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

10 September 2024

Dear Chancellor,

AUTUMN BUDGET 2024: SUBMISSION FROM THE BRITISH CHAMBERS OF COMMERCE

I write 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 2024 Autumn Statement.

As you will know, our network encompasses 52 Accredited Chambers of Commerce in the UK and over 75 British Chambers and Business Associations overseas, representing thousands of businesses of all sizes and in all sectors. Our work is further supported by our Business Council, convening large corporates, and collectively we have developed key proposals for the future of the economy, many of which were adopted within the Labour Party manifesto.

Our Quarterly Economic Survey for Q2 2024 – the largest private sector survey of business sentiment – shows that business conditions have improved, and concerns around external factors, such as inflation and interest rates continue to decline. However, despite our Quarterly Economic Forecast upgrading growth expectations for 2024, investment indicators remain fragile.

Firms recognise the challenging fiscal context for this budget, but to incentivise investment, and drive your growth ambitions for the economy, we would encourage focus in your Budget on:

- **Making the UK a globally competitive destination for investment –** by retaining and expanding Full Expensing to leased assets and establishing a fiscal framework for the North Sea that encourages investment.
- **Using the tax system to support workplace health -** incentivise employers to invest in early intervention by reducing the tax on workplace health insurance and health cash plans and making all occupational health services a non-taxable benefit in kind.
- **Extending employer engagement in skills planning -** extend investment in business-led Local Skills Improvement Plans and ensure an appropriate balance of capital and revenue funding is available to address identified gaps in local training provision.
- **Reforming business rates** - building on long term BCC asks, the government should set out a pathway to lowering the multiplier to at least 45p by the end of the Parliament.

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- **And investing in infrastructure** - without infrastructure enhancements, any attempts to grow the economy will be futile. Therefore, we are calling on the government to deliver previously planned strategic enhancements to the transport network, including rail capacity (Western Rail Link, Ely + Haughley Junctions and East-West rail). We also call for updated rules in the National Planning Policy Framework to increase employment land supply.

In addition to these proposals, to underpin economic growth the voice of business must be heard in strategic long-term thinking to ensure it meets its needs, building on the productive relationships established in opposition and since the election. This includes input into the Government's missions, its Industrial Strategy, and in the development of Local Growth Plans. Business must also be fully consulted on Making Work Pay proposals to ensure they deliver high standards of protection for employees whilst guarding against any unintended consequences of the proposed changes.

Attached to this letter you will find our full submission that outlines the BCC's view on current economic conditions and our proposals for creating the conditions for growth. Where possible, my team have focused on measures which are cost effective for government but will have the biggest impact on the domestic business environment. We would be pleased to work with your officials to develop these, and in due course to commence work towards Spring's Comprehensive Spending Review.

We look forward to hosting you at our Business Council meeting on the 12 September and I look forward to continuing our productive discussions on the future of the economy. In the meantime, if your officials have any queries regarding our proposals, please ask that they contact Emily Wood (e.wood@britishchambers.org.uk) in the first instance.

Yours sincerely,

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Director General

CC: Rt Hon Angela Rayner MP, Secretary of State for Housing, Communities and Local Government
Rt Hon Jonathan Reynolds MP, Secretary of State for Business and Trade
Rt Hon Liz Kendall MP, Secretary of State for Work and Pensions
Rt Hon Ed Milliband MP, Secretary of State for Energy Security and Net Zero
Rt Hon Bridget Phillipson MP, Secretary of State for Education
Rt Hon Darren Jones MP, Chief Secretary to the Treasury
Lord Livermore, Financial Secretary to the Treasury
James Murray MP, Exchequer Secretary to the Treasury
Tulip Siddiq MP, Economic Secretary to the Treasury

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ANNEX A: BCC VIEW ON CURRENT UK ECONOMIC CONTEXT

CURRENT ECONOMIC CONDITIONS

The British Chambers of Commerce conducts extensive research into UK business conditions, and our Insights Unit supports colleagues across the UK Government and Bank of England. This programme consists of three core strands:

- The Quarterly Economic Survey (QES) – the UK's largest independent business conditions survey, established in 1989, made of up around 5,500 responses from mainly SMEs each quarter.
- A series of thematic surveys exploring business conditions across the following areas: access to skills, international trade, and net zero.
- The Quarterly Economic Forecast – a macroeconomic forecast of the UK economy over the next three years, awarded best UK GDP forecast in 2024 by FocusEconomics.

In recent years, UK businesses have been grappling with major economic and political shocks that have led to significant skills shortages and low levels of business investment. Recent BCC research shows a positive shift in business sentiment, with an increase in domestic sales and turnover growth expectations among SMEs[1]. However, businesses have seen lasting damage caused by Covid lockdowns, the ensuing global supply chain crisis, new trade barriers with the EU, unprecedented energy costs, and significant skills shortages, especially for sectors like hospitality and construction. While there is growing optimism as external shocks lessen and businesses adapt to the evolving economic landscape, many firms are still not looking to increase investment.

Our Quarterly Economic Survey for Q2 2024 showed that:

- Business conditions, measured by sales and cashflow improved in Q2, returning to pre-pandemic levels.
- Business confidence has increased, with 58% of firms expecting an increase in turnover in the next twelve months.
- Fewer firms expect to increase their prices in the next three months.
- Concern from businesses about external factors continues to decline – with worries about inflation falling to 49% of companies. However, these concerns remain high by historical standards.
- Despite a boost in conditions and confidence most firms (75%) are still not increasing investment.
- Wide sectoral variations persist, with many retail and hospitality firms experiencing recession-like conditions.

[1] BCC Quarterly Economic Survey Q2 2024

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Improvement in overall business conditions

The percentage of respondents reporting increased domestic sales rose to 38%, compared with 36% in Q1. 43% of firms said sales had remained constant and 20% reported a decrease.

There were some sectoral differences – 37% of manufacturers and 40% of business-to-business service companies (such as legal and finance) reported a boost in sales. By contrast, only 33% of business to consumer firms (such as hospitality and retail) saw an increase.

Business confidence is steadily increasing

58% of firms expect to see their turnover increase over the next 12 months – an increase from 56% in Q1. 29% expect no change and only 13% expect to see turnover decline.

Fewer firms expect to increase prices

As inflation continues to ease, fewer firms are now expecting to put up their prices. 39% of respondents say they are expecting to raise the cost of their goods or services in the next three months, compared with 46% in Q1. 59% think their prices will stay the same, and just 2% are expecting a decrease.

Concern about external factors continues to decline

While inflation remains the biggest external worry among businesses, the level of concern has fallen significantly. Around half (49%) of firms say they are more concerned about inflation than in the last quarter (58% in Q1). That's returning to levels of concern last seen in 2021 and significantly below the 84% reported in Q2 2022, at the peak of the inflation crisis.

Most firms still not increasing investment

Despite the boost in business confidence and conditions, investment levels continue to struggle. Most firms say they haven't increased the amount of new plant, machinery and equipment they've bought or rented. Only 25% reported an increase in investment, compared with 24% in Q1. 61% said levels had remained the same, 14% reported a decrease.

OUTLOOK FOR THE UK ECONOMY

In our Q3 2024 Quarterly Economic Forecast we upgraded growth expectations for 2024 following an improved picture so far this year. The forecast for 2025 remains unchanged, with a minor upward revision for 2026.

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UK Economic Outlook

The BCC expects the UK economy to grow by 1.1% for 2024, with the projection for 2025 remaining at 1.0%. The economy is expected to grow by 1.1% in 2026, a minor upward revision. The overall growth landscape remains relatively weak, with government spending the main driver of GDP this year.

CPI is expected to be slightly higher than previously forecast by the end of 2024, at 2.6% due to global trade uncertainties, pay growth, and rising energy costs. It is then expected to slow, closer to the Bank of England's 2% target, reaching 2.2% in Q4 2025 and 2.1% in Q4 2026.

Quarterly growth to remain subdued

After a welcome recovery from last year's short recession, the UK economy has performed better than expected in 2024. The ONS has estimated growth of 0.6% in Q2, and the BCC is now forecasting 0.4% for Q3. But this momentum is expected to tail off, with 0.2% in Q4, and for every quarter in 2025.

Trade outlook remains weak

The outlook for overseas trade is expected to remain weak due to ongoing trade barriers with the EU and wider trade tensions, with both imports and exports contracting in 2024 by -0.6% and -1.1%, respectively, before a gradual bounce back in 2025 and 2026. This is a slight upward revision on our last forecast.

However, with CPI inflation set to stay low and interest rates predicted to be cut, the BCC does expect business investment to steadily increase across the three years of the forecast, with an expected rise of 0.3% in 2024, 1.4% in 2025 and 2.0% in 2026.

Average earnings will continue to cool

Average earnings are expected to grow more slowly over the forecast period but continue to remain above inflation. Annual wage growth is expected to be 4.0% in Q4 2024, remaining at the same level in Q4 2025, before falling to 3.5% in Q4 2026.

Unemployment steady but concerns about youth unemployment

The average unemployment rate is expected to be 4.3% in 2024, rising slightly next year to 4.4%, before easing to 4.1% in 2025. That is a slight decrease from last quarter's forecast. However, youth unemployment will remain high, with the percentage out of work forecast to be 13.3% this year, 13.4% in 2025 and 13.1% in 2026.

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Further interest rate cuts expected

Following the first interest rate cut for over four years in August, the BCC is now forecasting another cut during Q4, with the Bank of England base rate expected to be 4.9% by the end of 2024. The Bank is expected adopt a more cautious approach and make a series of 0.1pp cuts, bringing the interest rate to 4.3% by the end of 2025, and falling to 3.8% by the end of 2026.

INTERNATIONAL COMPETITIVENESS

To achieve our national growth aspirations in the modern global economy, it is vital that the government continues to offer an internationally competitive taxation regime. This concept sits behind several specific proposals in our submission, including the retention of Permanent Full Expensing and capital allowances as part of the Energy Profits Levy (EPL) regime, and a fresh approach to VAT on goods bought by international visitors.

There are other tax policy issues which are important in this regard, but are not specifically mentioned in this response, such as Capital Gains Tax (CGT) for the disposal of shares and investments. The business community we represent has not raised CGT with us directly and so it does not feature as a specific point in this submission. Nevertheless, we urge government to ensure that changes to this tax are carefully considered, with a full review of how changes may impact investment in the UK's growth businesses.

More generally, changes in the taxation of businesses, and those who invest in businesses, must balance the need for revenue for public services with the need to incentivise business growth, and to ensure the UK remains one of the best places in the world to start and grow a business. We consider that our response provides a balanced view, focusing on policy proposals that support all of these objectives.

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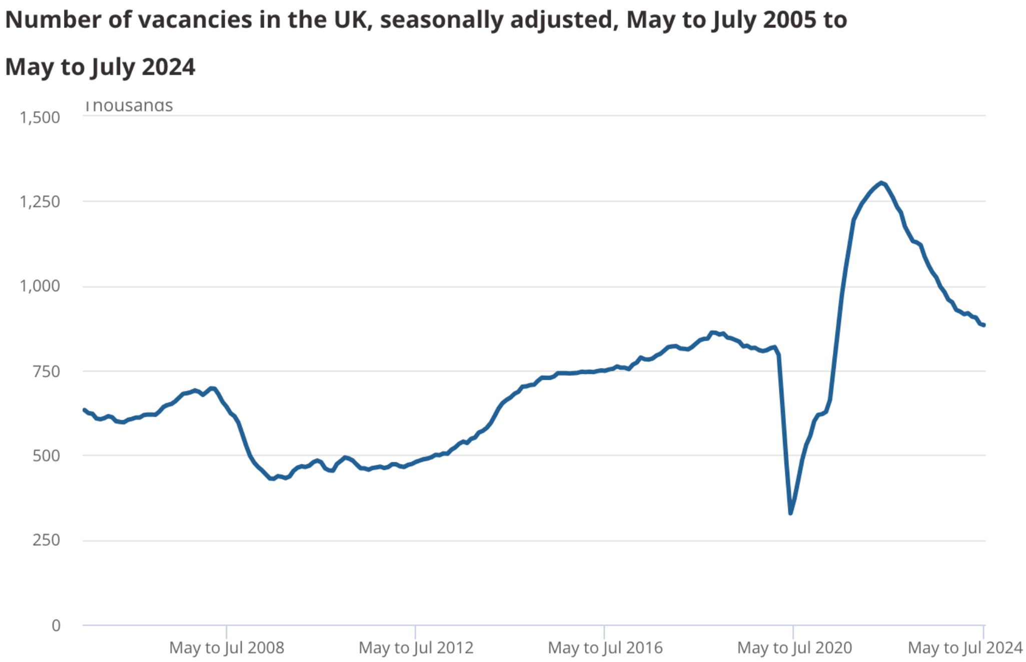
ANNEX B: PROPOSALS FOR BUDGET

1. People and Skills

1.1 Scale of the issue

According to the most recent ONS figures, there are currently over 884,000 job vacancies[2]; down from the spring 2022 peak but still higher than at any point in nearly 20 years (see chart 1). In this context the BCC's 2024 Workforce Survey found that almost two thirds (62%) of all respondents were experiencing skills shortages. Manufacturers (74%) are most likely to report shortages, hindering them from operating profitably, taking on new orders, investing and growing[3]. Similarly, the BCC's Quarterly Recruitment Outlook (QRO) for Q2 2024 found that 59% of firms overall attempted to recruit, with 74% reporting recruitment difficulties, a reduction in figures but still almost the highest since records began in 1989[4].

Chart 1: The estimated number of vacancies in the UK (Source ONS Vacancy Survey)



Solving this challenge will require both business and government making changes to current business-as-usual policies and operations. Businesses can and should do more to train their existing workforce, including offering work experience to those preparing for the world of work, making more use of Apprenticeships and T-Levels and upskilling and reskilling people in work. Flexible working and other equitable workplace practices can also help firms to attract, retain and develop a skilled workforce.

[2] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/august2024
[3] BCC Workforce Survey 2024
[4] BCC Quarterly Recruitment Outlook Q2 2024

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There is progress in this regard, with our research finding that most organisations intend to use some form of training for their staff over the next twelve months, with many showing a preference for shorter courses. Larger organisations are far more likely to plan to use training over the next twelve months than smaller organisations. Only 3% of organisations with more than 250 employees say they 'do not' intend to use training, compared to 28% of organisations with fewer than 10 employees.[5] However, looking forward, businesses need to do more to harness the skills and experience of working age adults who are economically inactive. This section of our submission proposes ways in which the government can help business to do this.

1.2 Using the tax system to support workplace health and wellbeing

Helping employers to intervene quickly and positively when employees experience ill-health will help businesses recruit and retain a productive and diverse workforce. Currently, there is a workplace health crisis, with a recent Health and Wellbeing at Work report by the CIPD and Simplyhealth showing that workplace absences are now at a 10-year high.[6]

BCC research has found that 36% of businesses gave staff access to occupational health or wellbeing services; 33% provided medical insurance or healthcare plans; and that larger firms are far more likely to be offering these programmes (only 7% said they didn't offer any)[7].

Looking more widely across the UK economy, research from the John Lewis Partnership and Centre for Economics and Business Research estimated that the total cost of absenteeism in the UK due to mental health and musculoskeletal conditions is forecast to reach £3.8 billion in 2025[8].

Currently, employer-provided occupational health services are a taxable benefit and subject to National Insurance and Income Tax. There is a limited tax exemption of up to £500 but only for those that have been out of work for more than 28 days or where the health condition is a direct result of their work. The government can boost uptake of OH services by making these a non-taxable benefit in kind.

Insurance, which incorporates key parts of occupational health support alongside other health services, also plays a key role in supporting workplace health and is highly effective in reducing ill-health related job losses.

The government should reduce Insurance Premium Tax (IPT) for insurance products that support workforce health. IPT has doubled to 12% since 2015 and the UK has one of the highest rates of IPT for health products in Europe. The IPT is a tax collected by insurance companies and is paid directly to the government. The 12% tax is added to the cost of products. High rates of IPT will therefore be a prohibitive factor in both the general public building health cover for themselves, and employers providing cover for their employees.

[5] BCC Workforce Survey 2024
[6] https://www.simplyhealth.co.uk/businesses/insights/health-wellbeing/cipd-report
[7] BCC Workforce Survey 2022
[8] https://www.johnlewispartnership.co.uk/csr/workingwell.html

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Policy recommendations: 1. Government should make all occupational health, cash plans and medical insurance services a non-taxable benefit in kind. 2. Government should reduce Insurance Premium Tax (IPT) for insurance products that support workforce health.
Policy Costs: tbc based on future decisions by the government.

1.3 Apprenticeship Levy flexibility

For young people entering the workforce, and adults looking to upskill or retrain, apprenticeships provide an opportunity to 'earn while you learn', gain in-demand industry-standard qualifications, and enjoy accelerated routes to rewarding careers. For this reason, apprenticeship standards need to be available from L2 to L7, and for all age groups.

Apprenticeships are also highly valued by employers of all sizes and are key to tackling skills shortages. Firms can develop loyal, skilled employees to address business needs who understand and contribute to the culture of the business. Chambers are working with employers to boost uptake of apprenticeships, either through direct delivery of training or by connecting businesses to high quality training providers.

However, the apprenticeship system creates many barriers for business, for example in terms of complexity, the administrative burden, and the inflexibility of the funding. At the same time, apprenticeships are not always the best solution to all training needs, with many firms highlighting the need for more high quality shorter and modular training options to enable individuals to upskill quickly.

Chamber-led Local Skills Improvement Plans have highlighted concerns about the financial pressures on training providers as a result of apprenticeship funding bands not meeting the true cost of provision. This could lead to reduced capacity in the market and increase the risk of businesses and learners being unable to access the training they need in their local area.

The BCC's Quarterly Recruitment Outlook Q2 2024 shows that most businesses are still struggling to increase investment in workplace training. Just over a quarter of firms (28%) reported an increase in their training investment plans over the previous three months, while 11% reported a drop.[9] In BCC's 2024 Workforce Survey, 20% of businesses planned to use apprenticeships at level 3 or below in the year ahead, and just 13% planned to use apprenticeships at level 4 and above. This compares to 37% of businesses which plan to use shorter, accredited courses[10].

[9] BCC Quarterly Recruitment Outlook Q2 2024
[10] BCC Workforce Survey 2024

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Policy recommendations: 1. Introduce flexibility for businesses to use the Levy to provide more training for more people, including non-apprenticeship training, modular upskilling and pre-apprenticeship training. 2. The Levy should continue to fund all ages and all skill levels in order to not limit employer investment 3. The Levy rate is currently at the correct level and should not be increased. As the economy grows, and wages rise, more businesses will naturally become Levy payers over time. 4. A greater percentage of Levy take must be ringfenced for apprenticeship and training budgets in DfE rather than returned to or retained by HMT, in order to meet rising demand triggered by a more flexible Levy. 5. The government should ensure that apprenticeship levy funding bands meet the true cost of provision.
Policy Costs: In FY 22-23, HMT retained £545m from the apprenticeship Levy[11]. The government should ascertain likely demand caused by a more flexible levy and ringfence this funding for skills provision accordingly.

1.4 Planning jobs, skills and qualifications

A lack of skilled resource in local authority planning departments is leading to delay, inconsistency and a poor-quality planning service. This hinders infrastructure development, jeopardises business investment and damages economic growth. Resolving this issue is a major priority for business and we would like to be part of the solution.

Therefore, the BCC is convening industry to develop a UK-wide, private sector funded programme to help boost planning skills and capacity in local planning authorities. Our aim is to complement the existing government led programmes. We will fund 100 individuals to take planning qualifications and to work in local authorities. We will also fund existing council planning staff to upskill to better meet the needs of the economy.

We urge the Government to recognise this business investment, and support the programme, by ensuring that local planning authorities have the funding to employ the planning graduates for 2 years post qualification.

We welcomed the previous government committing to match industry-led funding of £3 million for planning capacity and resourcing in the next Spending Review period. We ask that the new government commits to this match funding as well.

BCC is happy to share more details of the Planning Skills and Jobs Programme and to meet with you to discuss how this can complement existing government funded programmes.

[11] https://committees.parliament.uk/publications/43508/documents/216282/default/

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Policy recommendations: 1. The government should continue to match our private sector fund to enable local planning authorities to employ the planning graduates and mid-level skilled planning staff who have been supported by the fund for at least 2 years post qualification.
Policy Costs: Up to £3m over 5 years

1.5 Extend investment in Local Skills Improvement Plans (LSIPs) in England

The government must commit to long-term funding for the business-led, Local Skills Improvement Plans (LSIPs) beyond the current 2025 cut off point, to ensure they become integral to the fabric of the skills system. There must be an extension of funding for at least 1 year after March 2025 to allow continued stability while Skills England continues to be formally established.

Chamber-led LSIPs are transforming skills planning in local communities, helping more businesses than ever before to identify and plan for their skills needs and access the right training for their workforce. Convening employers, stakeholders, and training providers, LSIPs are ensuring local economies have the skills for growth, and that people can develop the technical know-how to prosper in good jobs now and in the future.

To train the workforce of the future, Further Education (FE) providers must be able to attract and retain skilled teaching staff to deliver the technical and vocational training that employers need.

Policy recommendations: 1. The government must commit to continued funding for business-led Local Skills Improvement Plans for at least a one-year extension beyond the current 2025 cut off point. Skills England should then set out a plan for the long-term funding of LSIPs to ensure they become integral to the fabric of the skills system. 2. The government should rebalance the revenue and capital elements of the Local Skills Improvement Fund to reflect the greater need for investment in people.
Policy Costs: *1.* Approximately £25m across 3 years - based on increasing funding in line with OBR inflation forecast plus a small management fee for ERBs 2. nil cost – asking purely for rebalancing of funds.

1.6 Lifelong Learning Entitlement

To shift the dial on investment in training to tackle skills shortages, there needs to be a tectonic cultural shift in Britain, where learning is seen as a lifelong necessity rather than something to be completed at an early age. Making full use of the Lifelong Learning Entitlement (LLE) will be critical. It will create a single funding system to help people pay for college or university courses, and train, retrain and upskill flexibly over their working lives. It will provide learners with a tuition fee loan entitlement to the equivalent of four years of post-18 education to use up to the age of 60, equivalent to £37,000 in current fees. The LLE is intended to be used flexibly, for full-time or parttime study of modules or full qualifications at levels 4 to 6 in colleges or universities.

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It is vital that the government continues the rollout of the LLE and that challenges in delivery do not delay the launch. Currently, employer awareness of the policy is low. The government needs to fully engage employers in the design and roll-out of the LLE, to help firms understand how it can supplement, rather than replace, their own investment in skills and the positive role it can play in terms of recruitment, retention, and employee benefits.

Policy recommendations: 1. Encourage uptake of the Lifelong Learning Entitlement through raising awareness of the scheme and engaging with employers 2. Tackle delivery challenges to ensure the Lifelong Learning Entitlement is launched on time.
Policy costs: tbc – cost of implementation

1.7 Complementary measures: Immigration reform

Where employers continue to experience longer-term skills and labour shortages and are consistently unable to recruit people from the UK, firms will look to immigration and automation. To support businesses in the transition to a high-skilled high-wage economy, the government must ensure a flexible, proportionate and affordable immigration system is available that meets the needs of UK businesses – as well as expanding youth mobility schemes.

The immigration system is becoming too expensive for businesses (especially SMEs). In 2023, the Government significantly raised the minimum salary threshold for skilled workers, removed the 20% going rate salary discount and increased visa fees and surcharges. While the £1.5bn immigration skills charge is meant to be used to address long-term skills shortages and fund training initiatives for the UK workforce, there is a lack of transparency in how this is being used and whether businesses are seeing the benefits of it.

Policy recommendations: 1. Ringfence the £1.5 billion Immigration Skills Charge fund to establish a comprehensive training initiative targeted at where UK skills shortages are most acute.
Policy Costs: Nil – revenue already collected via the ISC.

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2. Economic Growth

2.1 Industrial Strategy

Consistent, clear, and reliable policy measures are vital to enable businesses to plan effectively for the future. This is why we support the call for a revised industrial strategy to be put in place, to provide a blueprint for maximising economic growth. Any strategy should drive investment, support the workforce and encompass the net zero transition.

Productivity must be at the heart of an industrial strategy, encompassing business, people, and place. Our local economies are at the centre of prosperity and economic growth, and therefore a place lens should be a key focus. Growing place-based economic clusters should be about enhancing existing places, not trying to recreate the next London. It's also about recognising that one place is not the same as another. The West Midlands and Devon, for example, are very different places, with different strengths and opportunities.

Therefore, it is critical that an industrial strategy is linked through to the proposed 'local growth plans', ensuring joined up strategy across local and national governments. The goal of local plans must be to align and share objectives with a national industrial strategy.

Whilst recognising the need to prioritise certain sectors, a successful industrial strategy should build on the proposed government 'missions' leading to a cross-sectoral approach that acknowledges the linkages between different sectors of the economy. The focus should also be on attracting private investment as well as establishing a case for government funding.

If there is a requirement to prioritise certain policy goals, then this should be Net Zero. The Net Zero transition will require continued action on enablers such as skills, grid upgrades and finance. There is also a significant challenge ahead in relation to developing the workforce needed to power the Net Zero transition. An Industrial Strategy with green innovation at its heart can help to drive investment and support the workforce.

Policy recommendation: 1. HMT should implement an updated Industrial Strategy and build the strategy around economic place-based clusters, not just sectoral. 2. The Industrial Strategy should also have a strong focus on Net Zero, ensuring strong fiscal incentives and tax frameworks to invest.
Policy Costs: Nil

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2.2 Make Business Rates a tax that incentivises growth

At previous fiscal events, BCC has reiterated our welcome for the relief measures put in place on business rates, especially for hospitality and retail businesses during challenging financial times. Similarly, we were pleased that the fundamental review of business rates has moved the system to a three-year cycle. The long-term goal should be to move to annual revaluations to ensure that rateable values remain in step with their market levels, as well as local economic cycles.

In its current form, however, the Business Rates system is still in a non-optimal condition. It causes an unnecessarily large burden on businesses regardless of their ability to pay and does not make allowances for the significant structural changes that have taken place in the UK economy over the last decade. The system, as it exists, is neither responsive to changes in the economic or business cycle at a national level nor to local economic needs. In some cases, it acts as a disincentive to business growth. It exists in its current form largely because it brings in £27bn of tax revenue to local and central government and there is unwillingness to find alternative ways to fund public services.

Revaluation in 2023 saw the total rateable value increase in England and Wales by 7.1% overall, with significant variation between different businesses. Whilst there were undoubtedly winners with the 2023 revaluation (including several larger national retailers), it is important to consider why a sector's rateable value might have decreased. For example, the retail sector showed an average 10% decrease in rateable value.

The multiplier remains one of the largest barriers to business premises occupation. If rateable values do not reduce and the multiplier remains at the current levels, businesses will simply cease to exist or move exclusively online. This is bad for business and it's bad for local economies. In contrast, if the multiplier is reduced, evidence suggests that businesses will use the funds to invest and grow, creating a boost to the UK economy.

Another problem is the division between small business and standard rates. The arbitrary value of £51,000 as the cut-off point for small business rate relief has produced a boundary effect, with significant impacts on business who are caught in the higher rate. This has become more pronounced following the decision to freeze the small business multiplier and raise the standard multiplier in the last Budget. To address this concern, we call for government to amend its policy, by reducing multipliers for both small and standard rates to 45p by the end of the current parliament.

BCC and Chambers across our network have long called for a more frequent revaluation scheme. Therefore, in this submission, we reiterate our call for a move to an annual revaluation cycle. BCC recognise that this would increase the admin burden on the VOA, however given that provisions in the Non-Domestic Ratings Act that are forthcoming place additional burdens on ratepayers, this seems reasonable. In the interim, whilst the revaluation process remains at a 3-year cycle, the government should continue to provide additional 'transitional' relief to cushion businesses from high uplift costs following revaluation.

In the longer term, government should develop a business rates system that incentivises rather than disincentivises growth and investment. The system should also be more responsive to the local and wider economic cycles, enabling greater retention of rate money in the local areas in which it is being paid.

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Finally, in the spirit of the government's 'growth' mission, it is crucial that there is a level playing field across both the UK and between physical and online businesses. Therefore, the government should restart policy development on how the taxation system can reflect the changing nature of retail in the UK and ensure that the tax burden across businesses is equitable in nature.

Policy recommendations: 1. Move to an annual revaluation cycle 2. Set out a pathway to lowering the multiplier to below at least 45p by the end of the parliament 3. Explore the future relationship between taxation of in-person and online sales
Policy Costs: 1. Internal VOA admin cost 2. Approximately £5.8bn[12] 3. Nil

<u>2.3 Reform the VAT registration threshold to boost growth</u>

There is clear evidence that the VAT threshold acts as a disincentive for smaller businesses to grow. A 2022 Warwick University study found "robust evidence that annual growth in turnover slows by up to 2 percentage points when firm turnover gets close to the threshold, and weaker evidence of higher growth when the threshold is passed"[13].

Similarly, an OTS report from 2017 noted a "significant 'bunching' of businesses whose turnover is just below the threshold, particularly businesses with lower levels of inputs relative to supplies to consumers", combined with a "very significant fall-off in business numbers immediately after it"[14]. A BCC study on the VAT threshold found strong evidence that the threshold was a hindrance to business growth[15] .

This growth barrier exists for several reasons including administrative costs, concerns over the increased possibility of an HMRC audit; and an inability to pass on the costs to customers especially when competing with unregistered firms. While there are measures the government could take to address these barriers, these have not been explored in the last 5 years.

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[12] Broad estimation based on VOA data averages, assumption being both multipliers reduced to 45p and Small Business Rates Relief (SBBR) remaining in place.
[13] Small Firm Growth and the VAT Threshold: Evidence for the UK, 631/2022, Li Liu, Ben Lockwood & Eddy Tam. Warwick University.
[14] OTS, Value added tax: routes to simplification. November 2017 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/657213/Value_added_tax_routes_to_simplification_web.pdf
[15] BCC Business Taxation Survey 2019, *My business is actively trying to keep below £85k turnover so that we don't have to register to pay VAT,* N = 162

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The last in-depth review noted that the options under review were limited in scope because the UK was still bound by EU rules. For instance, the UK would have had to seek permission from the Commission to introduce a smoothing mechanism which could only have been introduced in combination with a decrease in the threshold[16]. The 2018 review of the VAT registration threshold concluded with a commitment to reviewing smoothing mechanisms again once the terms of EU Exit were clear. Consequently, the previous government increased the registration threshold to £90,000 in March 2024.

Finally, the OBR reviewed the VAT registration threshold in its March 2023 forecast, concluding that there had been a marked increase in firms capping their turnover in recent years. The OBR found that *"Relative to 2017-18, the number of firms capping their turnover is expected to have almost doubled from 23,000 to 44,000. And relative to a smooth distribution of firms by size, the lost turnover associated with this distortion among these traders is expected to have risen from £110 million to £350 million.[17]"*

Policy recommendations: 1. Given the lost turnover resulting from businesses voluntarily capping their growth to avoid VAT registration, we call on government to restart the VAT registration review and explore a smoothing mechanism that could decrease the bunching effect while limiting administrative complexity.
Policy Costs: tbc, based on review outcome.

2.4 Tax-Free Shopping for International Visitors

The VAT Retail Export Scheme (RES) enabled shoppers from outside the EU to claim back 20% VAT levied on the goods they had bought. However, since the abolition of the scheme, there is evidence to suggest that luxury shopping from overseas visitors is shifting from London and other UK destinations towards shopping in Paris, Milan, and other EU destinations where such VAT rebates apply.

The estimated total policy cost of reintroducing the RES would be minimal due to the broader economic benefits of the measures. HM Treasury estimates that this is saving the taxpayer £2bn per year, but analysis by Oxford Economics forecast that total VAT refunds in 2025/26, if TFS were to be reintroduced, would be £1.17 billion, 40% lower than HMT's estimate. This lower estimate is based on evidence that TFS spending by EU27 tourists is substantially lower than those originating from China, the Gulf Cooperation Country (GCC) markets and the United States[18].

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[16] HM Treasury, VAT registration threshold: Summary of responses, October 2018 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752042/VAT_Threshold_Call_for_Evidence_Summary_of_Responses_digicomms.pdf
[17] OBR, Economic and Fiscal Outlook, March 2023 https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/
[18] Oxford Economics, Assessing The Impact Of Tax-Free Shopping in the UK, November 2022 https://internationalretail.co.uk/wp-content/uploads/2022/11/20221110_AIR-TFS-report_Final.pdf

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Oxford Economics also estimate that the reintroduction of TFS would attract more than 1.6 million extra visitors to the UK in FY 2025/26 and stimulate an extra £2.8 billion of tourist spending, implying that the policy would have a direct fiscal cost of £590 million in 2025/26, 70% less than HMT's projection. The analysis goes on to argue that the policy cost would be offset by the economic footprint supported by the additional foreign visitor spending, sustaining over 78,000 jobs and £4.1 billion in GDP.

Finally, overseas visitors are important for the entire economy. For example, although London remained the single biggest city for international overnight visits in 2022 (16.1 million), there were significant numbers in other major cities such as Edinburgh (1.8 million visits), Manchester (1.2 million visits) and Birmingham (803,000 visits)[19].

Policy recommendations: 1. Building on the collaborative work between BCC, the FSB and other stakeholders, government should reconsider its policy on tax-free shopping for international visitors and commission an independent review of the policy. This should consider the alternative methodologies proposed by Oxford Economics and others, including the GVA analysis of overseas visitors. 2. Government should develop a new, internationally competitive tax-free shopping incentive for international visitors, that provides clear economic benefits to the UK.
Policy Costs: £1.17bn[20]

2.5 Research & Development Tax Credits

The changes made to the Research & Development Expenditure Credit (RDEC) in the 2022 Autumn Statement and subsequently at the 2023 Spring Budget have created challenges for businesses looking to invest in new R&D and for economic growth. With reduced access, many SMEs are struggling to secure adequate funding to progress R&D and ultimately new UK based innovations.

We remain opposed to a threshold being implemented as this is a barrier to smaller SMEs being able to take advantage of a scheme that is already being reduced. The significant increase in the number of smaller claims worth under £25,000 should be seen as the scheme successfully supporting smaller SMEs accessing the help they need to pursue R&D and economic growth. It should not be seen as a policy failure, as the consultation document appeared to imply. Greater budgets do not necessarily equal greater innovation and there is no mechanism in place to assess the policy impact of such R&D.

We are alarmed by the significant increase in the number of Chambers contacting BCC on behalf of their members expressing frustration at the conduct of HMRC when it comes to enquires into R&D tax credit claims. Following the NAO's audit of HMRC finding significant levels of error and fraud, we

[19] ONS, Travel trends: 2022
https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/articles/traveltrends/2022#data-sources-and-quality
[20] See footnote 18.

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warmly welcome the fact that HMRC have subsequently substantially increased the number of enquiries they undertake in respect of R&D claims.

Policy recommendations: 1. We ask that HMT work with HMRC to review the current enforcement campaign and ensure that it acts in a manner which reduces the collateral damage to the economy, the accounting profession, and legitimate claimants; whilst still having the intended aim of recouping tax from claimants whose claims are poorly curated or worse, fraudulent. 2. Improve accountability – There are numerous examples of HMRC failing/refusing to provide an explanation on R&D claim decisions. 3. Improve caseworker training – there are again numerous examples of inconsistent interpretation and application of the rules around R&D. E.g., a caseworker is allowed to disagree with the decision of a previous caseworker, but isn't obligated to explain why they have reached a different opinion.
Policy Costs: All 3 recommendations are changes to internal HMRC/HMT processes and therefore any cost would be internal spend on existing budgets.

2.6 Capital Allowances: Full Expensing

BCC and the wider business community warmly welcomed the Full Expensing policy announced in the 2023 Spring Budget and the confirmation of it being made permanent at the last Autumn Statement. At HMT's request we have carried out research into the impact the policy is having. This showed that the policy is already having a significant positive effect; 34% of respondents say they may have benefited from the Temporary Full Expensing policy, rising to 47% for manufacturers (see chart 2).

This result compares favourably to the Super Deduction policy. BCC research in 2022 found evidence that it had some positive impact, with 14% of respondents saying it had influenced their business to invest more or sooner (chart 3), rising to 20% of manufacturing respondents. A further 28% of manufacturing respondents stated that their business spent the same on assets but can now benefit from the super deduction.

However, nearly half of respondents stated that their business was not making investments that qualify, which indicates that there are many sectors which are unable to take advantage of this benefit. Our research also revealed that barriers to uptake of Capital Allowances in general included low awareness, particularly among small businesses, and restricted eligibility, particularly the limit of use to new rather than leased assets. BCC will have further data available on business attitudes towards Full Expensing, in the next few months.

We now encourage HMT to take one further strategic decision to get the most impact from this vitally important policy, namely, to widen the policy to cover leased assets, recognising that not all

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businesses are in a position to buy new plant and other assets. On this point, we welcome the creation of the HMT-HMRC Capital Allowances and Leasing working group and await its recommendations.

Policy recommendations: 1. Government should explore expanding the eligibility of Full Expensing to leased assets. Many businesses do not own their own machinery. Leasing is quite common, and, in most cases, Capital Allowances are not available if the equipment is leased.
Policy Costs: Initially, for the working group – Nil. Inevitably future costs would be incurred if full expensing were extended to include leased assets.

2.7 - Infrastructure enhancements

It has long been understood that our Victorian-era railways are not fit for purpose in modern Britain. Businesses report that unreliability and high fares are a barrier to work for many people, while a lack of capacity delays freight movement and limits growth. For example, each train that HS2's capacity would have unlocked had the potential to remove up to 129 HGVs from the road; the cancellation of this project is a lost opportunity to build a low-carbon freight transport system.

Rural areas are especially underserved. BCC research found that over half (58%) of SMEs in rural areas do not believe their area has reliable and well-connected trains, compared with just 39% in urban areas. Rail network deficiencies are also impacting SMEs based in business, retail or industrial parks, half (51%) of which were not satisfied with this provision.

With recent roll backs of large infrastructure projects knocking business confidence, the Government must commit and deliver on connecting the UK via rail to support growth and attract long-term investment. For example, HS2 must be completed to Euston and the tunnel opened at the same time as the Birmingham to Old Oak Common connection to unlock growth potential, realise value for money for the taxpayer and build confidence in the UK as a place to do business.

Furthermore, with Heathrow being a vital connectivity hub for both the entire UK, we strongly encourage the government to approve and begin construction of the Western Rail Link. This will create much needed transport enhancement between the Great Western Mainline and Heathrow, driving prosperity outside of the South East and enhancing national airport capacity.

Finally, it is crucial for cities in the Midlands and the North of England to have increased local rail capacity to support regional growth and help meet our net zero ambitions, recognising that many 'local' projects are of national economic importance. Previous governments have accepted this point but failed to deliver on plans to address it. Delivery of these projects is now required to realise our long-term economic ambitions.

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Policy recommendations: 1. Government must safeguard the land purchased for HS2, both to allow for a future policy reversal should economic conditions permit, but also to deliver vital capacity upgrades such as the redevelopment of Leeds station. 2. Deliver previously planned strategic enhancements to the transport network to unlock growth, including increased East-West rail capacity across the Midlands and the North, Ely Area Capacity Enhancement and Haughley Junction, and the Euston tunnel. 3. Commit to constructing the Western Rail Link to Heathrow 4. Fully electrify the rail network, incorporating lesser used lines via discontinuous electrification, meaning trains carry batteries which are recharged throughout the day when on electrified sections of track or at terminals.
Policy Costs: 1. Nil 2. Prioritise projects which unlock growth for the wider economy alongside value for money. For example, the Ely upgrade would increase vital freight capacity and connectivity from Felixstowe across the UK and deliver £4.89 for the economy for every £1 invested.[21] 3. £15bn when delivered through a continuous, rolling program of electrification[22].

2.8 Late Payments

A key barrier to economic and business growth, especially for SMEs, is the late payment culture that exists in the UK. The *BCC 2023 Business Outlook Survey* found that three quarters of firms had, at some point, been paid late, with 28% of firms saying that this had an impact on their operations and growth.[23]

Alongside the issue of late payment is the issue of bad payment practices, where (mainly larger) businesses are taking advantage of SMEs and supply chains in general with unnecessarily long payment terms, disadvantaging SMEs and their ability to both survive and grow.

The announcements made at the 2023 Autumn Statement to tackle this were welcome. The businesses that are impacted most by the status quo are SMEs. Transactions between large companies is unlikely to create serious cashflow or business continuity issues, so the focus should be on ensuring that SMEs are paid within 30 days.

[21] https://www.transporteast.gov.uk/wp-content/uploads/Keeping-Trade-on-Track.pdf

[22] Railway Industry Association, *RIA Electrification Cost Challenge Report,* March 2019
https://www.riagb.org.uk/ria/newsroom/stories/electrification_cost_challenge_report.aspx

[23] 2023 BCC Business Outlook Survey

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The new government should take forward the recommendations set out in the previous government's Payment and Cashflow Review (PPCR) report in 2023 and implement those recommendations

Policy Recommendation: 1. The government should refocus the Prompt Payment Code back on SMEs being paid within 30 days, and actively publicise repeat offenders against late payments guidance. 2. Implement the recommendations of the 2023 Payment and Cashflow Review (PPCR)
Policy Costs: Nil

2.9 – Growth Guarantee Scheme

The Recovery Loan Scheme (now the Growth Guarantee Scheme) was an important enabler of loan support for SMEs, providing the lender with a guarantee of up to 70%. The RLS drove both economic growth and represented good value for money.

Therefore, we support the British Business Bank's bid for additional capital funding for the programme for 2025-26, alongside a longer term settlement deal.

Policy Recommendation: 1. Guarantee GGS funding for the 2025-26 period *2.* Explore the possibility of a longer term funding commitment
Policy Costs: unknown

3. Devolution in England and Local Funding

BCC welcomes the announcement in the King's Speech of an English Devolution Bill, to enable greater powers to be devolved to local areas. This approach should be complimented with simplified funding and longer-term planning to ensure delivery. These steps are a long standing ask of the Chamber network who work closely with local authorities to deliver programmes of work. The 'pick and choose' devolution approach by previous administrations when it came to Mayoral Combined Authorities should be reviewed and a stronger element of uniformity in provision should exist across the devolution map.

3.1 Continue reforms for local authority funding

Chambers of Commerce across the UK deliver a significant amount of business support and training through funding from the UK Shared Prosperity Fund (UKSPF). This is due to end in 2025. Whilst appreciating that the new government may want to proceed with this provision in a different format (through local growth plans for example) we would urge the government to provide rollover funding for at least the 25-26 fiscal year to create a smooth switch over.

3.2 Business involvement in decision making in England

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In England, the government has confirmed its decision to withdraw central government support for Local Enterprise Partnerships (LEPs) from April 2024 and transfer their functions to local and combined authorities.

With these governance changes taking place, it is vital that the local business community is part of decisions that will impact their operations and growth because these functions will end up interacting with the proposed statutory growth plans. We strong believe that engagement with locally based business membership organisations should be mandated as part of the transition of LEP functions to Local Authorities and in the development of local growth plans, and we ask HMT to support that request.

3.3 Review of government funded business support

Most businesses find advice from other businesses, and in the B2B networks that scale up these conversations. Firms are more comfortable accessing support via well-established 'front door' non-public sector organisations, such as a Chamber of Commerce, than via a public-sector body. Government funded support must co-exist with other sources of business support, responding to market failure, augmenting, and enhancing the overall offer, not replicating, under cutting or devaluing non-state funded provision.

Some of the historic challenges of government funded support include a fragmented and complex system, multiple brand identities, and lack of longevity. There is currently inefficiency and effectively a postcode lottery for business support in England due to its delivery through lower-tier local authorities.

In contrast the broader business support market often provides much needed continuity and consistency of provision in an otherwise turbulent system. In business support, trust and impartiality is paramount and government should consider working through anchor institutions/trusted intermediaries rather than attempting to establish another new brand or access route.

Looking forward, a long-term strategic approach to government-funded business support, which provides more agency and autonomy to local and regional communities, could provide vital investment in our country's future economic success. We also advocate for a more streamlined approach in England through higher-tier or combined authorities.

Overall, the government should develop a long-term strategic approach to government-funded business support. This should provide more agency and autonomy to local and regional communities, and be developed with local business communities, including trusted third parties like Chambers of Commerce, to reach a joint government-business vision.

Policy recommendations:

1. Government should mandate that any funding being transferred from LEPs to Local Authorities should be ringfenced for the purpose of local economic development.
2. Provide continuity of funding for UKSPF projects to avoid a hard gap between the current and any future funding streams.

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3. The remit of Banking Hubs should be extended to include provision of local business support services, either via a dedicated DBT advisor or rotation of local business representative organisations (such as Chambers of Commerce).
Policy Costs: Based on 2021 Spending review figures – extending UKSPF for the 25-26 year would cost approximately £1.5bn.[24]

[24] https://assets.publishing.service.gov.uk/media/61c495ebe90e07196d2b8383/Budget_AB2021_Print.pdf

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4. Transition to Net Zero

The UK has made commendable progress on many aspects of the Net Zero transition. The BCC has welcomed the good progress made by successive governments in several key policy areas, including the previous Government's commitment to implement reforms to upgrade the grid and speed up the connections process, in line with the recommendations of the Winser review into grid upgrades[25]. These should be implemented quickly to make grid connectivity easier to support both the Net Zero transition and the wider economy.

We also welcomed policy measures announced at the Autumn Statement 2023 to boost investment and reduce emissions, including the Industrial Energy Transformation fund, £6 billion for energy efficiency, and £300 million p.a. in tax relief for six years under the new Climate Change Agreement[26]. This has been combined with ambitious changes to speed up grid connections and £960 million for a Green Industries Growth Accelerator to support clean energy manufacturing[27].

To support the transition to Net Zero, the Government must ensure that the UK's framework for change continues to advance. This can be achieved through clear and consistent messaging, addressing any existing gaps in policy, and strengthening collaboration between businesses and the Government.

4.1 Sustainable Aviation Fuel (SAF) mandate

In July 2024, the Government committed to introducing a Sustainable Aviation Fuel (SAF) mandate to start from 1 January 2025. The SAF mandate will start at 2% of total UK jet fuel demand in 2025, increasing on a linear basis to 10% in 2030, and then to 22% in 2040. The UK must move at pace to secure the domestic production potential of this policy, with the key element being the price support mechanism.

Getting the price mechanism for the SAF mandate right is vital, and the Government should draw on lessons from Contracts for Difference in the renewable energy sector to ensure that industry can develop compelling business cases to deliver these fuels at scale. We encourage HMT to work closely with DfT to help ensure that the revenue certainty mechanism for SAF is delivered as soon as possible, engaging closely with industry as this is developed, as well as set out its approach to funding, recognising the significant benefits this can provide to the UK.

[25] Review of Energy Networks Commissioner, Nick Winser, August 2023 https://www.gov.uk/government/publications/accelerating-electricity-transmission-network-deployment-electricity-network-commissioners-recommendations
[26] HM Treasury, Autumn Statement 2023
[27] https://www.gov.uk/government/news/billions-of-investment-for-british-manufacturing-to-boost-economic-growth

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Policy recommendation: 1. HMT should work closely with DfT to help ensure that the revenue certainty mechanism for SAF is delivered as soon as possible, engaging closely with industry as this is developed. Recognising the significant economic benefits that SAF can provide to the UK, HMT should also set out its approach to funding to provide certainty to the industry.
Policy Costs: TBC based on Government's confirmation of policy around revenue certainty and funding.

4.2 Carbon Capture Usage and Storage (CCUS)

CCUS has a vital contribution to make to delivering our Net Zero targets. CCUS industry stakeholders broadly welcomed the CCUS strategy published in December 2023, noting its bold plan for making the UK a global leader in CCUS; the positive steps for both Track 1 and Track 2 CCUS clusters; the establishment of legislative and economic regulatory frameworks and the funding provided through the Industrial Decarbonisation Challenge. The CCUS strategy should be implemented in full, with engagement with industry.

Policy recommendation: 1. HMT should recognise the important contribution that CCUS can make to the UK's net zero targets, implement the CCUS strategy in full, and continue to engage with industry throughout.
Policy Costs: Previous Government allocated £20bn for the early deployment of CCUS in the UK.[28]

4.3 Green Taxonomy

The excellent work by the Green Technical Advisory Group provides policy and industry advice to inform the Government's thinking. This is critical to give investors confidence around business and industry green credentials, and we encourage HMT to ensure that the UK Green Taxonomy is both fully reflective of all sector views, and that it is delivered as soon as possible. Without this, it will not be possible for the UK to achieve its stated aim of being the global hub of green finance.

Policy recommendation: 1. HMT should ensure that the UK Green Taxonomy is fully reflective of all sector views and is delivered as soon as possible.

[28] Spring Budget 2023, https://assets.publishing.service.gov.uk/media/6419c87d8fa8f547c267efca/Web_accessible_Budget_2023.pdf

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Policy Costs: Nil

4.4 Energy Profits Levy (EPL) and Investment Allowances

There is compelling evidence that the EPL is having a detrimental impact on investment in the UK Continental Shelf. There are concerns around the decision in July 2024 to abolish the EPL's main investment allowance for qualifying expenditure. This risks future investment in the UK, as well as greater resilience on oil and gas imports.

<table>
<tr><td>Policy recommendation: Energy Profits Levy (EPL) and Investment Allowances

1. HMT should retain the Energy Profits Levy's 80% decarbonisation investment allowance, as committed to by the Government on 29 July 2024.
2. Legislate for the Energy Profits Levy to extend no further than 31 March 2030.
3. Provide clarity on the successor regime that will replace the Energy Profits Levy after 31 March 2030, including a timeframe, and engage fully with industry throughout.
4. The principle of full expensing at the headline rate of 78% tax (as of 1 November 2024) for the basin should be maintained for the sector, given its role in energy security and co-investing in the clean energy future.</td></tr>
<tr><td>Policy Costs: Unknown</td></tr>
</table>

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5. Trade and Investment

5.1 Boosting export-led growth

Accessing overseas markets is vital to help British businesses grow, especially in a time of difficult domestic economic conditions. However, a recent BCC survey of just under 2,000 UK SME exporters revealed that 27% reported an increase in export sales, with 21% reporting a decrease, and 52% no change at all. 31% of SME manufacturers report an increase in exports. Among SME services exporters supplying end customers (B2C) 25% saw an increase, with a 24% increase among firms supplying services to other businesses (B2B)[29].

With this context in mind, we welcome the government's early recognition of the key role of exports in generating economic growth and look forward to engaging with it on its Trade Strategy and the overall Industrial Strategy. To address the challenges facing SME exporters we recommend the widening of the remit of the Preference Utilisation Unit as resources allow, to take in more key markets where the UK has recently agreed FTAs (such as entry to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)) and also to take on responsibility as resources allow for preference utilisation in other FTAs such as the continuity agreements agreed prior to or after EU exit.

We also recommend a review of export support, promotion and trade finance to ensure the right strategy and support is in place. This should include a stronger role for the UK's commercial diplomacy to generate additional trade.

Policy recommendations: 1. Recognition of key role of exports to UK economic growth in economic policy and with effective place based and sectoral exports promotion in place for trade in goods and services. Strengthened commercial diplomacy in place through the trade strategy and the industrial strategy.
Policy Costs: Determined by review

Policy recommendations: 1. Government should ensure UK Export Finance is working effectively to expand UK exports in green sectors, potentially by earmarking more of the overall UKEF credit envelope to green exports. Work closely with other export finance providers to strengthen export credit availability to new or expanding exporters.
Policy Costs: Nil

[29] BCC, Quarterly Trade Confidence Outlook for Q2 2024

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Policy recommendations: 1. As resources allow, Government should expand the remit of the FTA Preference Utilisation Unit to take in more key markets where the UK has recently signed FTAs (such as entry to CPTPP) and also to take on responsibility for preference utilisation in other FTAs such as the continuity agreements agreed prior to or after EU exit.
Policy Costs: Determined by spending review

5.2 Strengthen relations with the EU

The UK's exit from the EU Single Market, customs unit and common VAT area means that exporting to the EU takes longer and requires much more administration and cost. Our survey data since the end of the transition period consistently shows high numbers of businesses reporting reduced sales to the EU in manufactured goods.

We welcome the central role that improving the UK's trading terms with the EU has to the overall reset of the relationship with our nearest and largest trading partner. HMT and HMRC have a crucial role to play in the negotiation and delivery of several of these priorities, particularly on VAT cooperation and the consistent application of EU rules to UK exporters.

Policy recommendations: 1. Develop simpler guidance on customs, rules of origin and other key issues, ensuring it is consistently applied across all 27 EU member states and in the UK. Consider rejoining the PEM convention to provide further flexibility on cumulation around applicable rules of origin. 2. Reach an agreement on VAT cooperation with the EU to reduce the number of UK companies requiring a fiscal intermediary in the EU to conduct cross-border trade – as exists for companies in Norway trading with the EU.
Policy Costs: Unknown

5.3 Raising levels of inward investment

The UK has the third highest stock of assets owned through FDI in the world, behind only the United States and China. This stock more than doubled between 2012 and 2021, rising from £0.9 trillion to £2 trillion. As a proportion of GDP, the UK's FDI stock is the highest in the G20, at 88% in 2022

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FDI decisions rely heavily on education, culture, language, diversity, quality of life, and other less tangible, but no less important, factors. The UK is strong in all these areas and must do more to pitch them to the global business audience.

The BCC supports implementation of the recommendations of the Harrington Review on inward investment. These included the creation of a new Investment Committee reporting to the Cabinet; using regional political structures to drive place-based development; boosting the capacity of the Office for Investment and reforming planning rules to create investment-ready sites for investors.

It is also important to target sectors, sub-sectors and individual foreign-owned companies which will add the most value to the UK economy and its supply chains. Renewables, the film industry, data centres, and the broader life-sciences sector are the sectors where the biggest benefits from a strong investment strategy can be yielded.

Policy recommendations: 1. Produce timeline and set of deliverables on implementation of Harrington Review, reconfiguration of role of Office for Investment, and targeting those sectors where raising investment levels will produce the greatest economic growth, and support to supply chains.
Policy Costs: Nil

<u>5.4 Improving international trade procedures: Digitalising Borders, Single Trade Window</u>

Digitalising border processes, customs procedures and interfaces with users is a priority for modernising and speeding up international trade. The UK and EU have published plans for the introduction of Single Windows during this decade. The BCC believes the shift to this approach will yield efficiency savings for traders and government alike and help boost international trade. The HMRC is gradually rolling out its programme to improve simplifications and authorisations such as Transit Guarantee Waivers.

Policy recommendations: 1. Timeline for rollout of initial and future phases of UK Single Trade Window and commitment to digitalise HMRC and other border interfaces which importers and exporters utilise. Maximise for exporters the advantages of trends in trade document digitalisation well underway in the UK and globally.

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Policy Costs: HMRC Chief Accounting Officer reported in 2022 that overall cost of Border 2025 strategy over initial ten-year rollout lifecycle was £330m. £180m was allocated as part of HMRC's budget in SR21. Roll out costs over next few years would be subject to the forthcoming Spending Review.

5.5 Continuing implementation of customs simplifications

The previous government launched a useful series of reforms and improvements to the way that businesses interact with the British customs system, which will help reduce costs and friction at the border[30]. These include simplifying declarations, improving access to customs simplifications, and reviewing the role of customs intermediaries. These are changes that will deliver substantial benefits to UK businesses and should be retained.

Policy recommendations: 1. Continue the implementation of customs simplifications that were introduced by the previous government.
Policy Costs: Implementation costs will have been developed by HMRC as part of the policy impacting process.

[30] https://www.gov.uk/government/publications/customs-simplification-measures-december-2023/summary-of-customs-simplification-measures-december-2023

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6. Digital

6.1 AI

The rapid development of AI presents a significant opportunity for businesses. The UK has a chance to be a world leader in AI and other technologies. However, recent BCC data from 2024 have shown that 43% of firms have no plans to use AI technology, with only 25% currently using AI, and 24% not currently using AI but planning to do so in the future.[31] BCC research from 2023 showed that 51% of firms with fewer than 50 employees were not planning to use AI, compared to 37% of firms with more than 50 employees.[32]

Of the respondents who had no plans to use AI in 2023, reasons for not using AI included lack of relevance, investment cost, reliability, lack of understanding, and risks around scams or privacy.

Businesses need to be able to access training to ensure that staff have the skills they need to use the right AI application for their business need and to be aware of and overcome risks that stand in the way of confident usage. The Government should support the development of long-term AI and digital skills.

Policy recommendation: 1. Continue the AI upskilling fund pilot to help SMEs develop AI skills.
Policy Costs: £7.4 million (based on previous year cost in previous Budget)[33]

6.2 SME Digital Adoption Taskforce

The SME Digital Adoption Taskforce was a welcome announcement from the previous Government to explore how SMEs can be supported to better adopt digital technology. Following its announcements in the Autumn Statement 2023 and the Spring Budget 2024[34], we welcome that the taskforce was established and held its first meeting in April 2024. The Government should ensure the continuation of the taskforce to support the adoption of digital technology by SMEs.

Policy recommendation: 1. Work closely with the Department for Business and Trade to ensure the continuation of the SME Digital Adoption Taskforce.
Policy Costs: Nil.

[31] BCC Pertemps Report, Employment Trends Report 2024 HYPERLINK "https://www.britishchambers.org.uk/wp-content/uploads/2024/07/BCC_PERTEMPS_REPORT_FINAL.pdf"https://www.britishchambers.org.uk/wp-content/uploads/2024/07/BCC_PERTEMPS_REPORT_FINAL.pdf

[32] BCC, 27 September 2023 https://www.britishchambers.org.uk/news/2023/09/half-of-businesses-have-no-plans-to-use-ai/

[33] HMT, Spring Budget 2024 https://assets.publishing.service.gov.uk/media/65e8578eb559930011ade2cb/E03057752_HMT_Spring_Budget_Mar_24_Web_Accessible__2_.pdf

[34] HMT, Spring Budget 2024 https://www.gov.uk/government/publications/spring-budget-2024

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6.3 Project Gigabit

Weak digital infrastructure makes the UK less attractive for foreign investment and limits growth. BCC research in March 2023 showed that 82% of firms in urban areas agreed that they had reliable broadband, which fell significantly to 56% for firms in rural areas.[35] The BCC calls on the Government to take steps to reduce the persistent geographical disparities found in the rollout of gigabit broadband in the UK, and ensure that Project Gigabit has a strategy for hard-to-reach communities.

Policy recommendation: 1. Continue funding for Project Gigabit and support the delivery of reliable broadband to hard-to-reach areas of the UK.
Policy Costs: Previous Government allocated £5bn programme for Project Gigabit.[36]

[35] BCC, 30 March 2023, https://www.britishchambers.org.uk/news/2023/03/public-infrastructure-and-access-to-labour-splits-uk-small-businesses-down-rural-urban-divide/
[36] Gov.uk, Project Gigabit Guidance, https://www.gov.uk/guidance/project-gigabit-uk-gigabit-programme