

Playing by the Rules

Why strong social and environmental protections can help our country thrive

Edited by **Emma Rose**

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About Unchecked UK

Unchecked UK makes the case for common-sense protections which help keep people safe, allow businesses to thrive and protect the natural environment.

We are a growing and diverse network of leading organisations who see sensible, properly enforced protections as the framework for a decent society - where the food we eat and the things we buy can be trusted, our landscape and wildlife are protected, our homes and workplaces are safe.

We carry out research and investigations to highlight the loss of protection for the UK public that results from the erosion of important regulations and of the public bodies which enforce them.

Through public opinion research, we shape new positive narratives about our shared protections and the enforcement agencies who work hard to keep us safe.

Ultimately, Unchecked UK aims to shift the political discussion around regulation, and to build momentum for proper investment in the public bodies which defend them.

We are a non-partisan organisation, incubated as a project of The Ecology Trust.

Find out more about our work:

www.unchecked.uk





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Foreword

Darren Jones MP

Chair of the House of Commons Business, Energy and Industrial Strategy Select Committee

As the United Kingdom continues to shape its future outside the EU, attention is shifting towards the framework of regulations and protections we have as a country.

Equally, the impact of Brexit, Covid-19 and the invasion of Ukraine by Russia has created an economic shockwave which has, at least, united all politicians in accepting that stimulating economic growth, in addition to providing security and protection for British people, has to be at the forefront of policy making.

How to achieve economic growth is, however, disputed. From deregulation to nationalisation, Westminster is not united on what role the state should play in trying to move the dial.

This collection of essays, brought together by Unchecked UK, seeks to add a new dimension to this debate by bringing in the voice of business and industry.

When business is successful, so too is the country.

These essays show that business craves stability and security after so many years of instability. They want consistency in regulation which allows them to make long-term decisions about investment and R&D, and which can provide them with the confidence to adapt to the challenges they face, secure in the knowledge that the foundations on which they operate will not shift.

Contrary to the usual commentary on regulation, the authors of these essays make a compelling case: good regulation and sensible protections are a driver for long term and sustainable growth.

These essays provide, I hope, a starting point in the debate which will end the false choice between going for growth or having robust regulation. These business leaders are clear: you can and must have both.

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Foreword

Dr Dan Poulter MP

Chair of the All Party Parliamentary Group on Global Health

The successful negotiation of the Windsor Agreement marks an important new chapter in the EU-UK relationship, and promises an end to the long-running dispute over the post-Brexit Northern Ireland protocol. Prime Minister Rishi Sunak should rightly be congratulated for such an achievement.

A key question, as we move forward, is how the UK can best leverage the opportunities ahead; how we get the best out of Brexit by designing a regulatory system which does right by British people and businesses.

Most politicians, across parties, agree that our domestic regulatory system must be centered on the political imperative to drive growth. Differences in opinion arise, however, once we get down to the detail of how this is to be realised in practice.

While some maintain that political and policy focus should be focused on reducing regulation in order to remove perceived barriers to business, others hold that well-designed regulation must be a key part of the UK's future economic planning.

In this context, it is interesting to consider the views of British businesses – given that many of these arguments are often made on their behalf. Does regulation stymie growth and hold back business productivity? Or does it create the conditions in which business can thrive?

There is, of course, some nuance here (bad regulation, for example, can negatively impact business productivity and limit innovation). But what we hear clearly from the leading business voices who have contributed to this collection is that *good* regulation, *well-designed* regulation, can deliver

huge economic benefits, while maintaining the standards and protections that British people value.

From driving improved efficiency, innovation, and commercial competitiveness, to providing investment certainty and regulatory stability, these authors are clear that regulation can be a force for good.

Likewise, the authors state, blanket deregulation has the potential to generate multiple adverse effects, not least with regards to public trust. This holds particularly true for new technologies, such as life sciences, AI and the Internet of Things, which must be underpinned by minimum mandated standards and stringent safety checks. Without strong governance, public trust could be lost quickly, which could significantly hamper innovation.

Our regulatory system is by no means perfect, and some adjustments will be needed.

But, what these essays show is that too much emphasis on deregulation will mean the UK misses out on the varied opportunities that good regulation can offer. In addition, a more balanced approach to this issue could win the support of a British public facing real economic challenges; providing them with a guarantee that basic quality and safety standards are being met, for everyone.

A political focus on innovation, twinned with an emphasis on the pragmatic need for a strong regulatory safety net: this is a thoroughly Conservative approach to public and economic policymaking. What's more, it has the potential to resonate well with both British people and British businesses.



Introduction

Emma Rose

Co-Director, Unchecked UK

Over the last few years, UK businesses have experienced huge changes to the country's economic environment; from the UK's exit from the European Union, to the emergence of new technologies, the fallout from the COVID-19 pandemic, and the transition to Net Zero. These developments, alongside a uniquely challenging economic climate, continue to bring new opportunities and challenges for the UK business community.

As plans are made to re-establish economic stability, to deal with rising inflation, and to address the cost-of-living crisis, the question remains of how great a part regulation, or deregulation, should play in tackling these issues.

For many years we have seen a prevalence of arguments that regulation holds back investment, stifles productivity, job-creation and innovation, suppresses the market entry of SMEs and, ultimately, deters growth. These views have formed the basis for deregulation drives by successive UK governments; they have underpinned an ongoing commitment to the deregulation project, not least via plans to revise EU-derived laws through the Retained EU law (Revocation and Reform) Bill (REUL).

However, many in the UK private sector have a very different story to tell about regulation. Indeed, contrary to the commonly held view that regulation is manifestly bad for modern economies, bad for growth, and bad for businesses, the essays in this collection explore how sensible, well-designed regulations can (and do) deliver real benefits to the UK economy, as well as bringing about the broader social and environmental outcomes that British people demand.

Written by representatives of UK business groups and entrepreneurs, these essays set out how good regulation can drive innovation; helping those with the best ideas, the boldest ambitions and the highest standards to win. They show that regulation can address poor corporate practices and open up the closed markets of big tech to competition; challenging the incumbency of a small number of large businesses who occupy dominant market positions.

We hear how consistent standards can reduce complexity and increase the size of the accessible market for UK businesses, creating favourable conditions in which they can plan, invest, and operate with confidence. And how, in relation to new and green technology, the expectation of higher standards, far from having a stifling effect, can encourage businesses to compete on more innovative and cleaner products and services.

We hear how, in order to maintain public trust, it is crucial that new technologies and business models are governed by robust controls and safeguards, which can reassure consumers of the safety and quality of the products and services they use, and act as a bulwark against market failures.

And many authors outline the particular benefits of environmental regulation, which can have a net positive impact on growth; enhancing profits and competitiveness through the improvement of products or production methods.

These businesses express little support for deregulation. Contributors point out that, at a time when businesses are facing many other challenges from the current economic climate, this is far from a business priority. Indeed, many hold that divergence from EU regulations would be costly and complex for businesses. Others flag that moving away from aligned standards and regulations will restrict market access and damage the confidence of businesses to invest and grow.

These views are mirrored in a recent poll carried out by YouGov for Unchecked UK, which finds that fewer than a fifth of UK businesses see excessive government regulation as the most important domestic issue facing them. What's more, the survey finds that two thirds of businesses think the Retained EU Law Bill will cause more uncertainty for UK businesses and limit economic growth.¹

We, alongside our essay authors, fully support efforts to boost growth and innovation, drive productivity, and improve outcomes for consumers. With the rate of technical change accelerating at pace, it is imperative that

the UK regulatory system is fit for purpose; able to keep up with the emergence of new business models, to act as an enabler of green and technological innovation, and to support a thriving start-up environment. This is likely to require some adjustment of our regulatory regime.

But, if stimulating growth is the goal, then crude deregulation is not the answer. In fact, as these essays argue, this approach risks undermining the very levers that lead to economic growth; jeopardising the success of the Net Zero transition; adversely impacting businesses; and removing key protections from British people and the natural environment.

Together, the voices in this collection sound a clear warning to the government: **it is time to move away from an unquestioning political commitment to deregulation, and towards a more balanced, sophisticated debate around the value of sensible regulations – one which recognises the crucial role they have played in creating the society we know today, and the opportunity they offer for British businesses in the future.**

CAUSE MORE
UNCERTAINTY
FOR UK BUSINESSES

68%

What do UK businesses really think
about the Retained EU Law Bill?

Source: YouGov survey for *Unchecked UK*, 2023: www.unchecked.uk/research/what-do-uk-businesses-think

**Why regulations
unlock innovation
and investment**



How strong rules underpin a thriving UK economy

Dr. Roger Barker

Director of Policy and Governance, Institute of Directors

Most of us would agree that regulation in some form is essential to the functioning of an economy. While poorly designed regulation can lead to additional bureaucracy and cost for business, if crafted effectively, it can help to foster growth and innovation. And in many instances, regulation can play a crucial role in supporting desirable societal outcomes such as protecting the environment or ensuring health and safety.

In January 2022, government ministers outlined some of their plans for the future of regulation. Most controversially, they set a target to cut £1 billion of business costs from retained EU red tape. A relatively large body of 'retained' EU law has been kept on the UK statute book since Brexit to preserve legal continuity. It remains critical to large areas of business regulation, including workplace protections and environmental standards.

In September 2022, the government published the Retained EU Law (Revocation and Reform) Bill, which stipulates that all law derived from the UK's 40-year membership of the EU must be reviewed and either transferred into UK law or scrapped ('sunsetting') by the end of 2023.

During its passage through the House of Commons, the government was warned by business organisations like the IoD that this Bill, if enacted, would create significant business costs and uncertainty. At a time when business is facing many other challenges (e.g., high inflation and the prospect of recession), this kind of deregulation is not seen as a business priority. Such a large scale legal process would absorb an inordinate amount of civil service time and resources when officials should be focusing on other things. It would also create a huge job for enterprises as they sought to respond and adapt to any changes that might arise from the process.

There has also been lack of clarity concerning the number of pieces of legislation that will need to be reviewed. In January 2023, the goalposts shifted further when it was announced that another 1,000 pieces of legislation had been identified as falling within the scope of the Bill. There are now 400 unique policy areas and +3,700 pieces of legislation that must be reviewed, reformed or abolished by the end of this year. The risk of unintended consequences arising from this process must surely be substantial. Despite efforts by a cross-party group of parliamentarians to amend the Bill, it has now navigated through the House of Commons and is currently being evaluated by the House of Lords.

“At a time when business is facing many other challenges (e.g., high inflation and the prospect of recession), this kind of deregulation is not seen as a business priority”

The move to repeal or replace EU derived laws is underpinned by the view that these rules are acting as a drag on growth; stifling productivity and competition. With the UK navigating a future outside of the EU regulatory regime, it is right that we consider how best to adjust and optimise EU-derived laws to suit our domestic priorities. And, with the UK economy facing high energy prices, rising interest rates and elevated inflation, we welcome new measures designed to boost growth.

But, this approach overlooks the fact that many of these regulations can deliver considerable benefits for the UK economy and UK businesses. Well-designed regulation can play a key role in creating the conditions for effective competition and innovation in a number of ways; for example by setting common standards, providing the clarity required for investment, and by supplying the public with the confidence they need to use new products and services.

Regulation can help to facilitate a level playing field between large market operators and new entrants with new technologies. Sensible rules can help to challenge the incumbency of a small number of large businesses who occupy dominant positions in the market.

“Many of these regulations can, and do, deliver very real benefits for the UK economy and UK businesses”

And common standards (set by regulation) increase the scale of the accessible market for UK businesses, providing a common framework and driving economies of scale; thereby lowering prices and increasing consumer demand. The aligned market provided by the EU, for example, gives businesses the confidence and opportunity to invest and grow, helping to create economies of scale.

Instead of focusing on the scrapping of EU-derived laws, the government's key priority should be driving and maintaining standards; as it considers how to best harness the opportunities of the green and technological revolutions, and to preserve the UK's reputation as a global leader.

Scrutinising business impacts

Although media attention has been understandably focused on the retained EU Law Bill, there is another more prosaic way in which government could enhance the quality of the UK regulatory framework. This involves designing a regulatory governance process which provides relevant external stakeholders with the opportunity to

scrutinise business impact at an earlier stage. In theory, this should be happening as part of the government's Better Regulation framework. However, in reality, it's an aspect of current administrative practice which is falling into disrepair and is in need of a substantial refresh.

Impact assessments are supposed to be prepared for all regulatory provisions where the annualised impact to business is greater than £5 million. They are subject to formal scrutiny by an independent verification body, the Regulatory Policy Committee, which consists of external economists and regulatory experts. However, in October 2022, the House of Lords Secondary Legislation Scrutiny Committee reported that many impact assessments do not provide an adequate basis with which parliamentarians can assess proposed legislation. Furthermore, the quality of these assessments has materially deteriorated since 2017.

Even more worryingly, the Lords found that an increasing number of regulatory instruments had been laid before Parliament without an impact assessment being prepared by the relevant government department. In some cases, the impact assessment only arrived after the legislation had come into effect. There were also a growing number of cases where impact assessments were not accompanied by an independent assessment from the Regulatory Policy Committee.

The lack of timely impact assessments is not only a problem for parliamentarians. It also reduces the opportunity for wider challenge from those who will be affected by the regulation, including the IoD and its members.

Of course, it is right that democratically elected politicians have the final say on the nature of political objectives. But the effectiveness of regulation aimed at delivering those objectives can be immeasurably enhanced, not by a sweeping approach to dismantling laws – many of which represent important social and environmental protections – but by enabling adequate time in the process for expert review and business feedback. Combined with a meaningful post-implementation review process, a revitalised framework of better regulation offers a practical rather than a political way to achieve more effective post-Brexit regulatory outcomes for business.



Strong regulation allows businesses to thrive

Graham Hobson
Founder of Photobox

In 1999, I had an idea for a business, a service to print digital photos that, surprisingly, didn't exist at the time. A few weeks later I started a tiny company called Photobox. The business struggled through some lean and challenging years, but became a European market leader, eventually being sold to new owners in 2016.

This long journey provided me with success and wealth. Some entrepreneurs might claim that the success of their company was all due to their own personal effort, risk-taking and brilliance. But the fact is that most successful businesses are built on the foundations of societal investment. My company would not have succeeded without a healthy and educated workforce, government investment in infrastructure and innovation (like transportation for our supply chain and broadband for our customers) and a fair and robust regulatory framework for our company to operate in.

All of these elements form part of the social contract: the state provides the infrastructure and services that we all need, and it creates a fair regulatory framework that allows individuals and businesses to thrive. In return, it expects citizens to pay their taxes and follow the rules for the benefit of all.

But I fear that the social contract has become weaker over the last few decades, creating unsustainable inequality and depriving people of the opportunities and protections that they need to have a better quality of life. I see too many examples today of people who are left behind, who have no access to the resources needed to draw out their potential; too many people struggling with low-paid demanding jobs and falling income in real-terms due to the damaging effects of high inflation. What's more, vital regulatory protections are at risk of being weakened, as the government pursues its goal to extricate itself from EU-derived laws.

When people feel poorer and unfairly treated, then the social contract breaks down. We all have common needs: safe housing, rights and protections at work, decent food, clean air to breathe, and the ability to live safely and without fear of exploitation – things which must be underpinned by strong regulation. None of these should be political issues. Is there a political party that would argue that our citizens should not be able to access anything in this list? But we are failing to provide those services and protections to British citizens today, particularly for the most vulnerable in society, at the very time when British people need stronger, not weaker, protections from harms or exploitation.

“The social contract has become weaker over the last few decades, creating unsustainable inequality and depriving people of the protections that they need to have a better quality of life”

Strong rules, fairly enforced, are the UK's great equaliser. They mean that everyone has equal access to basic quality and safety standards, even at a time when inequality in the UK is rising. Decent standards and protections shouldn't only be available to the powerful and educated – they should exist for all of us. At a time when people's incomes are being squeezed, strong rules can provide a guarantee that basic quality and safety standards are being met, regardless of income.

When I started my business 23 years ago, there were already many business and employment rules in place, for good reason. Running a photographic business, we were very aware of our need to handle and dispose of chemicals responsibly, to hire staff on wages they could afford to live on, and to honour above and beyond the minimum levels of worker obligations around sick-pay and maternity. Over the years, our company grew to 1,400 employees. I believe that by striving to treat and reward all our employees fairly, they felt excited to contribute to our growth and were the main factor for our success. I believe that making someone feel safe and treated fairly has so many benefits beyond the direct impact on that person. And I found that there are huge dividends to be gained from treating people fairly and rewarding them well.

There were also changes we made over the years where rules were not in place, but we felt it was the right thing to do, including considering our environmental and climate impact. For example, we switched to lower carbon packaging and logistics, and replaced factory air conditioning with more efficient solutions. We felt good about these changes and over time they helped our business not to only reduce our impact on the world, but also reduce our costs and improve efficiencies. But it would have been better if stronger regulations were in place to guide us and other businesses in this direction earlier – to make sure that best practice was being followed across the business community, and to protect businesses who were playing by the rules from being undercut by those who weren't.

Additionally, and contrary to what many say, a number of studies find that well-designed regulation can contribute to productivity, including among SMEs.² For example, high levels of employment protection can incentivise firms to make productivity-enhancing investments, and can lead to higher employment rates and less long-term unemployment,³ while studies show that flexible labour markets have little benefit in terms of enhancing business productivity.⁴ Given the UK's status as the third most deregulated country in the OECD with respect to 'ease of doing business', any further weakening of labour laws are, at best, likely to be running into diminishing returns.

Good regulation must be a core tenet of efforts to make our society fairer, greener, more sustainable, more prosperous, helping to improve standards in local communities and support local businesses to thrive. Good regulation is the invisible safety net that underpins real change. We don't need to look far back into the past to see examples of

this. From the minimum wage to school food standards, to human rights legislation, the plastic bag tax, or limits on tobacco sale and advertising, strong regulations are part of Britain's success story.

The success of my company owes a lot to these regulations and framework, but still too many decisions came down to our moral choices and sense of fairness as executives. To argue that regulations are a burden on our economy and society is misguided. It risks undermining the progress that needs to take place if Britain is to remain a world leader on standards.

Britain faces many challenges, but also opportunities in the decades to come. Aside from the short-term focus on inflation, and the cost-of-living and energy crisis, we have long term challenges: improving UK productivity, aligning skills with new industries and a lifetime of work on environmental and climate adaption. Britain needs to embrace a long-term strategy for adapting our country to the needs of the second half of the 21st century.

*“Strong rules, fairly enforced,
are the UK's great equaliser”*

Rising to this challenge presents huge opportunities for growth, prosperity and well-balanced adaption to the new world. However, we cannot and must not leave anyone in society behind on this journey. Workers' rights and protections, environmental safeguards, and other well-designed regulation must be strengthened, to guide us on this journey and ensure that we all benefit fairly from the outcomes.

Now is the time to form that long term plan; to envision what Britain in 2050 can and should look like. The current simultaneous crises affecting our population are a wake-up call. We must strengthen the social contract by addressing the shocking and widening inequality in the UK. We must treat all of our citizens fairly and ensure there is a minimum acceptable quality of life available to all. We must deliver on our 2050 Net Zero goals.

A motivated and productive workforce, a thriving natural environment, clean air and rivers, safe and healthy families – all these things are a vital part of a fair society and a more vibrant economy, better suited to adapting to changing needs. And they must all be underpinned by strong regulation, if they are to become a reality.



Can regulation set UK innovators free?

Amanda Brock
CEO, OpenUK

Jeremy Hunt recently suggested that the UK should be the next Silicon Valley. Today we lag behind, and we have to consider what it is that would encourage the UK to match or exceed our U.S. cousins' success in the innovation and technology spaces. Whilst we may consider them a nation of risk takers who lead the world in innovation, the reality is that the success across the U.S. is also generally centred in a few pockets of land – Boston has a plethora of tech companies; Austin, Texas is booming; Portland in Oregon is growing with software companies, and the Triangle in the Carolinas has developed significantly, to name a few. But none is as recognisable or as successful as Silicon Valley, aka The Bay Area.

On a recent trip there I spoke to the head of innovation from a major bank who explained to me that this forgiving attitude which promotes innovation is not the U.S. attitude I have always considered it to be, but is in fact a 'California thing'. His example was that a Bay Area founder would happily tell you that they had founded ten startups. Inevitably most of these would have failed. California, if not the U.S. as whole, allows individuals the space to experiment and inevitably to fail. Such an un-British behaviour.

You have to look at the roots of Silicon Valley in order to know more about how it succeeded and grew. The history of its success goes back to the first word in its name, silicon. Companies like Shockley and Fairchild led to successors like Intel, which now lead the world in computing. Universities, government research investment and Xerox's PARC Labs led innovation, while the likes of Apple built companies that took computing to the masses. All of these businesses worked around hardware.

Building on these foundations led to more software companies following their path. Everyone today recognises the names like Google and AWS, but these companies

started as small businesses that had to find their markets to allow them to grow significantly. To do this, they needed money, and the venture capital funds were there to help, and to enable them to help themselves. This became a circle of innovation, investment and rapid growth that led to more capital entering the market – while some companies might fail, their work would be bought and used if there was anything useful to be had.

Scaling UK businesses and innovation

In the UK, we have the same hotbeds of innovation and talent – Cambridge has the nickname Silicon Fen due to its history in hardware and computing, while Oxford leads in biotechnology. London has some of the world's leading fintech companies, and so on. However, the UK does not have the venture capital system – or attitude to risk – that is present in Silicon Valley. These attitudes have to change for innovation to succeed. Importantly, we need the right regulation to open up markets and encourage greater innovation.

Whilst creating the space for entrepreneurs and technologists to experiment and fail may be something we have to work on, the pandemic has ensured that many businesses, previously reluctant to digitalise, have now invested. The UK operates in a digital economy, where enterprises and organisations either create, distribute or have their goods and services consumed via digital tools and platforms. Today, we are mass consumers of digital products across both our personal and business lives. According to the Centre for Retail Research⁵, the UK has 26.5% of all retail activity taking place online, outstripping other economies in Europe and the U.S.. The UK is therefore a country that will commit to new ways of doing things and be faster to innovate where it suits. Our leadership in fintech is an example of this, yet we often think of ourselves as followers.

Similarly, too few unicorns – businesses valued at more than \$1billion – have been created in the UK, although we are doing considerably better than our friends in Europe. Work needs to be done to ensure that UK founders stay in the UK as their ideas and businesses scale to become viable and to contribute to the economy. Across Europe and the UK, there has been a tendency for this not to happen and for startups to move to the U.S., as they have perceived that the real opportunity is there.

There are a number of reasons why the scale-up of UK start ups is not happening at home – the majority of investors are based in the U.S., although increasingly we see investors here in the UK and Europe; the scale of the market is greater in the U.S.; the skills, and of course regulation. Regulation is often considered to be something that can stifle innovation, but the right, light-touch regulation can in fact encourage greater innovation, for example by opening up markets.

In this digitalised world companies have similar technological needs. It's unsurprising that they all require the ability to effectively communicate and manage data, need platforms for sales and payments, and of course want cloud storage. As they increasingly rely on platforms, the risks of vendor lock-in become high. Lock-in stifles innovation by removing the ability for customers to shift easily to the best and most innovative providers. It also reduces new entrants to a market which inevitably both reduces competition and discourages innovation. Releasing that innovation is hugely significant to the UK taking any form of leadership role, let alone becoming the next Silicon Valley.

So where does regulation come into this?

Inevitably, innovation disrupts and those disrupted do not necessarily enjoy the experience. Those incumbent providers with secure revenue streams will inevitably not be happy to see their revenue streams slip away. It's not just finance; we also see this in many other sectors, like Telco, where mobile phone providers are reluctant to see more change, which eats into their revenue models.

But innovation and change is the only way to drive better consumer services, and only with regulation will we see the opening up of these opportunities.

“Regulation is often considered to be something that can stifle innovation, but the right, light-touch regulation can in fact encourage greater innovation, for example by opening up markets”

In recent years we have seen many adopt the assumption that regulation stifles innovation. The opposite can, of course, be true. At this point in our digital history, wise use of regulation has the potential to put the UK into a leading role in the global standards and digital world. As a consequence we would expect greater productivity, innovation and competition in the UK and for this to attract investment and skilled individuals too. Without some level of regulation, the incentive to allow disruptive innovation is missing a vital component.



Can better regulation solve the childcare crisis?

Rachel Carrell
CEO, Koru Kids

As every newspaper reader knows by now, childcare is in crisis. It's too expensive – taking up more than half of the average parent's wage – and yet, despite costing more than a luxury car, somehow utterly fails to feel like a luxury product.⁶ It's hard to find quality. The hours don't work. Parents are left scrabbling on holidays and inset days, phoning in favours and wishing the grandparents lived closer. Meanwhile, despite charging excruciatingly high fees, providers are failing in record numbers.

The importance of this goes way beyond inconveniencing some parents. A raft of UK and international studies have shown the power of childcare in driving national economic growth.⁷ Recently the Institute of Public Policy Research and Save the Children estimated the value of better childcare to the UK at £13bn per year, a substantial portion of GDP.⁸ By making great childcare jobs, you get lots of bang for your buck: economic activity increases for both the childcare workers and the parents, and quality childcare continues to pay-back for decades as children become well-adjusted contributing adults.

What's the role of regulation in improving this situation? In recent years the childcare regulation debate has been dominated by two camps: one that wishes to raise standards by increasing the obligations placed on providers; and the other that wishes to make the system cheaper by lowering them. There is an underlying belief in both camps that regulation simply adds cost (but might be worth it anyway) and that the way to drive growth is to remove regulation (which might be not worth it, depending on which camp you're in).

Both camps are wrong.

The thing that simply 'adds cost' is *bad* regulation, and it is this that should be avoided. Bad regulation in childcare has historically included, for example, putting obligations on

providers to meet certain standards without considering the market that will need to provide them. For example, current regulation assumes that all in-home childcare workers have a spare £450 lying around to allow them to register with Ofsted – for a job they might only be doing for 5 hours a week. They do not, and as a consequence this supply – for which there is huge parent demand – never comes onto the market.

Regulators have additionally focused mostly on nurseries, even though nurseries constitute less than half of the industry. This focus has come at the expense of getting the other parts of the childcare industry right, especially in-home childcare.

“Good regulation thinks about marketplace dynamics, supports providers to meet high standards, and builds on existing structures that are working”

In contrast, *good* regulation underpins economic growth. Good regulation in childcare recognises that the bottleneck is supply – as we can see by looking at childcare inflation, which increased faster than general inflation in each of the past five years. Good regulation therefore thinks about marketplace dynamics (supply and demand), supports providers to meet high standards, and builds on existing structures that are working.

Good regulation also recognises the quirks of market structure which arise from its specific history and culture. In childcare, for example, many workers provide childcare in the home to employers who are highly inexperienced.

These employers are individual mums and dads, who very often have never employed anyone before, and have only a vague sense of employer responsibilities to employees. Sometimes they are not even aware they are legally required to be the employer. Meanwhile, the person providing childcare in the home is usually a sole worker, working alone with the children. In this potentially vulnerable physical and psychological situation, there is neither HR department nor even colleagues to ensure that basic standards are being met on both sides. As a consequence, in-home childcare workers are often not given the employment rights they are entitled to. They often work without a contract and are paid cash, missing out on pension entitlements, maternity and sick pay.

This became particularly evident during Covid-19 when suddenly thousands of workers discovered they were not eligible for furlough schemes due to being 'off the books'.

“Getting it right turbo-charges the rest of the economy – with both short and long term benefits for workers, parents, and children”

The combination of vulnerable worker and inexperienced employer is a tricky one, but good regulation recognises it – and additionally recognises that the worst thing to do in childcare would be to further restrict supply. Instead, good regulation would support these inexperienced employers to do the right thing, by identifying the existing structures within the market that support employers and workers, and strengthening what is working.

An example of a clever targeted regulation along these lines, one that would unlock substantial economic growth, would be to allow Ofsted-registered childminding agencies

to register home childcarers as well as childminders. This would meet the criteria for 'good regulation': it would unlock supply, build on existing structures that are working, recognise the significance of the non-nursery part of the market, and support the market (including the parent employers) to provide higher standards.

So why has the government stalled on introducing better regulations in childcare? Why is it continually distracted by bad ideas such as reducing ratios of adults to children (a suggestion which has been repeatedly made by central government figures over the years and repeatedly ditched following virulent opposition from the industry)?

Partly, this arises from the extreme fragmentation of the childcare industry, which comprises many very small businesses. The only part of the market with any scale is nurseries and even there, the biggest chain still owns less than 10% of the market. This sector is then the only part of the industry which can afford to hire people to talk to government; other providers are too sub-scale to achieve representation. The consequence is that the government talks instead to industry bodies which are not providers, reinforcing a nursery-centric view. Government should make a concerted effort to reach out to a broader range of providers, especially ensuring that in-home childcare is well represented.

Following Brexit and Covid, the legislative timetable is tight and every legislative change needs to justify its existence even more ferociously than usual. Here's the case for childcare reform: childcare is fundamental to the economy. It is basic social and economic infrastructure. Getting it right turbo-charges the rest of the economy – with both short and long term benefits for workers, parents, and children. There exist good regulations which would unlock supply – and on any rational calculus, they should be at the top of the legislative agenda.



Can regulation unlock green finance?

James Alexander

Chief Executive, UK Sustainable Investment and Finance Association

Across the UK, the sight of an electric Tesla, Kia or Volkswagen gilding silently through town has become commonplace as the number of electric vehicles on the road continues to rise sharply. Despite overall vehicle sales reducing in 2022 and the withdrawal of many of the UK's EV subsidies, EV sales have continued to soar, increasing to 16% of the UK car market and surpassing diesel last year.

This rapid rise in sales can be largely attributed to the UK's ambitious electric vehicles target enshrined in government regulation: from 2030 onwards it will no longer be possible to purchase a new car powered solely by petrol or diesel. Instead, after this date, drivers will need to purchase electric or hybrid vehicles, moving to entirely zero-emission by 2035.

“Well-crafted regulation is proven to work, and must now be applied to the other areas of the economy that need to rapidly transition to Net Zero”

Certainty and trust in these EV rules – coupled with a long lead time – is giving private financiers the confidence to make transformative investments into the necessary EV infrastructure at a viable cost of capital. Financiers know the market will continue to grow, manufacturers have confidence to introduce new ranges and the government advances a key component of transport decarbonisation, all without having to spend large swathes of taxpayer money. As a result, across the country, manufacturers are growing their electric product offerings and charging infrastructure is being rolled-out, financed by the private sector. More may still need to be done, and further

government subsidy may yet be required, but the UK is in a strong place to advance the EV transition, bringing with it reduced carbon emissions, much improved air quality and reduced reliance on imported fossil fuels.

This approach – well-crafted regulation driving economy-wide transformation – is proven to work and must now be applied to the other areas of the economy that need to rapidly transition to Net Zero. These include heavy industries, aviation, food and agriculture, and construction.

In many of these sectors, some of the necessary technology exists – new buildings can be fitted with heat pumps and solar panels, steel manufacturers can replace coal-fired blast furnaces with electric arc furnaces – but moving from incumbent business models to lower carbon alternatives involve new costs, business risks and uncertainty. Not a proposition that some shareholders or financiers are typically happy with. This is particularly true when the gain – increased sales from customers motivated more by their desire to reduce their carbon footprint than by the lowest price – has yet to materialise at scale, hampered further by the current cost-of-living crisis.

Imagine for example that you are the Chief Executive of a company manufacturing concrete or steel. You and your shareholders know that at some point your company needs to make the transition to Net Zero. However, you also suspect that if you made that transition today, ahead of your competitors, the negative consequences may well outweigh the positives. To recoup the investment made, your products may suddenly become more expensive and, knowing that your customers primarily prioritise price in their purchasing decisions, you stand likely to lose market share from being less competitively priced than your peers. Attracting investment or lending to make this shift possible is therefore likely to prove very difficult. Rightly, potential investors or lenders will question how likely they are to see a return on their investment.

Heavy industries, like many others, suffer from ‘first-mover disadvantage’, where going first may be the right thing to do and is technologically possible, but where the immediate commercial benefits from doing the right thing cannot be realised. Of course, lowering emissions can reduce operating costs and these investments should be made as a matter of course. Equally, some customers are willing to pay a premium for sustainability and this should be applauded, however we have not yet reached a critical mass where multiple companies across various sectors are prepared to make the transition at scale. Furthermore, typical investment time-horizons often do not extend far enough to allow investors to factor-in the point in the future where operating in a Net Zero way will pay huge dividends.

In an era of government deficits and reducing government expenditure, governments cannot be relied upon to subsidise the economy’s transition through tax breaks and cash handouts. This is particularly true in the UK, where the current fiscal situation means any response to the substantial tax credits and incentives introduced in the U.S. through the Inflation Reduction Act is most likely to take the form of actions to ease doing business, such as planning reform, or refocusing of university research rather than new money.

However, a key approach open to government is to make better use of the government’s immense power as a regulator to unlock the private capital needed.

The enacting of a government regulation, for example, requiring all concrete sold in the UK to meet a specific sustainability or Net Zero objective by a certain date, could drive and direct capital flows almost immediately. Companies will approach lenders or investors for the capital needed to enable their continued legal operation and, with a levelled playing field, competition remains intact.

This approach to regulation can be repeated across the economy. The key ingredients are trust and timing. Preferably coupled with the creation of a positive

enabling environment, such as making it easier for wind farms or solar parks to receive planning permission and grid connections, building the skills needed to retrofit buildings or supporting universities to research new technologies.

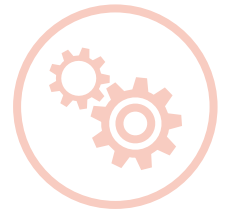
This approach works even better when the world is aligned and multiple governments work together to develop a set of common regulations and expectations on the carbon intensity of key industries, although countries must act in advance of global agreements.

“A key approach open to government is to make better use of the government’s immense power as a regulator to unlock the private capital needed”

It’s worth noting that, in common with all other climate solutions, corporate regulation is not a silver bullet. We cannot fix all problems this way. Governments, companies, financiers and citizens must be doing everything in their power to advance a rapid transition to a sustainable future.

The most obvious, and likely most effective, market-based solution would be to introduce carbon pricing across the economy. Such a system, coupled with international agreements or border adjustments, would similarly unlock flows of capital for the transition, in a blunter and more widespread fashion.

Either way, the government alongside other actors, such as investors and financial institutions, must act now. Taxes and regulation require many years of consultation, pre-warning and parliamentary process to enact. The 2020s, the decade where climate action must rapidly accelerate, are slipping away. Getting back on track with Net Zero requires concerted action which must transform the levels of private finance flowing into the transition.



Can regulation unlock manufacturing?

Fhaheen Khan

Senior Economist, Make UK, The Manufacturers' Organisation

Investment is diverse and can come in different forms and perspectives. In manufacturing, this can be in capital equipment, innovation, skills, or software. In its broadest form investment constitutes a costly action today with the belief that something good will come from that action tomorrow, whether that is in monetary or other qualitative terms (e.g., investment in skills).

Business investment is critical to the UK manufacturing sector's success. The sector accounts for 16-17% of all UK private sector investment as well as 64% of total R&D spend (ONS, 2022). Despite only making up about one-tenth of the UK economy, manufacturers push above their weight when it comes to investment, highlighting the industry's commitment to creating jobs and prosperity at home.

However, these last few years have been excruciatingly turbulent for manufacturers, from Brexit uncertainty to Covid-19 challenges, and now the energy crisis which threatens to shut businesses down for good. Investment activity has suffered continuously since. Indeed, Make UK research shows that investment intentions have fallen off a cliff as rising inflation and energy bills put a break on business's growth plans.

Is it time to look in the mirror?

Change starts from within. The UK economy is a world class location for business activity, but years of underinvestment have indicated that we need to take a bolder approach to domestic policy and regulation to ensure businesses thrive at home and abroad. This also means being wary, and considerate, of regulatory standards overseas. This is not to ensure that only firms based in the UK feel confident investing in the UK, but so that foreign investors also feel that confidence. For example, UK-only based manufacturers have been identified to spend

8% of their turnover on capital investment compared to international companies with UK subsidiaries (5%) or UK companies with international operations (7%).⁹ It is imperative we consider the outsider's perception when designing and implementing regulations in the future, to ensure that foreign investors are as confident in the UK market as domestic businesses are.

Domestic policy and regulations are designed with the intention to support and enhance competition. Well-designed regulation can play a key role in creating the conditions for effective competition and innovation. A 2021 study by the Regulatory Horizons Council finds that good regulation can drive innovation in a number of ways; for example, by setting common standards, providing the clarity required for investment, and by supplying the public with the confidence they need to use new products and services.¹⁰

“Well-designed regulation can play a key role in creating the conditions for effective competition and innovation”

Regulation by itself is not known to deter material investment within industry. Discussions with Make UK members regarding better regulation often highlight the need for good regulation to protect businesses and ensure quality of standards, such as safety for workers, PPE, machinery and equipment, electricity wiring and gas pipes and many other areas. Only in certain cases can regulatory requirements be either poorly designed, or poorly implemented or both.

A recent example highlighted by many manufacturers was the switch from CA to UKCA markings on product labelling to allow the sale of goods in the UK. This resulted in many businesses being required to test their products in both EU and UK test centres, even if the product in question was identical and already satisfied minimum standards in at least one test centre. Although the Government rightfully recognised this issue and temporarily extended CA marking acceptances in the UK, many had already invested in ensuring their products are correctly labelled. Other barriers include additional bureaucracy, complicated planning regulations that limit physical expansions, or difficulties in understanding, which can increase costs or dampen ambitions for some manufacturers.

The example above highlights a circumstance which has resulted in regulatory uncertainty; showing the impact of the UK's ambition to diverge on regulations from Europe and the practicalities of the costs associated with making such drastic changes. In fact, almost one in five (19%) manufacturers have said that the increased cost of meeting EU regulation (e.g. REACH) was a major risk to competitiveness in 2023.¹¹ According to over four in ten manufacturers, the UK is now less attractive to foreign investors who are shying away from UK markets – partially due to regulatory uncertainty causing headaches in the board room.¹²

Good regulation - a better way forward

In the spirit of good regulation, Government can look at existing policy tools and modify them to ensure incentives for investment are strong, and enable industry to compete on a level playing field with international competitors. Make UK recently investigated how investment decisions are made within manufacturing businesses, and took a deep dive into capital allowance regimes, a tax allowance for businesses making investments in certain capital goods. The survey of UK manufacturers found three revealing ideas on manufacturing investing. Firstly, manufacturers invest in cycles which can vary by type, for example, most manufacturers (66%) invest annually on skills, 70% (re) invest every 2-4 years on software, 55% invest every 8 years or more on physical space and 61% of manufacturers invest every 2-8 years on plant and machinery. It is clear that time is a significant factor, and short-term solutions like the super-deduction will not help many businesses to make productive investments.¹³

Secondly, almost one-third of manufacturers preferred the £1m threshold for the Annual Investment Allowance to be made permanent (a policy change the Government implemented during Liz Truss' premiership) and over one in four wanted to see the introduction of full expensing (uncapped 100% capital allowance) to incentivise greater investment. This is surprising, given that only 9% of manufacturers factored Government support in their investment decision-making process. This indicates that businesses need support to be generous enough to make an impact on decisions.¹⁴

Thirdly, lessons learned from the super-deduction indicated that whilst being a very generous scheme for manufacturers, it was too exclusionary and short-term for many manufacturers. Business support is important, but its impact will be limited if it is not accessible. These findings supported the development of the "Principles of Capital Investment Incentive Design" which encourages Government to place three principles at the heart of incentive development: Longevity, Generosity and Accessibility.¹⁵

We argue that a similar approach can be applied to regulatory design. The goal should be to ensure that regulatory uncertainty is minimised, the application of any new rules are simple to understand, and exemptions are applied to generate investment activity in the areas the UK aims to be a leader. For example, by taking a long-term view to competition as well as ensuring regulations do not reduce accessibility, so that they do not impede investment or innovation activities. It is not clear how regulations can be made generous, but coupling regulations with policy incentives (e.g., through exemptions in existing regulations or incentives) can support investment activity being channelled in the right direction. This can support generating investment in Net Zero, AI or other digital technologies.

The challenge is how to maintain flexibility in regulation, whilst also providing certainty for the future. The opportunity lies in building of trust in the regulatory system, so that business can feel confident that the risks they take provide a fair opportunity to reap rewards.



Responsible business and regulation

Why we need both

Mary Macleod

Chief Executive, Business in the Community

I'm a firm believer that businesses can truly be a force for good. As the CEO of the UK's largest membership organisation dedicated to responsible business, I hear stories every day of the incredible work of business leaders who are all too often having to adapt to external events such as the pandemic and rising costs of living to ensure that they are supporting those that need it most. Ninety-nine per cent of this work is done without any regulation or expectation from governments for businesses to go beyond their corporate obligations. Business leaders do it because they believe it is the right thing to do, and I think that there's something very powerful about a business donating time, money and resource to a cause because they care, not because they have to.

Companies use the term Corporate Social Responsibility (CSR) alongside terms like Environmental, Social and Governance (ESG) or social value to show that they have invested in initiatives beyond business operations. But no matter what it is called, they all mean the same thing – businesses acting responsibly. Responsible business was first introduced in the UK in the middle of the nineteenth century as employers realised that they needed to offer more than a salary to their employees if they wanted to run a successful business, such as giving employees housing near their workplaces. While the term 'responsible business' was not defined then, it is far from a new phenomenon and has evolved as societal priorities and challenges have changed over time. But even with change, one thing has remained the same: the meaning and purpose of a business acting responsibly.

When Business in the Community (BITC) was founded in 1982, it was created by business leaders who believed that the private sector should be a force for good. The then Prince of Wales became the Royal Founding Patron, and

BITC, as we know it today, was born. Today, we work with businesses that employ over 20% of the UK workforce to drive responsible business practices into everyday business life. The action that has been taken by business leaders covers every region and sector in the UK, and it should be noted that the majority of this work spanning forty years has been done without regulation.

“Regulation is an important driver of responsible business. Regulation is needed when a government wants to do something quickly, or if the issues they are trying to solve are complex and not at the top of the business agenda”

There are many examples of businesses putting energy into initiatives that are not linked to business success. During the pandemic, half a million people were supported through BITC's National Business Response Network (NBRN), a programme that connects businesses with charities in need of supplies and skills. Tesco Mobile donated 828 phones to 34 charities to allow their users to stay connected with their support services. This is an example of real and tangible action from businesses that shows that they care about more than the numbers they report to their shareholders, even though the message coming from shareholders has been loud and clear in recent years; investing in responsible businesses matters to them now more than ever.

Female representation on boards is one of my favourite examples of a successful collaborative approach between government and business to increase the number of women on company boards. Following the government's position that this was a priority, but not necessarily one that needed regulation, they called for an independent review to explore how to get more women on company boards. Lord Davies led a review in 2011 and made several recommendations for businesses to address the imbalance. Although the review concluded that this work should be business-led, it didn't stop the government from providing strong leadership on the issue and working hand in hand with the business sector to drive change. Lord Davies said the "government must reserve the right to introduce more prescriptive alternatives if the recommended business-led approach does not achieve significant change", and 12 years later, it is great to see that this approach did work, and the 'prescriptive alternatives' were not needed.

Last year, the government published new guidance to help companies achieve the UK's target of having a minimum of 40% female representation on boards by the end of 2025. The number of women on FTSE 100 boards increased to 39.1% in 2022, up from 36.2% in 2020 so there has been considerable progress in a short period. Even though the government has taken a very strong leadership role in this work, businesses are reaching these targets without any regulation enforcing them to do so.

But even with all the great examples that we have of business action, regulation is an important driver of responsible business. Regulation is needed when a government wants to do something quickly, or if the issues they are trying to solve are complex and not at the top of the business agenda.

Gender pay gap reporting is a great example of strong and much-needed regulation that was introduced after businesses began to publish their gender pay gaps voluntarily. In 2017, the UK Government announced that any employer with over 250 employees would have to publish their gender pay gap. Before the government introduced these requirements, businesses like KPMG realised that they had a duty to their employees and wider stakeholders to make this information public. Data shows that the gender pay gap is closing, even though progress stalled during the pandemic. Regulation has

been instrumental in the pay gap closing, albeit slowly and BITC can see the huge benefits for both businesses and employees in making pay gap reporting mandatory for other groups too such as Black, Asian, Mixed Race and other Ethnically diverse employees.

The success of gender pay gap reporting has led BITC to call on the government for mandatory ethnicity pay gap reporting to be introduced. Evidence shows that pay is different for people from ethnically diverse backgrounds, so we want employers to be transparent about what their pay gap is and most importantly, outline how they are going to address it. Similarly to the gender pay gap, businesses are leading the way in understanding the importance of this information, with our research showing that 19% of UK employers are already capturing their ethnicity pay gaps, increasing from 11% in 2018. While action is already being taken by businesses, our research shows that without regulation it will take until 2075 before the ethnicity pay gap of the UK will be known, let alone companies reporting on it.

"Our research shows that without regulation it will take until 2075 before the ethnicity pay gap of the UK will be known, let alone companies reporting on it"

The examples above show there is no arguing that regulation is needed for certain issues, although we have seen first-hand how businesses can achieve significant change without it. It is our goal to get businesses and the government working together to address issues in society, as we believe that business-led initiatives can be just as powerful as regulation when it comes to driving change. Regulation should be used when there is no other option for the government or if action needs to be taken quickly on complex or non-business priority issues. If responsible business was seen as the only way to do business in the UK, I suspect we would see a lot more businesses working together to address societal issues and subsequently, the need for regulation would significantly decline.



Why we need regulation to bridge the UK's widening digital divide

Maria Lema

Co-founder, Weaver Labs

Telecommunications is a heavily regulated market. There are many reasons why this is important. Networks are a critical infrastructure for many reasons: they provide links to communicate with one another, and support the delivery of critical services.

In the past decades, most democratic countries have opened up state-owned telecommunications infrastructure and operators in an attempt to attract private sector investment and spur innovation. Today, the UK has a competitive market in both mobile and fixed networks.

“Regulation can deliver the incentives which would allow key providers to invest in connectivity where the market incentives are failing”

This transition from a monopolistic state-led model to a competitive market has delivered on many fronts. It has benefited consumers and fostered rapid technological improvements. We obviously want to continue benefiting from a competitive market. However, we need to ensure that regulation in the telecoms industry helps deliver an inclusive society.

And at present this is not the case. Around 11 million people in the UK are digitally excluded, and around a third of those live in social housing. Ofcom estimated that at the start of the Covid-19 pandemic that almost a million children lacked a good connection to the internet.

Too many low-income areas of the UK do not have adequate connectivity. Eight percent of UK households' average speeds over 24 hours were less than 10mb. These tend to be the areas with the lowest growth where the commercial incentives are weak. This in turn means that investment delivers little by way of strategic advantages, or in terms of defending the competitive position of private providers. There's little certainty on the return on investment, and a weak business case for large service providers, which instead focus on the more profitable consumer network.

A deregulated market won't deliver equal coverage and service. Instead, it will contribute to widening regional inequality. These inequalities are likely to grow as the number of industries and services that require access to connectivity increases. Whether it's manufacturing, transport, construction, tourism or retail, the industries of the future will be more dependent on connectivity. Current telecoms infrastructure regulation is not ready to meet this challenge.

Regulation can deliver the incentives which would allow key providers to invest in connectivity where the market incentives are failing. We need regulation to address barriers to entry, encourage more public/private partnerships, and enable cost-effective access to the network across the UK.

The first regulatory area that can unlock funding in left-behind areas is 'spectrum' – which relates to the radio frequencies allocated to the mobile industry for their transmissions over the airwaves. Only a limited amount of spectrum is available, so it needs to be controlled and authorised, which in the UK is overseen by the regulator

Ofcom. In the Future Telecoms Infrastructure Review, DCMS (now DSIT) underlined the importance of Ofcom to increase the access of spectrum in order to promote efficiency and innovation, and it was set as an area of strategic priority to promote investment to achieve the UK's connectivity ambitions.

Smart regulation aimed at bringing about better ways of sharing spectrum could allow new organisations (including local authorities) to secure access to spectrum and alleviate the pressure placed on traditional service providers.

There are great results already from the shared spectrum scheme started by Ofcom in 2020, where organisations can access a specific band of 5G or 4G spectrum to run local private networks. We can see excellent examples of the use of this scheme in Liverpool and Manchester, with government organisations leading infrastructure deployments to tackle specific public sector needs – such as social inclusion, healthcare and education.

Another area where regulation plays an important role is in reducing the cost and the barriers to entry for new players in both fixed and wireless networks. Regulation and policy must be in place to create the conditions for

new organisations to build networks, in order to remove the exclusivity given to large mobile network operators to build and operate in certain areas of the country.

For example, barriers to entry could be reduced via the introduction of rules which stipulate that new entrants have access both to existing telecoms infrastructure owned by large incumbents, and to non-telecoms infrastructure (such as street furniture, ducts and poles).

“Sensible regulation is key to bridging the UK’s digital divide, and delivering excellent service across the country – as well as cementing the UK’s position as a leader in these technologies”

Sensible regulation is key to bridging the UK's digital divide, and delivering excellent service across the country – as well as cementing the UK's position as a leader in these technologies.

**Why regulations
unlock green
growth**



Sensible regulation

The route to green growth?

Ben Westerman

Head of Policy, Aldersgate Group

As Britons feel the effects of the cost-of-living crisis, the Government breathed a temporary sigh of relief in January as the economy avoided recession by the narrowest of margins. Digging into the figures, it is clear that the UK is not out of the woods, with families and businesses still experiencing a major downturn in living standards. The longer-term picture is more worrying still: the economy is yet to return to its pre-pandemic size, having suffered a prolonged period of weak growth since the financial crisis. But the figures are not without a glimmer of hope. Falling wholesale gas prices and inflation on track to dip sharply later this year could yet spare us the worst-case scenario some feared.

One outcome of all this has been an all-too-rare consensus amongst economists that there can be only one response for the government: go for growth. The consensus does end there, as the conversations about how to achieve it are exposing very real ideological divides. Though her time in high office was brief, Liz Truss lit the touchpaper on a debate whose implications will shape our politics for years to come. Perhaps the most far-reaching is the role Net Zero will play in economic growth.

The economics is clear: the UK has a growth problem. We are set to see the slowest growth of any economy in the G7 this year.¹⁶ Backing green can change all that.

Net Zero represents *the* economic opportunity of the 21st century. Accelerating the low-carbon transition isn't just a global moral imperative, it presents huge opportunities for economies that can maximise the competitiveness and export opportunities of green technologies. **However, if the UK is to realise these opportunities, it must embrace sensible regulation as a key means to ensure these technologies are taken up quickly, and to ensure that the UK can keep pace in a competitive market.**

Where historically the UK has been a leader in technology and innovation, now it is falling behind, and at some pace.¹⁷ Smarter regulation and policy are needed to ensure that market share is not lost more than it already has been in sectors where innovation and skills strengths mean the UK has the potential to gain.

What's more, Net Zero can help to address systemic issues with our economy that have hampered growth and prosperity for too long, from deploying technology to lagging productivity, reshoring supply chains to *Mittelsand*-style growth. But this opportunity won't last forever. UK businesses see green as the biggest growth opportunity available, but Government must set the conditions now to unlock a combination of investment incentives and smarter regulation that will realise these opportunities for the UK.

Over the course of the last decade, the UK has been plagued by stop-start policy on climate mitigation. As the Cameron Government sought deficit reductions, it cut short its own programmes to develop capabilities on energy efficiency¹⁸ and carbon capture.¹⁹ Only now, with an energy crisis exposing leaky homes and a reliance on volatile gas markets, are we reaping what was sowed. The rest of the world, meanwhile, is marching ahead, with the race to Net Zero well underway across the global economy. The UK, with historic strengths in innovation and skills, should not just be part of the race to green; it could – and should – be leading.

Ours was the first major economy to commit a Net Zero target into law, something of which we should be rightly proud. More firms aligned to the UN's Race to Zero are headquartered in the UK than any other nation, almost 70% of the FTSE 100. Yet the UK now has one of the lowest proportions of spending to address climate change of major economies. In France, climate spending as a percentage of GDP is twice that of the UK. Germany's commitment is four times greater.²⁰ The U.S.'s Inflation Reduction Act has fired the starting gun on a global race

for green, as it stimulates green industries through a wildly ambitious subsidy regime alongside \$370 billion in funding over the next decade. It is no coincidence that it is these economies that the IMF is forecasting to enjoy the greatest growth in the coming year.²¹

In the UK meanwhile, our share of the European market in electric vehicle (EV) assembly and battery production has fallen 1% in just two years, according to the CBI. In hydrogen electrolyser, that decline was 4% in that time, equivalent to a loss of £1.3bn in value by 2030.²²

At the Aldersgate Group, our members with a collective turnover in excess of £550bn are clear that businesses support well-designed, robust environmental regulations. They provide a stable framework within which businesses can receive predictable revenues for investment, which in turn supports innovation, supply chain growth, skills, and job creation across the country. As we face an economic crisis, the route to growth is about making choices and backing winners; now is the time for the UK to choose its path.

“Our members are clear that businesses support well-designed, robust environmental regulations.

They provide a stable framework within which businesses can receive predictable revenues for investment, which in turn supports innovation, supply chain growth, skills, and job creation across the country”

It is our stagnant productivity that is hindering growth.²³ The relationship between productivity and climate action is not simple, but no example stands out more than renewable energy. A decade ago, wind and solar power cost more than electricity generated by fossil fuels, compounding a lack of productivity gains. Now, they cost considerably less and significantly enhance productivity. What changed? The cost of technology, underpinned by ambitious policy and a governmental choice to back offshore wind and foster innovation. The result was one of the biggest success stories the British economy has known in recent times. Similar opportunities to grow the economy and recreate that success lie in EVs and low-carbon power, but as before, policy and regulation are essential to ensure that these technologies are taken up quickly. There is clear value in government thinking about productivity and Net Zero together, responding with policy to ensure that that productivity gains – and growth – are achieved.

Conversely, failing to intervene now will only see the UK's economy fall behind. Take chemicals, for example, one of the UK's foundation – and hardest to decarbonise – industries. Research has shown that chemical companies

who have invested in more biological, recyclable, or low-carbon products perform better on capital markets, yielding significantly higher total return to shareholders (TRS).²⁴ A step towards decarbonisation, and most certainly a sign of healthy margins and genuine growth. These are the outcomes companies need to deliver alongside emissions reductions through investment in new feedstocks, cleaner energy, lowering direct furnace emission, and recycling capacity. Investment now is clearly the fiscally responsible route to growth.

Moreover, there is a growing body of evidence telling us that failing to act on climate change now will have hugely negative implications for economic growth. The cost of adaptation to climate damage will rise to 3.3% of GDP by 2050 from 1.1% now under current policy. Mitigation action now, however, could reduce the impacts of climate-induced damage to the UK from 7.4% of GDP to 2.4% of GDP by 2100.²⁵ The Office for Budget Responsibility has forecast that debt will be 23% higher and GDP 3% lower if we do not immediately mitigate against and adapt to climate damage. Failing to act at all would see debt reach 289% by 2050.²⁶ Flooding alone cost the UK £333 million between March 2019 and March 2020.²⁷

Climate action is no longer just a moral argument. Actions to reduce emissions or restore nature now *generate* growth for sluggish economies, from renewables offering cheaper energy along with jobs and innovation, to electric vehicles offering significant growth potential as demonstrated by the USA's market boom. Recent research from the IPPR has found that a 0.5 percentage point increase in UK GDP would loosen the fiscal constraints on government budgets and allow about £12 billion more in public spending. Net Zero would boost GDP by around 2% by 2030 and 3% by 2050, creating high-productivity, high-value new industries powered by cheaper energy.²⁸ The Treasury's own Net Zero Review²⁹ outlines that investment in green infrastructure will deliver 2.5 times the growth returns of fossil industries.

This year's *Review of regulation for emerging technologies* by Sir Patrick Vallance could represent a watershed moment in Government's thinking: offering regulatory certainty

now will only attract investment, invite innovation and boost growth, while tackling the UK's historic problem in scaling technologies for the marketplace.

Be it growth of GDP, acceleration towards our Net Zero goals, growth of strategically important defence, energy and national security, or creation of high-paid, high-productivity jobs, the opportunities of green industries are abundant. Now is not the time to shy away from investing in green. Driving new industries, just as is happening across Europe and America, will generate stronger growth, increase productivity and improve our environment.

The choice in front of this *and* the next Government is crystal clear: invest now, bring forward sensible regulation, corner a market share, increase prosperity and grow the economy. Alternatively, leave the opportunity on the table for other countries to seize, and miss out.



Good regulation can enable competition, innovation and consumer trust in clean energy

Rachel Fletcher

Director of Regulation and Economics, Octopus Energy

Case study - energy retail price regulation

Britain was one of the first countries to privatise its state owned energy industry, paving the way for private investment and showing the world that a combination of competition and independent regulation can deliver efficiency and service improvements. Following restructuring and privatisation of electricity and gas utilities in the early 1990s, the domestic retail market was opened to competition, allowing households all over the country to choose an energy provider other than their legacy gas or electricity supplier.³⁰ By 2002 the market was fully liberalised, all price protections removed, leaving the market to work in a fully competitive mode with oversight by the regulator, Ofgem.

This essay is the story of why, within a decade, pressure built to reintroduce retail price protection and how a new regulated cap on customer energy prices managed to both protect customers and strengthen the competitive market. This is also the story of how a regulatory intervention that was well designed initially, failed to keep pace with rapid changes in the wider energy market. The punchline is not the need for deregulation. The case study instead shows that when it comes to essential services like energy, it is vital to invest in highly capable regulatory bodies with the industry expertise and bandwidth to handle complex and fast moving events.

“Well-judged regulation can enhance competition to the benefit of customers and society more generally”

Why regulatory intervention was needed

According to textbook economics, the ability of customers to “vote with their feet” if their retailer provides poor service or value, along with the ability of new companies to enter the market, should be sufficient to constrain consumer prices, drive up standards and create innovation. Indeed, in the early 2000s it was expected that once the energy retail market was fully liberalised, Ofgem would be able to close down its retail activities, leaving oversight to the competition authorities, like any other consumer market.

In practice, very quickly after liberalisation, concerns began to be raised about the difficulties customers faced in making “informed choices”. It became evident that some customers were switching only to find out that they were worse off, and others found the process too difficult or not attractive. While regular switchers were often finding better deals, many customers were disengaged, with a high proportion still with their legacy supplier for at least one fuel. Indeed 15 years after market opening, a survey found that 56% of customers had never switched supplier, did not know that they could do so or could not remember if they had ever switched.³¹

Despite investigations and some interventions by Ofgem, there was widespread public distrust of the energy market – including the view that retailers were putting up prices for loyal customers as soon as wholesale prices increased but were slow to reflect wholesale drops (the so-called “rockets and feathers” problem). In its 2016 review of the retail market the Competition & Markets Authority concluded that disengaged customers were paying a loyalty premium of between £1.4bn to £2bn a year. With energy as an essential service, this issue was

highly political, rarely out of the headlines. The scene was set and within a few years legislation had been passed requiring Ofgem to introduce a price cap on “default” tariffs – the price a customer would pay if they did not make an active choice in the market.

Those opposed to the introduction of the tariff cap – including this author, working at the time in Ofgem – feared this intervention would reduce competition, make it harder for new entrants to grow and innovate and

dampen the incentive on customers to shop around for a good deal. Of note, after many years of retailers competing mainly on the price and duration of the deal offered to customers, new entrants like Octopus Energy and Ovo were beginning to offer “time of use” tariffs to encourage people to use power when the grid was greenest and energy the cheapest. The concern was that customers would ultimately lose out and that the new products that were beginning to emerge to help customers play a part in achieving Net Zero would dry up altogether.

The positive impact of price regulation

Reality proved these fears wrong. From the introduction of the cap in January 2019 up until the energy crisis in Autumn 2021:

- £ below price cap fixed deals remained in the market and customer switching levels retained peak levels (see Figure 1)
- £ service standards increased amongst the legacy suppliers (see Figure 2); and
- £ energy prices stopped being a matter of top public concern, with customers confident that even if they didn’t switch they were paying a “fair” price

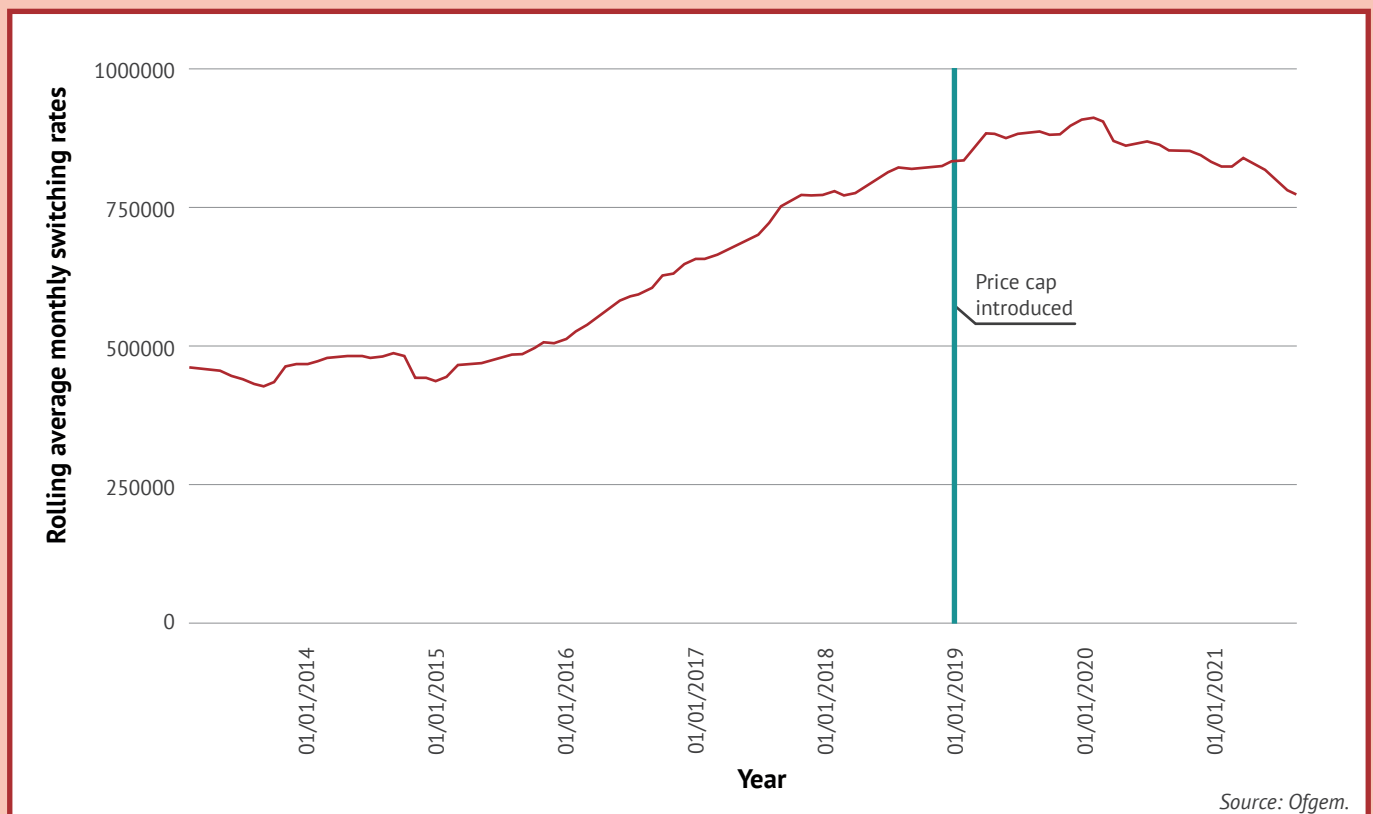


Figure 1: Rolling average monthly switching (Gas and Electricity combined)

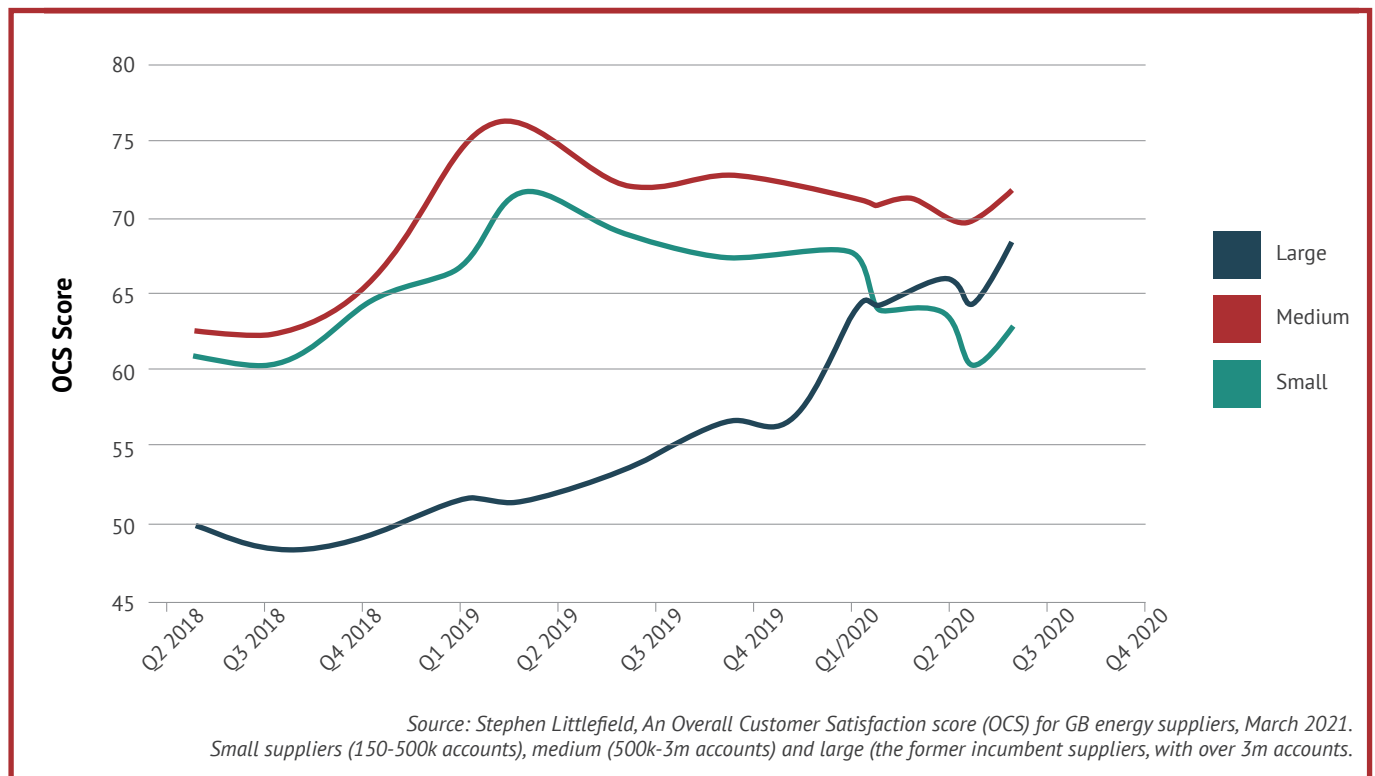


Figure 2: Median Overall Customer Satisfaction (OCS) scores by size of supplier

What was happening behind the scenes was also fascinating and proved the doom mongers wrong. The tariff cap put more pressure on legacy suppliers to reduce costs than nearly 20 years of competition had ever done. For some, it provided the final straw and they decided to exit the market. Those that decided to stay made a rush to invest in the IT systems to achieve efficiency and improve service.³²

In effect, the cap meant that legacy retailers could not simply transfer the cost of acquiring new customers onto their loyal customer base. With new entrants like Octopus exhibiting substantially cheaper cost to serve – and better service – for the first time legacy suppliers felt the heat of competition.

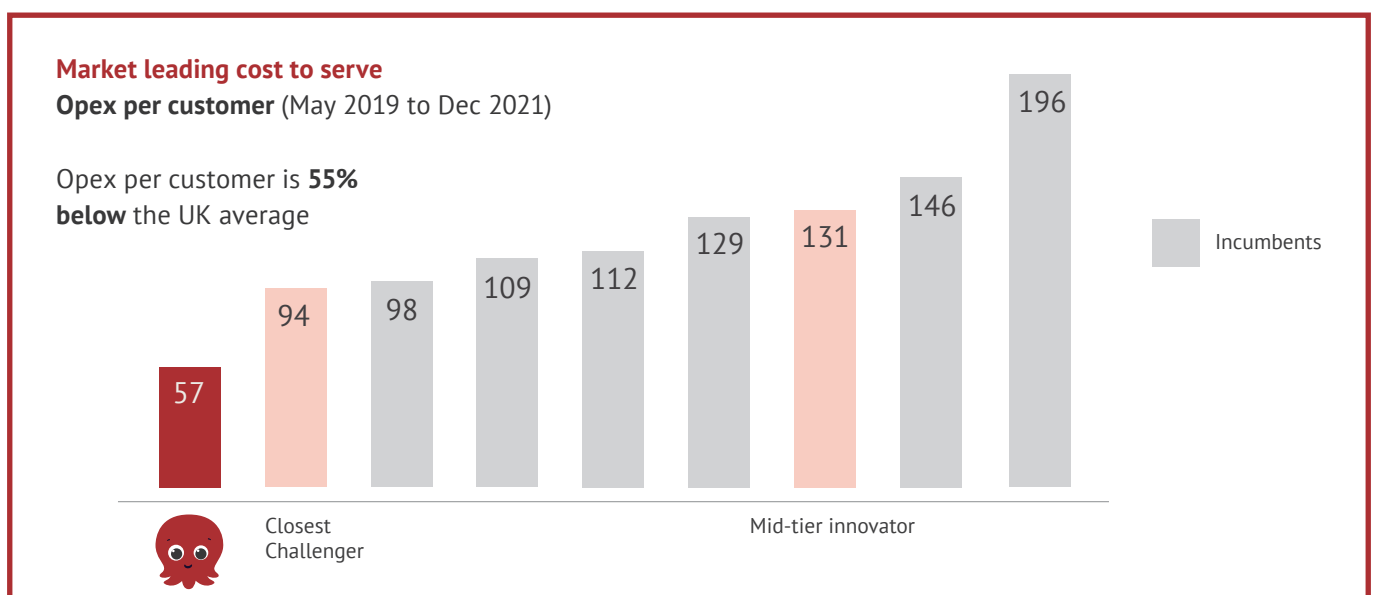


Figure 3: Cost to serve £/customer - Octopus compared to others

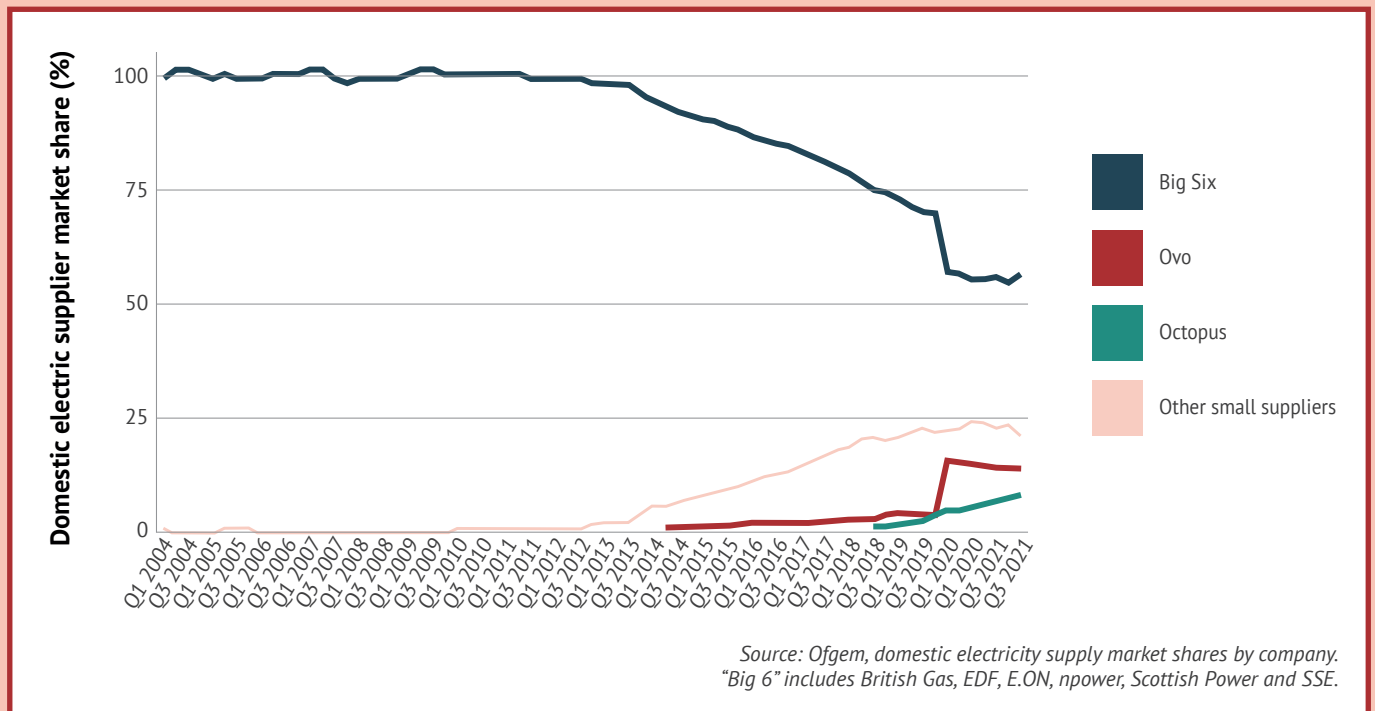


Figure 4: Domestic energy market share (%)

Alongside these business improvements, the market dynamic began to change substantially. In the period up until the price cap, legacy suppliers had retained over 75% of the market, with no new entrant ever having gained more than 5% market share.³³ By the time the energy crisis hit in late 2021, two of the legacy suppliers had exited³⁴ and new entrants accounted for nearly 45% of the market, with Ovo and Octopus holding 14% over 8% of the customer base respectively. Contrary to expectations the regulatory constraints on the prices charged to loyal customers provided an environment in which genuinely more efficient new entrants, offering good service and innovative tariffs, could thrive.

New thinking needed for new times

It is undeniable, however, that the arrangements introduced to good effect in “peace time” have not withstood the challenges of war. By the end of 2021 wholesale prices were beginning to spike and show considerable volatility. A lag in the tariff cap reflecting these wholesale movements put retailers under considerable strain – and led to the removal of fixed deal offers below the price cap level. The cap had, up to that point, allowed an efficient supplier to make a return on loyal customers. But as the energy crisis hit, all suppliers were severely financially damaged by the price constraint and the volume of customers moving to now loss making regulated tariffs.

The tariff cap is not to blame for the rash of supplier failures in Autumn of 2021 – nearly all the failed suppliers were properly hedged and had left themselves unprotected against adverse wholesale price movements.³⁵ However, because these suppliers could not cushion the blow by putting up prices, the tariff cap almost certainly accelerated their demise. Ofgem has spent much of 2022 making amendments to the price cap to make it more suitable for volatile wholesale market conditions. Simply transferring the cost of market volatility from the supplier to the customer is not realistic in a cost of living crisis. It is now time for a more fundamental rethink of what intervention will best protect customers while allowing for a robust and sustainable retail market.

Lessons learned

The case study reveals that there can be limits to relying on “free markets” to deliver great customer outcomes. It turns out the people are infinitely more complex and interesting than the rational economic actors assumed in economic models. Recent experience also shows how well-judged regulation can enhance competition to the benefit of customers and society more generally. The story of the energy price cap also shows that markets are complex and dynamic and that regulation cannot stand still. In a sector like energy, regulators need to be well equipped and able to react quickly to change their approach.



Regulation is the key to unlocking the electric transport transition

Jack Cooke

Communications Officer, New AutoMotive

The transition from polluting petrol and diesel vehicles to electric vehicles (EVs) is a crucial aspect of one of the most profound technological changes in human history: the end of the use of fossil fuels in favour of cleaner, greener renewable energy. This transition is currently playing out on roads across the UK. In 2030, the UK will end the sale of new petrol and diesel vehicles. In 2035, all new vehicles sold will be required to be zero emission vehicles (ZEVs). 2022 was a hugely significant year for the UK's transition to electrified transport, seeing significant growth in EV take-up.

Despite this, there still remains much to be done before Britain can begin celebrating a successful transition. Regulation must play a key part in bringing this transformation about.

Consumer demand, spurred by government incentives, has been the driving force behind the uptake of EVs thus far. But as grants and tax breaks become increasingly expensive, the introduction of new, strong regulations are now necessary to facilitate the further growth of new electric vehicle sales, and expansion and innovation in parallel industries like battery manufacturing and the EV charging infrastructure sector. Now is not the time to take the foot off the pedal; it is the time to double-down, implement effective regulatory frameworks, and capitalise on the hard-won momentum that has been built so far. Given this, implementing an ambitious Zero Emission Vehicle (ZEV) Mandate is the natural next step in the UK's transition.

So, what is a 'ZEV mandate', how would it function, and what would it aim to achieve? In the simplest terms, a ZEV Mandate is a policy framework that incentivises

manufacturers to sell more zero emission vehicles by assigning individual ZEV 'credits' to vehicles, and setting annual targets for the number of credits manufacturers must achieve. If these targets are not achieved, manufacturers receive a fine. Credit targets are set as a percentage proportion of the company's total car sales. Manufacturers that exceed their annual credit target may sell surplus credits to competitors, or count these credits towards their next annual target. An effective ZEV Mandate should be flexible, but ambitious – a mandate that is not ambitious enough risks becoming irrelevant. A crucial function of the UK's ZEV Mandate will be to formally enshrine the aforementioned 2030 and 2035 phase-out targets into law. Whilst the government has publicly committed to these targets, they are not currently legislated for and are therefore vulnerable to the vagaries of politics.

As the transition to zero emission transport enters its next phase, the role of regulation in driving progress will be crucial. The ZEV Mandate, which will be implemented via powers granted to the government under the 2008 Climate Change Act, is a key policy lever in facilitating the government to achieve its Net Zero commitment. The idea of a ZEV Mandate is tried and tested. Ultimately, its underlying goal is simple; to facilitate a timely and equitable transition to electric transport.

The ZEV Mandate will ensure the supply of EVs into the UK will be able to meet demand, as manufacturers increasingly prioritise the allocation of their limited stocks of battery electric vehicles to markets with policies incentivising them to do so. It will also make electric cars more accessible, lowering the upfront cost of an EV by making them more profitable to sell in the UK.

This increased accessibility would be a massive boon to British consumers, as EVs offer drivers far superior value for money compared to internal combustion engine (ICE) vehicles. This is largely down to one crucial fact; EVs are almost always cheaper to run than polluting petrol and diesel cars, and thus save motorists significant amounts of money. An EV charged at home via an EV energy tariff can be up to 49% cheaper to run per mile than an ICE vehicle. EVs charged at home via a standard variable tariff are around 16% cheaper. More often than not, charging via the public network is also cheaper than running a diesel or petrol car. New AutoMotive have calculated that an electric car is cheaper per mile than a petrol car

“Now is not the time to take the foot off the pedal; it is the time to double-down, implement effective regulatory frameworks, and capitalise on the hard-won momentum that has been built so far”

whenever it is charged at 69p per kWh – around 70% of all public chargers in the UK are below this price. In the midst of a generational cost-of-living crisis, these savings have never been more important to motorists. Given this, it is essential they are made accessible to all – the ZEV Mandate is the most effective means of doing this.

The UK aspires to be a world leader in the transition to electric transport. Its work on the transition thus far puts it in the leading pack of the nations making the switch – the UK was the 10th best European nation for EV market share in 2021, and is well ahead of other English-speaking nations like Canada and Australia. EVs grew in both market share and total sales volume in 2022, even as the market shrank by 2% overall – which is indicative of the economic opportunity the transition presents British businesses.³⁶

However, seizing these opportunities will require significant finance. It is well established that the transition to a Net Zero economy will be capital intensive; the Green Finance Institute estimates that around £150 billion of investment

is needed by 2030 to facilitate a successful transition to zero emissions transport.³⁷ Steps must be taken to attract this investment – it will not magically appear by itself. Investors want certainty and stability, particularly when investing in relatively young companies operating in new industries. Indeed, a recent New AutoMotive report on the UK’s charging infrastructure industry found that sector stakeholders believed that uncertainty around future demand was the number one barrier to investment and future growth.³⁸

Government has a responsibility to help create an environment which gives investors confidence to provide finance to innovative British companies. Providing a stable and predictable regulatory environment is crucial, and has worked in the past; the UK government’s Renewables Obligation created certainty around demand in the midst of a transition away from polluting sources of energy, and directed investment toward new, renewable means of generating energy. The ZEV Mandate can play the same role for the transition to clean and green transport. It will provide certainty and help unlock investment. Credit targets set for vehicle manufacturers would signpost a minimum level of demand for the products and services of parallel industries, like infrastructure providers and battery manufacturers, ensuring they could be confident in future demand and helping them to attract investment. This would in turn unlock the growth of new, green industry, and create thousands of future-proofed jobs in the UK.

Perhaps the most powerful effect of well-designed regulation in the form of a ZEV Mandate would be its capacity to align the interests of business with those of British consumers. The transition will come with countless benefits to the British public; such as better air quality, cleaner cities, and financial savings. It would also have knock-on benefits for sectors which operate symbiotically to the car industry; British battery production and charging infrastructure companies will be able to invest in their own growth with confidence, as the Mandate will signpost the future growth of demand for their products and services.

The transition to electric transport has achieved hard-won momentum over the last several years. The ZEV Mandate is the key to capitalising on this momentum and unlocking the vast social and economic benefits the transition offers Britain.



Regulation enables a future-ready green construction industry

Will Arnold

Head of Climate Action, The Institution of Structural Engineers, and Lead Author of Part Z

A 50 million tonne elephant in the room

In the UK, emissions due to construction, maintenance and demolition of the built environment now amount to nearly 50 million tonnes of carbon per year. We call these “embodied carbon” emissions, and they add up to more than our country’s aviation and shipping emissions combined.

In response to industry recognition of this fact, we’ve seen a seismic shift in the attitude of the UK design community over the last few years – with architects, engineers, builders and clients pushing to change the way the industry works to reduce embodied carbon in their designs. But it’s not enough.

No matter how well-intentioned and skilled the designer, how innovative the builder, or how enthusiastic the client, a project will regress back to business as usual if just one member of the value chain isn’t on board. Those wanting to go low-carbon are still concerned that they’ll be undercut by greenwashing competitors. Investors are under pressure to deliver quick returns that they believe are delivered by larger, more inefficient structures. And defaulting to standard construction materials is still quicker and easier than trying to convince insurers to let you break the mould.

So whilst the industry continues to make progress on reducing carbon, that progress is being hampered. There is an opportunity here for regulation to help the UK construction industry to thrive, to innovate, and to adapt. But for this to happen, we need to act now.

At 50 million tonnes per year, you might expect that the Government would already have plans to regulate to reduce these emissions in line with our legally binding Net Zero targets. But embodied carbon is completely unregulated. Over the last few years, reports have been published by the Environmental Audit Select Committee,

“There is an opportunity here for regulation to help the UK construction industry to thrive, to innovate, and to adapt. But for this to happen, we need to act now”

the Committee on Climate Change, and the UK Green Buildings Council, all calling for a mandatory requirement to assess carbon in buildings. The Environmental Audit Select Committee described this as “the single most significant policy the Government could introduce” with respect to emissions in the built environment.

Whilst our country’s Net Zero Strategy sets out an intention to “support action in the construction sector” with respect to embodied carbon, it doesn’t actually set out how it will reduce the 50 million tonnes of emissions. The criticism levelled at the Net Zero Strategy over the summer was that it lacks firm plans. You might argue that embodied carbon regulation is the elephant in the room when it comes to tackling emissions in construction.

Consistency brings efficiency

This isn't to say that embodied carbon reporting isn't happening in the industry – on the contrary. The Government's Construction Playbook calls for carbon assessments on all public projects, and this is being implemented across government. Similarly, major design firms with tens of thousands of employees are making voluntary commitments to calculate the carbon emissions of their designs. Construction industry bodies such as the Royal Institute of British Architects have set voluntary embodied carbon emissions targets.

“For as long as regulation is missing, every project will have different requirements. This costs design and construction teams time and money, costs that are ultimately passed on to ordinary people”

But all this ambition is hampered by a lack of regulation. The Construction Playbook provides no details as to how carbon assessments should take place, design firms are given different carbon requirements on each new project, and the voluntary industry targets remain just that – voluntary. As such, every school, hospital and road we build has a slightly different approach to tackling carbon emissions. This is highly inefficient, and is costing the taxpayer money.

For as long as regulation is missing, every project will have different requirements. Different investors, developers or local authorities will set different reporting mechanisms and different targets for each project. This costs design and construction teams time and money, costs that are ultimately passed on to ordinary people.

Embodied carbon regulation would standardise the methodology and base assumptions to be used across all projects, saving businesses and the public time and money.

Growth of a green construction materials market

Such regulation would also bring growth to UK industry that is already starting to innovate in pursuit of low-carbon construction products, from low-carbon steel and concrete to timber and biomaterials. Currently, most low-carbon building materials are more expensive than their counterparts. These are innovations, and so obviously start at small scale. And because there's not a strong incentive for builders to buy their products, their production stays small and their costs high.

We also import a huge amount of our construction materials from overseas, leaving us more open to global market forces and materials supply shortages, such as those seen over this summer.

Introducing a clear timescale to regulate embodied carbon emissions would provide the economic signal required by the UK construction industry to invest in decarbonising home-grown construction products, leading to the growth of this market in the UK – bringing economic growth and resilience to the sector.

It also aligns with the Government's desire to prioritise Levelling Up and to create regional hubs of innovation. Construction is one of the few major industries distributed across the entire country. Policy that decarbonises construction products is good for the whole country.

An oven-ready proposal

So many firms believe in the need for strong regulation on embodied carbon, that in 2021 I convened a group of industry experts to write a proposal for how this could be rolled out in the UK. Following the nomenclature of the rest of the building regulations, we named our proposal, “Part Z” and shared it with industry.³⁹

Today, more than 200 of the country's leading developers, clients, contractors, architects, engineers and institutions have written to the Part Z team in support of their call for the regulation of embodied carbon. This support comes from firms of all sizes – from sole traders and SMEs up to

global firms with billions of pounds of annual turnover. Many in Westminster support the call for embodied carbon regulation too, with the contents of Part Z manifesting themselves in a Private Members Bill last year, entitled the Carbon Emissions (Buildings) Bill.⁴⁰ We are also expecting an amendment to the Levelling Up and Regeneration Bill this month, with the same effect.

This support exists because it is now well-known that industry has all the tools it needs to respond to such regulation. And because those writing in support see that our European neighbours such as France, Sweden and the Netherlands have already enforced embodied carbon regulation, and they want the UK to be world-leaders on this topic, not followers.

The construction industry of the future

The UK construction industry is one of this country's proudest industries, and has a heritage that's world renowned, back to the days of Isambard Kingdom Brunel and Robert Stephenson. People travel from all over the world to gaze in awe at the Forth Bridge, the Shard, and the Palace of Westminster.

But construction must evolve if it is to remain one of our strongest assets. Currently, this industry's embodied carbon emissions add up to 50 million tonnes per year. At a time where private industry is already doing everything that it can within the current economic market, it is now

looking to government to unlock regulation that will enable the low-carbon construction industry of the future to thrive.

Such regulation will reduce the construction industry's carbon footprint whilst sending certainty that investing in decarbonisation is economically sound. It will bring economic growth, drive innovation, and will save the taxpayer money by bringing consistency and a level playing field to the sector.

“We have here a tremendous opportunity to make a significant impact on the UK’s carbon emissions, and to ensure the UK remains a global leader in this field. Regulation is the key to unlocking this potential”

The Government has the ambition and the mandate to decarbonise rapidly. The construction industry has the appetite, tools and skills to match this. We have here a tremendous opportunity in front of us to make a significant impact on the UK's carbon emissions, and to ensure the UK remains a global leader in this field. Regulation is the key to unlocking this potential.



Power Play

The next stage for sustaining and accelerating the renewable energy revolution

Ana Musat

Executive Director for Policy & Engagement, RenewableUK

Ten years ago, green growth still had much to prove, as a large share of the public, media and politicians wondered just how much the green economy could actually deliver growth and benefit society. Fast forward ten years, and we are seeing tangible evidence of green growth in sectors from energy, transport, manufacturing and finance, where the adoption of green alternatives has driven innovation, created jobs and raised productivity. Indeed, as the green alternatives are becoming more established in these sectors, we may end up with the cheaper, more efficient, green options taking centre stage, and green growth becoming the only type of growth that matters.

Nowhere is this clearer now than in the energy sector. Given the volatility in fossil fuel prices, not only are renewables providing the much cheaper alternative, they also offer the secure option by generating homegrown energy that can't as easily be switched off as flows of oil and gas through pipelines from countries like Russia. This has profound implications across the economy – without cheap and secure energy we can't keep the lights on, heat our homes, produce the fertiliser needed to guarantee food security, and we can't maintain a thriving manufacturing sector, risking supply chain disruption and deepening dependence on manufacturing superpowers like China.

On the positive side, we are already seeing the socio-economic benefits of increased renewable deployment materialising in the UK. The sector is creating good quality, well-paid jobs and investing in skills right across the country, positioning the UK as a goods and services export hub for renewable technologies. The offshore wind sector alone supports over 31,000 jobs – a 16% increase on 2021. These jobs are regionally dispersed, with Yorkshire and The Humber benefitting most by hosting 15% of the jobs in this sector. Achieving the Government's ambition of 30GW of onshore wind by 2030 could likewise generate £45bn of GVA for the UK, and create 57,000 jobs. At a time

of high energy prices, renewables are delivering by far the cheapest form of energy generation. For example, just at this year's government auctions, enough contracts for enough wind and solar capacity were secured to power 12.5 million homes, displacing enough gas to save each household over £100 a year.

A very important reason why this sector was able to deliver so much is the existence of a well-designed, stable, and attractive policy and regulatory systems. The framework, underpinned by the government-backed Contracts for Difference (CfD), has been instrumental in de-risking investment in what was at the time perceived to be a risky, high-capital form of energy generation. Together with investment from the Green Investment Bank (which was a public institution at the time), the UK was able to create a pipeline of projects which in turn made investment in renewable energy supply chain companies attractive – with the Siemens Gamesa blade factory in Hull being a good example. At the same time, the Electricity Market Reform in 2013 has kept market arrangements stable at a crucial time for the sector, enabling economies of scale to be reached and costs to come down.

Whilst regulation and market arrangements should evolve with the sector, we are now at a point where protracted or, in some cases, rushed reform – coming on the backdrop of the energy crisis and rising supply chain costs – risks moving the dial in the wrong direction.

A prime example of this comes from recent interventions in the market to tackle the supernormal profits of renewables as gas prices have skyrocketed. For most of 2022 rumours around the potential implementation or the shape of a price cap or windfall tax have put investment into the sector on hold, at a time when we should be supercharging it. Not only were these interventions based on perceived rather than actualised profits – given the

rising costs of materials, labour and finance impacting the bottom line of renewable generators throughout 2022 – they were also designed in a way that put renewables at a disadvantage to oil and gas, most notably through higher investment allowances for the latter.

At the same time, the Review of Electricity Market Arrangements (REMA), which looks to revisit the fundamentals of our electricity market design, risks being overtaken by the political imperative to decouple gas and electricity prices to benefit consumers. Whilst the aim is a sensible one, such extensive reforms should not be rushed to respond to a crisis or to serve purely political points. At a time of increasing budget deficit and with the help for household bills coming to an end in April, non-financial interventions through REMA could be seen as the answer to this quandary. However, we should remember that the previous Electricity Market Reform package from 2013 had been in development for over 3 years, with adequate consultation to understand the complexities and potential unintended consequences of radical reforms. This time the timelines are expected to be much compressed, with radical changes to how we price electricity and mechanisms for accelerating low carbon power deployment hanging over the sector after less than 1 year of consultations.

“A very important reason why this sector was able to deliver so much is the existence of well-designed, stable, and attractive policy and regulatory systems”

Such interventions are having a cooling effect on private investment, and risk delaying other reforms we urgently need. For example, a shift to locational marginal pricing (which assumes that, through pricing signals, generators can be incentivised to locate close to demand, reducing the need to build electricity transmission infrastructure) could potentially be seen as a silver bullet. This would delay the urgently needed planning reforms and the inclusion of Net Zero as part of Ofgem's remit to allow investment in our infrastructure for the long term, enabling the quick development of the infrastructure we need to move electricity from where it's generated to areas of demand. Even if locational marginal pricing was proved to work (although evidence from areas like Texas where it has

been adopted is not supporting this assumption), a change to our planning rules and the energy regulator's remit are urgently needed.

Although government has taken some promising first steps on these two fronts, the required pace of change cannot be understated, as renewables projects see delays in excess of 5 years in connecting to the transmission grid, given capacity constraints and cumbersome planning rules.

We are clearly in a position where a mixture of delayed regulatory reform (on planning or regulator's remit) and rushed reform (on market arrangements) risk cracking the foundation upon which a thriving renewables sector has developed in the UK. Even if the UK has been and still is the world leader, at least when it comes to offshore wind, other countries could catch up quickly. The U.S. has passed the Inflation Reduction Act (IRA), which includes funding and attractive incentives for companies investing in renewable energy and other low carbon technologies. It looks like the EU is also considering that passing its own version of IRA is the sensible response to keeping investment on the continent, rather than challenging the U.S. at the WTO. At this point, the UK cannot afford to take its leadership position for granted and must maintain an attractive investment environment in a shifting global context.

There is still much we need to deliver to guarantee our energy security, provide affordable energy to all, create jobs, accelerate innovation, and bolster export opportunities in the process. Attaining 50GW of offshore wind by 2030 will require £48bn of private investment by 2030, the fourth largest source of investment into UK infrastructure. In addition, we have the most ambitious target in the world for floating offshore wind, 5GW, a technology which will enable us to capture the power of our wind resources in deeper, windier waters. 80% of the world's wind potential comes from deep waters, suited to floating offshore wind, creating an important opportunity for the UK to export services and expertise to a global market. UK's green hydrogen exports from offshore wind could reach £48bn annually with potential for £200bn of gross value added (GVA), and generate up to 120,000 jobs from the production of green hydrogen and export of electrolyzers to overseas markets.

To grasp these opportunities, we need to look beyond short-term interventions to balance the budget or provide a quick fix to the energy crisis. Government and the energy sector need to work together to deliver the sustainable foundations for answering the energy trilemma in an enduring way, to the benefit of all.

**Why regulations
are good for
consumers and
the workforce**



Fixing the UK's labour market enforcement gap

Ben Willmott

Head of Public Policy, Chartered Institute of Personnel and Development

The UK's neglected and failing labour market enforcement system took another blow in December 2022 when the then Business Secretary Grant Shapps announced that the Government's plan to create a single enforcement body (SEB) had been shelved.⁴¹

The plan to bring together the Employment Agencies Standards Inspectorate (EAS), HM Revenue and Customs (HMRC) and the Gangmasters and Labour Abuse Authority (GLAA) in one enforcement body was a key proposal in the Government's now abandoned Employment Bill.

The new body was supposed to ensure that enforcement is clear,⁴² fair and efficient for both workers and employers and to deliver a level playing field for businesses.

The decision not to push ahead with the SEB signals that, despite the Government's previous commitment to improving labour market enforcement, it is not regarded as a strategic priority by government at a time when there are multiple challenges facing the UK.

However, this decision fails to recognise the importance of a properly functioning labour market enforcement system both to protect workers' rights and as a means of influencing the business environment and improving workplace productivity and employment standards.

Current enforcement system is broken

What cannot be disputed is that the current system is broken. The state-based enforcement system is significantly under-resourced and unable to provide the sort of proactive inspection of employers that is required. Evidence suggest the average employer can expect an inspection on National Minimum Wage enforcement around once every 500 years (200 years in some low paid sectors).⁴³

The individual route of enforcement of employment rights via the employment tribunal system is similarly compromised. According to data cited by the Financial Times in December 2022, employment tribunal cases in England and Wales have been pushed back as far as mid-2024 as the system struggles to cope with increased waiting times after the coronavirus pandemic and a decade of underfunding.⁴⁴

There is also an ongoing challenge of non-payment of employment tribunal awards by employers, with research suggesting that about a third of claimants won't receive the compensation they have been awarded by the courts, even if they do manage to get their case heard.⁴⁵

The creation of a SEB would not be a panacea to addressing these failings in itself, but, together with other reforms, it could have been the first step towards creating a more effective system.

Improving proactive enforcement

As highlighted above, one of the keys to the SEB's success would have been whether or not it received sufficient resources to significantly boost the number of inspectors and proactive enforcement activity, particularly in higher-risk areas of the labour market.

The body would also need to have played a central role in supporting the effectiveness of the employment tribunal system, for example, by taking responsibility for ensuring employers pay any compensation they are required to, following up non-payment on behalf of workers and taking further action if necessary.

If established, it would also need to take on powers to oversee joint responsibility measures to help enforce employment rights across supply chains. These

changes, together with much better and more systemic communication and joint working across the different areas of legislation which the different enforcement bodies are responsible for, would without doubt be a big step forward.

However, the other critical element of an effective enforcement system is a much stronger focus on supporting employers – particularly SMEs – to comply with the law in the first place before enforcement action is necessary.

Boosting employer compliance

Most employers fall foul of employment regulation unintentionally because of a lack of resources and knowledge rather than malicious intent.

For example, a large majority of firms named and shamed by HMRC for failing to pay their staff the National Minimum Wage, are SMEs, particularly micro and small firms, which lack employment law knowledge or HR expertise.⁴⁶ There is of course a minority of firms that deliberately seek to abuse the system, such as P&O Ferries, but mostly non-compliance is down to ignorance of the law, a lack of time/money and low levels of capability on HR and people management.⁴⁷

Online guidance and toolkits are not sufficient

The Government's plans for the Single Enforcement Body referenced improving compliance but the proposals were limited to the creation of more technical guidance, which is likely to be useful to employers that are already seeking to comply.

However online guidance and toolkits are largely useless as a means of reaching and changing the behaviour of the majority of SMEs that are often unaware of their legal obligations – as they have little or no HR or people management knowledge and are focused on day-to-

day business survival. Research by both Acas and CIPD suggests SMEs need context-specific and bespoke expert advice to resolve issues in relation to workplace conflict and compliance with employment law, and to improve their people management and development practices.

CIPD has conducted significant research exploring the type of HR support SMEs need, how much it is valued, and its impact through three pilot schemes in Hackney, Stoke and Glasgow. These pilots, which provided up to two days of free HR consultancy support to participating small firms, found that a majority were struggling with some aspect of compliance with employment law and needed help to improve their people management practices.⁴⁸ It also suggested that the provision of this type of support was potentially transformational for participating firms.

“A properly functioning labour market enforcement system would protect workers’ rights and improve workplace productivity and employment standards”

For example, the evaluation of the pilots found that participating owner managers were more likely to report their organisation was better or much better than similar firms in their sector on measures of workplace relations, labour productivity and financial performance after using the *People Skills* service than they were prior to using it.

The evidence suggests that if policy makers are genuinely interested in boosting employer compliance as part of a more progressive and effective labour market enforcement system, there is a need for a fundamental rethink on how this is done.

Rethink on supporting employer compliance required

CIPD's research report *Revamping labour market enforcement* makes a number of recommendations on how to meaningfully enhance employer compliance; through providing the sort of bespoke and expert support required to engage with SMEs and improve their people management capability:

- ✓ Double Acas's budget to boost its ability to advise small employers and individuals on people management, workplace conflict and employment rights. Have SEB inspectors allocated on a regional as well as sectoral basis to work with Acas and local business advisers, for example accountants, to ensure employers and their staff are aware of relevant employment law.
- ✓ Incentivise small firms to allow Acas to conduct a free annual HR 'MOT' of their employment practices, by linking this to a potential reduction in their liability in any subsequent claim against them at an employment tribunal.
- ✓ Reinstate the ability for employment tribunals to make wider recommendations to employers to improve their people management practices. Employers would be required to work with Acas or a professionally qualified HR adviser to improve their people management practices. The SEB or other relevant enforcement body, such as the Equality and Human Rights Commission, would be responsible for following up these orders to monitor compliance, with power to fine employers not meeting their obligations.
- ✓ Invest £13 million a year in England to provide high-quality HR support to small firms via the Local Enterprise Partnership/Growth Hub network to support efforts to improve compliance and boost job quality and workplace productivity at a local level.

Driving up employment standards and productivity

A labour market enforcement system with the capacity to meaningfully support employer compliance in this way could play a much stronger role, not just in enforcing employment rights but driving up employment standards and productivity.

This view is supported by recent analysis by the Warwick Institute for Employment Research, which shows a link between job quality and productivity and also finds that this correlation is stronger for bad work and poor productivity.⁴⁹ It concludes that the focus on productivity initiatives should be on lifting more poor-quality work closer, at the very least, to the average level.

There is also evidence that there is scope to do this across every sector of the economy. CIPD analysis of Office for National Statistics data (Figure 1) shows a wide spectrum of productivity performance between the lowest-performing and highest-performing companies within every sector. This data shows clearly the productivity growth potential that could be achieved across the economy, if the productivity performance of bottom quartile firms within every sector could be raised to at least the median level of their industry.

Both the Labour Party and the Conservative Party have made commitments to address labour market enforcement. The Labour Party's new industrial strategy recognises that efforts to boost productivity need to be broad-based across all sectors and highlights labour market enforcement as a key mechanism for helping to achieve this.⁵⁰

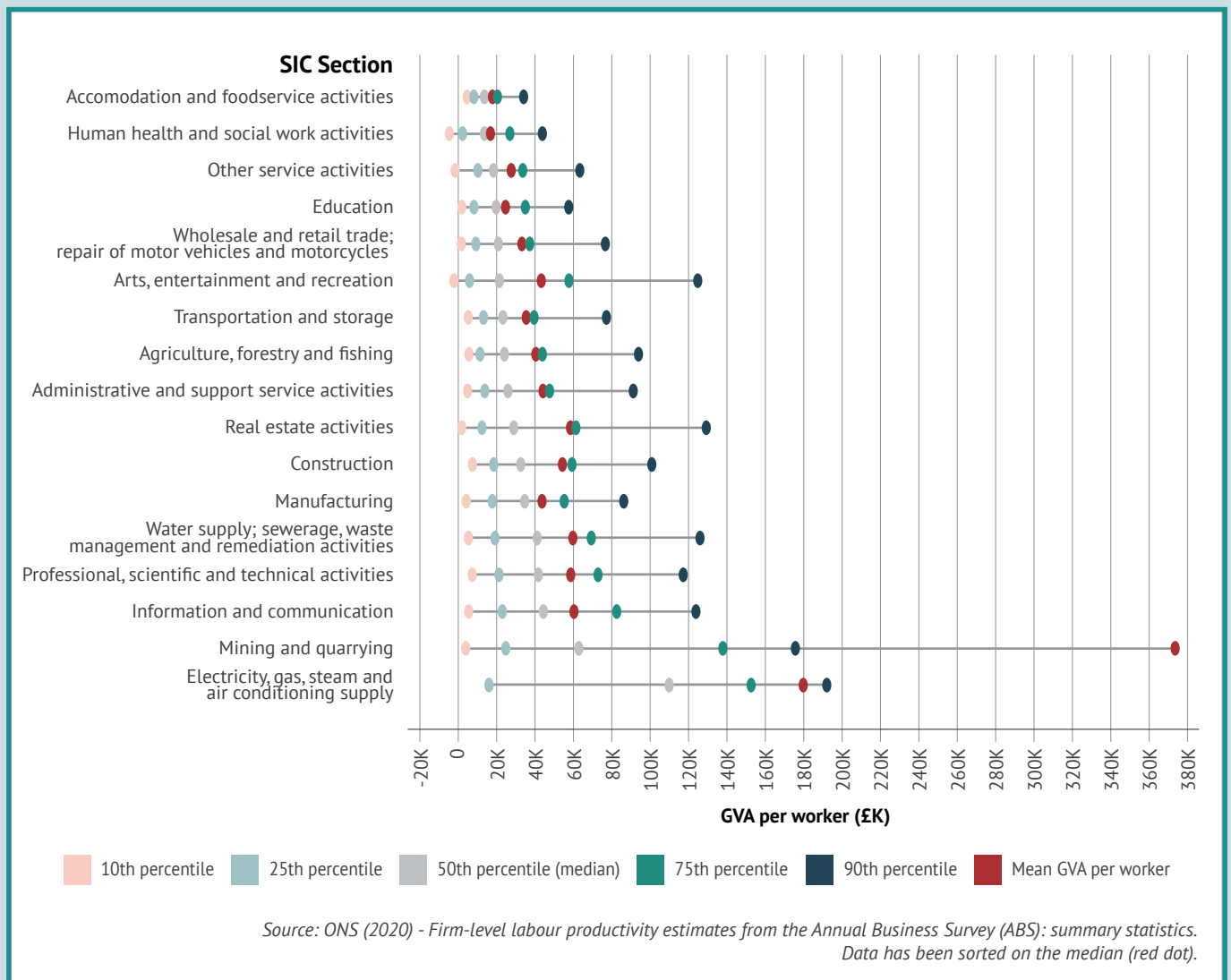


Figure 1: Average labour productivity and percentiles by industry sector, firm weighted, current price, 2018

The Labour Party paper, Prosperity through Partnership, identifies the importance of addressing the UK's weak enforcement system as a means of helping to boost productivity in the 'everyday' economy characterised by sectors such as retail, hospitality, leisure and social care.

It cites evidence suggesting that productivity of these sectors lags that of 'our international peers', again highlighting the potential to improve productivity growth in lower-skilled parts of the UK's economy.

The plans to establish a properly funded single enforcement body with greater resources and powers

to inspect workplaces and bring prosecutions and civil proceedings on workers' behalf are positive, and would no doubt give 'bad' employers pause for thought.⁵¹

But tougher enforcement alone will fail to improve employment practices among the majority of employers that fall foul of employment legislation, because of a lack of resources and knowledge. Only a step change in the quality and level of support to help firms comply and improve their people management and development capability, alongside more proactive enforcement, will create a system that can genuinely underpin efforts to improve productivity and employment standards.



Best of both worlds

How strong rules protect workers while preserving the benefits of the gig economy

Mark Griffiths

Head of Insights & Impact, Collective Benefits

Policy making often has a bad reputation for not delivering enough real-world impact. However, the moments where we have seen step changes in the prevalence of ‘good’ work – work that pays sufficiently, looks after people’s physical and mental wellbeing, and offers purpose and fulfilment – have frequently been brought about by wise regulation and effective enforcement. For example, the Factory Act legislations of the early 19th Century, or the Minimum Wage legislation of 1998.

It’s now time for us to act in the spirit of previous generations. The data and smart technology led changes that the World Economic Forum summarise as the 4th Industrial Revolution are creating profound shifts in how we work.⁵² We need to reboot our regulations to account for them.

For example, over 18% of the UK workforce now work outside of the traditional employer-employee relationship.⁵³ This work – often enabled by technology and characterised by its flexible, on-demand nature – includes people who find work in the gig economy (for instance, delivering food through apps) or through short-term staffing agencies.

This is a radical change, bringing new ways of working that are inclusive (for example, providing new arrivals with an accessible entry into the jobs market) and flexible (for example, allowing work to be fitted around learning or caring responsibilities).

There are also societal and consumer benefits to these models – one study, from 2016 and in the U.S., estimated the consumer benefit over and above the actual price paid for the Uber service at \$6.8 billion.⁵⁴

Alongside this, the growth of non-traditional work has created widely acknowledged social costs. The business I work for, Collective Benefits, is addressing a significant part of the problem – the gaps in social protections and benefits that too frequently accompany flexible work.⁵⁵

“The moments where we have seen step changes in the prevalence of ‘good’ work have been brought about by wise regulation and effective enforcement”

We describe this in terms of a triple risk – flexible workers are more exposed to work-based risks, have less access to the protections that employees take for granted, such as sick pay or parental leave, and have fewer savings to get them safely through financial shocks.⁵⁶

We work with businesses, who, in turn, work with flexible workers to fix this – but too many don’t. This is where regulation comes in to create a level playing field, provide business certainty, and to drive up the amount of good work available.

It is also the route to social acceptance and sustainability: in the UK, there is widespread support for better regulating the gig economy, and this cuts across political affiliations. Wise businesses, in it for the long-term, should take account of this.⁵⁷

What form should this regulation take?

In the UK currently, the most obvious route to better social protections such as accident or sick pay is to argue that gig workers are really employees – but this reduces the flexibility of work that many want and value.⁵⁸ As one food delivery rider said to me, “If I wanted someone to tell me when I can stop work, I’d work in a call centre”.

There is a way to cut through this by specifying a minimum set of protections that all workers – whatever their status – should receive, and which are funded by the platform that gig workers work through.⁵⁹ Core to this would be key protections, provided at a relevant benchmark such

as the Living Wage, against the risk that arises from, and during, work. Outside of the core would be more of the benefits that drive worker wellbeing – and so productivity and retention. This would include sick pay, holiday pay, support to build up a pension, to learn and develop, or to make your money go further.

The potential here is for the UK to show how sensible regulation can respond to how the world is now – and how it will be in the future. More than this, a smarter approach to regulation would deliver what workers both want and need, while preserving the most valued characteristics of the gig economy.

“Regulation creates a level playing field, provides business certainty, and drives up the amount of good work available”



Why consumer protections support economic growth

Matt Gardner
Economist, Which?

The policy debate on how best to stimulate economic growth tends to focus exclusively on businesses, but we can't (or shouldn't) talk about the UK economy without talking about consumers. By one measure, around 60% of the UK's entire economic output can be accounted for by consumer spending.⁶⁰ We too often ignore that markets are formed between suppliers *and* consumers.

The consequence of this is that policymakers neglect the positive role consumers play in driving competition and promoting economic growth. Consumers have great power to incentivise firms to invest in their offerings: to improve their efficiency or bring new and innovative services to market. This is part of the magic of markets. If firms are competing properly with one another, then they will be constantly fighting to win our custom by offering something cheaper or better than their rivals. Those that produce the best products in the most efficient way will succeed, while those that take their customers for granted will find themselves shrinking or exiting the market.

Unfortunately, it's not quite so straightforward. Consumers are not perfect – they can't survey all the information available to them with total accuracy and can be misled into making choices that aren't quite what they want. They can also be put off from searching and switching between providers by relatively small barriers. Many firms know this and engage in practices that disrupt the part of competition where consumers incentivise firms to do better. Well-designed consumer protections are an essential bulwark against these market failures.

In this regard the UK has a long way to go. According to The (then) Department of Business, Energy and Industrial Strategy there were 230 million instances of consumer detriment in 2020/21 alone, representing £31 billion in financial losses and 1.5 billion hours of time lost dealing with problems.⁶¹ This includes issues like receiving faulty goods, problems claiming warranties or paying more than

was advertised. All too often, we find goods being sold which fail basic safety standards and can cause consumers physical harm. Clearly, under the current system, the incentives for some firms to serve us good outcomes are not always there.

The challenges are particularly great in the online world, where it has become too common for some businesses to employ tactics which confuse or trick us into making choices we later regret. The Competition and Markets Authority found that 7 in 10 of us have experienced things like hidden charges, fake reviews or pressure selling when shopping online.⁶² Citizens Advice meanwhile found that two in five people think websites make it too easy for them to make the wrong choice.⁶³

These kinds of practices don't just leave us out of pocket or feeling annoyed and manipulated. They disturb the very mechanisms which drive competition and incentivise investment.

Some practices make it harder to compare between offerings or switch when we find what's best. Others are designed to deliberately mislead about the quality or price of goods on offer. Together, they make it harder for consumers to apply pressure on businesses, which in turn diminishes the need for investment.

Take for example 'subscription traps', where a company makes it easy to sign up for a new service but much more difficult to escape. Many of us find ourselves with subscriptions to all sorts of services we don't really want any more, and find it difficult to cancel when we've had enough. This essentially locks us into a provider. What happens if another company comes along with a different offering that we might actually favour? We often end up stuck with what we already have because we can't stomach the pain of phoning a call centre to cancel a service that we signed up to with a couple of clicks.

Unscrupulous companies have a whole host of subtle ways which try to push us away from comparing offerings from their rivals through the ‘choice architecture’ on their websites or apps. Online shopping journeys can funnel us towards choices the company would like us to make, and away from alternatives – through tactics like how results are ordered on a page, webpage loading times, the ‘dripping’ of information or prices slowly throughout an online journey.

“Effective consumer protections are not ‘red tape’ to be slashed, but a fundamental part of making sure markets work”

Some companies use less subtle means of persuasion and directly mislead consumers about how good their products are. Which? has been charting the rise of fake online reviews on many of the most popular ecommerce sites for years. We’ve repeatedly found that some online sellers game the reviews system to mislead consumers. Our research also shows that these faked reviews can be highly effective at getting us to choose poor quality products.⁶⁴

The issue is that the incentives are so misaligned in these scenarios that they favour the bad practice over making the investment. If everyone is getting away with it, then those who try to remain honest simply end up getting punished. It’s why not only consumers but also small businesses bring up the issue of fake reviews from their rivals online.⁶⁵ They want to succeed on their merits, not get beaten to sales by a dodgy seller from overseas that paid for thousands of 5-star reviews.

The conclusion from this is that some regulation of conduct is needed to oil the wheels of markets. When it becomes easy to mislead or manipulate at scale, then how can consumers put pressure on companies to improve? Effective consumer protections are not ‘red tape’ to be slashed, but a fundamental part of making sure markets work.

If consumers are repeatedly exposed to bad practices when they engage in markets, trust can also break down in a way that is harmful to the adoption of new technologies. This is going to be especially important during the transition to Net Zero where households may need to make all sorts of new purchases, like insulation, heat pumps or electric vehicles. We already have evidence of consumers putting off jobs in the home due to fears of being ripped off.⁶⁶ Without effective protections, these worries risk compounding already substantial barriers like cost and effort.

Unfortunately, we are in a situation where our existing rules and regulations are not delivering quite enough to meet the challenges of modern markets. The rules haven’t kept up with rapidly developing online markets, the regulators enforcing rules are too limited in their powers, and consumers themselves have too few options for exercising their rights. There are, however, meaningful changes we could make to improve things.

Firstly, the current consumer protection rules don’t explicitly ban many practices which are rife online and clearly harmful. We could take positive steps in the right direction by explicitly banning practices like drip pricing, fake reviews and subscription traps. But more flexibility in the rules would also be welcome so that the system is not always playing catch-up once practices are already entrenched. In addition, online marketplaces have far less responsibility for protecting users than is commensurate with their size and role in bringing businesses and consumers together. Many emergent deceptive online practices could be cut off at source if these platform businesses had clearer legal responsibilities to protect consumers.

Second, we need to give regulators stronger enforcement powers. The Competition and Markets Authority for example currently has no powers to fine companies which break consumer law. Instead, it has to resort to dragging companies through the courts which is a time-consuming and resource intensive exercise. Correcting this would go a long way to stamping out bad practice.

Finally, consumers themselves should have more opportunity to enforce their own rights. We can't expect regulators to step in each and every time a consumer experiences a problem (aside from perhaps serious safety failings). But we can give consumers more recourse to solving their problems with the help of independent third parties like an ombudsman. This could help engender greater consumer confidence to engage with markets, if they feel more able to challenge unfair practices.

It's very welcome that many (though not all) of these changes have been proposed for an upcoming Digital Markets, Consumer and Competition bill in parliament. Such reforms could be easy wins, which reduce friction in markets while simultaneously addressing the detriment we experience as consumers. If the government is looking for pro-growth changes which come at no cost to the exchequer, then reforming consumer protections is an excellent place to start.

"If the government is looking for pro-growth changes which come at no cost to the exchequer, then reforming consumer protections is an excellent place to start"



Conclusion

Emma Rose

Co-Director, Unchecked UK

The essays in this collection bring together a wide range of leading businesses and entrepreneurs to share their constructive views on the value of sensible regulation in the UK. It comes off the back of a recent business [poll](#) for Unchecked UK by YouGov, which finds that most UK businesses strongly support regulation across a number of areas, and share concerns that the Retained EU Law bill will cause uncertainty, limit growth, and restrict trade.

Far from articulating the view that regulation stifles economic growth, and should therefore be reduced, the authors of this collection make a number of assertions about the multiple benefits that good regulation can deliver for the UK economy and businesses.

Overall, these businesses and entrepreneurs see well-designed regulation as integral to creating the conditions in which they can thrive – where firms can compete on a level playing field; innovate, invest and operate with confidence; maximise the productivity of their employees; access trade markets; and challenge the incumbency of big business.

Robust regulation is seen as particularly important in supporting product and technical innovation – paving the way for new ways of addressing the most pressing challenges of our time. Indeed, many contributors make the point that sensible regulation will play an integral part in bringing about the green technological revolution and supporting the UK's Net Zero ambitions.

Regulation is seen as essential for winning consumer trust. While the UK public believes in tech fixes; with 70% Britons agreeing that only modern technology can solve future problems,⁶⁷ many remain concerned about the ability of regulation to prevent harms in rapidly developing regions.⁶⁸ In order to maintain public trust and give consumers the confidence to try something new, our authors maintain that new technologies must be backed by

robust controls and safeguards. This is crucial to creating the virtuous circle of consumer demand, falling prices and quality improvements which will spur innovation.

Finally, the majority of businesses are in favour of maintaining standards and regulatory certainty in a post-Brexit UK, with many flagging the risks of moving away from regulatory alignment with the EU. Instead, we hear that driving and maintaining standards should be a key priority for Government, as it considers how to best harness the opportunities of the green and technological revolutions, and how to preserve the UK's reputation as a global leader in these fields. Far from a race to the bottom, these businesses want the UK to be ahead of the curve in setting global standards and establishing a clear direction of travel in terms of raising standards in the future; encouraging businesses to innovate in order to stay competitive.

The UK's regulatory system isn't perfect. Improvements can always be made. As some of our contributors point out, more flexibility is needed in some areas to allow businesses to choose the means of achieving regulatory goals. As new technologies and business models emerge, and as the UK considers how to structure our regulatory system outside of the EU, it is right to revisit the question of whether regulation is fit for purpose.

However, as this collection outlines, narrow approaches to deregulation risk overlooking the huge potential that sensible regulation can offer businesses. Instead, a more balanced consideration should be given to how a pro-innovation, pro-protection regulatory system can best serve the interests of both the UK public and businesses.

We hope that this collection provides a useful insight into the opinion of many leading figures within the UK business community: sensible regulation is good for businesses, and good for Britain.

TOO MUCH
REGULATION IS
NOT A PRIORITY
ISSUE FOR
UK BUSINESSES

of businesses don't see
'too much government
regulation' as a top priority

72%

LIMIT ECONOMIC
GROWTH
IN THE UK

64%

What do UK businesses really think
about the Retained EU Law Bill?

WILL NOT ACCEPT
LOWER HEALTH
AND SAFETY
STANDARDS

79%

of UK businesses

CAUSE MORE
UNCERTAINTY
FOR UK BUSINESSES

68%

What do UK businesses really think
about the Retained EU Law Bill?

UK
BUSINESSES
BACK
ENVIRONMENTAL
REGULATION

of UK businesses
back current levels of
environment regulation

72%

RESTRICT ACCESS
TO TRADE MARKETS

63%

What do UK businesses really think
about the Retained EU Law Bill?

Source: YouGov survey for *Unchecked UK*, 2023: www.unchecked.uk/research/what-do-uk-businesses-think



Afterword

John Randall

Baron Randall of Uxbridge

The essays in this collection provide a compelling counter to the commonly expressed view that UK businesses are opposed to regulation. This view – promoted by some politicians, think-tanks and parts of the media – tends to pit regulation in direct opposition to economic growth, innovation and business productivity.

The authors in this collection tell a very different story. Instead, they attest, sensible regulation can deliver myriad benefits; from providing welcome consistency, to restricting poor corporate practices, to driving innovation and green growth.

Clearly, the Government's long-term fixation with deregulation is out-of-step of the views of the business community. Now, it must heed the voices of our business leaders.

First and foremost, it must end the narrow commitment to repeal or replace many of our most important social and environmental protections through the Retained EU Law Bill.

Many people will consider this was what they voted for in the 2016 Brexit referendum: an act that 'takes back control'. It is not. Instead it is an intervention which effectively removes still more control from Parliament.

In restoring the primacy of Acts of Parliament and UK statute, over 4,000 pieces of legislation will be adapted or removed in favour of others, but those making the decisions will not be Parliamentarians, but ministers. Using what are known as 'Henry the VIII clauses', the Government will be able amend the text of these laws as they become Acts

of Parliaments. As my noble friend, Lord Young, has vividly described, those who thought Brexit meant that the UK's powers were coming home will instead find "they have been delivered to the wrong address."

The powerful Delegated Powers and Law Reform Committee has already warned that this new bill is 'lacking in substance' and that it delivers an unjustified power shift to ministers. The transfer is also taking place at a frighteningly accelerated pace, and on a timescale which will see the existing laws disappear from the statute book by the end of this year.

What is the risk? All told, these are laws that cover the environment, including Habitats and Water Directives, as well as employment law, maternity rights and climate protections and many other rights and regulations. They are vast and wide-ranging, and some of them – like the Habitats Directive – themselves originated in the UK before being passed by a reluctant EU.

There's no doubt that there is room for some outdated regulations to be discarded, but this is an operation which propels dogma over pragmatism. It is the action of a government that is determined to signal 'it has got Brexit done', but it is a disastrous course.

What's more, as this essay collection shows, those who assume that this approach will be supported by the UK business community are sore misguided. Rather, **businesses would like to see Government adopt a balanced approach which recognises the huge opportunities that can be unlocked by placing sensible regulation at the heart of efforts to drive economic growth.**



Afterword

Barbara Young

Baroness Young of Old Scone

The UK has shown welcome leadership on environmental protection and climate change mitigation and adaptation – from our Net Zero ambitions, to renewable energy deployment, and plans to improve the natural environment through the Environment Act. But they are, in many cases, promises for the future and there is much still to do. We still have substantial challenges in combatting air pollution, biodiversity continues to decline, our soils are degraded and recent revelations about the state of UK rivers and watercourses are an illustration of the declining health of many of our ecosystems, shining a spotlight on the importance of well-designed and well-enforced regulation to encourage the sustainable and root out the unsustainable.

However, instead of focussing on the real contribution of clear and sustained regulatory standards, current government plans to review EU-derived legislation via the Retained EU Law Bill (REUL Bill) mean that these protections, and the natural assets they safeguard, are under real threat of being lost by a tide of deregulatory fervour.

Now, more than ever, we should be backing up statements of commitment by grasping all the tools in the tool kit to ensure the environment is protected for future generations. Strong rules are one of these tools in facilitating the transition to Net Zero, in curbing pollution, in encouraging people, communities, businesses and governments to do the right thing, and in making sure that everyone – regardless of their income or where they live – has access to healthy green spaces.

As this essay collection shows, clear, robust environmental regulation has huge potential to deliver real economic benefits for businesses: from driving innovation in green tech, to enhancing competition, and providing a stable and fair framework where businesses can invest with confidence. Businesses don't like uncertainty and short-termism. They don't want no regulation, but rules that are

well designed, subject to proper consultation, which are clear, lasting and provide adequate time for businesses to build new standards into their business plans.

Instead, many fear that the REUL Bill will be used to weaken environmental regulations, either purposefully or in error as the dash for a self imposed deadline puts pressure on government departments and devolved administrations to review, amend or dump rules. These risks are compounded by concerns that environmental regulators like the Environment Agency and Natural England simply do not have the resources they need to enforce the law.

“Political emphasis should be centred on creating a race to the top, via a robust regulatory system which genuinely protects our environment and incentivises businesses to do the right thing”

If we are to unlock the huge potential benefits of green industries, we need to build on the momentum that has accumulated over recent years, and to be ambitious in our plans to lead the world on transitioning to a greener economy. Rather than focusing on misguided plans to reduce the UK's regulatory stock, political emphasis should be centred on creating a race to the top, via a robust regulatory system which genuinely protects our environment and incentivises businesses to do the right thing.

As this collection shows – such an approach would be fully supported by the UK business community. Politicians of all stripes would do well to listen to these voices.



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