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IoD Spring Budget Submission 2024

Ahead of the Spring Budget, we are writing to summarise the policy changes that would, according to our evidence, have the greatest positive impact on the rate of sustainable economic growth in the UK.

About the Institute of Directors

The Institute of Directors is an independent, non-party political organisation representing approximately 20,000 company directors, senior business leaders, and entrepreneurs. We represent businesses of all sizes and across all industries, regions and nations of the UK.

The average IoD member's organisation has a turnover of around £15m and employs around 75 people. Over half are based outside London and the South East. Around 44% identify as being in one of the government's five 'priority sectors'; the remainder are most likely to be technical, professional or other parts of the service sector. The IoD has a role under our Royal Charter among other things to 'promote a climate of entrepreneurship'.

Key proposals

Our key recommendations for the Spring Budget are:

1. Tax credits for companies that train staff to meet national skill shortages.

2. Stronger incentives for SME net zero transition - such as a differential corporation tax rate.

3. Greater reputational pressure on slow invoice payers.

4. An export target based on volumes (not values) and the proportion of companies that export.

1. <u>Tax credits for companies that train staff to meet national skills shortages</u>

Skills shortages are consistently identified as one of the main pain points our members face. A particular issue is the broader market failure that prevents many small and medium sized businesses from training staff to meet skills gaps that are also present in the wider economy: the fear that newly-trained staff will leave when the realise their value in the marketplace. Our recommendations are:

- An independent body set up to produce a list of Britain's national current and future skills needs, working with industry and building on the work of the Migration Advisory Committee and the existing list maintained by the Department for Education for the Level 3 Guarantee.
- Incentives for business to provide training to employees to meet the demand identified through this list, thereby overcoming the market failure. We propose a tax credit – or super-deduction – for the provision of training to meet the specific skills gaps identified in the list. This targeted solution overcomes concerns around deadweight loss.
- Allowing sole traders to deduct for tax purposes the costs of reskilling into areas that are entirely new for their business, if these are on the list of Britain's national current and future skills needs.
- Where there is already free training provided to overcome skills shortages under the Level 3 guarantee, these should be available to anyone, regardless of their previous qualification levels.
- VAT exemption for private sector training designed to address Britain's national current and future skills needs, as identified in the list outlined above.
- Reimbursement of payroll costs for firms who allow existing employees away from their normal duties to undertake Level 3 guarantee or the shorter 'bootcamp' courses in skills shortage areas, subject to an upper limit. This will increase uptake by people who are constrained from retraining due to caring responsibilities.
- Allowing greater flexibility in how Apprenticeship Levy training funds can be drawn upon, while retaining 95% funding of SME apprenticeship training costs.
- Widening access to work coach support to individuals' labour market needs rather than eligibility for benefits.
- Regular, rather than ad-hoc, reviews of the Shortage Occupation List for work-related visas at set intervals.

2. <u>Stronger incentives for SME transition to net zero – such as differential corporation tax rate</u>

In an IoD survey conducted in August 2023, we found that across the SME population as whole around 15% agree with the statement "we have increased overall investment spending mainly in order to implement the organisation's policy on climate change".

Our members cite the 'lack of clear business case to invest in net zero measures' as one of the biggest obstacles in reducing their carbon footprint. Our own research shows that the most effective way to spur change would be to have **a lower corporation tax for organisations that have achieved net zero** compared to those that have not: around two-thirds of SMEs who currently have no plan to achieve net zero say they would either be 'much more likely' (32%) or 'a bit more likely' (32%) to do so if it resulted in a lower corporation tax bill.

We are also supportive of an idea recently proposed by the FSB - of introducing a VAT-based investment incentive for net-zero related investments. This could work by allowing SMEs to reclaim 150 per cent of the VAT paid on specified green purchases. Such an incentive would provide an incentive for SMEs to invest more in net zero despite the long payback periods, provide fast cash back into the business, and create an incentive for small businesses to register for VAT.

The following additional measures are also required to support SMEs during the transition to net zero:

- Guidance to businesses around the type of monitoring of greenhouse gas emissions that will be expected in future. This would minimise the compliance costs of starting to measure in one way then having to alter the methodology later.
- Implementation of the Skidmore recommendation to launch a 'Help to Green' campaign, offering information resources and vouchers for SMEs to plan and invest in the transition.
- A requirement on landlords to provide organisations with information about the carbon footprint of the premises they lease, to ensure that businesses can access the data they need to calculate their carbon impact.
- Prioritise the development of the UK's Green Taxonomy to channel capital into viable, sustainable investments.

3. Greater reputational pressure on slow invoice payers

Our recommendations are:

- Government should publish twice-yearly rankings, by organisation, of the average time taken to pay invoices, as well as of the other payments statistics specified in the regulations.
- These ranking lists should be actively released to the media by the government, to raise awareness of the service and spur change by slower payers.
- The government should also publish an aggregate headline indicator of the average invoice payment time across all qualifying businesses, enabling policy makers to track progress and allowing the performance of individual firms to be compared to this average.
- Public sector entities employing over 250 people should be required to report their payment practices through the same system as private entities.

4. An export target based on volumes (not values) and the proportion of companies that export

Britain's export performance has lagged that of comparable countries in recent years. Confidence in exporting has fallen due to a combination of new customs barriers, loss of markets linked to Brexit, the uncertain global economic environment and heightened geopolitical risk.

Against this backdrop we support the principle of government having an overall export target. However, the current target of £1trn exports by 2030 has limited traction. Our analysis shows that a simple uprating by the average of independent medium-term CPI forecasts would cause the target to be reached without necessarily any change to the underlying volume of goods sold from the UK. It also fails to take account of the longer-term trend of exports correlating with the underlying rate of GDP growth.

We therefore ask government to set a more ambitious export target that removes the effect of inflation by being set in **real (chained volume) terms, and seeks to raise the real-terms underlying rate of growth of exports**. Additionally, the government **should have a second target to raise the proportion of UK businesses that export**, so as to focus policy attention on supporting firms that have recently decided to withdraw from exporting and those that have an exportable product but have not yet considered doing so.

We hope that this is helpful.

Your Sincerely,

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