Unlocking Britain

Recovery and renewal after COVID-19

Bim Afolami MP

SMF Social Market Foundation

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THE SOCIAL MARKET FOUNDATION

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ABOUT THE AUTHOR

Bim Afolami grew up in Crowthorne, Berkshire, son of a doctor and pharmacist. He attended Eton College, then University College, Oxford, where he studied History, was Vice President of the Oxford Union, and played football for the university. He spent several years working in the City of London as a corporate lawyer, first at Freshfields Bruckhaus Deringer, then at Simpson Thacher & Bartlett. Following this, he worked as a senior executive at HSBC, in HSBC Group corporate restructuring and strategy.

Elected as Conservative MP for Hitchin and Harpenden in 2017 aged 31, Bim has served on the Public Accounts Select Committee, and as PPS to the Secretaries of State for International Development and International Trade. He currently serves as PPS to the Work and Pensions Secretary.

Bim also sits on the advisory board of the Social Market Foundation, on the Programme Committee of the Ditchley Foundation, and in 2018 was named as a Franco British Young Leader by the Franco – British Council.

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FOREWORD

The Social Market Foundation is a think-tank and a charity. Our charitable object is to "advance the education of the public in the economic, social and political sciences" with a particular focus on "the performance of markets and the social framework in which they operate."

In pursuit of that charitable objective the SMF has over several decades, published numerous essays and pamphlets by people actively involved in politics, from all political parties. Frank Field, Liam Byrne, Chris Leslie, David Willetts, Dominic Raab and Nick Clegg are just a few of the parliamentarians who have set out new ideas and policies at the SMF. Bim Afolami, a member of our cross-party Policy Advisory Board, joins that long and varied list with this report.

We publish this report because we believe that it makes many interesting contributions to policymaking in a range of areas that all need new thinking as Britain tries to find a way out of the Coronavirus crisis. All the proposals here deserve close consideration, but I'd draw attention to the suggestion that State support for British business should lead to more people holding equity stakes in business. A "stakeholder economy" approach to the recovery would be a good answer to public cynicism about the functioning of markets, as well as offering the possibility of bolstering some households' hard-pressed finances.

I'm also struck by the paper's ideas on independent schools' scope for helping state pupils. At the time of writing, it seems likely that many English school children who were last at school in March will not return to the classroom until September, an enforced six-month hiatus that will do lasting harm to the development and life chances of many children and perhaps those from low-income homes in particular. Politicians of all parties have done too little to address the problems this gap will create, so the proposals here are timely and much needed.

The views and recommendations expressed are, of course, those of the author alone, though it should be noted that Bim has not worked on this project alone. He has developed his ideas with a group of experts who are drawn from several fields and sectors and who hold a range of political views. This report puts expertise above ideology. It is about policy, not party politics. It is in that spirit that we are pleased to publish it.

James Kirkup, SMF Director

INTRODUCTION

This report is **about delivering transformative growth** after COVID-19 to recover from the economic shock and build a greener and more equal economy that improves the country we love. Britain needs to be fairer and more resilient. The changes in this paper are designed to be put in place after the immediate health crisis has passed, and the virus is fully under control.

We can recover and rebuild. Yet this recovery will only come if we can persuade business leaders to create the high quality jobs we need. We need entrepreneurs to start new businesses again, investors to raise and deploy funds again, and consumers to buy things again. Put simply, this will require a resurgence in the nation's confidence. Part of this is a rhetorical exercise, and the Prime Minister has immense skills in engendering the can-do spirit amongst the British people. But that rhetoric must be reinforced with a bold programme of supply-side economic reforms to turn hopeful optimism into real confidence in the long-term future.

We can use this crisis to tackle the areas where the economy has been weak and build an economy that is more resilient to the challenges of the coming decade. The policies outlined here complement the Government's pre-crisis agenda of levelling up the economy and delivering net zero carbon growth by 2050.

At the beginning of May, I put together a group of businesspeople, entrepreneurs and economists to help me devise an economic programme that can set out structural changes required for Britain to flourish economically after the immediate crisis caused by COVID-19 has abated. This paper is the result.

What COVID-19 has manifested

This crisis has shown one fundamental thing. **That Britain needs to be more resilient**. Resilience is the capacity to recover from difficulties, and more generally to adapt to change.

First, the nation needs to be more resilient economically. It has demonstrated the weaknesses of 21st century globalisation, with a vulnerable service sector, and not enough self-sufficiency in industry and manufacturing, with our capacity to manufacture many goods (like aspects of PPE, or medical testing chemicals) being weak or non–existent. This may not have always mattered in a world where global supply chains are working smoothly, but in a more fragmented world this may matter more. In addition to this, our businesses in every sector have record levels of debt, and we will need to find a way of reducing that debt, nursing them through recovery and then growth, and do so in a way that enables the British people to share in their eventual success.

Secondly, the British people need to be better equipped in the modern knowledge economy. We need much more radical action to equip our people with the right skills to flourish in an increasingly agile and STEM driven economy.

Thirdly, our public sector will need to become more resilient, at every level. Too many levels of local government, together with a Byzantine planning system, make delivery of economically critical housing and infrastructure slow and expensive. Quangos are still ubiquitous. People and businesses find themselves frustrated by unaccountable yet ineffectively dispersed regulations and officialdom.

Principles for the programme of recovery

This programme of recovery has three principles:

1. The divide is not between state or private sector; it is between the institutions with purpose which support people, and the institutions which leave people behind.
2. Power needs to be returned to the people, away from the distant and unaccountable.
3. Freedom is hollow without giving people the means to benefit from it.

SUMMARY – 10 WAYS TO ACHIEVE TRANSFORMATIVE GROWTH FOR THE BRITISH ECONOMY

Resilient Recovery: the British people should benefit directly from the Government's actions to help British companies recover from the crisis

1. Create a Recovery Fund to provide capital to British SMEs – and once recovery is complete, the fund should be floated on the London Stock Exchange. We should issue shares in the Fund, at a heavy discount, to frontline NHS workers and people aged 18–30, in both respects targeted to those who earn less than £30,000.
2. Make it easier for people to invest their savings into businesses – this can inject £6 billion into British SMEs without raising new money from public or private sector.
3. The Bank of England should set a nominal GDP level target.

Resilient Government: power should be much closer to people – they know how to achieve their goals; they need power to be put in their hands

4. Remove one tier from local government, and rank local authorities according to key metrics – if a local authority consistently fails, MHCLG may put the local authority into special measures.
5. Use a streamlined planning process for a much greater range, and size, of infrastructure. This will make the majority of infrastructure built in the UK much faster, cheaper and easier to build. This will help the "levelling up" agenda be delivered quickly.
6. High Streets and urban housing: introduce a "Future Town Centre" council of specialist advisers to assist any town centres in their restructuring, introduce transparency on market rents in town centres, and align business rates to those on a yearly basis. On urban housing, allow "street votes" – proposal to allow individual streets to vote to change planning controls.

Resilient Industry: we need to strengthen our manufacturing base

7. Opportunity Zones for manufacturing centred around our research hubs, building on the freeport agenda already being developed by government.
8. Opening up the economy by reducing barriers to innovation and industry presented by anti-competitive legislation. This would mean embedding a pro-competitive agenda into the regulatory framework by requiring a competition review by the Competition and Markets Authority (CMA) into key industries in the UK economy.

Resilient Skills: we need to support our people to get the key skills that will enable them to benefit from technological change in the longer term

9. Student debt on high quality STEM degrees should be written off if graduates spend five years working in STEM occupations (i) of high demand or (ii) in new Freeports or Opportunity Zones. STEM apprentices to be better funded and further financial incentives given to employers to take on more apprentices into full employment.
10. Digital skills: private schools and universities should provide all their digital courses to state schools free of charge, which would enable us to equalise opportunities and widen digital skillsets in young people before they enter higher education and the workplace.

RESILIENT RECOVERY

The British people should benefit directly from the government's actions to help British companies recover from the crisis.

Economic recovery is at the heart of everything. Growth must be at the heart of the Government's strategy over the next four years. Yet that recovery, and the success of British business, needs to be achieved in a way that allows ordinary British people to directly benefit in that success. We should:

A. Create a Recovery Fund to provide capital to British SMEs – and once recovery is complete, the fund should be floated on the London Stock Exchange. We should issue shares in the Fund, at a heavy discount, to frontline NHS workers and people aged 18 – 30, in both respects targeted to those who earn less than £30,000. [1]

Problem

After this crisis has passed, we will have an overleveraged British corporate sector, especially for those companies that received cheap debt via Coronavirus Business Interruption Loan Scheme (CBILS). These will delay a recovery - distressed firms tend to implement labour reductions, sell assets, reduce investments and employment, and shrink their business, and they become reluctant to raise new capital.

There will be three types of business. First, the business which is very profitable, solvent, well run and managed, and for which the COVID-19 lockdown was a very temporary blip. They will pay off their CBILS debt without difficulty. Secondly, there will be businesses which do not have viable business models after the crisis, and they will fail. Where the company is insolvent there will be a write off, shared between the government and the banks, depending on the terms of the scheme.

Thirdly, there will be a category of business, possibly quite large, where the companies are solvent and had been trading profitably prior to the COVID-19 lockdown, but where the burden of servicing their COVID-induced debt will make it difficult, if not impossible, for them to regain their growth momentum. These businesses need to be re-capitalised. Listed companies have shown over the last couple of months that there is investor appetite to provide them with more equity through placings of new shares. But SMEs that are not listed are not able to access funding in this way. These are the companies the government can help.

How would it work?

The Government should set up a COVID Recovery Fund, with £15 billion of capital – borrowed by issuance of gilts. This fund would be administered by a new division of the British Business Bank (BBB), with oversight from HM Treasury. **The BBB would not make investments directly into companies itself, and all business owners will have a choice as to whether to accept the funds.** Its role would be to allocate money to a range of FCA-regulated fund managers around the UK who have investment teams already in place which are active in making investments into private companies, with the intention of achieving broad geographic and sectoral coverage, at a capped, reasonable cost to the Exchequer. The Government will not be "picking winners" itself – the investments will be made on a professional basis.

An important aspect of this is the sheer scale of the exercise we would be considering. First, we would generally be thinking of companies of revenues in the region of £5m - £100m, of which there could be several tens of thousands who might be suitable for this sort of equity investment. Many are financed by closely held equity and branch bank lending; they have little or no contact with professional investors; and yet their resilience and prosperity is vital to local employment and to the health of the economy as a whole.

To put together a fund like this would be a huge undertaking. It would take a significant amount of work, bankers, lawyers, accountants, and start-up funding. There would also have to be a technology platform developed, which would enable a major part of the preliminary work to be automated.

The mandate of the Fund would be to make equity or quasi equity investments (some of which would be converted from debt, such as provided under the CBILS programme) into private companies that fulfil certain criteria:

- The company is incorporated in Britain and the majority of its operations and revenue is produced in Britain.
- The company is not quoted on any stock market.
- The company was trading profitably in the year prior to the COVID-19 lockdown.
- The company has the potential to grow and be successful in the long-term if the debt burden can be reduced.
- The company needs more equity for working capital in order to resume its growth, and to repay debt facilities (including CBILS) that the company has drawn down to survive the impact of COVID-19.

It is important that there is a cap on the amount each company can receive, so that the equity is distributed sufficiently amongst UK SMEs. The fund could be floated after three to four years on the London Stock Exchange. **If so, the shares would be offered for sale at the time of flotation to the public as well as to institutions. Frontline NHS workers and people aged 18–30, in both respects targeted to those who earn less than £30,000, should be issued shares at a heavy discount.**

B. Inject £6 billion into British SMEs without raising new money from public or private sector

Problem

As described above, British companies will be heavily over-leveraged after this crisis. That will hinder their growth afterwards. We need to give them more capital, and make sure the British people benefit from their recovery.

In 2013, HMT made the decision to allow ISAs for the first time to be invested into businesses listed on AIM. This has been incredibly successful in providing those companies with long-term patient capital, and it has contributed to the success of AIM. While there is no data on the precise quantum, we estimate that £5-10 billion (out of a total Stocks and Shares ISA asset base of ~£300 billion) has been invested into AIM shares over the last seven years, providing very valuable capital for that market.

If changes to legislation encouraged just 2% of the total amount held in ISAs to be invested into private companies, that would result in a c.£6 billion boost to British SMEs.

How would it work?

We could allow up to 20% of an ISA pot to be invested in British private companies (with the safeguard that any such individual who wished to must have at least £5,000 in ISA funds).

Investors would only be able to deploy money via an FCA-regulated ISA manager, and those ISA managers would only be permitted to invest into private companies for investors who had either a) taken advice from an FCA regulated financial adviser as to whether it is appropriate for them to invest into unquoted companies, given their own personal financial circumstances or b) were able to pass a suitability test.

C. The Bank of England should: set a nominal GDP level target

Nominal GDP level target

Confidence needs to be restored. British consumers and businesses, and the international bond and equity markets, need to know that this Government is one with a long-term plan to deliver transformative economic growth. They also need to know that the Bank of England is going to bring its considerable expertise to that task as well. The inflation target was introduced in the 1990's in reaction to a long period of high inflation that wreaked havoc on the British economy, but has suffered from an inability to "see through" changes in the price level caused by supply-side factors: for example, if prices rise because of a rise in energy costs, strict inflation targeting would require the Bank to tighten policy, even though this may be inappropriate and may exacerbate the hit to employment that the real shock has already caused.

Nominal GDP level targeting would mean the Bank of England instead using monetary policy to target an annual growth in the level of spending, or nominal GDP, across the economy. This would mean monetary policy taking on a more explicit role as an automatic stabiliser, with more inflation during recessions to offset contractions in real GDP growth, and less during economic booms. This would not change the Bank's position as an independent monetary authority: it would just change its mandate in line with the 1997 reforms that made the Bank independent in the first place.

The GDP level targeting would still have regard to inflation – as it is important that the UK remains wary about a runaway rise in consumer inflation, despite it not being an issue in recent years. We run a large current account deficit, and were the international markets to adopt the view the UK is becoming lax about the potential impact of high inflation, our borrowing costs would sharply rise. Therefore, we should consider issuing more index-linked debt alongside GDP level targeting.

It is notable that the UK already issues more index linked debt (as a proportion of total debt issued) than most similar economies. In the five years prior to 2018-19, index-linked gilts accounted for around 25% of the government's annual debt issuance, for which both the principal and coupon payments are linked to the Retail Prices Index (RPI). More recently, this figure has been reduced. According to the latest debt management report issued by HM Treasury, the 2020-21 financing remit includes a 5.9 percentage point reduction in index-linked gilt issuance compared to 2019-20.[2] Alongside a policy of GDP level targeting, I believe we should rapidly increase that amount again.

The Treasury's Debt Management Office would probably be cautious about making radical shifts in issuance strategy, lest we disrupt markets. However, I agree with Creon Butler at Chatham House that "issuing index-linked debt hedges the government against the high degree of uncertainty over the future course of inflation".[3] Regardless of one's guess about the long-term chance of high inflation or low inflation or even deflation (and there are experts on both sides of the issue), if a government issues index-linked debt, its real cost will be the same regardless of what happens to inflation.

Secondly, issuing large amounts of index-linked debt could help reinforce the message that the government and central bank intend to grow their way out of high debt levels over the long-term, rather than resorting to an inequitable and distortionary inflation shock to devalue nominal government debt. This is the primary aim of nominal GDP level targeting. The markets, international businesses, domestic business and consumers will all be very clear. Britain is going for growth.

As well as making clear that Britain is a growing economy, it is important to ensure that the growth we have is inclusive growth, spread to all regions and all areas of society. The Government will have to ensure that these growth targets are backed by policies that level up under-developed areas of the United Kingdom and that opportunities are opened up so that all groups benefit from it.

In particular, the Government should support initiatives to improve the number of women and BME investors and asset managers, such as the Diversity Project. This area should be of particular focus because allocating capital is one of the most vital aspects of the economy, and where significant economic power is exercised. The Government should also work more closely with private sector organisations on how they help to create better career development and opportunities for women, those from BME backgrounds, and those from disadvantaged working class backgrounds.

RESILIENT GOVERNMENT

Power should be much closer to people – they know how to achieve their goals; they need power to be put in their hands.

Local government and planning rules need to be simplified, made easier to navigate for individuals and businesses, and made much more responsive to local needs. Local government needs to be more agile to adapt to the changing needs of the economy.

A. Remove one tier from local government, and rank local authorities according to key metrics – if a local authority consistently fails, MHCLG may put the local authority into special measures, which may result eventually in a change in administrative leadership.

Problem

We should be proud of our record on local government. We have done a huge amount to return power to people through metropolitan mayors, and unitary councils have been established in some counties across England. However, there are still too many local authorities, who are neither large enough for effective delivery on the people's priorities, nor small enough to empower local people and local communities properly.

In addition, the performance of local authorities in several areas – notably planning, implementing national regulations in a common sense way, proactively helping businesses seeking to relocate or even on recycling and refuse – is extremely patchy. Many members of the Unlock Britain Commission expressed embarrassment at the experience of dealing with local government in Britain for businesses in comparison with other countries.

How would it work?

We should remove a tier of local government across the country, restructure district and county councils into moderately sized unitary councils in the counties, and radically reduce the numbers of councillors in metropolitan areas which now have mayors as well as borough councils. This will greatly reduce costs, improve efficiency, strengthen parish and town councils in the counties, and improve oversight of mayors in metropolitan areas - government would be closer to the people and more responsive. It would also ensure that planning and business rates responsibilities are passed to the new unitary authority.

Putting planning and business rates responsibilities in the hands of unitary authorities has several advantages. The relevant departments within the unitary authorities will be larger, and better resourced than with many district councils today. It means that planning departments will have greater expertise, with improved capacity to deal with complex planning issues – which currently often overwhelm small planning departments in small authorities. It means that dealing with business rates can also be done more effectively, with greater expertise and understanding of the wider business context and environment.

Overall, unitary authorities will be able to enjoy economies of scale in their administration, which cannot be enjoyed when there are a larger number of small district councils. This is good for people and good for business.

We should create league tables for all local authorities on an agreed set of metrics, to be published quarterly. These metrics should cover performance indicators such as: average response times to correspondence/FOIs; user satisfaction with responses; average pothole repair time; percentage of planning applications turned down; average planning permission response time; the number of new houses built/how many new houses needed (according to ONS). **If any local authority finds itself in the bottom 10% in the league table for two subsequent quarters (or four times within two years), MHCLG may put the local authority into special measures, which may result eventually in a change in administrative leadership.**

B. Use a streamlined planning process for a much greater range, and size, of infrastructure. This will make the majority of infrastructure built in the UK much faster, cheaper and easier to build. This will help the "levelling up" agenda be delivered quickly.

Planning was the most oft-cited problem for the British economy by members of the Unlock Britain Commission. A convoluted, expensive and uncertain planning system is a real hindrance to spreading and growing the economic opportunity that our people really need. Without improving the planning system for infrastructure, it will be difficult to deliver on the "levelling up" agenda. We need to make infrastructure much faster, and consequently often cheaper, to build.

Delivery of infrastructure is waylaid by costly delays, principal reasons for which are the following:

First, there is often a low level of expertise found in many local planning authorities (so they take a long time to approve/reject proposals). They are too small and under-resourced for complex work. Secondly, the small size of many local authorities means that the sponsor of any infrastructure (or large housing) project sometimes must get approval from several local authorities in order to deliver on their project. Thirdly, even when a project is initially approved by a local authority (often with a long delay), the decision is easily challenged in the courts – which increases the delays and cost yet further.

On the first, my previous proposals to simplify local government and to create local authority league tables should help streamline and improve the effectiveness of local authorities. However, here I want to focus on how to deal with the problem of getting infrastructure approved quickly without unnecessary delay.

The first thing to identify is what type of infrastructure one is talking about. The most economically critical infrastructure is not just the nationally significant infrastructure like Crossrail and HS2. Large housing developments, local infrastructure like road interchanges, railway stations, motorway extensions or new dual carriageways, and waste processing projects can be of critical importance to the nation's economy when taken as a whole; and they can be extremely important to particular regions of the country if we are serious about the "levelling up" agenda. The Growth and Infrastructure Act 2013 introduced an extension of the regime from the Planning Act 2008 to include certain business and commercial projects. This was to enable developers of certain projects to opt-in to the Nationally Significant Infrastructure Projects (NSIP) planning regime at the developer's discretion, where the projects are judged as being of national significance. A Development Consent Order (DCO) automatically removes the need to obtain several separate consents, including planning permission and is designed to be a much quicker process than applying for these separately. Decisions on DCOs must be made in accordance with National Policy Statements (NPS) in relation to areas of infrastructure development (i.e. Airports, or Roads)

There are two key actions we must take if we want much more infrastructure to be delivered much faster. First, we should remove the proviso that stipulates that projects must be of “national significance” if developers want to use this streamlining mechanism; **we should make it the norm rather than the exception for all infrastructure development of certain types (dual carriageways, railways of any size, waste processing projects, and housing developments over 1,000 homes)**. One way of achieving that is to change the Planning Act so as to require all developments of infrastructure to use the DCO process unless they had a particular reason not to (such criteria would have to be developed carefully).

However, to make that a meaningful change, the DCO process must be made suitable for infrastructure development that is not deemed a NSIP. It is also worth mentioning that a major advantage of the DCO process is direct compulsory acquisition powers, rather than a sponsor having to rely on a local authority (with its own agenda) to purchase the land for it.

Here are the simple legislative steps we need to take to achieve this, and it can all be done by changes to the Planning Act:

A. Remove the need for DCOs to be made in accordance with an NPS – this won’t work for projects that are not of national significance, and some NPS do not exist, or are out of date anyway;
B. Shorten the time period required for public examination to four months (rather than six months as currently) because we would be dealing with smaller projects;
C. Reduce the time for the planning inspector and the Secretary of State (separately) to make their decisions under this process from three months to two months;
D. Limit the ability for the Secretaries of State to extend the time period they have for final decision–making (currently three months, hopefully changing to two months as per the above) to only being for special circumstances, such as national security or a national emergency.

When considering the changes (A) to (D) above, these mirror the provisions within the Planning Act that already exist for “material amendment” to DCOs – so there is an existing legislative precedent for this accelerated procedure.

Overall, this will mean that infrastructure projects, or housing developments of more than 1,000 homes, can be delivered with a high degree of certainty of success, within 12 months of the plan being submitted.

The second point to note is about judicial review. Judicial review is much more successful in planning when the DCO process is not used. There have been a number of judicial reviews which have resulted in considerable delay to development projects, including infrastructure, housing, retail and residential developments. For example:[4]

- The expansion of Bristol airport, which was delayed by around 36 weeks;
- A £38m retail development in East London, due to create 500 jobs, which was delayed by 15 months at considerable cost to the developer and local economy;
- A development of 360 dwellings in Carmarthenshire, which was delayed by around 18 months by an unsuccessful judicial review; and
- A supermarket development in Skelton, which was challenged by a rival store, delaying the development by around six months. The judicial review was found to be totally without merit.

There have been relatively few High Court challenges in respect of DCOs. The PINS Infrastructure website states that there have been over 70 decided NSIP applications, only 16 reported decisions on challenges, and only 10 related to the grant or refusal of a DCO. Only one of the challenges was successful overall.[5]

Therefore, it is my contention that the simplest way to speed up much more infrastructure and large housing development is to use the existing DCO process for much more infrastructure – if developers wish. This will speed up infrastructure development hugely, and will increase certainty for developers, and retain consultation for local residents.

C. How to help restructure our high streets

Problem

“We have seen ten years of digital disruption in ten weeks”.

These are the words of Nick Beighton, CEO of ASOS, in one of the discussions with the Unlock Britain Commission. Our high streets will bear the brunt of much of the COVID-19 recession – as many businesses, restaurants, and pubs will never come back. Restructuring the High Street is critical for the future of the British economy and for levelling up.

How would it work?

The Future High Streets Fund is a brilliant example of the government allowing local authorities to develop a plan to rejuvenate their town centre, and get government funding to help make these plans a reality. However, it relies upon local authorities having enough local understanding, vision and funding to develop a plan that really can reposition their town centre. Many do not have that in place.

What we should do is put together a Future Town Centre council of specialist advisers from across the country. Their role will be to operate in the manner of top management consultants and produce a future plan for town centres that wished them to do so. Once the plan is produced, and agreed with the local authority, a development corporation should be set up in order to deliver the plans in the most efficient way, with full participation with the local business community, charities and citizens. **Using the Future Town Centre council, we should promote much more residential development in town centres, which will stimulate a rebirth of town centres, increase footfall for the retail sector, and provide more affordable homes for young people**.

One important aspect to restructuring the use of land in the High Street is to improve the ability to recycle and reshape commercial property. One way of doing this is to mandate **complete transparency of rents paid in the commercial property sector throughout the UK**. Although this would be controversial, and many landlords would hate it, it would lead to a radical recalibration of commercial rents, and this would help local authorities, tenants and owners make better decisions about how to use their land and property.

Business rates is a much hated tax; but a clear alternative to it does not yet exist so it is unlikely to disappear any time soon. However, the way business rates are implemented is incredibly cumbersome. At revaluation, the Valuation Office Agency adjusts the rateable value of business properties to reflect changes in the property market. Revaluations are typically done every five years. By ensuring complete transparency on market rents, and using these to play a key part in the revaluation of business rates, it would be possible to align business rates much more closely with rental values (not necessarily the same as what a property might be worth to buy) and make them much more sensitive to market fluctuations on a yearly basis.

Urban housing

The proposal known as “street votes” allows local people, on single stretches of street, to vote on permission to build upwards to a maximum of five storeys and take up more of their plots, such as by adopting a terrace format. It was recommended by the Building Better, Building Beautiful Commission. Much of the British urban environment is made up of low – density suburban style housing. Putting power directly in the hands of residents, if residents want to, we could allow streets to be built up with higher densities. This could create several million new homes in a city like London, and it would do so with the express positive consent of local residents rather than against their intense resistance.

Permission would be granted only after a successful supermajority vote. Development would be subject to rigorous design codes, also to be voted on by residents, and required to be “A rated” for energy efficiency. To preserve our heritage, these permissions should be unavailable in conservation areas and for listed buildings. Since residents would often enjoy an enormous increase in land values subsequent to such a vote, they would have a powerful incentive to support development.

RESILIENT INDUSTRY

We need to strengthen our manufacturing base.

Strengthening modern manufacturing is about encouraging scientists, researchers, inventors, and all those with ideas to make things here in the UK. There are two elements to this – first, to ensure that we incentivise locating manufacturing here in the UK, linking this up to the Freeports agenda the Government is already progressing. The second element is to ensure that we have a sensible regulatory framework to reduce barriers to innovation and industry by removing anti-competitive legislation.

A. Opportunity Zones for manufacturing centred around our research hubs

Problem

As recently as 1970, nearly a third of UK GDP came from manufacturing. Now it is less than 10%. Britain has some of the world's leading scientists and researchers, but too often we have failed to develop significant industrial capacity. During the acute phase of the Covid-19 crisis, our inability to manufacture vital medical testing equipment and drugs, despite having originated much of the basic research, was notable. Our manufacturing base therefore needs to be strengthened – to provide high quality jobs across the whole country. To reindustrialise our economy to any degree, we have to make it more profitable to place more manufacturing capacity in the UK rather than elsewhere. We need to do that by making it fundamentally attractive in two ways – high quality people, and lower taxation.

How would it work?

Opportunity Zones are a Twenty-First Century version of the Thatcher–era Enterprise Zones. The fundamental aim is to incentivise investment in regions which hitherto had not been seen as particularly attractive, for a range of reasons. Using a similar process as we are using for Freeports (currently under consultation to being introduced), we should provide a set of incentives for domestic and international investors to invest in specialist zones deliberately placed in poorer regions of the UK which also has a scientific research base through long established businesses or a university or research centre. **Opportunity Zones should be linked to Freeports in regulatory terms as much as possible**. Potential regions we could focus on might be the Greater Manchester region, Sheffield, Yorkshire and the Humber, and Northern Ireland.

Potential incentives could be:

- Full immediate expensing of fixed capital investment (instead of depreciation over the lifetime of the asset), and fixed machinery being non–rateable.
- Temporary deferral of taxes on previously earned capital gains. Investors can place existing assets with accumulated capital gains into Opportunity Funds (an investment vehicle that invests in Opportunity Zones). Those existing capital gains are not taxed until the end of 2025 or when the asset is disposed of.
- Permanent exclusion of taxable income on new gains. For investments held for at least 10 years, investors pay no taxes on any capital gains produced through their investment in Opportunity Funds.

- Waiver of normal visa rules for bringing in high quality staff from abroad – as long as there is a signed agreement for training local people over the long-term with a local FE college and/or university.
- Better regulatory environment where possible, including trialling regulatory sandbox concepts for potential application more widely.

We should focus these benefits on manufacturing, and on projects directly connected with manufacturing.

B. Opening up the economy: reducing barriers to innovation and industry presented by anti-competitive legislation.

Competition review by the Competition and Markets Authority into key industries in the UK economy, and this must be considered by regulators and government departments in regulations or new legislation. This will embed a pro-competitive regulatory framework in the UK.

The CMA should be required by BEIS to do biannual competition reviews into anti-competitive practices, government distortions and hybrid distortions in the key "life-blood" industries in the UK economy. These are industries which are crucial to costs of basic items that particularly affect poorer British people. The key areas would include energy (cost of energy for industry and for domestic consumers), transportation, food and retail banking. In many sectors there are competition problems that lead to lower output or higher cost (or both).

All regulators and government departments should be required to take the CMA's competition reviews into account when producing regulations or new legislation, and state how they have done so. This may be done by adapting the mandate of the Regulatory Policy Committee, or through another mechanism. By doing this, we will embed a regulatory framework which is as pro–competitive as possible, consistent with legitimate regulatory goals.

RESILIENT SKILLS

We need to support our people to get the key skills that will enable them to benefit from technological change in the longer-term.

A. STEM for free

Problem

We have been talking about the need to improve skills in this country for a long time. We have made great strides in recent years, with apprenticeships now a key focus of government policy and more children (especially girls) studying STEM subjects at school and university. However, there is still a need to go further. In the Unlock Britain Commission, many of the commissioners stated that they were unable to expand their businesses because of a lack of STEM graduates and apprentices. Recent CBI studies say similar things. At the same time, the number of graduates working in non–graduate jobs is above 40% (according to the ONS), and HM Treasury currently assume that between 40% and 50% of the student loans taken out by British students will be written off. Put bluntly, we need to shift our spending away from expensive three year degrees in arts subjects at certain universities which do not lead to graduate jobs (and correspondingly generate a huge amount of resentment from the young person who takes on the student loan), and towards both STEM degrees and STEM apprenticeships. We should encourage more students to study these subjects – their opportunities and options going forward will be greater, and the country will benefit.

How would it work?

STEM graduates

In a new digital age, turbocharged by the changes wrought by COVID-19, we are going to need STEM skills more than ever. How can we increase the number of high quality STEM students? In relation to graduates, a Nuffield Trust report from late-2018 stated that:

> *"there is no evidence of a shortage of STEM graduates per se. Only a minority of STEM graduates ever work in highly skilled (HS) STEM occupations, and an even smaller proportion are employed in key 'shortage' areas. Any mismatch between the supply and demand for STEM workers cannot, therefore, be attributed to the number of students graduating with STEM degrees. Problems with the 'supply' of STEM workers are more likely to be explained by the willingness of graduates to pursue careers in STEM fields and the recruitment practices of employers".*[6]

It appears that **the problem of STEM graduates in this country is two-fold – their perceived quality by employers willing to hire them, and their willingness to work in HS STEM occupations after graduation**.

For those studying STEM undergraduate degrees at Russell Group universities, the **student debt should be written off once they have worked for five years in (i) specialised occupations within STEM (the areas in which we know there are shortages and a need of higher quality) or (ii) in new Freeports or Opportunity Zones.**

I would need better data to calculate the cost of doing this precisely, but my rough estimates for how much this would cost, on a yearly basis, are as follows: assuming c. 200,000 Russell Group students are studying STEM, and 50% of those going into HS STEM occupations, the cost of writing off this student debt would be c. £2.5bn – £3bn. This can be achieved without any new money. The money could be directly taken from within the HE budget, by reducing funding to courses (at all types of university) which do not offer high returns to students. Recently, the Onward think tank recommended reducing access to courses that deliver low economic value in terms of graduate earnings premia, by either making the charging of £9,250 fees conditional on course earnings potential or introducing a grade floor for low value courses to redirect students into routes with a higher return.[7] This is a broadly sensible approach.

STEM apprentices

We need to encourage more FE colleges to provide more of these high-quality STEM courses – this will increase the number of HS STEM apprentices. **FE colleges and relevant high level technical courses in STEM subjects (in which there is a shortage) need to have their funding significantly increased**, as these courses are particularly expensive to run. In addition, for employers that take on these STEM apprentices **the Government should extend the current 0% Employer's NI rate for apprentices for two years if those apprentices are taken on as full employees**.

Summary

Much of this may sound radical. However, it could be transformative. We would be creating a deep pipeline of top talent directly incentivised to stay working in STEM occupations after finishing their courses. It would help make Britain a much more attractive option to start up or grow a manufacturing business, strengthen our research base and our ability to industrialise it, and it would give a nudge to those taking on unnecessary student loans in degrees of limited value to perhaps do something else instead.

B. Digital Skills

Schoolchildren now develop good technology skills during their school education but may not have access to courses to teach programming, website development and other practical applications, including a greater understanding of the impact of AI on the future jobs market.

Young adults and older workers may struggle to keep up to date with technology developments and this can impact their ability to perform in current jobs and to future-proof their skill sets. There is a need to broaden access to the widest range of technological skills training, and this should start with an **extension of digital courses offered by private schools and universities to state schools, which would enable us to equalise opportunities and widen digital skillsets in young people before they enter higher education and the workplace**.

In addition to this, **schools and universities could be incentivised to pool resources and ideas to develop a national digital training curriculum**, which could deliver introductory-level digital skills for both young people and those already in the workplace.

ENDNOTES

[1] This is intended for nurses, doctors, and other frontline NHS staff; not managers

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file /871876/03032020_DMR_off-sen_v2_FINAL_with_jpegs_v2.pdf

[3] https://www.chathamhouse.org/expert/comment/covid-19-how-finance-debt

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file

/324926/fact-sheet-judicial-review.pdf

[5] https://www.landmarkchambers.co.uk/wp-content/uploads/2019/10/High-Court-Challenges-Current-issues-Paper.pdf

[6] https://www.nuffieldfoundation.org/news/only-a-minority-of-science-graduates-work-in-stem-jobs

[7] https://www.ukonward.com/aquestionofdegree/