

## SPRING 2017 REFORM BAROMETER – UNITED KINGDOM

### European Semester - Overall assessment of 2016 cycle

|    | <b>To what extent do you agree with these statements:</b>                                           |                   | <b>Detailed comments</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----|-----------------------------------------------------------------------------------------------------|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | The National Reform Programme submitted by your Government (February/November 2016) is appropriate. | To a large extent | The government's fiscal plans include increasing capital investment within the overall context of deficit reduction. The recently announced National Infrastructure Productivity Fund (NIPF) further strengthens housing supply. Further improvement to childcare expansion would include free childcare for children aged 1 and 2 to improve female labour force participation. Government has engaged with employers in developing the apprenticeship levy but the timetable it is seeking is challenging. |
| 2. | The Commission's country specific recommendations for your country are appropriate.                 | To a large extent | The CBI agrees with the EC recommendations regarding infrastructure, housing, skills and childcare. The Office for Budgetary Responsibility forecasts the fiscal deficit will decline by 0.6% of GDP in 2017-18. The CBI and most other independent analysis suggests less deficit reduction will occur. However, with the economy posed to slow, we regard the government's fiscal plans at this stage.                                                                                                     |
| 3. | The Commission assessment of reform implementation the year before is appropriate.                  | To some extent    | The assessment made at the time was appropriate. There has however been a significant change in the economic and fiscal outlook in the UK, fiscal strategy. The government's response to the UK's low productivity growth and imbalances has been strengthened through the NIPF. A reassessment is therefore required in light of these changes.                                                                                                                                                             |

|    | <b>To what extent do you agree with these statements:</b>                           |                   | <b>Detailed comments</b>                                                                                                                                                                                                                                                                                                  |
|----|-------------------------------------------------------------------------------------|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4. | The Commission assessment of excessive imbalances (in-depth review) is appropriate. | To a large extent | The commission assessment identified excessive imbalances in the UK's housing market (particularly London) and the current account. The assessment was appropriate at the time. There are signs that the London housing market is now cooling and the falling in the £ is expected to reduce the current account deficit. |

### Assessment of Country Specific recommendations 2016 in detail

|       |                                                                                                                                                                                                                                           | <b>Q1: The recommendation is:</b> | <b>Q2: implementation on effort is:</b> | <b>Detailed comments</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CSR 1 | Endeavour to correct the excessive deficit in a durable manner by 2016-17. Following the correction of the excessive deficit, achieve a fiscal adjustment of 0.6 % of GDP in 2017-18 towards the minimum medium-term budgetary objective. | Helpful (but not a priority)      | Satisfactory                            | The UK's independent OBR expects the UK's fiscal deficit to decline from 3.5% in 2016-17 to 2.9% in of GDP in 2017-18. This meets the recommendation that the UK reduces its deficit in 2017-18 by 0.6% of GDP. Forecasts from the CBI (0.2%) and independent consensus (0.3) suggest that the decline in the fiscal deficit between 2016-17 and 2017-18 will be more modest. However, in the context of a more uncertain economic priority, the CBI regards immediate deficit reduction is less of a priority than maintaining economic momentum. |

|       |                                                                                                                                                                                                                                                                   | Q1: The recommendation is: | Q2: implementation on effort is: | Detailed comments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CSR 2 | Address shortfalls in network infrastructure investment, including by delivering the priorities of the National Infrastructure Plan. Take further steps to boost housing supply, including by implementing the reforms of the national planning policy framework. | Extremely important        | Satisfactory                     | At the Autumn Statement the government has strengthened its commitment to improving the UK's infrastructure. The National Productivity Infrastructure Fund is an additional £23 billion investment in infrastructure, housing, and Research and Development (R&D) over 5 years which can enable higher productivity. The scale of this investment is appropriate given the UK's infrastructure bottlenecks. A full assessment can be made later based on the governments delivery against its NPIFs ambitious objectives. Some infrastructure in the UK is privately owned, strengthening incentives for private infrastructure (the UK is unusual in not having a capital allowance for infrastructure investment) would complement the existing strategy. |
| CSR 3 | Address skills mismatches and provide for skills progression, including by strengthening the quality of apprenticeships. Further improve the availability of affordable, high-quality, full-time childcare.                                                       | Extremely important        | Mixed                            | We welcome the Government's focus on growing investment in apprenticeships, and business stands ready to step up and increase its own commitment. However, the Apprenticeship Levy in its current form risks turning the clock back on recent progress through poor design and rushed timescales. Over recent years there has been a welcomed increase in the provision of state funding for childcare in the UK. The CBI recommends that this coverage be expanded to all 1 and 2 year olds to remove a significant financial barrier to women remaining in the workforce.                                                                                                                                                                                 |

## Reform Progress in your Member State in 2016

How would you assess reform progress in 2016, for the following broad areas:

|                                                     |              |
|-----------------------------------------------------|--------------|
| Taxation and Public Finances                        | Excellent    |
| Business environment (regulation/access to markets) | Satisfactory |
| Labour market                                       | Satisfactory |
| Innovation and skills                               | Mixed        |
| Access to finance and Financial stability           | Satisfactory |

Is there any example of an economic reform, specific to your country that BUSINESSEUROPE could highlight in its 2017 Reform Barometer?

At Budget 2016 the UK government introduced a Business tax roadmap (as recommended by the CBI). The business tax roadmap outlines the UK governments approach to business taxation for the duration of parliament 2015-2020. In 2010-2015 the government applied this approach to Corporation Tax, this has now been extended to other major business taxes such as employers National Insurance and Business Rates. Publishing a medium tax strategy supports business investment by removing a significant source of uncertainty.

## Reform priorities for 2017

|            | I. Policy Area | II. Concrete Recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | III. Are the proposed recommendations already in the agenda of your Government? |
|------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Priority 1 | Tax reforms    | As a result of technological change, goods and services can increasingly be delivered virtually. UK commercial property prices are expected to be lower in 2020 than 2015 due to this structural change. The UK tax revenues from business rates are required to increase by Retail Price Inflation & business property is taxed 7 times more heavily than residential property. To prevent this tax become an increasing distortion requires fundamental reform in light of long term economic trends. | no                                                                              |

|                   | I. Policy Area                                                       | II. Concrete Recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | III. Are the proposed recommendations already in the agenda of your Government? |
|-------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| <b>Priority 2</b> | Labour supply measures for specific groups (older workers, women...) | The UK employment rate is a record high. UK business is increasingly reporting skills shortages. Expanding free childcare to children aged 1 & 2 will improve labour supply by removing a significant barrier to women staying in the workforce.                                                                                                                                                                                                                                                                      | no                                                                              |
| <b>Priority 3</b> | Public investment                                                    | The National Productivity Infrastructure Fund is an additional £23 billion investment in infrastructure, housing, and Research and Development (R&D) over 5 years which can enable higher productivity. The scale of this investment is appropriate given the UK's infrastructure bottlenecks, the UK has struggled to deliver public project on time and at cost, therefore delivery of the project will be the key determine to if its objectives are realised                                                      | yes                                                                             |
| <b>Priority 4</b> | Active labour market policies                                        | Only three months out from its introduction, firms are increasingly concerned about many aspects of the Apprenticeship Levy – particularly the supply and quality of training that is going to be available, given the timescales and slow progress on establishing effective new standards. A more effective strategy for the apprenticeship market needs to be developed to give firms and providers the certainty that they are accessing high quality training programmes in return for their levy contributions. | no                                                                              |
| <b>Priority 5</b> | R&D and Innovation                                                   | Introduce a supercharge for commercialisation of activity that follows research which has already been cleared for R&D tax credit.                                                                                                                                                                                                                                                                                                                                                                                    | yes                                                                             |