Budget 2020 Representations
The Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
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7th February 2020

The Institute of Directors is Britain's oldest representative body for directors, founded in 1903 and awarded a Royal Charter in 1906. In addition to instructing us to represent our members, around 28,000 directors of predominantly small- to medium-sized businesses, our representations below also take account of our broader Charter commitment 'to foster a climate favourable to entrepreneurialism and wealth creation'.

Summary of IoD Budget 2020 Recommendations

Investment

- Ease restrictions for investing in scale- and start-ups
- Extend the £1million Annual Investment Allowance (AIA) beyond 2020
- Create a new tax incentive for SMEs investing in productivity-enhancing technology
- Build the capacity of the British Business Bank to raise access to finance across the country
- Consult on the impact of the 2018 changes to the UK's foreign investment screening rules

Costs, Tax and Regulation

- Reform business rates
  - Provide a one-off business rates relief to small businesses
  - Introduce business rates holidays on the additional charges firms face when improving, expanding or moving into new property
  - Abolish 'downward transition' and endeavour for more frequent valuations in business rates
- Commit to raising the employment allowance
- Remove the Immigration Skills Charge
- Expand the proposed EU Red Tape Challenge to cover existing and forthcoming UK domestic regulation:
  - Push back the introduction of off-payroll working rules (IR35) in the private sector to 2021
  - Delay the implementation of the 'digital services tax'
  - Ensure that Low Value Consignment Relief is not removed
- Provide funding for HMRC to support regulatory simplification and awareness
- Commit to ensuring the UK has the most competitive tax regime in the G20
  - Consult on a simplification of tax on SMEs
  - Create an independent 'future of tax' commission

Skills & Education

- Reform and invest in the Apprenticeship Levy
  - Widen the scope of courses available under the Levy
  - Provide IfATE with more resources, and extend the time period for spending Levy funds
  - Drive up apprenticeships across the UK, and allow firms to transfer more funds to their supply chain
- Commit to implementing the findings of the Business Productivity Review
- Introduce tax incentives to support lifelong learning and the right to retrain
- Commit to implementing the findings of the Business Productivity Review
- Make a long-term commitment to the roll-out of T-Levels after the 2020 pilot
- Increase financial support for EdTech providers
- Speed up the implementation of careers support in schools
- (Consult on the National Skills Fund's design to support retraining and broader strategic skills development)

Infrastructure & Regional Productivity

- Improve existing road and rail routes while building to enhance regional connectivity
- Deliver gigabit-capable broadband nationwide by 2025 and accelerate full-fibre broadband
- Invest in regional business support hubs across the country
- Consult on new ways to monitor, fund, and stimulate regional growth
- Increase funding for R&D-led regional growth
- Boost knowledge transfer and commercial ties between universities and businesses.

Brexit & Trade

- Deliver more targeted financial assistance for Brexit planning/adjustment
- Support SMEs to better understand how to take advantage of existing and future trade agreements
- Make the Tradeshow Access Programme more flexible
- Reduce the minimum threshold for UK content in contracts eligible for UKEF's assistance
- Supply Northern Ireland with greater resources to manage all phases of Brexit
- Ensure Brexit-facing departments have a communication outposts for businesses to engage with directly
- Establish a Single Window-type system to streamline import/export procedures
- Promote and provide training on the new Incoterms 2020 changes

1. Context

Business leaders entered 2020 with optimism. This was largely in reaction to the improved parliamentary arithmetic and greater clarity on the European Union departure date (**Figure 1**). Nevertheless, confidence is highly likely to ebb down, and business activity, particularly investment, is likely to be weak throughout the year as uncertainty around the new relationship with the EU lingers (alongside the prospect of not agreeing a trade deal). Meanwhile high business costs and skills shortages will act to dampen economic growth in 2020 (**Figure 2**).

Given the lack of a budget in 2019, the forthcoming Budget is a critical and opportune moment to provide support to turbocharge investment and productivity growth, particularly by making improvements to the skills system, and to lower the cumulative burden of costs facing UK enterprises, to help businesses navigate Brexit, whatever form it takes (**Figure 3**).

Figure 1: Business & Economic Confidence, IoD *Policy Voice* Survey, Net %

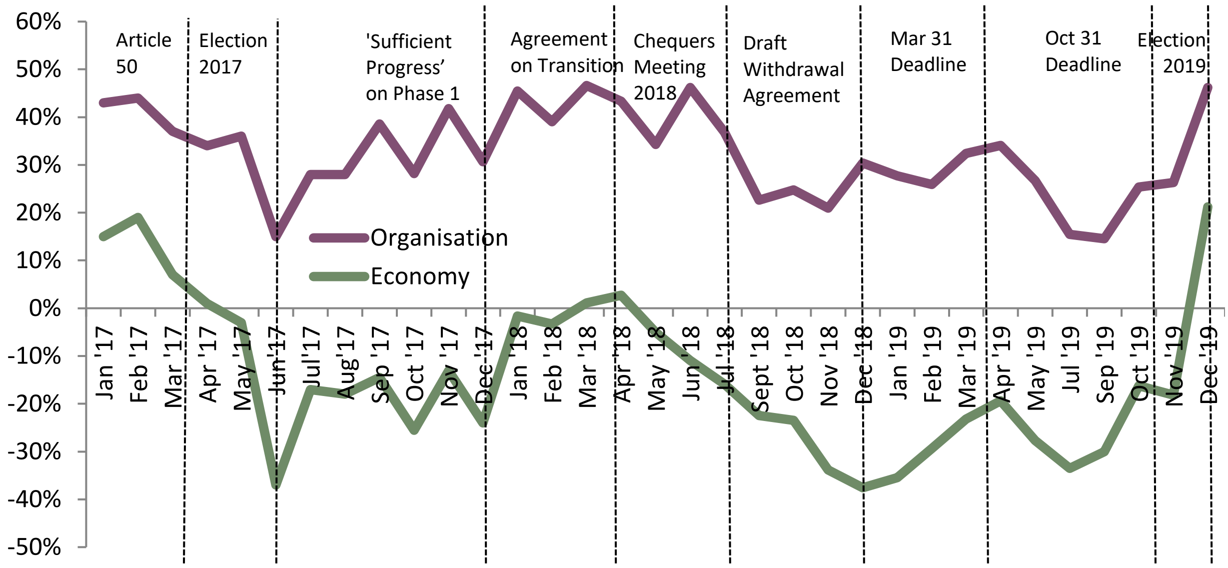


Figure 2: Business Expectations, IoD *Policy Voice* Survey, Net %

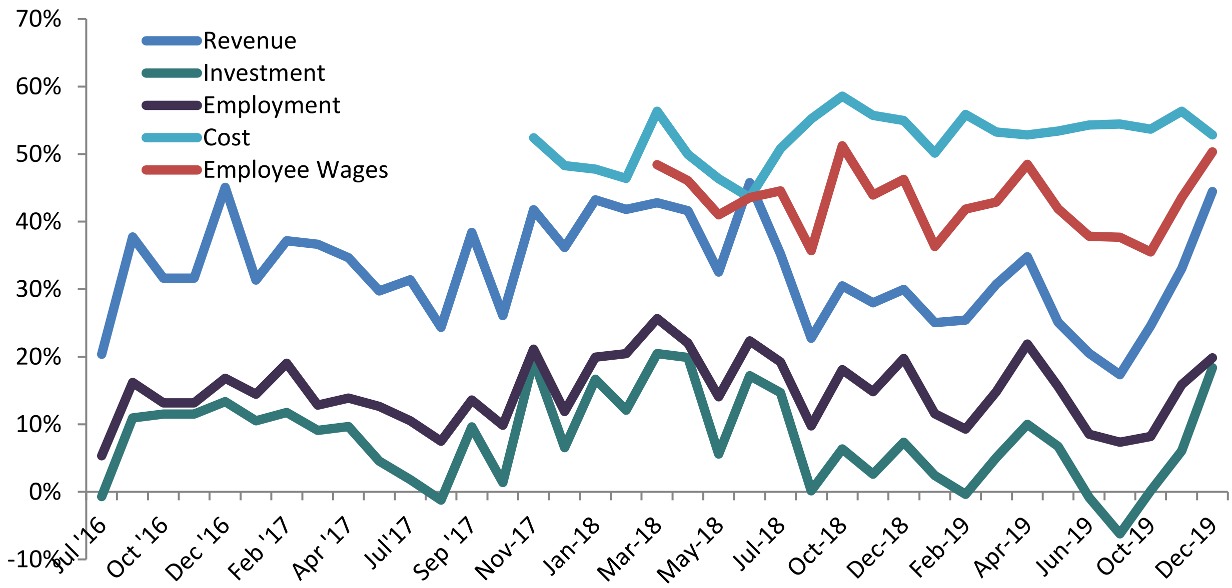
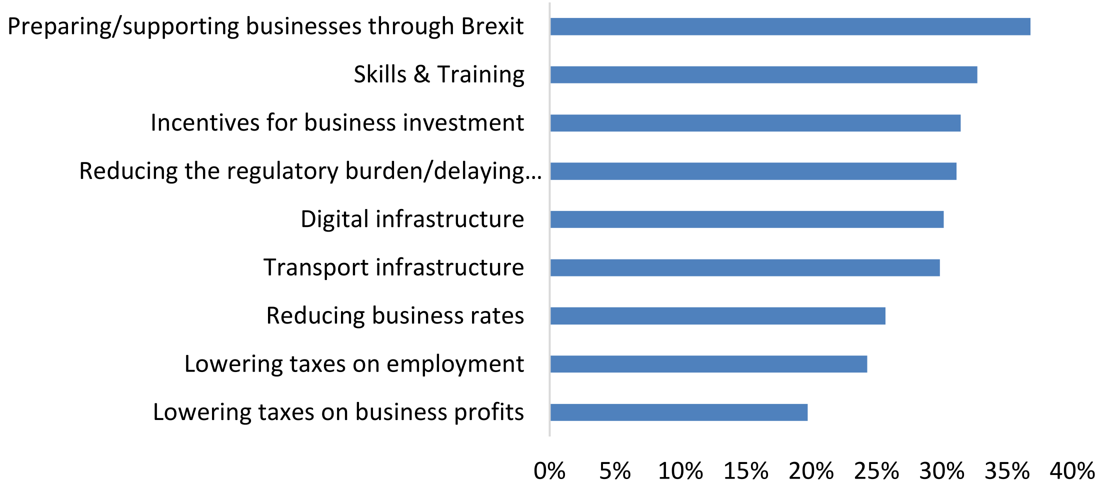


Figure 3: Business priorities for new Government, IoD *Policy Voice* Survey, November 2019 %



2. Policy Recommendations

2.1 Investment

IoD members, on balance, are not expecting to increase their levels of business investment significantly this year (**Figure 2**). Following a contraction in business investment in 2018 and 2019, uncertainty will continue to sap the confidence of firms to grow, take on finance, and invest in machinery, property, and technology. Ambitious incentives to help push investment and expansion decisions over the line are crucial to support UK Plc's future productivity and competitiveness (**Figure 3**)[1]. Furthermore, with Brexit uncertainty still looming, a clear majority of our members report they need more clarity on the UK-EU relationship end state to properly invest and immediate action is needed to boost investment levels:

Ease restrictions for investing in scale- and start-ups. The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) are crucial to allow businesses to secure the equity capital they need to grow[2]. These reliefs should be made more generous, accessible, and simple so they are more attractive for investors to apply for and easier for businesses to use[3]. With bank-lending to SMEs restrained by uncertainty, improved EIS and SEIS packages could be rebadged as an opportunity to turbocharge growth in the post-Brexit economy and to help 'level up' the regions where funding opportunities are particularly weaker. Potential changes could include:

-Increasing the company cap on investments through SEIS, by for example doubling it to £300,000

-Loosening the eligibility periods for firms to qualify for SEIS (less than two years) and EIS (less than seven years)

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[1] The impact of investment incentives: Evidence from UK corporation tax returns, Maffini, Xing and Devereux, January 2016

[2] The Government should also commit to a comprehensive review of Entrepreneurs' Relief (ER) before making any reforms, as reported. There needs to be a better understanding of how greater awareness of ER may improve its effectiveness, alongside its interaction with the Enterprise Management Incentive in attracting skilled workers, and its role in supporting some entrepreneurs' pension savings. In any case, should ER be cut-back, all savings should be redirected toward improvements in the EIS and SEIS.

[3] A Tax Code for Global Ambition, Prelude Group, Institute of Directors, and Grant Thornton, Page 62, 2016

-Consulting on the efficacy of regional variances in EIS and SEIS to improve access to finance for growing firms across the country, to support regional jobs and productivity growth
-Raising investor awareness of the schemes

Extend the £1million Annual Investment Allowance (AIA) beyond 2020. The higher AIA cap ought to be extended beyond end-2020 to support the investment plans of businesses of all sizes, particularly as firms adjust to new arrangements with the EU. This would largely be a timing cost, and would have an outsized effect on business behaviour in the short-term. More broadly, the Government should review the effectiveness of the capital allowance system given that it is one of the least competitive in the G7[4]. (Increases to the overall write down allowance rate for plant and machinery would equally be a welcome move.)

Create a new tax incentive for SMEs investing in productivity-enhancing technology. Cashflow challenges in small businesses mean they require additional incentives, above what is already available[5], to make investments in existing technology (potentially extending to green technology), such as cloud computing and data tools. Around 1 in 3 of IoD SME members say technology investment incentives would be most likely to improve productivity in their organisation. Indeed, the UK's small businesses tend to lag peer nations when it comes to adopting existing best practice. There a several ways this may be achieved. We have long pushed for a new signposted tax incentive, with a clear list of qualifying productivity-enhancing expenditures, to help overcome the hefty and esoteric rules on existing allowances[6]. Alternatively, the SME R&D tax relief might be widened to include investments in existing technology, as suggested in the Conservative Party's 2019 manifesto.

Build the capacity of the British Business Bank (BBB) to raise access to finance across the country. Any EU originated funding for the BBB should at the very least be replaced, and greater support ought to be given to bolster finance options, including equity, angel and loan finance, for small businesses outside London and the Southeast[7].

Consult on the impact and implementation of 2018 changes to the UK's foreign investment screening rules The amending of thresholds for government intervention into transactions such as foreign takeovers and mergers and acquisitions should be reviewed to ensure the new rules are benefitting from feedback and are fit for purpose.

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[4] OUCBT tax database
[5] In addition to the AIA, and above the 100% upfront allowance available.
[6]See Lifting the Long Tail, IoD, October 2018, Page 21-22; *Lifting the Long Tail: The productivity challenge through the eyes of small business leaders*
[7] For example, by expanding the bank's Northern Powerhouse and Midlands Engine Investment Fund model – where fund managers work alongside LEPs (and equivalents in the devolved administrations) to allocate funds – to other regions.

2.2 Costs, Tax and Regulation

The bulk of our members expect costs to increase in the coming year (**Figure 2**). Currently businesses are facing a cumulative burden of rising costs, including rising business rates, pension auto-enrolment contributions, a rise in the National Living Wage, the Immigration Skills Charge, and the Apprenticeship Levy, on top of the costs associated with hedging against uncertainty. These are adding to difficult cashflow conditions and squeezing the margins available for investment and wage growth.

Meanwhile, the sheer mass, complexity, and regular chopping and changing of regulation poses a significant weight on businesses. Regulation is often the most significant challenge for IoD members, after economic conditions and skill shortages. A pause, simplification, and a more structured approach to domestic regulation would be a notable boost for firms of all sizes, particularly while many are attempting to manage, and assess, the implications of Brexit.

Reform business rates. Over 1 in 3 of our members agree that business rates are a disincentive to invest and grow their organisations[8]. Indeed, UK firms face among the highest property taxes in Europe, acting as a check on their expansion and productivity. While longer-term reform options to the business rates system ought to be assessed in further consultation[9], businesses – particularly SMEs – are also in need of immediate support as they navigate elevated costs and an uncertain investment climate:

Provide a one-off business rates relief to small businesses. We support the Conservative manifesto pledge to further reduce business rates for retail businesses but would urge that one-off reliefs be extended to more SMEs. This could be achieved by, for example, widening the Small Business Rates Relief to include more SMEs, broadening the Retail Discount to non-retail SMEs, or by simply providing a one-off discount to the multiplier for these firms[10]. As one of the most significant fixed costs for small businesses, this would support margins in enterprises that employ around 60% of the UK workforce.

Introduce business rates holidays on the additional charges firms face when improving, expanding or moving into new property. Businesses should not be discouraged from investing in or growing their organisations through rising business rates liabilities. Rates 'holidays' from the additional charges incurred by firms when expanding or improving their property, or moving into newly built ones, like Scotland's Business Growth Accelerator relief would be welcome (i.e. for 12 months), as would seeking to remove the impact that digital and 'green' property investments, in particular, have on business rates valuations more broadly.

Abolish 'downward transition' and endeavour for more frequent valuations in business rates. Firms should not be disadvantaged by paying rates that are out of sync with the economic cycle and should benefit from immediate reductions to their rateable value, while business rates should ideally be calculated on an annual basis.

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[8] IoD Policy Voice Survey, February 2019

[9] The IoD's wider recommendations for the business rates system are outlined in its written evidence to the BEIS committee's inquiry on 'the impact of business rates on business'

[10] Including, although not exclusively, removing automatic inflationary increases

Commit to raising the employment allowance. Employment costs, alongside business rates and rents, are among the biggest sources of expenditure for SMEs. The government should commit to its proposed £1000 increase to the employment allowance in this Budget and should not rule out further future increases to the allowance (or support for national insurance payments more generally) to support small firms to expand and take on more staff.

Remove the Immigration Skills Charge. The charge—initially £364 for small businesses, and £1000 for larger firms for a year— acts as an additional hurdle to skilled migration, above and beyond complex application processes, from the rest of the world. Its intention to support training and upskilling of the domestic workforce is also largely moot as many businesses who employ from abroad also invest in training domestically—that is the case for nine out of ten IoD members.

Expand the proposed EU Red Tape Challenge to cover existing and forthcoming UK domestic regulation The Chancellor previously announced a forthcoming "EU Red Tape Challenge" in October 2019. With the uncertainties inherent at this stage between removing/changing EU regulation and consequential changes in our EU market access – particularly the implications new barriers to goods trade with the EU would pose for the UK internal market (owing to the revised Withdrawal Agreement) – the Challenge should be expanded to cover forthcoming and existing domestic regulation in order to move forward more immediately. Indeed, around 1 in 3 of our members considered a reduction/simplification in the domestic regulatory burden, and a delay to impending changes, as a priority for the new government (**Figure 3**).

For starters, there should be a delay on key tax and regulatory changes that many businesses may be struggling to prepare for, and those that are expected to cause further significant disruption in the current uncertain climate, in particular[11]:

Push back the introduction of off-payroll working rules (IR35) in the private sector to 2021. Last summer, around 40% of IoD members that hire contractors said they expected the new changes to lead to higher business costs. Meanwhile, just 15% considered themselves very prepared for what IR35 requires of them[12]. Notable confusion and disruption has already been caused by the regulation, including large employers applying blanket bans to contractors. The recently announced review, while positive, cannot have a significant effect before the April 2020 deadline. There should be a delay to the regulation until next year, at least, so the challenges are better understood and mitigated.

Delay the implementation of the draft 'digital services tax'. The proposed 2% levy on multinational social network, search engine, and online marketplace firms risks damaging the UK's international reputation as a digital investment hub and will exacerbate international trade tensions, during an already testing period. It ought to be delayed, reviewed, and a new implementation plan should be developed in collaboration with the OECD.

Ensure that Low Value Consignment Relief (LVCR) is not removed in conjunction with EU exit and/or the implementation of changes to our relationship with the EU. While some countries and

[11] The Low Pay Commission should also proceed cautiously with further minimum wage increases. (Of the IoD's national living wage paying members, 13% have reduced their workforce, 17% have put off hiring new staff and 19% have reduced working hours, as a result of increasing rates.)

[12] IoD Policy Voice Survey June 2019, 950 respondents

the EU are starting to move in this direction, introducing it to coincide with Brexit changes (as proposed for a no-deal scenario) will increase the complexity and cost already facing importers. Moving so soon before the EU implements it risks putting them at a competitive disadvantage at a time when UK-EU traders and consumers need to keep additional costs to trade to a minimum and prevent prices from significantly rising on each other's imported goods.

Provide funding for HMRC to support regulatory simplification and awareness. Ample support for HMRC to improve the effectiveness, and lessen the burden, of UK regulation is important. This includes ongoing efforts around 'Making Tax Digital' to help simplify—and where desirable automate—business compliance, payments, and relief applications, while improving HMRC's targeted outreach to small firms on business incentives and guidance.

Commit to ensuring the UK has the most competitive corporation tax regimes in the G20. The UK's relatively low corporation tax rate is a major draw for international firms and investment. Though the Government has held off further cuts to corporation tax, it should commit to ensuring it remains the most competitive rate in the G20. That said, boosting the UK's attractiveness as a global business destination should not be limited to tax cuts but can also be achieved by improvements/simplification to the overall design of the tax system and incentives.

Consult on a simplification of corporation tax on SMEs. The 'one-size-fits-all' approach to corporate taxation can impose a high administrative and tax burden on small enterprises (many businesses also find the existing tax regime too difficult to understand). A reduction and consolidation of the existing tax and regulatory burden upon SMEs would help them to grow faster and would support a greater revenue take for the Treasury in the long run. A consultation addressing how various pinch points in the tax system may interact with the growth of UK businesses would be a welcome starting point.

Create an independent 'future of tax' commission. The UK tax system is often outpaced by technology and the changing world of work, which can impact the fairness, efficiency, and revenue of existing tax sources. Longer-term improvements to the system, considering new and digital economies, should not be cannibalised by near-term interests and distractions

2.3 Skills and Education

Skills shortages are a top 3 concern for our members. While the unemployment rate is near 45-year lows, vacancies remain high across sectors. There is both an absolute shortage of workers, and a relative shortage in skillsets from construction to the STEM fields. This places greater emphasis on ensuring the UK's skills, education and immigration system works for businesses. In this light we would welcome a consultation this year on how the proposed £3 billion 'National Skills Fund' would be designed to support retraining and broader strategic skills development.

Invest in reforming the Apprenticeship Levy. More work needs to be done to make the Apprenticeship Levy work better for businesses seeking to hire apprentices. That said, questions regarding the Levy's broader purpose also need answering. While the range of apprenticeship courses available has increased, many employers would like to see a broader range of choices. Meanwhile issues with access to training across the country also need addressing:

Widen the scope of courses available under the Levy. Raising access to digital, management, and leadership training[13] is needed to support productivity in time-constrained SMEs. Lengthy courses pose a significant opportunity cost for small firms, and so access to online, peer-to-peer, mentoring, and coaching style programs would be beneficial. Generally, the Government ought to consult on extending, and funding, the scheme to a broader "training levy", to allow it to be spent on developing in-demand skills. The government should also supplement the levy fund to ensure there is enough funding available for apprenticeships for smaller non-levy payers.

Improve the effectiveness of the apprenticeship system. The existing system of administering courses can be improved in several ways:

-The Institute for Apprenticeships and Technical Education (IfATE) needs greater resources to support the development of standards. IfATE should also lead on developing a globally recognised definition, and set of standards, for what constitutes an apprenticeship.
-The time period Levy payers have to spend their funds should be extended beyond 24 months to support employers to make longer term planning decisions regarding their labour force.
-Support for firms to cover the backfill costs associated with the off-the-job requirement would also be welcome to support take up.

Drive up the provision of apprenticeships across the country. The availability of high-quality apprenticeships remains very patchy. The flexibility of the Levy ought to be increased so that businesses can transfer even more of their funds to small firms in their supply chain[14]. Likewise, employers and local stakeholders would benefit from being able to work together to decide how to use any unspent Levy contributions. This would also involve efforts to improve transparency around levy receipts and expenditure.

Introduce tax incentives to support lifelong learning and the 'right to retrain'. On-the-job training and e-learning offer part of the solution to reskilling, but finance is also key. For example, a tax deduction to support smaller employers that invest in their staff's further education and retraining, particularly when costs are already elevated, ought to be explored. (This could also be combined

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[13] 53% of IoD members expect their demand for management/leadership skills to increase in the coming 3-5 years, Policy Voice, April 2019 992 respondents

[14] Above the current 25% allowance

with the wider proposal, above, for a tax incentive/extension to R&D reliefs for SME productivity investments). Regardless of whether tax incentives are available to their employers, individuals (including sole traders) will nevertheless have to rely on their own personal finances to fund their lifelong learning requirements. This could be achieved a 'shadow personal allowance' (or another form of tax relief) which could be offset against an individual's income tax liability provided they have paid for, undertaken, or remain in a qualifying lifelong learning programme in that tax year.

Commit to implementing the findings of the Business Productivity Review. The announcements to create a Small Business Leadership Programme, expand Knowledge Transfer Partnerships (KTPs), build peer-to-peer networks and develop digital tools for small business were welcome, albeit small, announcements in the Autumn 2018 Budget. The Government must now build on the findings from the Business Productivity Review and expand these initiatives to support the take up of management and technological best practice in SMEs[13,15].

Make a long-term commitment to the roll-out of T-Levels after the 2020 pilot. T-levels are an important vehicle in boosting young people's technical skills, and in providing an alternative to A-Levels. Just under 50% of our members would be prepared to provide an industry placement as part of the scheme. That said, businesses, further education colleges, students and guardians need to see long-term funding commitments and a widening of the program, beyond the pilot year, for it to gain more traction and become a valuable and viable part of our skills system. Additional support for further education colleges more generally would be welcomed.

Increase financial support for EdTech providers. Computer-based, blended and flexible learning opportunities enhance access to education and training and reduce the cost of provision. A scheme to seed, fund, and back start-ups, social enterprises and other organisations with emerging platforms for digital learning, with scope for scaling, should be explored, particularly to support the Government's wider retraining ambitions.

Speed up the implementation of careers support in schools. Improving access to qualified careers coaches and work experience in secondary education will play a key role in embedding the mindsets and skillsets young people need to enter the workforce. Currently, business leaders are willing to offer placements while over half of schools in England are without the support of a careers hub and many head teachers are unaware of the current schools' Career Strategy[16].

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[15] See Lifting the Long Tail, IoD, October 2018; *Lifting the Long Tail: The productivity challenge through the eyes of small business leaders*

[16] Careers Hub Prospectus, The Careers & Enterprise Company, January 2019

2.4 Infrastructure & Regional Productivity

The UK's wide differences in regional productivity limits its growth potential and international competitiveness. Businesses outside London and the Southeast need greater support so that they can drive wage growth, job creation, and innovation in 'left-behind' parts of the country. Meanwhile localities also need greater resources and control to deliver policy solutions bespoke to local economic needs.

Improve existing road and rail routes while building to enhance regional connectivity. New infrastructure investments should focus on 'quick wins' by developing local road and rail routes, especially where there are bottlenecks. Over 1 in 2 of our members say improvements in existing infrastructure would be a priority for their local industrial strategy. Meanwhile, larger investments should focus on accelerating projects that particularly improve east-west connections between major cities in the Midlands and North.[17]

Deliver gigabit-capable broadband nationwide by 2025 and accelerate full-fibre broadband. Local connectivity and business environments would be significantly bolstered by the delivery of faster internet nationwide. Indeed, over 1 in 3 members consider faster internet and mobile connectivity a key priority for their local industrial strategy[18]. Further commitment and guidance on meeting the 2025 gigabit target and accelerating the delivery of full fibre broadband/5G nationwide, which remains an important priority for future-proofing the economy, will be crucial in turbocharging UK productivity. This would extend to mandating full fibre access for new build homes, supporting Local Enterprise Partnerships (LEPs) to disseminate best practice on high speed internet adoption for businesses, and incentives for providers.

Invest in regional business support hubs across the country. Local Enterprise Partnerships (and similar initiatives in the devolved administrations) can become regional 'one-stop-shops' for the delivery of business productivity support—in collaboration with local authorities, social enterprises and universities, for example—if they are adequately staffed, better funded, made more accountable to local growth outcomes, and more effectively marketed. Currently, only around 15% of our members in England feel LEPs are effective at supporting regional business growth.[19]. The regular chopping and changing of the regional business support architecture has left behind a very patchy system, and further investment will be vital in supporting SME growth nationwide.

Consult on new ways to monitor, fund, and stimulate regional growth. The IoD's recent report, *Connected Economies, People, and Places: A Blueprint for Local Growth in Post-Brexit Britain*[20] included a few areas of exploration to level-up regional productivity, with tax and funding implications. Please see the paper for further details. Key recommendations include:

-Consulting on the efficacy of regional variances in business incentives to stimulate new innovative activity in disadvantaged areas, for example by extending Enterprise Zones (or by varying reliefs such as SEIS/EIS)

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[17] IoD Policy Voice Survey, February 2019
[18] Ibid
[19] See Lifting the Long Tail, IoD, October 2018; *Lifting the Long Tail: The productivity challenge through the eyes of small business leaders*
[20] See Connected Economies, People and Places, IoD, July 2018; https://www.iod.com/Portals/0/PDFs/Campaigns%20and%20Reports/Economy/Connected%20Economies.pdf?ver=2019-07-15-174515-090

-Investigating the creation of new long-term regional investment funds, where various funding streams – such as retained tax revenues, public sector pension funds, or income from local commercial public assets as part of 'urban wealth funds', alongside improvements in local authorities' ability to raise finance – could be effectively managed and reinvested for local growth purposes
-Developing an independent regional taskforce to monitor vulnerable areas[21], as part of wider initiatives to develop a devolution strategy and plan for the Shared Prosperity Fund[22]
-Consider further devolution of skills powers, to ensure local stakeholders can influence local training provision and the further education system to deliver courses meeting local needs

Increase funding for R&D-led regional growth. The geographical dimension of the Government's long-term ambition to raise R&D spending to 3% of GDP is important, both to spur productivity growth across the country and to draw upon regional specialisms. Further support and funding commitments for UK Research and Innovation's Strength in Places Fund and the Industrial Strategy Challenge fund, alongside efforts to increase the scale and scope of the Catapult network should be explored. Please see our regional growth paper for further details[23].

Boost knowledge transfer and commercial ties between universities and businesses. The UK is unique in having world-class universities in each of its regions and nations, making them an ideal hub for levelling-up regional growth. That said, while UK universities outperform peers on research, as measured by citations, the development and commercialisation of knowledge, and hence wider economic gains, is weaker. Simply put, the UK does far better on the 'R' than it does on the 'D' of R&D[24]. There are numerous ways this can be improved:
-Raising funding for initiatives such as University Enterprise Zones, Innovation and Knowledge Centres, and the Knowledge Exchange Funding pot[25], will both help to expand the collaborative innovation workspaces and knowledge transfer between businesses and Higher Education Institutions[26].
-Expanding Innovate UK's Knowledge Transfer Network, and Knowledge Transfer Partnerships
-Investing in initiatives like UKRI's 'Konfer'—a digital innovation brokerage – can help better match businesses with research partners and graduate skills.

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[21]This includes ongoing, and additional, support for a national retraining programme and Skills Advisory Panels
[22] Including, for example, extending funds to make the Industrial Strategy Council an independent statutory body
[23] See Connected Economies, People and Places, IoD, July 2018; https://www.iod.com/Portals/0/PDFs/Campaigns%20and%20Reports/Economy/Connected%20Economies.pdf?ver=2019-07-15-174515-090
[24]The UK's Productivity Problem: Hub No Spokes, Andy Haldane, June 2018
[25] Higher Education Innovation Fund
[26] Around 50% of IoD members say that a mismatch between education offerings and business needs is a key labour market challenge

2.5 Brexit & Trade

Brexit uncertainty remains a challenge for industry. While the passing of the Withdrawal Agreement Bill provides for a standstill transition period in the near term, there is still a lack of clarity over the long-term trading arrangements with the EU. Further support is therefore required to help businesses prepare and adjust to new trading and regulatory terms that will come into effect from January 2021. Our recommendations should apply whether or not the UK agrees a trade deal with the EU, though in the latter scenario there should be amplified support in the outlined areas.

Deliver more targeted financial assistance for Brexit planning/adjustment Many SMEs do not have the time, resource or capacity to manage the complex entirety of what matters for Brexit readiness themselves (often only larger firms and those in the trade management/transport and logistics sectors are familiar with issues at hand). They need expertise from professional, legal and accountancy services to anticipate, understand and manage any new compliance requirements themselves. This includes:

-In addition to setting out its WTO-compliant approach to compensation, the Government should help offset the cost of accessing Brexit support by introducing a voucher scheme (akin to Irish, Dutch and French governments) and/or making Brexit planning and adjustment tax-deductible for SMEs. This will be a necessary initiative to support companies well into any Brexit and/or the transition period given the inevitable increase in compliance and costs for trade that being outside of the Single Market and any customs union will bring. (Before the last Brexit deadline, just around 15% of IoD SME members were 'very prepared' for a no-deal Brexit on October 31.)

-Extending customs training grants run by HMRC, with a particular emphasis on IT software training to encourage firms to take more ownership of their own trade management systems and supply chains when dealing with Brexit changes. This is essential to mitigate the inevitable scarcity of customs brokers, freight forwarders and other intermediaries in the UK when it comes to implementing any changes/additions to customs processes for trade with the EU

-Committing to providing financial assistance to help minimise "administrative costs" which may arise for internal UK trade between Great Britain and Northern Ireland as a result of implementing the new protocol in the Withdrawal Agreement

Support SMEs to better understand how to take advantage of existing and future trade agreements. Smaller companies often are unaware of or feel trade agreements are too complex to be worth investing the time to take advantage of. Ensuring there are specialists at the Department for International Trade (DIT) who are expressly dedicated to explaining the detail in practice to firms would help spread the benefits of these, and training should be provided to assist in this end. Better tie-up and coordination between DIT and HMRC would ensure that companies can connect policy with practical implementation of changes linked to trade deals – including and especially for those related to the Brexit trade deal continuity process. We would welcome the incorporation of standalone SME chapters in future UK trade agreements, or similar provisions to help increase utilization rates amongst small and medium-sized firms.

Make the Tradeshow Access Programme (TAP) more flexible The current system of funding within the TAP is too rigid for exporters to take full advantage of, limiting the take-up and value of this DIT scheme. Instead of limiting it to government-selected trade shows, businesses should be able to use grants for any overseas fair. Alternatively, the scheme could move away from grants and allow traders to claim back the costs of attending these from government. To ensure taxpayer value for money, the latter option could be linked to overseas business development that arises out of attending the trade fair.

Reduce the minimum threshold for UK content in contracts eligible for UKEF's assistance To widen the take-up of UK Export Finance (UKEF) by UK companies, which is still at very low levels, and given the difficulty some have in obtaining this, the threshold for UK content should be reduced (e.g. for the Export Insurance Policy scheme, to 10-15%, from 20%). For firms engaged in international trade, component parts and services are often heavily integrated with that of other countries. Lowering this would increase the pool of companies and sectors able to use UKEF.

Supply Northern Ireland with greater resources to manage all phases of Brexit Businesses in NI are in the greatest need of clarity, guidance and support, both in terms of exploring/developing alternative arrangements to the Northern Ireland protocol and managing Brexit adjustment. There has been minimal guidance issued so far to industry in this part of the UK, and much more substantive engagement is needed between traders and government (central and devolved) to map out a sustainable path forward. We would also like to see the Government collaborate with the Irish government on beefing up InterTrade Ireland to improve financial support for trade across the island as well as strengthen the work of both the North-South Ministerial Council and the British-Irish Council. These institutions will be integral to representing the interests of Northern Ireland for north-south and east-west trade going forward.

Ensure Brexit-facing departments have a helpline and/or communication outpost for businesses to engage with directly DEFRA, HMRC, BEIS and DIT are the subject of many businesses' queries in relation to planning and guidance, and while Government cannot issue legal advice to end users, they would benefit from having a more real-time means of engaging with traders' questions. More resource should be directed towards filling this gap. DIT requires substantially more funding to meet the Government's ambitious criteria in terms of providing trade continuity and Brexit readiness as well as moving to lay down the UK's new independent trade policy in practice.

Establish a cross-governmental Single Window-type system to streamline import/export procedures and minimise border costs for businesses. More work is needed to create better linkages between government departments and agencies involved in trade at the border (DEFRA/DAERA, HMRC, Border Force, Home Office etc.) to speed it up in practice. More resource and effort should be prioritised to engage trade and industry on moving toward more self-assessment with respect to customs-related compliance, and HMRC should be tasked with exploring ways to delink physical customs clearance of goods from fiscal clearance in the future. Furthermore, the private sector should be integrated into the development of solutions to take advantage of emerging technologies and the Internet of Things to implement a more modern customs platform and ecosystem for trade.

Promote and provide training on the new Incoterms 2020 changes Understanding the division of fiscal responsibility between importers and exporters (and generally between customers and suppliers) is essential for business continuity and commercial contracts. Incoterms, first introduced by the International Chamber of Commerce in 1936, help traders understand their responsibilities and have just been updated. This will be important for companies to understand not only for their Brexit planning needs, but also wider trade management systems.