14th January 2021

Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

BUDGET 2021: SUBMISSION FROM THE BRITISH CHAMBERS OF COMMERCE

I write to you today on behalf of the British Chambers of Commerce, our global chamber network and chamber business communities across the UK to outline our members' priorities for the 2021 Budget.

The economic backdrop to this budget is unprecedented. Our own Quarterly Economic Survey ('QES') – the UK's largest and most authoritative private-sector business survey, and a leading indicator for UK GDP growth – suggests that UK economic conditions remained exceptionally weak at the end of 2020 with all the key indicators in Q4 still substantially worse than pre-pandemic levels (see Annex A). The QES highlights how the damage extends far beyond businesses directly affected by the lockdown, into industries (such as media and marketing) which should be relatively viable under current conditions.

With the vaccination programme providing hope for a light at the end of the tunnel for businesses, we urge ministers to work closely with companies across the UK to accelerate the rollout of vaccines, using their space, capacity and people as much as possible. Before mass vaccine rollout is achieved, a fit-for-purpose Test, Trace and Isolate system is critical to keeping the economy moving once the current lockdown ends. This should include creating the infrastructure to reopen more businesses and workplaces by working with employers to deliver mass workplace testing at low cost.

The support schemes put in place, including the Coronavirus Job Retention Scheme, have saved many firms and jobs so far. However, support for non-wage costs has been significantly less generous. With the UK in a third lockdown many businesses were disappointed by the fact that the support packages have simply not been enough to compensate for the severe, on-going economic impact of the restrictions required to fight the pandemic. While they understand that the nature of the pandemic means that things can change quickly, the current drip-feed approach to business support measures is too short term and leaves businesses unable to plan.

Against this backdrop, we therefore urge you to use the 2021 budget to set out a comprehensive plan to support business cash flow and jobs throughout this year – alongside longer-term measures to support the restart, rebuilding and renewal of the UK economy.

The British Chambers of Commerce therefore proposes action in the following areas:

Longer term support for businesses impacted by coronavirus:

- **Supporting cashflow** – including extending and expanding Business Rates relief, prolonging VAT deferrals, and offering immediate and more significant cash grant support.
- **Protecting jobs and livelihoods –** including maintaining the Job Retention Scheme until a full reopening of the economy is possible, plus expanded income support for limited company directors.

<u>Although these proposals form part of our 2021 budget submission, many businesses cannot afford to wait until March. We therefore urge the government to implement a broader package of support for businesses impacted by Covid-19 as soon as possible.</u>

Rebuilding the UK economy:

- **Boosting business investment** – including expanding the annual investment allowance to include investment in training and a temporary SME 'Brexit' tax credit.
- **Replacing EU funding** – ensuring that the new UK Shared Prosperity Fund maximises local autonomy, business voice and economic growth.
- **Support young people and others in the labour market** – including temporarily cutting employment national insurance contributions to support job retention and recruitment.
- **Addressing the longstanding challenges –** including sufficiently capitalising the new UK infrastructure bank and publishing the results of the review into UK's broken business rates system.

Attached to this letter are four documents that outline the BCC's view on current UK economic conditions, our proposals to provide longer term support for businesses impacted by coronavirus, rebuilding the economy and their estimated cost. I look forward to meeting soon to discuss our proposals in greater detail. In the meantime, if you have any queries regarding these proposals, please contact Adam Szpala, Public Affairs Manager at the BCC, on 07961 138 964 or a.szpala@britishchambers.org.uk.

Yours sincerely,

Dr Adam Marshall
Director General

CC: **Rt Hon Kwasi Kwarteng MP, Secretary of State for Business, Energy and Industrial Strategy**
Rt Hon Michael Gove MP, Chancellor of the Duchy of Lancaster
Rt Hon Gavin Williamson CBE MP, Secretary of State for Education
Rt Hon Robert Jenrick MP, Secretary of State for Housing, Communities and Local Government
Rt Hon Steve Barclay MP, Chief Secretary to the Treasury
Rt Hon Jesse Norman MP, Financial Secretary to the Treasury
Kemi Badenoch MP, Exchequer Secretary to the Treasury
John Glen MP, Economic Secretary to the Treasury

ANNEX A: BCC VIEW ON CURRENT UK ECONOMIC CONTEXT

UK ECONOMY

The latest official data revealed that the UK economy grew by just 0.4% in October 2020. UK economic output remains 7.9% below the pre-pandemic levels seen in February 2020. The sharp slowdown in economic output in October reflected the squeeze on activity from the re-introduction of tighter coronavirus restrictions, including the tier system in England. Firms in hospitality, who are most acutely exposed to the renewed restrictions, suffered particularly badly in the month.

The British Chambers of Commerce's Quarterly Economic Survey ('QES') – the UK's largest independent survey of business sentiment and a leading indicator of UK GDP growth – found that business conditions remained weak in the fourth quarter as the second lockdown squeezed activity. The bellwether survey of 6,203 firms revealed that almost half of firms overall reported worsening sales and cashflow, with key survey indicators remaining well below pre-crisis levels.

In the services sector generally, the balance of firms reporting increased domestic and export sales remains firmly in negative territory. Business to consumer (B2C) firms saw the largest falls in domestic sales in the quarter. Over three quarters (79%) of respondents in the hospitality and catering sectors reported decreases, compared to 66% in Q3, moving back toward Q2 levels (94%), underlining the impact that lockdowns and forced closures have had on demand.

The survey shows that sectors which have continued their operations through the pandemic and/or shifted their operating models to remote working, also have a higher proportion of firms reporting decreased sales. For instance, 53% of transport and distribution firms, and 44% of marketing/media firms, reported decreases in sales, well above pre-pandemic levels of 29% and 23% reporting decreases in Q1 2020 (respectively).

As a percentage balance, the manufacturing sector is seeing a faster rate of improvement in domestic and export sales, though both sectors' indicators remain in 'negative territory', meaning that more firms have reported a decrease in sales than an increase. In the manufacturing sector, the balance of firms reporting increased domestic sales moved to -9% in Q4 2020, up from -15% in Q3 2020. The balance of firms reporting increased export sales increased to -8% from -26% in Q3.

Cash flow

Cash flow, a key indicator of business health, continued to deteriorate for more than four-in-ten firms. In Q4, 21% of firms reported an improvement in cash flow, 36% reported no change and 43% reported a deterioration. Levels are broadly unchanged from Q3 which saw some improvement on historic lows in Q2. Together, these point towards the worst year in the QES' history by some distance. In line with indicators from Q2 and Q3, micro firms were more likely to report worsening cash flow, with 51% of these firms reporting a deterioration, compared to 27% reporting a decrease in Q1 2020.

In the services sector, the balance of firms reporting improved cashflow increased to -28% from -30% in Q3. After the lowest levels on record in Q2 and Q3, this balance is still lower than any other since Q4 2008. In the manufacturing sector, the balance of firms reporting improved cashflow increased to -15% from -18% in Q3. The persistent weakness in cash flow is deeply concerning as it leaves firms more vulnerable to external shocks, including further restrictions. As such this submission includes a number of proposals are aimed at ameliorating the cash flow crisis affecting many UK firms.

Investment

Over a third of firms (35%) continue to report decreased investment in plant, machinery and equipment, highlighting longer-term concerns for the economy as many businesses pause investment plans or revise them down. This is unchanged from Q3 and follows Q2, which had the largest proportion of firms revising down investment in the history of the QES dataset. This is compounded by the increased debt levels many businesses are having to carry simply to survive.

Outlook for the UK economy

Though the vaccine rollout provides real optimism, sweeping new lockdowns in all four UK nations means that a significant double-dip recession in the first quarter of this year is looking increasingly likely. Looking forward slightly further, even full delivery of the vaccine to the population will not be enough to 'switch on' the UK's economy without further action. Therefore, support will be needed well beyond current cliff-edges in the Spring. The UK's economic prospects over the next year are also likely to be determined by the extent to which the legacy impacts from coronavirus, including high structural unemployment, rising business debt levels and depressed business investment levels, drag on any recovery.

UK's fiscal position

While the fiscal challenges facing the UK are significant, the temptation to start fiscal tightening too early must be resisted to avoid prolonging the economic damage from Covid. If the recovery is stifled by tax rises or by a significant reduction in public spending it could have the perverse effect of making the Treasury's financial position worse, because a smaller economy will generate less revenue for the Exchequer. Cutting off growth risks higher unemployment, less spending in the private sector and lower profits for businesses, which all mean there is less activity to tax. Instead with ultra-low borrowing costs, the focus must be on boosting economic activity to sustainably grow and broaden the UK's tax base.

Implications for Budget 2021

Against this backdrop, the focus for Budget 2021 must be on a year-long plan to provide a support for businesses impacted by coronavirus and longer-term measures to support the rebuild of the UK economy as the impact of the pandemic fades.

ANNEX B: MEASURES TO PROVIDE SUPPORT FOR BUSINESSES IMPACTED BY CORONAVIRUS THROUGHOUT 2021

The support schemes put in place, including the Job Retention Scheme, have saved many firms and jobs. However, with the UK in a third lockdown many businesses were disappointed by the fact that the current support package is simply not enough to compensate for the severe, on-going, economic impact of the pandemic. It is by no means only retail, leisure and hospitality businesses that are in trouble, with the impact increasingly felt away from the sectors which have been most obviously hit by restrictions. Support must be in place for firms throughout supply chains and across the economy.

While businesses understand that the nature of the pandemic means that things can change quickly, the current drip-feed approach to business support measures is too short term and leaves businesses unable to plan. Furthermore, with little chance a full reopening of the economy in the near term, this current approach risks damaging cliff edges for jobs and livelihoods with crucial support measures - including the furlough scheme, Business Rates relief and VAT deferral - currently scheduled to expire in the coming months.

Billions have already been spent helping good firms to survive this unprecedented crisis and to save jobs. These businesses must not be allowed to fail now, when the vaccine rollout provides light at the end of this long tunnel. The support for businesses needs to be stepped up in line with the devastating restrictions being placed on them. Otherwise, many of these firms may simply not be there to power our recovery when we emerge once again.

The BCC therefore calls on the Government to set out a clear plan for 2021 – working closely with the devolved administrations - and introduce measures to support business cashflow and protect jobs and livelihoods. Although these proposals form part of our 2021 budget submission, many businesses cannot afford to wait until March. We therefore urge the government to implement the following measures as soon as possible:

1. SUPPORTING BUSINESS CASHFLOW

EXTEND AND EXPAND BUSINESS RATES RELIEF

The 100% business rates discount for businesses in the retail, hospitality and leisure sectors in England for 2020-21 should be extended beyond its current March cliff edge until the end of the 2021/22 financial year to prevent severely aggravate already diminished business cashflow.

The businesses rates relief should also be extended to all businesses whose ability to generate revenues has been severely impaired, whether they are mandated to be closed or not. Revenue tests should be used to ensure these reliefs are appropriately targeted at businesses in genuine distress. The financial distress test for **large companies** proposed under the original model of the Job Support Scheme would form a sensible basis for this.

DIRECT EXCHEQUER COST: Total of 18.7 billion (2021/22)
Estimate based on OBR analysis of the cost of providing business rates relief

OFFER IMMEDIATE AND MORE SIGNIFICANT CASH GRANT SUPPORT

While the recent announcement that businesses in the retail, hospitality and leisure sectors are to receive a one-off grant worth up to £9,000 per premises (and additional funding for local authorities) was welcome, it is not going to be enough to save many firms, particularly given the scrapping of the Job retention bonus. Many smaller firms won't qualify for the full headline amounts and will be left struggling to see how this new top-up grant will help them mitigate their cashflow problems.

The BCC therefore calls for an immediate, further round of upfront cash grant support – at least equivalent to levels of around £25,000 available in the first national lockdown - with sufficient funds to provide for all businesses that need it in every sector, would help to ease the cash crisis that many businesses are facing.

DIRECT EXCHEQUER COST: Total of 15.6 billion (2020/21 - 2021/22)
Estimate based on OBR analysis of the cost of government grant schemes

The BCC also calls on the government to sufficiently increase the small business rate relief threshold to ensure that all small businesses can access cash grant support and business rates relief no matter where their business is located. As suggested by the Institute for Fiscal Studies, one option would be to set different thresholds for different regions (or by local authority) of the country to reflect differences in rateable values. For example, in London this could mean almost doubling of thresholds: from £15,000 to £29,250, and from £51,000 to £97,000 to ensure that the same proportion of properties in London are entitled to the support as nationally.

EXTEND DEFERRAL ON VAT

Nearly half a million businesses together deferred around £30 billion of VAT up to the Chancellor's September statement. This has, undoubtedly, been extremely helpful, as has the creation of an interest-free repayment plan. But more stability and certainty, and more support, should be provided by extending the VAT deferral until at least the end of 2021. Extending options for the repayment plan even further, including extending the end of March 2022 deadline for paying deferred VAT instalments without interest, should also be considered.

DIRECT EXCHEQUER COST: Total of 1.9 billion (2021/22)
Estimate based on OBR analysis of the cost of providing VAT deferral

ENHANCE THE GOVERNMENT LENDING SCHEMES

For those able to access the government lending schemes, the finance they have provided has been instrumental in preventing insolvency or closure. However, with firms facing another wave of severely diminished demand, cashflow and revenue amid another national lockdown, more needs to be done to ensure that cash gets to the frontline as quickly as possible. This means action in the following areas:

- **Ensure all eligible businesses can access the government lending schemes.** Most firms who bank with non-accredited lenders remain effectively locked out of the government lending schemes. Government must work with regulators and banks on solutions to ensure that all eligible firms can access this support before the schemes close at the end of March.

- **Further support for businesses who have used government lending schemes.** With grant support now more preferable to additional borrowing to support cashflow, the focus should be on further easements to support those who have already taken on debt. This should include mandating lenders to accept requests from CBILS customers for the term of their loans to be extended from six to up to ten years. Serious consideration should also be given to extending the business interruption payment for an additional six months given that many of the firms that took on debt have not been able to reopen or trade at levels sufficient to begin repayments.
- **Replacement scheme for CBILS must be able to sustainably support businesses over a longer period.** We welcomed the government's announcement of a long-term replacement for CBILS. However, it is vital that government, the British Business Bank and lenders work together with business to avoid the same teething problems we saw with the launch of CBILS. The characteristics of the new scheme should include:
    - Removing some of the market-distorting subsidies like the interest free period but keeping some of the other elements of the scheme, including the 80% government guarantee.
    - The new scheme should recognise the impact of the last 12 months and the current condition of businesses. We would therefore caution against the return of 'normal' credit assessments and any reintroduction of personal guarantees should only cover a minimal proportion of the loan.
    - Clearly define what a 'viable' business will be in the new scheme, allowing banks to look through the impact of the pandemic and identify sustainable businesses in the medium- and longer-terms.
    - Support for those who need small (sub £25k) loans will also be important.
    - Lessons should also be learnt from the operational problems that hampered the launch of CBILS, e.g. through a more standardised application process and clear timeframes for the processing of applications.

- **An exit strategy to deal with high debt burdens and support the recapitalisation of the UK's SMEs.** A report by the Recapitalisation Group, led by EY and TheCityUK, projects that businesses will be saddled with £67bn - £70bn worth of unsustainable debt by March 2021 (published September 2020) - £20-23bn of which will come from Government-backed loans. Many businesses have taken out loans to help weather the unprecedented economic impact of Coronavirus, and bold solutions will be needed to prevent thousands of firms from falling into a spiral of unsustainable debt. If not addressed, such large debt burdens would stifle the recovery by constraining business activity and investment. As such we are surprised by HM Treasury's muted response on this critical issue. We need both working capital solutions for those who are indebted and growth capital solutions for those businesses that can expand post-pandemic. The BCC therefore calls for a number of the approaches to be investigated further – including a 'student loan' type instrument, where repayments begin once revenues return to pre-crisis levels, for smaller firms. Government must work at pace with regulators, the financial services, and our business communities (as end users) to find solutions that help viable businesses recover and invest as they emerge from this crisis.

DIRECT EXCHEQUER COST – POTENTIALLY LIMITED CONTINGENT LIABILITY, DEPENDING ON REPAYMENT RATES.

2. PROTECTING JOBS AND LIVELIHOODS

EXTEND THE JOB RETENTION SCHEME

The Job Retention Scheme has been very successful in its aim to protect jobs and livelihoods during the pandemic, with the recent extension to the end of April a welcome move. However, with another national lockdown in place and with little chance of a full reopening of the economy in the near term, further action is needed to avoid a damaging cliff edge for jobs and livelihoods. Crucially, lessons must be learnt from the original furlough scheme end date in October, where the delay in extending the scheme at time of tightening restrictions, helped drive redundancies to a record high of 370,000 in the three months to October 2020. **Therefore, the BCC calls on the government to commit to keeping the Coronavirus Job Retention Scheme in place until a full reopening of the economy is possible and at least until the end of July 2021.** There must also be a clear commitment to avoid any sudden withdrawal of the CJRS when the economy reopens, allowing employees to return gradually (e.g. on reduced hours) and enabling firms to build back their operations in line with customer demand. **An equivalent extension of the Self-Employed Income Support Scheme will also be required.**

DIRECT EXCHEQUER COST: Total of 13.4 billion (2021/22)
Estimate based on OBR analysis of the cost of job retention scheme and assumes that the scheme will be in place until the end of July 2021 as well as avoiding any sudden withdrawal of the CJRS when the economy reopens.

EXPAND INCOME PROTECTION SUPPORT FOR DIRECTORS OF LIMITED COMPANIES

While there is welcome support for staff, and some self-employed individuals, many directors who have set up their business perfectly lawfully as a limited company have fallen into the gap between the Coronavirus Job Retention Scheme (CJRS) and Self-employment Income Support Scheme (SEISS) because they take only a minimal salary and instead largely rely on company dividends for their income.

The BCC therefore calls for the Self-employment Income Support Scheme (SEISS) to be extended to cover company dividends as well as PAYE salary. While our members understand the technical challenges, BCC has submitted a proposal to HM Treasury with a number of practical solutions to deal with the technical barriers to extending income support for owner/directors of limited companies. Under our proposal, directors would need to make manual claims, clearly evidencing from formal financial accounts of declared dividends, and if necessary, any share splits. Personal self-assessment forms, CT600 forms, company dividend vouchers, board minutes, or certified accountants' records could all be used to support claims and, where possible, cross-checked with real-time information submitted by accountants to HMRC. Additional information considerations may be needed for micro-entities. In line with a number of the other Government support measures, the owner/director should be able to self-declare with HMRC adopting a "pay first, check later" to accelerate the process. HMRC should have the right to retrospectively audit any claimants to the scheme, with scope to claw back amounts claimed fraudulently or in error.

Total of £14.7 billion (2021/22)
Estimate based on OBR analysis of the cost of Self-employed income support scheme and assumes that scheme will be in place for a period of six months longer (or the income support is backdated by six months from the start of the scheme) than the end of the job retention scheme given these people have had no support before.

ANNEX C: MEASURES TO REBUILD THE UK ECONOMY

1. BOOSTING BUSINESS INVESTMENT

EXPAND THE £1 MILLION ANNUAL INVESTMENT ALLOWANCE (AIA)

Our members were delighted that the government listened to our call to extend the £1 million Annual Investment Allowance (AIA). There is evidence that the enhanced AIA will help drive new investment activity. The BCC's 2019 Business Taxation Survey found that over a third (34%) of businesses intended to use at least part of the £1 million Annual Investment Allowance over the next two years. However, more needs to be done to incentivise business investment during this period to help rebuild the economy and deliver sustained increases in productivity.

The BCC therefore calls on the government to support business investment and lift productivity by expanding the current £1 million Annual Investment Allowance to include Coronavirus-related investments, investment in training and investments that help a business achieve net-zero emissions. This would provide a major incentive for firms to crowd in investment, with firms continuing to report that AIA is a crucial tool which gives them the confidence to push ahead with investments. Businesses will expect that such incentives are carried through a revaluation of business rates at a later date. The government should also explore the viability of other tax incentives to invest, including full expensing.

DIRECT EXCHEQUER COST: Average of £0.2 billion per annum

INTRODUCE A TEMPORARY SME 'BREXIT' TAX CREDIT

While firms welcomed the UK-EU trade agreement, they are now faced with the immense administrative and costly task of adapting to new arrangements at a time when businesses continue to report diminished cash reserves from ongoing coronavirus restrictions. Governments on both sides must recognise the impossible task they have set businesses and give them the time and support to adjust to new realities.

While we see some merit in the 'transition vouchers' proposed by a number of other organisations, the BCC instead calls for the introduction of a temporary tax credit for SMEs to support firms that need to undertake activity to adapt to the new arrangements. This relief should be available until at least the end of the 2022/23 financial year to support businesses through this period of significant change.

The criteria for claiming a Brexit' SME tax credit would be similar to claiming SME R&D relief:

- less than 500 staff
- a turnover of under 100 million euros or a balance sheet total under 86 million euros
- activity that matches a definition of adapting to the new post-Brexit arrangements

The size of the relief would be similar to the SME R&D relief and would enable eligible businesses to:

- deduct an extra 130% of their qualifying costs from their yearly profit, as well as the normal 100% deduction, to make a total 230% deduction
- claim a tax credit if the company is loss making, worth up to 14.5% of the surrenderable loss

DIRECT EXCHEQUER COST: Average of £0.5 billion per annum

REMOVAL OF ALL PLANT AND MACHINERY FROM THE VALUATION OF PROPERTY FOR BUSINESS RATES PURPOSES

The business rates system, in its current form, creates a number of perverse incentives for business location, property improvement, and plant and machinery investment. The current system of classifying plant and machinery for rateable purposes is particularly outdated and creates perverse incentives for investment.

Whilst we continue to argue in favour of a fundamental reform of the business rates system (please see below), more immediately the BCC therefore calls for the removal of all plant and machinery from the valuation of property for business rates purposes from 2022/23, as it can play a vital role in helping boost business investment. We believe that this can be achieved as part of a wider simplification of the procedures for arriving at a rateable value through the Dutch system of floor space, use class and benchmark properties. Chambers of Commerce across the UK stand ready to help develop this proposal further, alongside other key stakeholders. HM Treasury must work with all three devolved governments, to ensure that businesses benefit wherever they are in the UK.

DIRECT EXCHEQUER COST: average of £1.0 billion per annum

A MORATORIUM ON ALL POLICY MEASURES THAT INCREASE BUSINESS COSTS FOR THE REMAINDER OF THE PARLIAMENT

There remains a lot of disappointment at the lack of action on the high up-front taxes and costs faced by businesses. It is unacceptable that companies continue to face such high input costs, which weigh heavily no matter the stage of the economic cycle, company performance or ability to pay. In recent years, firms have had to take on additional burdens, including Making Tax Digital, Immigration Skills Charge and the shortcomings of the Apprenticeship Levy as well as a doubling of the Insurance Premium Tax since 2011. Businesses are also now faced with the immense administrative and costly task of adapting to new post-Brexit arrangements at a time when businesses continue to report diminished cash reserves from ongoing coronavirus restrictions. The cumulative effect of creating such an onerous cost burden is causing many firms to implement cost reduction measures, and weigh down on firms' ability to invest, recruit and grow their business.

The BCC therefore calls for a moratorium on all policy measures that increase business costs for the remainder of this parliament, including no rise in Capital Gains Tax or reductions in pensions tax relief, excluding only evidence-based changes to the National Living Wage. The aim of this is to provide businesses with the urgently needed headroom to manage cashflow, reduce administrative costs and invest to help kickstart a recovery. While some fiscal consolidation may be needed over time, the temptation to start fiscal tightening too early must be resisted to avoid prolonging the economic damage from Covid. Instead with ultra-low borrowing costs, the focus must be on boosting economic activity to sustainably grow and broaden the UK's tax base.

NO DIRECT EXCHEQUER COST (though exchequer may forgo significant additional revenue)

2. REPLACING EU FUNDING

CLARIFY INTENTIONS FOR UK SHARED PROSPERITY FUND

The launch of UK Shared Prosperity Fund at the 2020 Spending Review is long-overdue and significant unanswered questions still remain. Business communities require more detail on how the scheme will operate and how the new fund will avoid damaging cliff edges in existing local economic development, business support schemes, skills funding and elements of international trade support which will be crucial to the government's levelling up ambitions.

The BCC therefore calls on the government to commit to work closely with local business communities, including trusted third parties like Chambers of Commerce, on the determining key features of the new fund. This should include a commitment to maximise local autonomy, business voice and economic growth. The principles that underpin such an approach should include:

1. Purpose

- Businesses should be at the heart of the design and development of new business support – a 'done together' rather than a 'done to' approach.
- The customer journey should start with the business need – businesses should be proactively approached and supported to identify what they need to enable their business to grow and flourish.
- The aim should first be to support individual businesses to set and achieve their commercial ambitions, and through this should contribute to inclusive economic growth and community prosperity.
- Government funding should be used to either fill gaps or scale up existing provision, in order to, meet business needs.
- Before procurement, there should be a market test to identify existing quality provision, to ensure that government programmes are not crowding out existing, successful initiatives.
- To gain the best value for the public funding, the focus should be on investing directly into existing delivery organisations, not on creating new bodies, brands or decision-making structures.
- The scope of this strategy should overlap and be coordinated with other government funded programmes or initiatives which are often seen by business as "business support" for example, on skills and apprenticeships; on export and trade; on tax and regulation; etc.

2. Locality

- In-depth local knowledge is critical to ensuring the right decisions are made regarding what business support is required locally and how best this can be delivered. Therefore, funding and decision-making capability should be devolved to a sub-regional level.
- Local ambitions and targets should be agreed by business communities working with a range of local organisations that are invested in local economic development including Chambers of Commerce, educators, skills providers and others.
- The geography for devolution should match with existing local economic decision-making.
- Local business support provision should sit hand in glove with local industrial and economic strategies so that all involved are pulling in the same direction.
- While digital / self-help solutions are important, business support should be delivered close to where businesses are, by organisations and people who have an in-depth understanding of local economic conditions and of the full menu of support that is available to meet particular business needs.
- Data sharing within the local area should be included from inception to allow for cross referrals between programmes and providers.
- Procurement should encourage partnerships and alliances – this leads to greater innovation and collaboration.
- UKSPF funding will be needed to provide the skills funding, community support on deprivation issues, inclusion etc, wide elements of international trade support, rural prosperity funding and flood resilience works, all place based and all of which must not be left out of subsequent funding regimes

3. Impact & sustainability

- Any metrics attached to funding should focus on direct and indirect outcomes – for individual businesses and for the local and national economy.
- Data capture requirements must be useful and designed to inform both Government policy development and delivery improvements. Evaluation of provision should be peer-led within a local economic area.

- Funding opportunities should always go out to the market first and only be awarded to existing public sector bodies where no private or third sector organisation can deliver.
- Funders should work with the existing providers to understand their ambitions and explore how pump prime funding could help to create greater, and more sustainable business support capacity over the long-term.
- Financial provision should look to guarantee funding for the medium-longer term (e.g. 3-5 years).
- Delivery partners should not be prohibited from developing commercial revenue through Government funded projects – that is how we create sustainable provision with less reliance on the public purse.
- Delivery partners should be trusted to use their resources to achieve agreed outcomes and meet the needs of each business.

Chambers of Commerce across the UK stand ready to work with the wider economic community to support the pilot schemes, help develop proposals further once published and accelerate the learning needed for the final scheme design. While the Spending Review commitment to at least match receipts from EU structural funds is welcome, the government should also consider matching the match funding element that would have been found often by local public sector to avoid damaging cliff edges in the local projects that are vital to the government's levelling up ambitions.

NO DIRECT EXCHEQUER COST (aside from the spending commitment made at the 2020 Spending Review)

3. SUPPORT YOUNG PEOPLE AND OTHERS IN THE LABOUR MARKET

TEMPORARY CUT TO EMPLOYER NATIONAL INSURANCE CONTRIBUTIONS

BCC research indicates that a significant number of jobs will be made redundant in the months ahead as businesses struggle to rebuild cash flow and demand. Prior to the pandemic, our 2019 Workforce Survey revealed that nearly three quarters (72%) of employers had seen the cumulative cost burden of employment increase as a result of one or more costs relating to recruitment, staff training, statutory sick pay and mandatory reporting. Put bluntly, even before the pandemic, businesses were concerned about the cost of maintaining or increasing their workforce. Current conditions have made it imperative that swift action is taken to remedy this.

The most immediate route to safeguard jobs, and to help create new employment opportunities when the economy is able to fully reopen, is a temporary, but significant reduction in employers' National Insurance contributions, drawing on the large range of academic literature and real-world data which shows the positive impact on employment rates of reducing non-wage labour costs.

The BCC therefore calls for the threshold for payment of employers' National Insurance contributions to be increased from the current £8,788 to £12,500 (aligned with the income tax personal allowance) for a minimum of 12 months from the closure of the Coronavirus Job retention Scheme.

DIRECT EXCHEQUER COST Total of £13 billion (assumes the proposed cut to employers' National Insurance contributions is in place for 12 months)

SUPPORT TO UPSKILL AND RESKILL TO HELP PEOPLE BACK INTO THE LABOUR MARKET

The British Chambers of Commerce's Workplace Training and Development Commission found that in the years leading up to the Coronavirus pandemic, businesses of all sizes and sectors were finding it increasingly difficult to access the skilled people they needed. In 2019, BCC research revealed that across the country, around 3 in 4 businesses were struggling to fill job vacancies. Low levels of productivity, increased automation and net zero will present significant challenges for businesses. The impact of Covid on the economy means that now, more than ever, firms will need to continuously upskill and reskill their workforce to remain productive and competitive. Access to quality, lifelong learning opportunities will become increasingly important for individuals looking to change career or advance in their role.

Addressing the current challenges around skills now will mean more people are more able to contribute to business productivity as part of the recovery and help meet some of the other Spending Review priorities, including 'making the 'UK a scientific superpower'. Our members welcomed the protection of the apprenticeship budget and the greater flexibilities announced in the CSR. However, an inquiry by our Workplace Training and Development Commission found that more needs to be done to equip the UK's home-grown talent with the skills needed to compete in the global marketplace, as set out in the following recommendations:

The BCC therefore calls for greater levels of funding for adult skills through doubling the National Skills Fund over the remainder of the parliament from £3bn to £6bn and reinstate the £1.5 billion of funding that was withdrawn from the apprenticeship budget at the outset of the Levy. This additional funding will help deliver some of the key recommendations from the BCC's Workplace Training and Development Commission, including:

- **Invest more in Technical Education**
  As well as safeguarding funding for T Levels, the Government should invest more in employer-led, prestigious, higher technical qualifications and the infrastructure to ensure access and quality of delivery. This will help businesses to address growing skills shortages at levels 4 and 5, upskill and reskill adults in the workplace and boost business productivity.

- **Ensure additional apprenticeship funding is available to maintain access to apprenticeships for SMEs**
  Prior to Covid-19, BCC was concerned to hear of a potential overspend in the apprenticeship budget. To ensure SMEs continue to have access to quality apprenticeships, the Government should safeguard existing apprenticeship funding and reinstate the £1.5 billion of funding that was withdrawn from the apprenticeship budget at the outset of the Levy. To address skills gaps, SMEs must be able to access high quality apprenticeships, from level 2 to level 5 and above, in their local area. Government should work with business to review how the levy can be developed into a more flexible fund to ensure businesses have the resources to meet all accredited workplace training and development needs.

- **Invest in FE Staff and Estate**
  The BCC calls for an increase in the skills budget to meet the key recommendations from the Augar Review relating to further education. This should include increasing investment in FE college teaching staff and dedicated capital investment of at least £1 billion over this parliament (in addition to what was announced at the 2020 Spring Budget).

- **Bite-Size Flexible Training**
  Alongside full qualifications, the BCC's Workplace Training and Development Commission identified the need for shorter, modularised and flexible accredited learning opportunities for working adults. This bite-size provision will help business quickly upskill people to keep pace with digitisation, automation, net zero and new opportunities in the workplace. To facilitate lifelong learning and help people retrain for new career opportunities, the government should ensure all adults have access to short and agile accredited learning, especially in digital skills.

- **Invest in local skills planning**
  Increase funding and flexibility for place-based skills planning to ensure investment in skills supports business productivity, growth aspirations and local economic strategies.

DIRECT EXCHEQUER COST: Average of £1.5 billion per annum (2021/22 – 2023-24)

The full recommendations of the BCC's Workplace Training and Development Commission relating to adult skills can be found here: *https://www.britishchambers.org.uk/media/get/Final%20WTDC%20Progress%20Report%20August%202020-Brand.pdf*

4. ADDRESSING LONGSTANDING CHALLENGES FACING THE UK ECONOMY

COMMITMENT TO SUFFICIENTLY CAPITALISE THE UK INFRASTRUCTURE BANK TO DRIVE LEVELLING UP

Investment in infrastructure is critical to the success of businesses, and local and national economies. Yet, BCC's 2018 Infrastructure Survey of more than 1,100 businesspeople showed that 39% of firms do not believe that UK's rail network meets their needs in accessing new and existing customers, suppliers and employers, and 68% regard the UK road network as less reliable than five years ago. An efficient transportation system has multiplier effects through improved accessibility to labour, investment, markets and international trade. Investment in major infrastructure projects also sends a strong message to our global partners that we remain a great place to invest and do business. Delivering on major infrastructure projects, including delivering HS2 <u>in full</u>, are critical to achieving sustained increases in growth, productivity and living standards across all regions and nations of the UK.

The launch of a National Infrastructure Strategy is an important step in overcoming the longstanding infrastructure deficit. The transition to net zero and levelling up across the UK will require ambitious and sustained action to transform our transport, energy and digital networks. However, we've spent long enough discussing about infrastructure projects - it's now time to focus on delivery.

The introduction of a UK infrastructure bank may significantly aid the transition to net zero if it has the necessary asset base to leverage the private sector finance needed to deliver transformational levels of infrastructure investment. Therefore, the BCC calls for a minimum investment of £20 billion (as recommended by Sir John Armitt, chair of the government's National Infrastructure Commission) from government over the parliament to provide the necessary capital base to help attract the private finance needed to close the UK's infrastructure deficit. Under-capitalisation could undermine the UK infrastructure bank's ability to deliver the urgently needed transformation in infrastructure investment.

DIRECT EXCHEQUER COST: Average of £5 billion per annum

PUBLISH REPORT AND ACT ON THE BUSINESS RATES REVIEW

In its current form the Business Rates system is broken. It creates a number of perverse incentives for both property improvement and plant and machinery investment, causing an unnecessarily large burden to be placed upon businesses regardless of their ability to pay, and does not make allowances for significant structural changes that have taken place in the UK economy over the past decade and are likely to increase further over the coming years. It is neither responsive to changes in the economic or business cycle at a national level nor to local economic needs. The BCC therefore welcomed the opportunity to respond to the HM Treasury consultation into Business Rates. Firms have, however, been promised real change before; but that has not been forthcoming.

The BCC therefore calls for the publication of the final report into both tranches of HMT review of business rates (the interim report on tranche 1 was scheduled to be published in the Autumn of 2020), including a clear roadmap for delivery of the fundamental reform that is urgently needed. Delivering fundamental change to this longstanding drag anchor on business has become only more pressing in light of Covid-19. Business Rates are likely to cause a lot of firms' additional cash flow issues over the coming months, as part of the fixed cost base that firms can do little to push downward. The BCC stands ready to support the government in successfully delivering a system which is fit for the 21st century and includes:

- lowering the overall impact on business
- abolishing annual uprating and the Treasury's ability to pre-determine revenue
- delivering a significantly lighter-touch and a more frequent revaluation system
- a system that is simpler to implement, understand and collect
- limiting complexity of reliefs, granting them automatically where possible
- permanently applying small business rate relief, or an equivalent threshold, below which no rates apply
- creating a system which is more responsive to both local economic conditions and the wider economic cycle
- removing disincentives to invest by excluding plant and machinery from valuations

A key failing of the previous reviews of Business Rates was the requirement that it delivers a fiscally neutral outcome. This placed artificial limits on the breadth of the possible changes that this review could recommend, only allowing tinkering at the edges. Therefore, the acid test for this review will be whether it is genuinely able to lower the overall impact on business.

NO DIRECT EXCHEQUER COST (from publishing the report)

ANNEX D: SUMMARY OF POLICY PROPOSALS

Budget Priorities	Policy Proposal	2020/21	2021/22	2022/23	2023/24	Total (£bn)	Average per annum (£bn)
Longer term support for businesses impacted by coronavirus	Extend and expand business rates relief	0.0	18.7	0.0	0.0	18.7	4.7
	Offer immediate and more significant cash grant support	2.6	13.0	0	0	15.6	3.9
	Extend deferral on VAT	0	1.9	0	0	1.9	0.5
	Enhance the government lending schemes	0.0	0.0	0.0	0.0	0.0	0.0
	Commitment to retain the Job Retention Scheme	0.0	13.4	0.0	0.0	13.4	3.4
	Expand income protection support for directors of limited companies	0.0	14.7	0.0	0.0	14.7	3.7
Rebuilding the UK economy	Expand £1 million Annual Investment Allowance	0	0.3	0.3	0.3	0.9	0.2
	introduce a temporary SME 'Brexit' tax credit	0.0	0.9	0.9	0.0	1.8	0.5
	Removal of all plant and machinery from the valuation of property for business rates purposes	0	0	2	2	4.0	1.0
	A moratorium on all policy measures that increase business costs for the remainder of the parliament	0	0	0	0	0.0	0.0
	Clarify intentions for UK Shared Prosperity Fund	0	0	0	0	0.0	0.0
	Cut employment national insurance contributions	0.0	8.7	4.3	0.0	13.0	3.3
	Support to upskill and reskill to help people back into the labour market	0.0	1.5	1.5	1.5	4.5	1.1
	Commitment to sufficiently capitalise the UK infrastructure bank	5.0	5.0	5.0	5.0	20.0	5.0
	Publish and act on report on the HMT Business Rates Review	0.0	0.0	0.0	0.0	0.0	0.0
Total (£bn)	**Total (£bn)**	**7.6**	**78.1**	**14.0**	**8.8**	**108.5**	**27.1**
% of Average UK GDP over the period	**% of Average UK GDP over the period**	**0.4%**	**3.5%**	**0.6%**	**0.4%**	**4.8%**	**1.2%**
% of Total public sector current expenditure	**% of Total public sector current expenditure**	**0.7%**	**7.7%**	**1.4%**	**0.9%**	**2.6%**	**2.6%**

Sources: BCC, OBR Economic and Fiscal Outlook November 2020