BRITISH CHAMBERS OF COMMERCE
65 Petty France
London, SW1H 9EU
United Kingdom

Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

1 February 2023

Dear Chancellor,

SPRING BUDGET 2023: SUBMISSION FROM THE BRITISH CHAMBERS OF COMMERCE

I write on behalf of the British Chambers of Commerce, our Global Chamber Network, and Chamber business communities across the UK, to outline our members' priorities for the 2023 Spring Budget.

The political and economic uncertainty of the past few years has contributed to challenging business conditions. Our Quarterly Economic Survey for Q4 2022 – the largest private sector survey of business sentiment – shows that indicators have stabilised at a low level but there remains no sign of a recovery.

Through this period, firms recognise Government took significant steps to support them, whether through covid or on the energy price crisis. This support has been a necessity in the face of external pressures and should be considered an investment in protecting jobs and giving businesses across the country the best possible chance of contributing to the long-term wealth and prosperity of the UK. We hope that Government can now work in partnership with Chambers of Commerce, and with the business community, to turbo charge the 'can do', solution-oriented businesses across our country.

In May, at our Annual Conference, I will set out my vision for this partnership. How we, as partners, can work to build British businesses, unlock the potential of our people, export for growth, and make the UK a global hub for green innovation.

Against this economic backdrop and to lay the foundation for our future partnership, we therefore urge you to use the Spring 2023 budget to set out a long-term plan that facilitates the employment, investment, and growth that will drive prosperity across all regions and nations. The British Chambers of Commerce proposes action in the following areas:

- **Employment and Education** – Introducing a package of measures to resolve long-standing barriers to inactive workers entering or re-entering the workforce.
- **Economic Growth –** use the tax system, planning and industry partnerships to incentivise growth and boost inward investment
- **Energy –** address energy market concerns, boost energy efficiency and enable the Net Zero transition
- **Encouraging Enterprise –** ensure every firm can access the guidance and advice they need to grow.
- **Trade and International –** make the UK the best place to invest and support our businesses to export their goods and services

BRITISH CHAMBERS OF COMMERCE
65 Petty France
London, SW1H 9EU
United Kingdom

Attached to this letter you will find our full submission that outlines the BCC's view on current economic conditions and our proposals on creating the conditions for growth. I look forward to meeting soon to discuss this in greater detail. In the meantime, if your officials have any queries regarding our proposals, please ask that they contact Adam Szpala, Head of Public Affairs, in the first instance (07961138964/a.szpala@britishchambers.org.uk).

Yours sincerely,

Shevaun Haviland
Director General

CC: Rt Hon Grant Shapps MP, Secretary of State for Business, Energy, and Industrial Strategy
Rt Hon Michael Gove MP, Department for Levelling Up, Housing and Communities
Rt Hon Kemi Badenoch, Secretary of State for International Trade & President of the Board of Trade
Rt Hon Mel Stride MP, Secretary of State for Work and Pensions
Rt Hon Gillian Keegan MP, Secretary of State for Education
Rt Hon John Glen MP, Chief Secretary to the Treasury
Rt Hon Victoria Atkins MP, Financial Secretary to the Treasury
James Cartlidge MP, Exchequer Secretary to the Treasury
Andrew Griffith MP, Economic Secretary to the Treasury

ANNEX A: BCC VIEW ON CURRENT UK ECONOMIC CONTEXT

CURRENT ECONOMIC CONDITIONS

The British Chambers of Commerce conducts extensive research into UK business conditions. This programme consists of two core strands:

- The Quarterly Economic Survey (QES) – the UK's largest independent business conditions survey, established in 1989, made of up around 5,500 responses from mainly SMEs each quarter.
- A series of thematic surveys exploring business conditions across the following areas: access to skills, international trade, and net zero.

The two major issues facing businesses from 2021 onwards have been unprecedented **inflation** and **skills shortages**. From the second half of 2022, our research has shown a significant and concerning decline in business sentiment measures including confidence, investment intentions, and growth expectations.

Current business conditions are among the hardest seen in generations as multiple economic crises converge. Businesses have seen lasting damage caused by Covid lockdowns, ensuing global supply chain crisis, new trade barriers with the EU, unprecedented energy costs, and significant skills shortages.

After significant declines across all business conditions tracked by the QES in Q3, most indicators stabilised at a low level in Q4[1].

- Profitability confidence remains at Covid-crisis levels; only one in three (34%) businesses believe their profits will increase over the coming year, while more (36%) expect a decline.
- Just 33% of firms experienced an increase in sales over the past three months, while 25% of firms reported a decrease, with hospitality firms the least likely to report improvements.
- Inflation remains by far and away the top concern for UK firms – this is cited by 80% of respondents. However, we are now seeing an increasing number of firms citing taxation (38%) and interest rates (43%) as growing business concerns.

Small businesses that are consumer-facing (such as those in the retail and hospitality sectors) are more likely to report worsening conditions than larger firms and those in the professional service sector, as consumer confidence weakens, and the absorption of inflationary pressures has significantly reduced profitability. Manufacturers are more likely than other sectors to report cost pressures from raw materials, utilities, and labour costs.

Throughout 2022, energy overtook raw materials and labour as the primary driver of inflation. In October, BCC found almost half of SMEs said they would find it difficult to pay their energy bills once the Government's Energy Bill Relief Scheme ended in its current form on 31 March 2023. A further 4% said they will not be able to pay their energy bills at all. BCC receives hundreds of case studies from businesses facing an unprecedented shock to energy prices. One such example is a small

BRITISH CHAMBERS OF COMMERCE
65 Petty France
London, SW1H 9EU
United Kingdom

service sector firm in Somerset who told us their 'electric costs will rise from £34,000 per year to around £250,000 from March'.

OUTLOOK FOR THE UK ECONOMY

The BCC's Quarterly Economic Forecast from Q4 2022 expects the UK economy to remain in recession for five quarters, up to Q3 2023[2]. The annual expectation for GDP growth in 2023 is now forecast to be minus 1.3%, broadly in line with the OBR and Bank of England's predictions. However, unlike the Bank of England, the BCC expects the economy to grow in 2024, albeit at 0.7%.

Businesses and consumers will continue to face high costs due to inflation, but the upward spiral is now thought to have peaked at 11.0% for Q4 2022. The CPI rate is expected to slow to 5.0% in Q4 2023 and finally drop below the Bank of England's target to 1.5% in Q4 2024. Overall investment is expected to fall by 1.8% in 2023, with business investment expected to fall even further by 3.0% in 2023.

Our forecast indicates that 2024 will see return to growth but not at a level which will compensate for the five quarters of a shrinking economy. Net exports, household spending and business investment are all likely to return to growth but may be hampered by constrained government spending.

We expect total public sector net borrowing to be £139 billion for 2023/24, which is around 5.7% of GDP. This is significantly higher than the BCC previous forecast from Q3 2022, in which we expected public sector net borrowing to be £45.4 billion (1.8% of GDP).

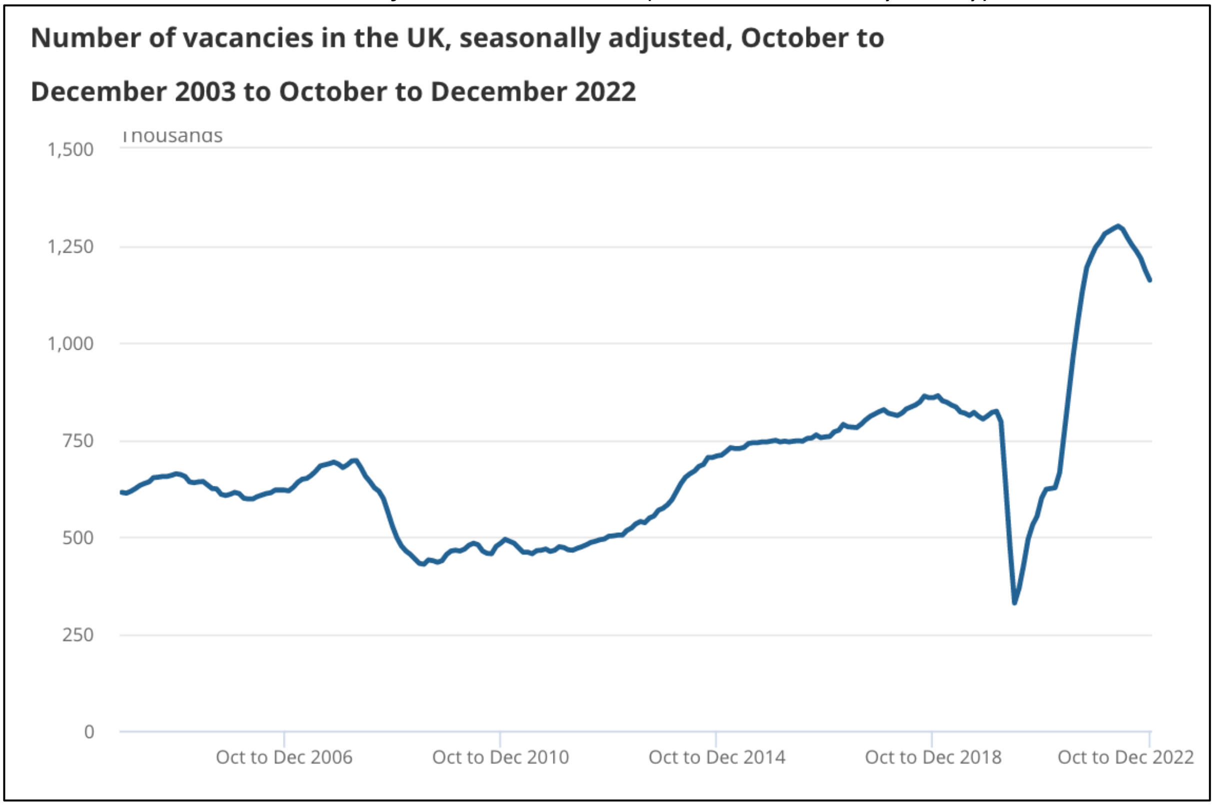
ANNEX B: PROPOSALS FOR BUDGET

1. Employment and Education: Inactive Workers

1.1 Scale of the issue

According to the most recent ONS figures, there are now over 1.16 million job vacancies; down from the spring 2022 peak but still higher than at any point in nearly 20 years (see chart 1). In this context it is unsurprising that the BCC's 2022 Workforce Survey found that 71% of all respondents were experiencing skills shortages, rising to 86% of larger firms, hindering them from operating profitably, taking on new orders, investing and growing[3]. Similarly, the BCC Quarterly Economic Survey (QES) for Q4 2022 found that 61% of firms overall attempted to recruit, with 82% reporting recruitment difficulties, the highest since the QES began in 1989[4].

Chart 1: The estimated number of vacancies in the UK (Source ONS Vacancy Survey)



Solving this challenge will require both business and government making changes to current business-as-usual policies and operations. Businesses can and should do more to train their existing workforce, including offering work experience to those preparing for the world of work, introducing flexible working practices and making more use of Apprentices and T-Levels.

There is progress in this regard, with our research finding that 61% of business respondents are increasing salaries or using flexible working as a means of retaining staff while almost two thirds of mid-sized firms expect to increase investment in staff training over the next twelve months, compared with 4 in 10 micro firms[5]. However, looking forward, businesses need to do more to harness the skills and experience of working age adults who are economically inactive. This section of our submission proposes ways in which the government can help business to provide compelling offers for these, and other groups of the UK population.

1.2 Supporting young people not in education, employment, or training (NEET) with essential training and skills

Applicants who lack the fundamental skills required for work, whether communication skills, literacy, or core digital proficiency, constitutes a significant barrier to employers, who find it challenging to provide training on both core competencies and specific skills related to job roles. The cohort of NEET young people, which is currently estimated by the ONS to comprise 724,000[6] individuals, includes many in this position.

A 2022 study by the Learning & Work Institute and the Princes' Trust estimated that around 484,000 of this group are able and willing to work, but that around 38% feel they lack sufficient qualifications or experience to secure employment[7]. These figures imply that many as 184,000 NEET young people could potentially enter the workforce if they had effective support to do so.

Policy Recommendation: Government should develop targeted support aimed at providing NEETS young people with core skills, training and/or mentoring to prepare them to enter the work force.

1.3 Using the tax system to support occupational health services

Helping employers to intervene quickly and positively when employees experience ill-health will help businesses recruit and retain a productive and diverse workforce. BCC research has found that 36% of businesses gave staff access to occupational health or wellbeing services; 33% provided medical insurance or healthcare plans; and that larger firms are far more likely to be offering these programmes (only 7% said they didn't offer any)[8].

Looking more widely across the UK economy, research from the John Lewis Partnership and Centre for Economics and Business Research estimated that the total cost of absenteeism in the UK due to mental health and musculoskeletal conditions is forecast to reach £3.8 billion in 2025[9].

Currently, employer-provided occupational health services are a taxable benefit and subject to National Insurance and Income Tax. There is a limited tax exemption of up to £500 but only for those that have been out of work for more than 28 days or where the health condition is a direct result of their work.

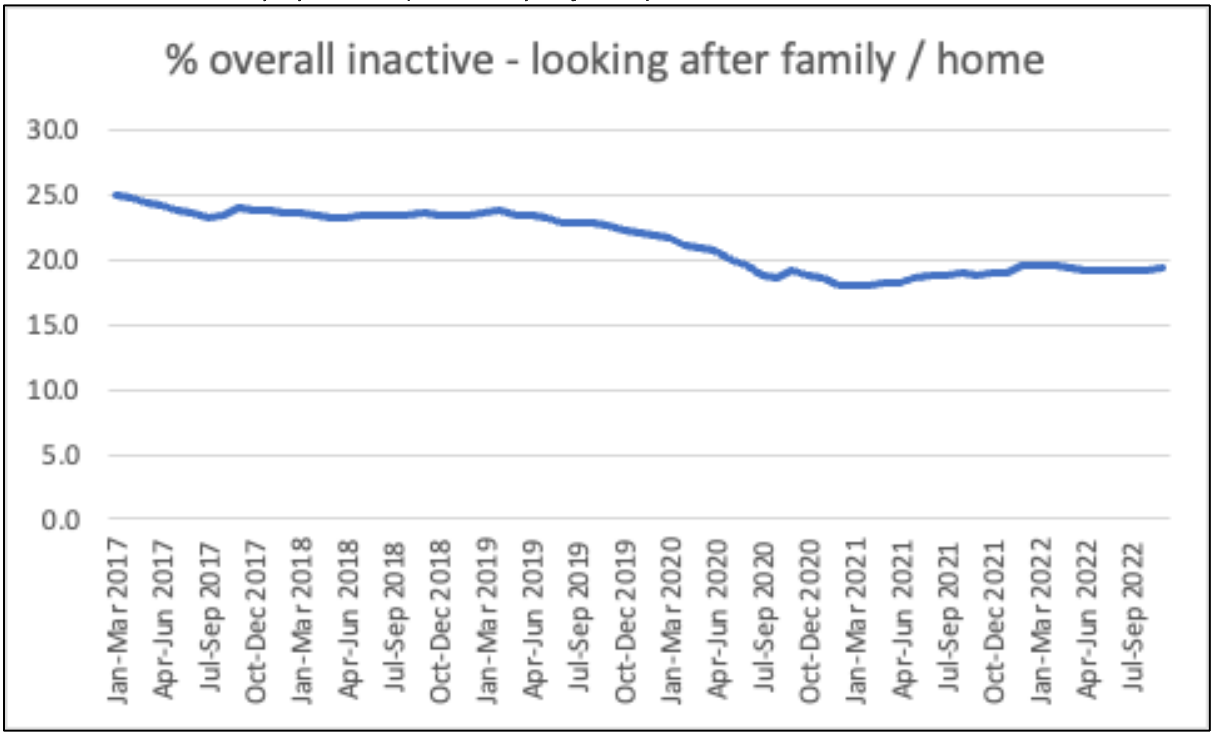
Policy Recommendation: Government should make all occupational health services a non-taxable benefit in kind to incentivise employers to invest in early intervention.

1.4 Enhancing childcare provision to boost growth

The availability of affordable childcare remains a contributor to the size of the UK's inactive workforce and as such constitutes a barrier to growth, despite some positive trends over time. According to ONS figures, the percentage of overall unemployed due to caring responsibilities (looking after family or home) has declined over the last 5 years by over 5% (see Chart 2). However, this is still a very significant issue, with 1.725m people in this position, of whom the overwhelming majority (1.485m or 86%) are women[10].

BRITISH CHAMBERS OF COMMERCE
65 Petty France
London, SW1H 9EU
United Kingdom

Chart 2: Percentage overall inactive workers due to caring responsibilities 2017-2022 (ONS INAC01 SA: Economic inactivity by reason (seasonally adjusted)



This figure is despite the extensive provision of government schemes to support parents with childcare costs, including but not limited to 15 to 30 hours of free childcare for 3- and 4-year-olds (and some eligible 2-year-olds); the Tax-Free Childcare scheme; and the ability to claim back up to 85% of childcare costs if eligible for Universal Credit.

Part of the reason lies is the cost of childcare which in England are high compared with other countries, and have risen quickly over time, in some cases faster than average earnings, and higher than the growth in overall prices over an equivalent period[11]. Similarly, the Coram Charity's Family and Childcare Survey 2022 found childcare costs have increased by 2.5% since 2021 for children under two, 2% for children aged two, and 3.5% for 3- to 4-year-olds[12].

Part of the solution therefore lies in the supply side, by bringing in measures to attract more capacity to the market. The government reviewed this sector in 2022, and while this subject is outside the scope of this Budget submission, we encourage government to work with providers to increase provision which in turn should help moderate childcare costs.

Looking at the demand side, it is important that families are aware of, and use, the provision that is available. According to the government almost 1 million eligible families have not yet taken up their right to tax-free childcare[13] and we support the steps government is taking to promote this provision more widely.

Looking ahead, we call on government to take a fresh look at how tax incentives could be adjusted to give parents the widest possible flexibility to plan their childcare spend around their work commitments. As a short-term measure related to the cost-of-living crisis the government should consider increasing their maximum contribution to the Tax-Free Childcare Account, currently set at £2,000 per year.

A more ambitious step, requiring further policy development, could be to include childcare paid to accredited providers as a business expense, to reflect the fact that most if not all parents will have to pay for childcare costs to do their job. Finally, the government could also consider the concept of a Flexible Family Childcare Budget, which could enable parents (or single parents) to claim tax relief against a proportion of their joint income that is spent on childcare.

Policy recommendations: Government should consider increasing its contribution to Tax–Free Childcare Accounts from its maximum limit of £2,000 to a higher rate, to account for inflation. Government should investigate allowing parents to claim a proportion of childcare costs as a business expense and allowing parents to claim tax relief for childcare against a proportion of their joint income.

1.5 Removing Disincentives to Work due to the Benefits system

Feedback from employers indicates that in some cases, candidates may be reluctant to accept jobs or increase their working hours, because of real or perceived disincentives in the system for Universal Credit. A specific issue that has been raised with us is the case where a young person taking up an Apprenticeship on National Minimum Wage rate will have negative implications for child benefit, negatively impacting the whole-household budget, and thus acting as a disincentive for the young person to take up the role.

Policy recommendations: Government should investigate and remove any barriers in the Universal Credit system to ensure that work is financially worthwhile for claimants who would like to re-join and progress in the labour market. Government should reintroduce child benefit for low-income families where a young person embarks on an apprenticeship at the National Minimum Wage Apprentice Rate.

1.6 Improving Technical Skills: T-Levels

Businesses are supportive of T levels as a quality alternative to the academic A-Levels to help boost the quality and quantity of technical skills in England. Chambers of Commerce are helping to raise awareness of T levels across their business networks and encouraging employers to provide Industry placement opportunities.

Around 1 in 8 respondents to the BCC's 2022 Workforce Survey of 826 businesses said they offered (or could offer with support) a T Level placement, rising to more than 1 in 4 for larger firms. This is roughly unchanged from 2021, though more firms appear to be aware of T levels[14]. The support needs range from information and advice as well as costs, including opportunity costs of staff taking time from daily duties to mentor and coach T-Level students.
With just over 1,000 learners in receipt of T Levels results in 2021/22[15], a £1,000 incentive per host business would be a relatively low-cost measure that would incentivise more businesses to get involved.

Policy recommendation: Government should reintroduce a T level financial incentive for employers who provide quality industry placements to enable more young people to benefit from technical education. To incentivise the learning outcomes the government requires, this could be paid on successful completion of the T-Level.

1.7 Complementary measures: Productivity grants and immigration reform
Where employers continue to experience longer-term skills and labour shortages and are consistently unable to recruit people from the UK, firms will look to immigration and automation. The government must ensure a flexible and affordable immigration system that meets the needs of UK businesses.

At the same time, government should guide and support SMEs to help them improve digitalisation, automation, and overall productivity. The Digital Boost Scotland scheme is a good case study of intervention in this space and has been used effectively by several businesses to initiate digital transformation in the workplace[16].

Policy recommendations: The government should introduce a flexible grant scheme, including access to change management consultancy, to help firms improve productivity and reduce reliance on low skilled labour through automation and digitalisation. The government should also begin an immediate review of the Shortage Occupations List to ensure it more accurately reflects, and offers solutions to, the skills and labour challenges facing UK businesses.

2. Economic Growth

2.1 Make Business Rates a tax that incentivises growth

We continue to welcome the relief measures put in place during the Autumn Statement on business rates especially for hospitality and retail businesses. Similarly, we are pleased that the fundamental review of business rates has at least moved the system to a three-year cycle, although we remain of the belief that the ultimate ambition should be to move to annual revaluations to ensure that rateable values remain in step with their market levels, as well as local economic cycles.

In its current form, however, the Business Rates system is still in a non-optimal condition. It causes an unnecessarily large burden on businesses regardless of their ability to pay and does not make allowances for the significant structural changes that have taken place in the UK economy over the last decade. The system, as it exists, is neither responsive to changes in the economic or business cycle at a national level nor to local economic needs. In some cases, it acts as a disincentive to business growth.

Revaluation 2023 is seeing the total rateable value increase in England and Wales by 7.1%. Whilst there are undoubtedly winners with the 2023 revaluation, it is important to consider why a sector's rateable value might have decreased. For example, the retail sector showed an average 10% decrease in rateable value.

Fundamentally, there has been a movement towards shopping locally over recent years, whilst the choice of shops has decreased. This tracks as part of a wider trend that shows the data on business rates is place-based rather than highlighting a regional divide. In short, people are now more likely to shop locally.

Furthermore, growth cities remain growing, whether that be in the city centre or the suburbs. The data suggests that growing businesses are taking advantages of cheaper land/premises in the suburbs. The main growth area appears to be industrial/logistics and this is reflected in the increase in the rateable value of warehouses. Again, this is a place-based factor, rather than a specific regional one.

Policy recommendations

BCC and Chambers across our network have long called for a more frequent revaluation scheme. Therefore, we reiterate our call for a move to an annual revaluation cycle. In the interim, whilst the revaluation process remains at a 3-year cycle, the government should continue to provide additional 'transitional' relief to cushion businesses from high uplift costs following revaluation.

In the longer term, government should develop a business rates system that incentivises rather than disincentivises growth and green investment. This could be achieved by creating a business rates system that reflects the lifecycle stage of business e.g., "Start Up rate" for new firms, with costs levied in line with other taxes i.e., percentage charge based on profit rather than flat fee. Similarly, government could consider a system that incentivises long-term business rates reductions by linking this directly to the installation of renewable energy or energy-saving enhancements

In the spirit of the Chancellor's 'everywhere' pillar, it is crucial that there is a level playing field across both the UK and between physical and online businesses. Therefore, the government should restart policy development on the Online Sales Tax to reflect the changing nature of retail in the UK and ensure that the tax burden across businesses is equitable in nature.

2.2 Reform the VAT registration threshold to boost growth

There is clear evidence that the VAT threshold acts as a disincentive for smaller businesses to grow. A 2022 Warwick University study found "robust evidence that annual growth in turnover slows by up to 2 percentage points when firm turnover gets close to the threshold, and weaker evidence of higher growth when the threshold is passed"[17].

Similarly, an OTS report from 2017 noted the a "significant 'bunching' of businesses whose turnover is just below the threshold, particularly businesses with lower levels of inputs relative to supplies to consumers", combined with a "very significant fall-off in business numbers immediately after it"[18]. A BCC study on the VAT threshold found strong evidence that the threshold was a hindrance to business growth; 57% of respondents agreed with the statement "my business is actively trying to keep below £85k turnover so that we don't have to register to pay VAT"[19] .

This growth barrier exists for several reasons including administrative costs, concerns over the increased possibility of an HMRC audit; and an inability to pass on the costs to customers especially when competing with unregistered firms. While there are measures the government could take to address these barriers, these have not been explored in the last 5 years.

BRITISH CHAMBERS OF COMMERCE
65 Petty France
London, SW1H 9EU
United Kingdom

The last in-depth review noted that the options under review were limited in scope because the UK was still bound by EU rules. For instance, the UK would have had to seek permission from the Commission to introduce a smoothing mechanism which could only have been introduced in combination with a decrease in the threshold[20]. Consequently, the government has committed to maintain the existing registration of £85,000 until April 2024[21]. The 2018 review of the VAT registration threshold concluded with a commitment to reviewing smoothing mechanisms again once the terms of EU Exit were clear.

Policy Recommendation: We call on government to restart the VAT registration review and explore a smoothing mechanism that could decrease the bunching effect while limiting administrative complexity.

2.3 Business Asset Disposal Relief (Entrepreneur's Relief)

In the 2020 Budget, following a review of the ER relief the government reduced the lifetime limit on gains eligible for relief to £1 million, and there are calls from some stakeholders to further reduce or potentially remove this relief altogether.

Following the 2020 decision the policy cost of the measure has fallen significantly from £2.8bn in 2019-2020 to £1.1bn in 2022-23. However, the impact of the change on business investment is currently not know. There is no publicly available data on the number of claimants, nor the distributional analysis of claimants, for the years 2021-22 and 2022-23[22]; this data is an important contributor to an understanding of the impact of the change.

Further, studies that have explored this policy area predate the 2020 decision to reduce the value of the relief; these include the 2021 study by IFS & LSE[23] and the 2017 market research commissioned by HMT to support its decision[24]. In contrast, feedback from our business surveys illustrates the value of incentives for entrepreneurs to start and grow their businesses. For example, a manufacturer from Devon with fewer than 10 employees told us:

'Entrepreneurs suffer many years of hard times before good income. That means they lose many years tax allowance, when they earn well below minimum wage, only to be taxed heavily when they do get the business formulae right. This should be recognised to allow business owners to claim allowances against early years on extremely low income, that would at least put their personal assets in line with those who took standard PAYE employment."

Policy recommendation: We ask HMT to consult with business stakeholders and carry out a comprehensive analysis of the impact of BADR in 2020 on business investment prior to making any further changes. In the current economic climate, it is vital that the government retain policy measures that incentivise investment and business growth.

2.4 Research & Development Tax Credits

The changes made to the Research & Development Expenditure Credit (RDEC) in the Autumn Statement will pose challenges to SMEs. With reduced access, many SMEs may struggle to secure adequate funding to progress R&D and ultimately new UK based innovations.

The Government justified these changes in the Autumn because they claimed there is "significant error and fraud". However, it our belief that they should have waited to see if anti-fraud measures being introduced by HMRC had an impact. We note that the ongoing R&D Tax Credit reform consultation is currently open and will provide further evidence to this review.

2.5 Inward Investment: Ensure planning authorities have the resource to facilitate growth

The UK has a strong track record in inward investment), with 2021-22 seeing a 3% increase in total FDI projects compared to the previous year[25]. Feedback from Chambers of Commerce shows that a barrier to IW growth is that planning authorities are a) reluctant to allocate large sites in their local plan for inward investment, and in some cases lack the expert resource to review applications which can be complex and large scale.

Policy recommendations: DIT should report annually on local authorities that have turned down inquiries, including details of the size and scale, to allow greater local scrutiny of local employment opportunities. Further, given the strategic nature of large-scale inward investment, there is a space for central government (DIT, DLUHC and HMT) to provide the co-ordination for planning and allocating larger strategic sites in a way that best meets investors economic needs.

2.6 Facilitating International Trade

Accessing overseas markets is vital to help British businesses grow, especially in a time of difficult domestic economic conditions. However, a recent BCC survey of more than 2,300 UK SME exporters revealed that more are continuing to report falling export sales (27%) than are reporting an increase (26%); just over a third expect to see increased profitability in the next 12 months, while an almost equal number (35%) expect a decrease[26].

Policy recommendation: Government should ensure that UK Export Finance and DIT export support services have sufficient resource to continue to support this vital sector.

3. Energy

3.1 Support for business

The Energy Bill Discount Scheme (EBDS) announcement was welcome but fell short of the support required by most businesses. Energy bill support should be considered a long-term investment rather than as a subsidy, given that many of those firms facing price rises have strong long-term prospects.

We have two concerns with the EBDS scheme. First, the funding envelope relies on the assumption that energy prices will remain low. We consider that flexibility should be allowed within the fiscal envelope to account for further exogenous shocks to the wholesale energy price.

BRITISH CHAMBERS OF COMMERCE
65 Petty France
London, SW1H 9EU
United Kingdom

Second, the use of ETII sector codes has revealed some anomalies, which we have shared directly with BEIS. For example, most alcohol producer segments are listed but spirits distilleries are not, which is strange given that the export of spirits is a key sector for the UK. Another example is the inclusion of museums, but the exclusion of commercial laundries (almost the perfect description of an energy intensive industry) and leisure centres.

Policy recommendations: The government should build flexibility and contingency into the fiscal envelope to account for potential higher than expected energy costs. The government should also review the ETII scheme sector list to ensure that it accurately reflects the truly energy and trade intensive businesses across the country.

3.2 Energy Regulation to Protect Business Customers

Since the energy price rises in 2022, BCC and Chambers have been inundated with concerns from business about the difficulties in finding contracted rates at competitive prices, and case studies of the imposition of unaffordable standing charges and other fixed costs. We are in contact with Ofgem who have accepted that there are issues to investigate and have begun a market review.

Policy recommendation: Government should ensure effective competition in the business energy market for non-domestic contracts by ensuring Ofgem has sufficient regulatory powers to guarantee that businesses can access competitive fixed rate contracts, to ensure energy providers move swiftly to pass on wholesale price reductions and to eradicate inflated surcharges such as higher than necessary standing and distribution charges.

3.3 Funding for improved non-domestic energy efficiency

The Skidmore review proposed that Government should legislate by 2025 for the minimum energy efficiency rating for all non-domestic buildings, both rented and owned, to be EPC B by 2030. If this was achieved, it would provide a substantial long-term benefit to business operations through reduced energy use as well as reducing carbon emissions. However, the capital cost of achieving this would be substantial: BEIS estimate that around £20 billion is required to achieve all energy efficiency potential in non-domestic buildings[27].

In the current and near-term economic environment, it is unlikely that business will be able to meet the scale of investment required to achieve a step-change in energy efficiency.

Policy Recommendations: BCC endorses the Skidmore Review's recommendation for direct funding for both SMEs and large companies or those in large buildings (and their landlords where applicable). This could also involve extending the existing Industrial Energy Transformation Fund to £185 million new support for SMEs and in commercial sectors/buildings.

3.4 Energy saving advice and support

In our 2022 budget submission BCC argued for expanded advice and support for energy saving measures. We were pleased to see the Skidmore Review echo this in call to action.

Policy Recommendation: Government should launch a comprehensive and integrated communications campaign and energy advice service.

BRITISH CHAMBERS OF COMMERCE
65 Petty France
London, SW1H 9EU
United Kingdom

3.5 Reclaiming VAT on energy: Unclear guidance

We have reviewed HMRC guidance on VAT on fuel and energy[28], and it is difficult to find clear guidance as to whether businesses can reclaim VAT on energy. We have engaged with BEIS, HMT and HMRC who have clarified that businesses can reclaim VAT, and accepted that the guidance could be clearer, but there has been no improvement.

It is important for government to be crystal clear on this because there are popular websites such as Business Energy UK[29], which present as a trusted source of advice, and state that businesses cannot claim back VAT on energy. We have approached Business Energy UK to ask them to correct this misinformation and raised the issue with BEIS and HMT).

Policy recommendations: We strongly encourage government to revise and improve guidance on reclaiming VAT for energy costs, and to act where independent third parties are promoting misleading information.

3.6 Develop a new SME Energy Hedging Scheme

Energy hedging is common across many sectors including airlines, rail operators and many others. It means that increased electricity prices are not reflected in companies' results, nor do they need to shift the higher electricity cost into their product pricing. Currently, this practice is more common among larger businesses, with many SMEs unable to do so.

Policy recommendation: Government should develop an energy hedging scheme for SMEs. Such a scheme may not require public funds but would require the facilitation role of Government. Therefore, we propose to develop a sandbox approach with the participation of the Government where detailed proposals would be worked up at rapid pace.

3.7 Introduce a floor price to the Energy Profits Levy (EPL) and retain the investment allowance

The Energy Profits Levy (EPL) has had a detrimental impact on investment in the UK Continental Shelf and undermined the government's stated aim on increasing UK oil and gas production to enhance our domestic energy security. For example, Harbour Energy has recently announced plans to cut hundreds of jobs and shift investment away from the UK[30], and as a result did not take part in the 33rd Offshore Licensing Round in the autumn.

Policy recommendations: To mitigate these negative impacts the government should introduce a floor price, i.e. a price of oil measured through an impartial industry price metric, below which the EPL would not apply. This would in line with the government's original policy position from May 2022, namely that the measure will be phased out when oil and gas prices return to historically more normal levels.

This proposed approach would also be consistent with the Electricity Generation Levy, where additional tax is levied against 'extraordinary returns', are defined as the aggregate revenue that generators make in a period from in-scope generation at an average output price above £75/MWh[31]. The headline oil price is not necessarily an indication of the selling price.

It is also crucial the that the investment allowance attached to the EPL is retained and consideration must be given to extending it to low carbon investments to help accelerate our energy transition. Looking ahead, we intend to proactively engage with the government review of a review of the UK's long-term tax treatment of the North Sea after the Energy Profits Levy ceases.

4. Encouraging Enterprise

4.1 Developing a shared vision for government-funded business support

Most businesses find advice from other businesses, and in the B2B networks that scale up these conversations. Firms are more comfortable accessing support via well-established 'front door' non-public sector organisations, such as a Chamber of Commerce, than via a public-sector body. Government funded support must co-exist with other sources of business support, responding to market failure, augmenting, and enhancing the overall offer, not replicating, under cutting or devaluing non-state funded provision.

Some of the historic challenges of government funded support include a fragmented and complex system, multiple brand identities, and lack of longevity. Much of this stems from the short-term nature of government-funded programmes. In contrast the broader business support market often provides much needed continuity and consistency of provision in an otherwise turbulent system. In business support, trust and impartiality is paramount and Government should consider working through anchor institutions/trusted intermediaries rather than attempting to establish another new brand or access route.

Looking forward, a long-term strategic approach to government-funded business support, which provides more agency and autonomy to local and regional communities, could provide vital investment in our country's future economic success.

Policy recommendations: The government should develop a long-term strategic approach to government-funded business support. This should provide more agency and autonomy to local and regional communities, and be developed with local business communities, including trusted third parties like Chambers of Commerce, to reach a joint government-business vision.

4.2 Learnings from Shared Prosperity Fund allocation and funding envelope

Chambers of Commerce have raised major concerns around the recent Shared Prosperity Funding, designed to replace ERDF and ESF. These include an insufficient budget allocation compared to the previous programmes and gaps between ESF ending and SPF starting, leading to staff redundancies and delayed project timings.

Chambers have also raised concerns around the complex mix of stakeholders involved in developing SPF schemes. In some areas District Councils, County Councils, City Councils and Combined Authorities have all been planning SPF activity, leading to confusing for business and other stakeholders, overlapping programmes and lack of scale leading to reduced value for money. Finally, there is a general concern that underfinanced Local Authorities will use UKSPF to plug gaps in teams rather than push out all the funds to businesses.

Policy recommendation: Government should review the role of local and regional actors as when reviewing this allocation's (2022-2025) effectiveness, to maximise scale and value for money. Future rounds should follow seamlessly from the existing round to ensure continuity. Future allocations of the SPF should encourage local authorities to ringfence a percentage of funding for economic development programmes, working with trusted local partners to ascertain priorities for their bids.

4.3 Solvency II reform: Complete the proposed reforms to help unlock private investment

BCC supports the objective of Solvency II reform to increase investment flexibility of the insurance industry while preserving financial stability. Changes such as flexibility to include assets with prepayment risk or construction phases; and changing the requirement for all eligible assets to have fixed cashflows to highly predictable cashflows, among others[32], should help meet this objective and encourage private investment in infrastructure and other sectors with predictable returns.

Challenges around public investment in HS2 illustrate the importance of leveraging more private sector investment into UK infrastructure which can complement the UK's already- strong track record in encouraging private investment into infrastructure such as maritime ports, water supply and airports.

Policy Recommendation: We urge government to complete its reform agenda around Solvency II, continuing to work with the PRA to enable the implementation of these reforms, to make the most of this reform opportunity.

4.4 Expand role of social enterprise lenders

Social enterprise lenders are playing an important role in providing targeted lending to businesses, using established networks to help those that need it most. For example, the not-for-profit Business Enterprise Fund, developed initially by the Bradford Chamber of Commerce, provides flexible finance to businesses across the North of England, focusing on deprived areas. In FY 2021-22 the BEF delivered a record £14.6m in loans to support 603 businesses across the UK, with 64% of lending to those within the most deprived areas of the UK[33].

Similarly, the Chamber Acorn Fund (Humber), developed by the Hull and Humber Chamber of Commerce, is a not-for-profit company and a fully accredited responsible finance provider. Since its inception in 2004 it has supported 1,500 businesses, created 4,000 jobs, and grown the local economy by £150 million[34].

Policy recommendation: The model of not-for-profit, social impact lending championed by Chambers of Commerce has the opportunity to grow and develop across the UK. We are having initial conversations with the British Business Bank and other potential partners around scale-up opportunities. We welcome the opportunity to discuss this with HMT as part of the government's wider agenda on business growth and levelling up, and to assess whether this form of lending could be eligible for funding under the Solvency II reforms.