

CREATING A MANIFESTO FOR A VIBRANT ECONOMY

April 2017



OUR APPROACH

At Grant Thornton we are seeking to stimulate ideas and actions to shape a vibrant economy – one which realises the shared potential of businesses, cities, people and communities across the UK. An economy which is founded on trust and integrity in markets, dynamic organisations and places where businesses and people thrive.

Over the past 18 months we have been exploring how we can shape a vibrant economy in the UK. We have convened communities around the country, with people from the public, private and not-for-profit sectors: sharing views of what is already working, dreams of the future and how we can collectively make these a reality.

WE HAVE ENGAGED WITH

OUR CLIENTS...

BUSINESSES

Large and small

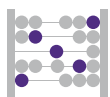


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1000+
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Including universities, charities,
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**... WITH A COMBINED
WORKFORCE OF OVER
6 MILLION PEOPLE**

THE BROADER COMMUNITY INCLUDING...

INITIATING LIVE LABS IN 7 CITIES ACROSS THE UK...

Live Labs are events where we bring together communities to collectively suggest the practical steps needed to address the big issues affecting their region.

- Sheffield
- Manchester
- Bristol
- Birmingham
- Reading
- Leeds
- Cambridge

...WITH OVER 1000 PARTICIPANTS

Including leaders from businesses large and small, entrepreneurs,
public sector and not-for-profit

HOSTING ROUNDTABLES AND EVENTS ON ISSUES INCLUDING



Fintech



Trust



Housing



Brexit



Skills



Health



Place

PUBLISHING NEW INSIGHTS



Developed with partners
including FiftyThousandHomes,
SOLACE, the RSA and Social
Market Foundation

ESTABLISHING AN ADVISORY BOARD OF LEADERS

Who are passionate about building
a Vibrant Economy



Share your views

These discussions provide the basis for our draft manifesto.

During the election campaign we want to extend the discussion even further, refining and building on these ideas ready to present to the new government.

This is a collaborative undertaking. We value your thoughts and want to hear your ideas.

We will present the 'Manifesto for a Vibrant Economy' to the new government straight after the election and seek to work with them and organisations across the UK to make it happen.

SHAPING A VIBRANT ECONOMY

A vision for the UK

The next government will be formed at a critical time:

- The UK economy has long-standing strengths (such as innovative services, creative industries and advanced manufacturing) and deep-seated challenges (such as productivity, growth finance, skills gaps and exports).
- The economy is changing fast – with technology transforming sectors and the very nature of work for many people; and an increasing 'trust deficit' in our society.
- Brexit brings additional challenges (such as market access, customs and labour market impact) and opportunities to review what sort of UK economy we want and how best to build a truly vibrant economy.

Through our discussions with leaders across all sectors, a recurring priority is the need for a guiding vision for the UK in this changing world.

We need to articulate and agree a purpose that both recognises the contribution we can make to the global economy, as well as what we can take from it. This can provide the country with a North Star, helping us to navigate our path ahead together.

A vision is emerging of creating a prosperous UK by building the most collaborative, open, trusted and connected economy in the world.

Delivering the vision

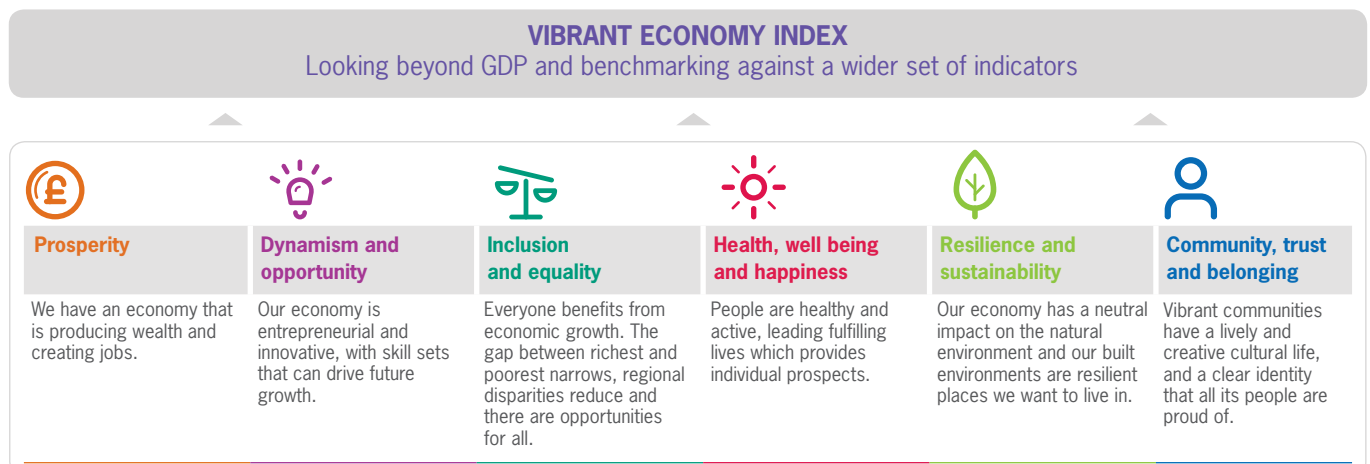
Broad consensus is emerging across sectors and cities around the key priorities and a desire and willingness to work together with government to deliver them.

Here we set out these emerging priorities and how we propose to measure success.

Overview



Measuring success



TRUST

Trust and integrity are the heart of a vibrant economy. Trust provides the basis for adoption of innovative products and services, higher productivity, investment and 'licence to operate'. The collapse of trust in business and other institutions is a global one; in the UK only 33% of people now trust business (source: Edelman Trust Barometer 2017).

We need a systemic approach to restoring trust. In the short term, corporate governance can help, strengthening engagement, accountability and transparency. In the longer term, we need a shift in business models: from the primacy of profits to a focus on achieving a wider purpose. From regulatory compliance to sustainable business culture and from a focus on speculative investment to a financial system where UK savers invest in line with their values.

Profits with purpose become the new normal

Aim: The majority of businesses in the UK deliver wider social and environmental outcomes as well as profits; supporting this, impact investing becomes a mainstream retail product, allowing UK savers to decide what societal or environmental outcomes they want their savings to achieve as well as providing a financial return.

An increasing number of businesses recognise that business success and societal progress go hand in hand, and that addressing wider challenges faced by society is often the best way for a business to stay relevant to customers. The Big Innovation Centre estimates that putting 'visionary purpose' at the heart of British business could add an additional £130 billion a year to company valuations.

People want to use their savings to support this. Almost half of UK employees (46%) feel that it is important that their pensions are invested in organisations that reflect their social and environmental views (Big Society Capital). The UK financial services sector already has strengths in impact investing; scaling up this approach could consolidate the UK as a global centre.

UK pension funds and insurance companies are increasingly interested in developing investments with wider impact, for example investing in early stage UK businesses, exporters and infrastructure. Barriers remain such as investment risk profiles and restrictions on pensions investing in private companies.

Recommendations:

- Fully utilise the Social Value Act and public procurement to ensure all government contracts are with businesses that actively make a positive contribution to society.
- Celebrate business with purpose – eg replace honours (OBEs etc.) for business people with more frequent celebrations of businesses that 'do well by doing good'.
- Support continued development and voluntary adoption of integrated reporting and other tools for business to report in a comparable and verifiable way on social and environmental as well as financial outcomes.
- Scale up impact investing – support upcoming reports by the UK National Advisory Board on Impact Investing and by Elizabeth Corley on how individual investors can be given more choice to invest their savings in businesses and organisations with purpose. Accelerate this with a new ISA product and work with institutional investors to identify and tackle other barriers to them investing in UK businesses and infrastructure.

Greater engagement, accountability and transparency

Aim: Effective corporate governance through culture and leadership rather than additional tick box regulation. Good, effective corporate governance provides the basis for both external trust in business and the internal processes for managing risk and protecting and enhancing value. Our analysis of FTSE 350 compliance with the UK Corporate Governance Code (the annual Grant Thornton Corporate Governance Review) suggests that rather than additional rules, the challenge is for more companies to embrace the principles of the existing Code.

Recommendations:

- Strengthen action by the regulator (FRC) to ensure application of the existing Corporate Governance Code.
- Promote understanding of existing directors' duties under Section 172 of the Companies Act (to have regard to employees, suppliers, customers, the community and environment); and require the Chair to ensure that stakeholders are fully engaged.
- Continue to strengthen board diversity and increase the independence and diversity of Remuneration Committees.

A tax framework that reflects the modern economy

Aim: Simplification of tax to enable business to pay the right amount, in the right place at the right time.

Cases of aggressive and artificial tax avoidance have undermined trust in business. At the same time, the UK tax code has grown from 3,700 pages in 1995 to over 17,000 pages in 2015. The tax system is increasingly out of kilter with today's economy: it has not adapted to changes in employment status; and corporation tax (taxing profits at the location of a business's HQ) no longer works in global, digital economies.

Complexity and anachronism make it harder for people to know how to do the right thing and easier for aggressive and artificial tax avoidance schemes to operate.

Recommendations:

- Government should hold a fundamental debate about our business tax system – to agree a new consensus on what assets or activities should be taxed (eg property, jobs, profit or sales).
- Apply the approaches taken by successive governments on deregulation to radically simplify tax administration.
- A fundamental review of business tax reliefs, to significantly reduce the number and complexity of different schemes and to target tax incentives on an agreed set of strategic priorities (we suggest a few in this draft manifesto: incentivising exports, innovation and impact investing).



GROWTH

In the face of ever-accelerating global and technological change in the economy, we need a long-term plan for UK and international growth that unlocks the full potential of the UK as a positive contributor to a global economy.

A 'Fourth Industrial Revolution' is taking place, where every part of the economy and society will be transformed by the application of technology and digital networks, fusing physical, digital and biological worlds.

Our discussions with dynamic organisations in cities and key sectors have identified three top priorities to unlock growth: exporting, skills and innovation.

A step-change in exporting

Aim: Raise UK exports from 27% of GDP to 45%.

The UK's trade deficit continues to grow. The proportion of UK businesses exporting is falling and those that are looking to expand overseas, tend to focus on the slower growth markets of Europe and the US.

While leaving the European Union creates challenges, particularly around customs and border management, it offers an opportunity to reverse the UK's export performance, and thereby unlock major economic growth.

Recommendations:

- Help businesses go global by introducing a new tax credit for the cost of researching and entering new markets.
- Support a new collaborative model of exporting that allows SMEs to leverage the existing distribution channels and trade agreements of complementary larger exporters.
- Mobilise the UK's private sector business advisers (eg in banks and professional services) to help exporters.
- Make cross-border transactions easier by developing a comprehensive programme to streamline customs and border management issues, simplify cross-border taxation; and agree reciprocal arrangements with other countries.

Strong education and employment connections

Aim: Businesses and public services can access the skills and talent they need for current delivery and future growth.

Businesses and public services see addressing the huge talent deficit they are facing as needing priority attention. This comes at a time when technology is changing the nature of work, which means that many jobs our children will work in do not exist today. Skills that enable agility, career changes and adaptation to circumstances, will be vital.

When we asked businesses what would most help them address skills shortages, they identified better career information, raising immigration caps, links with universities and links with schools and colleges. Employers tell us they would like to see a curriculum for 14-19 years olds that has more room for creativity and vocational skills; and more vocational options and experience in universities.

Recommendations:

- Develop new ways of fully integrating employers from all sectors into education to ensure relevance of skills and qualifications; and provide work experience, inspiration and wider encouragement to young people.
- Broaden the English Baccalaureate, taking it away from the curriculum of the early twentieth century and ensuring that it offers all young people the chance to develop a range of skills fit for the future.
- Encourage graduate-level apprenticeships in universities, eligible for apprenticeship levy funding.

The most collaborative place for innovation

Aim: Position the UK at the forefront of the 'Fourth Industrial Revolution', by encouraging cross-sector and technology convergence, collaboration and corporate venturing.

In the UK, there is an opportunity to combine technology where we have cutting-edge capability (eg fintech and artificial intelligence) with more established sectors to create new scale-up disruptors. This could enable the UK to be at the forefront of the 'Fourth Industrial Revolution'.

Access to finance will be important. As well as impact investing (see previous recommendations), corporate venturing can help with larger corporates investing some of their balance sheet in fair partnerships to scale-up smaller British businesses. The UK's largest corporates hold £244 billion in cash on balance sheets (Grant Thornton research) but currently invest less than £300 million in corporate venturing. The government abolished tax incentives for corporate venturing in 2010 and Grant Thornton has identified a number of tax and accounting disincentives that could be removed.

Recommendations:

- Encourage the development of 'collab-innovation' activities, bringing together universities, smaller start-ups, larger corporates and specific expertise to help commercialise research and partnerships and scale-up businesses.
- Reintroduce an updated corporate venturing tax relief scheme to incentivise UK corporates to invest in smaller British businesses and review the disincentives to corporate venturing with action to remove these.
- Widen use of supply chain finance, encouraging larger corporates to leverage their balance sheet to improve access to finance for smaller British suppliers, helping to develop innovation, exports and supply chain resilience.



PLACE

The EU referendum gave voice to some concerns about local communities in the UK, as well as membership of the EU – national economic growth not benefiting all towns and communities, pressures on the NHS, and immigration.

These are complex issues, where all too often debate on both sides is simplistic and dogmatic.

A vibrant economy is one where people and businesses thrive in every part of the UK. In our discussions across the country, we have identified three priorities for the next government to tackle in terms of local growth, public services and movement of people.

Develop infrastructure for local growth

Aim: Cities and shires across the UK have the powers and frameworks they need to collaborate on strategic issues and can raise the finance they need to invest in infrastructure priorities for their sustainable growth.

People want to see continued devolution in the UK, giving local bodies more powers and finding ways of extending strategic decision making to areas outside major cities. Infrastructure is key to unlocking the potential of all parts of the country. Local priorities include broadband, airport capacity in the North, housing in London, and east-west transport links. Our City Live Lab discussions identified the need to find alternative ways of raising capital to invest in local infrastructure projects that unlock sustainable growth. UK business rates are also ripe for fundamental review – a property-based tax is no longer a fair or accurate basis for taxing the activity and value of local businesses.

Recommendations:

- Extend existing government work on major infrastructure bonds to enable local government to raise municipal bonds to invest in local infrastructure (eg for local electricity generation, housing, transport) or devolve further revenue raising powers.
- Lead a fundamental review of business rates – possibly with pilot schemes in different areas to test alternative approaches that better reflect the modern economy.
- Alongside city region devolution, government should encourage flexible and innovative approaches to strategic decision making that supports local growth across shire counties (including alternatives to elected mayors).

Transform our approach to health

Aim: We have a healthier population, and a financially sustainable NHS.

People are living longer, the number of pensioners in the UK has increased from 9.2 million in 1995 to 11.5 million in 2015 and is projected to expand to 16.2million in 2035. This is putting increased pressures on the NHS (the NHS budget doubled from £54 billion to £96 billion between 1994 and 2014). This is not a sustainable basis for the NHS.

Only 4% of the NHS budget is spent on prevention (70% is spent on treatment of long-term conditions). There is an opportunity for communities to take a holistic approach to health (creating healthier spaces and workplaces and tackling air quality) and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues.

Recommendations:

- Build on the example of Manchester to continue to devolve health and social care. In doing so government should encourage the principle of 'enabling people and communities' – using technology, collaboration with employers and private and not-for-profit providers, as well as community-based initiatives. The aim should be to enable people to 'take back responsibility' for their health, reducing top-down control and providing cheaper, better, services for most routine health (and enabling the NHS to focus resources on more intensive medical treatments).

Socially and economically sustainable immigration reform

Aim: The UK's approach to immigration reflects local economic needs and community views and reinforces the British tradition of a tolerant society that strengthens our place in the world.

Debate on immigration in the UK is increasingly polarised. This is affecting individuals who have seen a rise in hate crime; employers who face increasing skills shortages in sectors like British agriculture, care homes, the NHS and construction; and the communities who feel most impacted by immigration.

The next government needs to develop an immigration policy that supports British exports; enables the UK to benefit from global talent and diversity; meets labour needs in critical sectors such as food, social care, and construction; and strengthens local accountability and promotes greater dialogue and debate about skills and migration issues.

Recommendations:

- Move away from a national target-led immigration policy, to one that enables greater debate about the issues and maximises the benefits.
- An immediate and unilateral guarantee that EU citizens currently working in the UK will have a right to remain, to provide much needed certainty for people and the organisations that employ them.
- Re-introduce post-study work visas that link graduates to employers with specific export ambitions.
- Explore devolution of decision making – the think tank Localis has proposed that strategic local authorities should process and issue visa applications for people who want to work and study in their area. This could link to local and sectoral needs and bring decision making closer to local people.



MEASURING SUCCESS

We believe that the new government should establish a new way of measuring the success of the nation.

This isn't novel: for decades politicians and economists have been arguing that GDP has run its course. And the global volatility and uncertainty of the past 12 months underscores that a new way of measuring economic well-being is now an imperative.

At Grant Thornton we have accepted this challenge. In consultation with others, we are developing a Vibrant Economy Index to measure what matters most.







The Vibrant Economy Index

A vibrant economy is about more than economic growth. Our Index tackles this head on. It identifies six broad objectives for society: prosperity; dynamism and opportunity; inclusion and equality; health, wellbeing and happiness; resilience and sustainability; and community, trust and belonging. For each of these we have put together a 'basket' of national statistics that together aim to measure these objectives.

When we apply this to a location we can see that traditional indicators of prosperity – GVA, average earnings and prosperity – do not

tell the full story. Manchester, for example, is strongly associated with dynamic economic success. While our Index confirms this, it also identifies that the city has exceptionally poor health outcomes – threatening future prosperity, as success is driven by people participating in the local economy. Every place has challenges and opportunities. Understanding what these are – and the dynamic between them – will help unlock everybody's ability to thrive.

Over the next six months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a local and national level.

 Prosperity	 Dynamism and opportunity	 Inclusion and equality	 Health, well being and happiness	 Resilience and sustainability	 Community, trust and belonging
We have an economy that is producing wealth and creating jobs.	Our economy is entrepreneurial and innovative, with skill sets that can drive future growth.	Everyone benefits from economic growth. The gap between richest and poorest narrows, regional disparities reduce and there are opportunities for all.	People are healthy and active, leading fulfilling lives which provides individual prospects.	Our economy has a neutral impact on the natural environment and our built environments are resilient places we want to live in.	Vibrant communities have a lively and creative cultural life, and a clear identity that all its people are proud of.
Indicators: <ul style="list-style-type: none"> Total GVA (£m) GVA per job (£000) Mean workplace weekly pay (£) Knowledge-driven employment (%) Businesses turning over >£1 million (%) Businesses turning over >£100 million (%) Foreign owned businesses (%) 	Indicators: <ul style="list-style-type: none"> Business formation rate (%) High level skills (%) Knowledge workers (%) Patents granted (per 100,000 pop) GCSEs A* - C achieved (%) Higher education employment (%) R&D employment (%) 	Indicators: <ul style="list-style-type: none"> Deprivation (score) Inequality (score) Average income (£) Child poverty (score) Housing affordability (score) Employment rate (%) Benefit claimant rate (%) Homeless households (per 000 households) NEETs (%) Housing benefit claimant rate (% of all households) Long-term unemployment (%) Fuel poor households (%) Unemployed inequality (ethnicity) 	Indicators: <ul style="list-style-type: none"> Sports participation (adults) (%) Adults overweight or obese (%) Life satisfaction (score) Life worthwhile (score) Happiness (score) Anxiety (score) Diabetes prevalence (%) Average life expectancy (yrs) Child obesity (Year 6) (%) Mean hours worked differential 	Indicators: <ul style="list-style-type: none"> Air quality (score) Recycling rate (%) Co2 emissions per capita (Kt Co2) Energy consumption (GWh) New residential addresses created in National Flood Zone (%) Previously developed land usage (addresses per ha) Dwellings completed (no.) Households on LA waiting list (%) Planning applications (no.) 	Indicators: <ul style="list-style-type: none"> Community assets (per 1,000 pop) Cultural amenities (per ha) Living alone, aged over 50 and over (%) Valid voter turnout (%) Violent crimes (per 1,000 pop) Ethnic diversity (score)

SHARE YOUR VIEWS

Q What do you like about the recommendations?

Q What would you add to make them stronger?

Q How would these recommendations help you and your organisation?

Tell us what you think by [clicking here](#)

We are seeking to stimulate ideas and actions that can create a vibrant economy – one which realises the shared potential of businesses, cities, people and communities across the UK.

To find out more visit

vibranteconomy.grantthornton.co.uk/
[#vibranteconomy](#)

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