

Making the UK the best place to invest





The UK's investment challenge

As the UK emerges from recession, there is a debate about how the economy can return to balanced and sustained growth. With public sector expenditure and household spending under intense pressure over the coming years, economic growth must come primarily from business investment and trade.

Securing investment is essential and cannot be taken for granted. This report looks at how we can attract investment from domestic firms and inward investors by ensuring the UK is seen as the best place to invest.

There is now intense international competition to attract mobile business investment across all sectors and not just from locations with low skills and lower wage costs. The UK must adapt to this new environment, drawing on its strengths and removing blockages to remain competitive.

The UK needs to understand the elements that drive and block business investment, and what policies are required to provide the foundations for long-term investment growth. *Making the UK the best place to invest* provides insights into these issues from the perspective of investment decision makers.

About this report

Making the UK the best place to invest is the result of interviews with business leaders and analysis of data on blockers and drivers of business and investment in the UK. We have incorporated findings from the CBI/Ipsos MORI survey of CEOs published ahead of the 2010 CBI Annual Conference.

Nine facts that highlight why action is needed on investment:

- Firms tell us the 50p tax will discourage them from investing in the UK
- The UK is ranked 89th out of 139 for having the biggest regulatory burden on business, on a par with Nigeria
- The UK lags behind France, Germany and Japan in maths rankings
- The UK needs £450bn of low-carbon investment by 2025
- Just 6% of high growth firms provided half of jobs growth between 2002-06, and we should be doing more to harness the potential of these companies
- The UK has the largest creative industries sector as share of GDP and we aren't doing enough to exploit this advantage
- If expressed as a sector, the internet would now outstrip construction, education and transport as a share of GDP and has the potential to contribute even more
- The global low carbon market will be worth \$2trn by 2020
- The UK is home to four of the top ten ranked universities in the world and we should capitalise on this

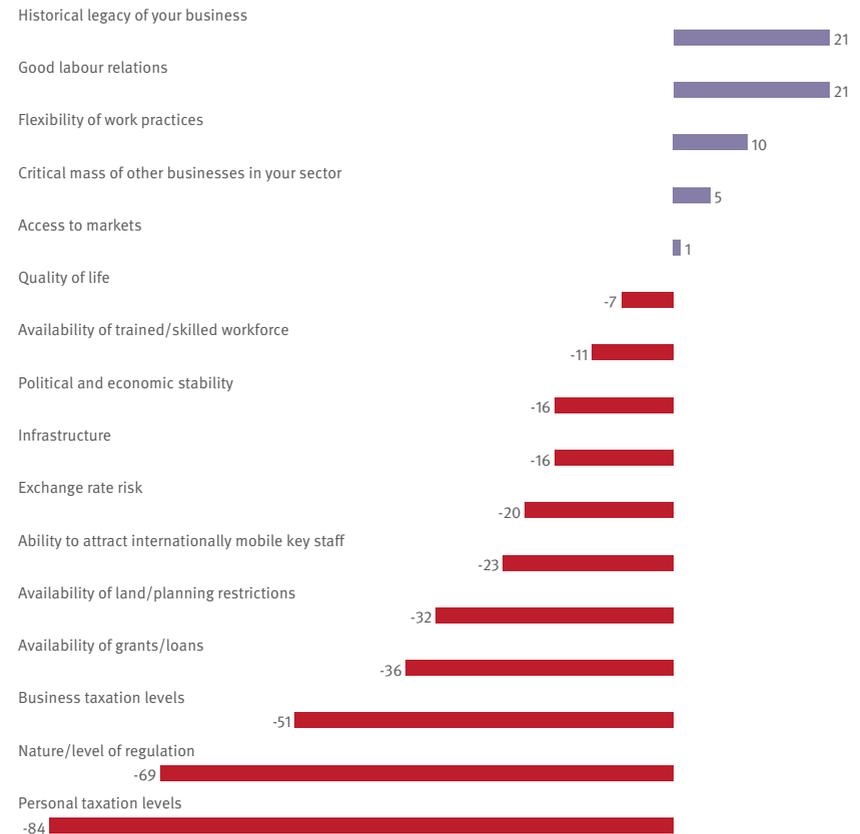


Why action is needed

The UK has a strong reputation as a place to invest. It has great strengths including its science, university and R&D base, dynamic culture and quality of life and a flexible labour market, which together attract investment from both domestic and international companies. The UK was a magnet of investment over the last decade and, despite a slowdown in the wake of the financial crisis and recession, is still the most popular destination in the EU.

Now the UK's reputation is under threat. A growing number of companies are considering moving abroad or investing elsewhere. A CBI/Ipsos MORI survey of 121 senior leaders in FTSE 100 and 250 companies and equivalent large overseas firms operating in this country found the UK's attractiveness as a place to invest had declined over the last decade.

Attractiveness of UK over other countries, 2000-2010 (%)



◀ UK declined UK improved ▶



Priorities for action: taxation

Tax is an inflammatory issue for businesses and particularly for multinational companies that have the choice of where to invest. The government must ensure the tax regime is designed to make the UK competitive.

Business tax

A low rate of corporation tax is essential for the UK to stay competitive. Business taxation is a cost that limits funds available for investment. We strongly support the phased reduction to a 23% main corporation tax rate, but the objective should be to reach 18%.

View from the boardroom

Tax policy must place greater emphasis on international competitiveness. Personal and corporate tax policy needs to offer greater certainty.

Ian Powell, Chairman and Senior Partner, PwC

R&D tax credits

International competition to attract R&D and other innovation activity is fierce and options for adapting the R&D tax credit to make it even better must be explored.

View from the boardroom

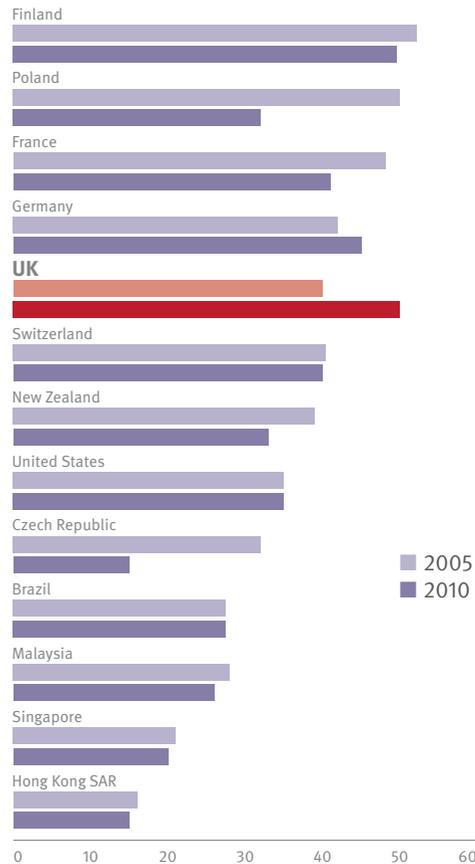
Boosting investment in R&D combined with targeted reform of R&D tax credits would be vital positive steps.

Mike Wright, Executive Director, Jaguar Land Rover

Personal tax

The 50p tax rate on earnings over £150,000 is seen as a critical blocker on both attracting internationally mobile staff to the UK, and keeping top UK talent here. The government should remove the 50p tax rate as soon as public finances allow and within the lifetime of this Parliament in order to attract and retain the best mobile talent.

Highest rates of personal income tax in 2005 and 2010 (%) (Source: KPMG, Individual income tax and social security rate survey 2010)



Priorities for action: new markets

The expansion of new markets is an effective way of galvanising business investment. To have maximum impact these should be linked to an overall vision for UK economic and industrial capability, with government's role being to stimulate activity and facilitate growth.

Public procurement

The government should kick start an opening of markets throughout the public sector by setting minimum proportions for the share of services that must be delivered by independent providers.

Transition to a low carbon economy

There is significant potential in tapping into the home market for low carbon goods, services and infrastructure and to use this as a platform to access the global market, which will be worth over \$2trn by 2020.

View from the boardroom

We have a golden opportunity to rebuild the economy in an economically and environmentally sustainable way. To achieve this, government must articulate a vision that captures maximum value for the UK.

Paul Booth, President, SABIC UK Petrochemicals

Broadband infrastructure

The strength and resilience of a country's broadband infrastructure has become an important factor in investment decision-making. The UK must commit to a universal 50mbs offering plus a network of 'digital growth hubs' offering 100mbs or even significantly more.

Clinical trials

The UK should be a prime site for clinical trials. Regulatory reform is needed to ensure it becomes the international centre for clinical trials research, with all of the business investment that follows.



Priorities for action: UK resilience

The UK needs to ensure it has the core physical, regulatory and human capital infrastructure needed to attract and retain business investment.

Investing in infrastructure

Having a reliable infrastructure is a key consideration for investment decision makers. High-level dialogue is needed between government and providers, investors and users to deliver a smarter, more resilient infrastructure.

Closing the skills gap

The UK needs a more effective talent pipeline. Lack of skills poses a real challenge for future investment. The UK must close the gap with its competitors.

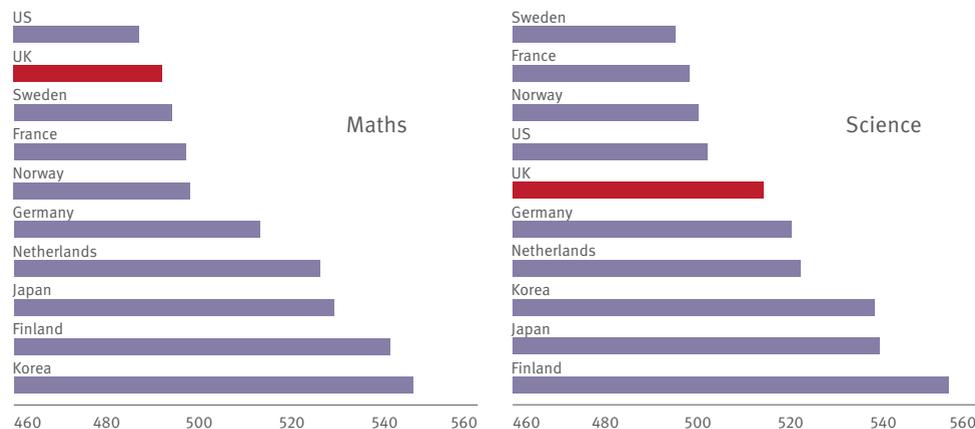
View from the boardroom

The quality of practical skills education in the UK has declined and it is now much more difficult to get the level we need to maintain the high standards we set.

Derek Carter, CEO of Fairline Boats

UK comparative ranking in maths and science (mean score)

(Source: OECD, PISA Survey December 2010)



Our vision for the UK in 2020

Over the next 20 years the UK will become the primary western location for business investment by having the:

- most competitive tax regime in the OECD
- best environment for business innovation in the OECD
- global leadership in low-carbon technologies
- best talent pipeline, linking business into education
- best infrastructure aligned with the needs of business
- fastest broadband infrastructure in Europe.

Recommendations to government

- 1 Stimulate new market activity to encourage investments that will transform the UK economy and lower risks for investors
- 2 Use public procurement intelligently, creating wider economic value through business investment and innovation
- 3 Use business taxes to encourage investment – in low carbon, capital-intensive sectors and in innovation across all businesses
- 4 Support measures to provide SMEs with the capital they need to grow
- 5 Remove the 50p tax rate as soon as public finances allow and within the lifetime of this Parliament, to attract the best mobile talent
- 6 Work with business to develop appropriate skills for the future
- 7 Build a resilient infrastructure, enabling the UK to become a lead player internationally
- 8 Create a planning and regulatory system for investment and growth

For further information on *Making the UK the best place to invest* or a copy of this report in large text format, contact:

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CBI

The CBI's mission is to help create and sustain the conditions in which businesses in the UK can compete and prosper for the benefit of all. We are the UK's leading business organisation and campaign for a competitive policy landscape for companies in the UK, the EU and on the wider international stage.

The CBI's strength lies in its breadth of membership, representing over 240,000 companies of every size and from every sector. With offices across the UK as well as in Brussels, Washington, Delhi and Beijing, the CBI provides members with representation around the world.

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