Rt. Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
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Dear Chancellor,

I am writing to outline the CBI's priorities ahead of Autumn Budget. This Budget comes at a critical time for the UK economy. Growth has slowed; high inflation is squeezing household budgets; the outcome of the ongoing Brexit negotiations remains uncertain, and the prospect of no deal in March 2019 is a serious threat.

Businesses are making investment decisions now that will be felt for years to come. At Budget, the Government needs to work with firms to shore-up business confidence in the face of growing uncertainty. The Industrial Strategy is the ideal framework to urgently improve our skills and infrastructure. This will make it easier for companies to grow and invest in our shared prosperity.

Business supports the Government's commitment to sustainable public finances. However, they also understand the social cost of austerity – particularly for the vulnerable and less well-paid in our society. Seven years of spending restraint is stretching public services at a time when demand for them is increasing.

But to break the cycle of austerity and build a more prosperous society over the longer-term, Government must remain steadfast in its commitment to reforming public services and improving people's lives by focusing on the drivers of productivity. Improving productivity is of critical importance to our future and underpins so much of the growth in jobs, wages and public services that will help tackle the regional inequalities that we face.

Government must use this Budget to accelerate productivity growth to ensure the economy works for everyone. Now is the time to be bold. Businesses are dealing with a severe skills shortage that needs to be addressed through investment in education and skills. The Government should protect per pupil funding in real terms over the course of this parliament and replenish schools' capital budgets. The Government also needs to look at ways to provide greater flexibility in how apprenticeship levy funds are used including allowing funding to be pooled and shared by more companies.

The tax environment needs to strengthen the UK's competitiveness, not detract from it. This requires immediate action to provide resources to help businesses, particularly smaller ones, prepare for Brexit. To unlock investment in the UK's factories and high streets, business rates should be aligned with CPI not RPI and equipment investment excluded. Delivering on infrastructure projects – particularly at the local level – and funding for innovation will be key to getting this right.

I look forward to discussing these recommendations with you in due course.

Yours sincerely,

Carolyn Fairbairn

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Director-General

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Summary of CBI Autumn Budget policy recommendations	**Annual Exchequer cost** (static cost – does not take account of the positive economic impact)
Industrial Strategy	
Provide firms with clarity and timelines on the consultations and sector deals promised in the Industrial Strategy green paper	N/A
Create a level playing field for all UK regions to deliver the Industrial Strategy	N/A
Provide greater clarity on how the Industrial Strategy Challenge Fund will support businesses' growth ambitions across the UK	N/A
People & Skills	
Protect per pupil funding in real terms for this parliament	£2.2 billion
Replenish schools' capital budget	£0.7 billion
Take urgent action to make the apprenticeship levy work by delivering a flexible training levy that meets employers' and individuals' skills needs	N/A
Infrastructure	
Focus on investment in and delivery of an infrastructure pipeline that will boost productivity and growth for the whole country	N/A
Provide clarity on energy policy to drive investment	N/A
Support industrial firms by providing financial incentives to invest in energy efficiency	<£0.1 billion
Tax & Regulation	
Commit to providing Government departments with the resource to make Brexit a success	£0.2 billion[1]
Limit the burden of business rates by bringing forward the RPI to CPI switch	£1 billion
Exempt new plant and machinery investments from business rate calculations	£0.3bn in 2018/19, £1.3bn in 2020/21
Ensure APD creates a level playing field across the UK	<£0.2 billion
Set out a vision for tax policy that enhances the attractiveness of the UK as a place to do business	N/A
Innovation	
Set out a pathway to reach 2.4% of GDP on R&D spending by 2027	Cost dependant on public/private R&D spend[2]
Increase Innovate UK's funding to help meet the R&D target	
Fund pilots to improve greater rates of technological adoption across the businesses community	£0.3 billion

[1] HMRC Annual Report indicates payroll costs were £2.4 billion in 2016/17. Assuming HMRC employed an additional 5,000 people (8.1% of headcount) as per Jim Harra's remarks to the Treasury Select Committee, annual cost circa £200 million.

[2] Government spending on R&D in recent years has been around 20-30% of total UK spend. Assuming this remains constant, steady progress towards meeting a 2.4% of GDP joint public/private R&D spend target by 2027 could involve higher annual Government spending of around £2-3 billion a year by 2021-22.

1. Industrial Strategy

The Autumn Budget comes at a critical time for the UK economy. While the UK economy has been resilient since the EU referendum, more recent data has shown a slowing in economic growth as inflation erodes household incomes in real terms. The CBI latest economic forecast expects slower consumer spending and subdued business investment, with GDP growth of 1.6% in 2017 and 1.4% in 2018. A recent CBI survey also showed that Brexit is having a negative impact on the investment decisions of 4 in 10 businesses.

Against a softening in economic growth and as the UK negotiates its exit from the EU, the Government's commitment to implement a new Industrial Strategy is paramount and business stands ready to work in partnership to deliver this across the UK. At Autumn Budget, Government should:

Adopt a practical, delivery-focused approach for Industrial Strategy

1.1 The CBI and its members were extremely supportive of the Industrial Strategy green paper. Now these promises must be delivered to increase prosperity across the UK.

1.1.1 <u>Provide business with a clear timetable for the consultations and sector deals promised in the Industrial Strategy green paper</u>
The next steps on the Industrial Strategy need to be practical with clear actions for both business and Government and an urgent timetable for delivery.

1.1.2 <u>Create a level playing field for all UK regions to deliver the Industrial Strategy</u>
Government should appoint an independent commissioner by April 2018 to ensure the areas that have not received devolution deals can compete to obtain available funding – e.g. through the National Productivity Investment Fund.

Provide greater clarity on how the Industrial Strategy Challenge Fund will support businesses' growth ambitions across the UK

1.2 Businesses welcomed the introduction of the Industrial Strategy Challenge Fund announced by the Prime Minister at the CBI's Annual Conference in 2016. At Autumn Budget, Government must ensure that the process for deciding what challenges are set is broad and inclusive.

1.2.1 <u>Establish clear, transparent criteria on how future challenges within the Industrial Strategy Challenge Fund will be determined</u>
The initial areas chosen for the Industrial Strategy Challenge Fund to support have strong economic cases and are challenges that the UK is well-placed to address. However, the process for choosing future challenges needs to be more transparent. The criteria for selection should be linked to Industrial Strategy aims, to ensure buy-in across the science and innovation community.

1.2.2 <u>Ensure Industrial Strategy Challenge Funds apply to a broad range of businesses</u>
The challenges set should cover a broad range of sectors and technologies, and funding calls should be open to businesses of all sizes. Looking at the breadth of challenges, the Government should take a portfolio approach to risk and include some higher risk, higher reward projects with the potential to deliver higher economic and social impact.

2. People and Skills

As the UK carves out a new economic future following the vote to leave the EU, ensuring everyone has the skills to compete is more important than ever. Yet according to the CBI's 2017 Skills Survey, acute skills shortages are holding back businesses across all regions and many sectors, including manufacturing, construction and professional services.

Business commitment to developing current and future talent remains strong – but there are actions Government needs to take now to protect core schools funding and increase the flexibility of the apprenticeship levy so that the funds are accessible to more businesses.

Invest in education to boost national prosperity and improve people's life chances

2.1 High quality education is vital to supporting long-term economic growth for the nation. To reflect the importance of education in public funding the Government should:

2.1.1 <u>Protect per pupil funding in real terms for this parliament and replenish capital budgets</u>
The £1.3bn announcement in July to protect per pupil funding in real terms until 2019-20 was a welcome recognition of the difficulties schools across England face. However, moving money from capital spending to current glosses over the core issue of insufficient funding. The commitment to protecting per pupil funding in real terms for every year of this parliament should be extended until 2021-22. In addition, gaps in capital funding need to be met – starting with the £700m moved out of the capital and free school budgets. As the fiscal position improves, a more ambitious target of increasing per pupil in real terms spending should be introduced.

2.1.2 <u>Incentivise recruitment of high quality teachers and leaders in the areas they are most needed</u>
High-quality teaching and leadership is one of the strongest drivers of educational performance. Yet teacher recruitment targets have not been met for the past five years, and retention rates in the profession are poor. The reassessment of the Teacher Training Bursary Scheme next April should be used to review incentives, focusing on improving retention in the profession. Government should develop plans to tie student loan reimbursement to career progression within teaching – especially in the Opportunity Areas and other areas of deprivation which face the greatest challenges in attracting, developing and retaining talent.

2.1.3 <u>Treat careers inspiration as integral to education with incentives and resources to match</u>
The Government's careers strategy is years overdue – yet good guidance is at the heart of helping young people find the right path. Publishing the plan this autumn and putting the resources in place to deliver it are vital. The Careers and Enterprise Company needs scale if it is to grow the excellent programmes it is working with business to roll out. In addition, the Ofsted framework should be used to encourage the appointment of senior careers leaders in every school and give young people at least four employer encounters during Key Stage 4, by 2019.

2.1.4 <u>Keeping university funding independent and sustainable</u>
The UK's world-leading universities rely on the stable, independent funding provided by tuition fees. Under the current system, students paying nothing until they are in work and young people from disadvantaged backgrounds are not unduly prevented from accessing higher education. Crucially, this system is also affordable for the taxpayer and helps facilitate greater investment in the wider education and skills system. If Government is minded to reform the tuition fees system, maintenance support should be the priority. The 2015 switch from grants to loans means disadvantaged students will often graduate with higher levels of debt than those from more privileged backgrounds.

Take urgent action to make the apprenticeship levy work by delivering a flexible training levy that meets employers' and individuals' skills needs

2.2 The ambition and direction of skills reform – to grow our skills base, increase take-up of work-based learning including apprenticeships and raise the quality of technical education – is positive. But, the delivery of policy reforms is causing deep concern amongst businesses. Early signs of take-up of apprenticeships amongst levy-paying firms seem to have confirmed the CBI's view that the change is not working as effectively as we would all like. Though this may be transitional, a greater sense of urgency in Government is needed so that challenges can be dealt with effectively. Alongside overall numbers, the increasing trend away from apprenticeships as an entry-level option for young people is a significant concern – although in line with the incentive design of the levy. To ensure that funds raised can be used more efficiently, Government should:

2.2.1 <u>Develop pilots for pooling levy funds locally to help small and medium sized firms train at scale</u>
For the levy to drive skill levels and new training practices, greater flexibility will be needed. Allowing companies to pool their levy funds would help address this. Therefore, a series of regional pilots should be commissioned in 2019/20 to test and develop a mechanism to do so by 2020/21. These should be led through LEPs and other regional bodies.

2.2.2 <u>Recognise Government responsibility for effective market management on skills</u>
The apprenticeship levy places greater responsibility on employers – through both the cost and purchasing mechanisms. In creating this initiative, to date there has been too little focus on the rules, processes and structures needed to underpin it. Consequently, there is concern amongst many CBI members about the supply, quality and appropriateness of training that is available and the effectiveness of the levy system. Firms are concerned that T-level delivery is being raced ahead while the levy system has not yet been fully developed. Government should address this over the coming year by investing in commercial skills within DfE, giving the Institute for Apprenticeships and Technical Education the freedom to challenge system design, where it is leading to less effective outcomes. Firms would like to see a wider range of high quality training become levy-fundable, with progress made swiftly and system-wide changes from 2020 – as not all courses suit an apprenticeship framework.

2.2.3 <u>Increase the transfer-limiting cap by allowing firms to fund high-quality training in their supply chains</u>
The Government has taken welcome steps to explore how apprenticeship levy funds may be transferred to other employers and the CBI continues to support this work. However, the framework due next April – a 10% limit on the amount that levy-paying employers can transfer – does not offer sufficient flexibility for most of those who are looking to support training in their supply chain. A change in this approach is needed urgently, and can be delivered at no cost to the Exchequer. Government should increase the 10% cap and allow regional and sectoral collaboration as well as in supply chains. This will allow larger companies to support smaller firms and more innovative approaches to training.

3. Infrastructure

As shown in the CBI's Unlocking Regional Growth report, there is a clear link between reducing travel times and increased productivity, and the likelihood of a business to export. Investment in transport, property, digital and energy infrastructure is critical to unlocking the UK's long-term prosperity. Government should:

Focus on investment in and delivery of an infrastructure pipeline that will boost productivity and growth for the whole country.

3.1 To build an infrastructure system fit for the 21st century, the Government should:

3.1.1 Continue to press ahead with transformational transport projects

The Government must continue to focus on delivering the much-needed major infrastructure projects. As a first step, this means sticking to planned timetables for a third runway at Heathrow, so that construction can begin by 2020, alongside the development of a long-term aviation strategy. The Government should also develop plans for other major projects such as Crossrail 2 and Northern Powerhouse Rail, both of which would provide a major uplift to our economy and future competitiveness.

3.1.2 Maintain a relentless focus on delivery of planned road and rail investment programmes

With time progressing, Government must strengthen its partnerships with Highways England, Network Rail and the infrastructure supply chain to ensure the delivery of the current rail and road investment programmes (CP5 and RIS) by 2019 and 2020 respectively. Following previous programme delays, business wants to see greater granularity with start and completion dates, and improved timelines in projects coming to market. The recent announcement of the preferred route for the A303 Stonehenge upgrade – a much needed project for businesses in the South West – was positive, and it is crucial that we keep up the pace across all regions of the UK, for the current and next investment periods, as per the recommendations of the CBI's Shaping Regional Infrastructure report. Examples include improvements to the A66 and A69 to improve trans-Pennine connectivity and upgrades to the East Coast Mainline. Furthermore, business welcomes the Government's desire to draw in more private finance into road and rail. The Department for Transport and Infrastructure Projects Authority should continue to work with business to ensure a clear pipeline of projects suitable for private sector investment, with a clear revenue stream and appropriate risk transfer. A range of future funding models, including road charging, should also be considered.

3.1.3 Ensure local transport networks get the investment they need

The CBI welcomed the Government's efforts to improve local transport as part of the £23 billion National Productivity Investment Fund. £490 million of the £690 million funding pledge made at Spring Budget 2017 is now due to be made available to local authorities. Government must continue to ensure that local infrastructure networks get the investment they need so that projects can get started in April 2018 as planned.

3.1.4 Ensure the DIIF crowds-in private sector investment

Future business needs for better connectivity will only grow with the adoption of new technologies and UK businesses are ambitious to be at the forefront of this global revolution. Business would now like more detail on how the funding in the Government's welcome £400 million Digital Infrastructure Investment Fund (DIIF) will be released. For its part, Government must ensure that these efforts crowd-in private sector investment and accelerate the roll out of ultra-fast digital networks.

Provide clarity on energy policy to drive investment

3.2 As set out in the CBI's report, Stepping up to the Challenge, a long-term, stable and pro-market energy policy framework is needed to support investment and innovation to drive the low-carbon transition, maintain security of supply and keep energy costs manageable for consumers. The Government's forthcoming clean growth plan should set a clear policy framework which provides visibility for investors and ensures transparency and value for money for consumers. Within this context, the Government should:

3.2.1 Set a clear and regular pipeline for CfD auctions, and extend the Carbon Price Support freeze to 2022
This month's Contracts for Difference (CfD) auction was great news for low-carbon energy and demonstrated the role of competitive auctions in delivering cost reductions. The Government should build on this by setting out plans for the timing and expenditure of future CfD auctions at least four years in advance. This would support investment and innovation and help to identify and control future costs. Consideration should also be given to ensuring mature technologies have a route to market where there is local support. The Government should also provide clarity on the trajectory of the UK's carbon price floor, despite the ongoing uncertainty regarding the interaction with the EU Emissions Trading System post-Brexit. Businesses, on balance, want to see an extension of the freeze of the Carbon price support to 2022, with the provision of sufficient support to electro-intensive industries for the pass-through costs. This will support the transition to a low-carbon energy system, while maintaining competitiveness for the UK's energy-intensive industries. Government should also work with industry to consider the UK's long-term carbon pricing objectives, regime and trajectory post-Brexit.

3.2.2 Ensure an affordable energy transition, placing an emphasis on transparency and energy efficiency
With energy costs a key concern for consumers and businesses, the independent review of energy costs being undertaken by Professor Dieter Helm is welcome. In considering the review's recommendations, it is important that Government aligns the proposals alongside other initiatives including the forthcoming clean growth plan and the Industrial Strategy. Energy efficiency will play an important part in keeping bills manageable, and should be a key focus of the Government's future plans. As such, business would like to see the Government take forward its proposal to establish an Industrial Energy Efficiency Scheme, in consultation with business as soon as practically possible. This will help support and enable investments. Furthermore, to help instil greater transparency around policy impacts and costs, Government should document each year all policies and levies that are added to consumer bills – on both a gross and net basis – and how these will be kept under control. This should include future projections of policy costs.

4. Tax and Regulation

Against an uncertain economic outlook and ongoing EU negotiations, tax policy and regulation can play an important role in providing businesses with greater clarity and certainty, so that they are able make the much-needed investments the UK needs to grow. In fulfilling this, Government should take every opportunity to enhance the UK's competitiveness through the tax system, prioritising levers like business rates reform. Government also needs to be clear on its long-term plan for tax policy to help businesses plan effectively for the future.

Commit to providing Government departments with the resource to make Brexit a success

4.1 Government has a crucial role to play in empowering firms to navigate the uncertainties surrounding the UK's exit from the EU. Government should:

4.1.1 Work with businesses to deliver a Shared Prosperity Fund that supports economic development across the UK
The CBI welcomes the Conservative Party's manifesto commitment to replace EU funds for poorer parts of the UK through the Shared Prosperity Fund. Government should work with businesses to ensure this fund is well-designed, easy to access and supports business growth and innovation.

4.1.2 Give HMRC the resources to administer a tax system that is open for business
Businesses are highlighting that the relationship they have with tax authorities can have a significant impact on where they decide to invest. Working on a real-time basis and providing businesses with greater clarity over their tax affairs will enhance the competitiveness of the UK's business environment. It will help to drive greater efficiency in interactions with HMRC so that the right amount of tax is paid at the right time and businesses can get on with doing business.

4.1.3 Review current capability and potential future demands on resource across Government
Powers returning to the UK Government following Brexit come with increased requirements on UK bodies to regulate, monitor, enforce and – in the long-term – create policy. This will require various degrees of resource not previously budgeted for. As a matter of urgency, Government should review and publish which departments and bodies are most exposed by the end of the year to ensure 'day 1 readiness'.

4.1.4 Ensure resource is reserved for support and advice services for businesses
Where the UK's exit from the EU requires substantial changes to be made by businesses, Government should provide resources for communicating and guiding companies through those adjustments. A single point of online contact should be provided for businesses' exit-related queries, with a well-staffed hotline, that can deal with companies' queries. It is important that plans for these services begin now so they can act in a co-ordinated way, without duplicated effort, and sufficient numbers of staff can be trained.

Adopt targeted tax measures to support businesses' ability to grow and compete today

4.2 Certainty and stability in tax and regulation are key ingredients in supporting a competitive business environment, with a clear focus on encouraging businesses to invest and grow. Government should:

4.2.1 Limit the burden of business rates by bringing forward the RPI to CPI switch
The growing burden of business rates is eating into the competitiveness of businesses with a physical presence, particularly in the retail and manufacturing sectors. The Government must bring forward to 2018/19 the switch in the indexation of business rates from RPI to CPI that is currently due to happen in 2020/21.

4.2.2 Exempt new plant and machinery investments from business rate calculations
The business rates system discourages making investments that have the potential to boost productivity and pay. To spur investment, the Government should exempt new plant and machinery investments from business rates valuations from April 2018/19. While this measure will involve a short-term cost, CBI analysis suggests additional investment would be unlocked over time, with a knock-on benefit to wider tax revenues, offsetting the direct fiscal cost.

4.2.3 Ensure APD creates a level playing field across the UK
For aviation in the UK to be competitive and 'Brexit ready', business believes the Government needs to fully consider and address the issue of Air Passenger Duty

(APD). While this longer-term view should be developed via the Call for Evidence on the Aviation Strategy, business wants to see no further rises in the long-haul band of APD beyond current rates. Steps should also be taken to ensure a single flat rate between airports in England and those in the devolved nations.

Set out a vision for tax policy that enhances the attractiveness of the UK as a place to do business

4.3 In tandem with the Industrial Strategy, the tax system needs to be geared towards improving the competitiveness of the UK economy. Businesses place great value on a clear vision and process for tax policy making, giving them the confidence to commit to long-term investments which can help boost productivity. Therefore, Government should:

4.3.1 <u>Create a platform to develop a tax system fit for a modern economy, starting with fundamental reform of business rates and a review of capital allowances</u>
The way we work, do business and live our lives is changing. Getting the right tax system for a modern economy will be a significant springboard for the future of the UK. Business welcomed the reduction in the frequency of fiscal events announced at Autumn Statement 2016. However, the Government should use this revised framework as an opportunity to set a clear agenda on tax policy, which allows for greater consultation with businesses on future tax changes. Government should first look to fundamentally reform business rates ahead of the next reassessment cycle. Business rates represent a significant proportion of the tax burden faced by businesses of all sizes, in all regions, and across all sectors. To stimulate long-term inward investment the Government should also address the UK's comparative disadvantage by launching a review at the next Spring Statement into the scope and effectiveness of the capital allowances system as part of Industrial Strategy.

4.3.2 <u>Clarify the long-term intentions for financial services taxation</u>
The Government should use the Autumn Budget to outline the long-term intentions for the Bank Levy and Corporation Tax Surcharge, including a statement that the Surcharge will not be a permanent feature of the tax system. Over the next year, the Government should also assess the impact of recent increases in Insurance Premium Tax (IPT) on insurance consumption to determine options to tackle recoverability for businesses. 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 assess how health-related benefits such as health insurance can support health and wellbeing in the workplace and alleviate pressures on the NHS.

4.3.3 <u>Enhance firms' long-term growth ambitions through the Patient Capital review</u>
CBI members frequently highlight the value of tax-advantaged programmes like the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS), which incentivise investment and help boost productivity. Through the Patient Capital review, Government should commit to further consultation at next year's Spring Statement to assess the merits of staggering tax incentives to engender greater long-termism in investor attitudes. In tandem, the CBI encourages Government to build on the success already achieved through Entrepreneurs' Relief by lowering the 5% threshold of shares or voting rights required by business owners to gain access to the relief. This will enable more entrepreneurs to foster long-term growth ambitions, helping to boost UK productivity.

5. **Innovation**

Innovation is at the heart of economic and social development in the UK and is a key to unlocking productivity growth. To support businesses in making the UK an innovation world-leader, Government should:

Increase the share of R&D spending in the economy

5.1 Business welcomes the Government's commitment to reach 2.4% of GDP on R&D spend and a long-term ambition of 3%, as laid out in the Conservative Party's manifesto. To deliver this ambition and effectively crowd in private investment, Government should:

5.1.1 Set out a pathway to reach 2.4% of GDP on R&D by 2027
The UK's research and development spending as a proportion of GDP continues to compare poorly with international peers. At Autumn Budget, Government should set an interim target for public investment in R&D by the end of this parliament as part of the commitment to reach a combined 2.4% of GDP on R&D spend by 2027, with business set to play its part in achieving the target.

5.1.2 Increase Innovate UK's funding to help meet the R&D target
Previous decisions to move some of Innovate UK's funding from grants to loans have led to an erosion of funding available for business innovation. If continued, this will reduce the UK's ability to hit the 2.4% R&D target. To redress this, the Government should immediately act on last year's Autumn Statement commitment to substantially increase grant funding through Innovate UK. This should focus on growing funding for schemes that crowd-in business investment – such as Collaborative R&D, Catapult centres and the new investment accelerator – and increasing the level of innovation grants for SMEs.

Support businesses to improve their understanding of how better technological adoption can improve their productivity

5.2 Among UK businesses, significant productivity differences exist between the 'best' and the 'rest'. Later this year the CBI will publish research illustrating that where there is a large disparity between firms' productivity, peoples' pay is unequal. Government needs to play its role in helping to tackle the failure to adopt tried-and-tested technologies and management practices, which have the potential to raise productivity across the UK.

5.2.1 Fund pilots to improve adoption in a greater range of businesses
Over the next twelve months, Government should fund a pilot on how best to practically support firms to adopt tried-and-tested technologies and management practices. The insights should inform a roll-out of national support through local industrial strategies and help in the development of the Shared Prosperity Fund. This should be led by BEIS and delivered by a consortium of LEPs, growth hubs and other local bodies. This would support adoption across a greater range of UK businesses that is crucial to raising productivity.