government decides what it will do next, the British Chambers of Commerce will continue to grow its global business network and deliver real, practical and sustainable support to UK exporters around the world.

The onus is now on the Government to demonstrate that it is ready to radically change its approach. There is no quick fix. Transforming our export performance will take patience. But it is clear things need to change for the UK economy to reap the rewards not just for the full term of the elected Government but for generations to come.

On average, businesses which export grow

20%

more than businesses that don't

8. "BRITISH BUSINESS HAS A UNIFIED VIEW ON THE EU"

Nothing irritates business people more than when politicians presume to know what they think. That's precisely what happens, though, when it comes to the UK's relationship with the European Union. Not a day goes by without a politician over simplifying business opinion on Europe - demonstrating either astounding ignorance or wilful reductionism.

Yet there is a huge difference between the viewpoints of big corporates and multi-nationals, on the one hand, and SMEs on the other.

Big corporates are the biggest cheerleaders for the EU because Brussels helps to entrench their advantages against any form of competition. Their sophisticated public affairs operations help write the EU rulebook, and their compliance machinery adapts to regulatory changes with relative ease. They are quick to tell both Westminster and Brussels what they think, what they want, and when they want it.

Private companies, and SMEs in particular, have a different starting point. They view Britain's relationship with the EU through a pragmatic lens, and take an instinctive view based on what is good for their businesses. For many, particularly in sectors like manufacturing, the net result of that exercise is positive. For others, including some in services whose trade is global, that's not the case. Crucially, most of these businesses lack the time and resources to engage on byzantine EU issues in the same way as their bigger peers. Europe is something that is done to them - rather than with them.

What we find up and down the country is that business opinion on Britain's future in Europe is in fact just as varied as public opinion. A sizeable majority of these companies want to see serious change in our relationship with Brussels, and in the functioning of the EU as a whole. Some are voluble about "staying in", many express a preference for the notion common market rather than a political union, while others are clearly aligned with "better off out". Most importantly there is a real sense among companies that the status quo is not an option - because Europe is going to change, whether we like it or not, and we have to be deft and quick in protecting our business and national interests.

It is time for politicians to face up to this diversity and to address it in their public pronouncements. As in Scotland, and as in so many other campaigns, business will divide into a range of camps when the EU referendum date is set. At present, a majority are inclined to support the Prime Minister's efforts to secure changes, both to the UK's terms of membership and to the EU itself.

But as John Maynard Keynes so famously said, "when the facts change, I change my mind." Business views on the EU are dynamic, and will continue to shift as the content of the PM's renegotiation package crystallises, and as the public debate ramps up. So any politician who tells the media that she or he understands the business mindset on Europe is probably relying on a few short conversations - and should be ignored.

Business deserves a far more intelligent and informed debate on Britain's future in Europe - based on a package of proposals that reflects our national economic interests.

We'll do our part, both to put forward the business priorities expressed to us by thousands of companies in every region and nation of the UK, and to improve Westminster's understanding of how business is feeling. At the same time, we won't hesitate to call out those on either side of this crucial debate who presume to speak on behalf of their peers. Democracy is messy - there's no reason why the EU referendum debate should be any different.

9. "BUSINESSES AND CONSUMERS NEEDN'T WORRY – BRITAIN'S ENERGY SECURITY IS ASSURED"

The new government faces many challenges over the Parliament, but it is hard to think of a greater threat to the success of any government than failing to ensure that the UK's energy supply is secure. The government has spoken of the importance of placing energy security at the heart of UK energy policy, but firm and immediate action is required to put some meaning behind these words.

The UK currently faces a perfect storm of ageing infrastructure: our coal, gas and nuclear power stations are reaching the end of their useful lives; our offshore oil and gas reserves are fading; and low global energy prices mean importing is currently cheap and easy.

We rely on oil for over

95%

of our transport needs

It is the responsibility of government to create the right policy framework to secure investment in our energy supply. There would be no greater failure of decades of UK energy policy than if the fifth largest economy in the world could not prevent the lights going out – crippling our businesses and our economy.

It is well known that there are three elements to UK energy policy; decarbonisation, security of supply and affordability. It is less well known that consumption of energy also splits relatively equally between transport, heat and electricity.

Governments have focused predominantly on electricity supply because it allows the most progress for carbon free generation, particularly from wind power. However, the other two thirds of that equation cannot be ignored. Gas provides heat to approximately 80% of homes and businesses in the UK and we rely on oil for over 95% of our transport needs. Oil and gas provide more than 70% of the UK's total primary energy, and the Department for Energy & Climate Change (DECC) says that by 2030 that figures will not be below 70%.

Whilst we can reduce our demand through energy efficiency measures, such as businesses changing behaviours and investing new technology like smart meters, we have to be realistic and acknowledge that our demand for oil and gas will remain high in the short to medium term. The government needs to frame a long-term strategy that is realistic to the demands of consumers and the economy, and not produce policy on what they wish or hope our energy demand will look like.

Ofgem has already sent out a warning that the closure of power stations has meant spare capacity could fall as low as just 1.2% this winter, with that squeeze on spare capacity likely to get worse in the winter of 2016/17. As a response, National Grid has had to pay an extra £36bn to have several plants on standby, as well as asking some industries to switch off power at peak times. This is an expensive, short-term fix to a problem that requires a long-term strategy.

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EU environmental regulation has also contributed to the problem. The Large Combustion Plant Directive has already forced the shutdown over the last two years of a series of coal plants, including Kingsnorth in Kent, Didcot A in Oxfordshire and Cockenzie in East Lothian. The fall in electricity prices, along with high fixed costs and the Government's decision to double the Carbon Price Floor have all contributed to closures being accelerated. Yet, replacements for the existing stock have not been built. The business model for private investment in a new generation of plants no longer adds up – as our drive for additional intermittent wind power means energy companies cannot be sure how often they will be required to generate, and so are not guaranteed a return on investment. Plans for new nuclear plants seem even further away, with the recent announcement by EDF that Hinkley Point will not be ready until 2023.

The UK has been fortunate to be able to rely on substantial UK offshore oil and gas reserves over the last 40 years, though the slow decline in production from the UK Continental Shelf means we will be importing 75% of the gas we need by 2030.

However, onshore shale gas can provide a secure and affordable domestic source of gas for years to come. This is an opportunity to bring prosperity and economic development to parts of the country that have seen decades of decline. It will bring well paid jobs, whilst not forcing us to import our gas from unstable and unpredictable regimes from around the world.

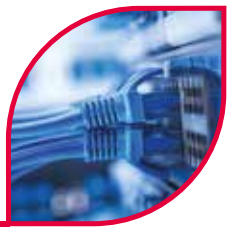
With the government's reforms to the planning system to prevent applications for fracking going on for years – as yet, we have only drilled a handful of wells, and production hasn't started on any. Investors' patience will only last so long if the government is not able to kick start the industry.

Businesses want to remove the politics from energy policy and set out a clear 50 year energy security policy in an affordable way. Whilst meeting our international decarbonisation commitments is important, the UK should not be setting more stringent targets than our European and international competitors.

We need to be realistic about the need for fossil fuels now and in the immediate future, and if we can do that in a way that maximises are own resources, then the benefit to business and the UK's economy will be immeasurable.

We cannot afford to fall into complacency over a matter like energy security, which is so important to businesses and to all our lives.

10. "THE UK LEADS THE WORLD ON DIGITAL"



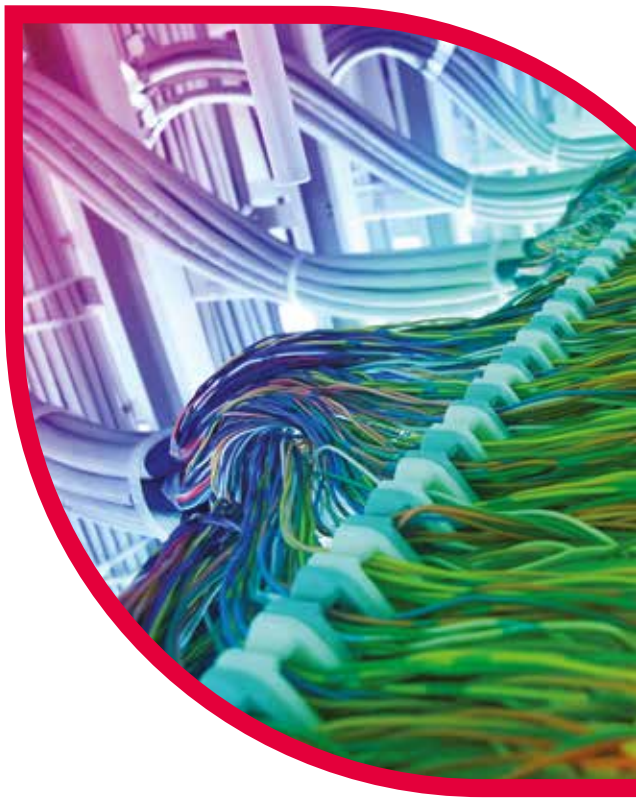
A marketing agency has just completed a big piece of work, and with 15 minutes left to send a large design file to the printer, their broadband service drops out.

The CEO of a UK-based SME has come to rely on her mobile phone to stay in touch with colleagues, customers and suppliers to support the management of the business. Just as she is about to follow up on a new opportunity, she cannot find any signal to make the call or access her email.

All too often, we hear stories that businesses are being held back by the UK's digital infrastructure. In a country that is home to some of the most successful creative businesses and tech start-ups, these scenarios sound implausible - but it's the kind of situation that UK-based businesses experience every day.

The government says it understands the importance of fast and reliable communication networks, with the recently published Enterprise Bill outlining more funding for broadband projects across the UK under the Industrial Development Act. They claim that superfast broadband has now been made accessible to nearly 3 million premises, but the performance of this speed is misleading. The current target of delivering speeds of 24 megabits per second (Mbps) to 95 per cent of premises by 2017, especially as our EU counterparts define superfast broadband as 30Mbps+. So we should ask ourselves – do we really have superfast broadband, or are we only just keeping up?

Far too many businesses in rural and urban areas struggle to access superfast services, with business parks neglected, presenting another barrier to success for businesses. This also makes the target set by the government of doubling UK exports to £1tn by 2020 near impossible as the sufficient infrastructure is not available to encourage businesses to have an online presence. The reality is very few businesses achieve the headline speeds that are advertised, which results in slower connections, and impact the productivity level of the business. When the targets and level of investment set by the government are deemed acceptable, Ofcom should be proactive in ensuring all businesses on the ground benefit from the speeds advertised. The regulator must do more in holding service providers to account. Upload speeds are particularly worrying, especially if you are a company with clients abroad and rely on uploading and sharing large files and data to do business. Ofcom should encourage providers to review and deliver faster upload bandwidth and speed in order to help business grow.



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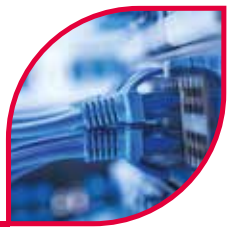

Investment in a strong, reliable and complete fixed line broadband and mobile network can only be advantageous in attracting and retaining business. Mobile phones are crucial to businesses for many aspects of their daily work and it is the responsibility of government to drive improvements in coverage.

The government has identified that there are major problems surrounding mobile phone coverage otherwise known as 'not-spots' or 'partial not-spots' - even in cities. The private-sector led £5bn of investment into the UK's mobile infrastructure and slow progress of the mobile phone infrastructure project has not addressed this problem fully. Aiming for 90% voice/text coverage of the UK by 2017 is not ambitious enough, we must act now to target areas of low connectivity and business parks.

Currently, 4G technology can achieve download speeds of 15.1 Mbps but 5G would offer substantially more and extend across the whole of the UK. Whilst the auctioning of 4G licences may have bolstered the government's funds, it's taken some time for mobile operators to offer a suitable service. The government must be one step ahead, and as it typically takes about 10 years to bring a network technology from fundamental research through to practical realisation, we should ensure necessary funding is in place to help drive development of 5G services.

Businesses want access to a world-class digital infrastructure; for the UK to substantially improve on the delivery of ultra-fast broadband and to lead on the future development of 5G technology. We've all heard the statistics surrounding the UK and its productivity levels – well here is a way to boost it. **An ambitious future is one where the government accepts that digital connectivity is as vital to business success as energy, roads and rail.** As world-leaders in e-commerce and with an economy increasingly focused on all things digital - shouldn't we ensure that we have a world-class infrastructure fit to serve businesses throughout the UK? Businesses know the reality - the UK has a long way to go to achieve the digital standards and performance that exist in other countries. Our ambition must be to be two steps ahead, not behind, and the government should share the same aspiration and act.