COMMERCIAL SECRETARY TO THE TREASURY

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Lord Young of Norwood Green
House of Lords
SW1A 0PW

16 June 2010

Dear Lord Young,

Thank you for your contributions in last week's debate on the Government's approach to ensuring the UK maintains its competitiveness. You raised a number of points concerning bank lending, Department for Business, Innovation and Skills (BIS) spending, support to the automotive industry and sources of growth. I thought it may be helpful for me to write to set out the Government's position of these matters.

Regarding bank lending to businesses, in its Coalition Agreement, the Government made clear the importance of banks serving businesses and the Government is committed to developing effective proposals to ensure the flow of credit to businesses.

The banking sector is adapting to necessary structural shifts in wholesale funding markets, dealing with legacy assets that were priced on pre-crisis terms and complying with changes to capital and liquidity regulation. However, the Government believes that the current system of financial regulation needs to be replaced with a framework that promotes responsible and sustainable banking.

In regards to BIS spending, on 24 May, the Chancellor and the Chief Secretary to the Treasury set out how the Government would save over £6 billion of spending over the current year. BIS agreed a contribution of £836 million to the total Government 2010-11 savings package of £6.2 billion.

Ministers have agreed to make this contribution through the following in year savings:

- £100m efficiency savings across the department and its partner organisations
- £233 million from spreading investment in the UK Centre for Medical Research and Innovation (UKCMRI) project for a new biomedical research facility – to be located in Central London – over five years
- £74 million will be cut from the Regional Development Agencies (RDAs)

- £200 million from the Higher Education budget, predominantly through focusing on the highest quality bids from the University Modernisation Fund.
- £200 million from the Train to Gain budget which will be reinvested in apprenticeships and college buildings
- £18 million including funding for the Institute of Web Science, a proposal which is still under development, and low priority projects like the SME Adjudicator.
- £11 million from the UK vocational reform budget
- £20 million of additional investment in Small Business Research Initiative announced in the Budget, delivering a saving of £10 million this year, although the programme will continue to be supported by the Government.

The Government is committed to supporting economic growth. This is why BIS has sought to protect key areas such as Research, Innovation and student numbers in Higher Education, which will see an increase of 10,000 places, while RDAs are further re-prioritising their budgets to minimise the impact of the savings on front-line delivery.

The Government will also look more widely to make savings through improving efficiency and cutting out those wasteful elements of public spending, and by rethinking how the public sector can deliver better value and higher quality services in a tighter fiscal environment.

There are a wide range of other things that this Government can, and will, do to encourage growth that can be achieved without additional spending. These include keeping an enterprise friendly tax system, keeping open borders to goods, services and the highly skilled, and maintaining a robust competition regime. It must also minimise the regulatory burden that acts as a check on growth for businesses.

Regarding your question on continued support to the automotive industry, on 17 May, the Government announced that all spending approvals granted between 1 January and the election would be examined to ensure that they offer good value for money and are consistent with the Government's priorities. The Treasury is now working with Government departments to reassess these approvals.

Regarding your question on sources of growth, the OBR published its Pre-Budget forecast on 14 June. This set out the OBR's view on the rebalancing of demand that is expected to take place in the economy. For example, private sector demand is expected to remain relatively weak this year but from 2011 all components of private sector demand are expected to strengthen, while government expenditure detracts from growth.

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The forecast published on 14 June incorporates all the policy measures introduced or announced by the previous Government but it does not include any measures announced by the Coalition Government. An updated forecast will be published on 22 June incorporating such measures, including any announcements in the Budget.

As stated in the coalition agreement, the Government believes business is the driver of economic growth and innovation, and intends to take action to boost enterprise, support green growth and build a new and more responsible economic model.

I hope you find this response helpful. I am copying this letter to all peers who spoke in the debate and I will place a copy of this letter in the Library of the House.

Yours sincerely

James Sassoon

LORD SASSOON