IoD POLICY PAPER

Manifesto for Business

A policy roadmap for the next UK Government

March 2024

Introduction from the Director General

Since its formation in 1903, the Institute of Directors has been at the forefront of debates around enterprise, wealth creation and governance. According to our Royal Charter, the Institute exists to represent the interests of both our members and the wider business community to government. We seek to fulfil that role in a non-partisan and evidence-based manner. As we head towards the election of the next UK government, the need for an informed and practical perspective on business policy has never been greater.

Through our monthly Policy Voice surveys, we keep in close touch with the views of IoD members. Their consistent demand is for a policy framework that is stable, light touch and focused on the longer-term. As in their own organisations, directors expect decision-making to be based on evidence and followed through in a predictable manner.

IoD members also agree that a critical challenge facing the next government is that of re-igniting the UK's growth engine. Currently, the economy is stuck in a rut of weak business confidence, inadequate business investment, and poor productivity growth. Without higher rates of sustainable economic growth, the UK will be condemned to a future of constrained public finances and declining living standards.

The good news is that the UK has tremendous latent strengths in terms of its educated and innovative workforce, its universities and its international openness to talent and ideas. It boasts world leading companies in life sciences, financial and professional services, the media, artificial intelligence and green technology. With the right policy framework, the upside for the UK economy is significant.

As well as addressing the UK's growth and productivity challenge, this manifesto also articulates policy recommendations relating to other areas of priority for IoD members: skills and employment; the net zero transition; international trade; and corporate governance.

The Institute's Royal Charter charges us with promoting, for the public benefit, high levels of skill, knowledge, professional competence and integrity on the part of directors. Although much policy debate takes place at a level removed from the day-to-day activities of business, overall economic success is ultimately determined by the decisions made by individual business leaders and the teams they work with.

It is better directors and entrepreneurs that ultimately deliver a successful economy. Whoever wins the next General Election, the primary objective of policy makers should be to nurture a business environment which enables individual directors to succeed and flourish.

Jonathan Geldart
Director General, IoD


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Growth and productivity

The UK has a growth and productivity problem. At the beginning of 2024, the UK economy was technically in recession and only 1% bigger (in real terms) than its pre-pandemic level. This compares unfavourably with the bounce back experienced in the United States (+8.2%) and the Eurozone (+3.0%). The IMF is forecasting only 0.6% growth for the year ahead, the second worst growth performance in the G7.

Underlying the growth problem is the sharp slowdown in productivity growth that the UK has experienced since the financial crisis of 2008. In absolute terms, the UK's labour productivity is 28% lower than that of the United States, 14% lower than Germany and 13% lower than France. An incoming government should seek ways to achieve structural improvements in the UK's growth potential as a matter of priority.

IoD proposals

Develop an industrial strategy which provides a more stable and predictable framework for business investment.

This should embed a strategic vision for issues like innovation, planning reform, net zero strategy, transport, infrastructure and energy security. Policy commitments should be shielded, as much as possible, from short-term political pressures, facilitating the willingness of the private sector to make long-term investment decisions. An industrial strategy should not be about ‘backing winners’ or offering large scale industrial subsidies. Rather, it should provide a long-term policy framework centred on innovation, people, infrastructure, places and the business environment.

Encourage investment in physical and human capital through the capital allowances regime.

Full expensing of capital investment was made permanent in the Autumn Statement. However, it currently only applies to “qualifying plant and machinery”. An incoming government should undertake a significant widening of the scope of the full expensing regime, with a particular focus on incentivising investment in green and digital skills/technologies (see below for related proposals on skills/employment and sustainability). In addition, investment in physical capital should be further encouraged by extending the full expensing regime to leasing.

Set a higher target for total UK R&D expenditure.

The current official target for UK R&D is 2.4% of GDP by 2027, which is insufficiently ambitious. Revised figures from the ONS suggest that the UK has already comfortably exceeded that target. However, the UK still lags levels of R&D achieved in the United States (3.4%) and Germany (3.1%). The Government has pushed back its commitment to spend £22 billion on public R&D until 2026/27. The recently reformed R&D tax credit framework is significantly less generous than its predecessor, particularly for most smaller companies. Although earlier schemes faced challenges in respect of fraud and error, a more ambitious programme is needed in order to incentivise R&D on a whole economy basis.

Ensure that all new regulatory measures do not exert a disproportionate burden on SMEs or place UK business at a competitive disadvantage.

We are supportive of the principles underlying the latest version of the Better Regulation framework, particularly those concerning proportionality and the need to reassess the effectiveness of regulation at regular intervals. A future government should ensure that robust impact assessments are carried out for all significant proposals, and made available to stakeholders at an earlier stage. The independent monitoring role of the Regulatory Policy Committee should be strengthened.

Encourage the adoption of AI by mainstream companies and build market confidence through a strengthened central oversight function.

We are broadly supportive of the Government’s pro-innovation approach to AI oversight, which leverages the capacities and sector knowledge of existing sector regulators. AI and related technologies are potentially game-changing productivity drivers for the UK economy. Hence it is important that regulatory obstacles are not placed in the way of mainstream companies seeking to exploit AI. However, in order to build a sense of confidence amongst potential users, the UK framework needs a strengthened central oversight function which ensures an alignment of approaches across relevant regulators, and keeps a close eye on any emerging risks or regulatory gaps.

Reduce the complexity and improve the functioning of the business tax system.

The UK has the longest tax code in the world, currently in excess of 21,000 pages. The code has more than trebled in size since 1997. This Byzantine structure is packed with offsets, loopholes and distortions which increase the scope for tax avoidance and reduce the predictability of outcomes for companies. A new strategy for taxation should be developed which streamlines and simplifies the existing framework. In addition, the service standards provided by HMRC need urgent attention and digitisation should be accelerated.

Develop a plan to boost UK equity finance.

UK pension funds and insurance companies currently own only 4.2% of the shares of UK listed companies, compared to 46% in 1997. In recent years, UK institutional investors have invested more into US listed companies than those in the UK. These trends are both drivers and symptoms of the declining attractiveness of the UK equity market. Building on last year's Mansion House reforms, a future government should develop a plan to unlock a higher level of equity investment into the financing of UK growth companies. This may include a review of regulatory and tax arrangements that have tended to push asset allocation towards bonds rather than equities. It should also consider how the consolidation of UK pension funds can be accelerated and whether tax incentives can be used to reorientate UK investors back towards UK companies.

Develop a consistent framework to ensure that the voice of local business is heard in all parts of the UK.

From April 2024, the core functions delivered in England by Local Enterprise Partnerships (LEPs) – business representation, local economic planning and the delivery of certain government programmes – will be passed to local authorities. IoD members have expressed a lack of confidence in the capacity of local authorities in many regions to replace the role of LEPs, and provide the necessary support to business on a consistent basis. There is a role for government in designing a template for business-local authority relations to help ensure that the voice of local business continues to be heard, including in the devolved nations.

Reduce the main rate of corporation tax back towards the European average of 21% when it is fiscally responsible to do so.

Corporation tax is an inefficient way to raise government revenue. It has a negative impact on growth, investment and entrepreneurship. In a world of capital mobility, it is difficult to collect and it deters inward investment. As a consequence, much of the burden ultimately falls on less mobile workers and smaller businesses. Although government finances are currently constrained, the medium-term objective should be to bring down corporation tax to a rate no higher than the European average. Furthermore, there should be more active use of the corporation tax regime to incentivise investment in the green transition and other strategic sectors, and to encourage investment in training and skills development (see sections below).

Increase reputational pressure on slow invoice payers.

Companies that are paid swiftly can raise their productivity by spending more time on projects of economic value and less time chasing invoices. Yet less than one in ten of our members are aware that they can check on the payment practices of large employers. Far fewer feel able to take enforcement action themselves against slow-paying customers. A new government should:

- Publish twice-yearly rankings, by organisation, of the average time taken to pay invoices. Ranking lists should be actively released to the media.
- Develop an aggregate headline indicator of the average invoice payment time across all qualifying businesses.
- Require public sector entities employing over 250 people to report their payment practices through the same system as private entities.

Skills and employment

The availability of appropriate skills is a long-standing issue that negatively affects British business. The issue has become particularly acute in the past couple of years. IoD research has found that, since the beginning of 2023, around 40% of IoD members have consistently stated that 'skills shortages/employee skills gaps' are having a negative effect on their organisation.

Action is needed to remedy skills and labour shortages across the UK to ensure that businesses are able to access the skills they need to grow and thrive.
A whole-economy solution is needed, one which involves workplace training as much as it does the more traditional education routes for people at early stages of their careers.

IoD proposals

Establish an independent body to produce a list of the UK's current and future skills needs.

An independent body is needed in order to systematically advise on current and future skills shortages areas. An arms-length, technocratic shortage occupations agency would be preferable to an internal governmental unit in order to ensure impartiality and transparency. This body should work closely with business, and build on the work of the Migration Advisory Committee and the analysis underpinning the Level 3 Guarantee.

Use the tax system to incentivise businesses to upskill and reskill employees in skills shortage areas.

We propose a tax credit – or super-deduction – for company costs incurred in training staff in skills shortage areas. This would provide an incentive for firms to fund training in areas of critical importance to the future performance of the economy. It would also obviate any reluctance that companies might feel about investing resources in staff who could defect to competitors if their new skills are in high demand. This approach would also minimise the risk of deadweight loss, which occurs when government-funded training fails to generate outcomes that are not additional to what would anyway have occurred.

Reform the apprenticeships system.

There is an urgent need to deal with the growing chasm between Apprenticeship Levy receipts and government expenditure on apprenticeships. A significant proportion of Levy receipts are not being utilised, and simply represent a windfall tax on employers. In order to increase investment in skills and to make the Levy fit for purpose, we propose the following:

- Introduce meaningful flexibility in how Apprenticeship Levy training funds can be used, to enable Levy-paying firms to invest in the range of training needed to futureproof their employees' skillsets. The existing funding of 95% of SMEs' apprenticeship training costs should be retained.
- Work with business representative organisations to identify what additional support would increase SME uptake of apprenticeships, to address the halving of SME apprenticeship starts since 2016.
- Reform the Levy so businesses in Northern Ireland can directly access Levy funding to attract and upskill their workforce.

Reintroduce a requirement for young people to complete some form of work experience before leaving compulsory education.

Recent studies suggest that lack of work experience is a significant impediment to securing an entry-level job. Building work experience into compulsory education will help young people to develop an understanding of the workplace and the employability skills needed to thrive in their careers.

Support businesses to increase their overall investment in occupational health.

Since the end of the pandemic, levels of economic inactivity due to long-term sickness have increased significantly. This has contributed to labour shortages; it is also a waste of valuable human capital. Employers' provision of occupational health benefits should be incentivised by bringing additional occupational health costs into scope of additional tax relief under the Benefit in Kind exemption.

Encourage a more inclusive business environment.

In order to maximise access to talent and boost productivity, responsible businesses are actively engaged in developing a welcoming environment for colleagues from all backgrounds. As described in the IoD's 2022 report – the Future of Business – an inclusive business strategy encompasses data, recruitment, progression, workplace culture, and senior leadership and accountability. Government can support this process by:

- Introducing ethnicity pay gap reporting and disability workforce reporting for large employers with 250 or more staff.
- Extending the Financial Conduct Authority's requirements – to report information and disclose against targets on the representation of women and ethnic minorities on their boards and executive management – to the largest non-listed companies.

Review the UK's economic migration system.

At a time of labour shortages, the migration system should be agile in responding to genuine skills shortages. SMEs face barriers in accessing the system because of the costs and bureaucracy entailed. The migration system should be integrated closely with the remit of the independent skills body outlined above.

Reverse recent changes to IR35

IoD members stress the importance of retaining a flexible labour market in which diverse workplace relationships are encouraged and enabled. Current off-payroll rules (IR35) provide a strong deterrent to the engagement of contractors – as hiring companies are liable for any misclassifications that might occur. The new government should reverse the 2021 rule changes (something that was announced in September 2022 but then subsequently reversed), enabling contractors to self-classify their employment status.

Sustainability

In order to become more sustainable, the interests of the business community are best served by a managed transition marked by effective government leadership on, and commitment to, net zero. Business is on board with the necessity of the transition and is looking for guidance and leadership from government on how to achieve it.

Clear, long-term planning, vision, and strategic direction from government is crucial in supporting businesses to decarbonise.

Businesses are unlikely to make major investment or strategy decisions if the policy environment relating to net zero is unpredictable – due to stop-start market interventions or sudden regulatory tweaks. Business needs a long-term plan that extends beyond any one government, and which is underpinned by joined-up policy. This will maximise the chances of achieving a business transition that is both commercially viable and sufficiently impactful.

IoD proposals

Introduce a lower corporation tax rate for organisations that have achieved net zero.

According to IoD research, 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 pursue decarbonisation plans if they were incentivised by a lower corporation tax bill. Depending on how the tax differential is calculated, this outcome could be achieved at nil cost to the Exchequer. The important outcome is that there should be a wedge between the standard and the net zero tax rate to act as a clear business case for change. The differential could be adjusted over time to calibrate the response and in the light of prevailing fiscal circumstances.

Launch a 'Help to Green' campaign, as proposed by the Independent Review of Net Zero (the Skidmore Review).

This should include information resources and vouchers for SMEs to plan and invest in the net zero transition. For example, green vouchers could be used to commission energy audits which would enable SMEs to determine their energy use or emissions profile, and obtain expert advice on how to improve energy efficiency.

Define a carbon reporting framework for SMEs.

Small businesses can already measure their carbon footprint with the help of specialist consultancies or tools available on the SME Climate hub. However, there is currently no standardised way in which they should account for emissions in their annual report and accounts. The Government is currently assessing how new international accounting standards for sustainability disclosure will apply to UK companies. For SMEs, a light touch framework is needed that will both minimise the compliance burden and help directors present a clear picture of their environmental impact.

Introduce a requirement for commercial landlords to provide tenants with information about the carbon footprint of the premises they lease.

Requiring commercial landlords to share energy, water, and waste data with tenants would remove a key barrier to business' ability to calculate their emissions and create decarbonisation plans.

Introduce a VAT-based investment incentive for net-zero related investments.

This could work by allowing SMEs to reclaim 150% or more of the VAT paid on specified green purchases. This kind of tax break would provide an incentive for SMEs to invest more in net zero despite the long payback periods and provide fast cash back into the business.

Prioritise the development of the UK's Green Taxonomy.

A green taxonomy is a classification system which clarifies the environmental sustainability of economic activities. As well as facilitating the flow of capital into genuinely sustainable investments, it would help address the problem of greenwashing. Although in principle committed to a green taxonomy, the Government has delayed consultation and legislation on the issue. A new administration should develop a green taxonomy as soon as possible.

International trade

The international trading environment remains challenging for UK business. Exports are a key driver of economic growth but only 11% of UK businesses sell their goods and services abroad. Since the pandemic, the UK's exporting performance has lagged that of peer economies. The UK has dropped from the 5th largest exporter in the world to 7th and more needs to be done to prevent further decline.

The UK's trading relationship with the EU, as set out in the Trade and Cooperation Agreement (TCA), remains the foremost challenge for exporters – due to greater administrative requirements, obstacles to business mobility and customs red tape. As a result, many smaller businesses have stopped exporting altogether. Although Free Trade Agreements with countries outside of the EU offer growth opportunities, they are not a sufficient solution to declining UK export performance.

IoD proposals

Establish a revamped exporting strategy which provides a viable roadmap towards an improved UK export performance.

This should define meaningful export targets for the UK, along with associated policies underpinning the achievement of those targets. The current target of £1 trillion exports in current prices by 2030 is not sufficiently ambitious, especially when inflation is taken into account. In addition, a target should be established for the proportion of UK businesses that are exporters. A reasonable objective is for 15% of all UK businesses to be exporting either goods or services by 2030. The export strategy should also develop a more ambitious roadmap to enhance the exporting of services, not just goods.

Negotiate an improved Trade and Cooperation Agreement with the EU in 2026.

The TCA is due to be reviewed by the UK and EU in 2026. Its scope should be extended into new areas of UK-EU cooperation, such as a veterinary agreement and mutual recognition of professional qualifications. Business mobility should be improved by seeking an extension of the current EU visit limit, which restricts business travel without a visa to 90 days or less in a 180-day period. Efforts should be made to further postpone or redefine 'rules of origin' requirements and associated tariffs for electric vehicles beyond the current deadline of the end of 2026.

Accelerate the implementation of the Single Trade Window.

In principle, the new digital Single Trade Window should make trade and customs processes easier to navigate for business. It will also be a key source of data to inform policy decisions. However, although the first phase of implementation will begin this year, it may not be fully operational until 2028. In the meantime, customs declarations and authorisations will remain a burden for business. The implementation process needs to speed up as a matter of urgency.

Revitalise trade promotion efforts.

Some potential quick wins identified by our members include:

- Establish a database where firms can find potential buyers and partners across the globe. The database should also provide easy access to overseas trade shows and events, and contact details for UK embassies.
- Reopen an equivalent of the Internationalisation Fund to provide grants to SMEs and first-time exporters. These could be used for travelling to new markets, attending trade shows, using translation services and employing consulting services.
- Improve the capacities of embassies to spot export opportunities and arrange trade missions.
- Appoint an EU Economic Special Envoy for Northern Ireland to promote the unique dual market access opportunity to European businesses and encourage investment into Northern Ireland from the EU.

Enhance the provision of information and advisory services for traders.

This could involve publishing export guidance on potential overseas markets, including from a sectoral and cultural perspective. Particular attention should be paid to advising smaller businesses on how they can make the most of Free Trade Agreements. A database should be created containing business visa requirements for each overseas jurisdiction. Other practical measures could include:

- A portal for all export guidance and funding initiatives. This would contain contact information for local trade advisors, straightforward guidance on the export journey in each market, and details of customs helplines.
- Enhanced training for advisers serving in the government's International Trade Adviser service - to ensure that their service is of a consistently high standard.

Corporate governance

The IoD's view is that the UK's corporate governance framework remains a competitive advantage for the UK economy. Although governance rules and practices should evolve, the UK should not abandon its commitment to the highest standards. Wherever possible, governance improvements should be advanced by educating and empowering directors rather than by adding to the complexity of the existing regulatory framework.

IoD proposals

Reform directors' legal duties.

Modern directorship involves fully incorporating the interests of employees, the environment, suppliers and communities into board decision-making alongside those of shareholders, and this should be more clearly reflected in directors' underlying legal duties.

To support this perspective, section 172 of the Companies Act 2006 should be reformed – as advocated by the Better Business Act campaign. The duty of directors should be clearly stated as that of promoting the success of the company as a whole. In particular, section 172 should not suggest that directors have a legal obligation to prioritise the interests of shareholders over those of other key stakeholders.

Promote the adoption of a code of conduct for directors.

A Code of Conduct for Directors should be incorporated as a vital new component of the UK governance framework. In many aspects of business life, a code of ethical conduct is an essential component of the licence to operate and a meaningful source of professional accountability.

The IoD has established a commission to develop such a code, which directors will be invited to sign up to on a voluntary basis. A future government should promote the adoption of this code by the business community.

Undertake a fundamental review of the corporate reporting framework.

IoD members express regular concern about the growing burden of corporate reporting. For both preparers and users, annual reports are increasingly lengthy, complex and difficult to navigate.

Furthermore, the purpose of corporate reporting is changing – with less focus on historic financial information and an increasing emphasis on environmental and stakeholder impact. The government should undertake a holistic review of the entire corporate reporting framework in order to ensure that it remains fit for the future.

Complete the transformation of the FRC into ARGA.

A future administration should undertake a review of the post-Carillion governance and audit reforms, and implement its key elements. In particular, the transformation of the Financial Reporting Council into an improved regulatory body, ARGA, is an important pre-requisite for greater trust in UK corporate governance. However, some elements of the package should be reevaluated, including those mandating managed shared audits and additional corporate declaration requirements.

Strike the right balance in listing rules reform.

It is important that the UK equity market maintains its competitiveness, especially with regard to innovative and high growth companies. It is equally important that this is not achieved through a regulatory race to the bottom which harms the UK's reputation for high corporate governance standards in the long run.

A future government must seek to find the right balance. In terms of the listing rules, many of the recent reforms proposed by the FCA represent a step in the right direction. However, there is still a need to maintain elements of investor protection in the regime, such as a shareholder vote on related party transactions.

Focus on director education as a means of improving governance standards.

The response of policy makers to high profile corporate failures is typically to add further regulatory requirements to the functioning of companies and boards. However, this is often ineffective in changing outcomes and deflects boards from devoting sufficient attention to the underlying drivers of business performance, such as strategy and innovation.

Greater emphasis should be placed on director education as a means of improving governance. Directorship requires the development of knowledge, skills and attitudes that are not automatically acquired from senior management roles. Pre-requisites in terms of director education and training should be defined for directors about to take up their first role on the board of a public interest entity.

Members of the Institute of Directors policy team:

Alex Hall-Chen, Dr. Roger Barker, Sasha Trapani, Hugo Legh and Emma Rowland (left to right)

The Institute of Directors is a non-party political organisation, founded in 1903, with approximately 20,000 members. Membership includes directors from right across the business spectrum, from media to manufacturing, professional services to the public and voluntary sectors. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies.

The IoD was granted a Royal Charter in 1906, instructing it to "represent the interests of members and of the business community to government and in the public arena, and to encourage and foster a climate favourable to entrepreneurial activity and wealth creation." The Charter also tasks the Institute with promoting "for the public benefit high levels of skill, knowledge, professional competence and integrity on the part of directors", which the IoD seeks to achieve through its training courses and publications on corporate governance.

The IoD is an accredited Good Business Charter organisation.

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