Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road,
London
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1 February 2023

Dear Chancellor,

# Spring Budget 2023

Thank you for the opportunity to make representations on behalf of business leaders in advance of the Spring Budget. Institute of Directors members make up the growth engine of the UK economy: company directors, predominantly leading mid-sized and smaller companies, based in all regions and nations of the UK. As well as representing their interests we also have a wider responsibility in our Royal Charter to "foster a climate favourable to entrepreneurial activity".[1] We therefore value the opportunity to work together to create the best possible climate for doing business in Britain.

Macroeconomic stability remains the key concern of our members. When asked what factors are currently exerting a negative impact on their businesses, 64% of our members cited 'UK economic conditions' and 46% 'global economic conditions' in our most recent survey. This was higher than 'business taxes' (37%), 'cost of energy' (36%), 'our trading relationship with the EU' and 'skills shortages' (both at 34%).[2] When asked what they would most like government to fix in 2023, by far the most popular response was 'high inflation', with two-thirds of members putting this in their top three priorities.[3]

It will take time for the memory of market instability following last year's mini-budget to fade. Recent events have heightened the levels of political risk associated with doing business in the UK. While the relative calm since October is welcome, for our members and the wider business community, stability remains a basic hygiene factor for being able to plan with confidence. For the foreseeable future it will therefore remain important to demonstrate not only that the stock of government debt as a proportion of GDP is on a firm downward path, but also that there is sufficient headroom to deal with any future shocks to the economy without altering this downward trajectory.

Looking forwards, we would like to see a credible medium-term plan to take us beyond the current macroeconomic difficulties on to a path of sustainable growth. We would also welcome a greater sense of partnership, with government and business understanding each other's roles and working together to ensure the best possible climate for steady growth and investment.

We welcomed your commitment to champion Britain's strengths to overseas investors in your recent Bloomberg speech. However, our focus should not be confined to high-tech industries, important though they are. Our future growth path also depends on the many millions of individual decisions taken by leaders of smaller businesses across all sectors who may not all operate at the cutting edge of new technology, but whose attitude to continual improvement and investment, including the adoption of innovation undertaken elsewhere, is nevertheless crucial to our future growth path.

We therefore welcome the press reports on 28th January that you wanted to cut business taxes that are paid before a "penny of profit" has been earned.[4] As we move to put the conditions in place for future growth, our suggestion is that the Budget should focus on **firm-level investment incentives**: in skills shortage areas, in fixed capital and to incentivise the net zero transition.

Specifically, we recommend:

### 1. Tax credits for firms investing in skills shortage areas

When he was Chancellor, the Prime Minister explained in his Mais Lecture how the UK lags competitors in its use of the tax system to encourage workplace training. He committed to examining as part of a future tax strategy "whether the current system… is doing enough to incentivise businesses to invest in the right kinds of training".[5] Our proposal is a tax credit to incentivise employers to train staff in areas of identified national need. This would overcome the market failure of staff being poached by competitors as soon as they are trained, and also encourage an all-economy solution to filling UK-wide skills shortage gaps. To avoid deadweight loss, the list of priority areas should be identified by an expert arms-length body (we propose a 'Skills Shortage Agency') with the areas currently identified for the Lifelong Learning Guarantee being a good starting point for that list.[6]

### 2. Permit sole traders to deduct the costs of training in new skills shortage areas

Similarly, it seems perverse that sole traders seeking to retrain in areas where there is a national skills shortage, in order to grow their client base, should not be able to deduct the costs of doing so from their current revenue streams. We therefore propose removing the restriction that sole trader training costs can only be deducted if they relate to current business areas, as long as the new training is in the list of national priority areas, to be determined in the same way as above.[7]

### 3. Make the capital expenditure 130% super-deduction permanent

Our own survey data has found a measurable positive impact from the super-deduction, suggesting business investment for those firms that rely on fixed capital - around half our members – would have been even lower in recent months if the super-deduction did not exist. We therefore recommend that the decision to end the super-deduction this April be reversed.[8]

### 4. Use corporation tax to incentivise net zero transition

To date, only 22% of our members measure their carbon footprint. An even smaller proportion (19%) have a plan to make their operations net zero by a specified date.[9] Yet, in the words of the UK Energy Research Centre, "Collectively, SMEs consume about 50% of commercial and industrial energy, but are exempt from many business-focused energy and decarbonisation policies".[10]

We believe that the best way to spur directors of smaller companies to engage with the contribution their own organisations can make to the net zero transition is a clear, commercial incentive delivered through a mechanism that is easy to understand. We therefore propose, as a general principle, that companies who have achieved net zero should pay a lower corporation tax than those that have not. We believe that, if introduced with sufficient lead time, this would create the step-change in behaviour that government seeks and, depending on the calibration, **could be achieved at no cost to the Exchequer**.[11]

Outside of tax policy, the following policies would also improve the climate for entrepreneurial activity in Britain:

## Labour supply

- Expand current skills interventions to target groups with high rates of economic inactivity. For example, making courses that are already available under the Level 3 guarantee available to anyone, regardless of their previous qualification or income levels, would bring a number of the 50+ age group with outdated Level 3 qualifications in scope.
- Introduce mandatory ethnicity pay gap reporting and disability workforce reporting for larger employers. This is a key recommendation of our recent Commission, 'The Future of Business: Harnessing Diverse Talent for Success', chaired by Lord Shinkwin, and supported by a range of leading business figures and business organisations.
- Make equity of opportunity in the workplace a key policy priority. This should include adding equity of opportunity in the workplace as a specific responsibility within an existing Ministerial portfolio in BEIS, with a requirement to report annually to Parliament on progress against KPIs.[12]
- Introduce a public reporting process and targets on the representation of LGBT and disabled individuals on the boards of FTSE 350 companies. This follows the success of similar reporting processes for gender and ethnicity in the Hampton-Alexander and Parker reviews.[13]
- Tackle the high cost of childcare, which would not only target economically inactive parents but would support parents already in the labour market to increase their hours worked.
- Appoint a Childcare Tsar – whilst there is currently a Children's Commissioner, the scope for this role is already significant and a more specific role is required to drive this agenda forward.

## Supporting net zero transition

- Establish a straightforward framework for carbon footprint accounting and reporting which can be applied by SMEs. Limited companies should be required to keep records of, and report on, their carbon footprint – in the same way in which they currently report on revenues, costs and profits.
- Offer 'Help to Green' vouchers to help smaller firms invest in energy efficiency measures. As initially proposed by the Federation of Small Businesses, additional direct help is needed to facilitate energy efficiency for smaller firms.
- Review the support available for firms to become net zero. There may be a need for additional measures across the public and private sectors to provide knowledge and support to smaller firms seeking help to reduce their carbon footprint, for example a recognised kitemark scheme for companies to signal their progress on the path to net zero, strong professional pathways for zero carbon advisers, and action to fill reporting gaps such as a requirement for applicable commercial landlords to inform SME tenants of the carbon impact of their building use. [14]

## Improving regulatory certainty

- Drop the Retained EU Law (Revocation and Reform) Bill. Reviewing and responding to any resulting regulatory changes arising from this process is likely to represent a major new burden for business as well as diverting government officials from tasks that are a greater priority for our members. It would be preferable to use Brexit freedoms as required on a case-by-case basis in response to particular issues as they arise.

Supporting international trade

- The government should negotiate new mobility and visa arrangements to lessen the burden on UK businesspeople who need to travel to the EU for business. Current arrangements are an impediment to doing business effectively in these countries.
- Re-establish a supply chain taskforce The government should re-establish a permanent supply chain taskforce to improve communication between business and government, conduct analysis on supply chain disruption, and intervene where long-term shortage areas are identified.
- Explicitly define ‘green trade’, to enhance the UK’s leading position in the global green economy and underpin the future development of the sustainable finance sector. This will involve publishing a green taxonomy, which should be aligned closely with those already developed in other countries. [15]

Corporate reporting

- Complete the reform of audit and corporate reporting as a key means of rebuilding trust in the UK’s corporate governance regime. Although a Draft Bill was announced as part of the Queen’s Speech, it is not yet clear when the planned Auditing, Reporting and Governance Authority (ARGA) will be established.

I hope that we can find an opportunity to meet and discuss these issues in due course.

Yours sincerely,

Jonathan Geldart
Director General, Institute of Directors