

CBI RECOMMENDATIONS
FOR THE AUTUMN
2005 PRE-BUDGET REPORT

EXECUTIVE SUMMARY

- Since 1997 UK business and its investors have paid £50bn more in tax because of Budget policy decisions. This has accentuated the loss of competitiveness faced by business as a result of a range of other cost and pricing pressures.
- In turn, corporate profits have struggled compared with the 1990s, and UK share prices have underperformed their overseas counterparts. Consequently, business investment has been depressed, reaching an all-time low as a share of GDP. And the pensions ‘crisis’ – which threatens the financial wellbeing of millions of UK residents – has been reinforced.
- To reverse these trends, the business tax burden must be cut by the end of this parliament – chiefly through a straightforward, across-the-board cut in a general business tax rate.
- In the meantime, there should be no further rise whatsoever in the business tax and cost burden, due to Budget or other policy action. This includes increases in bills such as the uniform business rate, employer NICs or environmental taxes, and new burdens such as compulsory employer pension contributions or a ‘planning gain supplement’.
- We are concerned at the growing reliance on tax policy changes introduced under the ‘anti-avoidance’ banner. These changes often amount to a covert means of extending the tax base whilst circumventing previously accepted tax principle and practice. The absence of prior consultation, uncertain impact and retrospection further damage competitiveness.
- To promote enterprise, the government should introduce select and affordable policy changes in 2006, to correct SME tax anomalies, remove barriers to growth, and support science, technology and innovation. It should press on with corporation tax reform, and rigorously pursue the deregulatory agenda set out in the Hampton and Arculus reports.
- Despite significant Budget and local authority tax rises, a structural deficit has emerged in the public finances, of some £10bn per annum. This needs to be addressed over the next two years. But at the same time, the government must avoid tax rises of any kind, given the dramatic rise in the overall tax burden, the UK’s slide down the OECD tax ‘league table’, and the need to encourage more work and more saving.
- To square these goals the government should re-open its spending plans for 2007/08, to constrain the growth of total spending over this period to 10% – in line with GDP – rather than the 12% planned. We therefore comment on spending policies in this submission.
- The government must strive for continued value-for-money improvements in public service delivery by implementing the Gershon Review recommendations in full, and going further to create new incentives to transform public services.
- Within the spending totals, ‘investment type’ spending supporting long-term economic growth – on transport, skills and scientific research – should be protected, and the basic state pension should grow by enough to curb the spread of means-testing. That leaves savings of £10bn in 2007/08 to be found out of the remaining £380bn. The government should re-assess: its paybill; the phasing of large spending increases such as in health; non-pensioner benefits; local authority spending; and scope for further efficiency savings through e.g. reduced absenteeism.
- Beyond 2007/08 continued spending restraint and a re-balancing towards ‘investment-type’ spending must be addressed by the next Comprehensive Spending Review.

OVERVIEW AND KEY RECOMMENDATIONS

The CBI is the UK's leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce. This submission sets out the CBI's recommendations ahead of the autumn 2005 Pre-Budget Report.

Section 1: The pressures now facing business

Since 1997 UK business and its investors have paid £50bn more in tax because of budget policy decisions, accentuating the loss of competitiveness resulting from a range of other pressures.

Aside from tax, pressures mounting since the 1990s include: intense international competition and sterling strength; the need to cover employer-sponsored pension fund deficits; substantial increases in energy and commodity prices; competition for labour with an expanding government sector; and increased regulatory costs. Associated with this, corporate profitability has peaked at a lower level than in the previous three cycles, and London stock prices have underperformed their EU and North American counterparts. *The result has been damaging in two respects:*

- *Business investment has been constrained, reaching an all-time low as a share of GDP early this year. The UK's long-term underlying growth prospects are suffering as a result.*
- *Investment returns have been constrained, reinforcing the pensions 'crisis' and threatening the financial wellbeing of millions of ordinary individuals.*

Section 2: Tax and cost rises under consideration

To reverse these trends, the business tax burden must be cut significantly by the end of this parliament. A package is needed, centring on a straightforward, across-the-board cut in the rate of a general business tax (e.g. employer NICs), and including cuts in specific taxes inhibiting business improvement (e.g. stamp duty land tax), and action to ease savings disincentives (the most notable of which is the cumulative impact of the many taxes relating to investments in business).

The need to get the public finances back on track may preclude action along these lines this year or next. But at the very least, *there should be no further increase whatsoever in the business tax or cost burden* as a result of budget or other policy action. We are concerned about a number of policy options under consideration, and highlight the case against tax increases in several areas:

- *Uniform business rate and employer NICs*, which simply add to business costs without any alleged environmental or similar benefit. Taxes of this type are unrelated to income and discourage beneficial activities that would otherwise take place. Rises in other taxes of this type – such as stamp duties and insurance premium tax on business policies – must also be avoided.
- *'Anti-avoidance' measures*, to covertly extend the tax base whilst circumventing previously accepted tax principles. Other rises in profits taxation – at the business, intermediate fund and ultimate investor level – should also be ruled out, to avoid depressing returns and investment further. This includes any retrospective 'windfall' tax, which would undermine business certainty.
- *Compulsory employer pension contributions*, which would add directly to the business cost base, thereby further squeezing profitability and sparking adjustments to headcount and investment – and as a result doing little if anything to alleviate the pensions problem.
- *'Planning gain supplement'*, which risks deterring residential and commercial development.

- **Transport and environmental taxes**, where the issues are more complex, but the potential threat to UK business competitiveness significant.

The government should also avoid raising taxes ostensibly aimed at the final consumer, but which would in practice squeeze the profitability of sectors of UK business.

Section 3: Affordable policies to promote enterprise and innovation

The business environment could be improved to support enterprise and innovation via a number of policy changes with little exchequer cost. These include:

- **Correcting select anomalies in the tax system affecting SMEs** – for example by changing the corporation tax regime for associated companies, reviewing tax and regulatory thresholds and including leased assets in the SME capital allowance regime.
- **Removing tax barriers to growth** – by reviewing the profits limits last set in 1994 for corporation tax, and allowing tax relief on the incidental costs of raising equity finance.
- **Supporting science, technology and innovation** – by addressing deficiencies in the R&D tax credit, and other measures including: reform of the Higher Education block grant, promotion of closer collaboration between RDAs, and enhanced business-university collaboration.

The government should also press on with the programme of corporation tax reform, leading to the elimination of further anomalies affecting companies of all sizes. And it should rigorously pursue the deregulatory agenda set out in the Hampton and Arculus reports.

Section 4: The need for spending restraint

The public finances have been allowed to drift off course, so that there is now a ‘structural’ deficit of some £10bn per annum. ***This structural budget deficit should be addressed over the next two years, but through restraint in the growth of government spending rather than increases in taxation of any kind.*** The £10bn could be found if spending grew by a cumulative 10% over two years – still broadly in line with GDP – rather than the 12% currently planned.

Failure to tighten fiscal policy would result in higher interest costs in future, and higher interest rates than otherwise. It would also make it difficult to meet the fiscal rules over the next cycle. But tax rises should be avoided as they would build on a significant increase in the overall tax burden of the recent past, and push the UK further down the OECD tax league table. In this context, the UK is best described as a ‘medium-tax’ economy – it is not the ‘low-tax’ economy sometimes portrayed.

In considering any personal tax increases, either to tackle today’s budget deficit or in the context of the pensions ‘crisis’, important principles need to be borne in mind. The key to solving the pensions crisis is to encourage more work and more saving, yet taxes typically penalise both. In recent years, abolition of dividend tax credits, and growing reliance on revenues from stamp duties and inheritance tax, have reduced the reward for saving, with stamp duty land tax also becoming an increasing barrier to labour mobility. It would be unwise to exacerbate these trends. Another increase in NICs – the tax targeting employment – would also risk adverse supply-side effects.

Section 5: Value for money in public services

To achieve a real transformation in public service delivery, the government needs to deliver on the Gershon Efficiency Review proposals – and go further. It must deliver the projected £21.5bn

savings and fully implement the Review proposals to improve public sector productivity and performance. But unfortunately, there has been little progress to date in meeting the targets. There has been little net reduction in overall government headcount; and cash savings have typically been in ‘soft’ areas such as procurement and largely recycled back into spending elsewhere.

We highlight four major concerns with the implementation of the Review:

- The validity of efficiency gains secured to date, given the ***lack of comprehensive auditing of efficiency gains***. A comprehensive assessment would consider efficiency gains, their source, where resources have been redirected and the qualitative impact.
- The ***limited implementation of key Gershon recommendations***. Most notably, shared services implementation remains limited, despite Sir Peter Gershon’s evidence that it could generate cost savings of up to 30%.
- The ***failure of the blanket 2.5% target to challenge the public sector***. While targets are not the most effective way to ensure transformation and efficiency in the medium term, any target needs to be sufficiently challenging.
- The ***lack of new incentives to transform public services***. The focus on costs and budgets rather than outputs and services has failed to create incentives to deliver transformational change. The government should look to develop meaningful performance management systems across the public sector to encourage efficiency.

Section 6: Achieving spending restraint in the short term

Finally, we set out proposals for public spending. We were disappointed at the decision not to reopen the plans for 2007/08. Our view is that those totals do need to be re-set – some £10bn lower – and that this should be done in one of the Pre-Budget or Budget statements before then.

Looking at spending allocations, ***the government should stick with its 2007/08 plans in the case of functions vital for the economy’s long-term prospects***: education and skills; science, technology and innovation; and support services for trade and businesses. ***Transport should be further boosted*** by utilising the bulk of the £1.1bn capital budget reserve in 2007/08 – and needs extra resources beyond that. The ***basic state pension should also rise sufficiently*** to prevent the further spread of means testing.

Excluding these functions, and debt interest, a saving of £10bn would need to be found out of the currently-planned £380bn. The government must therefore look again at the possibility of greater spending restraint in several areas:

- The growth of its paybill (and for the longer-term, its pension commitments).
- The very rapid rates of departmental cash spending growth – notably health spending at 10% per annum, and the possibility of reviewing the Wanless Report proposals in order to phase in the proposed extra resource a little more slowly.
- Spending on non-pensioner benefits.
- The demands placed by central government on local authorities, and the opportunities and incentives for those authorities to achieve spending restraint.
- The scope for additional efficiency savings across a range of functions, including by reducing absenteeism to private sector levels.

SECTION 1: THE PRESSURES NOW FACING UK BUSINESS

In this section we highlight the rise in the business tax burden since 1997 and demonstrate how these tax rises have added to the pressures now facing business. The result of these pressures has been to drive the share of business investment in GDP close to its all-time low.

1.1 Loss of competitiveness due to tax policy and other pressures

Since 1997 UK business has seen its tax burden increased (exhibit 1). This has accentuated the loss of competitiveness highlighted by respected commentators and international organisations. While sensible monetary policy has brought greater macroeconomic stability, in other ways the environment has become much more challenging. Aside from tax, the pressures include:

- Intense international competition, thanks to globalisation, the rise of China as a key player on the world trading stage, and sterling's continuous strength since the mid-to-late 1990s.
- The increase in employer-funded pension deficits, which are having to be reduced through additional business contributions. Tax change has clearly played a part, but is only one of several adverse developments leading to the current position.
- Substantial increases in oil, energy and commodity prices. Businesses have been unable to pass these on in full to their customers, because of softening demand at home and abroad, fiercely competitive selling market conditions, and the success of monetary policy in anchoring consumer price expectations.

Exhibit 1:

Impact of cumulative Budget policy changes, 1997-2005, on the business tax burden			
<i>£ billion per annum gain (+) or cost (-) to exchequer</i>	Average annual impact, eight years, 1997/98-2004/05	Impact this year, 2005/06	Average annual impact, four years, 2006/07-2009/10
Climate change, landfill and aggregates levies	0.8	1.8	1.8
Offsetting NICs cuts and landfill tax revenue recycling	-0.7	-1.5	-1.8
Employer NICs: rate rise and extended coverage	1.2	4.5	4.6
Business share of fuel duty ¹ and vehicle excise	0.1	-0.8	-0.7
Stamp duty on commercial property	0.6	1.2	1.2
Abolition of North Sea royalties	0.0	-0.2	-0.2
Taxes reducing 'pre-tax' profits by adding to costs	2.0	5.0	4.9
Main corporation tax rate cuts	-2.3	-3.0	-3.1
Change to corporation tax payment system ²	1.0	-0.5	-0.5
Other corporation tax changes (net) ³	-0.8	-0.3	-0.0
Windfall tax on utilities and North Sea taxes	0.8	1.7	0.8
Taxes on business profits levied on corporations	-1.3	-2.1	-2.8
Dividend tax credit changes	4.8	5.4	5.4
Entrepreneurs' capital gains tax ⁴	-0.1	-0.4	-0.4
Taxes on business profits levied on investors	4.7	5.0	5.0
Total taxation of businesses and investors in business	5.4	7.9	7.1
Cumulative impact	43.4	51.3	79.8

¹ Excluding impact of original duty 'escalator' put in place prior to 1997. ² Timing of corporation tax payments brought forward, but 'surplus advance corporation tax' ended. ³ Mainly reductions for SMEs and through the R&D credit, intellectual property relief, and relief for sale of substantial shareholdings, offset by restrictions on double tax and other reliefs. ⁴ Tapering and venture capital schemes. **Source: CBI calculations based on Treasury Budget and Pre-Budget Reports.**

- A variety of new regulations adding to the cost of doing business, most noticeably in – but not limited to – the employment arena. The working time directive is just one example.
- The role played by government sector expansion in driving the labour market towards its current ‘nearly-full’ position, as a result of which the skill and wage pressures facing employers in the business sector are more intense than would otherwise be the case.

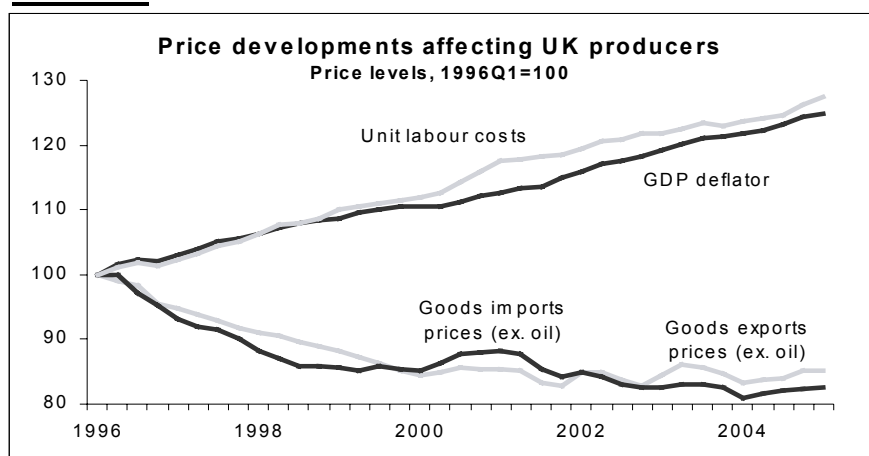
Exhibit 2:

	Out-turn: 2004/05			Budget target: 2007/08 ¹		
	£bn	As % GDP	As % total tax	£bn	As % GDP	As % total tax
Employers' national insurance ²	38.0			45.4		
Business rates ³	19.0			20.5		
Share of road user taxes ^{4,5}	13.3			15.5		
Other taxes adding to costs ^{4,6}	4.4			5.3		
Taxes reducing 'pre-tax' profits by adding to costs	74.7	6.4	17.6	86.7	6.3	16.4
Taxes on profits levied on corporations⁷	34.9	3.0	8.2	53.4	3.9	10.1
Additional taxes levied on investors in business⁸	9.7	0.8	2.3	11.9	0.9	2.3
Total taxation of businesses	109.6	9.3	25.8	140.1	10.2	26.6
Total taxation of businesses and investors	119.3	10.2	28.0	152.0	11.1	28.8

¹ Government projections are broken down in a limited way; these are CBI estimates. Unchanged policy. In our view corporation tax payments would fall short, but total taxes on business would still exceed £130bn ² Excluding government payments. ³ Based on RPI cap remaining, though proposals to lift this are being considered. ⁴ Duties paid on business expenses only; excludes any squeeze on profits due to duties targeting the consumer. ⁵ Half of road fuel tax and a third of vehicle excise duty. ⁶ Climate change, landfill and aggregates levies, and share of stamp duty land tax, insurance and air passenger taxes. ⁷ Corporation tax and petroleum revenue tax. ⁸ Income tax on dividends, and stamp duty, capital gains and inheritance tax on shares (approximate estimates only).

More specifically, the cumulative tax impact of post-1997 Budget decisions will have cost business over £50bn by the end of the current fiscal year. Looking ahead, and assuming no further policy changes, this additional tax burden is worth some £7bn annually. As a result, the share of UK tax now paid by business and its investors (28%; exhibit 2) is out of all proportion to the share of net private disposable income derived from these investments (10½%). The difference is mainly accounted for by the amount of tax levied before any profit is generated at all. At almost £75bn in the last fiscal year, this amount appears far higher than justifiable on economic grounds¹.

Exhibit 3:



¹ I.e. an amount to cover the true cost to society at large of ‘public’ inputs into businesses’ production processes.

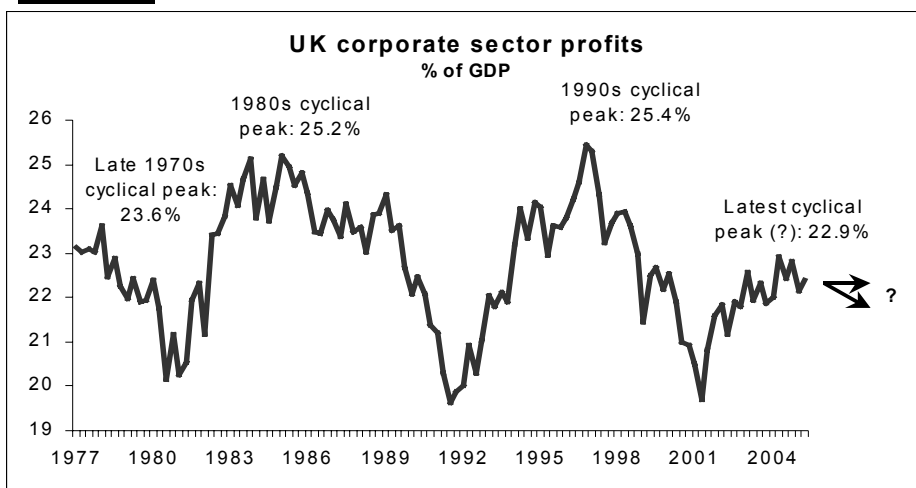
Business tax rises have compounded the pressures now facing business, placing competitiveness and profitability under further pressure. For internationally exposed sectors such as manufacturing, exhibit 3 shows how the prices of non-oil exports and imports of goods have been forced down – by 15% and 17% respectively since early 1996. Government-imposed cost increases cannot simply be passed on to the final customer in these circumstances, at home or abroad.

Meanwhile, service sector firms have been affected by many of the other challenges. For example, retailing and catering – which are relatively labour-intensive – have suffered disproportionately from the rise in employer NICs, new employment legislation and pension funding costs. Transport- and travel-related services have suffered from rising fuel prices and new working time rules.

1.2 Weaker profitability

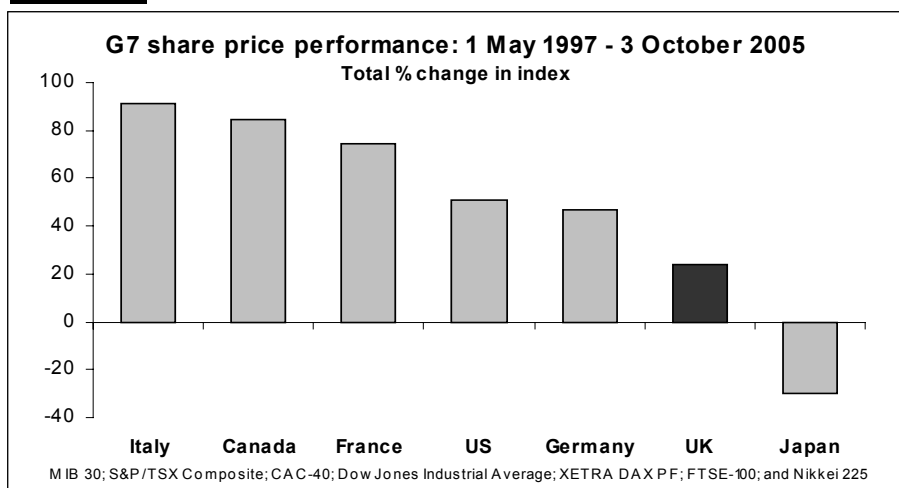
The overall result has been a structural reduction in the share of profits in GDP. At what we believe to be its latest peak, this share was clearly lower than at its previous two peaks in the 1980s and 1990s, and a little lower even than at its peak in the late 1970s (exhibit 4).

Exhibit 4:



Some of the pressures facing UK businesses are common to the western world. But the assessment of future profits implied by stock markets (exhibit 5) suggests this is not the whole story. While London’s key FTSE-100 index now stands 24% higher than on 1 May 1997, that increase falls well short of those in Milan (91%), Toronto (84%), Paris (74%), New York (51%) and Frankfurt (47%). Amongst the other G7 economies, only the key index from Tokyo has fared worse.

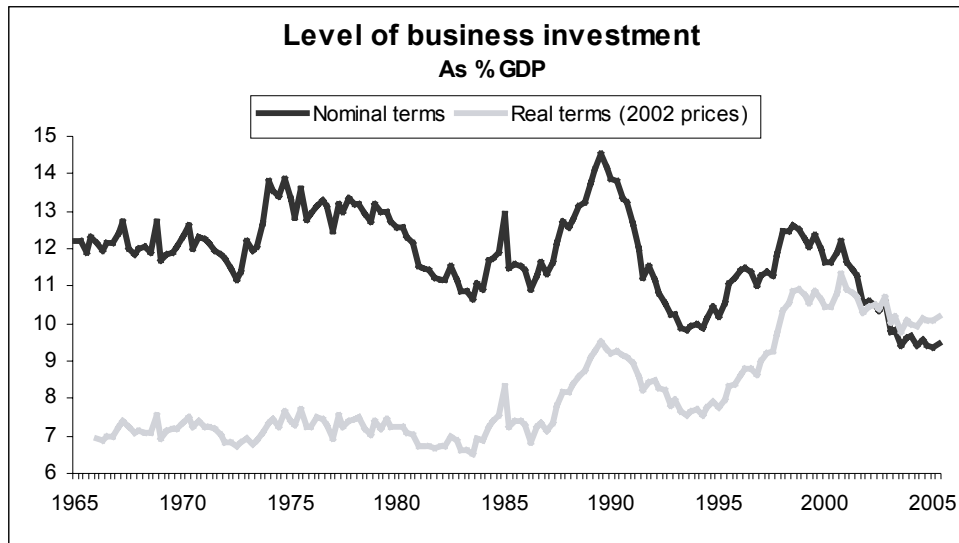
Exhibit 5:



1.3 Reduced business investment

As a result of these pressures, business investment has been disappointing. Since the low-point of summer 2003, it has grown by a cumulative 8.5% in real terms. But this is modest by previous standards, when there were typically sharper increases around the peak of the economic cycle. The level of real business investment has not even recovered to its end-2000 peak, despite subsequent GDP growth of 11%. Worse still, this ‘real-terms’ picture is flattering, as the implied cost of hi-tech investment goods has fallen sharply. In cash terms, spending on investment goods has been falling, and is now 5% lower than at the end of 2000. In fact, as a share of GDP, nominal business investment has just passed its lowest ever level.

Exhibit 6:



In manufacturing, investment has been cut sharply in absolute terms, to stand over a third lower than in early 1998, on both the cash and ‘real-terms’ bases. The CBI’s Industrial Trends Survey shows how further cuts are expected, with inadequate net return a very important constraint.

1.4 Pension fund deficits

Pressures on pension funds have been a significant drain on profits, with employer contributions to funded occupational and personal schemes up from £15bn or 2.0% of GDP in 1996, to £36bn or 3.1% of GDP in 2004. (By contrast, employee and individual contributions have been lower and risen more modestly, from £12bn to £15bn.) For self-administered schemes, employers’ ‘normal’ contributions have risen from £6.7bn in 1996 to £17.7bn in 2004, with additional ‘special’ contributions (lump sum payments to cut deficits) up from £1.2bn to £8.0bn. ‘Special’ contributions are likely to run at this high level for several years to come. Contributions to the Pension Protection Fund – about which business is becoming increasingly concerned – will come on top of this.

It should also be remembered that the relationship between business profits and pension fund performance is two-way, as a fair proportion of pension fund assets remain invested in UK firms. Dividends are a key source of fund income, and stock market performance will be a crucial determinant of the speed with which pension fund deficits can be eliminated.

In fact through their interest in pension (and other) fund performance, the financial prospects of millions of ‘ordinary’ individuals are dependent on UK business sector fortunes. This provides another, powerful reason for not squeezing the business sector further – in addition to the need to support business investment and expansion.

SECTION 2: TAX AND COST RISES UNDER CONSIDERATION

The previous section set out the pressures facing business, which have been compounded by tax and cost rises. Here, we turn to tax and cost rises known or suspected to be under consideration, which would further accelerate the deterioration in the climate for business and enterprise.

We highlight concerns about the following issues:

- The uniform business rate and employer NICs, which add to business costs yet have no alleged environmental benefit. Taxes of this type are the most objectively difficult to justify in the first place. They are unrelated to income, and will at the margin discourage efficient and beneficial activities that would otherwise take place. Increases in other taxes of this type – such as stamp duties and insurance premium tax on business policies – must also be avoided.
- ‘Anti-avoidance’ measures, to covertly extend the tax base whilst circumventing previously accepted tax principles. Other increases in profits taxation – at the business, intermediate fund and ultimate investor level – should also be ruled out, as any squeeze on returns would risk depressing business investment further. This includes retrospective ‘windfall’ taxes, which would undermine business certainty, in addition to their unfair effect on shareholder wealth.
- Compulsory employer pension contributions, as the key example of a non-tax measure that would add to the business cost base. Any other cost-raising measure should also be avoided.
- ‘Planning gain supplement’, which risks deterring residential and commercial development.
- Transport and environmental taxes, where the issues are more complex, but the potential threat to UK business competitiveness significant.

The government should also avoid raising taxes ostensibly aimed at the final consumer, but which would in practice squeeze the profitability of sectors of UK business. For example, duty increases could further undermine the position of UK-based alcohol and tobacco producers and distributors in the context of the Single Market.

2.1 The uniform business rate and local authority funding

The Government must remain committed to the uniform business rate and the retention of the inflation cap. This will be a key test of the Government’s approach to business.

2.1.1 Business rates

Re-localisation of rates would adversely impact on business in a number of critical ways and undermine the stability that the uniform business rate (UBR) has delivered. It would lead to:

- *increased business taxation*: as this is the obvious conclusion of trying to use business rates to address the problems of gearing
- *instability and complexity*: hundreds of different rates could be created, with businesses exposed to the risk of large annual increases with little advance warning
- *arbitrary variation*: the UBR has achieved a fairer distribution of rate liability, with bills more closely aligned to ability to pay than if companies were exposed to arbitrary local variation²

² E.g. in 1985 rate poundages varied from 151p in Gillingham to 347p in Newcastle-upon-Tyne.

- *a worse relationship between business and local authorities*: it would not help to strengthen local accountability as is sometimes claimed – in fact, the end of annual debates over poundage has helped to improve the climate for collaboration between business and councils
- *no extra value to the business community*: companies would risk simply paying more, and in a more cumbersome way, for what they already receive.

While relocalisation would harm business, it would also fail to achieve the objectives of those pressing for it, given the inevitable constraints in terms of redistribution and equalisation.

We also oppose loss of the RPI cap, which would merely be a mechanism to increase the amount business pays:

- There is no substantive evidence to support the view that increasing business rate revenue to 25% of all local government revenue (as recommended by the Select Committee) would be ‘fairer’ than any other figure. At the national level, business and its investors have borne the brunt of the post-1997 tax rises (earlier exhibit 1). This remains true even if the above-inflation council tax rises, which have fallen directly on individuals, are taken into account (exhibit 7).
- If rate revenues did rise to 25% of local government funding, over £3.5bn would be added to firms’ annual tax bills. As with any other cost increase, this could seriously undermine business confidence, divert resources from investment and R&D, and impact on recruitment and expansion plans. With business investment close to its all-time low as a share of GDP, policy at all levels should mitigate rather than reinforce the various cost pressures facing UK business.
- Business is already facing a number of additional business rate pressures. Despite the concerns raised, the government pressed ahead with new measures in the Local Government Act. Making small firm rate relief self-funding, and precluding exchequer funding of transitional relief, has raised the rates bills of many companies. And in London there are likely to be proposals for a levy on business rates to pay for Crossrail.

Exhibit 7:

Impact of post-1997 Budget and council tax policies¹				
<i>£ billion per annum gain (+) or cost (-) to exchequer</i>	Average annual impact, eight years, 1997/98-2004/05	Impact this year, 2005/06	Average annual impact, four years, 2006/07-2009/10	Cumulative impact
Net revenue gain due to Budget measures	2.0	3.5	2.4	29.5
<i>Of which, net cost to:</i>				
- <i>business and investors in business</i> ²	5.4	7.9	7.1	79.8
- <i>individuals, other than as investors in business</i>	-3.4	-4.4	-4.7	-50.3
Net revenue gain due to above-inflation council tax rises ³	3.7	8.3	10.2	78.8
Net revenue gain due to Budget and council tax policy	5.8	11.8	12.6	108.3
<i>Of which, net cost to:</i>				
- <i>business and investors in business</i> ²	5.4	7.9	7.1	79.8
- <i>individuals, other than as investors in business</i>	0.4	3.9	5.5	28.5

¹ Based on current published plans. No account taken of possible further tax raising measures. ² For details see exhibit 1.

³ Assumes 5% annual rise from 2006/07, in line with money GDP, though note annual rise over nine years to 2005/06 is 8.4%.

2.1.2 Local authority funding and council tax reform

The CBI does not dispute the fact that council tax has been rising quickly, and that this raises difficulties. There might be a case for restructuring the tax, or for shifting the burden onto other taxes levied directly on individuals, locally or nationally. Our one concern here is that any shift towards a local income tax must not increase the PAYE compliance burden on employers. But we are clear on two points:

- A major cause of the council tax problem is the rapid growth of total taxpayer-funded spending. There should be a greater focus on this issue, rather than merely on how to shift the burden of future tax rises from today's highly visible form onto another, less visible option.
- If above-inflation tax rises are to continue in future, this additional burden must be levied directly and openly on individuals, rather than indirectly via business rates.

We should emphasise here that shifting the burden onto business rates could not cut the true cost to ordinary individuals. They would still pay in their capacity as indirect business investors, or possibly as consumers or employees. There are however two key differences. If the business rates option stifled investment and growth, individuals would eventually bear a 'second round' cost. And if a shift to business rates reduced the *perceived* cost of additional local service provision, this could increase the temptation to vote for higher spending than the 'optimum', put upward pressure on total tax bills and ultimately increase rather than reduce public dissatisfaction.

2.2 So-called 'anti-avoidance' measures

Since 1997 the greater tax and cost burden placed upon business has coincided with an increase in the complexity of the tax system. This has resulted in uncertainty and differences of opinion over tax changes, which have at times been compounded by poor drafting of tax legislation. At the same time government has claimed that a 'tax gap' has emerged, as tax revenues have tended to fall short of Budgetary projections, due to the tax activities of business.

However, the overwhelming majority of independent forecasters agree that the government's projections for corporation tax revenues are over-optimistic. Continued rises in the business tax and cost burden have not only resulted in a loss of competitiveness, but ultimately harm economic growth and lower corporate profits. It is not surprising that tax revenues have fallen short.

But instead of re-examining its own projections, the government has blamed law-abiding businesses and introduced a number of so-called 'anti-avoidance' measures to recoup this 'loss' of tax revenue. These measures are effectively a covert means of extending the tax base to raise revenue whilst circumventing previously accepted tax principle and practice. The CBI is very disappointed at the use of the 'anti-avoidance' banner, most recently in the 2005 Finance Bills, to introduce major changes without consultation with business. Specific concerns are:

- The absence of prior consultation on major tax policy changes.
- That no clear breach of the law is identified.
- The uncertainty created in terms of impact and policy intent.
- Poor drafting catching ordinary and legitimate business activity.
- Loss of stability of the tax system.
- The tendency to be retrospective.
- The negative impact on investment and competitiveness.

The CBI is especially worried about any further attempts to introduce measures aimed at buoying corporation or other tax revenues under the banner of ‘anti-avoidance’. This includes, for example, any element of retrospection under the transitional provisions of the new regime for leased plant and machinery. And we are concerned to note the target of additional collections of some £3bn a year from direct taxes and NICs announced recently in PSA Target 3 – particularly in the absence of any detail of how the ‘gap’ to be closed has been measured.

The CBI would like to see proper prior consultation with business on any proposed tax changes to avoid the damaging impact on international competitiveness, which results from ill thought out changes. This will require not only clear collaboration between business, HM Treasury and Revenue & Customs on the tax legislative process, but adequately analysing the impacts of individual tax changes on the tax system as a whole. The CBI calls for renewed dialogue with the government to air these concerns, following previous discussions.

2.3 Employers’ National Insurance and the Budget consultation process

In the 2002 Budget, the government pushed up the rate of employer NICs from 11.8% to 12.8%. This move provoked a great deal of anger amongst CBI members, for two reasons:

- The impact on profits and investment. In revenue terms, the burden fell most heavily on labour-intensive sectors such as retailing and catering. The knock-on effect – on jobs, investment, R&D, pension provision etc – was also significant for those firms, such as manufacturers, whose profitability was already under the greatest pressure. For the business sector as a whole, the rise was equivalent to a three percentage point increase in the main corporation tax rate. But for many individual businesses, the cost equated to significantly more even than this.
- The surprise nature of the announcement. The introduction of the annual Pre-Budget Report was expected to improve consultation on alternative options, to avoid unintended consequences. Yet the possibility of a NICs hike was not raised in the public domain at all prior to Budget 2002. Had the government announced in advance that it had decided to raise an extra £4bn a year from the business sector, despite all of the well-founded arguments against this action, then the CBI could have expressed a view on the relative merits of alternative possibilities.

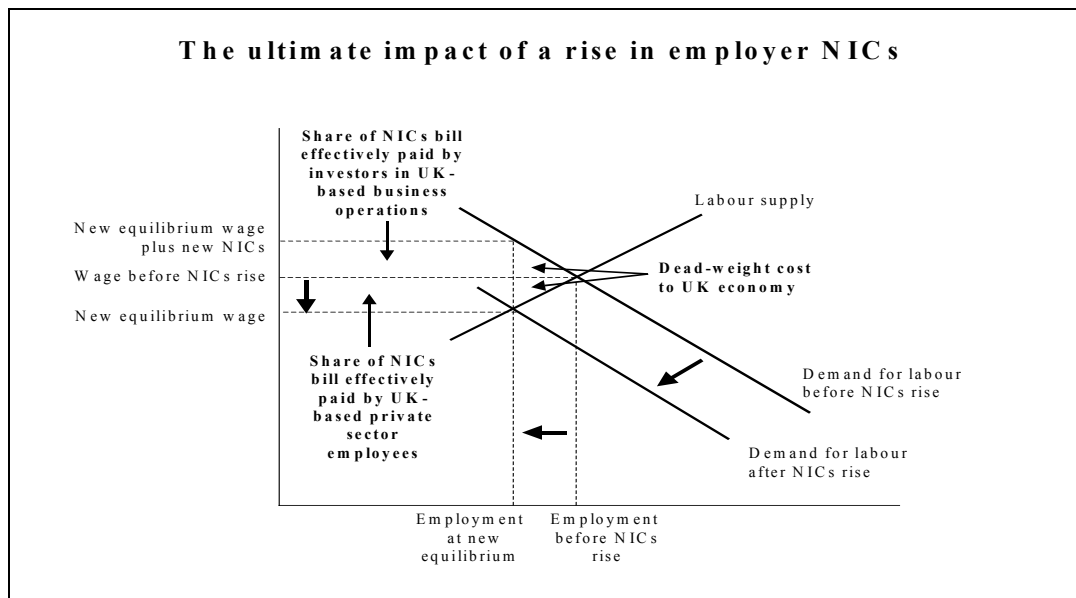
Looking ahead, the CBI is very concerned about the possibility of a repeat. Some argue that a NICs rise need not hurt business, as market forces would dictate lower wage levels than otherwise. But:

- Even in theory, employers could only pass on the cost in full if the supply of labour were fixed. If as seems more likely it is responsive to changes in pay, then the final ‘equilibrium’ will see the cost shared between employers and employees (exhibit 8). Employees would take home less than otherwise, employers would pay more than otherwise, and employment would be lower than otherwise. Total economic activity and capacity-enhancing investment would probably also be lower, though labour-saving investment would probably be higher.
- In practice, rigidities in the labour market – especially resistance to wage cuts – mean it can take several years to adjust to the new ‘equilibrium’. Most if not all of the initial burden of a rise in employer NICs will fall on profits. In the interim period, investment and then employment would suffer even more, before staging a partial recovery as the full and final effect on wage rates worked its way through.

Furthermore, to the extent that an employer NICs rise is ultimately borne by employees, the employer rather than government is likely to be blamed for the consequent loss of spending power. In some cases, industrial strife may be stoked up. If ministers wish to tax the population even more

than at present, then they should be prepared to do so in an open, honest and direct way, rather than seeking to shift the blame for the resulting reduction in living standards onto others.

Exhibit 8:



It is also difficult to see how a rise in employer NICs could possibly be regarded as ‘fair’:

- Employees are most likely to be adversely affected at an early stage if they work in the private not-for-profit sector or in a sector where profitability, and therefore wage and job prospects, are already under the most severe pressure. At the other end of the spectrum, the earnings of government employees will be completely shielded from any knock-on effect.
- To the extent that the cost is absorbed by UK business, its direct and indirect investors pay. Many will be on modest incomes and many retired. By contrast, income from investments overseas (typically accruing to more ‘sophisticated’ investors) is immune – indeed it could be bolstered, as overseas firms competing with UK-based operations would benefit.

2.4 Compulsory employer pension contributions

It is quite feasible that compulsion would not result in any net increase in overall employer pension contributions, as the level set for compulsion could become the norm rather than a floor. But even if the policy succeeded in pushing up contributions, other difficulties would be created which could deepen rather than ease the pensions problem.

First, the impact of increased employer contributions could be very similar to the impact of an increase in employer NICs. That is:

- A final ‘equilibrium’ position in which employers pay more than otherwise, employees take home less than otherwise, and UK employment is lower than otherwise (earlier exhibit 8). Capacity-enhancing investment would probably be cut back too.
- On the way to the final ‘equilibrium’ position, an even greater squeeze on profits, jobs and investment, and the possibility of industrial relations difficulties. CBI estimates suggest that the initial cost to employers of a 5% contribution rate would be over £11bn with a 10% rate costing over £22bn.

As well as the threat to jobs, there are two further ways in which the policy could be self-defeating:

- The value of existing pension funds could easily be reduced simply by the announcement of compulsory employer contributions, as stock market values would adjust downwards to reflect the impact on future profitability.
- Some individuals could respond by reducing their own saving by an offsetting amount, believing that the officially-dictated employer contribution must be adequate to provide for a reasonable retirement, when in fact even a rate of 10% would not be.

There are essentially two reasons why some employers do not make contributions today. The first is that many have come to an agreement with their employees – at least implicitly – to pay a higher salary instead. Forcing these companies to pay additional contributions on top would suddenly put them at a competitive disadvantage vis-à-vis competitors already making pension contributions but in return for lower wage rates. If over time the affected employers were able to pass the cost on to their employees via lower wage increases, then the latter would have effectively been forced to swap pension contributions for lower pay – even though they would not have taken this option given a free choice, perhaps for perfectly logical reasons. The second reason is simply that of affordability. Small and medium enterprises in particular could be forced to cut back employment and investment in order to survive.

The CBI would also oppose solutions involving higher taxation or compulsory contributions by employees or individuals. Instead, over the longer term, the basic state pension should be increased, allowing means-testing to be cut back, with the net cost met through a gradual increase in the retirement age. Policies encouraging greater employment below retirement age, and the removal of disincentives to saving and investment inherent in the tax system, would also help.

More specific policy recommendations, as set out by the CBI's recent Pension Strategy Group report, include: automatic enrolment of employees into employer schemes; a reformed state second pension; and new incentives for SME provision. The latter could include: a new 'Partnership Pension' with time-limited government contributions; a tax credit for the employers; and seed-corn funding for development of industry-wide schemes.

2.5 Planning and the planning gain supplement

The CBI is very concerned about the possible imposition of a new tax – 'planning gain supplement' – on commercial and residential development. It would be practical only in a very limited number of cases (e.g. greenfield sites designated for development and undergoing a large and identifiable uplift in value). And these situations are in any case already subject to taxation.

Its application to anything beyond the simplest land transactions would risk deterring development. Protracted wrangling over the uplift in value is likely, in turn increasing the costs and complexities. There may be no recent or imminent crystallisation of capital gain, so cash would be extracted from a company's revenue at an arbitrary time. And the commercial viability of many brownfield sites and regeneration projects could be undermined. The scheme might also undermine the link between developments and the local area (where Section 106 payments are focused), making local communities less disposed to development.

Kate Barker made it clear in her report on housing supply that any PGS must be simple, proportionate to the costs of administration, avoid significant adverse unintended consequences and create minimal distortion of economic activity. Previous experience of trying to levy similar 'development land taxes' suggests that it will be extremely difficult to meet these conditions. It is vital that any proposals are not taken forward without full consultation with business.

The CBI is looking at alternative options for funding much-needed additional infrastructure, which avoid the potential problems associated with PGS. The government must also ensure adequate resources across local planning authorities and key agencies such as the Planning Inspectorate. A number of initiatives are underway, for example bursary schemes, intended to boost the number of planners. These are vital and should be supported further.

2.6 Transport and environmental taxes

While the CBI accepts that a basic case can be made for taxes of this type, we note that:

- In some cases the taxes are very poorly targeted on environmental impacts (e.g. air passenger duty, non-road fuel duties and the climate change levy).
- In some cases the result may be simply to shift activity from the UK to other countries by giving them a competitive advantage, with no net environmental gain resulting.
- Road fuel duties are very high by international standards, and with oil prices at record levels the total cost of road use is a critical concern for business.

Looking ahead, the CBI is not opposed in principle to further change in this area. However, it is vital that policy makers do not further exacerbate the pressures facing UK competitiveness and profitability. Over the years ahead, the CBI will only support policies which:

- Have a clear and objectively-established environmental rationale.
- Are not purely revenue-raising, with any revenues targeted on agreed objectives.
- Do not put any sector of UK business at a competitive disadvantage internationally.
- Do not on a net basis disadvantage UK business.

We also urge the government to consider measures to encourage positive behaviour, for example, through capital allowances for recycling and resource efficiency technologies. This area warrants further exploration to ensure that there are ‘carrots’ as well as ‘sticks’ to achieve objectives.

2.6.1 Road user taxes

We welcomed the recent continued freeze on road fuel duties, with the planned September rise shelved. But the freezing of duties has made only a very small dent in the gap between road user taxation and transport spending. And with oil prices rising even further the total cost of road use has become even more of a concern to business. At the very least, the delayed duty rise for this fiscal year and the planned rise for the next fiscal year should be abandoned. Although this would ‘cost’ the exchequer a further £700 million or so annually, the government is benefiting to a greater degree from other oil-related revenues. In the Budget 2005 projections, oil prices were assumed to average \$40.60 per barrel in 2005, and to rise in line with inflation thereafter. Even on an optimistic view, oil prices are likely to settle at least \$10pb higher than that – bringing in at least an extra £2bn in North Sea taxes and £150m in VAT on petrol annually.

The CBI was extremely disappointed that ***the decision to abandon the Lorry Road User Charging Scheme leaves UK based hauliers at a competitive disadvantage.*** The key objective of the scheme was to take forward the government policy that all lorry road-users in the UK, regardless of their nationality, should contribute on a fairer and more equal basis towards the costs that they impose when using UK roads. Delivering a ‘more level playing field’ remains critical for UK businesses which are facing significant cost and competitive pressures. But with the abandonment of LRUC there is no longer clarity about how this is to be achieved.

Looking ahead, we are concerned that subsuming LRUC within wider road pricing cannot address the very specific objectives of lorry charging. It is vital that Government makes clear how the issue of the high relative costs of fuel faced by UK operators is now to be addressed.

For the medium-term, there should be a new approach to road user taxation to give a fairer deal:

- Currently the revenue raised from road users significantly exceeds total public spending on transport as a whole. This gap has increased over the years and it is vital that public spending on transport is increased to bring it closer to levels in other countries. Road users are not willing for this gap to continue to increase and they need to see tangible benefits for what they pay.
- A national system of variable road user charging could help deliver significant reductions in congestion and increase the efficiency of road use. But key challenges will need to be tackled. We will continue to work with government on this issue and a clear programme of activity should be put in place.

2.6.2 Other transport and environmental taxation

With energy prices rising substantially, thereby encouraging greater energy efficiency, the market has in effect negated the need for further increases in some other 'green' taxes. This includes:

- The climate change levy, which should be frozen and examined relative to other climate change programme policies affecting business. Short-term relief for energy-intensive sectors should also be considered given the higher energy costs faced relative to our EU competitors.
- Non-road fuel duties such as for off-highway diesel and heavy fuel oil, which have risen substantially in recent years.

Significant expansion of UK airport capacity is needed to maintain UK competitiveness. But this in turn will require an effective environmental framework. Here, the focus should be on emissions trading rather than Air Passenger Duty or other blunter instruments.

The aggregates levy must be reviewed in the light of perverse environmental impacts. It is not yet clear whether the scheme for recycling landfill tax back to business offers value for money. And the rate of the landfill tax escalator must not increase as this would undermine business planning. The government also needs to re-think whether green taxes are always the most efficient solution compared with market-driven initiatives such as permit trading.

SECTION 3: AFFORDABLE POLICIES TO PROMOTE ENTERPRISE & INNOVATION

This section examines how the business environment could be improved to support enterprise and innovation, through the removal of tax anomalies and other policy changes with minimal exchequer cost. We also comment on the wider issue of corporate tax reform, and on the deregulation agenda.

3.1 Correcting anomalies in the tax system

The tax system must recognise that entrepreneurs are the people best placed to take decisions on how to grow their business. Decision-making power should rest in the hands of the business manager and not be driven by tax advisers' concerns. Four anomalies should therefore be corrected.

- Changes should be made to the unfair rules governing the corporation tax treatment of 'associated companies'. Under present rules, the profits limit below which a company qualifies for the small companies' rate of corporation tax are split equally between companies deemed to be associated. This means that the 'share' of the limit allocated to an unprofitable company is wasted. The problem is not confined to 'groups', as many firms run as totally separate businesses can be deemed associated if they are under 'common control'. This definition extends to associates' spouses, and more widely to business partners and their spouses.
- A similar point arises in relation to the threshold for the quarterly instalment regime. SMEs without the accounting resources of larger companies can be faced with the substantial compliance burden of having to prepare relevant profit forecasts. Associated companies should be given the option in either context of applying the profit limits to their aggregate profits.
- Many thresholds defining SMEs have remained unadjusted over the past few years, with some remaining unadjusted since 1994. The failure to uplift these thresholds has dragged an increasing number into tougher reporting and regulatory regimes. Many affected firms do not have the resources to deal with these burdens. Government should review all tax and regulatory thresholds, as when set too low these create barriers to growth.
- Capital allowances provide a good incentive for investment and are well recognised by industry. But the exclusion of leased assets from the scheme is a clear anomaly. Also many high-growth firms incur significant capital expenditure before becoming profitable, and so are unable to benefit from the allowances. The government has successfully tackled this issue in the context of R&D activity by providing for tax credit payments to loss-making SMEs. A similar approach should now be adopted for capital allowances, so that the incentive is timely for growing businesses, compensates for their higher risk exposure and reduces the downside risk.

3.2 Removing barriers to growth

Since 1999, whilst the total number of businesses in the UK increased, the number of employers has dropped from 1.35m to 1.23million. To encourage growth:

- The government should review the profit limits that apply for both the small companies' rate of corporation tax and the quarterly instalment regime. These were last increased in April 1994, and are now long overdue for adjustment. As a minimum, the uplift should reflect inflation over the period since the last review in 1994.
- 'Tax nothings' - the lack of tax relief on genuine business expenditure - either penalises or deters companies from undertaking certain types of spending. As a matter of principle, all expenditure which a business is obliged by law to incur for reasons of government policy should be deductible for tax. For growing SMEs the priority areas for review are the incidental costs of raising equity finance and abortive capital expenditure.

3.3 Providing the finance for enterprise

Ensuring adequate access to capital enables business to operate efficiently and grow. Affordable and appropriate finance facilitates start-ups, ensures that firms are able to finance potentially viable investments and provides funds for innovation. For ‘mid-sized’ business, retained profits have been squeezed. There is therefore an increased need to support adequate finance provision by the market:

- As the rules stand, the tax treatment of the incidental costs of raising equity finance act as a barrier to the flow of available funds from individual savers to incorporated businesses – at least in the form of equity, as opposed to debt where incidental costs are recognised. As the only real distinction between equity and other forms of finance is in the degree of risk involved, it seems anomalous that the incidental costs of raising equity finance should be treated less favourably than the incidental costs of raising debt finance. Businesses of all sizes could potentially benefit from a move here, but small expanding businesses would stand to benefit in particular.
- Stamp duty on share transactions can hinder the potential flow of equity capital to companies, act as a barrier to potential productivity-enhancing restructuring (including cross-border mergers and acquisitions), and work against long-term savings, with pension funds amongst others caught in the net. In the medium-term, eliminating this duty could be one of several worthwhile measures aimed at tackling the disincentives to save and invest inherent in the UK tax system. If policy makers wished to proceed in steps, then early action for transactions in smaller quoted company shares would have much to commend it.
- Extending Enterprise Investment Scheme and Venture Capital Trust benefits to investments in smaller quoted companies would boost access to finance. This would require agreement on a working definition of a ‘smaller quoted company’. We hope that such an agreement can be reached and would be pleased to work with the government on this. Once it is, the definition of shares qualifying for the ‘business assets’ capital gains tax taper, and for business property relief from inheritance tax, should also be extended to include this sector.

3.4 Supporting science, technology and innovation

We welcome the government’s long-term commitment to science, technology and innovation and, in particular, the intention to increase investment in the public science base at least in line with economic growth until 2014. These commitments (made in the Science and Innovation Investment Framework 2004-2014, July 2004) need to be maintained, but equally important is for the Government to ensure that it continues to maximise value from all of its investments in this area.

Aside from reforming the R&D tax credit (see section 3.4.1 below), government should consider:

- Reforming the block grant funding mechanisms for research in Higher Education Institutions to foster investment in both basic and applied research. In particular, enhanced rewards for institutions that are actively engaged with business should be provided.
- Initiating a government-wide strategic approach to investment in technology development, led by the Technology Strategy Board.
- Developing and introducing implementation mechanisms for closer collaboration between Regional Development Agencies. Their actions (e.g. developing regional Science and Innovation agendas, or delivering support to individual or clusters of businesses and academia) need to be complementary and help to deliver national added value for business. Regionally, the RDAs could also expand their activities to support more extensive business-to-business networking and collaboration, whether directly or through the use of intermediary organisations.

- Continuing efforts to enhance business-university collaboration, and maximising the value of the full range of investments in publicly-funded research through improved knowledge transfer.
- Focusing attention on the non-science base drivers of innovation. For example, expanding the scope of business-university collaboration to encompass the social sciences and arts.
- Providing more effective advice and support for business innovation through the use and expansion of existing mechanisms such as the Manufacturing Advisory Service and the Design Council's Design Immersion Programme.

3.4.1 The R&D Tax Credit

Although R&D is only one component of innovation it is critical for many companies and for the wider economy, creating tangible and intangible spill-over benefits. The government has recognised that the UK lags behind many key competitors, and has committed to raise total spending on R&D to 2.5% of GDP by 2014 (from 1.9% today). As business typically accounts for around two-thirds of UK R&D expenditure, this will only be met if firms are encouraged to invest in R&D, to increase their R&D investment where this would be beneficial, and to keep that investment in the UK.

The R&D tax credit is one of the factors that can help provide incentives for maintaining and growing R&D activity in the UK and it is a measure that companies are keen to use. However, our research shows that the R&D tax credit still falls well short of its full potential, on average only reducing overall business R&D costs by around 3% for larger companies and 5% for SMEs - whereas in theory the credit should reduce R&D costs by 7.5% and 9.5% respectively.

The discrepancy is due to a number of factors:

- There are additional costs involved in making tax credit claims
- Various costs directly related to R&D activity are not covered – e.g. maintenance and leasing of R&D facilities, transport and logistics, R&D training, costs of accessing scientific and technical information, security related to R&D activity, outsourced IT, and testing related to R&D
- Capital expenditure on R&D is excluded
- Much work at the design and development end of the R&D spectrum is deemed to be ineligible
- Loss-making larger companies are not able to gain any benefit.

The government should address these problems as a matter of urgency, to ensure that the tax credit provides the most effective incentive for business R&D investment in the UK. The government must also focus on ensuring consistency, certainty and simplicity in application of the tax credit.

3.5 UK corporation tax reform

In view of increasing international tax competitiveness it is vital that the tax regime applicable to UK business is as competitive as possible. This requires reforms of corporation tax to address outdated structures and approaches and to take proper account of changing commercial practice, so that the tax regime helps make the UK as attractive a location as possible in which and from which to invest and do business. We are therefore disappointed that the original objective of substantive reform of the schedular system appears to have been abandoned, at least in the very short term.

Ministers have recently placed much emphasis on the desirability of companies paying a 'fair' amount of tax, but this assumes that the tax system itself is fair. It is in fact unfair that genuine business expenditure can, without clear policy reason, be disallowed for tax purposes – for instance, where losses arise on loan relationships and then cannot be carried forward and offset against future trading profits, even within a single company, let alone across a group. The fact that they can be offset on a current year basis only, merely underlines the unfairness of the restriction.

The Government has acknowledged that this restriction of the right to offset genuine business interest expense against genuine business income is inappropriate, but has declined to act on the grounds of potential cost to the Exchequer. This is an unprincipled response, which cannot be reconciled with Ministers' statements that companies should pay a fair amount of tax.

We believe that, over the life of the current Parliament, there will be scope to return to corporation tax reform including substantive schedular reform, as well as other reforms such as simplification of the rules on capital allowances and the substantial shareholdings exemption and the phased removal of anomalies such as tax 'nothings', without unacceptable Exchequer cost. In keeping with this view, the proposals on partial schedular reform in the December 2004 Technical Note on CT reform should not be pursued, as they are simply too narrow to justify the substantial implementation costs which would inevitably be involved.

Whilst we realise that European Court of Justice cases have temporarily held up Corporation Tax reform we urge that consultations with business recommence as soon as possible.

Group relief: In the context of the uncertainty created by recent and pending ECJ decisions concerning individual Member States' corporation tax rules, we would emphasise the importance to UK international competitiveness of retaining a group relief regime that allows full offset of losses.

Technical tax proposals: Separately from this paper we will be discussing with government a range of more technical tax proposals which would cut unnecessary burdens and improve the coherence and practical working of the UK tax system – and hence improve UK international competitiveness.

3.6 The deregulation agenda

The CBI strongly supports the package of Better Regulation measures accepted in full by the government in Budget 2005, as set out in the proposals of the Better Regulation Task Force '*Less is more*' report, led by Sir David Arculus and the Hampton Review. We are encouraged at the work already underway and are actively engaged with officials in the detail of this implementation.

The over-riding outcome that these Better Regulation measures must deliver is an overall net reduction to the cost of doing business in the UK. We would emphasise that a reduction in the administrative cost that regulation imposes on business must be part of an overall equation including tax and other costs, as set out elsewhere in this submission. We would like to see:

- The government to report on the overall administrative cost that regulation imposes on business by Budget 2006, as committed to in Budget 2005. This should be broken down by department.
- The target for reduction in the administrative burden to – at an absolute minimum – match the ambitious goal of 25% over four years that the Dutch Administration committed to.

The CBI will submit a separate, more detailed response to the Consultation on the Better Regulation Bill. Again, we are supportive of the broad thrust of this document, which essentially provides the enabling powers for the Arculus and Hampton recommendations. We agree with the proposal to give more gravitas to the enforcement concordat and enhance Regulatory Reform Orders to enable swift enactment of deregulatory measures and simplification proposals.

As per our submission to the Hampton Review, we believe that penalties should be proportionate to the economic benefit gained from non-compliance. We are keen, however, that any proposals around administrative penalties do not operate as 'on the spot fines'. Instead, compliance officers should be encouraged to work constructively with business to give them a period of time to come up to compliance standards, an approach which is consistent with the Hampton ethos.

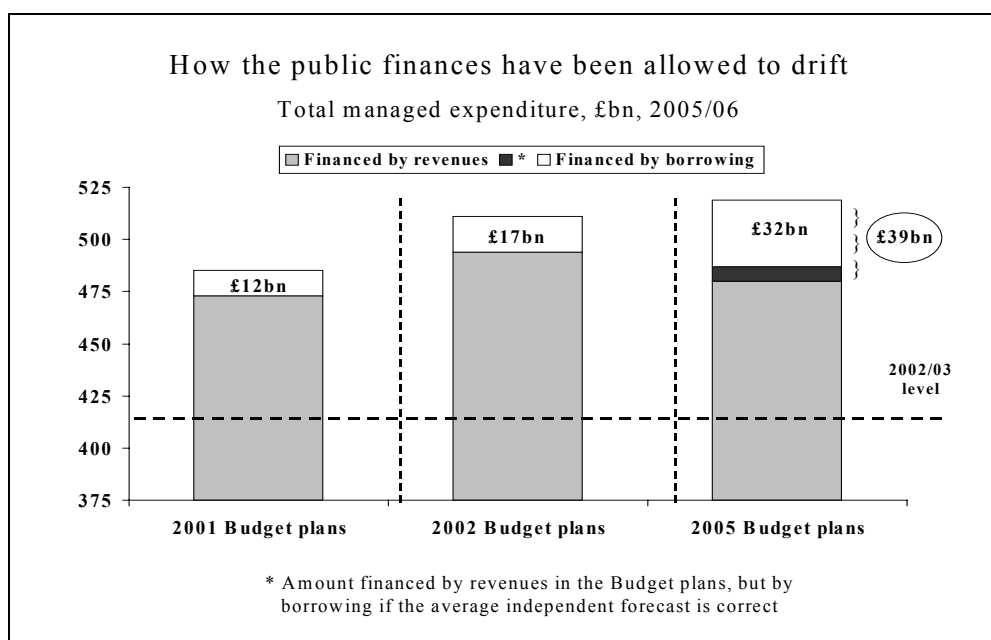
SECTION 4: THE NEED FOR SPENDING RESTRAINT

This section highlights how the public finances have been allowed to drift off course as a result of resorting to ever higher borrowing to maintain rapid increases in public spending. A structural deficit of £10bn per annum has developed, which needs to be addressed through spending restraint.

4.1 How the public finances drifted ‘off course’

The origins of the fiscal drift date back to the 2002 Budget, when £26bn was added to planned spending for 2005/06 (exhibit 9), but only £8bn to revenues as a result of tax rises, and £5bn to planned borrowing. The remaining £13bn was covered ‘automatically’, due to changed assumptions about revenue growth. Since 2002, successive Pre-Budget and Budget statements have pushed spending up by a further £8bn. But revenues have disappointed. As a result, Treasury projections for borrowing this year are £20bn higher than in 2001, and independent forecasters believe the out-turn will be £7bn higher still. Independent forecasters further suggest that borrowing will hold up at some £38bn in 2006/07, rather than falling to £29bn. The CBI forecast is in line with this.

Exhibit 9:



Turning to the current budget deficit, the CBI also concurs with the view that there is a ‘structural’ deficit, of somewhere in the order of £10bn per annum. In the absence of fiscal policy tightening:

- Future debt servicing costs would build annually, beginning with an extra £500m or so in the first year. In ten years’ time, the government’s annual interest bill would be over £5bn higher than in the Treasury’s baseline projection – diverting resources from frontline public services.
- Interest rates would be higher than otherwise, to offset the potential inflationary impact of the excess government borrowing. The alternative policy mix of a more robust fiscal stance and lower interest rates would be better for business investment and the wider economy.
- The fiscal policy rules would be unlikely to be met over the next economic cycle, without further resort to changing definitions or similar action. The confidence of the financial markets and international investors, as well as the government’s reputation, would suffer.

4.2 Getting the public finances back on track – without further tax rises

In previous sections we highlighted the pressures now facing business, including the impact of past tax and cost rises on competitiveness – and as a result, demonstrated the absolute need to avoid further tax rises on business and investors. Turning now to the two remaining options for getting the public finances back on track, we believe it would be far better to rein back the growth of total managed expenditure, compared with existing plans, than to raise non-business taxes in some form.

Having grown by 52% between 1999/00 and 2005/06 – compared with money GDP growth of 34% – a further increase of 12% or £61.4bn is planned for government spending over the coming two years. Restraining this increase to £51.4bn would give the required tightening of £10bn, yet still allow spending to grow by 10% over that time – broadly in line with money GDP. Our more detailed recommendations for public expenditure are set out in section 7.

If the government were to consider raising personal taxation, either to tackle today's budget deficit or in the context of solving the pensions 'crisis', we would caution that:

- The key to solving the pensions 'crisis' lies in encouraging more work and more saving. Yet higher taxes would if anything discourage both. Far from being a possible part of the solution to the 'crisis', there is a danger that increased taxes would serve to make the situation worse.
- It is wrong to view the present tax treatment of pensions as a 'positive incentive' or 'privilege': as a general rule, tax is not avoided, merely delayed until retirement. Restricting 'relief' to the basic rate would result in many middle-income individuals facing an immediate 19% tax and NICs charge on a slice of income they risk never seeing, plus a further charge of up to 40% should they receive it at a later date. A significant change in work and savings behaviour would surely result, to the detriment of the wider economy.
- Abolition of dividend tax credits for pension funds, PEPs, ISAs and non-taxpayers, growing reliance on revenues from stamp duties and inheritance tax, and the spread of means-tested benefits have all acted to reduce the reward for saving and investment in recent years. Stamp duty land tax has additionally become an increasing barrier to labour mobility. It would be unwise to exacerbate these trends through further revenue-raising measures.
- A 1% rise in an employee's NIC rate would have precisely the same effect on their take-home pay as a 1% rise in their marginal rate of income tax – unless they were making pension contributions in which case the NICs rise would cost them slightly more. Aside from once again reneging on an election 'pledge' not to raise income tax rates, a NICs rise would further reduce the reward for work, responsibility and acquisition of skills, at a time when these need to be encouraged more than ever.

4.3 The UK tax burden in an international context

More generally, further tax increases of any kind should be avoided in view of the rise in the total tax burden in recent years, and in view of the impact on international competitiveness. While the UK is considered by some to have a relatively low tax burden, exhibit 10 shows how this is only correct compared to Continental Europe and Scandinavia. But more importantly:

- Taking into account the wider industrialised world, the UK is a 'medium' rather than 'low' tax economy. In fact, of our top 15 OECD trading partners, seven had a lower burden than the UK in 2002, including the US, Japan and Ireland.

- The UK tax burden has been heading in the wrong direction in recent years. It edged up by 0.7 percentage points between 1995 and 2002, at a time when the burden in our trading partners was on average flat. Since 2002 it has risen further.
- Looking ahead, on current government plans the burden would hit 38.5% of GDP by 2009/10 – 3½ percentage points higher than in 1995, and two percentage points higher than the 2002 OECD average. On the definition used in the OECD's *Revenue Statistics* report, it would take the UK burden above that of Germany.
- Moreover, these comparisons take no account of the growing competitive threat from the likes of China, India and the countries of Central and Eastern Europe.

Exhibit 10:

International comparison of overall tax burdens							
<i>Tax revenues as % GDP, UK and its top 15 OECD trading partners¹</i>							
Rank ²		1995	2002	Change	Rank ³	2004/05 ⁴	2009/10 ⁴
1	Japan	27.8	25.8	-2.0	4		
2	US	27.9	26.4	-1.4	6		
3	Ireland	32.8	28.4	-4.4	1		
4	Switzerland	27.8	30.3	2.5	15		
5	Australia	29.6	31.5	1.8	13		
6	Canada	35.6	33.9	-1.7	5		
7	Spain	32.8	35.6	2.8	16		
8	UK	35.0	35.8	0.7	9	36.3	38.5
9	Germany	38.2	36.0	-2.2	3		
10	Netherlands	41.9	39.2	-2.7	2		
11	Italy	41.2	42.6	1.4	10		
12	Norway	41.1	43.5	2.4	14		
13	France	44.2	44.3	0.1	8		
14	Belgium	44.8	46.4	1.5	11		
15	Denmark	49.4	48.9	-0.5	7		
16	Sweden	48.5	50.2	1.7	12		
	<i>Average</i>	<i>37.4</i>	<i>37.4</i>	<i>0.0</i>			
	<i>OECD average</i>	<i>35.9</i>	<i>36.3</i>	<i>0.4</i>			

¹ Based on total of exports and imports of goods and services in 2003. ² Ranked by 2002 tax burden, lowest first. ³ Ranked by change in tax burden, smallest first. Source: OECD Revenue Statistics 2004 edition; ⁴HM Treasury Budget Report 2005.

SECTION 5: VALUE FOR MONEY IN PUBLIC SERVICES

The Gershon Efficiency Review, though welcomed by business, has failed to live up to expectations with little progress to date in meeting its targets. Here we highlight four concerns with the implementation of the Review, which could hinder the achievement of the £21.5bn of savings.

Business has a strong stake in the full implementation of the recommendations of Sir Peter Gershon's Efficiency Review. As the UK economy moves into its next economic cycle, it is crucial that the public sector develops its capacity to deliver quality services. It is imperative that the government delivers both the projected £21.5bn savings and fully implements the recommendations of the Review to improve public sector productivity and performance.

Whilst we welcomed the Review, the CBI remains concerned about limited progress to date on reform and transformation for the reasons set-out below:

5.1 A lack of comprehensive, independent measurement or audit of savings

The CBI remains concerned about the validity of efficiency gains secured to date. Some £2bn of efficiency savings on procurement were announced in December 2004, with a further £2bn announced in March 2005.³ These £4bn of savings were delivered ahead of schedule, raising concerns about their sustainability. We question whether the public sector may over-rely on productive time-savings and a crude squeeze on procurement, resulting in reduced service quality.

These issues are further exacerbated by a lack of comprehensive auditing of efficiency gains. The Audit Commission and National Audit Office will be auditing the savings as part of their assessment of the public sector accounts. However, they are not planning to conduct a comprehensive assessment looking behind the numbers. A comprehensive assessment would consider efficiency gains, their source, where resources have been redirected and the qualitative impact of these changes. While conducting a comprehensive audit for all savings would necessitate increased inspection, the government should look at how key projects might be audited in 2006/07. This would help to reassure users, taxpayers and business of the validity of efficiency gains.

5.2 Limited implementation of key Gershon recommendations

Over a year since the publication of the Efficiency Review, implementation of some of its key recommendations has been limited, most notably in corporate and transactional services. Shared services implementation for both corporate (e.g. HR and finance functions) and transactional services (e.g. contact centres) remains limited, despite Sir Peter Gershon's evidence that it could generate cost savings of up to 30%.⁴ There are some notable exceptions such as the NHS Shared Business Services, but most such examples of large initiatives were underway prior to the publication of the Review. The majority of the public sector has failed, despite a plethora of discussion forums, to engage in shared services implementation. Full implementation of these recommendations has been limited by the following three factors.

Firstly, the Review's fragmented approach to efficiency and transformation has limited the creation of communities of interest by focussing on departments as the primary means of delivering efficiency. A group of organisations brought together by a common interest in transforming a particular generic function would have stronger incentives to work together effectively. Ensuring a common interest through self-selection rather than relying on geography or service speciality would

³ <http://www.ogc.gov.uk/index.asp?id=1002330>.

⁴ Interim report; central government back office over four years.

serve to increase the volume of collaborative projects. In addition, it could increase the scale of efficiency gains by increasing the potential pool of organisations available or willing to sign up.

Secondly, the arbitrary demarcation between the front line and the back office may hamper reform. While this demarcation may safeguard service provision in the short-term, over the medium term this distinction is likely to become increasingly restrictive. As it becomes necessary to move beyond basic housekeeping savings in 2006/07 it will limit the potential for whole service transformation.

Finally government has not acted to fully align capital and grant allocations with its efficiency objectives. So long as public sector organisations continue to receive separate capital funding, the imperative to share services will be limited. The government should look to resolve this issue - for example it could provide capital and grant allocations to groups rather than individual organisations.

5.3 Failure of the blanket 2.5% target to challenge the public sector

The Efficiency Review has failed, thus far, to engage the public sector in transformation of service delivery. Government has an ongoing obligation to deliver efficient and effective public services; a blanket 2.5% target will not ensure this obligation is met. Creating the impression of efficiency as an end game will produce a culture of compliance and limit aspirations, rather than creating a culture of efficiency to improve services. Such compliance will limit the sustainability of the public sector quest for efficiency beyond 2008. The 2.5% target was meant to safeguard frontline services; a lack of evidence of transformation suggests that its effect may in fact be to limit transformation.

While targets are unlikely to be the most effective way to ensure transformation and efficiency in the medium term, it is clear that any targets need to be sufficiently challenging. Local government has had an annual cost effectiveness target of 2% since 2000. In this context, a 2.5% target will not stretch the public sector sufficiently far to ensure full implementation of the Review.

5.4 A lack of new incentives to transform services and deliver efficiency

By focussing on the measurement of costs and budgets rather than outputs and services, the Review created no new incentives to deliver transformational change. Without such incentives organisations may over-rely on areas that will deliver easily measurable cash savings such as procurement. A crude squeeze on procurement would put at risk service delivery and potential longer-term benefits to public services from competition and contestability. The government should look to develop meaningful performance management systems across the public sector to encourage efficiency.

Greater alignment between performance assessment and efficiency requirements would also help to encourage full implementation of the Review's recommendations. For example, the Audit Commission could look to develop an 'efficiency credit' to be included in Comprehensive Performance Assessment (CPA) for local government. In addition, CPA could be developed so that without reaching a certain standard of efficiency, an authority could not be rated 'excellent'. Amending CPA in this way would help to incentivise full implementation of key Gershon recommendations.

There is also little incentive across the public sector for transformation to go beyond the required 2.5%. While organisations may be able to retain gains within the spending review period, these have already been accounted for and the situation will be re-evaluated under the 2007 comprehensive spending review. Allocating resources on the basis of need is obviously crucial to improving public service outcomes, but there must be some incentive for transformation and savings in the first instance. A balance must be struck between the need to direct resources to those areas that are lacking and the need to incentivise saving.

SECTION 6: ACHIEVING SPENDING RESTRAINT IN THE SHORT TERM

This section begins by setting out our recommendations for government spending, which would maintain spending on key functions critical for long-term economic growth, whilst requiring savings elsewhere. The government needs to go further than the Gershon Review and turn efficiency savings into actual cash savings. While we do not make detailed proposals by department, we do highlight five areas where savings could be found.

6.1 The government's spending plans

Our key proposals for government spending in the 2007/08 fiscal year are set out in exhibit 11. The planned increase in total managed expenditure of £61.4bn between 2005/06 and 2007/08 should be reined back to £51.4bn. Spending would still grow by 10% in cumulative cash terms between 2005/06 and 2007/08 – broadly in line with money GDP growth.

Exhibit 11:

	2005/06		2007/08		
	Current Treasury projection	CBI projection ¹	Current Treasury projection	CBI projection, unchanged policy ²	CBI proposal ³
<i>GDP</i>	1240	1227	1369	1364	1364
Tax receipts	461.9	455.9	524.3	514.3	514.3
Other receipts	24.7	24.7	28.7	28.7	28.7
Borrowing	32.0	38.0	27.0	37.0	27.0
Total	518.6	518.6	580.0	580.0	570.0
Spent on:					
- Transport	17.3	17.3	19.3	19.3	20.4
- Education, skills, science	73.1	73.1	82.4	82.4	82.4
- Pensioner benefits	60.5	60.5	66.6	66.6	66.6
- Debt interest	25.6	25.6	28.8	28.8	28.8
- Reserve (capital budget)	0.4	0.4	1.1	1.1	
- Reserve (resource budget)	0.5	0.5	1.7	1.7	
- All other functions	341.2	341.2	380.1	380.1	371.8

¹ Assumes spending as in Treasury forecast in cash terms, while revenues fall on the basis of slower growth and past revenue-GDP relationships. The impact of slower growth on spending is met by the 'margin'. ² Spending as planned in cash terms, revenue undershoot of £10bn per annum despite elimination of the 'cyclical' element of the shortfall (as the economy is by then back 'on trend'). ³ Borrowing returned to the path set out in Budget 2005, putting the golden rule on course to be just met over the next economic cycle. Achieved by spending restraint, allowing tax receipts to come in as they would on the basis of an unchanged tax system - i.e. £10bn lower than the Treasury hopes. But no scope for discretionary tax reduction on top of that at this time, except measures with a near-negligible cost. The capital reserve budget is allocated to transport expenditure. In effect, non-allocation of the resource budget reserve contributes to the £10bn saving sought, leaving an additional £8bn to be found.

However, while there are strong economic arguments for capping the overall cost of taxpayer-funded expenditure, the mix of public spending is also important. Some key functions are beneficial for long-term economic growth and require government involvement and funding. Within the total:

- Net investment is correctly excluded from the ‘golden rule’, and associated budgets already planned for 2007/08 – including the capital budget reserve – should be spent in full.
- The key functions that support economic growth are transport, education and skills, and scientific research. For 2007/08, the existing cash spending plans in these areas should be met, with transport additionally gaining from the bulk of the capital budget reserve.
- Other public spending programmes are also vital for long-term competitiveness and growth - notably support and advisory services for trade and businesses. Whilst the sums involved are small relative to the overall arithmetic, these should be protected and enhanced.
- Resolving the pensions crisis will ultimately require the spread of benefit means-testing to be reversed (see section 3). For now, pensioner benefits should increase broadly in line with GDP, so that the basic pension can grow in line with earnings rather than prices.

All of this leaves spending on other functions (excluding debt interest) to increase by 9.0% (or just under 2% per annum) between now and 2007/08. The CBI is *not* therefore looking for aggregate spending outside of businesses’ priority areas to be ‘cut’ in the correct sense of that word. But it does mean that net ‘savings’ of £8.3bn (2.2%) need to be found in these areas relative to the existing plans⁵, which rely on cumulative growth of 11.6%, or 2.8% real per annum.

Beyond 2007/08, total government spending will need to grow a little more slowly than GDP for a period of time, to bring the public finances back on track while allowing the tax burden to ease. That said, the CBI welcomed government commitments in education and skills, and science, technology and innovation, and agrees that spending in these areas should grow at least as fast as GDP. Spending on the basic state pension should also grow in line with GDP. And public spending on transport needs to rise towards a medium-term target of 1.9% of GDP, from 1.4% now.

6.2 The public sector pay bill

Exhibit 12 shows how public sector employment has grown by 12% since early 1999, with an extra 643,000 net jobs created in the sector in that time. Although private sector employment has expanded as well, in proportionate terms the public sector has done much better – private sector employment has increased by little more than 5%.

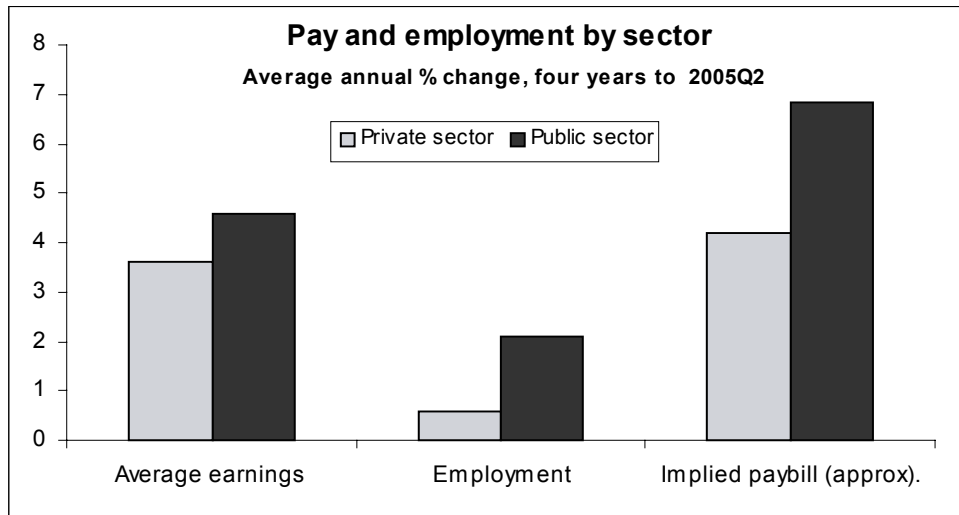
Exhibit 12:

Developments in public sector employment since 1999										
Millions	All	Private Sector	Public Sector	Of which:					Public as % total	Ratio: private/public
				Health	Education	Police & forces	Public admin	Other public		
1999Q1	26.937	21.734	5.203	1.641	1.159	0.446	1.135	0.822	19.3	4.18
2005Q2	28.713	22.867	5.846	1.937	1.361	0.484	1.255	0.809	20.4	3.91
Change:	1.776	1.133	0.643	0.296	0.202	0.038	0.120	-0.013		
As %:	6.6	5.2	12.4	18.0	17.4	8.5	10.6	-1.6		

⁵ This assumes that the resource budget reserve of £1.7bn held for 2007/08 is left unallocated. The total saving sought, compared with a base case in which the £1.7bn resource budget reserve were spent, is £10bn.

Within the public sector, the majority of jobs were created in the key frontline services of health, education and – to a lesser extent – the police force. But an extra 120,000 have been created in the ‘public administration’ sector – at over 10%, proportionately more than the increase in jobs in the armed and police forces combined, and in terms of absolute numbers, over three times as many.

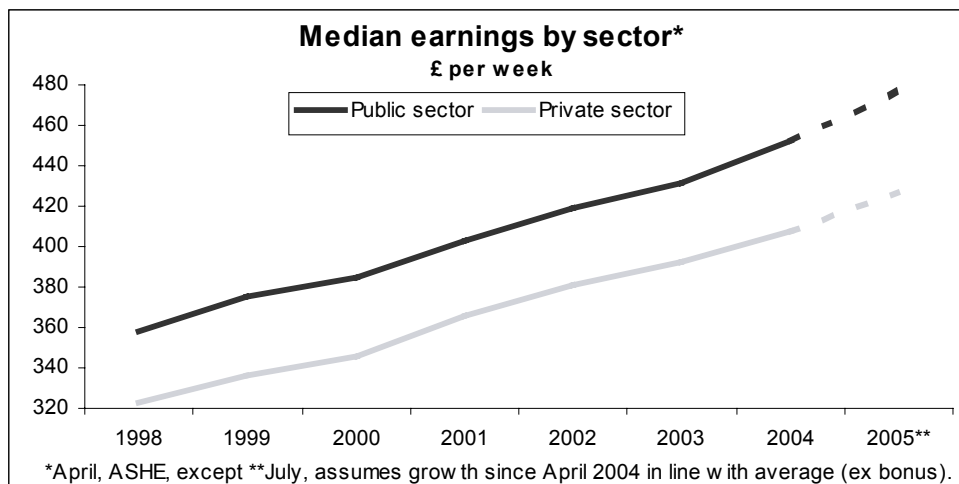
Exhibit 13:



Over the last four years, the impact of growing employment on the public sector’s total paybill has been added to by relatively fast wage growth. On average, public sector earnings grew by 4.6% per annum over the four years to the second quarter of 2005, compared with 3.6% in the private sector (exhibit 13). Taking this together with the increase in numbers employed, the estimated increase in the public sector’s paybill has been some 6.8% per annum, compared with 4.2% in the private sector, over those four years. Similarly, the official measurement of the public sector paybill grew by an average annual 7.2% between 1999/00 and 2003/04.

The CBI is not against public sector workers achieving greater rewards – in wages and bonuses – where matched by improved productivity and efficiency. Indeed we welcome the use of bonuses and incentives to support service delivery. But at the aggregate level, the official statistics provide no evidence of productivity or efficiency gains. Public sector productivity rates continue to lag the private sector, while public sector inflation remains higher. Despite this annual earnings growth in the public sector continues to outpace the private sector – for May-July, by 5.5% versus 3.9%.

Exhibit 14:



Importantly, this relatively fast growth of pay in the public sector cannot be simply be put down to a period of ‘necessary catch-up’, as the median public sector full-time worker is better paid than their private sector equivalent (exhibit 14). As the Annual Survey of Hours and Earnings shows, in April 2004 these figures were £453 per week and £408 respectively – a gap of £45 per week or 11%. If we made the crude assumption that median earnings have since increased in line with each sector’s average earnings (ex-bonus), the gap would have reached £49 per week (11½%) by July 2005.

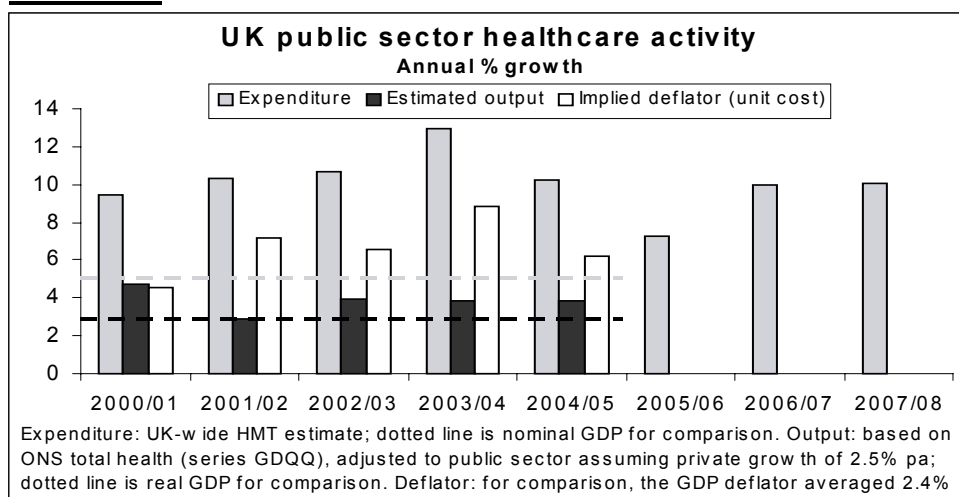
In 2003/04, the general government’s direct paybill was almost £119bn, or just over a quarter of total public expenditure. It is therefore likely to be around £135bn this year. If growth of the total paybill could be reined back from whatever is implicit in the current plans⁶ by just one percentage point per annum, an annual saving approaching £3bn could be achieved by 2007/08. Restraint worth 1½ percentage points per annum would push that to over £4bn.

It is also vital that the government acts sooner rather than later to cap future state employee pension liabilities. In the private sector, the typical retirement age is already 65. And private sector schemes have been placed under a great deal of pressure in recent years – by government policy amongst other things – reducing average potential benefits considerably. Against this background, a decision not to raise the state retirement age above 60 would leave in place a severe anomaly.

6.3 Rapid increases in departmental cash spending

Since 1999 there have been rapid increases in the spending of some government departments. Here we take health spending as an example and examine if the additional investment could be phased over a longer time period. The CBI fully supports the objective of improving the delivery of publicly-funded healthcare services. But the rate of increase in public health spending has been and remains very rapid – 10% per annum over the six years to 2005/06, with further 10% rises planned for 2006/07 and 2007/08. Such rapid growth must raise questions about efficiency losses.

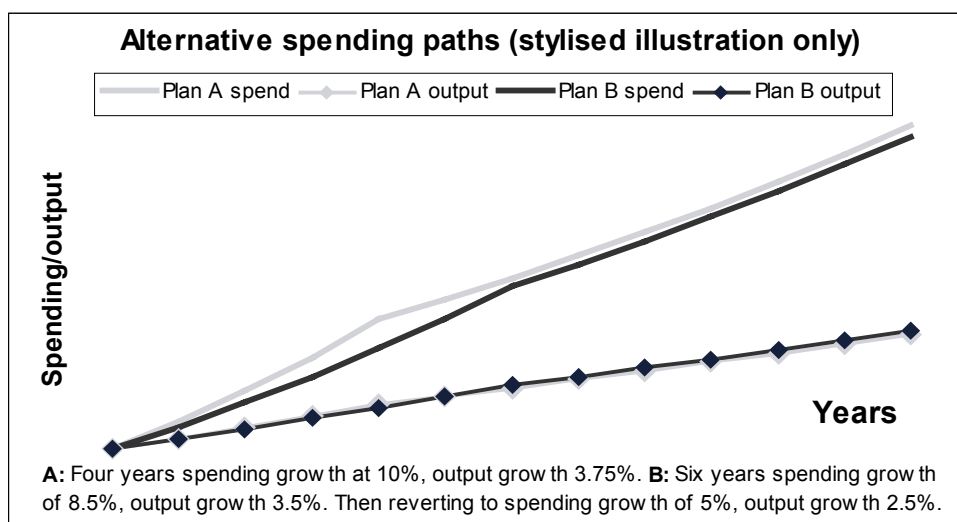
Exhibit 15:



The 66% rise in public sector cash spending on health over the five years to 2004/05 has been associated with an increase in total health services output of just 19%. Even allowing for only modest private sector growth (say, 2½% per annum), it is unlikely that public sector health output rose by more than 21% in that time – implying growth in unit costs of some 37%, or 6.5% per year. Exhibit 15 also highlights how the 13% cash increase in 2003/04 did not result in any improvement whatsoever in output growth, compared with the 10½% increases seen in the years either side.

⁶ Plans for the pay bill are unavailable. The first example is based on growth of 5% pa rather than 6% - 6% being planned departmental spending growth. The second is based on growth of 4½% - 4½% being consistent with employment levelling off and earnings growth in line with what the Bank of England ‘allows’ in the private sector.

Exhibit 16:



Over the medium term, this rapid rate of spending increase will surely have to be brought to an end at some point, perhaps dramatically. The government should therefore re-consider the phasing of the increase in health spending by reviewing the Wanless proposals. Indeed, as exhibit 16 suggests, alternative phasing could ultimately achieve a higher level of output for a lower level of spending, compared with the base plan. If the planned increase of 10% per year over the next two years were reined back to 8.5%, the saving in 2007/08 would be £2.7bn.

6.4 Non-pensioner social security benefits

This function accounts for around one pound in every eight of public spending, despite record levels of employment, low unemployment, improved healthcare and better health awareness than in the past. Social security benefits (excluding tax credits), other than for pensioners, are expected to approach £67bn in the present financial year, building at a rate of 3.8% per annum over the next two years to reach £72bn in 2007/08.

Savings of £1bn could be achieved if annual cash-terms growth were held to 3.1% rather than 3.8%. This should not be an unreasonable target on the Budget assumption of only a very modest rise in unemployment. And the government's aim to encourage individuals off invalidity benefit could be decisive. Going further, savings of £1.6bn could be found if spending on benefits were held in line with RPI inflation.

Whilst unemployment could turn out higher than assumed in the Budget, putting upward pressure on benefits spending, the spending plans already factor in a cushion for such eventualities. The 'margin' within annually managed expenditure builds from £1bn this year to £3bn in 2007/08.

6.5 Local government expenditure

Over the five years to 2004/05, spending by local authorities increased at an average annual rate of 7.7%, with a further increase of 8.3% expected in the current fiscal year. The result has been to add significantly to the tax burden. Looking ahead, though the pace of increase is projected to slow it will still average 5.7% per annum over the next two years.

Excluding the business priority areas of transport, education and skills, the rate of increase has been a little more moderate – but still faster than overall GDP at an average 6.3% over the five years ending 2004/05. Ignoring any allocations from the reserve, and assuming that spending on transport,

education and skills grows in line with the current overall (i.e. general government level) plans, spending on these other functions looks set to grow by 8.3% in the present year, with this growth rate easing back to an average 5.8% over the next two years.

A saving of £1bn could be achieved by easing the growth of local authority spending on these ‘other’ functions to 5.2% over the next two years, or if it were reined back to 4.6% per annum. Even in the latter case, spending on these functions would have grown by an average 5.9% per annum over three years, and by an average 6.2% per annum over eight years.

Of course a key difficulty with local authority expenditure is that no level of government is fully in ‘control’. Local authorities can determine elements of their own expenditure, and thus their overall spend, provided that the incremental spending can be ‘self-financed’ through council tax, parking charges and other permitted revenue streams. But they have no discretion over other aspects of their spending – including benefit payments and certain rates of staff pay, as well as a host of statutory duties – which are effectively determined at national level. To help ensure that total local authority expenditure is kept to the ‘optimum’ path, central government should:

- Keep its own requirements for incremental local government spending to a minimum.
- Help provide an environment in which local authorities can avoid unnecessary costs, for example by facilitating greater flexibility in pay arrangements.

The government should also ensure that under any reformed system of local government finance, the typical voter sees a clear link between any incremental expenditure that they may vote for, and the impact on their own personal finances.

6.6 The scope for additional savings and efficiencies

Finally, CBI research on absenteeism (exhibit 17) shows 9.1 days lost annually in the public sector, compared with 6.4 in the private sector. This gap is not explained by the larger size of public sector organisations, as absence is higher in the public sector in all but the smallest size group. The total cost of absenteeism to the public sector was £4.1bn, so £1.2bn could be saved if the public sector managed the levels down to private sector levels, and if employment were adjusted in turn. Another recent report, by the Chartered Institute of Personnel and Development⁷ supports the finding, with 10.3 days lost in the public sector compared with 6.8 in the private sector.

Exhibit 17:

Absence levels in the public and private sectors				
Size of organisation	Public		Private	
	Number	Days of absence per employee	Number	Days of absence per employee
1-49	1	1.0	66	4.7
50-199	21	7.0	137	6.4
200-499	14	7.6	94	5.8
500-4999	45	10.5	106	7.9
5,000+	17	9.3	20	7.3
All	98	9.1	423	6.4

Source: CBI, *Who cares wins; Absence and labour turnover 2005*

⁷ *Absence management: A survey of policy and practice*, CIPD 2005.