Budget 2021 Representations
The Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
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14th January 2021

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 25,000 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 2021 Recommendations

(a) Continued Covid-19 Economic Support

-Top-up the Discretionary Grant Fund for local authorities
-Gradually taper the Coronavirus Job Retention Scheme and Self-Employed Income Support Scheme
-Provide income support for Owner Directors
-Implement a successor Coronavirus loan scheme and improve repayment terms
-Extend HMRC's 'Time to Pay' support

(b) Stimulus

Investment

- Ease restrictions for investing in scale- and start-ups
- Create a new digital and green Recovery Credit incentive for SMEs
- Extend the £1million Annual Investment Allowance cap beyond end 2021
- Build the capacity of the British Business Bank to raise access to finance across the country

Costs, Tax and Regulation

-Reform business rates
  - Provide ongoing business rates relief in 2021
  - 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

-Implement a temporary reduction to National Insurance Contributions
-Suspend the Immigration Skills Charge
-Extend the VAT cut for the most impacted sectors
Commit to ensuring the UK has the most competitive tax regime in the G20
  - Maintain a low rate of Capital Gains Tax
  - Consult on a simplification of tax on SMEs
  - Create an independent 'future of tax' commission

- Push back the introduction of off-payroll working rules (IR35)
- Provide funding for HMRC to support regulatory simplification and awareness

Skills & Education

-Introduce a retraining Recovery Credit incentive for SMEs
-Develop the lifelong learning offer for individuals
-Extend the Apprenticeship Incentive Scheme
-Invest in reforming the Apprenticeship Levy
  - Widen the range of courses available under the Levy
  - Improve the effectiveness of the apprenticeship system.

- Commit to implementing the findings of the Business Productivity Review
- Increase financial support for digital learning

Infrastructure & Regional Productivity

- Improve existing road and rail routes while building to enhance regional connectivity
-Turbocharge gigabit-capable broadband delivery nationwide by 2025 and accelerate full-fibre connectivity
- 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 and green-led regional growth
- Boost knowledge transfer and commercial ties between universities and businesses.
- Provide ample covid-19 funding to support local public service responses

Brexit & Trade

-Deliver more financial assistance for Brexit adjustment
-Reverse the decision to scrap duty-free shopping for tourists/UK visitors
-Significantly increase DIT's resource, to help business make better use of existing and future trade agreements
-Create fintech corridors with other countries to leverage the UK's financial services strength and expertise
-Make the Tradeshow Access Programme more flexible
-Commit to a "trade check" principle for impact assessments on regulatory changes
-Ensure Brexit-facing departments have a helpline/communication outpost for businesses to engage with directly
-Establish a Single Window-type system to streamline import/export procedures and minimise border costs
-Promote and provide financial support via training on the new Incoterms 2020

1. Context

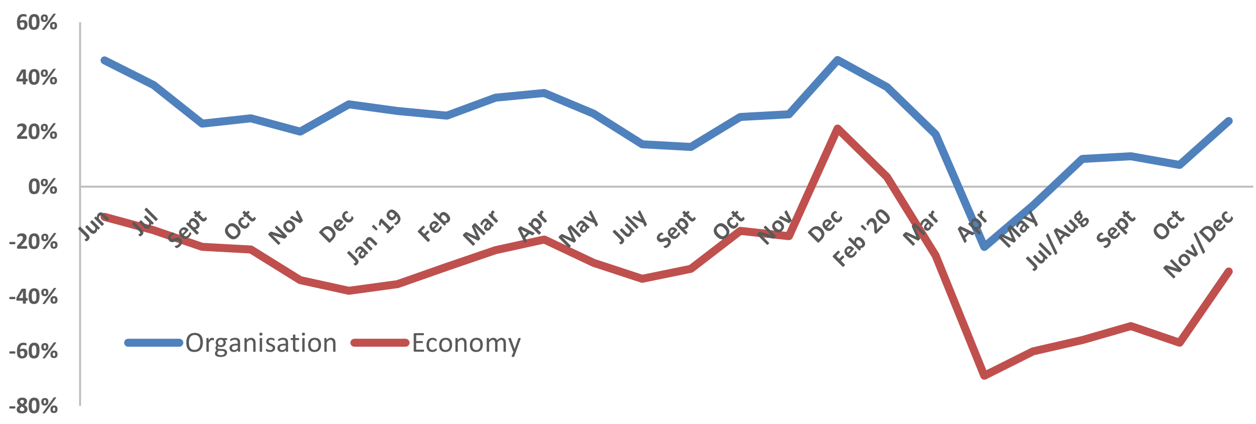
Business leaders enter 2021 facing critical challenges. For those that kept afloat in 2020, many entered the new year with poor cashflow, limited reserves, high debt and payment deferral burdens, and weaker business models[1]. This will only intensify with covid-19 restrictions continuing and deepening into Q1. While our members' economic confidence improved in December following the announcement of a vaccine, it remains subdued and will likely fall back during the latest lockdown (**Figure 1**). With the scarring effects of 2020, ongoing uncertainty about the path of the pandemic, the costs of adjusting to new trading terms with the European Union, and weak global conditions, business activity in investment and hiring is expected to be diminished this year (**Figure 2**).

With an effective vaccine rollout and reduction in restrictions there is every chance the economy can bounce back later this year. Fiscal policy measures will however need to be an essential driving force behind that. A cliff-edge removal of existing support in the spring risks undermining efforts thus far to support jobs and businesses, as some covid-19 restrictions will remain in play and the domestic and global economic climate will remain fragile. With hiring and investment appetite also likely to be subdued owing to the legacy costs of the pandemic, impetus from spending and tax measures will also be vital in the UK's eventual economic recovery (**Figure 3**).

Over 80% of our members believe the Government should, for the time being, prioritise stimulating economic growth over reducing the deficit/level of debt. Business will be a key driver for economic growth in 2021 and beyond as they look to rescale, innovate, and take staff back on. Fiscal consolidation, particularly in the form of tax hikes on investment and entrepreneurial activity, risk choking off the UK's recovery. Furthermore, by inducing weaker economic growth, and thus lower tax revenues, a move to raise taxation now could make the public deficit and debt more unsustainable in the long-run.

Indeed, the forthcoming Budget is a crucial and opportune moment to (a) provide an off-ramp from covid-19 economic support and (b) deliver a stimulus package to turbocharge hiring, innovation, reskilling, and ultimately, growth.

Figure 1: Business & Economic Confidence for Next 12-months, IoD *Policy Voice* Survey, Net %



[1] IoD Summer Statement Submission, https://www.iod.com/Portals/0/PDFs/Campaigns%20and%20Reports/Economy/IoD%20July%20Statement%20.pdf?ver=2020-06-19-144925-860

Figure 2: Business Expectations for Next 12-months, IoD *Policy Voice* Survey, Net %

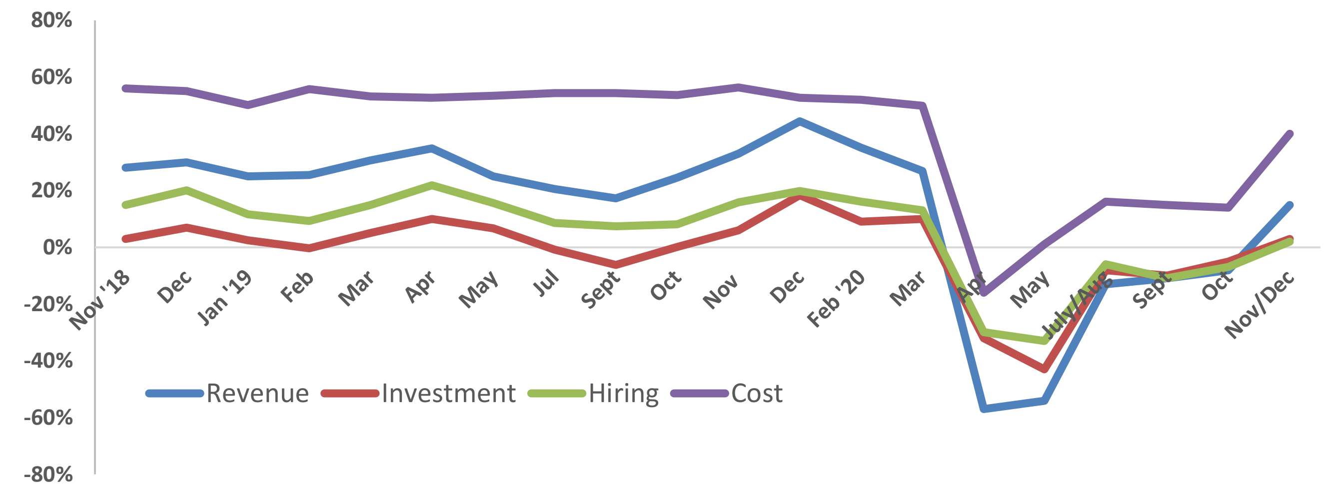
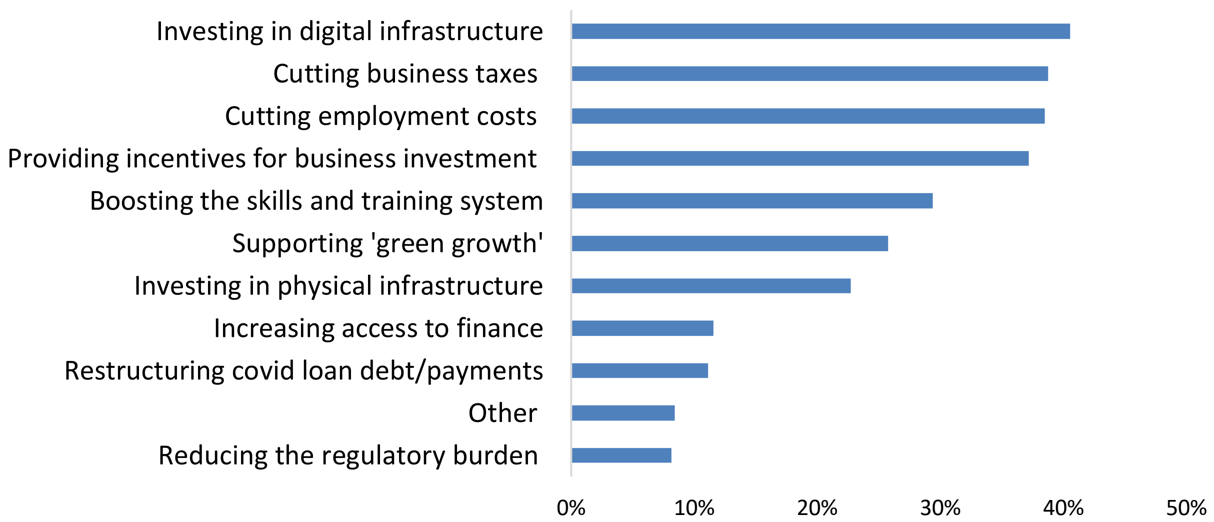


Figure 3: Business Priorities for the Recovery, IoD *Policy Voice* Survey, September 2020, 950 respondents, %



2. Policy Recommendations

(a) Continued Covid-19 Economic Support

While the path of the pandemic, and its associated restrictions, remain uncertain, business failures and unemployment risks increasing should existing covid-19 economic support end entirely at the end of the spring. It is important that support is gradually wound down in tandem with restrictions and economic developments to give businesses the cushion to adjust and gradually rescale. Indeed, around 1 in 4 of our members expect to operate at less than half pre-lockdown levels even under basic social distancing requirements. Our recommendations include:

Top-up the Discretionary Grant Fund for local authorities. The Additional Restrictions Grant, and related pots, will be a vital source of support for businesses facing ongoing restrictions or impacted by restrictions indirectly through their supply chain. It can also help plug gaps in business support for those that have not qualified through the other government schemes. Indeed, this should be explicitly badged as a fund that can also support owner directors and the recently self-employed (see below). As a locally delivered grant, it has the additional advantage of being provided on a case-by-case basis, in line with local restrictions. It is important local authorities have their pots topped up, depending on the path of the pandemic in their jurisdiction.

Gradually taper the Coronavirus Job Retention Scheme (CJRS) and Self-Employed Income Support Scheme (SEISS). When these schemes expire at the end of Spring, it is likely that many firms will still be unable to shoulder the full cost of existing furloughed workers, as revenue opportunities will be limited while some form of restrictions continue. The Treasury should therefore consider gradually tapering, rather than entirely removing, CJRS and SEISS support as restrictions are gradually reduced—assuming that is the case.

Provide income support for owner directors. Directors who primarily compensate themselves through their own company dividends have been without significant income support since the beginning of the pandemic. Furlough is often not an option, given their wider duties and the limited salary they channel through PAYE. As such, they do not qualify for income coverage on par with other individuals under the CJRS or SEISS. This cohort contains potentially up to 2 million enterprising businesses—including start-ups, entrepreneurs, and creatives—and is a crucial source of innovation and jobs growth for our recovery. Currently owner directors are being unfairly punished for their financial set-up. Indeed, for those starting their own venture, the prospect of patchy income means that taking a fixed PAYE salary makes little sense, as income is dependent on business activity.

While we do not consider the challenges of including company dividend income as part of the CJRS or SEISS insurmountable, please see our previous recommendation[2], it is essential the Treasury finds alternate means to compensate this group. This would give many enterprising businesses a significant boost to support economic growth during our recovery. Potential policy solutions include:

-Ensuring owner directors can access funding via the Discretionary Grant Fund. There should be ample funding, and the criteria should be made clearer, so that these directors can apply for local grants to meet their cashflow needs on the basis of lost trading profits. This is similar to Wales' Economic Resilience Fund and Northern Ireland's Micro-business Hardship Fund.

-Creating a new grant fund specifically for owner directors. Under certain eligibility criteria and income thresholds—for example, Persons with Significant Control in companies active before the pandemic, excluding investment or property businesses, earning income below £50,000, as per the SEISS threshold—a new simple one-off grant could be provided to those who have experienced a significant loss of trading profit during the pandemic.

-Implementing the Directors' Income Support Scheme (DISS). While administering a simple grant system, as outlined above, might be simpler, we also support the Treasury's consideration of the DISS proposal, which by taking account of trading profits on CT600 forms rather than dividends would allow limited company directors to claim support similar to the CJRS and SEISS.

Implement a successor Coronavirus loan scheme and improve repayment terms. The Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) have provided valuable financial bridging support for our members. While appetite to take on further debt is low, there should remain the option for businesses in need to take out emergency loans quickly, and on

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[2] Extending income support of Limited Company Directors, Institute of Directors, https://www.iod.com/Portals/0/PDFs/Campaigns%20and%20Reports/Corporate%20Governance/IoD%20Proposal%20Outline%20for%20Director%20Dividends.pdf?ver=2020-05-04-125419-943

favourable terms. Indeed, this should be the aim of Treasury's plan for a successor loan scheme to CBILS and BBLS.

Likewise, while our members believed the extension of repayment periods and the 'Pay As You Grow' option announcements on existing loans would reduce their debt burdens, that was before the implementation of new winter restrictions which will have further eaten into cashflow. To that end, the Treasury ought to consider restructuring loan repayments further—something 40% of our members who took out loans favoured.

Other than improving repayment terms more generally, the Treasury ought to consider converting government-backed loans into a 'student loans' format, with repayments kicking in once the business has turned a profit. Companies would pay a percentage of what they earn over a certain time period, in a manner similar to student loans. This could give small businesses more breathing space to invest and grow as they make repayments, while potentially lowering the risk of loan defaults. Over 50% of our members said the debt incurred during the pandemic would negatively impact their recovery and investment plans in 2021.

Extend HMRC's 'Time to Pay' support. Alongside debt repayments, over one-third of our members felt that tax, rent, and other deferrals would negatively affect their recovery and investment decisions. While the Winter Economy Plan did offer additional leniency, with coronavirus restrictions continuing into this year, it is important that the optionality to defer some tax payments during 2021 remains to support cash flow as the economy recovers.

(b) Stimulus

Given the scarring effects of the pandemic on unemployment, business balance sheets, and confidence, the reduction of covid-19 restrictions alone will not be sufficient to ensure the economic recovery. It is crucial this Budget supports both business investment and investment in business. Expenditure by firms will underpin economic growth, while encouraging firms to grow will help drive-up employment and innovation. Moreover, to ensure the UK 'builds back better' during the recovery, it is vital the government invests in infrastructure, regional growth, the business environment, and the skills system to support the adjustment to the post-covid and post-brexit economy. Below we have outlined a suite of options for the Treasury to consider.

Investment

IoD members, on balance, are not expecting to increase their levels of business investment this year (**Figure 2**). Following a contraction in business investment in 2018 and 2019, the effects of covid-19 will sap the ability of many 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 the UK's recovery (**Figure 3**)[3]:

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. These reliefs should be made more generous, accessible, and simpler so they are more attractive for investors to apply for accurately and easier for businesses to use[4]. With firms

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

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

largely unwilling to take on more debt, and bank-lending to SMEs likely to now tighten, improved EIS and SEIS packages could be rebadged as an opportunity to turbocharge growth in the post-Covid, post-Brexit economy and to help 'level up' the regions where funding opportunities are particularly weaker. This may also be an effective way to redeploy the record savings amassed by some during the pandemic, and to support the search for yield. 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)
-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
-Investing in raising investor awareness of the schemes

Create a new digital and green Recovery Credit incentive for SMEs. Over 1 in 3 `of our members consider business investment incentives as a priority for the economic recovery. While some firms were able to make investments in digital technology to support their adjustment to coronavirus, many are aware of what investments they need to make but are unable to execute decisions due to poor cashflow. Additional incentives, above what is already available[5], to make investments in existing digital technology (e.g. cloud computing and data tools) and potentially also in green endeavours (e.g. products that reduce carbon footprint or improve sustainability), can help capitalise on the current digital, and green, moment for the UK, which can drive the recovery and productivity gains. Indeed, the UK's small businesses tend to lag peer nations when it comes to adopting existing best practice. There are several ways this may be achieved, including:

- Creating a new Recovery Credit tax incentive or grant/voucher (similar to the previous Business Growth Voucher scheme), with a clear list of qualifying digital, and green, expenditures—potentially also including advisory and training expenses—which would attract a benefit at least as positive as the SME R&D Tax Relief and RDEC schemes. A separate, signposted, incentive has the benefit of marketability, and can help overcome the hefty and esoteric rules on existing allowances[6].
-Alternatively, the SME R&D Tax Relief/RDEC schemes might be widened to include investments in existing digital and green investments, training, and support, as suggested in the Conservative Party's 2019 manifesto.

Extend the temporary £1million Annual Investment Allowance (AIA) beyond end 2021. The higher AIA cap ought to be extended beyond 1 January 2022 to support the investment plans of businesses of all sizes, as firms continue to evaluate the likely path of the pandemic and adjust to new arrangements with the EU. While the existing extension to the end of the year is welcome, ongoing restrictions and uncertainty is likely to limit the ability of business leaders to take advantage. Extending this by another year can give business leaders the assurance to plan now for plant, machinery, and capital investment for later in the year and into 2022, which will be crucial in stimulating the economy. This would largely be a timing cost and would have an outsized effect on business behaviour in the short-term.

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[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*

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[7]. (Increases to the overall write down allowance rate for plant, machinery, and property would equally be a welcome move.)

Build the capacity of the British Business Bank (BBB) to raise access to finance across the country. The BBB has played a major role in the provision of financial support during the pandemic. As the UK recovers, the BBB's funding and resources to support start-ups and scale-ups should be increased, particularly to bolster finance options, including equity, angel and loan finance, for small businesses outside London and the Southeast[8].

Costs, Tax and Regulation

The bulk of our members expect costs to increase in the coming year, while revenues aren't expected to rebound as much (**Figure 2**). In 2021 businesses will face a cumulative burden of costs from debt and tax deferral repayments to rising employment costs as furlough ends and firms attempt to rescale, alongside Brexit adjustment costs. This will be in addition to the regular weight of business rates, pension auto-enrolment contributions, National Living Wage changes[9], the Immigration Skills Charge, the Apprenticeship Levy, and regulatory change, 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.

Reform business rates. Over 1 in 3 of our members agree that business rates are a disincentive to invest and grow their organisations[10]. 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[11], businesses – particularly SMEs – are also in need of immediate support as they navigate elevated costs and a poor cashflow climate:

> **Provide ongoing business rates relief for 2021.** Government reliefs and grants to cover business rates costs during covid-19 highlight just how significant an outlay they are. With restrictions and social distancing continuing in 2021 many firms will still struggle to optimise their properties. After the existing 100% relief ends for many businesses in spring, there should be additional support for small businesses and the most affected sectors to get back on their feet. This might involve continuing to provide some level of relief for sectors including retail, hospitality, and leisure, widening the Small Business Rates Relief, or providing some relief, to more SMEs, or simply providing a one-off significant discount to the multiplier for businesses more generally[12].

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[7] OUCBT tax database

[8] 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.

[9] 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.)

[10] IoD Policy Voice Survey, February 2019

[11] 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'

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

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.

Implement a temporary reduction to National Insurance Contributions. Employment costs, alongside business rates and rents, are among the biggest sources of expenditure for businesses. Almost 40% of our members said cutting employment costs should be a priority to boost the economic recovery. Since employers' NICs are the largest non-wage labour cost firms face, to support job retention, vacancy creation, and hiring as the economy recovers, the Treasury should consider raising the threshold at which NICs are paid, for a time-limited period, for both existing and new employees[13]. To support small firms to hire over a longer period of time the government might also consider raising the Employment Allowance.

Suspend the Immigration Skills Charge. The impact of the pandemic on the cross-border flow of people risks starving UK businesses of international talent, just as freedom of movement has ended with the EU. To support businesses to compete for skilled workers from abroad under the new immigration system, the charge—initially £364 for small businesses, and £1000 for larger firms for a year, per worker—ought to be temporarily reduced, or even removed. Currently, it acts as an additional up-front hurdle to skilled migration, above and beyond the costs of adjusting to the new system. Furthermore, its intention to support the 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.

Extend the VAT cut for most impacted sectors. The reduction in VAT to 5% for hospitality, accommodation, and other sectors should continue till at least until the end of the year. This will provide a boost for the most impacted sectors whilst restrictions ease and demand continues to remain somewhat restrained by social distancing measures[14].

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 and simplification to the overall design of the tax system and incentives.

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[13] For example, research by the Institute for Employment Studies shows increasing it to £18,000 would mean no employer NICs for anyone on a minimum wage and would halve costs for those on a median wage

[14] Providing certain conditions are met, this can be an effective stimulus. See Institute for Fiscal Studies, https://www.ifs.org.uk/publications/14903

Maintain a low rate of Capital Gains Tax. Following the weakening of the Entrepreneurs' Relief last year, it is essential that the Capital Gains Tax (CGT) rate is not raised. Following the recent Office of Tax Simplification report[15], which suggested an increase to CGT, there are growing concerns among business leaders and entrepreneurs on the outlook for investment. Many solvent businesses have been shuttered already in response to fears the tax will be brought into line with income tax. An increase in CGT risks stifling risk-taking activities and entrepreneurialism when the UK economy needs it most to support the recovery and its international competitiveness.

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. Digital trends, and changes in working practices and workplaces, have also been accelerated by the pandemic, highlighting discrepancies in the tax system. Longer-term improvements to the system, considering new and digital economies, should not be cannibalised by near-term interests and distractions. The development of a new commission, representing tax experts, lawyers, businesses, and government, can help support the efforts to bring the tax system into the 21st Century.

The rollout of the Digital Service Tax last year in particular should also be reviewed via a consultation. It was our view that without multilateral coordination the tax risked harming the UK's competitiveness and attractiveness to technology firms. It is important its impact on the business environment is better understood, and if possible an internationally coordinated implementation plan should be targeted.

Push back the introduction of off-payroll working rules (IR35) in the private sector. Ahead of the previous deadline, around 40% of IoD members that hire contractors said they expected the new changes to lead to higher business costs[16]. Notable confusion and disruption has already been caused by the regulation, including large employers applying blanket bans to contractors. Meanwhile, the pandemic has taken a major toll on the self-employed and contractors, many of whom were unable to obtain government income support, and it has also impacted many firms and individuals' ability to prepare further. There should be another delay to the regulation until next year, at least, so the challenges are better understood and mitigated.

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

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[15] Office of Tax Simplification Report, https://www.gov.uk/government/publications/ots-capital-gains-tax-review-simplifying-by-design

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

automate—business compliance, payments, and relief applications, while improving HMRC's targeted outreach to small firms on business incentives and guidance, and consulting on hypothecated tax.

In general, a pause, simplification, and a more structured approach to domestic regulation in 2021 would be a notable boost for firms of all sizes, particularly while many are attempting to manage, and assess, the implications of the pandemic and Brexit.

Skills and Education

The pandemic has highlighted the challenges facing the UK's skills system. Unemployment has increased, swathes of the workforce have been placed on furlough, and the pandemic has led to industrial shifts which have accelerated demand for new skillsets. Developing the skill system, with an emphasis on retraining, reskilling, and lifelong learning, will be crucial to stave off the effects of long-term unemployment and to support the UK economy's economic adjustment. This is even more crucial as businesses adjust to the new immigration system, and as international labour movement remains restricted by covid-19 border restrictions.

Introduce a retraining Recovery Credit incentive for SMEs. While the broader skills and apprenticeship framework is being developed, the Government should introduce a temporary retraining credit incentive to allow SMEs to fund their retraining needs during the recovery, with a particular emphasis on digital and green skills, management and leadership competencies, and other professional training. As outlined, retraining courses in these areas could be deemed a qualifying expenditure as part of our proposal for a wider SME recovery credit incentive for expenditures on digital and green investments—administered as either a new tax incentive, voucher, or under an extension to R&D reliefs—or as a separate incentive. The emphasis would be on quickly driving up engagement with specific retraining programmes in skillsets vital for the post-pandemic economy.

Develop the lifelong learning offer for individuals. While initiatives announced as part of the 'Lifetime Skills Guarantee' should particularly help support retraining among those who have not yet obtained or completed a Level 3 qualification, there remains a wider need to meet the lifelong learning and retraining ambitions of individuals across all parts of the workforce. The announcement of a Lifelong Loan Entitlement for all individuals is a welcome step, and we welcome further consultation on its operation and function. Our preferred approach would be to create a 'shadow personal allowance', or another form of tax relief, to incentivise engagement with qualifying lifelong learning courses or programmes. This could, for example, be offset against an individual's income tax liability provided they have paid for a course. As such, any loan offering should be designed to consider the most effective incentive and repayment structures to support take up. Indeed, developing a lifelong learning offer would be particularly invaluable for freelancers, sole traders, and the self-employed who may not be able to access training given their employment status and would otherwise have to rely on their own personal finances.

Extend the Apprenticeship Incentive Scheme. The existing payment support due to expire in March 2021 should be extended till at least the end of the year to drive-up support for apprenticeship training during the recovery. It should also be made payable before the apprenticeship commences to support SME's with the loaded cost of recruitment and cashflow more generally.

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 still like to see a broader range of choices, particularly in light of shifts brought about by the pandemic.

Widen the range of courses available under the Levy. Raising access to digital, management, leadership, and 'green' skills training[17] is needed to support productivity in time-constrained SMEs and the broader adjustments needed for the post-pandemic economy. Lengthy courses pose a significant opportunity cost for small firms in particular, and so access to shorter modular courses, online training, peer-to-peer learning, mentoring, and coaching style programs would be beneficial. As such, the Government ought to consult on extending, and funding, the scheme to a broader "training levy", to allow it to be spent on upskilling and developing more in-demand skills. Indeed, many Levy paying firms are sitting on unspent funds.

The government should also commit to maintaining the Levy rate at 0.5% for those eligible and supplement the levy fund to ensure there is enough funding available for apprenticeships for smaller non-levy payers, or find alternative ways to provide funding.

Improve the effectiveness of the apprenticeship system. The existing system of administering courses can be improved in several ways. With a greater array of courses to choose from, the time period levy and non-levy payers have to spend their funds should be reviewed considering long-term skills planning needs. Furthermore, longer term support for firms to cover the backfill costs associated with the off-the-job requirement would be welcome to support take up. The new online service which matches levy payers with SMEs should also be closely monitored to ensure it is effective in supporting the transfer of levy funds between organisations. 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.

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 and mentoring 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, leadership, and technological best practice in SMEs[17,18].

Increase financial support for digital learning. Computer-based, blended and flexible online 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, alongside more broadly shoring-up the provision of educational technology and supporting the digitisation of learning more generally across the education system. For example, while almost 50% of our members would provide an industry placement as part of the T-Level scheme, many would

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[17] 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

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

welcome opportunities to engage virtually, particularly in light of digital trends emerging during the pandemic.

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. Boosting connectivity and empowering local areas will be crucial in assuring the UK's economic recovery. The proposed National Infrastructure Bank will play a key part in this.

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 for strategic routes, particularly to improve east-west connections between major cities in the Midlands and North.[19]

Turbocharge gigabit-capable broadband delivery nationwide by 2025 and accelerate full-fibre connectivity. Local connectivity and business environments would be significantly bolstered by the delivery of faster internet nationwide, particularly as the covid-19 pandemic has led to a step change in businesses seeking digital solutions. Indeed, over 40% of our members consider faster internet and mobile connectivity a key priority for the recovery. The Government should aim for 100% coverage of gigabit internet by 2025 while accelerating the delivery of full fibre broadband/5G nationwide, which remains an important priority for future-proofing the economy. This will be crucial in turbocharging UK productivity. This should extend to ensuring 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 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.[20]. 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.

In particular, as a result of covid-19, demand for external business advice has increased. Costs however prevent SMEs from accessing private sources. It is important that advisory support on strategy, productivity, digital transformation and resilience is accessible, affordably, through LEPs.

[19] IoD Policy Voice Survey, February 2019

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

Consult on new ways to fund, stimulate, and monitor regional growth. The IoD's report, *Connected Economies, People, and Places: A Blueprint for Local Growth in Post-Brexit Britain*[21] included a few areas 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)

-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. This includes broader initiatives via the National Infrastructure bank to drive-up the role of private finance in infrastructure investment.

-Developing an independent regional taskforce to monitor vulnerable areas[22], as part of wider initiatives to develop a devolution strategy and plan for the Shared Prosperity Fund[23]

-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 and Green-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[24]. A particular focus on supporting innovation funding for green industries and clusters across the UK will also be vital for driving growth in a new and emerging sector, alongside wider cornerstone funding for businesses in the renewables, decarbonisation, and carbon capture sectors.

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[25]. These collaborations will be vital to translate digital, green, and emerging technological innovations into the business landscape. 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[26], will both help to expand the collaborative

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[21] 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

[22]This includes ongoing, and additional, support for a national retraining programme and Skills Advisory Panels

[23] Including, for example, extending funds to make the Industrial Strategy Council an independent statutory body

[24] 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

[25]The UK's Productivity Problem: Hub No Spokes, Andy Haldane, June 2018

[26] Higher Education Innovation Fund

innovation workspaces and knowledge transfer between businesses and Higher Education Institutions[27].
-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.

Provide ample covid-19 funding to support local public service responses. Controlling the virus and reducing restrictions will ultimately be the biggest driver of how quickly demand returns and businesses bounce back. Ongoing funding for the rapid procurement and deployment of the vaccine will be vital here, as will be ensuring local areas are given adequate finances to keep local outbreaks under control, for example via the Contain Outbreak Management Fund.

Brexit & Trade
The complexity of adjusting almost overnight to new arrangements arising from the UK-EU trade deal and the end of transition is a significant barrier to continuing to do business with Europe. There are more changes envisaged over the next 12 months when certain grace periods expire which are unlikely to be extended. Further support is therefore required to help businesses adapt to avoid a protracted perfect storm of barriers facing business as stockpiles run out, freight flows increase, restrictions levels change and travel starts to pick up again.

Deliver more financial assistance for Brexit adjustment Many SMEs do not have the time, resource or capacity to manage the complex swathe of areas affecting by the new UK-EU deal, both for trade and domestic regulation (often only larger firms and those in the trade management/transport and logistics sectors are greatly familiar with the issues at hand). They need expertise from professional, legal and accountancy services to anticipate, understand and manage new compliance requirements themselves, not least since guidance can only ever be generic rather than company-specific. 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 adjustment advice tax-deductible for SMEs. This is a longstanding call from the IoD dating back nearly four years
-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. HMRC reports the current fund is nearly exhausted and with a scarcity of customs agents at present, the need for familiarisation will only rise
-Create a government-backed loan scheme for trade adjustment or consider adapting existing loan schemes to allow SMEs to also make use of it for help in adjusting to new Brexit challenges (there is precedent for this in reverse from the Irish Banking Corporation). In the absence of EU state aid rules going forward, ensure the Undertaking in Difficulty (UID) requirement is removed for all businesses.

Reverse the decision to scrap duty-free shopping for tourists/UK visitors. The planned move to eliminate VAT refunds will significantly exacerbate the ability of retail, travel and tourism industries for example to claw back from economic ruin. It would put the UK at a huge economic

[27] Around 50% of IoD members say that a mismatch between education offerings and business needs is a key labour market challenge

disadvantage relative to other European countries in particular, and is easily offset by the £2 billion handed back to the Treasury by grocers and other businesses that were able to carry on and increase their trading through Covid-19 restrictions

Significantly increase DIT's resource to help business make better use 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, and this is a critical concern for continued trade with the EU given the complexity of our new trade arrangements. Expanding the resource of DIT writ large to help better connect the government's trade policy with business is essential. As part of this, better tie-up and coordination between DIT and HMRC is needed to ensure companies can connect policy with using preferences and 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.

Create fintech corridors with other countries to leverage the UK's financial services strengths and expertise. Launching consultations and/or discussions to expand on the FCA's regulatory sandbox initiative (applications for which have now closed and should be reopened in 2021) with counterparts in other countries would complement DIT's trade negotiations. This would sit alongside the work being taken forward at a global/plurilateral level here to deepen bilateral and regional efforts[28]

Commit to a "trade check" principle and impact assessment criterion for new regulation All too often, the trade-distorting effect of domestic business and commerce regulation are only considered after the fact, when the extraterritorial impact becomes clear. To minimise this and the potential for trade disputes with other countries, the new government should make it a priority for all departments to explicitly consider the potential trade consequences of all new regulatory changes affecting business (and procurement), and demonstrate that it has been designed in the least trade-distorting way possible. This principle should also be reflected as its own criterion in impact assessments for relevant legislation.

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

[28] https://www.globalgovernmentforum.com/regulators-launch-global-fintech-sandbox/

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.

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 adjustment 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 as part of the Borders 2025 Strategy. 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 financial support via 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 crucially important to firms needing to use Incoterms for the first time with EU trade and also for trade between Great Britain and Northern Ireland.

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