A 21ST CENTURY EMPLOYMENT STRATEGY

In the face of the credit crunch, we face the prospect of rising unemployment.

- Over the past five months, the UK unemployment claimant count has risen by 24,400.

- Analysis by the OECD suggests that unemployment could rise by 100,000 by the end of the year, while Capital Economics forecast that as many as 700,000 more people could find themselves out of work by 2009.

- In the United States, unemployment has risen by 49,000 in May 2008. The half-point rise to 5.5 per cent was the biggest monthly increase in 22 years.

We all hope that this rise in UK unemployment does not materialise. But in case it does, we are poorly prepared for rising unemployment.

- It is significantly harder to take new employees on now than a decade ago. The number of firms growing from small to medium size businesses has fallen sharply.

- Labour's concessions to the unions have undermined the reforms of the 1980s and made it harder to employ people.

- Labour's reforms to insolvency have left a system ill-equipped to deal with a downturn.

It is imperative that we take action now.

That is why the Conservative Party is setting out a detailed **Employment Plan** to help businesses cope with the economic downturn and provide people with the individualised support they need to find long-term work. This strategy includes:

- **A comprehensive programme of support for jobseekers including training, development, work experience and mentoring.**

- **Welfare-to-work services to be provided by the private and voluntary sector on a payment by results basis, according to their success in returning people to sustainable employment.**

- **Reform of insolvency rules to enable good companies to keep trading when facing economic difficulties.**

- **Reductions in the headline rate in business tax for large and small businesses**

- **Further reforms will be announced in due course**

The Conservative Party is developing the long-term policies on employment to ensure that Britain is well placed to weather global financial turbulence and create new jobs and opportunities for all.

Helping people into work: Reforming Britain's welfare system

Reforming the welfare system to provide people with the support, retraining and advice they need to find work will be crucial if the economic slowdown continues.

Our detailed reform package, as set out in our Green Paper published in January 2008, is designed to ensure that those out of work receive individualised assistance tailored to their specific needs and circumstances[1].

This is the right plan to help people out of unemployment and into work for the long-term.

Reforming Jobcentre Plus to provide an immediate assessment of every individual's needs

As international evidence suggests, early intervention and assistance is crucial. Within 24 hours of a claim, Jobcentre Plus will provide an in-depth assessment to evaluate claimants' needs and capabilities. Using this information we can design a package with the right balance of support and benefits to help the claimant back into work.

Individualised support to reflect individual needs

The rapid in-depth assessment will be used to design a package of individualised support to help the claimant back into work.

We expect each employment programme to include a number of core elements. These may include:

- Job search facilities
- Specialised training to increase suitability for work
- Personalised career and recruitment advice
- Mock interviews
- Interview-training with real employers
- Work experience

1 Conservative Party Policy Green Paper No.3: Work for Welfare – January 2008

- CV writing techniques

Harnessing the innovation and expertise of private and voluntary providers

We intend to pay the independent providers who take on the welfare-to-work task substantially or completely on the results they achieve.

This is established practice in countries like Australia, and it allows us to synchronise outcome payments to the providers with the benefit payments saved once someone is back in work.

Because we will pay providers not only for finding people work, but keeping them in jobs, our contracts will incentivise employment providers' to offer proper training to claimants, resulting in skills that will not only help them to get a job but stay in the job and progress in the labour market.

Helping businesses cope with the downturn: Reforming Britain’s insolvency system

As well as overhauling the welfare system to provide people with the support they need to find work and stay in work, we need to take urgent steps to protect people from becoming unemployed in the first place.

That is why we are proposing to reform the insolvency system to ensure that good companies have the breathing space they need to stay afloat during times of economic difficulty.

After all, it is in no-one’s interests – not the banks, the companies involved, nor the wider economy – for good companies to go to the wall during an economic downturn.

The current insolvency system

According to independent experts, if the current credit market conditions continue, it is likely that more companies will be unable to obtain new finance, creating difficulties and potentially forcing companies into administration or liquidation.

Both processes involve the appointment of an insolvency practitioner and often the only option is for the business to be closed down, destroying livelihoods and giving rise to significant job losses. Many people believe that the existing insolvency procedures are ill-suited to the rescue of a company and its business as a going concern.

In order to avoid formal insolvency procedures, informal restructurings frequently take place outside the statutory process, by way of unofficial deals with creditors.

These are difficult and inefficient, as there are no established rules and procedures. It needs to proceed via consensus, which means that generally all creditors and shareholders have a veto over any restructuring agreement.

Some stakeholders may use their veto to hold the company (and other stakeholders) to ransom, knowing that the only alternative to the concessions which they are demanding will be the administration or liquidation of the company.

Fundamentally sound companies therefore risk being dismantled. That would be bad for the economy, bad for the company and its shareholders, and bad for employees.

Reforming the insolvency system

The Conservative Party proposes to create a new fast-track judicial process for distressed companies, as an alternative to administration, based on the best aspects of the American "Chapter 11" system.

This will create a breathing space to allow company directors to formulate a plan to rescue or restructure the company. This process will be aimed at companies which are fundamentally good businesses, but whose capital structures no longer work in the current economic climate.

There are three key elements to this proposed reform.

i) Automatic stay of enforcement

We will introduce an automatic stay of enforcement of debt by financial creditors against the company while the management stays in place and attempts to negotiate a restructuring. Non-financial creditors, i.e. suppliers and customers, will continue to be paid as the debts fall due, although they will be barred from terminating the contract solely on the grounds that the stay of enforcement is in place. This will allow the restructuring to go ahead without the threat either of insolvency proceedings, or of panicked customers and suppliers terminating their contracts. The directors or creditors of the company will petition the courts for the stay, and the court would grant it in circumstances where the company was not in a position to meet its obligations to financial creditors, but there was a real prospect of the company being able to negotiate a restructuring. Creditors and shareholders would be able to submit reasoned objections.

The stay would be granted on a short term basis only (a few months), with the possibility of renewal. Where directors or managers had acted fraudulently or incompetently, creditors could require them to be replaced. The court would appoint an agent who would supervise the process and prevent improper use of the stay, and who would report back to the court on the progress of the restructuring. However, the court's agent would not be able to control or direct the company.

ii) Priority funding for distressed companies.

We will provide a priority status for any financier willing to provide ongoing funding for the company post-petition. Unlike in the UK, firms in Chapter 11 in the US are able to raise finance even after they have petitioned for bankruptcy. Lenders will lend them money in exchange for "super-priority" over other unsecured creditors. In fact, there is a whole market for this type of "rescue" funding in the US, which does not exist in the UK.

iii) Preventing unscrupulous creditors from vetoing desirable restructurings.

Once a company has proposed a restructuring plan, it will be required to submit it to the court, along with any supporting evidence. Any creditor group who disputes the plan will also be able to submit evidence. But once the court and a certain majority of creditors have approved the plan, it will bind all creditors and shareholders.

Taken together, these reforms may provide the right framework to allow good companies to continue to trade during an economic downturn.

We will continue to consult on these insolvency proposals in the months ahead, so that we are ready to introduce reforms in government, and ensure that Britain is better placed to weather future economic downturns.

Reductions in the headline rate in business tax for large and small businesses

We will cut the main rate of corporation tax from 28p to 25p and reverse the Government's planned increase in the small companies' rate from 20p to 22p.

This is part of a revenue neutral package, funded by further reductions in capital allowances and scrapping complex reliefs introduced by Gordon Brown. Cutting corporate tax rates would be an important boost to the competitiveness of the British economy in difficult economic times, and a welcome simplification of the tax system.

Because we have the largest budget deficit in Europe there is no immediate scope for net reductions in business taxes. However, reducing the headline rate of corporation tax would be a good start on the road to making the economy more competitive.

This package forms part of a broader direction of corporation tax reform and simplification – see the timeline below. This follows the recommendation of the Tax Reform Commission in 2006 that the corporation tax system should be simplified by basing it more closely on company accounts.

The principle of reducing rates of capital allowances so that they are closer to the actual depreciation rates used in accounts and using the resulting revenues to fund a lower rate of corporation tax was accepted by the Gordon Brown in his 2007 Budget, when he reduced capital allowances in order to fund a cut in the main tax rate from 30p to 28p.

A study by the Institute for Fiscal Studies in 2002 found that the average depreciation rate used in accounts for non-property assets was 11.2%.[2] This suggests that reducing the rate for general plant and machinery from 20% to 12.5% as in the table above will move the tax depreciation rate closer to the average depreciation rate used in company accounts.

The table below shows how cutting the main rate from 28p to 25p and reversing the increase in the small companies' rate from 20p to 22p could be done as part of a revenue neutral package by reducing complex reliefs and allowances. The costings are based on Government numbers from Budget 2007, when Gordon Brown accepted George Osborne's calls for a similar package and cut the main rate from 30p to 28p.

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[2] "Reform of Corporation Tax: A Response to the Government's Consultation Document", *Institute for Fiscal Studies Briefing Note No, 30, 2002,* Table 3, *http://www.ifs.org.uk/bns/bn30.pdf*

Costings: £ million	**2008-09**	**2009-10**	**2010-11**
Cut main corporation tax rate from 28p to 25p	-2,185	-3,515	-3,690
General plant and machinery capital allowances at 12.5%	1,985	3,030	3,180
Long-life plant and machinery capital allowances at 6%	185	335	350
Integral fixtures capital allowance at 6%	10	40	45
Small companies rate – don't raise to 21p in April 2008	-15	-395	-555
Small companies rate – don't raise to 22p in April 2009	0	-20	-415
Abolish £50,000 annual investment allowance	25	815	855
Total	**5**	**290**	**-230**

Source: based on the costings in the Budget 2007 Red Book, Table A1

Accountants Grant Thornton have looked at these figures and agree that they are consistent with the Government's figures as detailed in the 2007 Budget Red Book. The estimates are based on a number of conservative assumptions:

- The cost of cutting the headline rate by 1p is assumed to be 5% larger than in the Budget 2007 Red Book to account for the broader tax base following reforms to capital allowances in Budget 2007.

- The revenues from reducing capital allowances are assumed to be 11% smaller than in the Budget 2007 Red Book to account for the lower headline rate (i.e. 25p not 28p), and revenues are calculated by a conservative linear extrapolation of the Budget changes.

- All 2010-11 figures are uprated by 5% compared to 2009-10