**BPIF Comments on HM Treasury’s Productivity Plan** ***Fixing the foundations: Creating a more prosperous nation***

**1 About the BPIF**

The British Printing Industries Federation (BPIF) is the leading trade association and business support organisation representing companies in the printing, packaging and graphics communications industry. The UK printing industry is the fifth largest in the World and one of the largest industries in the UK, with sales of around £13.5 billion. It employs around 122,000 people in about 8,600 companies spread throughout the UK. The printing industry is an advanced manufacturing sector, utilising leading edge technologies and skills. Printed products make a positive contribution to the UK trade balance, with exports exceeding imports by around £750 million.

**2 General Commen**t

HM Treasury’s Productivity Plan [*Fixing the foundations: Creating a more prosperous nation*](https://www.gov.uk/government/publications/fixing-the-foundations-creating-a-more-prosperous-nation)is long overdue. But while the analysis and priorities it sets out are sound enough, much of the Plan is given over to reiterating existing Government policies and listing these under the fifteen points of the Plan. By the Plan’s own analysis (using ONS data), the productivity gap between the UK and leading advanced economies is considerable: we are languishing 31% below the US and 17% below the G7 (excluding UK) average. This suggests that a more radical approach is needed, with quantifiable steps and milestones showing how - and by when - it is expected the UK will achieve the measure of growth needed to catch up with its main competitor nations.

**3 The need for a fresh approach to industrial strategy**

The Plan fails to focus on sectors with a successful track record of generating productivity growth and examine how this success might be replicated throughout the economy, including the delivery of public services.

A fresh approach to this challenge is now needed. This needs to go further than the previous Coalition Government’s industrial strategy (which is incidentally not mentioned at all in the Productivity Plan), which involved developing ‘strategic partnerships’ in selected sectors where purportedly “government and business, working together, believe they can make the most difference”. Rather the Government now needs to work with *all* sectors, including long-established manufacturing industries. For instance, the UK printing industry – the fifth largest in the World - adds relatively more gross value added than most manufacturing industries – some £6.1bn, measured against annual sales of £13.5 bn *(Source: ONS, Annual Business Survey – November 2014).* Going forward therefore, the objective for the future must be to support industry as a whole, in order to grow the economy in a sustainable and balanced way and to help close the gap between those companies that are best in class and those that are underperforming.

**4 Skills**

The publication of a National Infrastructure Plan for Skills will be a positive step forward if this leads to a genuine long-term strategy and vision for skills with a real commitment to deliver. However the timescale allowed for its preparation and publication of the plan seems rather short given the amount of work that will presumably be needed to pull this together. Changing work patterns, technologies and demography all raise huge questions about the nature and shape of future learning methods, systems and institutions, which suggests that a commitment to publish this by “the summer” (2016?) could prove somewhat ambitious.

Given the vital role investment in skills plays in boosting productivity, the proposal to create a further three million apprentices through the Employment Bill is also to be welcomed, provided this is geared to delivering quality employer-led apprenticeships rather than hitting target numbers and is supported by better careers advice and guidance in schools. As a leading provider of high quality apprenticeship training, the BPIF considers that it critical that quality is not sacrificed for quantity, and that the development and updating of apprenticeships remains employer-led.

We believe that OFSTED should be required to give greater weight to pupils’ careers and employment outcome in their inspection assessments, so that schools have a greater incentive to focus on equipping young people with the skills and experience needed to secure employment. Action to raise the prestige of vocational qualifications is also welcome, provided schools are tasked with presenting these to pupils as an alternative to university that offers good learning opportunities and employment prospects.

However we do not consider that the introduction of an apprenticeship levy on larger firms will be helpful. While the Chancellor has suggested that any firm training sufficient apprentices will be able get back more than it puts in, those large firms that have experienced the former Industrial Training Boards will be wary of the prospect of a return to the expensive and time-consuming skills bureaucracy of the past. We are concerned about how the levy will be implemented in practice to ensure a net benefit to those providing apprenticeships, and that increased bureaucracy may make it more difficult for employers to access funding to support their initiatives.

Also unhelpful is the Business Secretary’s failure to heed calls from business to relax the increasingly stringent visa restrictions on foreign graduates from UK universities. While we appreciate the political considerations facing Ministers with regard to levels of net migration to the UK, imposing an arbitrary cap remains a problem for those companies unable to access the skills they require from within the UK recruitment market. And we are concerned that new policies around higher education may also constrain the pool of available talent in the future: ending remaining university maintenance grants in favour of universal application of loans to all students may discourage less well-off young people from attending university, thereby preventing them from attaining their full potential.

**5 Management**

One of the key drivers to productivity growth is the quality of management, and past research has suggested that poor management is one of the factors holding back the productivity of UK firms relative to their international counterparts.

As the printing industry’s leading trade body, the BPIF is committed to driving up standards of management across our industry. Printing is an industry predominantly comprised of smaller companies, which lack the internal resources needed to support a structured management development programme. This requires external intervention and the creation of effective networks through which developing managers can meet to exchange ideas, best practice and experience. The BPIF manages a special interest group – *Professionals in Print and Media* – dedicated to organising structured training programmes, company visits, study tours, business meetings and formal gatherings geared to the personal learning requirements of its individual learner members and the business objectives of their companies.

The BPIF also manages a *Level 5 Graduate Management Programme for Professionals in Print and Media*, developed with input from across the print media supply chain. Page 62 of the Productivity Plan refers to recent research that suggests that “bespoke, in-work development is most effective among small business owners and managers”, and we concur entirely with this. For this reason, our Graduate Management Programmefocuses on in-company assignments and project work. The first 180 learners completed the Programme in July this year. We have now followed the achievement of this significant milestone with the introduction of a new MSC Management in partnership with University South Wales, thereby enabling our graduates to further build their leadership skills.

We are therefore pleased to see the announcement of plans to improve the quality of managers through a new employer-designed degree apprenticeship in Leadership and Management, although we would urge that this should not preclude management and leadership being made integral to other higher level apprenticeships where employers require this. We also support the proposal to introduce new income contingent loans to contribute to the costs of an MBA, provided that any upper limit on loan payments is not set at a level that would deter potential MBA candidates for accessing this facility.

**6 Investment**

Further cuts to the corporate tax rate (to 18 per cent by 2020, from the current level of 20 per cent) are likely to boost private investment. Making the Annual Investment Allowance (AIA) permanent at £200,000 is also helpful, and removes previous uncertainty about this figure. However the high cost of new capital equipment means that an Allowance of at least £500,000 would be more appropriate and we would urge the Chancellor to raise this Allowance further in future Budgets.

It is important to remember that while raising productivity requires the optimisation of both human and capital assets, the success of productivity improvement initiatives can be greatly enhanced by leveraging the full potential of both. We would therefore also wish to see the current definition of AIA qualifying expenditure widened to include the provision of any training conducted in order to develop the skills needed to implement and maintain sustainable continuous improvement practices in manufacturing and supply chain operations.

The government appears reluctant to tackle the issue of short-termism in investment decision-making. Policy changes that might have incentivised longer-term approaches to investment, such as the “allowance for corporate equity” recommended by the [Mirrlees Review](http://www.ifs.org.uk/publications/mirrleesreview/) in 2011 (which would equalise the treatment of debt and equity by giving a similar relief for equity finance based on a notional return on equity invested), do not feature in the Plan.

A lack of competition the banking market is another obstacle for businesses seeking to invest and grow. One of the calls for action in the BPIF’s briefing document [*Priorities for Print 2015-17*](http://www.britishprint.com/downloads/managed/PFP_2015_-_2017.pdf)is that the government should “continue to encourage greater competition in the lending sector by supporting the development of alternative sources of finance and by encouraging new lenders to enter the market”. We are pleased therefore that the Plan does contain some policies for the Bank of England to promote competition, including the measurement of “finance for productive investment” and the setting up of a new unit to help challenger banks enter the UK market.

**7 Planning, housing and infrastructure**

Problems in the planning system and scope for objectors to delay applications for new development are rightly identified in the Plan as key bottlenecks for infrastructure and housing improvements. Reducing centralization of planning decision-making through increased devolution to city regions may therefore prove helpful, as may new national policies to speed up development such as allowing automatic development of brownfield sites.

On the supply side, lack of affordable housing is rightly singled out in the Plan as a barrier to growth. However the Plan seems to offer little by way of solutions to the problem. Reducing tax relief on mortgage interest for buy-to-let investors is unlikely to have much impact while capital gains and rents on properties continue to rise, while policies such as [Help to Buy](http://blogs.lse.ac.uk/politicsandpolicy/tag/help-to-buy/) and Right to Buy are likely to stimulate demand for property and make actually worsen problems of affordability.

The Plan refers to the importance of all areas of the UK’s infrastructure (transport, energy and telecommunications). As much the UK printing industry’s output is distributed by road, we welcome the proposal to create a new Roads Fund by 2020-21 funded by revenues from Vehicle Excise Duty. However with a significant amount of much-needed rail investment currently postponed and the decision on a third runway at Heathrow not expected until the end of the year, there are still a number of questions on the Government’s infrastructure plans left unanswered. More definitive long-term commitments on future infrastructure investment are urgently needed.

**8 Living wage**

It is at all not clear why the Chancellor’s promise of an increase in the minimum wage for those over 25 years or older to £7.20 (from £6.50) next year features in a plan to increase the nation’s productivity. Increasing the financial incentives to find paid employment, together with stronger pressure on benefit recipients, may well increase the labour supply but it will not by itself increase the productivity of the nation’s jobs. While higher productivity is capable of generating the revenues needed to pay higher wages, there is no guarantee that raising levels of pay will automatically boost levels of productivity.

However it is possible that the National Living Wage could increase average labour productivity simply by pricing some low-paid workers out of low-productivity jobs. If firms facing rising wage costs for unskilled employees choose not to recruit (or perhaps dismiss) some of their less productive workers, then the planned increase will impact adversely on employment prospects for those on lower wages. This risk will be heightened in cases where the resulting upward shift in wage bills tips the balance of costs in favour of substituting technology in place of people (e.g. through further automation of manufacturing processes, or through the introduction of additional self-service/online facilities in service outlets). Even those lower-paid employees who remain in work may see little benefit in practice if cuts to in-work welfare payments they receive accompany the rise in minimum wages. And where the resulting cost increases are passed on to consumers, lower-paid workers will be affected along with everyone else.

We therefore believe the focus should be on boosting productivity through higher levels of capital investment or R&D per worker so that future rises in productivity are driven by *all* employees working more productively rather than the exclusion of some employees from work, and to create the increased wealth necessary to raise levels of basic pay and to sustain these in the longer term. The emphasis needs to be on encouraging and enabling businesses to create more higher-value, better-paid jobs.

**9 Trade and exports**

The BPIF supports the promised actions to stimulate trade and exports, including remodelling delivery, requiring the British Business Bank to review the obstacles faced by SMEs seeking to export, and a focus on markets with growth potential. Plans to move responsibility for promoting exports to individual departments may help, but only if those departments make exports a serious priority. The OBR currently predicts that the UK will miss the government’s target of having exports worth £1 trillion by 2020 by more than a third. So we need a radical change in the support and encouragement offered to UK businesses, particularly in engaging smaller business that have yet to be convinced of the opportunities available to them from export markets.

**10 Devolution**
The introduction of greater local democracy may appeal to some local businesses, particularly if it presents an opportunity to stimulate the local economy and increase local business funding. However while businesses are likely to support more local decision-making if it means greater efficiency, more control of local decision-making and tangible results for the local business community, it is important to ensure that this does not result in a corresponding increase in local bureaucracy.

**11 Review of economic statistics**
We welcome the decision to commission an independent review into the quality and delivery of economic statistics for measuring productivity. Ensuring the accuracy of official data on how much our country produces is crucial to making sensible economic policy decisions and gaining support from business for those decisions.

**12 Public services**

This Chapter of the Plan appears almost as an afterthought and is somewhat short on analysis. However reforms to the delivery of public services can help ensure that the government is supporting productivity growth in its own backyard. Longer-term reforms which harness new technologies, make public services more responsive to consumers, and support the adoption of modern management approaches are also needed in the public sector. It would be useful to examine existing best practice in this area and how the results of this are being applied more widely. The Plan also fails to examine how improvements in public procurement methods, processes and technologies could be used to drive up productivity in the public sector.

**CONTACT**

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