

Professional Services Global Competitiveness Group report

March 2009

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Foreword by the industry co-chair Sir Michael Snyder



Professional services firms play a major role in the UK economy, they make up the largest business sector in terms of both employment and output and they do much to build our nation's reputation for integrity, innovation and excellence abroad.

Safeguarding their competitiveness in today's turbulent times and developing a future vision that allows them to emerge from the international financial crisis able to compete in an ever tougher global market are crucial.

As the Senior Partner of a top 20 accountancy firm, I was delighted to be asked by the Chancellor of the Exchequer Alistair Darling to co-chair the Professional Services Global Competitiveness Group, to look in detail at these important issues and make proposals for practical action by Government and the sector itself.

I have worked with expert colleagues from across the professional services sector as well as from Government. They are all senior figures in their organisations and respected in their individual fields, and I am very grateful for the time and careful thinking they have given to this project. I want especially to thank Lord Myners for his valuable contribution to our work.

We all recognise that the professional services sector is in general a 'good news story' without need for major interventions. The professions have been very successful in developing best practice and spreading their expertise through the wider business community and the public sector. But we cannot be complacent – the world will not stand still for our benefit.

Our priority has been to develop a shared vision of professional services for the next 10 to 15 years to meet the challenges we face and grasp the opportunities.

In a radically transformed market, UK professional services will need to seek new markets for services and recruits; they will have to take advantage of the change in demographics and encourage ever greater exchange of knowledge and experience between the generations. Above all firms will need to be constantly agile and innovative as well as ready and willing to work across frontiers. We strongly believe that the professions' flexibility and high standards will help them meet this 2020 vision.

It has been of invaluable benefit for the group to put a single focus on the challenges facing us and talk with one voice to Ministers and senior civil servants particularly on a range of issues such as tax structures, liability and regulation that can help the professions adapt to the changing world.

The continued success of this sector is important to the UK economy and the group therefore hopes that the Government will take the view that this constructive relationship should continue and that HM Treasury, BERR and other relevant Departments will lead a joined-up approach to working with professional services.

I am confident that by working together to develop and nurture our 2020 vision we can secure a successful future for UK professional services.

Sir Michael Snyder
Senior Partner at Kingston
Smith LLP

A handwritten signature in black ink, appearing to read 'Michael Snyder', written in a cursive style.

Foreword by the Government co-chair Lord Myners



I am pleased to publish this report in conjunction with representatives of the UK's professional services industry. Professional services are a vital element of our economy and among our most prized exports. It is therefore appropriate that the Government and the professional services industry should come together and take a strategic look at the issues and opportunities facing the sector.

Under the leadership of Sir Michael Snyder, representatives of the professional services industry have set out a vision for success over the medium to long term. I would like to thank Sir Michael for his role in steering the group towards a productive outcome. On behalf of the Government I welcome this report. The report has been researched and drafted by an independent group, and as such provides a constructively critical view of Government policies. It will inform future policy debates and the development of sustainable solutions.

Personally, I have been struck by the scale of the opportunities available to the professional services industry, and by the potential for the UK to develop collaborative and symbiotic relationships with other global professional services centres.

The sector also plays a key role in delivering public policy objectives, including by helping to entrench financial stability through the setting and adoption of rigorous standards. In addition, by building on its knowledge-intensive character and culture of training and development, the professional services industry helps to increase skills levels across the economy,

while the sector also makes a major contribution to corporate responsibility.

It is appropriate for the professional services sector to set out a compelling vision for the future, in which it pro-actively builds on its capacity for flexibility, innovation and its considerable international experience to constantly seek out new opportunities.

It is a pleasure to submit this report to the Chancellor of the Exchequer for his consideration as chairman of the High-Level Group on City Competitiveness.

A handwritten signature in black ink, reading "Paul Myners". The signature is written in a cursive style with a long horizontal line extending to the right.

Lord Myners
Financial Services Secretary to HM Treasury

1 Professional services: A 2020 vision

This report explores future market challenges and opportunities facing the professional services sector. It sets out a vision for a cutting-edge professional services industry which is flexible, innovative and internationally focused, and which leverages its reputation for the highest standards and skills to achieve success in an increasingly knowledge-based economy.

The UK's professional services sector has long enjoyed an international reputation for leadership and expertise. It is recognised as a global standard.

As well as making a major contribution to the British economy, the sector's global standing has enabled many UK professional bodies to play leading roles in the setting of international standards.

The sector has enjoyed extraordinary growth and resilience in recent years based on a range of factors including its reputation for expertise and integrity. However, to meet current and future challenges it must deliver a vision for the next 10 to 15 years. Given its size and reach, the professional services sector should play a central role in shaping the economy of the future.

UK professional services – a global standard

1.1 The UK professional services sector is a powerful and immensely valuable part of the economy, and has long enjoyed an international reputation for leadership and expertise. The UK sector is recognised as a global standard. Its pre-eminence has been created by a combination of tradition, trust and skill – all given the opportunity to flourish in a favourable business environment. The UK's accountancy and legal sectors are world leaders, and recent international growth of management consultancy is substantial. The UK is home to internationally-renowned architects, while highly qualified professionals ensure London is one of the world's leading maritime clusters and the UK leads the development of international standards in land, property and construction.

1.2 At home the sector makes a major contribution to the economy and its strength also underpins the extraordinary success of London as a financial centre. However, its influence and activities go well beyond the financial services industry and the City. The sector covers a vast range of consultancy and advisory service activities in such areas as human resources, financial, legal, business and strategy, and contains a wide range of companies from well-known global firms to smaller local providers. In fact, in many areas – particularly law and accountancy – the majority of firms providing professional services employ fewer than four people.

1.3 Official data does not capture the complete picture but the most relevant category in the Annual Business Inquiry (ABI) carried out by the Office of National Statistics demonstrates the significance of the sector's contribution to the economy. The ABI reveals that turnover of the sector was £75.2 billion in 2006 and £84.3 billion in 2007, mostly supplying

the private sector.¹ Other statistics underline this point:

- professional services account for the largest single share of UK output at 8 per cent;
- the sector is the largest employer in the UK with 11.5 per cent of total employment; and
- professional services play a major role in UK trade, accounting for almost £16 billion of the total £29 billion trade in UK services,² and making the largest contribution to the EU 27's professional sector with €203.5 billion of value added (2004 figures).³

1.4 Turning the focus on individual elements of the sector, according to the ABI the legal profession employed 330,000 at last count and provided services for which clients paid over £10.82 billion. The profession as a whole generated a surplus of £2.46 billion in exports in 2007 – up from £2.16 billion in 2006 – and contributed 1.4 per cent gross value added⁴ to the economy.

1.5 The accountancy profession employed 245,000 in 2007 and provided services for which clients paid over £9.36 billion. The profession generated a surplus of £1.01 billion in exports in 2007, compared to £969 million in 2006 and accounted for just under 1.1 per cent of gross value added. Last year there were 32,705 enterprises providing accountancy services in the UK.

1.6 The management consultancy profession is another UK success story. According to the Management Consultancies Association (MCA), which represents 70 per cent of the sector, the management consultancy industry generated revenues of almost £8 billion in 2007 – a more than four-fold increase since 1997. In 2006 management

¹ *Annual Business Enquiry*, Office of National Statistics, November 2008

² *UK Balance of Payments – the Pink Book*, Office for National Statistics, 2007

³ Source: Eurostat, 2007

⁴ Gross value added is income generated by the sector less intermediate consumption of goods and services used up in order to produce their output.

consultancy output (including market research) accounted for 1.2 per cent of gross value added. In addition, it provides professional careers to over 300,000 talented and highly educated people.

1.7 The UK shipping industry generated revenue in excess of £10 billion in 2008, and around £3 billion in tax revenue. London's maritime cluster employs over 14,500 people, and boasts a major share of the world shipbroking market. The UK fleet today stands at 13 million tons, a five-fold increase compared to 1999.

1.8 Architectural, engineering and technical services professions make a direct contribution to the UK economy, employing 401,000 in 2007 and accounted for 1.79 per cent of gross value added in 2006. Fees earned by UK engineering consultants reached £8.6 billion in 2007, a 16 per cent year-on-year increase, while private architectural practices in the UK earned an estimated £4.16 billion in 2008 – a 10 per cent increase on 2006 and 143 per cent growth since 1998.

1.9 The Professional Services Competitiveness Group is clear that the sector's role in the economy is not restricted to financial contributions; the sector plays a significant role in setting standards, enhancing skill levels and spreading innovation and good practice throughout business and the industry more widely.

1.10 The role of professional services firms in raising skill levels is due largely to the quality of their human capital. Firms in the sector have long attracted some of the brightest and best graduates, while the firms themselves are respected and admired for the training and development they provide for entrants. For instance, a quarter of all FTSE 100 companies' chief executives and 8 out of 10 finance directors are qualified accountants. Management consultants move in and out of other industry sectors, bringing the benefit of innovative approaches and best practice to a range of organisations. The quality and value of the transferable skills developed by professionals, combined with significant mobility in

the sector, contribute to the development and spread of skills across the entire economy.

1.11 The high esteem in which so much of the UK professional services sector is held means that the professions have been able to play a key role in setting international standards. The legal sector has worked closely with governments and regulators around the world to help develop robust legal and regulatory regimes, while the accounting profession recognises the importance of ensuring that best practice as identified in the UK is reflected in international standards. The fact that London hosts several international standard-setting agencies also suggests that the UK is widely recognised as a global professional services centre. The leadership role in setting international standards enjoyed by the UK's professional services sector is a hugely valuable element of its success and should guide the sector's future development.

Looking beyond current economic challenges

1.12 Prior to the current global economic crisis, the UK professional services sector enjoyed extraordinary levels of growth. Despite difficult economic circumstances, the sector can still tell a broadly positive story. During the second quarter of 2008-09 fee income across the country's 100 largest firms increased by 5.8 per cent⁵, while between 2004 and 2007 the number of enterprises providing legal services in the UK grew by 6.8 per cent and the number of accountancy firms increased by 6.9 per cent.⁶

1.13 However, the sector is not immune from the crisis and many firms are facing unprecedented challenges. Current events have led to many professional services firms reducing the size of their

⁵ Source: Deloitte

⁶ *UK Business: Activity, Size and Location 2008*, Office for National Statistics, September 2008

workforce. While some of these skilled workers may leave the UK in search of work, others are likely to bring their skills and knowledge to bear on other sectors of the UK economy. Although there is a risk that this change could undermine the competitiveness of the UK's professional services firms in the short term, many have the flexibility and transferable skills to take advantage of the convergence and globalisation of economies and business practices around the world. Firms can exploit this advantage in two ways - by looking for business opportunities around the world themselves, and by attracting recruits from around the world with whom they can share their expertise.

1.14 The group has identified a series of factors which underpin the resilience of professional services operating in the UK. Their global leadership, inbuilt flexibility, strong brand reputation and client value based on integrity, quality and excellent service, combined with the legal and political stability of the UK, provide professional services firms with powerful foundations to protect their market share in the short term. However, the group is clear that the depth of the current challenges reinforces the need for the sector to develop strategies for the next 10 to 15 years that will enable it to continue to provide leadership in the global market place.

1.15 The Chancellor of the Exchequer Alistair Darling's initiative in establishing the Professional Services Global Competitiveness Group has provided a welcome opportunity to draw on considerable expertise across the industry, and for this wide-ranging sector to come together and focus on medium- and longer-term issues.

Identifying the 2020 vision

1.16 The group believes that the current economic turbulence will change the commercial and business environment irreversibly. Innovation and new thinking will be needed by those who wish to succeed. The UK professional services industry has an unprecedented opportunity to shape the new

economic reality. The seemingly diverse sector is in practice united by a highly versatile and talented workforce that is focussed on enabling the success of its clients. By leveraging its expertise in developing strategic solutions to issues such as risk and change management, it can drive global change and act as a force for good. The group's blueprint for a successful economy with professional services at its heart is therefore based on:

- Financial stability – the role of professional services firms in promoting sound corporate governance when advising client companies in both the financial services sector and across the economy as a whole will be central to laying the foundations for a more stable and sustainable economy in the future.
- Raising skill levels – maintaining high quality skills means that firms will remain flexible and be well-equipped to seek new and sustainable markets and client bases, while the high standards of professionalism and human capital in the industry should translate into higher skills in client companies.
- Innovation – the prospect of growing demand for excellence, fierce global competition and an ever more demanding client base is likely to translate into an accelerated drive for innovative products and services. Global professional services centres will flourish only if they think and perform effectively and efficiently. The UK sector will succeed by promoting its tradition for quality and expertise and collectively positioning itself as a professional services centre where ideas are generated and marketed.
- Setting global standards – the UK professional services sector has played a key role in setting standards, for instance in law and accountancy. In order to maintain its value to the global economy, the sector should concentrate on driving up standards in areas with clear positive spill-over effects for the wider economy, such as corporate governance, corporate responsibility and environmental issues.
- Headquartering of international firms – the current trend towards international and

pan-European partnerships will mean that UK firms need to be in a position to take advantage of new patterns of business. At the same time, professional services firms will need to be flexible in order to respond to local business needs wherever they emerge in the global market. In the economy of the future, jurisdictions which provide attractive locations for international headquarters are likely to attract further business. Given the relevance of the global partnership model to the professional services sector, it will be important for the UK to remain attractive and market itself as a location for global firms.

- **Connectivity** – the pursuit of links and synergies between traditional clusters and emerging markets is becoming increasingly significant to the professional services sector, offering opportunities for growth and innovation. New markets tend to display high levels of innovation and creativity, often using socially responsible products and services as a growth engine.⁷ The group therefore supports the work of professional bodies to identify the opportunities offered by emerging professional services centres, which will be fundamental to implementing the 2020 vision.
- **Constructive relationships with government** – a mature, open and well-developed relationship between the professional services sector and the Government is fundamental to the sector's continued competitiveness.

UK professional services in 2020

1.17 Competition in the new global order will be increasingly tough. The professional services sector in 2020 is likely to be based on a frontier-free style of business, giving rise to a need for international standards and effective regulation that cross international borders but take account of the impact on national competitiveness. In order to implement the 2020 vision set out above, it is conceivable that

the professional services industry will move away from being competitive in an adversarial manner and focus on more cooperation between global centres. New competitiveness would involve working across and between centres to identify and exploit new markets and opportunities, and spreading skills across global markets via appropriately managed migration flows. Developing collaborative relationships with emerging professional services centres will therefore be of paramount importance to the UK industry.

1.18 UK professional services firms have long attracted some of the brightest and best young graduates. By offering them world class training and development in technical, personal and business management skills, companies have created a workforce capable of the innovation needed to service the increasingly complex demands of global business. The professionals these firms develop are in great demand both in the UK and overseas. This has led to the UK professions not only establishing themselves at the top of the global services industry, but also having a significant influence over the way that global business is done.

1.19 However, the decline in the UK birth rate towards the end of the 20th century means there will be a 12 per cent drop in the number of 18 to 21 year olds between 2010 and 2020. This will have an impact across the whole of society but in particular will mean a reduction in the pool of recruits on which professional services firms have traditionally focused – young graduates. These demographic changes mean that more organisations will be competing for fewer potential recruits. Many professions enjoy a youthful image, in that the majority of employees are in their twenties and thirties. However, this will be hard to sustain unless new sources of suitable recruits are found. This demographic reality will also create an opportunity for the professional services industry to show leadership in valuing the knowledge, experience and perspective brought by older workers.

⁷ This is exemplified by the rapid growth of carbon markets in Europe, or direct social exchanges such as Kiva, which helps people lend to small entrepreneurs in the developing world in order to help them escape poverty.

1.20 Though UK professional services firms are strong and globally competitive today, the group considers that if they are to maintain this competitiveness well into the 21st century they need to tackle a range of challenges. The entrants being recruited into the sector now will be the leaders of their professions in the next couple of decades. It is therefore essential that they possess the right skills to help their firms and professions maintain their global status. To do this, the group believes all the key players who can influence the various professions – the Government, academic institutions, professional bodies and the firms themselves – must work closely together.

1.21 This will be particularly important in terms of managing reputation and securing a 'licence to operate', particularly during a period when the reputation of the industry may be the subject of challenge. Successful enterprises must communicate effectively with the general public and embrace corporate responsibility credentials to attract clients, invite investment and act as a magnet for talent. The UK professional services sector has strong credentials in this respect but it must avoid complacency at all costs.

1.22 The single most important factor determining the future of the UK professional services industry is its client base. Professional services require clients of sufficient size – both in terms of revenue and employee numbers – in order to be able to generate sufficient work and fee income to remain profitable and viable. The current global economic turmoil is also likely to accelerate a growing trend for companies to review headquarter locations, the size and nature of their UK based headcount and their own future growth markets. Professionals may need to be increasingly mobile or skilled in the ability to communicate via more innovative and mobile channels.

1.23 The UK professional services industry therefore subscribes to a shared vision for the future in which the traditionally accepted notion of 'competitiveness' is replaced by a more collaborative approach to foreign markets, where the sector actively seeks out new markets for services and recruits and capitalises on demographic changes to encourage even greater exchange of knowledge and experience, and where flexibility, transportability and innovation are key.

2 Realising the 2020 vision

The professional services sector must focus on a strategy for the next 10 to 15 years to enable it to emerge from the current turbulence with renewed strength and ability. New thinking and an enhanced relationship with the Government and regulators will be needed.

This chapter sets out the following considerations for both the Government and the professional services industry:

- Ensuring effective regulation without discouraging international businesses from basing operations in the UK, by:
 - considering the impact on international competitiveness when drawing up regulations; and
 - considering new guidelines for carrying out post implementation reviews of regulation, including enhanced consultation with stakeholders.
- Maintaining a well designed taxation system by:
 - proposals to offer partnerships a more level playing field with corporates in terms of tax; and
 - the extension of the successful HMRC approach for large businesses to smaller partnerships.
- Safeguarding the UK's attractiveness as a major international business hub by:
 - encouraging small and medium sized firms to grow in order to maintain a competitive market; and
 - promoting physical connectivity through world-class infrastructure and attracting talent and business with a high quality built environment.
- Nurturing and attracting the best skills by:
 - increased investment in tertiary education;
 - professions working with academic institutions to ensure new entrants and existing members possess the right technical knowledge and skills; and
 - professional services firms promoting career opportunities to a wider range of students.
- Creating a professional services industry with a strong international outlook by:
 - positioning the UK as a natural base for expanding into emerging markets; and
 - building on the high standards of UK professional services as a platform for promoting the UK abroad.

2.1 The professional services sector and its clients have flourished together in a favourable business climate. Now both are facing the same challenges in the crisis that is affecting the global economy. The Professional Services Global Competitiveness Group has examined a range of issues facing the sector and considered how these will affect its success over the next 10 to 15 years. No single over-riding issue requires urgent action. However, the group has identified five crucial themes that must be considered in order to enhance the competitiveness of this valuable sector:

1. ensuring the best regulation for success;
2. maintaining a well designed tax system;
3. safeguarding the UK's attractiveness as a major international business hub;
4. nurturing and attracting the best skills; and
5. creating a professional services industry with a strong international outlook.

Ensuring the best regulation for success

2.2 In the previous chapter the group noted that competition in the global market place is set to become increasingly tough over the next 10 to 15 years. In the race to win business it will be crucial that the UK's regulatory regime provides appropriate oversight without discouraging international businesses from basing their operations in this country. The group notes there has been much debate about the need for additional regulation in the wake of the current economic crisis, but also believes it is more important to focus on regulation that is effective and in line with international norms. Effective regulation should meet the needs of all sectors of the economy as well as protecting clients.

2.3 The group welcomes the Government's principles-based approach to regulation and its commitment to the five principles, namely that regulation should be transparent, accountable, proportionate, consistent and targeted. The establishment of the Better Regulation Executive

in 2005 with its roles of improving the process by which regulation is designed and simplifying implementation was very welcome. The re-branding of the Department for Business, Enterprise and Regulatory Reform (BERR) is another positive step since it explicitly endorses the better regulation agenda. The introduction in 2008 of the Regulators' Compliance Code, which requires regulators to have regard to the need to support economic progress, and the current review of their operations are also very welcome. However, the group considers that the introduction of a sixth principle – that of competitiveness – could emphasise the importance of recognising how regulation can affect the UK's position in global markets.

Case study – Special Resolution Regime

HM Treasury, the Bank of England and the Financial Services Authority introduced the Special Resolution Regime (SRR) with the aim of protecting and enhancing the stability of the UK financial system, building confidence and protecting depositors and public funds as well as avoiding interference with property rights. The group supports these objectives, particularly in the current financial climate, and welcomes the Government's response to the concerns raised by law firms and relevant legal committees in designing the relevant legislation.

2.4 Implementation of regulation is often a matter for vigorous debate, but the group notes the results of the Davidson Review on the Implementation of EU Legislation in 2006, which found that the extent of so-called 'gold-plating' was far less than many in industry claimed. Davidson also observed that the UK Government was one of the few EU Member States to have in place explicit policies and procedures to prevent over-implementation.

2.5 In many instances the UK has a strong story to tell regarding the implementation of EU directives, with the implementation of some rules less prescriptive than in other member states. For

example, the EU directive on data protection has been implemented in the UK by the 1998 Data Protection Act, which applied a narrow interpretation of what constitutes personal data and therefore imposes a lower burden on business than in other EU member states. Although the group notes that the UK approach has been criticised by other EU information regulators and by the Commission itself, the group believes strongly that the Government should hold its current line and thus maintain a competitive advantage.

2.6 The group considers that the effect of having the key economic portfolios in the current Commission in the hands of Commissioners who support liberal, open markets has been extremely beneficial to the professional services industry. Given the impact of EU legislation on the longer-term competitiveness of both the EU as a whole and the individual member states, the group strongly endorses efforts to maintain this supportive culture at the heart of Europe. The group is therefore committed to continuing to support the Government by ensuring that individuals with professional services expertise from the private sector are seconded to the European Commission and to the UK Permanent Representation.

2.7 However, the group remains sensitive to the potential competitive disadvantage that inconsistent implementation can cause and has provided some examples of opportunities to mitigate the inadvertent or unintended impacts of regulation on professional services firms (see case studies below). One option would be for the Government to take a broad view of what constitutes regulation, to identify over-implementation and to encourage regulators to consider the impact of rules on all sectors and on competitiveness.

2.8 The group would like to see consultation further embedded in the post implementation reviews of regulation introduced by the Government. While consultation is currently regarded as best practice but remains optional, the group considers that the Government should examine the possibility of gathering the views of stakeholders as part of all such

Case study – Suggestions for mitigating the costs of implementation

Markets in Financial Instruments Directive

The European Union's Markets in Financial Instruments Directive (MiFID) came into force in November 2007. Financial firms are required to report details of their equities trades to the market and to ensure these reports are accurate and monitored continuously for errors. They are given a choice on how to publish them and one option is to publish through financial information suppliers.

In the run up to MiFID's introduction, the Financial Services Authority (FSA) raised concerns that the number of such publishers would increase, risking the fragmentation of trading data. As a result, it introduced regulations to ensure that publishers met certain criteria including network security and dissemination. The FSA agreed that financial firms choosing to publish through authorised publishers – 'trade data monitors' – would be deemed to be in compliance with their trade reporting obligations.

The group considers that there is scope to review this arrangement in order to ensure it is achieving its aims. While publishers may be able to identify major errors in trade reports, they are unable to ensure complete accuracy since they do not provide the original data. The group therefore suggests that the FSA could make use of the review of MiFID later in 2009 to take a fresh look at the trade data monitors arrangement to ensure it is proportionate and effective.

Auditing standards

Most, if not all, international standards on auditing have additional requirements set by the Auditing Practices Board to ensure compliance with UK legislation or regulation. In some cases, however, additional requirements do not directly arise from UK law. One example is the review of an enterprise's ability to continue as a going concern. In the UK the period for review is 12 months after the date of the audit report, whereas in most other countries it is 12 months from the balance sheet date. The group considers that these different requirements can add to the regulatory burden for professional services firms when compared with other economies, and suggest that the industry should continue to work with regulators to mitigate such discrepancies.

reviews. The group believes that this would establish a strong focus on how effective the regulation has been in achieving its stated aims and to help identify any unintended consequences.

2.9 The case study below describes the implementation of the EU Directive Markets in Financial Instruments Directive (MiFID) and its potential impact on professional services firms involved in financial information. The industry believes that there is scope for communicating obligations under MiFID more clearly to vendors and market participants, and that this could lead to more effective implementation of the directive.

2.10 The group considers that regulators will need to be particularly vigilant in markets that are already non-transparent – for example, the credit derivatives market – especially as access to this data is critical for analysing transactions and assessing risks. Ensuring that raw market data is available on commercially reasonable terms is also an important component of promoting transparency.

2.11 An issue of particular relevance to the group is the impact of the prevailing system of Joint and Several Liability in the UK, which arises where two or more people act independently to cause indivisible damage to the same plaintiff. Each is then fully liable for the whole loss. The regime can increase the cost of delivering professional services through extra insurance costs or create the risk of costs falling disproportionately on a particular defendant.

2.12 Some law firms attempt to deal with the contractually agreed limit on liability by including in their own engagement contracts a provision whereby the client agrees that the firm's liability will not be adversely affected by a limitation on another adviser's potential liability. The group considers that this response is not entirely satisfactory since it remains an untried area in the courts.

2.13 The group welcomes Government action to tackle these problems, including the introduction of the Limited Liability Partnerships Act 2001 (which

affords protection for non-negligent members of professional services firms) and the Companies Act 2006 (which permitted limited liability agreements between auditors and companies with the support of shareholders). However, while auditors have a role to play in convincing their clients to enter into such an agreement, not one listed company has to the group's knowledge entered into an LLA at time of writing. Furthermore, the leading firms in the legal profession say they could not advise the audit committee of such actions as there would be no direct benefit to their client of doing so. In addition, the Securities and Exchanges Commission (SEC) in the United States decided in February 2009 that SEC registered firms are not permitted to sign LLAs. As part of providing a stable platform for a world-class accountancy profession, the group considers that the Government should examine alternative solutions.

2.14 Although the wholesale abolition of joint and several liability would be unrealistic, the group considers that further reforms may be required to prevent the UK falling behind international trends. The group calls on the industry to work together with the Government to give further consideration to this issue, and encourages members to present robust evidence of the case for change to the Government.

2.15 An alternative to joint and several liability would be a form of proportionate liability, with the damage suffered apportioned between the potential defendants. While effective in producing a more equitable share of liability, anecdotal evidence suggests that would have the drawback of shifting the risk of a defendant's insolvency from its co-defendants to the innocent plaintiff, although this is always the case with only one supplier.

2.16 The group notes further ways of dividing the insolvency risk between plaintiff and defendants. In the US, the previously universal system of joint and several liability has been modified in as many as two thirds of States as part of an overall tort reform process. Many have abolished joint and several liability for certain circumstances. Various other

restrictions (such as non-applicability to intentional or deliberate acts) are also included in the new statutes.

Maintaining a well-designed tax system

2.17 This report has identified the importance of ensuring that the UK offers an attractive location for international firms to base themselves. The overall design and operation of national tax systems are important factors for companies when deciding where to invest or where to headquarter their organisations. The influence of the UK taxation system needs to be considered in the context of an increasingly globalised economy in which labour is more mobile and business structures are becoming more flexible. In addition, the professional services industry notes that favourable tax regimes are being put in place by some jurisdictions to attract certain businesses and activities. The group believes this increasing competition underlines the importance of considering tax in a global context and as part of a longer-term framework.

2.18 The group believes that the tax regime must recognise the importance of the sector to the overall economy and provide the professions with fairness, clarity and continuity. The partnership business model is employed by a large number of firms in the professional services industry, and is very relevant to matters of taxation. The professional services industry is fundamentally knowledge-based and experience of certain sectors has shown that top professionals work best in organisational structures, such as partnerships, where there can be a greater level of autonomy over their professional work than within a corporate structure.

2.19 The design of the UK taxation system overall works well for the professions and creates a favourable business environment. The group believes that this does not require significant change. However, it encourages the Government to continue working with the sector to identify any specific

Case study – Tax deadlines

A specific example of how HMRC has worked with the professional services sector to deal with the impact of the tax system is the change in deadline for paper tax return filing for the 2007-08 tax return period.

International partnerships operating in the UK may have to make returns for large numbers of non-UK partners even when using what are known as the 'composite return' filing arrangements. As a practical matter the October deadline has been difficult to meet for such partnerships. To avoid penalties the only remaining filing option is electronic filing. This electronic filing software, however, does not yet work for international partnership composite return cases.

HMRC have assured firms that they will be understanding over penalties, and is working with partnerships to resolve the issues that have been identified.

tax and compliance issues faced by partnerships in order to maintain this environment and, where desirable, create a more level playing field between corporates and partnerships. In particular, the group notes that taxing retained profits at the standard rate of corporate taxation (as opposed to the higher personal tax rate) would act as a positive incentive for partnerships to invest, in addition to increasing the funds available for investment.

2.20 The group believes that in the longer term, some elements of the professional services sector will be characterised by a move towards global partnerships, and that the UK's continued competitiveness could be enhanced by such partnerships choosing to headquarter in the UK. The group considers that double taxation treaties for partnerships could affect decisions on the location of global headquarters, and notes that the efficient function of double taxation treaties is therefore vital. HM Revenue and Customs currently certifies the residency of individual partners for tax purposes. However, the group considers that this process can be burdensome for both the tax

authorities and the professional services sector. While the group recognises that partnerships cannot currently be considered resident in the UK for tax purposes since it is the individual partners who are subject to tax, it urges the Government to consider revisiting these arrangements as part of its wider strategic work on the direction of the UK tax system.

2.21 For the majority of people working in the professional services sector the UK personal tax system does not act as a disincentive in any decision over whether or not to relocate to or from the UK. Indeed, for some secondees staying for less than three years the UK can be a relatively attractive location from a tax perspective. However, the group recognises that other jurisdictions seeking to compete in specific business areas are offering more attractive personal tax regimes, in particular the Far East. The group considers that such developments underline the importance of maintaining the current tax position, and notes that even small changes could have a disproportionate effect on perceptions of the likely tax burden.

2.22 The Organisation for Economic Cooperation and Development (OECD)⁸ recently observed that the UK taxation of non-UK domiciles was one of the two features of UK personal taxation that enhanced UK competitiveness. The group has heard suggestions from the shipping industry that changes to the taxation of non-domiciles in the 2008 Finance Act prompted some Greek shipping owners to shift their business out of the UK but notes the Government's view that the changes to the 2008 Finance Act have led to increased certainty in the system. The group therefore considers that the Government should work closely with the professional services sector to communicate the benefits of this change clearly to those affected by it, including the Chancellor's commitment at Budget 2008 not to revisit the residence and domicile regime in this or the next Parliament.

2.23 In terms of Value Added Tax (VAT), the UK has a relatively beneficial regime compared to the EU average of 19 per cent. The group nevertheless notes that VAT rules can have an impact on the cost of consultancy work. Although VAT is charged on the vast majority of services provided by a consultancy, the group notes that EU-level tax legislation means that VAT is only partially recoverable in some sectors. Group members are willing to continue working with the Government on issues of VAT recoverability and the group encourages firms to present evidence to the Government to reflect any barriers to outsourcing imposed by the VAT system.

2.24 A particular area of concern for some employers is that partnerships are unable to offer tax efficient incentives, such as share their options, to employees. This inability to offer a tax effective stake in the business puts partnerships at a disadvantage to corporates in attracting staff. The group would welcome the opportunity to hold further discussions with the Government on opportunities to offer staff the chance to take a similar stake in the business in the way that is available to corporate employees.

2.25 Large partnerships appreciate the way they are dealt with by HM Revenue and Customs' (HMRC) Liverpool large business office. The group considers that this division of HMRC fully understands the structure of and issues faced by partnerships. The staff have strong technical knowledge of the sector's tax issues and they work efficiently and co-operatively with the partnerships as taxpayers. The group also welcomes the creation of HMRC's large partnerships unit, and understands that HMRC is aware of the increasing number of partnerships, and that specialist processes are being put in place to reflect this. It considers that HMRC should take into consideration the increasing number of smaller and medium-sized partnerships as well as larger entities. The group recognises that the administrative burden associated with tax is proportionate to the robustness of firms' compliance mechanisms, and welcomes the accurate risk profiling that HMRC's efforts should produce.

⁸ Economic Survey of the UK, Vol. 2007-17, OECD, September 2007

Safeguarding the UK's attractiveness as a major international business hub

2.26 The professional services and financial services sectors have a powerful inter-dependency and enjoy mutual benefits. The professional services sector needs a critical mass of clients to thrive. Successful and highly qualified professionals attract business to the UK. The group therefore strongly supports the work of the Financial Services Global Competitiveness Group co-chaired by the Chancellor of the Exchequer and Sir Win Bischoff to look at the issues affecting the success of the financial services sector in both the UK and globally, over the next 10 to 15 years. The group also recognises that professional services firms need to maintain their competitiveness and attractiveness in terms of both expertise and costs.

2.27 However, the group believes that the professional services industry has a major role to play in supporting all sectors of the economy, with the scope to provide services across the UK as a whole. In particular, the role of the industry in providing services to other high-value sectors of the economy such as research and development, hi-tech manufacturing, information and communication technologies (ICT) and the new media sector must not be overlooked.

2.28 If London and other UK financial services and professional services centres are to compete successfully in the global market place, UK competitiveness needs to be maintained and connectivity encouraged. Previous paragraphs have already explored the impact of the legal and regulatory landscapes and the design of national tax systems in promoting competitiveness. The quality of infrastructure is an issue that has a major bearing on both connectivity within markets and links to other centres.

2.29 The professional services sector is heavily reliant on the availability of excellent transport services to maintain the necessary strong links with

clients. The UK and particularly London has a well-developed, extensive transportation system which is predominantly safe, frequent, and increasingly reliable. Recent investment to upgrade and extend the networks is welcome, although the group notes that the task remains considerable.

2.30 To cater for the expected growth in the travelling population of the UK in the longer term, the group supports essential growth in capacity. The group suggests that the Government should continue to support and fund major infrastructure projects. The commitment to delivering Crossrail by 2017 with the additional 10 per cent capacity it will bring represents a significant investment. It will also supply connectivity between the City and Canary Wharf and with the West End, Heathrow and the Thames Gateway.

2.31 The UK's airport network is modern, efficient and provides excellent international connections, but is running at capacity. Long-term passenger forecasts suggest that current airports will not be able to cope with the increased numbers. The group therefore welcomes the decision to build a third runway at Heathrow, but considers that expansion at Heathrow over the longer term is reaching its limit. In planning future airport expansion consideration should be given to other London airports. Improved rail connections to Heathrow, especially from the west and north, are also vital.

2.32 The group considers that the planning system should be predictable and responsive to the demands of professional services firms and their clients. A fast-track option for major infrastructure projects would ensure they are given sufficient prioritisation to enable their timely delivery. In the case of London, natural competition between the City and Canary Wharf for office space continues to encourage the renewal and development of these areas. However, the group considers that in the longer term it will be important to look at new areas and regions across the UK for future expansion and redevelopment, including well-connected overspill hubs.

2.33 London's unique built environment has produced very high quality office space, some at the leading edge of design and technology. While the continued redevelopment of London is necessary to ensure a constant supply of modern, efficient office space, high land and construction costs could have an adverse impact on the capital's continued attractiveness in the face of developments in other world cities. The group considers that the success of future development will be dependant on containing upward pressure on rents and service charges, which will require a concerted effort from the private sector. Surveys of commercial property occupiers⁹ show the UK leading the way in terms of specification and build quality, although the UK is still perceived to under-perform against other countries in terms of lease flexibility and value for money. The highest level of dissatisfaction is found in value for money regarding service charges.

2.34 The information technology (IT) deployed by professional services firms grows in speed and complexity at an increasing rate. Firms face a permanent challenge in providing not just the systems they need but in ensuring their security. Recent studies have provided evidence that the provision of suitable IT and data infrastructure could become a major factor in the relative competitiveness of financial and business centres. The development of the IT infrastructure that will be required in future years poses a challenge to the Government and business alike. The group considers that developments including central structures such as data farms will require collective action and funding, and considers that the Government and the professional services industry should continue to work together to explore such solutions.

2.35 The UK's longer-term ability to attract businesses and retain the best talent from around the world will be inextricably linked to sustaining an attractive social environment, based on providing family homes in safe and stable communities within

reasonable commuting distance of financial and business centres. London, in particular, benefits from an unrivalled architectural heritage. Many world-renowned designers, architects and engineers practise in the City, contributing to the exceptional quality of its built environment. Its green spaces are also a valuable attraction that can contribute to long-term competitiveness if they are preserved, enhanced and extended. The group believes that growth in residential areas across the UK to meet increased demand should be matched with the appropriate infrastructure and excellent transport services that reduce reliance on the car, as well as community facilities and schools. Crime and the perception of crime is another important issue. While levels of crime in the UK and London are broadly comparable with those of other major professional services centres, the group notes that the use of CCTV provides addition comfort to investors and residents.

Nurturing and attracting the best skills

2.36 The group's vision of a professional services sector that will remain a world leader in 2020 puts considerable emphasis on high levels of expertise and flexibility. The sector needs to ensure that it offers rewarding and challenging careers in order to continue to attract the best talent from the widest possible pool. Changing demographics will mean that this remains a key issue over the medium to longer term. The group therefore welcomes the Government's decision to establish the Panel on Fair Access to the Professions,¹⁰ given the spur it is likely to give to this wider search for talent, but notes that major change may only be possible in a 15-year time horizon.

2.37 Entrants to the professions have traditionally been academic high achievers. Although the

⁹ UK Occupier Satisfaction Index 2008, Property Industry Alliance.

¹⁰ The Panel on Fair Access to the Professions is a Cabinet Office initiative which aims to identify options that the professions, working with the Government, could take to improve access.

intellectual demands of the professions mean that this is unlikely to change, the group urges the Government to continue its efforts to ensure that all children have the opportunity to develop to the peak of their ability. At the level of secondary education, systemic changes are needed to continue to improve the level of school leavers' numeracy and literacy skills. Lord Leitch's Review of Skills¹¹ recommends that by 2020 at least 40 per cent of the adult population should have Level 4 skills¹² (up from 29 per cent in 2006) if the UK is to cope with the challenges of globalisation. Achieving this target can only have a positive impact on national competitiveness.

Case study – Working with educators for practical results

A number of professional services firms have worked with tertiary and professional education providers to develop tailored programmes, for instance via the creation of the IT Management for Business degree designed in collaboration with the Sectors Skills Council, eskills. Other professional services firms have worked directly with higher education institutions, in one such case developing a sandwich degree with Leicestershire University to meet business needs.

In addition, leading law firms have worked closely with providers of professional education programmes to develop firm-specific legal practice courses to both meet the regulatory requirements of the Solicitors Regulation Authority and prepare future solicitors for their traineeships.

2.38 Young people should also be encouraged to consider the professions in their career choices and make the appropriate decisions about subjects to study. The group considers that the Government should continue to pursue improvements to the school-level careers service. Initiatives such as

STEMNET,¹³ through which a network of science and business ambassadors visit schools to explain why studying certain subjects can be a sound foundation for a range of careers, are welcome and should be expanded. The group considers that using role models to visit schools has proved very effective in opening up young people's eyes to opportunities. The group therefore considers that this approach should be developed, and considers that the professional services industry should take a more active role in supporting schools, through initiatives such as running work shops on CV writing, offering practice interviews and mentoring as well as giving career talks.

2.39 The group has identified the importance of securing business in emerging markets. It is vital to recognise that English may not be language of choice in the new economies. Among other actions, implementing the recommendations of the Dearing Review of Languages¹⁴ will play an important part in maintaining the UK's competitiveness.

2.40 The professions require entrants to possess the right technical knowledge, which is generally acquired through undergraduate and/or professional examination studies. The group considers that the Government should continue to encourage undergraduates to study a broader range of relevant subjects, notably the sciences and mathematics, while it is also important for universities to invest in the faculties that teach subjects of relevance to the professions. Investing in university departments that support the work of the professions is essential both in terms of improving the quality of the entrants and developing the intellectual calibre of the work of professionals.

2.41 The group therefore considers that higher education institutions and business should work ever more closely together to ensure that universities and other professional education providers are teaching

11 *Prosperity for all in the global economy – world class skills*, Leitch Review of Skills, December 2006.

12 Equivalent to Honours degree level.

13 Science, Technology, Engineering and Mathematics Network.

14 Languages review, Department for Education and Skills, February 2007.

their students the knowledge and skills which business requires. Although teaching institutions need to maintain their academic independence, the group sees benefit in working with firms to ensure that students receive a sound preparation for their future careers. Studies should be both academically rigorous and practically focused.

2.42 However, firms should not only look at recent graduates for their entrants. The consequence of the change in the national demography is that the workforce is ageing. More professional services firms may therefore need to consider innovative ways to meet this challenge, including by valuing the experience and perspective that older workers can bring, by promoting lifelong learning and development, and by encouraging more women to remain in the professions particularly after becoming mothers. In this respect, the group notes that some members' firms already implement programmes aimed at retaining talented women.

2.43 Further innovative approaches may increase the UK's national pool of potential entrants to the professions and go some way to balancing the effects of demographic changes. However, firms may also need to look wider. Recruiting from the global workforce not only gives UK professional services firms access to greater numbers of potential recruits, but also to recruits with skills in short supply within the UK workforce, thereby enhancing firms' competitiveness. International recruits may also possess superior language skills and a more global outlook. The group therefore notes the longer-term importance of UK firms recognising acceptable qualifications from abroad. While understanding the Government's wider challenge of managing immigration, the group welcomes Government's efforts to work cooperatively with industry in developing the Points-Based System for immigration (PBS), as evidenced by publication of guidance booklet for City firms in November 2008.

2.44 The group considers that the industry should play an active role in working with Government review the Shortage Occupation List (which allows

the granting of UK work permits to skilled foreign personnel) to ensure that the PBS can contribute to growth in the professional services sector. For example, the group supports the inclusion of certain IT skills on the Shortage Occupation List. The management consultancy industry has identified a particular shortage graduates with IT skills, especially combined with the right mix of soft skills. The group also notes that UK law firms have for many years relied heavily upon lawyers from Commonwealth countries to meet skills shortages, and considers that professional qualifications from Commonwealth countries should be given due recognition by the PBS.

2.45 Once recruits of the right calibre are working in the industry, firms will need to look carefully at their structures and business practices to ensure they remain attractive places in which to work. This may mean changing their organisations to meet changing attitudes to work/life balance.

Creating a professional services industry with a strong international outlook

2.46 The UK is home to some of the world's largest professional services firms who carry out a significant proportion of the sector's activity. As this report has already noted, there are also many small and medium sized firms providing professional services. Encouraging these firms to grow would enhance competition and ensure that the UK can provide international business with diverse services and facilities at a range of costs. The group therefore stands ready to work with the Government to ensure that business support services provide the advice and information to encourage firms to grow and seek out international clients.

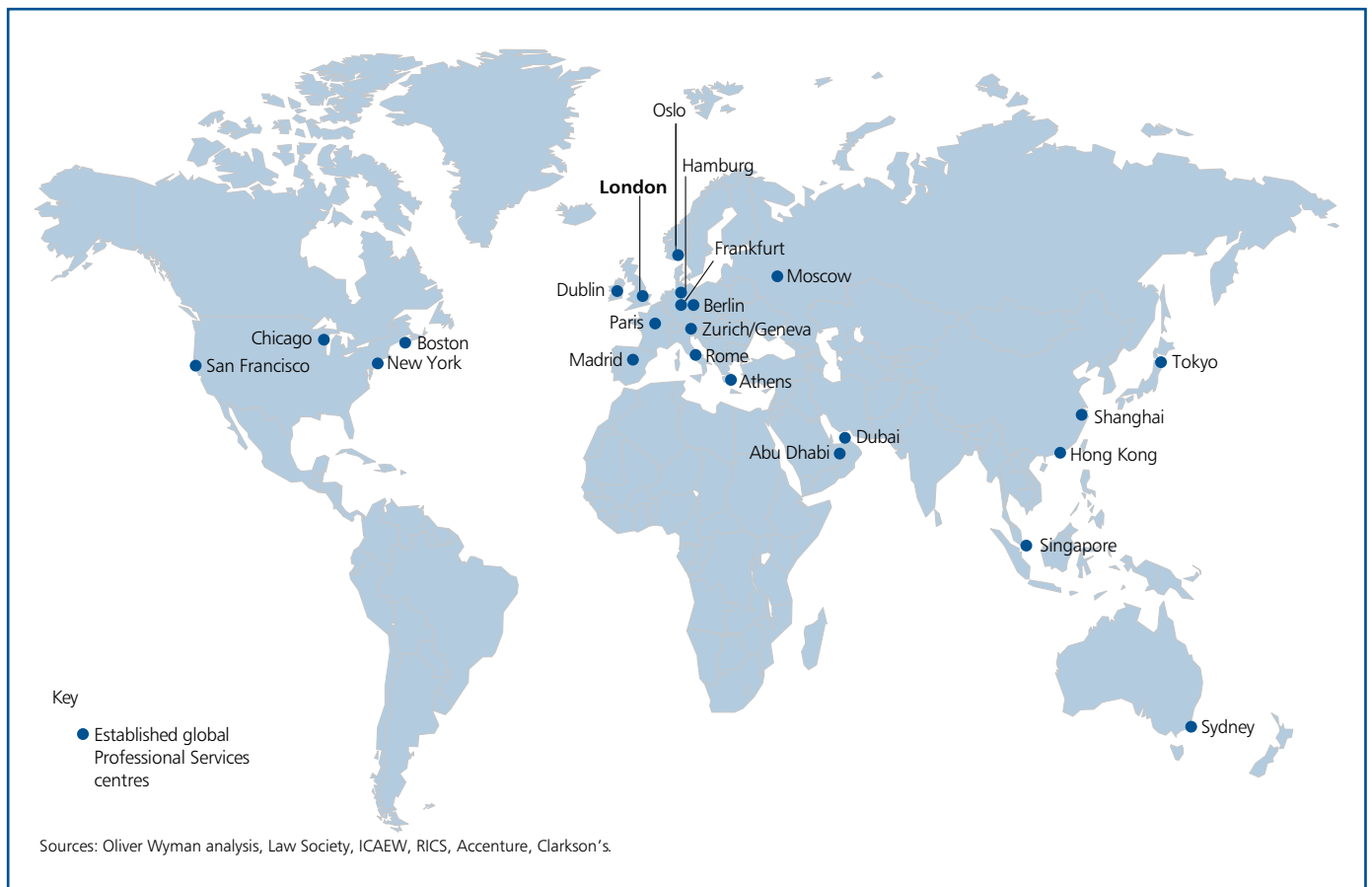
2.47 The group has already observed that the UK's professional services sector is a world-class brand, respected for its skills and integrity and recognised for its leadership role in standard-setting and best practice. A major factor in the long-term

competitiveness of the UK’s professional services firms will be the promotion of UK best practice as the global standard. The group therefore considers that London’s hosting of the headquarters for the International Accounting Standards Board (IASB), which has been creating a single set of accounting standards for global business, is important in this respect. The IASB helps to reinforce London’s reputation as an international business centre, enhances the global standing of the UK profession and contributes to higher levels of confidence in corporate reporting worldwide, not least to the benefit of UK-based issuers, investors and markets. The UK has also benefited enormously from the location of the UN International Maritime Organisation in London.

2.48 However, in the longer term UK professional services firms will need to look for ways of enhancing their particular profession’s status as one of the world’s leading brands. Those with global practices

can do much to promote UK best practice in their market sector. The group therefore considers that firms in the sector should continue to work closely with their professional bodies to establish the relevant professional examination structure as global standards (as the Association of Chartered Certified Accountants and the Chartered Institute of Management Accountants have successfully done). The group considers that UK professional services firms must also to ensure that their alumni leave the organisations as ambassadors for UK best practice in their particular profession.

2.49 The group notes the excellent work of UK Trade and Investment (UKTI) in promoting UK business overseas, but notes that the professional services industry is not always aware of UKTI’s efforts. The group therefore considers that there is scope for UKTI to publicise its work to a broader range of professional services firms and organisations in its promotional strategy. The group stands ready to



work with UKTI on a unified and clearly branded promotion of UK best practice and skills, and the continued development of international standards based on UK experience. The group considers that this could be of particular relevance in emerging markets. The group also notes that preparations for and the staging of the Olympics in London in 2012 could be used as an import showcase for UK professional services expertise.

2.50 As a further consideration, the group believes that gathering clear data concerning the priorities that draw clients to UK professional services firms would be useful to the sector in meeting future challenges. The graphic on the previous page represents a preliminary attempt to map established global professional services sectors on the basis of data from professional bodies and professional services firms. With a view to pursuing a more collaborative and symbiotic approach to global markets, the group considers that it will be important for the UK professional services sector to develop closer links with both established professional services sectors and also to enhance connections with emerging centres around the world. The group therefore considers that further work to identify emerging centres and put in place collaborative programmes (for instance in terms of regulatory and education and training cooperation) would have clear benefits in the longer-term, and stands ready to work with the sector's professional bodies to support their ongoing international work.

2.51 If UK professional services firms are to compete on equal terms in new and growing markets, it is vital that there are not held back by barriers to trade. For example, restrictions on the provision of legal services currently apply in China and South Korea, while in Germany, lawyers and tax advisers are not permitted to operate out of the same partnership, so a separate entity must be established to split the German arm of the company. The key to a dynamic professional services sector is the ability to deploy resources quickly and effectively. In the light of the above, the group urges the Government to continue to work with the European Commission to examine

the potential barriers to the development of a Single Market for services. The group therefore encourages the professional services sector to continue to work with UK Trade and Investment to identify the scope for further opportunities for UK and other European firms in wider global markets.

2.52 The 2020 vision has identified the importance of giving UK firms a distinctive brand in the global marketplace. The group therefore considers that long-term competitiveness can be enhanced through the promotion of the sector's corporate responsibility credentials. UK business has successfully worked with the Government to develop a significant international profile for corporate responsibility, which can enhance firms' attractiveness to potential clients and employees. For example, a 2007 MORI poll found that 89 per cent of employees consider it to be very or fairly important that their own employer is responsible to society and the environment.

2.53 This report focuses on the importance of promoting UK best practice as a global standard. However, the professional services sector cannot ignore the reality that business can also be won through the mutual recognition of global professional standards. Given that many of the obstacles to mutual recognition include ownership rules, the group considers that the Government and the professional services industry should look jointly at possible initiatives needed to support the promotion of new ownership structures, for instance in the same way that the Government has enabled alternative business and ownership structures through the Legal Services Act. The group considers that this will require a strong lead by professional bodies and significant support from the Government. As mutual recognition would also invoke World Trade Organization (WTO) obligations, the group believes that appropriate measures must be taken to ensure that the UK market for professional services is competitive and open to recognising acceptable qualifications from abroad.

Conclusion – the benefits of working with government

2.54 The Government's welcome initiative in creating the Professional Services Competitiveness Group has brought major benefits to the sector. Throughout discussions the group has appreciated the clear lines of communication with Government ministers and policymakers, and the opportunity to deal with subjects at a senior level and with one voice. It has been an extremely constructive relationship.

2.55 In examining the challenges and opportunities facing the sector over the medium and longer term, the group has also noted some issues that have a particular impact on professional services in the short term, but whose resolution would have positive long-term benefits. Members of the group have commented that the fragmented way in which the interests of professional services have traditionally been dealt with across Government may have contributed to the development of these issues. In particular, challenges have been created in some instances by EU-level regulation. The group therefore sees benefits in being given the opportunity to examine EU legislative proposals as early as possible, in order to identify any potential unintended impacts on the professional services sector. The group considers that a specific Government unit to deal with professional services issues on an operational level could be at the heart of a longer-term relationship between the Government and the professional services industry.

2.56 Current global economic turbulence is challenging the professional services sector, creating the need to develop and implement a strategy that will enable the sector to emerge from the current downturn with the strength and ability to return to growth and to help its clients prosper. Continued new thinking and an enhanced high-level ongoing relationship with Government and regulators will be central to achieving this objective.

3 Legal profession

The UK legal profession is a world leader in the provision of services and has played a significant role in influencing the development of legal and regulatory regimes internationally.

A favourable regulatory regime in the UK has assisted the profession to achieve this elevated status in the face of constant challenges from other international competitors. Safeguarding the UK's longer-term competitiveness will require constant vigilance to ensure the regulatory burden is not increased, especially through implementation of EU directives.

The group notes that a number of significant reviews are currently underway, including a review of the regulation of the profession being carried out by the Law Society.

Policy considerations include:

- streamlining money-laundering and insolvency rules;
- introducing more flexibility in the Qualified Lawyer Transfer Scheme; and
- continuing pressure to open up global legal markets.

Background

3.1 The legal profession plays an important part in the UK economy. It contributes 1.4 per cent of the UK's Gross Domestic Product (GDP – 2006 figures), is a substantial employer and provides crucial support to a wide range of private and public sector activities. The sector is undoubtedly a world leader in the provision of legal services to global clients involved in multi-jurisdictional transactions and dispute resolution. The largest three Global 100 firms were from the UK and over half of the revenue of the largest law firms in the UK is generated by international law firms based in London. London-based international firms have been performing better than firms dependent on the domestic market since the start of the current global financial turmoil.¹⁵ The profession has also been a major global influencer, working closely with governments and regulators to help develop robust legal and regulatory regimes.

3.2 The global nature of modern legal services means that law firms in different countries can compete to lead multi-jurisdictional transactional work. UK firms, therefore, must make the most of their strengths (including the UK's favourable regulatory regime) to win mandates and maintain their current elevated status over the long term. As things currently stand, UK firms, employing excellent individual lawyers and with unparalleled global reach, are well placed to do this.

3.3 At present solicitors in England and Wales are regulated under a single regulatory regime. The Law Society has, since January 2007, delegated its regulatory powers to the Solicitors Regulation Authority (SRA). A single code of conduct governs all solicitors, wherever they practise, and the SRA is responsible for monitoring compliance with the rules, investigating misconduct and taking action against solicitors who fail to comply with regulatory requirements.

3.4 The solicitors' profession is diverse. It varies from sole practitioners offering a variety of services to consumers, to large global firms concentrating on handling commercial transactions for multi-national clients. Naturally, there is a range of firms in between, with many offering legal services both to private clients and to the commercial sector.

3.5 A wide range of regulatory issues is associated with each type of practice. Smaller firms may have less sophisticated administrative systems and may therefore be more exposed to fraud. In addition, their clients, as individuals or small businesses, are likely to be more severely affected by any incompetence or dishonesty by the solicitor. For those reasons, firms with four partners or fewer account for the great majority of investigations and sanctions imposed by the SRA.

3.6 The larger firms tend to work for sophisticated, commercial clients and tend to have invested significant resource in internal risk management. Complaints to the regulators and regulatory action involving such firms are extremely rare.

Issues and opportunities

Regulation

3.7 Despite current economic difficulties the UK legal profession remains in a strong position to compete internationally. Revenues in 2008-09 are expected to be around the previous year's levels with profits up around 7 per cent in the first half of the year but likely to deteriorate in the second half.¹⁶ However, certain aspects of the UK's legal and regulatory framework can increase the administrative burden on solicitors and their clients. As global competition appears set to increase over the coming decade this may make the UK less attractive than international professional services centres such as New York as a place to conduct global business.

¹⁵ International Financial Services London Research: Legal Services 2009

¹⁶ International Financial Services London Research: Legal Services 2009

3.8 The group is aware of concerns, particularly among large commercial firms who compete for mandates alongside firms regulated in other jurisdictions, that the current approach to regulation by the SRA and the Code of Conduct itself may be more appropriate for high street firms with a very different market profile and are unnecessary and burdensome for the large, global practice competing internationally.

3.9 In October 2008, the Law Society announced that it would undertake a review of regulation of the legal profession, specifically to investigate whether there is a basis for a different regulatory regime for

different types of firm. A stated objective of this review is to safeguard the global competitiveness of the English legal sector. The report is due to be published in July 2009 and the Law Society envisages that a revised regulatory regime could take one of a number of forms. An example is a separate risk-based regime for large firms. The group notes that members from the legal profession are participating fully in the review and awaits the outcome of the report with interest. The group considers that it is important for regulation to be relevant and proportionate for all types of legal practice – from sole practitioners to the larger city firms – and notes

Case study – The impact of money laundering reporting requirements

Since 17 December 2007, solicitors in the UK have been bound to abide by the UK Money Laundering Regulations 2007. This has had some positive effects, such as the application of risk-based client due diligence (CDD) which allows firms to reduce their workload in many routine cases to exercise judgment concerning application of the rules, and to more effectively concentrate their efforts where the threat is considered the greatest. Conversely, some other EU jurisdictions such as Italy and Portugal have stayed with the ‘box ticking’ approach and the additional paperwork it requires.

Although CDD requirements in the UK and the EU are more onerous than those in the US (where similar legislation does not extend to law firms), the UK approach is risk-based and conforms to the international, Financial Action Task Force (FATF-)recommended standard, and may therefore impact positively on the reputation of the UK legal system, as well as contributing to the robustness and reputation of the wider UK anti money-laundering and counter terrorist financing regime.

The UK legal profession sees merit in measures to further enhance correct application of the Proceeds of Crime Act 2002 (POCA). POCA requires UK solicitors to report any knowledge or suspicion that another person is engaged in money-laundering, including a suspicion that property has been acquired through criminal conduct. The group considers that the legal profession would benefit if the

Serious Organised Crime Agency were to be given the power to provide guidance on the absolute obligations contained in POCA, in relation to reporting across the EU.

Although solicitors in the UK have had to make a large number of reports, this is not out of proportion to other professional services sectors affected by the rules such as accountants. However, the group notes that this can create a conflict of laws in cross border transactions, with potential problems for client confidentiality. The group therefore considers that there is scope for further refining the consent process, which could have a positive effect on the speed of conducting certain commercial transactions.

The single criminality test contained in POCA means that solicitors in the UK are often obliged to report activity that does not appear to be of a serious criminal nature. This can cause difficult conversations with international clients who understandably find it hard to understand why their transaction has to be delayed while a report is made (sometimes containing confidential business sensitive information). The group considers that the Government should continue to work with the legal profession to improve the consent regime, in order to reduce delays, potential conflicts with lawyers’ duties to their clients and the number of reports made that are clearly of no intelligence value.

that the review has the potential to reduce regulatory burdens on UK based law firms.

3.10 The group also considers that the Proceeds of Crime Act 2002 can impose significant administrative burdens on solicitors' firms and risks creating tension between the need to make a report and the duty of confidentiality to one's client. The group therefore considers that the Government should continue to work with the legal profession to improve the consent regime, in order to reduce delays and potential conflicts with lawyers' duties to their clients.

Qualified Lawyer Transfer Regulations

3.11 For many years large commercial law firms based in the UK have benefited greatly from recruiting talented lawyers from numerous common law based jurisdictions such as Australia, New Zealand and Singapore. One significant attraction for such lawyers in coming to the UK has been the relative ease with which they can re-qualify as solicitors in England and Wales via the existing Qualified Lawyer Transfer Regulations (QLTR).

3.12 The SRA has recently proposed and consulted upon some significant alterations to the QLTR, particularly as to the experience required of those re-qualifying and the assessments they need to undergo. The proposals also include a number of criteria that other jurisdictions will need to fulfil for their lawyers to have access to qualification as solicitors in England and Wales.

3.13 The group considers that allowing lawyers from important jurisdictions such as India or China to re-qualify in England and Wales will help develop the UK's human capital in the medium to long term. The group advocates a flexible system that allows lawyers wherever they first qualified to have access to proportionate and reasonable transfer arrangements and permits UK law firms to compete internationally for the best talent to complement our domestic talent.

Special Resolution Regime

3.14 In January and July 2008, HM Treasury, the Bank of England and the Financial Services Authority issued consultation papers on proposals to deal with issues arising from bank failures. The authorities proposed the introduction of a Special Resolution Regime (SRR) granting them certain powers where the Financial Services Authority (FSA) determines that a bank has failed, or is likely to fail to comply with the threshold conditions for authorisation under the Financial Services and Markets Act 2000 (FSMA) and that there is no reasonable likelihood of turnaround. This was brought into force by the Banking Act 2009.

3.15 The objectives of the SRR are to prevent systemic failure in the banking system and to protect depositors. The group supports these objectives, particularly in the current financial climate, and notes that the Government has responded to some of the concerns raised by law firms and committees in relation to legal certainty. The legislation offers protections for set-off, netting and security arrangements, which are fundamentally important, and underpin many financial transactions and are used to manage credit risk and regulatory capital. The group believes it is important that these protections are as wide as possible.

3.16 This group welcomes the Government's action to respond to market concerns in the Act. More broadly, the group also encourages the Government not to over-react to adverse economic conditions, by proposing proportionate law and regulation and giving full consideration to the effect of proposed changes on all market counterparties.

Insolvency rules

3.17 The recent administration of Lehman Brothers International, Europe (LBIE) has brought into focus the application of the UK insolvency rules, particularly in relation to the treatment of client assets held by a failed investment bank. The UK has a clear and well-established insolvency process, which treats all creditors fairly and which may well result in complex contractual positions being resolved more swiftly in

the UK than in the equivalent procedure affecting Lehman in the US. Nevertheless, a market perception has developed (probably unfairly) that UK insolvency rules have caused unnecessary delays to the recovery of assets by hedge fund clients of LBIE's prime brokerage division.

3.18 Certainty in dealings with investment banks is crucial to maintaining the long-term competitiveness of the City as a financial services centre and consequently that of suppliers of legal services to City institutions. For that reason, it will be important to ensure that there is no basis for the perception mentioned above. This group therefore welcomes the provisions of the Banking Act 2009 by which the Government is empowered to make secondary legislation expressly to deal with the treatment of client assets on the insolvency of investment banks.

English courts and jurisdiction

3.19 The English judicial system has a reputation for being one of the best and fairest in the world. This reputation has resulted in English law and the jurisdiction of the English courts being preferred choices in many commercial transactions, even where neither of the contracting parties is based in the UK. High profile cases that have come before the court, such as *Three Rivers District Council versus the Bank of England* (2005), however, have provoked concerns about the cost of litigation in this country and the reluctance of judges to provide proactive case management. In order to deal with those concerns, the Commercial Court has set up a working party to look at how cases are tried and various proposals are currently being trialled in the commercial court. This group endorses the efforts of the Commercial Court to deal with these issues. For UK courts' pre-eminence to be maintained, the group would welcome any further action to ensure that cases are managed as efficiently as possible, for example through additional training or detailed guidance

3.20 The UK is bound by the Brussels I Regulation, an EU rule which determines the country in which disputes between contracting parties should be dealt with. Under that regulation, if at least one party to

a contract is based in an EU Member State and the parties have chosen in their contract to deal with any dispute in England, then that choice will generally be upheld by the Court. In that way, the contracting parties can be certain that they will enjoy the benefits of the UK legal system. In the 2005 case of *Erich Gasser v MISAT*, however, the European Court of Justice held that, where a contracting party brought a legal action in one EU Member State, that state would have precedence to deal with the dispute even ahead of the country in which both parties had agreed in their contract to deal with any dispute. This decision gave rise to the risk that parties' contractual choices of jurisdiction would effectively be meaningless if one party decided to bring a legal action in another (possibly less "fair") country first.

3.21 It is crucial that a choice by contracting parties to deal with disputes in England provides them with certainty that that choice will be upheld by the court. In this context, the likely implementation over the next few years of the Hague Convention 2005 should reduce the impact of the Gasser decision and ensure certainty except where both parties are based in the EU in which case the current Brussels I Regulation will continue to apply. Over the longer term, a comprehensive review of the Brussels I Regulation, which is due to start in 2010 and which the group endorses, should reduce the impact of Gasser further so that it does not apply even where both parties are based in the EU.

Legal market overseas

3.22 The UK itself has an open market for legal services and has benefited tremendously from the competition this has created, from, for example, US firms establishing offices in London. However, the group is aware that certain other major economies impose restrictions on overseas lawyers or firms practising within their jurisdictions. The group strongly supports the opening up of global legal markets and urges the government to apply pressure where possible on other major countries to take a similar approach. The group therefore supports the efforts that UK Trade and Investment, the Department for Business, Enterprise and Regulatory

Reform and HM Treasury are making to achieve this end and commend recent progress in India with the passing of the Limited Legal Partnerships Bill.

4 Accountancy

The UK accountancy profession has grown steadily over the past decade and is well respected and influential internationally. It is a major employer of graduates (8 per cent of all graduate jobs are in accountancy) and its skills are in high demand from wider industry with accountants representing 25 per cent of Chief Executives of FTSE 100 companies.

Professional services and financial centres, especially London, enjoy a mutually beneficial relationship. The strength of the accountancy profession plays a key part in London's international position and therefore a flourishing sector is important to maintaining the UK's competitiveness in the longer term.

This chapter sets out the following policy considerations:

- maintaining the existing regulatory framework of self-regulation with robust public oversight;
- reforming audit liability; and
- safeguarding the multi-disciplinary approach of UK firms.

Background

4.1 The accountancy profession and the services it provides make an important contribution to the UK economy in terms of skills and revenues. The Financial Reporting Council (FRC) recently concluded that ‘accountancy continues to flourish and grow in the UK.’ Key statistics bear this conclusion out:

- There has been consistent annual growth of members of the six major professional bodies over the period 2002-07.
- The sector contributes around 1 per cent GDP, 1 per cent employment and just under 1 per cent of gross services exports.
- Around 8 per cent of all graduate jobs are in accountancy.
- The total revenue of the top 50 accounting firms is £8.8billion.

The skills of the profession are also in demand in wider industry. In 2006 eight out of ten FTSE 100 finance directors were qualified accountants and nearly one in four FTSE 100 chief executives were qualified accountants.

4.2 The UK profession is well respected and influential in global debates on auditing and accountancy issues. The resilience and strength of the UK multi-disciplinary model and the emphasis on judgment and principles are recognised internationally.

4.3 There is a clear mutually beneficial relationship between the growth of financial services and accountancy services. The UK economy is boosted by access to world-class accountancy services, which benefit not only the City and the London capital markets but also smaller businesses. The strength of the accountancy profession, therefore, plays a part in the position of London as an international financial centre, a trend set to continue in the long term. Maintaining the competitiveness of London and the wider UK is vital to the health of the accountancy profession. Therefore, factors such as the stability of the tax system, the attractiveness of

the listings markets and access to global talent are all highly relevant.

4.4 It is highly important to the UK market and accountancy profession that standards continue to be set within a non-politicised international framework. Currently there is a lively debate about some aspects of accounting standards. It is important that the International Accounting Standards Board continues to seek globally acceptable solutions to the many accounting challenges that companies face.

Issues and opportunities

Liability

4.5 The FRC has pointed out that both in the UK and internationally accountancy firms – especially the larger firms – face a significant risk from the operation of liability. The 2006 Companies Act set out a general framework for Limited Liability Agreements (LLAs). The provision came into effect in April 2008 but at the time of writing none of the major firms had concluded an LLA with a listed company. Partly, this is because, in the case of companies with a dual listing, LLAs require Securities and Exchange Commission (SEC) approval and the process has been hindered by the SEC’s February 2009 decision that LLAs would not be acceptable in the United States, and partly because lawyers feel unable to advise their clients to limit their liability as there would be no corresponding direct benefit to the company. The group also notes that the current economic climate has not been conducive to negotiating such agreements.

4.6 The accountancy industry believes that the current position means that the UK profession risks being at a disadvantage to those in Europe who have liability limitation (for example Germany with a statutory cap on all audits) or those economies like Australia which have recently implemented liability limitation. The group recognises that the UK Government was ahead of most other EU member states in progressing reform, and the FRC was able to create a consensus in 2008 around how LLAs

might work. The group also notes the Government's view that it is too early to assess the effect of the legislation. But the accountancy industry considers that the lack of such agreements, especially at a time of economic instability, is a major risk for the UK profession and capital markets, and may mean that the UK loses its competitive advantage.

4.7 The group notes the opportunity presented by the change of leadership at the SEC and urges the Department for Business, Enterprise and Regulatory Reform (BERR) to continue to press the SEC to approve the principle of LLAs. In parallel, it recognises that the accountancy profession also has a role to play in convincing investors to take up LLAs. However, recognising the difficulties of this and the urgency of the issue, the group believes the Government should consider alternative solutions. To this end the profession is ready to work with the Government, the FRC and other stakeholders.

Regulation

4.8 Group members acknowledge that the UK has created a powerful regulatory framework of self-regulation with robust public oversight, parts of which are on a statutory basis. This has been enhanced by the creation of a strong and independent FRC Board. While some debate continues about the involvement of practitioners in the early formulation of policy there is no doubt that there is a healthy, appropriate, business-like relationship between regulator and regulated. Such an approach is in marked contrast to some other countries and is a competitive advantage for the UK. This UK strength allows the FRC to play an influential international role, which is very important to enhancing the reputation of the UK profession. Currently the FRC holds the chair of the International Forum of Independent Audit Regulators and plays a leading role in the European Group of Auditor Oversight Bodies and has a good relationship with the SEC – these should remain as a top priority for the FRC.

4.9 The FRC's clear focus on confidence in high quality financial reporting and corporate governance is very welcome and it enhances the attractiveness of

London as a place to list. This in turn ensures that the accountancy profession is judged by the high quality of its auditing and the overriding priority that the firms – especially their leaderships – place on quality. It is important that as the findings of inspections are placed in the public domain that the focus stays on the key judgments made in the audit.

4.10 In addition, the professional services industry stands ready to work with the FRC to raise awareness of the range of issues that may impact on UK competitiveness in order to ensure that regulation is consistent with other major financial centres. A notable example of where streamlining may support competitiveness is found in the area of money laundering regulation and compliance, as discussed in the legal professions chapter.

Partner rotation

4.11 The UK is one of a small number of countries with a five-year partner rotation on audits. This was an understandable reaction to the Enron case but there is now a case for flexibility. There may be times when Audit Committees feel it is better to extend a lead audit partner's time to six or seven years because the partner's experience is valuable at a time of challenge and uncertainty. A principles-based approach, with appropriate transparency and robust oversight, would allow a greater degree of flexibility than at present and underpin high quality financial reporting. The FRC is aware of the issues surrounding partner rotation and the group would strongly support a review of current arrangements.

Other issues

4.12 A strength for the UK is that the accountancy profession has avoided weakening the multi-disciplinary model through promotion of audit-only firms. This not only helps ensure a high quality audit in the UK but a strong provision of other services like tax advice which is critical to the competitiveness of the corporate sector. In addition, the group considers that the UK should continue to resist other policies

that could undermine the high quality financial reporting in the UK.¹⁷

4.13 Skills and the mobility of international labour are crucial for the continued success of the UK accountancy profession. The opening chapter refers to the quality of UK universities as a key determinant of the long-term success of the UK profession, which the group believes should remain a priority for Government. The accountancy profession needs graduates of academic excellence, a high level of literacy and numeracy and strong interpersonal skills. In addition, the profession stands ready to cooperate with the Government to monitor the impact on the relative international strength of the profession of the new Points-Based System for immigration (PBS) for non-EU workers.

¹⁷ For example joint audits, mandatory rotation of audits, and a prescriptive view on non-audit services to audit clients.

5 Management consultancy

UK management consultancy is a world leader and has experienced major growth in the last 10 years – a more than four-fold growth in revenues to more than £8 billion in 2007.

As well as providing its skills and expertise to client companies, highly trained and mobile staff with management consultancy experience take their talents into wider industry, spreading knowledge and best practice. It is vital for the sector to remain flexible and attract new talent.

This chapter sets out the following policy considerations:

- regular monitoring of the Government's Points-Based System for migrant workers to ensure that it does not become a barrier to the growth of the industry;
- raising the importance of language education in schools and universities;
- further action to promote professional services firms overseas; and
- continued focus on making Government departments more effective users of the services of management consultants.

Background

5.1 For the purpose of this report management consultancy is defined as “the creation of value for organisations, through the application of knowledge, techniques and assets to improve performance”.¹⁸ This is achieved through providing objective advice and implementing business solutions. The management consulting industry in UK is made up of three main elements: traditional consulting services;¹⁹ outsourcing advice; and information technology (IT) consulting.

5.2 Fee income for management consultancies totalled £8.5 billion in 2007 – compared to £7.7 billion in 2006, according to the Management Consultancies Association (MCA), which represents around 70 per cent of the industry. Given that the use of management consultants is neither required nor stipulated, these figures are significant and show that the profession has proven its market relevance to all sectors of the economy, whether public or private. The profession has an extensive global reach and some of the growth in revenue can be attributed to an increase in the export of UK consulting services to overseas markets. The MCA reports that the UK and Germany dominate the European management consultancy market, sharing just over half of a €47.5 billion market; the next player is France with around 16 per cent.

5.3 Fee income of members of the MCA was £8.5 billion in 2007 – up from £7.7 billion in 2006. The positive balance of exports over imports in management consultancy services grew by almost 300 per cent from 1996 to 2006, demonstrating the value, quality and expertise of the UK profession at a time when foreign competitors are rapidly developing their own expertise in this field. The market for consulting is highly competitive with

barriers to entry relatively low and clients are able to choose from a range of suppliers of various sizes and background. The group believes the diversity and competitiveness of the market to be important and positive features that must be safeguarded.

5.4 Management consultancy delivers value for clients by providing support and expertise over and above that possessed by a single organisation. The profession educates its people and subsequently its clients by transferring tools, techniques, content and even people. It innovates through research and development activities, bringing novel ideas to its client base. Maintaining the professionalism and skills of those working in management consultancy is therefore extremely important. An MCA survey reveals that its members spend £2,500 per consultant per year on training and skills development.²⁰ This is an asset that has a positive impact on the UK overall, generating and diffusing innovative ideas and helping to develop the knowledge economy.

5.5 The consulting sector is a major UK employer providing rewarding professional careers to over 300,000 talented and highly educated people,²¹ offering a very attractive career track to the top tier of university graduates. In 2008, the top four places in the prestigious Times Top 100 Graduate Employers list were held by organisations falling within the management consultancy or accountancy definition. The profession attracts these high calibre people for a number of reasons: it provides rewarding opportunities for individuals to broaden their experience and refine their talents at a much earlier stage in their careers than other sectors would allow. The industry also generates a significant amount of employment in related business services.

5.6 While the management consulting profession is recognised by graduates as an attractive place to

¹⁸ *UK Consulting Industry Report 2008*, Management Consultancies Association

¹⁹ Strategy, human resources, change management, business process re-engineering, operations, marketing and corporate communications, project and programme management, financial management, economic and environmental consulting.

²⁰ *Operational Benchmarking Survey*, Management Consultancies Association, 2006.

²¹ *Annual Business Inquiry Workplace Analysis*, Office of National Statistics, October 2008.

start their careers, many then chose to continue their careers in wider industry. This results in a high rate of mobility. Annual turnover rates are typically around 15 to 20 per cent for management consulting, versus 11 per cent for the UK on average, while rates at junior levels can reach 25 to 30 per cent.²² Extensive networks of senior level client contacts, strong alumni networks and cross-business knowledge make lateral moves into various other industry sectors common. These outflows support the trend of improving skills within industry and the spread of ideas and best practice.

Issues and opportunities

Skills and employment flexibility

5.7 Almost half (48 per cent) of management consultancy clients see the value of consultants in the speed of their delivery compared with in-house teams. In order to remain competitive consultancy firms must maintain their ability to respond rapidly to peaks in demand wherever they may occur. Ready access to suitably skilled people is central to the success of the industry.

5.8 Despite being an industry of choice for many graduates and its support for major initiatives, such as the National IT Skills Academy, the industry continues to experience challenges in sourcing a sufficient quantity of new entrants with the required skills. A particular issue is the lack of IT skills, especially with the right mix of soft skills. Given this shortage in the domestic market the group supports the inclusion of certain IT skills on Shortage Occupation List under the UK's new Points-Based System for immigration (PBS), which allows the granting of UK work permits to skilled foreign personnel. While understanding the Government's wider challenge of managing immigration, the group believes the Shortage Occupation List should be regularly reviewed in

conjunction with the industry to ensure that it does not become a barrier to the growth of the professional services sector.

5.9 IT skills are not the only skills in demand.

One consultancy firm notes that, "UK recruits with adequate foreign language skills are in short supply. As a result, firms will often recruit into their continental offices, where employees are also typically more willing to work abroad." On average over half of Europeans (56 per cent) can have a conversation in a language other than their mother tongue and 28 per cent can hold a conversation in at least two other languages.²³ This compares poorly with the UK where 62 per cent of the group surveyed claimed that they could not speak another foreign language confidently. The group believes it is important that professional services and education continue to work together to ensure graduates with the right skills mix are entering the workforce. This includes raising the profile and importance of language skills and cultural awareness in schools and universities.

5.10 The UK opt-out from the EU Working Time regulations enables employees to work more than a 48-hour week, which the group recognises as a valuable tool for the profession's competitiveness. It notes that use of the opt-out is far more widespread in the professional services sector, with just over half (52 per cent) of employees signing opt-out agreements compared to 29 per cent across the economy. This flexibility allows companies to adapt to unplanned demands from clients and it is important that the opt-out is retained.

5.11 Intra-company transfers (ICTs), where assignments can last from a few days to years, provide another route to the flexibility and agility that consultancy firms require as they enable individuals to be brought in to work on specific projects and to aid knowledge transfer. The group welcomes the Government's recent concessions on the maintenance requirements of ICTs but

²² *Annual Survey 2008 Retention, Turnover and Recruitment*, Chartered Institute of Personnel and Development, 2008.

²³ *Europeans and their languages*, Eurobarometer, February 2006.

urges policymakers to continue to examine the requirements for dependents, which as currently construed could discourage certain employees from undertaking longer-term assignments.

5.12 The management consultancy sector also welcomes improvements in flexibility and work-life balance brought about by family friendly legislation. The challenge to the sector is to reconcile this legislation with client expectations and needs. The task of implementing flexible working practices in the sector is particularly evident in the gender imbalance prevalent in senior positions in consulting firms. Anecdotally, women are more prevalent in senior positions in smaller consultancy firms, especially start-ups where the working culture can be more flexible and the firms do not necessarily have the geographic reach of larger organisations. The group considers that the consulting sector should work with its clients to find a means of tackling this challenge.

5.13 The UK's management consultancy industry is a world leader and should continue to be promoted internationally. The City of London Corporation undertakes a significant amount of valuable international promotion activity, reinforcing Government and industry efforts. In some respects, there is scope for more to be done. For example, two of the trade bodies involved in promoting financial and professional services at the international level explained during the course of preparing this report that they do not have significant dealings with the management consultancy industry. A number of Government departments have an influence on the competitiveness of the UK management consultancy profession, covering issues such as trade promotion and immigration issues. The group believes it is important for these interests to be coordinated as a whole.

5.14 Reputation is central to the success of all industries, allowing organisations to operate as trusted partners. It is particularly important for a profession such as management consultancy where there is no stipulation or requirement for clients to use such services. Successful consulting firms invest

considerable time and effort in protecting their reputation, but the group notes certain negative perceptions of management consultants which could undermine these efforts, and could be exacerbated if clients are not prepared to authorise the use of positive case studies. The management consultancy sector notes that criticism is to be expected and that, where justified, lessons must be learned. However, the management consultancy profession considers that factually inaccurate and unchecked populist attacks are unhelpful to a sector of great importance to the success of and the entire UK economy, since they fail to reflect the significant value that consultants deliver.

5.15 The group therefore believes that the management consultancy industry should continue to enhance its stakeholder communications so that those with the remit to promote the industry have the necessary information. In parallel, the industry should look to develop a more robust method of measuring value and should work with its clients to persuade them of the value of releasing appropriate information for case studies. The Government has already produced a number of useful case studies under the Transformational Government umbrella highlighting the real value that the combined work of the public and private sectors is adding in the improvement of public services.²⁴ The group welcomes the Government's efforts, and would encourage an extension of this approach.

Consultancy in the public sector

5.16 The public sector is a major client of the management consultancy profession and its work produces valuable outcomes. The Office of Government Commerce (OGC) told the group that "consultancy support is critical for the delivery of the key business of Government". The importance of the public sector market to the management consultancy profession is assessed by the OGC as being second only to financial services, adding that "the current financial climate further increases its importance".

²⁴ www.cio.gov.uk/transformational_government

According to the OGC, the principal benefits of using management consultants relate to the provision of specialist skills and independent advice that might not be available within the host organisation or which cannot be justified on a permanent basis. Such skills are most often brought to bear on areas such as improving efficiencies, developing capabilities, modernising systems and processes and managing programmes and projects.

5.17 The OGC has taken a number of steps recently that are designed to make Government a more intelligent client. This includes the Consultancy Value Programme (CVP), designed to ensure that departments measure and maximise the value for money from the use of consultants, and a programme of Strategic Supplier Management via trade bodies such as the MCA, Intellect and the Institute of Business Consulting. It is also encouraging departments to engage with the supplier community at the point that requirements are being formed, with a view to improving the procurement process. The management consultancy sector supports the steps taken so far and urges continued effort from both sides in driving greater efficiency and value as it believes that significant opportunities remain.

5.18 Procurement would seem to be the area with the most opportunities. The process of bidding for public sector contracts can be lengthy and costly – the average procurement length from publication in the *Official Journal of the European Union* (OJEU) to the awarding of contract is 15 months, generating significant barriers to entry. At its worst, the bid process risks generating a compliance regime rather than driving best value for clients. In addition, significant costs are incurred by firms if procurements are cancelled mid-process. The group recognises that the Government is taking steps to resolve this problem with shorter procurements and better defined requirements. However, it remains concerned that, at worst, millions of pounds can be spent by firms bidding over a period of 12 to 24 months for high-profile and politically sensitive projects, later to be abandoned or deferred. These costs can ultimately

only be recovered by increasing fees, with the attendant decrease in value for the public purse.

5.19 According to the National Audit Office,²⁵ Government procurement remains relatively fragmented with limited sharing of information including suppliers' basic pre-qualification data, producing much duplication of effort and increased cost. Intellect, the UK trade association for the technology industry, has been working with OGC to produce a standard pre-qualification questionnaire to be used for all types of procurement. The group believes that, if used widely, this could be a helpful step in streamlining procurement.

5.20 The Model Contract, produced by the OGC in partnership with the management consultancy industry, is a further step in creating more effective and mutually beneficial relationships in public sector procurement. Industry, nevertheless, believes that the model terms and conditions could be improved further in areas such as financial distress, due diligence, liabilities and indemnities, termination for convenience and supply chain rights. One specific area is the cautious approach of departments to unlimited liability. Despite the Government's explicit commentary that allows limitation of liability in "particular circumstances", many departments focus inflexibly on the "requirement" for unlimited liability.

5.21 The OGC has recognised that "this is likely, in many cases, to have had an adverse impact on competition and value for money where, for example, suppliers have refused to take part or where tender prices have been increased to compensate for the insurance costs of meeting unlimited liability." The industry and Government should continue to address opportunities for improvement in the Model Contract, particularly in the area of unlimited liability, where a strong argument exists that liability should be limited, reasonable and proportional to the scale and type of project concerned, and that it should be unlimited only in cases set out in the OGC guidance.

²⁵ *Central government's use of consultants*, National Audit Office 2006.

5.22 The group supports the OGC's efforts to make Government a more intelligent client. In particular it considers that the OGC should encourage greater uptake of the Concept Viability Service offered by Intellect, which enables public sector clients to consult the market at the outset of the procurement process to assess the 'do-ability' of their requirement and explore key issues related to potential solutions. The OGC should monitor the time and cost involved in the public procurement process and procurements should only be abandoned in exceptional cases.

6 Shipping

London's position as a global shipping centre is pre-eminent, with an unrivalled combination of maritime industry skills creating a maritime cluster. Given the independence and relative mobility of industry players, the UK's overall competitiveness is vital to the continuing ability of this cluster to flourish in the UK.

Government support, mainly through the Tonnage Tax and UK tax leasing, has been successful in restoring ship owning to the UK over the past decade, but are now being replicated in other jurisdictions. Given the capital-intensive nature of the industry, current economic conditions caused by the global financial turmoil are proving particularly difficult for the sector.

Policy considerations include:

- government support and encouragement for the maritime cluster to develop a medium- to long-term strategy, including the establishment of a Maritime Services Committee involving Government representation;
- ensuring the continued competitiveness of the UK's Tonnage Tax;
- protection of the UK's seat on the International Maritime Organisation (IMO); and
- measures to boost the numbers of students in maritime subjects.

Background

6.1 London's position as a global shipping centre is pre-eminent. An unrivalled combination of maritime industry skills, together with a trustworthy and professional environment, has long made it the global leader. It is an innovator in maritime professional services generally and specifically in the fields of maritime law, insurance, accountancy, ship finance, shipbroking and freight derivatives, known collectively as the maritime cluster. London hosts a large number of key national and international organisations including the International Maritime Organisation (IMO), the only UN agency in the UK. The group considers that it will be of particular importance to protect the UK's seat at the IMO, and agrees that the UN is the most appropriate body for discussing international maritime issues.

6.2 The maritime cluster employs at least 14,500 people.²⁶ The cluster represents a key part of the UK maritime industry as a whole, which is the fifth largest contributor to exports. According to the UK Chamber of Shipping, British shipping generated in excess of £10 billion in revenue in 2008 and about £3 billion in tax revenue. The strength and breadth of this concentration of expertise is unique but its components are inter-dependent and relatively mobile, especially as its clients are increasingly located overseas. Competitiveness is the key if clients are to be retained or attracted to the UK and professional services are to continue to flourish.

6.3 Shipbroking is the key element of the maritime cluster. Approximately half of the world's tanker chartering business and 30 to 40 per cent of the world's dry bulk chartering is transacted in the London market. London also has a commanding position in the important sale and purchase (second-hand) market with some 40 to 50 per cent of the world market. It also holds the leading position in the more fragmented but highly lucrative

market handling the contracting of new vessels, with around 30 to 40 per cent of the competitive international market. The valuation of the world's fleets is undertaken primarily by specialists in the London shipbroking community. Once the central institution of UK shipbroking activity, the Baltic Exchange is now increasingly taking on an international role as a result of revolutionary changes in communication technology and to reflect the activities of its members.

6.4 Shipping derivatives (freight futures) is a market that was developed in London and has grown spectacularly over the last 15 years, and particularly in the last five years. The international business is dominated by London, which plays host to an estimated 80 per cent of the major dry cargo business, and 65 to 70 per cent of tanker trades.

6.5 Underpinning the shipping sector is the English judicial system, with its reputation as one of the best and fairest in the world. The system's high reputation, which is also built upon a long maritime history with its huge volume of case law, has positioned English law and the jurisdiction of the English courts as the preferred choices in the vast majority of shipping transactions. Specialised courts, such as the Admiralty and Commercial Courts, are important, while the London Maritime Arbitration Association is held in great respect and receives some 3000 appointments a year, far in excess of its competitors combined. The world-renowned Lloyd's Open Form Salvage Form operates in London under a highly respected secretariat at Lloyd's.

6.6 Other services have contributed to the UK's central position in shipping. London is the leading marine underwriting centre with 23 per cent of premiums in the international marine insurance market. Meanwhile the specialist Protection and Indemnity Associations²⁷ operating through managers in the UK account for some 65 per cent of the global market. The marine insurance industry

²⁶ Statistics used in this chapter are provided by: International Financial Services London; UK Chamber of Shipping; Clarkson Research Services; and representatives of the UK shipping industry.

²⁷ Mutual bodies covering principals' risks on an indemnity basis.

is supported by a vibrant broking community and a number of specialist services such as average adjusters and agents, claims managers, surveyors and technical experts, where again London is the world leader. The leading specialist international maritime accountancy firm is based in the City of London.

6.7 Lloyd's Register is the world's second largest Classification Society, setting global standards for the design, construction and maintenance of vessels and maritime structures. It is only surpassed by the Japanese organisation NK that is heavily supported by a very large domestic fleet. Lloyd's Register also has a particularly strong presence in the more technically demanding types of vessels and structures.

Issues and opportunities

6.8 After 25 years of dramatic decline in the UK registered fleet – from 50 million deadweight tons in 1975 down to 2.7 million tons in 1999 – the introduction of the UK Tonnage Tax in July 2000 has succeeded in restoring shipping activity to the UK. However, it is now increasingly challenged by other countries which offer higher incentives. While the group welcomes the Government's efforts to attract international ship owners to the UK via the Tonnage Tax regime, this should be complemented by a review of the broader tax incentives enjoyed in other European jurisdictions such as Cyprus, Malta and Ireland and an increased continuing commitment to shipping employment and training.

6.9 The group considers that the UK's aspirations as a centre for the commercial activities of international ship-owners should be linked to an overall stable and consistent structure for both corporate and personal taxation. While the maritime cluster welcomes the steps already taken by the Government identified elsewhere in this report regarding the tax treatment of the professional services sector and its corporate clients, the group notes that the importance of the tax dimension to the individual ship owner – with a particular focus on wealth and inheritance protection – cannot be over-emphasised.

6.10 Today the UK fleet is back up to 13 million tons, a five-fold increase from its 1999 low. However, relatively few ship owners are UK-based – the UK's largest of only three quoted owners has a turnover of \$365 million, placing it around 34 out of a total of 90 quoted ship-owning companies in Europe. Indeed there are but three shipping companies listed on the London Stock Exchange (including AIM), compared with 19 in Oslo and 32 in New York (including Nasdaq). Despite increasing entrepreneurship among the British business community, few entrepreneurs have so far been attracted to the potentially lucrative business of ship owning.

Human capital

6.11 A strength of the maritime cluster is the experience and expertise of technical and operations personnel employed in the different sectors. Typically these individuals had benefited from service at sea. Given the fall in the number of UK crew on UK flagged ships and increased competition from other flag states, the industry has suffered from very limited availability of younger entrants from sea-going backgrounds, resulting in noticeable increase in the age profile. The group considers that the maintenance of a stable and constant growth pattern in fleet size – and the accompanying requirement to employ and train cadets – are vital components of the future health of the UK maritime industry

6.12 The UK has extensive and well-regarded higher maritime education facilities in London (including the world-renowned Cass Business School), Southampton (where the presence of two leading specialist universities and Lloyd's Register's new design and research facility makes this an international centre of technical excellence), Plymouth, Cardiff, Swansea, Newcastle, Liverpool and Strathclyde Universities. In addition to providing high quality graduates and post-graduates for UK employers, the colleges also educate large numbers of international students, who tend to return home with the benefit of UK training and a positive attitude to UK maritime services.

6.13 Other industry-focussed educational facilities include the highly regarded training courses at the Institute of Chartered Shipbrokers. The group therefore considers that the Government and should work together with the industry to make potential students more aware of the opportunities in the maritime sector and the excellent training available in the UK.

6.14 While the current cadre of almost 900 Officer Cadets will provide a vital injection of expertise in the industry, the group would also welcome a substantial continuing commitment to shipping employment and training in order to safeguard long-term competitiveness. The group notes initiatives such as a Government scheme which contributes around 50 per cent of training costs to support courses approved by the Merchant Navy Training Board and the Maritime and Coastguard Agency for the training of officers and ratings. While the funding does not provide direct financial assistance to employers, it nevertheless reduces the cost of training. The group therefore urges the Government to consider the scope for further financial assistance for employers of UK-based staff who have been under training or in higher education.

Ship finance

6.15 The latest ship finance figures available²⁸ indicate a loan book of some \$49 billion provided by commercial banks in London – some 18 per cent of the world book. London has lost its lead to Hamburg, partly due to the support the German government provided through various tax schemes over the past 30 years. While these are now closed, the group notes that over a sustained period of time they drove the growth of the German maritime market, strengthening ownership and management in Germany in all sectors but most notably in the container fleet.

6.16 Other centres such as New York and Oslo have also developed a strong position in public equity finance for shipping. The group considers that the UK should promote its reputation for innovative ship finance structures and other options such as leasing, and that the industry should work closely with the Government to ensure that such products are compatible with the UK tax system. The group therefore encourages the shipping industry to draw on its expertise in other global shipping centres to develop innovative and competitive finance schemes, and notes the positive side effects that this would have in terms of generating activity for the UK maritime industry.

6.17 The industry believes that current problems with bank lending could severely impact the UK's long-term competitiveness in ship finance. While the sector recognises the Government's efforts to focus future bank lending on consumer and small and medium sized companies, there is a need to provide finance to the shipping industry. At the time of writing, contracts worth \$500 billion are on order at shipyards and due for delivery over the next three years, and require finance in the region of 60 to 70 per cent. Many of these contracts are now in negative equity without any finance. While prospects may improve in the longer term, the industry believes that in the short term prospects will worsen.

6.18 To illustrate the seriousness of the problem, research has shown that since September 2008, the price of oil tankers has fallen on average by 35 per cent, the price of container vessels is down 40 per cent while the price of dry cargo vessels has dropped 65 per cent. These falls in value are due in part to the lack of finance. A fall in value triggers shortfalls in the banks' security requirements, leading to demands for vessel sales or additional collateral, pushing prices down further. The global fall in liquidity has hit the shipping industry particularly hard, as this capital-intensive industry had responded to the perceived growth in world trade through an unprecedented order book of new ships. The ability to arrange ship finance in London is essential to the overall strength of the maritime cluster.

²⁸ International Financial Services London Maritime Services, September 2007.

Reputation and standards

6.19 The UK's maritime cluster has a highly respected position for integrity, standards, quality and creativity. The group considers that industry and the Government should work to maintain and strengthen these attributes, which are likely to be more valuable than ever in the longer term. The industry believes that the current severe problems affecting ship owners, charterers and shipyards in particular, are likely to impact the trust levels that have traditionally underpinned shipping, but could also have a severe impact on the service providers to those companies.

6.20 However, the group remains optimistic that the high standards which characterise the UK shipping industry can help to limit damage and rebuild confidence in the future. Despite poor short-term prospects for shipping, the group sees reason to remain optimistic for the longer term, particularly given recent year-on-year increases in seaborne trade. The group also considers that the flight to quality professional services in difficult economic times will leave the UK well-placed to succeed in the future, and considers that short-term investments should help to achieve this. With the right level of support, the UK shipping industry should retain its prime position.

6.21 The group notes the essential role the Baltic Exchange (BE) played in supporting the shipping industry, as both a trading floor and in terms of the maintaining standards. The group notes that the Baltic Exchange trading floor was not replaced following a terrorist attack on the building in the early 1990s, but considers that the BE should regain its standard-setting function. This would complement its existing role of representing the shipbroking industry and assembling of data, calculation and subsequent advice of notional daily freight rate indices.

Support services and promotion

6.22 While the high level of the expertise and knowledge of the legal sector is world renowned, the group notes anecdotal evidence that the costs

of the legal process in the UK are high. Perception is important, and the shipping industry considers that it is necessary to guard against excessive costs. Once a client obtains jurisdiction and governing law elsewhere it becomes easier a second time. The group is also aware of an issue concerning accessibility of arbitration. Given London's pre-eminence in this field, the shipping industry considers that London arbitrators could take a more pro-active and focussed approach to dispute resolution. The group recognises the pre-eminence of the London Maritime Arbitrators' Association, and considers that a larger secretariat and better promotion could act as an effective counterweight to the organisation's ageing profile.

6.23 For a maritime country with arguably the greatest maritime heritage, the industry considers that public awareness of Britain's contemporary maritime activities is very low. The industry has been working to promote itself in all its elements through positive organisations such as Sea Vision and Maritime London. The group believes that maritime professionals can play a major role in raising public knowledge of the industry and encouraging career awareness and interest. The industry believes that the UK is the source of the best information and expertise, where transparency is greatest, where standards are highest, and where much of the best business is arranged.

One Voice

6.24 Many other global shipping centres are growing, and centres such as Singapore, Dubai, Geneva, Athens, Dublin and Shanghai have articulated clear goals about where they wish to be in 10 or 15 years' time. No such over-arching plan exists for the UK's maritime industry. The shipping industry established the 'One Voice' initiative to represent the shipping, ports and maritime business services, as a response to the Government's suggestion that the industry could communicate most effectively through a single channel. The group believes that the formation of a maritime services committee, to include Government representatives and tasked with the objective of co-ordinating

the activities of the maritime cluster, could play an important role in retaining existing business and attracting new business to the UK. Such a committee could be established within the 'One Voice' initiative.

6.25 While some steps have been taken to promote the UK's maritime industry, these initiatives have not fully incorporated the maritime services sector. A more co-ordinated approach would likely to be of benefit to all. The sector therefore looks forward to both developing a maritime services strategy and, in parallel, working with the Government as part of the wider professional services industry to continue to improve the business environment and the UK's global competitiveness.

7 Land, property and construction

The broad categories of professional services within land, property and construction are architecture, chartered surveying and engineering. Some 350,000 UK professionals work in the sector.

UK professionals in land, property and construction enjoy a well-deserved global reputation and are increasingly working internationally, either from UK headquarters or from local offices around the world. The sector's considerable reputation for corporate responsibility will be key to opening up new longer-term opportunities, including training partnerships in China.

Skills shortages, especially among planners, are identified as a challenge for the sector and the group sets out an approach for raising the status of planning within local government and attracting high calibre students.

This chapter includes the following considerations:

- increasing the number of students taking planning-related courses at university and bringing experienced planning officers back into the system;
- developing better understanding of the value of professional, strategic asset management among businesses, for example by including a property element in business education; and
- working with Government to seize opportunities to boost both the global reputation and the supply of much needed professional services, both pro bono and commercially, in the third sector worldwide.

The group strongly supports London becoming the new home of the International Valuation Standards Council and considers that the Government should work with the Royal Institution of Chartered Surveyors to promote UK professionalism in this field as best practice.

Background

7.1 The main, broad categories of professionals in land, property and construction are architects, chartered surveyors and engineers but within each category there are numerous radically differing specialisms. Chartered surveyors, for example, are not just responsible for valuing, buying, selling or letting land and buildings. Their work covers a wide range of areas from planning to construction project management, from cost and quality control to managing, maintaining and refurbishing buildings, and dispute resolution. The sector's professionals could also be said to include specialist lawyers, accountants, fund managers, bankers and insurers. No comprehensive study has been carried out across the sector, although the Construction Industry Council represents about 350,000 professionals, indirectly, though their individual professional bodies.

7.2 The global real estate capital market reached \$12 trillion in 2007.²⁹ A May 2008 report commissioned by the Royal Institution of Chartered Surveyors (RICS)³⁰ valued UK property at £4,656 billion.³¹ Turnover for real estate activities in 2006 was £54.5 billion, with development, selling and letting of property accounting for 70 per cent of the total. 165,000 jobs have been created in real estate activities since 1997, accounting for 7.5 per cent of total job creation in the last decade.

7.3 The UK construction industry has a turnover of around £100 billion, some 10 per cent of GDP.³² The size of the market for UK construction professional services was assessed by the Construction Industry Council in its most recent survey (2005-06) at £13.9 billion in fees for UK projects (engineering 28 per cent, architecture 24 per cent, surveying 17 per cent

and management 12 per cent).³³ Multi-disciplinary practices accounted for nearly half of the total earnings. A further £2.5 billion was remitted to the UK from earnings on non-UK projects. Output of CPS firms rose by 4 per cent in real term between 2001-02 and 2005-06.

7.4 In 2006 there were nearly 28,000 UK construction professional services firms in the UK, with 84 per cent employing fewer than 10 people. The total number of people employed by UK construction professional services firms increased from around 180,000 in 1995-96, to 225,000 in 2001-02 and to 270,000 in 2005-06. The proportion of women in the sector is still disappointingly low, but recent years have seen some improvement with an increase from 15 per cent in 1995-96 to 23 per cent in 2005-06.

7.5 UK professionals in land, property and construction enjoy a well-deserved global reputation and are increasingly working internationally from UK headquarters. Some 10,000 chartered surveyors operating out of global consultancies based in London provide advice and management on the whole life cycle of property from investment appraisal to strategic asset management and dispute resolution. RICS members operate in over 100 countries, with 18 per cent based outside the UK. They advise on investment in real estate both inside and outside the UK, based on market knowledge. This knowledge is backed by increasingly transparent data, encouraged by RICS and the Investment Property Databank. The chartered surveying profession's high ethical standards and professional competence give potential inward investors confidence. RICS and its members have led the development of international valuation standards, based on the UK concept of open market value, and international norms of measurement in construction.

²⁹ *Money into Property*, DTZ June 2008.

³⁰ *Property in the economy – a digest and review of key data and statistics*, RICS April 2008.

³¹ Residential: £3915 billion; commercial, industrial and other buildings: £740.8 billion.

³² Strategic Forum Targets to 2012, Strategic Forum for Construction, 2008.

³³ *Survey of UK Construction Professional Services 2005-06*, Construction Industry Council with Construction Skills, 2007

7.6 Other professions in the sector are also very active outside the UK, especially engineering, with 50 per cent of UK-based building services engineering firms undertaking some work overseas. Increasing overseas expansion of UK based professional bodies should also pave the way for the land, property and construction sector's continued competitiveness, which is driven by the reputation of the sector. One inter-professional initiative is the Learning Centre at Chongqing, established last year in partnership between the Chongqing authorities and PI-UK China, a group of UK-based professional bodies and education sector Non-Government Organisations, including the RICS, the Institution of Civil Engineers (ICE), the Royal Institute of British Architects (RIBA) and the Chartered Institute of Building (CIOB). The Chinese government plans significant investment in Chongqing over the next five years.

Issues and opportunities

Shortage of qualified planners

7.7 The group considers that the status of professional expertise in the public sector is a key issue for professional bodies, and notes that the Single Status Review³⁴ has meant that professionals working for local authorities feel they have been downgraded and underpaid. Consequently, there is a shortage of land, property and construction professionals in the public sector. In particular the group notes an acute shortage of high calibre planners, and welcomes the Government's efforts to address concerns surrounding the planning system and remove unpredictability through the 2008 Planning Act.

7.8 The group is ready to work with partners to overcome the underlying problem caused by the shortage of appropriately qualified, rewarded and motivated professionals in the public sector. This shortage could be tackled by a number of actions,

Case study – Reaching out for talent

Professional bodies and networking organisations in the sector are attempting to attract more women into the professions. Women in Property was founded in 1987 and now has 1,500 members working in property and construction, and a network of branches in the UK. Members visit schools and universities, there is a national student awards scheme and senior professionals mentor recent recruits. There has been an increase in the number of women leading professional bodies, for example the current or incoming presidents of the Institution of Civil Engineers (ICE), Royal Institute of British Architects (RIBA) and the Chartered Institute of Building (CIOB).

RICS' Raising the Ratio task force has carried out research to investigate barriers to recruitment, retention and progression of women in surveying. The work has now been expanded to cover all aspects of diversity on an international basis. The task force promotes the highest standards and practices to members and provides guidance and best practice to members worldwide. RIBA sponsors Architects for Change and Women in Architecture groups, and promotes cultural diversity through various programmes. Diversity and equality issues feature strongly in the ICE's business plan, and there are a number of organisations and resources encouraging women in engineering such as the Women's Engineering Society.

including raising the status of planning within local government and providing further opportunities for planners to widen and improve their skills as well as exploring new ways to bring experienced planning officers back into the system.

7.9 Another solution would be to increase the number of students taking planning-related university courses and develop joint branding of courses, for example by RICS, Royal Town Planning Institute and others such as the Law Society, so that graduates have broader appeal to potential employers. More encouragement could also be given to employers to train staff. In this respect the group notes the training incentives provided by the Government to the shipping industry, and considers

³⁴ *Single status/local pay reviews survey report*, Local Government employees 2006.

that all sectors of the professional services industry should work with the Government to examine the scope for making similar schemes available. The group considers that a further way to embed high standards across the sector could be to make the award of government contracts conditional upon the provision of ISO accredited training. The group also considers that the industry and relevant professional bodies should work closely with the regional development agencies and sector skills councils to solve local and sectoral skills needs.

Asset management

7.10 Professional property advice on strategic asset management is vital in both the public and private sectors, given the scale of the holdings and their importance to the efficiency and productivity of the country. In January 2008, RICS produced comprehensive asset management guidelines for the public sector, with support from the Department for Communities and Local Government, the Office of Government Commerce and others. The importance of more professional management of the public sector's £356 billion estate is now well recognised, but the group believes that a longer-term shift in attitudes towards professionals in the public sector will be necessary for this new approach to be successfully implemented. The group therefore welcomes Lord Carter's review of operational efficiency in public sector property, which is drawing on evidence from RICS and others.

7.11 In 2002, a RICS-commissioned report by Capital Economics found that UK businesses were wasting around £18 billion annually through inefficient property usage (then around 2 per cent of GDP). Property-related expenses often represent the second largest business cost after salaries, yet consideration of them rarely reaches boardroom agendas. Eradicating such wastage would have boosted gross trading profits by up to 13 per cent, delivering significant benefits in increased investment to the UK economy. In October 2008, Capital Economics reviewed asset management and found that UK firms had taken action resulting in annual property-related cost savings of about 1 per cent of

GDP (around £15 billion), but estimated that further savings on the same scale could be made. The group therefore welcomes progress made in this area and considers that the industry should continue to make the most efficient use of commercial property.

7.12 A decline in owner occupation, and an increase in new working practices, are trends set to continue.³⁵ Current economic conditions should act as a spur to further efficiencies. However, maximum efficiency will not be achieved without property professionals, employed in-house by large businesses and as independent consultants. The group therefore urges business across all sectors to give property professionals access to all relevant information and to give their advice due attention at the highest levels within businesses.

7.13 A strategic approach for dealing with physical assets (including accurate record keeping) can enhance the competitiveness of UK industry and the group welcomes the RICS report on workplace design and productivity, which provides a checklist for businesses.³⁶ In the longer term UK firms will only have the ability to operate its built estate at maximum efficiency if property becomes a standard element of business education. The industry notes a few encouraging signs, for instance the Said Business School at the University of Oxford introduced a property module in its MBA syllabus two years ago, which has proved extremely popular.

7.14 Sustainability is a high priority for many occupiers who want to see the construction sector taking more action, particularly pursuing low or even zero carbon build. Businesses also need confidence about the future provision of utilities such as energy and water and to be assured that increasing risks of flooding caused by global climate change are being taken fully into account in any planning and development decisions.

³⁵ *Property in business: a waste of space? How things look now*, Capital Economics, October 2008

³⁶ *Workplace Design and Productivity: Are they Inextricably Linked?* RICS, June 2008

International valuation standards

7.15 The current unprecedented global financial crisis gives further impetus to the need to promote international asset valuation standards, in order to ensure a robust and consistent framework. These are essential for the stability of the financial sector and the UK is a leader in their promotion. The City of London Corporation has recognised the importance of ensuring that the new home of the International Valuation Standards Council (IVSC) will be in the City, rather than, say, New York or Frankfurt, by pledging financial support for its accommodation. The group believes more should be done to restructure and elevate the Council to the status of the International Accounting Standards Board.

7.16 UK chartered surveyors created the predecessor of the IVSC in the mid 1970s and they have continued to lead its development into a committee representing the valuation professional bodies of over 50 countries. The International Standards are based on the RICS Red Book,³⁷ which is known informally as the “bible” for chartered valuation surveyors. However, the group considers that a greater effort could be made to communicate the importance of the standards to governments and not enough resource has been put into training the cadre of professional valuers needed to apply the standards uniformly across the world’s ever increasing real estate markets. The group welcomes RICS’ significant efforts in promoting and developing the profession around the world and urges the Government to help promote UK professionalism in this field as the ‘gold standard’.

Global third sector opportunities

7.17 Campaigns such as Make Poverty History as well as unprecedented catastrophes such as the Indian Ocean tsunami of December 2004 have drawn attention to the huge amount of resource that is put into humanitarian aid and international development. Many billions are spent on aid and the group considers it important that all providers of

aid – whether Government or third sector – continue to focus on improving the effectiveness of the aid in order to help people out of poverty. One example is the RICS BuildAction programme, which is designed to get professionals on the ground when disaster strikes by linking RICS members to those in need. The group notes that many of the major surveying consultancies are supporting this programme by pledging pro bono help on disaster risk reduction and reconstruction projects around the world.

7.18 Corporate responsibility credentials are a distinctive way of attracting talent, as thereby boosting staff recruitment, retention, development and motivation. The group considers that UK professional services firms have developed a reputation for corporate responsibility and that the sector could promote and make this a key element of the UK brand. Greater collaboration between professional services, the Government and the third sector would ensure more effective delivery of aid, help combat corruption and increase the UK’s presence in a major global market.

³⁷ RICS Valuation Standards, RICS January 2008

8 Membership and terms of reference

Remit

The UK is a leading provider of many professional services including legal, accounting and related services, management consultancy and financial information, whose services are mainly, but not exclusively, driven by the needs of London and the UK as a leading global financial centre.

The Professional Services Competitiveness Group (PSCG) will consider the medium- to longer-term trends impacting on the competitiveness of the professional services sector in the UK, taking into account London and UK-based factors and the sector-specific opportunities and challenges in overseas market liberalisation and regulatory/standards dialogue. The group will produce a practical analysis on the basis of its examination of these issues, and a range of considerations that ought to be addressed.

The analysis should enable the Chancellor's High-Level Group to prioritise the commercial challenges for the UK-based professional services industry and related public policy challenges (including horizontal issues as well as those specific to the sub-sectors in the professional services industry).

Chairs and secretariat

The group will be co-chaired by the Financial Services Secretary to the Treasury, Lord Myners, and Sir Michael Snyder, Senior Partner at Kingston Smith LLP and former Chairman of the Policy and Resources Committee at the City of London Corporation. The secretariat will be run jointly between HM Treasury and the City of London Corporation.

Membership

Bruce Buck, Managing Partner, Skadden, Arps, Slate, Meagher & Flom LLP
 Andrew Cahn, Chief Executive, UK Trade and Investment
 Andi Case, Chief Executive, Clarkson's PLC
 David Cheyne, Senior Partner, Linklaters LL
 Michael Cleary, Managing Partner, Grant Thornton
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 Ian Yeulett, Chief Executive, Europe and Africa, Bloomberg

The group co-chairs may, from time to time, invite relevant sector-wide groups and associations representing the legal, accounting and other sectors to contribute to the work of the group.

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³⁸ Some of the statistics quoted in this report were first collated in *British professions today – the state of the sector*, Spada, 2008. *British professions today* is sponsored by RICS, Law Society, CIMA, Bar Council and ICAEW.

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