27 September 2018

Rt. Hon Phillip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

As our country prepares to leave the European Union, the world is watching to see the path we will take. This year's Budget is an opportunity to show the kind of country we are: enterprising, competitive, and committed to prosperity shared across all of society. We write to you, on behalf of our members, setting out the steps that business believes will make the most of this opportunity.

We know you will agree that our country faces the future with many great assets. Employment is at a record high – a joint achievement by both business and government – the power of 'Brand Britain' means that demand for our exports is going from strength to strength and, despite increased levels of uncertainty, the UK still remains the number one destination for Foreign Direct Investment in Europe.

But we must also face into the structural challenges in our economy, including sustained weakness in productivity growth, rising skills shortages and a climate of uncertainty that is deterring long-term investment by our businesses. While Germany, France and the US are all set to grow by around 2.3% and 2% this year and next, our economy is set to grow by only 1.4% and 1.3% respectively. Despite the strength of our labour market, household incomes are being squeezed, with a knock-on effect on the businesses that serve them. We must focus our attention on delivering sustainable, long-term increases in wages to bring shared prosperity and improved living standards for this generation and the next.

Our members agree that, together, these weaknesses are best met with a single, effective remedy: increased business investment. When businesses invest in our workforces, buildings, machinery and digital capabilities, we not only improve our operational capability, we send a message that the UK is confident about our country and committed to its future. That is the best possible signal we can send to the world at this moment.

Yet, in comparison with our international counterparts, UK businesses underinvest, and have for many decades. We have the lowest level of business investment as a proportion of GDP in the G7, and the gap between us and the best is widening. This is not because firms do not want to invest in our country, but because so often the conditions are not right for doing so. <u>We therefore ask you to use this Budget to send a signal that this must change, and the Government is committed to taking action alongside business to make that happen.</u>

A tax system that supports investment

The Government's commitment to the Corporate Tax Roadmap has injected a sense of stability into the UK's tax system that has for so long been lacking, and the UK's R&D tax credit is recognised as truly world-leading by business. But we must look further if we are to make a difference to the outlook for investment. Our capital allowances regime remains one of the least competitive in the G7 and excludes important types of investment such as buildings and certain intangible investment costs associated with the take up of technology. This Budget should take steps to address these gaps by:

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- Increasing the Annual Investment Allowance to £500,000 for two years to boost innovation and UK competitiveness
- Committing to reviewing the capital allowances regime next year with a focus on newer technologies so the UK has one of the most competitive regimes in the G7 by 2030

The current business rates system is stifling growth and investment in commercial property across sectors from retail to manufacturing and energy storage. Ensuring business rates rise only in line with CPI rather than RPI was an important step forward last year, but it did not go far enough. For some retailers, their business rates bill is over double their corporate tax bill and, for one manufacturer by way of illustration, their business rates bill is almost 50% of their operating expenditure, making them unprofitable. It is imperative that urgent action is taken to alleviate the negative impact business rates is having on growth and investment by:

- Introducing a business growth accelerator based on Scotland's pilot, to provide 12-month relief from business rates when building new commercial property or renovating a store, factory or office
- Abolishing downwards transition so that businesses can benefit from property devaluations now, which is particularly important in areas where property prices and growth have been slow to recover
- Reviewing the business rates model in 2019/20 with a focus on incentivising investment in digital, new technologies, and energy efficiency

Making the apprenticeship levy work effectively

While investing in capital is vital, there will be no progress without also investing in our people. Businesses are united in the need to develop skills for the future, and high-quality apprenticeships play a pivotal role. But, the current apprenticeship levy system is not working. Apprenticeship starts are down 40% compared with last year, while just 8% of levy funds collected in the first year were spent. That means that there are significant untapped funds that are not being used to provide opportunities for people to retrain or learn new skills. Businesses are losing faith that the system can deliver the talent they desperately need. The Government must act immediately to make this policy work in collaboration with businesses by:

- Enabling businesses to work with each other to provide training by raising the limit on transfers from 10% to 25%
- Releasing the bottleneck of the Institute for Apprenticeships by doubling its budget to £28m and giving it the capacity to approve training schemes quickly and efficiently
- Making it easier for small business to access levy funds by reducing the cap for SMEs from 10% to 5%

Bold yet collaborative digital tax reform to maintain our competitive advantage

An important challenge for government is to not damage the UK's competitiveness unnecessarily and to keep a focus on digital to enable growth and prosperity across the economy. Digital and tech businesses are driving regional investment and innovation, with over 65% of tech capital invested in clusters outside London. All businesses are increasingly digitalised and see the online marketplace as a critical element of their business growth strategy, including retail, services and the construction sector.

Businesses recognise that the digital revolution is not without its challenges and the tax system is one area that requires modernisation to ensure it remains fit for purpose. The UK should continue to work closely with the OECD and the EU to design and implement a system that addresses the issue while supporting digital adoption. But the UK should not be tempted to take unilateral action which would undermine that work. Instead, the Government needs to continue to engage with business on the options on the table and further evaluate the impact on the UK economy.

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As we've outlined, the UK has a fantastic offer for businesses, and we have firms up and down the country that are committed to and enthusiastic about delivering prosperity that is shared across all of society. While the most important priority for the UK is to get the best outcome from the EU negotiations and avoid a no-deal, we must use the levers we can control to put extra momentum behind our domestic economy. We believe that

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the targeted actions set out above would boost business confidence and kick-start investment, while not undermining the prudent approach to public finances needed during this time of uncertainty.

Our wider proposals across tax, infrastructure, innovation, skills and our openness to trade are set out in more detail below.

We look forward to working with you to discuss and help deliver this important agenda.

Yours sincerely

Carolyn Fairbairn
Director-General, CBI

Rain Newton-Smith
Chief Economist, CBI

Summary of CBI Autumn Budget policy recommendations	**Annual Exchequer cost** (static cost – does not take account of the positive economic impact)
Introduce measures to increase the competitiveness of the UK's investment incentive regime	
Increase the Annual Investment Allowance (AIA) from £200,000 to £500,000 for 2 years to boost innovation and UK competitiveness	A small cost in 2019/20, rising to £830m in 2020/21, £870m 2021/22[1,2]
Review capital allowances next year with a focus on newer technologies so that the UK has one of the most competitive regimes in the G7 by 2030	Depends on scope and timescale of review
Build on the success of the R&D tax credit by committing to the relief for the duration of each project so businesses can innovate with certainty	£Nil
Reform the business rates system to ensure businesses can invest and grow	
Abolish the downward transition of rates from 2019, so that businesses can benefit now from devaluations, particularly in areas where commercial property prices and growth has been weak, reviving our high streets	£510m 2019/20, £300m 2020/21, £200m 2021/22[3]
Introduce a Business Growth Accelerator based on Scotland's pilot, to provide 12-month relief from business rates when building new commercial property or renovating a store, factory or other commercial property	£490m 2018/19, £500m 2019/20, £510m 2020/21, £520m 2021/22[4]
Introduce a strict set of guidelines setting out the circumstances under which local authorities should grant partly-occupied relief	Depends on the guidelines enforced
Conduct a review of business rates in 2019/20 ahead of the next revaluation with a focus on incentivising investment in digital, new technologies and energy efficiency	Depends on scope and timescale of review
Ensure the Apprenticeship Levy is working effectively	
Raise the 10% cap on funds being transferred to other businesses to 25%	Approx. £40m each year[5] and £50m if cap increased to 50%
Ensure the Institute for Apprenticeships has the capacity to complete and review apprenticeship standards by the next academic year	£28m[6]
Reduce the 10% contribution of non-apprenticeship levy payers to 5%	Approx. £40m[7]
Set out a clear long-term vision to introduce a flexible skills levy post 2020	£Nil
Commit to the National Retraining Partnership	
Use the Spending Review to ensure the National Retraining Partnership has the capacity and resources it needs to succeed	£Nil

[1] This has been estimated in line with Budget 2014 policy costings on AIA using the most recent projections from the OBR on business investment: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/295067/PU1638_policy_costings_bud_2014_with_correction_slip.pdf
[2] At Budget 2014, AIA was temporarily increased from £250,000 to £500,000 for 1 year 9 months with a cost in the subsequent three years, but due to the interaction of the AIA and the WDA, the policy was shown to be broadly revenue neutral in subsequent years.
[3] Based on costings from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/572823/Transitional_Relief_consultation_response.pdf
[4] Estimated using the same methodology as in Scotland's Fiscal Commission report: http://www.fiscalcommission.scot/media/1196/scotlands-economic-fiscal-forecasts-publication.pdf.
[5] Based on analysis of survey responses of 17 businesses on how behaviour would change were the cap to be increased.
[6] https://www.instituteforapprenticeships.org/media/1950/institute-business-plan-2018-2019.pdf.
[7] Based on government allocation of £650 million to providers through a procurement process for non-levy payers.

Ensure businesses are able to access the UK's flexible labour market	
Delay any introduction of new rules to the tax administration of off-payroll working until at least 2020	£Nil
Introduce tax relief for Short Term Business Visitors (STBVs) from overseas branches	Depends on the scope
Create an internationally competitive tax environment	
Continue to work with OECD partners on a multilateral approach to taxing the digital economy, avoiding damaging UK competitiveness with a patchwork of unilateral measures	£Nil
Reverse the changes introduced in Finance Act 2015 to deny relief in relation to acquired goodwill and certain other assets, as these are out of line with many of our international peers	£300m p/a[8]
Provide a roadmap for future taxation of the Financial Services sector	
Commit to no further rises in Insurance Premium Tax for the duration of this Parliament	£Nil
Outline the long-term intentions for the Bank Levy and Corporation Tax Surcharge	£Nil
Support firms' long-term growth ambitions by committing to continuation of Entrepreneur's Relief	£Nil
Ensure businesses have access to information and advice about the UK's exit from the EU	
Provide transparency on areas of EU exit contingency spend	£Nil
Invest in a one stop shop to help businesses find information	£50m
Drive investment in low carbon technologies and supporting new routes to export	
Urgently confirm whether the UK Government intends for the UK to remain within the EU Emissions Trading System (ETS) after we leave the EU and confirm the future trajectory of the Carbon Price Floor	£Nil
Bring forward planned changes to the company car tax regime that incentivise businesses to invest in vehicles with the best emissions performance	A small increase in revenue of ca. £25m in 2019/20 and a small cost of £20m in 2020/21[9]

[8] Costings based on the reversal of the fiscal yield outlined in the summer budget 2015. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/443195/Policy_costings_summer_budget_2015.pdf
[9] Based on the policy costings for Autumn Statement 2016: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/571402/Policy_Costings_AS_2016_web_final.pdf

The way forward – boosting UK competitiveness

While Brexit has been, rightly, dominating the political and economic agenda, business urges government not to lose sight of the domestic agenda. The following section outlines the priorities for the Budget and also sets the priorities for the Spending Review.

1. Tax and Regulation

The Autumn Budget comes at a time when economic momentum in the UK remains fairly subdued, with household spending remaining lacklustre and large-scale investment continuing to be constrained by Brexit uncertainty. The UK has under-performed on business investment since the late 1990s, particularly compared with other advanced economies. While the headline rate of Corporation Tax is the lowest in the G20 and the UK has one of the world's best incentive regimes for R&D investment, the present value[10] of the UK's capital allowance regime is only 46% compared to an average of 64% across the rest of the G7, making it the least competitive. So, now at this critical time ahead of the UK's exit of the European Union, it is vital to ensure the tax system lays the foundations for business to invest.

Reform the UK's investment incentive regime to ensure the UK remains internationally competitive

1.1 The CBI is calling on the Government to introduce short-term measures to increase the competitiveness of the UK's investment incentive regime by:

- <u>Increasing the Annual Investment Allowance from £200,000 to £500,000 for two years</u> to encourage intended investment by accelerating the availability of capital allowances, which would be particularly vital at a time when many businesses are delaying large investment projects due to uncertainty surrounding Brexit.
- In the medium-term, the Government should <u>conduct a review of the capital allowance regime</u>. This should include consideration of the following factors:
  - The extent to which the absence of an incentive for businesses to invest in industrial buildings and structures is holding back business investment in this area and options for how this gap in the UK's competitiveness can be addressed.
  - The competitiveness of the UK's Writing Down Allowance (WDA) and the level at which it would start to attract new investment into the UK and make marginal investments more viable.
- <u>Committing to deliver the world's most competitive R&D tax credit by ensuring it accurately captures the breadth of business innovation activity.</u>
  - As part of a broader review of investment incentives, HMT should conduct a review into the R&D tax credit to ensure it evolves to reflect the reality of facilities requirements, modern technologies and data driven innovation. Innovation in business is a broad activity, encompassing everything from the adoption of new processes through to the development of entirely new technologies. The process of innovation is also evolving, with advanced analytics and big data reshaping the way businesses engage in research, development and commercialisation activities. As such, innovating can incur a breadth of costs, from peoples' time, new facilities and equipment, as well as new software and technologies. The R&D tax credit should reflect this evolving picture.
  - HMT should explore how the tax investment regime could be used to boost technology diffusion. Many businesses struggle to place a value on the benefit of technology adoption, leading them to undervalue investment in these types of technology. Shut-down costs and staff upskilling costs can also be significant barriers to firms adopting new practices. Looking across the tax incentive regime, including R&D tax credits and capital allowances, the Government should explore what options are available, including looking at international comparisons.
  - Committing to R&D tax relief eligibility for the duration of a project, to ensure businesses have the ability to plan long-term. R&D projects are entered into for multiple years, with businesses often committing to years of spending up-front. Uncertainty over the eligibility criteria for different types of R&D expenditure means that businesses have to

[10] The present value of capital allowances considers the rate at which businesses can deduct from taxable income and the time value of money (i.e. the value of the asset will be higher today than in the future even in the absence of depreciation) and assumes an asset life based on the literature. The resulting figure reflects the percentage of the initial value of the asset the business is able to write-off at the end of the asset's lifetime.

factor the risk of policy change into project businesses cases, undermining the effectiveness of the policy.

Reform the business rates system to enable businesses to invest and grow

1.2 Government has a role in ensuring the burden businesses face through the current business rates system does not discourage investment. The Government should:

- Remove transitional arrangements for properties whose rateable value decreased because of the 2017 revaluation. From April 2019, the rates bill of these properties should reflect the 2017 rateable value, while upwards transitional relief should be maintained. This will help to ensure those properties in areas where property prices are taking longer to recover will be paying a lower business rates bill, providing a boost for business where regional growth is weak.
- Introduce a similar measure to Scotland's Business Growth Accelerator that enables new properties or improvements to existing properties to receive a 12-month exemption from business rates payments. This will help to encourage investment in property by ensuring businesses are not hit by a business rates bill until the property is in productive use.
- Introduce a strict set of guidelines setting out in what circumstances local authorities should grant partly-occupied relief. This should be revenue neutral to local authorities such that any relief granted should be reimbursed by central government. This will help to encourage businesses to expand or improve their property.
- Conduct a review of the business rates system in 2019/20 ahead of the next revaluation, in the wider context of business taxation. The scope of the review should include the following:
  - Analyse the sectoral impact of business rates and how the design of the tax could be more supportive of key sectors as part of the UK's Industrial Strategy and remove existing distortions.
  - Evaluate the long-term sustainability of the business rates tax base, including considering how changing business models and consumer preferences has led to a narrowing of this base.
  - Evaluate the long-term viability of the business rates multiplier, currently around 50%, and consider options for addressing this.
  - Consider the advantages of moving towards annual revaluations, which would remove the need for transitional arrangements. This should include consideration of how modernisation of tax administration, including the adoption of digital technologies as has been done as part of Making Tax Digital, could help in achieving this given the existing capacity constraints at the VoA.
  - Review the current scope of the application of business rates to plant and machinery within commercial property and examine the economic impact of excluding certain types of productive and energy efficient investments.

Ensure the tax environment continues to foster labour market flexibility and support employment

1.3 In an environment of tight labour supply, it is vital that UK businesses are still able to access the talent they need and that the competitive advantage of the UK's flexible labour market is retained.

- The Government should delay the introduction of off-payroll working rules in the private sector (IR35) until earliest April 2020. Given the ongoing issues with the public sector implementation there is a necessity to provide businesses with the time to prepare and implement new systems and solutions to rectify known issues in the public sector ahead of any private sector implementation.
- Additionally, the CBI is calling on the Government to undertake a complete and comprehensive post-implementation review of the public sector changes to off-payroll working. A comprehensive review should be undertaken over at least a full tax cycle since implementation. This should allow issues that occur throughout the tax cycle to be identified, with solutions to tackle issues prior to potential implementation of any private sector changes.
- The Government should implement a tax exemption for STBVs from overseas branches and extend PAYE special arrangement UK workday rule to 60 days.
- The CBI also calls on the Government to extend the filing deadline for submission of year-end reporting for the PAYE special arrangement.

In light of Brexit, continue to ensure the UK has an internationally competitive tax regime

1.4 Businesses increasingly have a choice in where to locate their business activities and whilst not the only criteria, the tax regime is a factor which will form part of a business' location decision. The Government should:

- Continue to work with OECD partners on a multilateral approach to taxing the digital economy, avoiding damaging UK competitiveness with a patchwork of unilateral measures.
- The CBI considers that now is the right time to update the IFA regime to ensure the UK remains an internationally competitive territory. The Government should reverse the changes introduced in Finance (No 2) Act 2015 to deny relief in relation to acquired goodwill and certain other assets, as these are out of line with many of our international peers.
- The CBI is calling on the Government to clarify the policy objective on why it wishes to extend the scope of royalty withholding tax in relation to UK sales. In particular, we recommend consideration of whether the issue being addressed remains a priority following the signing of the Tax Cuts and Jobs Act in the US on 22 December 2017.
- HMRC should prepare a short online information pack with specific guidance for users of online platforms, with businesses willing to contribute ideas on what the guidance could include.

In light of the UK's exit from the EU, the Government must ensure the UK remains an attractive and competitive environment for the Financial Services sector

Financial services are the lifeblood of a healthy economy, supporting all other sectors to develop, innovate and grow. Through its products and services, the sector supports economic growth right across the UK, from enabling businesses to finance growth and manage their risks, to paying their staff and suppliers. With over 1.1 million people working directly in the sector across every region and nation of the UK,[11] financial services contributed over £72 billion in taxes last year – 11% of total UK Government tax receipts.[12]

1.5 The Government should make a commitment to review financial services taxation:

- This is a critical time for the UK economy and future competitiveness needs to be considered. A commitment to review financial services taxation in due course with a view to establishing a stable and certain roadmap for the future would be welcomed by financial services firms.
- In addition, the Government should commit to no further rises in Insurance Premium Tax (IPT) for the duration of this Parliament. Over the next year, the Government should assess the impact of recent increases in IPT on insurance consumption to determine options to tackle recoverability for businesses. The impacts of these increases on businesses have been significant, with the 12% rate adding an estimated £300 per annum extra on average to the cost of commercial insurance premiums.[13] The trend of increasing IPT is not sustainable, adding to the inflationary economic environment faced by the consumer and potentially leading to levels of insurance that inadequately cover risk. Government should also assess how health-related benefits such as health insurance can support health and wellbeing in the workplace and alleviate pressures on the NHS.

1.6 The Government should outline the long-term intentions for the Bank Levy and Corporation Surcharge:

- Financial services need a stable, simple and certain tax framework. Long-term clarity on the Government's intentions for Bank Levy and Corporation Tax Surcharge would be an important step. This should include a statement that the Surcharge will not be a permanent feature of the tax system.

1.7 The Government must support firms' long-term growth ambitions:

- Government took important steps to enhance firms' long-term growth ambitions through the Patient Capital Review. This included staggering tax incentives to engender greater long-termism in investor attitudes through enhancing the qualifying rules for Entrepreneur's Relief. Further steps to develop knowledge of growing firms regarding the spectrum of

[11] City of London Corporation & PwC, Total Tax Contribution of UK Financial Services: Tenth Edition, November 2017.
[12] City of London Corporation & PwC, Total Tax Contribution of UK Financial Services: Tenth Edition, November 2017.
[13] ABI, The raid on the responsible continues – third rise in Insurance Premium Tax in under two years heaps more pressure on 'just about managing' families, May 2017

finance option available to them, including AIM and equity finance, through continued support of the work of partners including the British Business Bank would be welcomed by CBI members.

1.8 The Government must provide stability in pensions policy:

- Long-term savings and ensuring that employees are effectively incentivised to save through a stable and consistent pensions policy, is critical in creating a more prosperous society.
- Government can support firms by reducing unnecessary administrative burdens, this includes progressive change, where necessary. Continued consultation and dialogue with future changes must continue going forwards.

2. People and Skills

The value of apprentices to both the economy and society is well documented, and businesses support the drive to increase the number of apprenticeships. But with more than a quarter (26%)[14] of respondents to the latest CBI skills survey simply absorbing the levy as an added cost of doing business, it is evident that the policy is not achieving its desired outcome.

Improving the Apprenticeship Levy to increase the number of apprentices and uphold quality

2.1 The Government should pick up the pace of Apprenticeship Levy Reform to unlock some key blockers.

- The CBI is calling on the Government to raise the 10% limit on transfer to 25% and allow the Department for Education to pilot formal pooling arrangements to allow partnership as well as B2B transfers.
- The Government must ensure the Institute for Apprenticeships has the capacity to be a market regulator, get in place all necessary apprenticeship standards within a year, and address pinch points in the system. The CBI is calling on the Government to double the Institute for Apprenticeship's budget.
- The final short-term measure business would like to see, is to reduce the 10% cap for non-levy payers to 5%.
- In the medium term, the Government should raise the transfer limit from 25% to 50% and implement pooling.
- The Government should set out a clear long-term vision to introduce a flexible skills levy post-2020, which includes life-long learning, ensuring business has ample opportunity to feed in.

Investing in life-long learning through the National Retraining Partnership

2.2 The CBI remains a supportive member of the National Retraining Partnership, but as long as significant investment is not allocated for the scheme, the task of delivering something with real impact will be difficult. The Scheme needs to be accounted for in the Comprehensive Spending Review.

- The upcoming Budget should be used to provide a progress update on the development of the Scheme and pilot findings. A renewal of the Partnership (the final meeting is at the end of October) backed by investment (if required), and an outline for the next steps, should be made by the Chancellor.

3. Innovation & Digital

Innovation remains a key driver of productivity and growth and is critical in ensuring regional growth, and the UK is already home to great ideas and game-changing technologies. From manufacturing to life sciences, the UK already goes toe-to-toe with its global competitors. Raising R&D spending to 3% of GDP, enabling digitisation across the economy and supporting challenger business models will turn the dial on the UK's competitiveness.

Secure R&D funding to ensure innovation remains a word class leader in innovation

3.1 The CBI calls for the Government to set out its planned spending on R&D to the end of the Spending Review period to clearly show how it intends to meet the 2.4% target, as part of its roadmap to 3%.

[14] CBI Education and Skills survey 2018

- To achieve this, government spending will have to increase. The best innovation ecosystems have support from basic research through to market development for innovative products and services. To reach the R&D target expenditure will need to be raised across the board, but currently support for business innovation is relatively underweight. As part of this, the CBI calls on the Government to specifically increase funding for business innovation, including responsive-mode grants for Innovate UK as was set out in Autumn Statement 2016.
- European funding has proved an important part of the UK policy mix to support innovation. As the UK leaves the EU, this should be considered part of baseline spending on innovation and as such, sufficient funding should be earmarked in the Spending Review to enable the UK to associate fully in Horizon Europe.
- The R&D tax credit provides a critical element of the innovation ecosystem and as outlined in the tax and regulation section, business is calling on the Government to give assurances that it is committed to the world's most competitive R&D tax credit, while ensuring it remains flexible to reflect the reality of modern technologies, data-driven innovation and infrastructure.

3.2 The Government should use the shared prosperity fund to ensure innovations are adopted in businesses across the country.

- As well as creating new technology, if the productivity gains from new ideas are to be fully captured, they must be grasped and adopted across all sectors. Yet the UK lags nearly a decade behind top performing nations when it comes to adoption of technology.
- BEIS has already taken steps to address this, with the launch of the Business Basics scheme, and the Productivity Review provides the perfect opportunity for Government to go further to help companies adopt innovations. This could be through the development of a 'trip-advisor' style program that would allow firms to easily compare the price of various technologies or use of the Shared Prosperity Fund to create long term funding.

Improve access to fast and reliable digital infrastructure across the UK

3.3. Buffer-free digital connectivity is vital for UK business to compete internationally, embrace the fourth industrial revolution, drive regional growth and deliver the products and services that customers demand. To support businesses in realising a buffer-free digital revolution, Government should:

- Close the gaps in existing digital infrastructure provision and provide greater clarity on the UK's path to a 5G future. Over 60% of UK businesses say that digital connectivity speeds and reliability are critical for their business. Building on the Future Telecoms Infrastructure Review, it is vital that government moves from plan to action on digital connectivity. Government should use the Comprehensive Spending Review next year to commit the funds needed to future-proof the UK's digital infrastructure and ensure that businesses are well-placed to take up the opportunities.

4. Infrastructure

The 2017 CBI/AECOM Infrastructure Survey shows that over two-thirds of firms are not confident that road and rail infrastructure will improve in this Parliament, and over half of businesses are dissatisfied with the infrastructure in their region. The government is increasingly looking to regions to make their case for transport investment, reflecting the fact that those closest to the outcomes of decisions are often better placed to make them. However, with the gap widening between those regions where devolution and collaboration on infrastructure is occurring, and those where it is not, it is important to avoid a scenario of a two-speed England where infrastructure investment and delivery gets left behind in some regions.

Driving investment in low carbon technologies and supporting new routes to export

4.1 The UK requires a long-term, stable energy policy framework which encourages investment in low carbon technologies and security of supply, all whilst ensuring a low cost to the consumer. As we approach the first anniversary of the Clean Growth Strategy, the Budget is an opportunity to create an environment to deploy innovative technologies and address substantial policy gaps. With the challenge of Brexit on top of this, the Government should:

- Urgently confirm whether it intends for the UK to remain within the EU Emissions Trading System (ETS) post-Brexit and confirm the future trajectory of the Carbon Price Floor. The White Paper released earlier this year on the UK's future relationship with the EU had little to say by way of specific ambitions on the UK's interaction with the EU ETS post-Brexit. Industry seeks clarity from the Government on progress to date on discussions with the EU on an agreement as to whether the UK continues to participate in the EU ETS post-Brexit and if not, what an alternative mechanism for delivering a robust carbon price signal will be.
- In the interim, businesses seek a stable and predictable Carbon Price signal which is maintained before and after the UK's exit from the EU. Furthermore, continuity and visibility of the existing Carbon Price Floor will be essential should a replacement for EU ETS be established.
- Review the competitiveness of the UK's long-haul rate of Air Passenger Duty to ensure our regional airports have the resource to become international transit hubs.

4.2 With its world class environment for research and technology and an established manufacturing base, the UK has an opportunity to be a global leader in the transition to zero emission vehicles. To do so, businesses require a supportive policy environment at national and local levels that helps make low emission vehicles the natural choice for both consumers and businesses. The Government should:

- Bring forward planned changes to the company car tax regime that incentivise businesses to invest in vehicles with the best emissions performance. Budget 2017 announced lower rates of company car tax for clean vehicles based on their zero-emissions mileage distance to be brought in from 2020-21. To accelerate the transition to low carbon transport, these changes should be adopted a year earlier than planned.

Investing in infrastructure across the whole country, creating higher levels of economic growth and job creation.

4.3 To ensure the improvements in local transport needed to drive growth can be delivered the comprehensive spending review should:

- Map out a long-term commitment to increase the levels of funding directed towards local infrastructure.
- Consolidate the number of funding pots for local transport investment to enable longer-term and joined-up investment.

5. Trade and International

Businesses welcomed the Government's commitment in 2017's Autumn Budget to allocate £3 billion towards Brexit preparations. While that investment has been seen in increased human resource in Whitehall, aside from some improvements in business consultation, firms have not yet seen these funds make a significant difference.

Ensure funds allocated to Brexit readiness are used effectively

5.1 To support companies' own preparations for March 2019, the Government should:

- Ensure allocation of Brexit contingency funds is linked to business communication. When surveyed, 94% of firms stated that the main difficulty preventing them from planning and preparing for Brexit was the lack of, or inconsistent, information available. The Government has taken a step to improve this through the publication of 'technical notices' – but each department, regulator and arms-length body engaged with the business community should take responsibility for supporting preparations of their stakeholders. When bidding for contingency funds for departments, regulators and arms-length bodies it should be compulsory to explain how the funds will be used to provide firms with the information they need.
- Invest in an online one-stop shop. With 180,000 trading firms that have no experience of trading outside the EU, simple, clear and widely accessible information is crucial. An online single point of contact, accompanied by a hotline, would help businesses to find information and – crucially – the right people in departments and arms-length bodies that can support their efforts to make Brexit a success. The rollout of Digital UK could be used as a model for this work.

Provide transparency on areas of Brexit contingency spend

5.2. It is important that the Government's preparations for a new relationship are visible to firms – both to encourage them to prepare themselves and to provide reassurances and confidence. While there is a role for all relevant regulators and arms-length bodies to communicate and consult on their preparations, the most significant government body in this process is HMRC. To reassure firms of the steps HMRC is taking to get Brexit-ready, Government should:

- Continue to ensure the prioritization of resource allocation to HMRC. As the UK exits the EU the civil service will need to expand capacity to deal with an increasing array of policy and operational functions. The Government has rightly prioritised HMRC in its existing financial allocations for Brexit, making available an extra £260 million at the 2017 Spring Statement, and recruitment is underway to increase staffing levels.
- Allocate and communicate allocation of further resource to resourcing pinch points within HMRC. Business have highlighted areas of current pressure on HMRC capacity, where extra resource could support their own preparedness. For example, many companies are currently applying for Authorised Economic Operator status as part of contingency planning but – with current processes and HMRC resource available – will be unable to gain accreditation before March 2019. More staff to deal with the increased number of applications, combined with changes to slimline the accreditation process, would make a real difference to these firms. Additionally, it is clear that investment is needed in HMRC staff and programmes to support the recruitment and training of customs agents across the UK for a post-Brexit world. Making clear to businesses that HMRC is taking these sensible steps will support business decision-making on Brexit contingency planning.

6. Industrial Strategy

Business is ready to support the Government's ambition to increase productivity as outlined in the Industrial Strategy. There has been progress including the announcement of six sector deals and missions aligned to the four Grand Challenges, but further progress is needed. For the Industrial Strategy to prove a success over time will require a pathway to delivery, close collaboration and a clear framework. Neither government or business can successfully implement its shared objectives on their own.

Business is ready to do its part and requires government to do its part too

6.1 With the Industrial Strategy published last November, business now wants to see progress on delivery.

- Government should publish an urgent timetable for Industrial Strategy delivery this year to ensure adequate pace is met including clarity on the Sector Deal process, and consider alternatives for sectors to engage with government, particularly regarding regulatory improvements.
- Government should provide further clarity on how local industrial strategies will be supported, resourced, and implemented quickly after agreement so that business and Local Enterprise Partnerships can engage with them.
- Government should set out by December 2018 how they will work collaboratively with the devolved governments to support in the development of their local industrial strategies on areas of devolved or shared responsibility.