7 February 2020

The Rt. Hon. Sajid Javid MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guard's Road
London SW1A 2HQ

Dear Chancellor,

The upcoming Budget is a momentous one. Your Government's vision of a global Britain, levelling up all UK regions, and leading the world in innovation and low-carbon technologies is enthusiastically supported by business and by the CBI. The past three years have been tough for the economy, but we have seen a rebound in business confidence at the start of this year. Decisive action by the Government will help translate this into higher investment and productivity.

The challenge will be to find the right ideas, at scale, and to operationalise them quickly. The purpose of our submission is to offer the CBI's support and to propose concrete ideas for action in your Budget. Our proposals fall under four main headings: People, Climate, Innovation and Infrastructure with more detail in the attached paper.

1. **People: investing in a new national skills mission.** You rightly prioritised investment in people and skills in your speech in Davos and we fully support a national mission for levelling up skills in every UK region. Virtually every job will change in the next decade - some radically, some incrementally. New CBI research shows that by 2030 one in six workers will go through a radical job change, and nine in ten workers will need more training. Yet more than half of workers on the lowest incomes have had no training since leaving school. These are compelling reasons to act now, both to avoid the social consequences of an unjust transition, but also to seize the size of the productivity prize of higher wages if the UK gets it right. We have three concrete proposals for this Budget:

    - Introduce the National Skills Fund and consult with business and workers to ensure it can match the scale of the challenge; use this to clarify the future of the National Retraining Scheme with the aim of growing and expanding the programme

    - Build on the Further Education Estates Fund by increasing per pupil funding and investing in world-class facilities

    - Launch a comprehensive review into how the Apprenticeship Levy can evolve to support all forms of training needed to meet the upskilling challenge facing business in the coming decade, which should conclude at the next Budget

2. **Climate: charting a successful path to net zero and COP 26.** We strongly welcome your commitment to Net Zero by 2050 and are keen that business plays its full part. The path to Net Zero relies on long-term frameworks and innovative technologies not yet developed. The UK's role as a host nation of COP26 in 2020 is a platform for the country to demonstrate its leadership and to accelerate action. All government departments will need to work together in partnership with business to ensure we create high tech, low carbon jobs around the UK. We recommend three actions in your Budget:

    - Strengthen regulation to meet ambitious energy efficiency targets in all new homes and commercial properties so that all commercial properties are at least EPC level B by 2030

    - Develop innovative low carbon technologies in our homes, businesses and transport by creating a test bed facility for hydrogen deployment

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- Accelerate the adoption of electric vehicles by fast-tracking the commitment to double funding for on-street charging points to ensure coverage throughout the UK by 2024

3. **Innovation: becoming an innovation powerhouse with the best environment for digital across the whole UK.** Your Government's commitment to increase R&D spending in the manifesto was hugely welcome by businesses and brings us within touching distance of the 2.4% target. From healthcare to FinTech, research and development is a critical tool in fulfilling the UK's global potential and ensuring all regions benefit from trade and investment. Four key actions would help to spur the commercialisation of R&D:

   - Make R&D a regional growth story by establishing a network of world-class Catapult Quarters in every UK region, to build on local strengths, develop low carbon zones and incentivise clustering of businesses

   - Your plans to create a new US-style Advanced Research Project Agency (ARPA) for a longer-term, high-risk approach to research provides opportunities to develop solutions to the biggest challenges we face, from healthcare to climate change

   - Quadruple the funding available for Innovate UK's Smart programmes to increase the success rate to 30% and increase direct funding for UKRI

   - Spur private investment by increasing the R&D tax credit to 13% from April this year and launch a consultation into widening the scope of spending which is eligible for the credit

   Being competitive on a global stage means creating an environment which attracts global investment and helps all businesses adopt the latest digital technologies, but it also means responsible regulation that protects citizens. To make the most of digital disruption at this Budget, the Government should:

   - Embed a world-class regulator within Ofcom, jointly funded by business and Government, to build trust in the digital economy and tackle online harms

   - Delay the introduction of the Digital Services Tax in order to work with international partners at the OECD to reach a consensus-based solution

4. **Infrastructure and investment: increasing the economic potential of all UK regions**. Again, we strongly welcome your stated intention to renew UK infrastructure across all parts of the country. The opportunity is now there for the Government's National Infrastructure Strategy to focus on connecting all corners of the UK to drive private sector investment in poorly connected regions. More local control over how investment is made and a coordinated with the skills strategy will ensure that everyone across the country is able to fulfil their potential. Four actions in your Budget would help to crowd in private sector investment and make a real contribution to levelling up:

   - Commit to deliver HS2 in full to unlock Northern Powerhouse Rail

   - Allocate funds to strategic regional infrastructure projects including Crossrail and upgrades to Midlands Engine Rail and the East Coast Mainline. A full list of regional infrastructure projects valued by business is included in our submission.

   - Deliver the £5bn digital infrastructure investment and channel funding to hard-to-reach places to transform our digital connectivity and deliver fast reliable broadband for every home and business

   - Reform the business rates regime. The review launched at this Budget should have the objective of reducing the rates bill on individual businesses by the end of the year to incentivise investment in shops and factories all across the country

You have talked about the 2020s as a decade of renewal for the UK. We could not support this more strongly and share your view that this can only be achieved through deep partnership between government and business. The right signals about the UK's future relationship with the EU and decisive action on the domestic front will turn confidence into investment. As the negotiations progress, firms ask the Government to show every ambition, building a deal with deep mutual market access while keeping business insight at the heart of their decisions. We look forward to seeing you on 17th February to discuss these ideas and how we can work closely with you over this coming year to get our economy firing on all cylinders, right across the country.

All best wishes,

Dame Carolyn Fairbairn
Director-General

Rain Newton-Smith
Chief Economist

Summary of CBI Budget measures costings 2020	Annual Exchequer cost[1]
INNOVATION AND DIGITAL	
Invest for growth: raising the UK's R&D spend to 2.4%	
Turbo charge the R&D tax credit to ensure it keeps pace with the fast-changing nature of research and development	£Unclear[2]
Deliver on the manifesto commitment to increase the tax credit rate from 12% to 13%	£860m over 4 years[3]
Increase government spending to support the innovation ecosystem including innovation adoption, late stage development and low carbon technologies	£774m[4]
Be a world-leading nation in the digital economy by creating an environment where digital businesses can invest and thrive	
Delay the introduction of the Digital Services Tax to allow for the OECD to reach a consensus-based solution	£275m in 2020/21[5]
Embed a world-class regulator within Ofcom, jointly funded by business and Government to build trust in the digital economy and tackle online harm	£Unknown
Ensure funding from the European Investment Fund is matched for the next financial year	£Unclear[6]
Build on the success of the Made Smarter and Be the Business programmes through increased funding	£191m[7]
INFRASTRUCTURE AND ENERGY	
Powering the UK's low carbon future	
Maintain the carbon price support at £18/tCO2 beyond 2021 and make a decision on the future trajectory of the CPS	£Unknown
Introduce an ambitious package of energy efficiency measures for both domestic and commercial properties	£9.2bn (time period unclear)[8]
Subsidise the provision of rapid charge points in rural and remote areas by 2022	£1bn (time period unclear)[9]
Create an Office for Sustainable Aviation Fuels to build on the UK's pioneering work in electric and low carbon flight	£500m (over a 5-year period)[10]
Investing in infrastructure to increase the economic potential of all regions	
As part of the National Infrastructure Strategy, the Government should identify funding streams for a number of strategic infrastructure projects across the regions	£Unclear[11]
Deliver on your manifesto commitment invest in the road network	£Unknown

[1] Static cost – does not take account of the positive economic impact; aggregate cost for each policy package
[2] The cost would depend on the extent to which the scope is expanded
[3] Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019
[4] Based on the sum of the costings for the package of innovation recommendations.
[5] £370m in 2021/22; Based on expected revenue in Budget 2018 policy costings, October 2018
[6] It is difficult to ascertain information on how much additional funding is required
[7] Based on the sum of the costings for the package of digital recommendations (p10)
[8] Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019
[9] Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019
[10] Recommendation lifted from the Sustainable Aviation Report, February 2020
[11] Conservative Party manifesto commitment; Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019

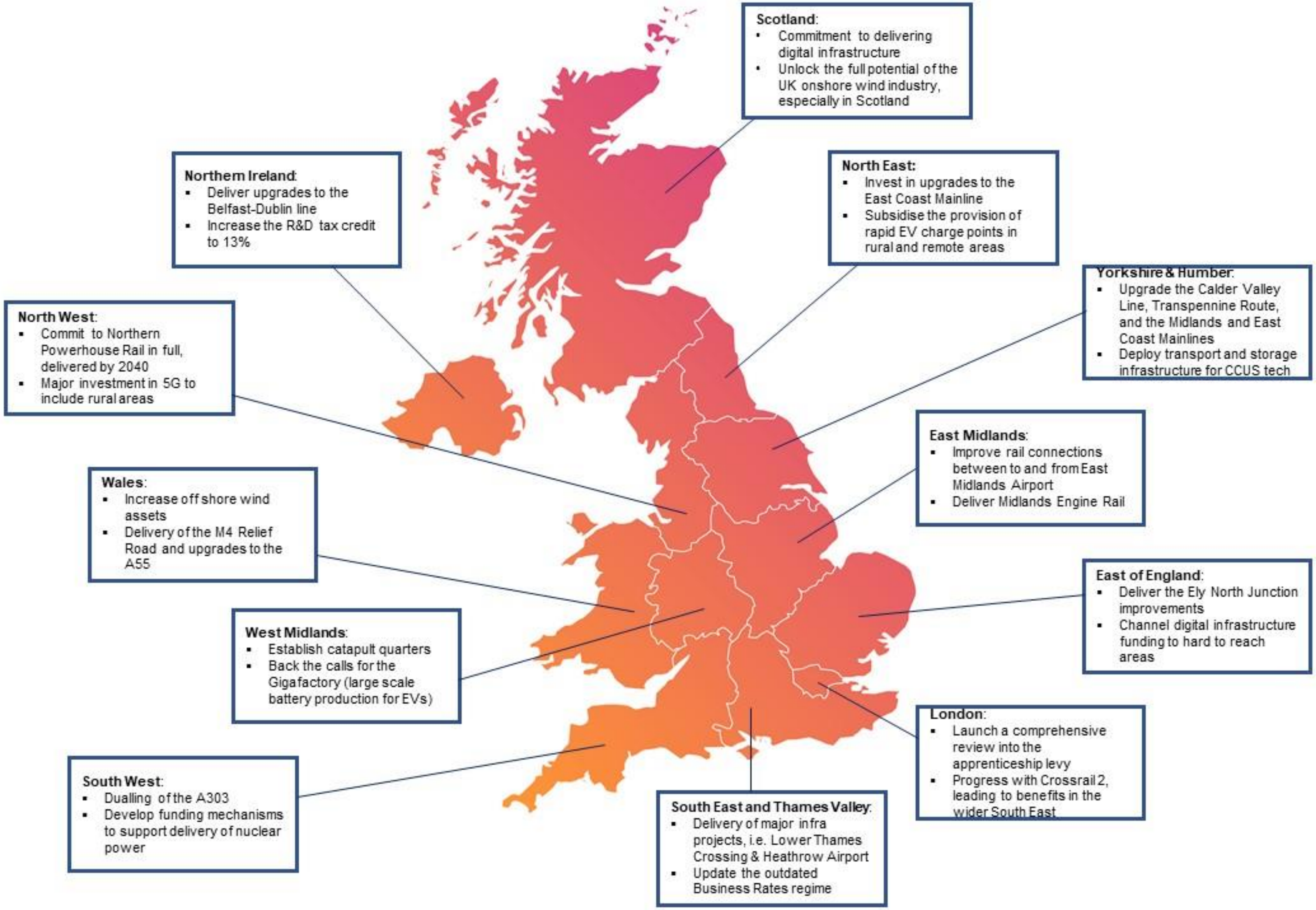
Deliver £5bn digital infrastructure investment in the Budget	£5bn (until 2025)[12]
Simplify local infrastructure spending with a package of measures	£Negligible
Government should allocate significant long-term funding for major capacity upgrades in selected growth priority cities, in line with the funding profile set out by the National Infrastructure Commission. Cities benefiting from major projects should make commitments on housing delivery and provide at least 25 per cent of funding[13]	£Unknown
PEOPLE AND SKILLS	
A national skills mission: equipping the UK's workforce with the skills for the future	
Introduce short term measures to ensure the Levy is solvent over the next year, provide immediate transparency and open up the conversation about long-term reform before the next Budget	£100m[14]
Ensure all parts of England are covered by careers hubs, building on the 40 already announced, a move welcomed by businesses. According to projections by the Department for Education this would require 140 additional hubs across England	£7.5m[15]
Deliver the previously committed £38m[16] in capital investment for T-levels in 50 colleges and deliver on the £2bn manifesto commitment to invest to upgrade the entire college estate	£2bn (time period unclear)[17]
Build confidence in the UK immigration system	
Introduce a package of measures to ensure confidence in the new UK immigration system	£161m[18]
Government should introduce a new fees regime that is designed to encourage resolving disputes by agreement whenever possible, and look into increasing the administrative capacity of Employment Tribunals	£Unclear
TRADE AND INVESTMENT	
Showcase Global Britain and prepare business for trade	
Increase funding for the SME trade show support scheme (TAP)	£6.5m[19]
Create an independent Office for Trade Impact such as in Australia and the USA	£18m[20]
TAX AND REGULATION	
Ensure simplicity and certainty in the UK tax system to attract investment into the UK	
Halt the introduction of the Corporate Capital Loss restrictions	£110m in 2020/21[21]

[12] This has been committed and will be scored as part of the budget process
[13] National Infrastructure Assessment, July 2018
[14] There is likely to be an overspend from 2020/21 onwards. The government should provide £100m in the first year. Absent any policy change this will have to be addressed at the multi-year spending review in 2020
[15] Up to £17.5m in 2023/24 based on DfE projections
[16] This has already been scored as part of the Autumn Budget 2018
[17] Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019
[18] This is based on the revenue received from the ISC in its current form and an estimate of the revenue that would have been received had EEA nationals been in scope. As it is based on data from 2016, it does not take into account any behavioural change of companies or individuals.
[19] This is based on written evidence that shows the TAP budget in 2019/20 was £6.5 million.
[20] Roughly based on the cost of the Australian equivalent, the Australian Productivity Commission which had a budget of AUS$35mn in 2018/19
[21] £140m in next two years; based on expected revenue in Budget 2018 policy costings, October 2018

Invest in HMRC to ensure the department is sufficiently resourced to provide businesses with greater upfront certainty over their tax affairs and to respond on a timely basis to matters (such as R&D tax credit claims) which can have a significant impact on business cash flow	£Unknown
Reform the outdated business rates regime	
Adopt a package of measures to alleviate the current pressures of the business rates regime on businesses[22]	£800m
Conduct an independent review of the business rates system ahead of the next revaluation, with the objective of reducing the rates burden on individual businesses over time	£Unclear
ENABLING A FRAMWORK FOR REGIONAL IMPACT	
Provide a long-term strategic approach to regional policy to reignite regions	
Deliver on the manifesto commitment to fund city regions so mayors can make decisions about what local transport projects to invest in	£840m committed in 2022/23 and 2023/24[23]

[22] Detailed measures of all recommendations in this table can be found in the text, from page 15 onwards
[23] Committed in get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019 and costing based on intra-city transport settlements in the accompanying costings document.

Exhibit 1: Illustrative example of the regional impact of the CBI submission



A BUDGET FOR A DECADE OF RENEWAL

After four years of paralysis, we have a Government with a mandate to lead. The vision this Government has set out is shared by business: a global Britain, levelling up all regions of the UK, and becoming a world-leading innovative, low-carbon powerhouse. But achieving this ambitious vision will need a strong partner. Businesses across the country are ready to be that partner.

As the first Budget of this new decade and Parliament, business is calling on the government to take bold national action, underpinned by global ambition and judged on regional impact. The CBI's budget submission puts forward the business offer for this strategy. The success of every Budget for the remainder of this parliament and the Spending Review in the Summer should be judged against their ability to deliver this strategy.

Global Ambition

This government has set out a vision for a global Britain. Business agrees that Brexit should not mean closing ourselves off from the rest of the world. That means striking an ambitious agreement with the EU as soon as possible.

But it also means taking bold national action to achieve the vision of a truly global Britain. That vision must be underpinned by a clear and specific set of global ambitions.

The first step of this new government will be to define that global ambition. Business believes the following actions need to be taken urgently to set this decade up for success:

- Benchmark the UK against the best in the world
- Set ambitious global targets to match or beat the global norm
- Develop a national strategy to meet these targets
- Monitor success and challenge failure

Bold Action

Vision and ambition set the scene, but bold action is needed to turn these words into tangible results. This bold action needs to come from government. The government sets the rules that define the success of the rest of our economy. However, the government is not the whole economy. The public sector only represents 18%[24] of GDP of our economy. The remaining 82% comes from the private sector. That is why a renewed partnership between government and business is urgently needed. Without a business partner, the government cannot hope to deliver for the people of this country.

In 2020 we have two Budgets and a Spending Review. Now is the time to accelerate our strategy with action, to set a pace of change that must be maintained over the next 5 years. This is the year of action and the right signals about the UK's future relationship with the EU and decisive action on the domestic front will turn confidence into investment. As the negotiations progress, firms ask the Government to show every ambition, building a deal with deep mutual market access while keeping businesses insight at the heart of their decisions.

The CBI has always argued there are five pillars to a prosperous society: People & Skills, Innovation & Digital, Infrastructure & Energy, Tax and Regulation and International Trade & Investment. These should be the pillars of a new strategy for our economy.

[24] Includes public admin and defence; health and education

This year the CBI will publish detailed strategies on each of these pillars, showing how we can equip the UK to win on the global stage.

Exhibit 2: The CBI's national strategy for growth and prosperity

Innovation & Digital	Infrastructure & Energy	People & Skills	International Trade & Investment	Tax & Regulation
Invest for growth: raising the UK's R&D spend to 2.4%	Powering the UK's low carbon future	A national skills mission: equipping the UK's workforce with the skills for the future	Showcase Global Britain and prepare businesses for trade	A globally competitive tax system that delivers investment
Be a world leading nation in the digital economy	Investing in infrastructure to increase the economic potential of all regions	An open and controlled immigration system		A business rates regime that drives investment
		Make the UK a great place to employ and be employed		Outline the future of Financial Services Taxation

A framework to enable regional impact

We will also publish specific action plans on each of the campaigns sitting under these pillars (as shown in Exhibit 2).

Regional Impact

This action needs to be underpinned by a focus on regional impact. For too long regional inequalities have divided this country economically and socially. Your government's levelling up agenda is absolutely the right one. The CBI's Regional Growth report published in 2016 set out clear evidence of the regional disparities and their drivers. That is what formed the pillars of our prosperity agenda. The government's national strategy and actions need to be judged on local impact and the CBI has set out how its recommendations for this Budget have that impact (see Exhibit 1).

Levelling up is about increasing sustainable growth, prosperity and opportunity in every region, unifying the country to enhance and support those regions that have been left behind for too long. Government structures are an important part of this, including using local political leaders to respond to local needs. The CBI's Budget submission sets out recommendations on how these structures can improved to deliver this.

INNOVATION AND DIGITAL

1. Invest for growth: raising the UK's R&D spend to 2.4%

With evolving innovations, new technologies, and growing expertise, businesses and government can work together to increase the technological potential of our economy and tackle today's greatest societal challenges. Supporting the needs of an ageing population, tackling antibiotic resistance and transitioning to a zero-carbon economy will all require significant research and innovation.

International experience shows that the 2.4% target for UK R&D spend can be achieved. Fourteen other countries have achieved an equivalent, or larger, increase than that what the UK is aiming for over a ten-year timespan.[25] It also shows us that much of the spending increase needed for 2.4% will need to come from business R&D, but that public investment will have a critical role to play in leveraging new private sector investment. Improving the policy environment for business R&D is therefore vital.

Much of what we need to deliver a world-class innovation ecosystem is already in place. The UK has first-rate universities, cutting-edge businesses and attracts talent from across the globe. But to compete against growing international competition the UK must take concerted action to grow the R&D intensity of the economy.

To deliver change government must take a long-term strategic approach learning from the lessons of success in other countries and with clear channels for consultation and engagement with business. This strategy should be guided by five principles

- **Focus: a long-term strategic approach to R&D investment** UK innovation would benefit from a longer-term strategic approach so that businesses are equipped with the certainty they need to make long-term decision-making. This could be done by creating a five-year financial framework programme from 2020 onwards with the objective of providing certainty for business science investment.
- **Funding: a focus on late stage development and incentives to create a dynamic "ecosystem"**
  Public funding is a vital piece in the R&D puzzle, with evidence that government spend crowds in private sector expenditure and can lead to increases in total investment on R&D.[26] To attract and leverage new private sector R&D government should increase grant funding for 'late stage' development and ensure the R&D tax credit is internationally recognised as world-class by regularly benchmarking the UK's regime against international peers.
- **Flaunt it: well-marketed support designed to meet industry needs**
  Develop a compelling high-level pitch and narrative on 'why the UK is the best place to locate and grow your R&D activity' and strengthen international communication of this pitch. This should be complemented by a clear UKRI brand, simplified access to funding support and a network of 'Catapult Quarters' with a clear international selling point.
- **Fail fast: a willingness to pilot, learn from failures and international good practice**
  UK innovation would benefit from a higher-risk approach which a potential BARPA style institution could support. It needs a long-term consistent funding model, a robust business engagement plan to promote and incentivise partnership between government, industry and academia and mirrors the original US model with an agile structure.

[25] UKRI, 'UKRI Analysis - Learning from previous UK and international R&D strategies' 2018
[26] Jonathan Haskel, Alan Hughes and Elif Bascavusoglu-Moreau, "The Economic Significance of the UK Science Base" (Campaign for Science and Engineering: 2014); CBI, "From Follower to Leader – Mapping the UK's Path to Innovation Leadership" 2015

At this Budget, the government should:

CBI recommendation	Annual exchequer cost[27]
Launch a consultation into widening the scope of eligibility for the R&D tax credit to ensure it keeps pace with modern R&D practices. The scope should be broadened to include the following: • Capital expenditure • Data-driven innovation • Outsourced R&D activities that do not currently qualify • Upskilling and retraining of staff	£Nil
Review the availability of data on R&D expenditure to ensure the effectiveness of the R&D tax credit continues to be monitored appropriately	£Nil
Deliver on the manifesto commitment to increase the tax credit rate from 12% to 13%	£860m over 4 years[28]
Ensure the R&D tax credit is internationally recognised as world-class by regularly benchmarking the UK's regime against international peers.	£Nil
Set out a framework and publish details on the creation of a new BARPA agency that meets the needs of industry, with a clear long-term funding structure	£Unclear[29]
Create a five-year financial framework programme from 2020 onwards with the objective of providing certainty for business science investment and in particular focusing on science infrastructure (for example in the area of super computers)	£Nil
Quadruple the funding available for Innovate UK's Open/Smart programmes to support late stage development	£374m[30]
Create a series of Catapult Quarters across the UK. These would bring together all of the services that make current clusters great in a coordinated and consistent package, supporting businesses to commercialise their ideas and developing an international competitive brand for UK innovation. [31]	c.£200m[32]
Commit sufficient funding for the UK to associate fully in Horizon Europe for 2020-2025	£1bn[33]
Ensure funding from the European Investment Fund is matched for the next financial year	£Unclear[34]
Confirm the Industrial Strategy Council's political independence in statute, with a remit which allows the Council to make policy recommendations as well as evaluations	£Nil

[27] Static cost – does not take account of the positive economic impact
[28] Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019
[29] £800m committed for R&D in the Conservative Party Manifesto, costing document, November 2019
[30] Innovate UK Annual Report 2017/18
[31] For a detailed description of the Catapult Quarters concept see CBI Report "Don't wait, innovate", December 2019
[32] This costing is only indicative and is based on grant funding and operational costs for France's Pole de Compétitivité programme and the Milton Keynes Autodrive pilot, which received £10m of public funding. The actual cost will depend on the scope of the Catapult quarters and how many are built.
[33] This is based on the UK's contribution to the last EU framework programme (FP7) that ran from 2007-13. HMG has previously committed to fully participating in Horizon 2025 depending on the terms of the EU Exit agreement.
[34] It is difficult to ascertain information on how much additional funding is required

2. Be a world-leading nation in the digital economy by creating an environment where digital businesses can invest and thrive

It's a simple fact of our economy: every business is, or will soon be, digital. Digitalisation is changing the way we work, consume and live. And this fundamental shift raises questions around how the digital economy should be taxed and regulated. Being a world-leading nation in the digital economy means creating an environment where digital businesses can invest and thrive and where it makes sense for businesses to adopt digital technologies. It also means responsible regulation that protects citizens.

The value of the digital economy cannot be underestimated. The digital economy contributed £149 billion to the UK economy in 2018 with growth in the sector nearly six times larger than across the economy as a whole.[35] And the UK has now created over a third of all Europe's tech unicorns, with Oxford/ Cambridge matching the same amount produced in Berlin and Manchester on par with Paris.[36]

The pace of adoption of digital technologies by businesses lags behind our international competitors. In 2015, the proportion of UK firms adopting cloud computing was nearly 30 percentage points below the EU's best performers. For ERP systems, the proportion of UK firms adopting the technology was around 40 percentage points below. This underperformance has persisted over time. Now is the time to set a global ambition for digital adoption by UK businesses to be at the top of the pack, not the bottom.

Ensuring the UK remains a leading innovation economy and a thriving technology powerhouse will require a reaffirmed vision and commitment from government. Later this spring, the CBI will be publishing an *Innovation and Digital Manifesto*, which will outline the vital attributes for a comprehensive national strategy from digital regulation and competition to innovation and digital talent.

But at this Budget there are three things businesses are looking to the Government for:

- **Digital Services Tax**: this policy should be put on hold until the OECD has been given an opportunity to reach a consensus-based solution, especially in light of the fundamental weaknesses of revenue-based taxes. This includes the risks of double taxation and spill-over effects to the wider economy due to the risk of the tax being passed on to consumers and sending a message contrary to the Government's Industrial Strategy and its Digital Strategy to "*set a path to make Britain the best place to start and grow a digital business*" This is especially important at this time given the unique and novel nature of the DST, which requires data to be captured which is required for no other tax or statutory reporting requirement.
- **Online harms regulator:** the digital economy is a force for good. Yet, the pace and scale of technological change has created significant online challenges that must continue to be addressed. Clear and balanced regulation will play a crucial role in building trust in the digital economy and tackling online harm. The proposed online harms regulator should be equipped with significant resources, technical expertise and independence to be successful. Therefore, joint funding of the regulator through a proportionate business and government partnership will be essential.
- **Enhancing digital adoption:** Historically capital allowances have been one of the most important tax incentives to stimulate business investment. In addition, recent reform, including the temporary increase in the Annual Investment Allowance and the introduction of the new Structures and Buildings Allowance have gone some way to improving their reach. Yet evidence still shows that the costs businesses can recover via capital allowances have historically been amongst the lowest in the G7. Perhaps, even more importantly the shift to digital technologies has been accompanied by a shift in how the cost of these investments are accounted for by a business, from up front capital costs to on-going operating expenditures.

[35] https://www.gov.uk/government/news/digital-sector-worth-more-than-400-million-a-day-to-uk-economy?utm_source=a92c197c-ae53-4433-bf1c-71d1bcd61909&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate Feb 2018
[36] https://technation.io/news/uk-regions-come-to-the-fore-in-producing-1bn-tech-companies/ ; Oct 2018

This structural shift in how businesses invest is complex and, in many cases, there will need to be additional capital investment as well as on-going operating expenditure. The government should commit to exploring this issue further, in partnership with business, by issuing a call for evidence into how the tax system can be used to increase the adoption of digital technologies by business.

The CBI is therefore calling on the Government to:

CBI recommendation	Annual exchequer cost[37]
Delay the introduction of the Digital Services Tax to allow for the OECD to reach a consensus-based solution	£275m in 2020/21, £370m in 2021/22[38]
Embed a world-class regulator within Ofcom, jointly funded by business and government to build trust in the digital economy and tackle online harm	£Unknown
Build on the success of the Made Smarter[39] North West pilot, by providing funding for scale up in three additional areas: - Lincolnshire (EM): to transform the productivity of food and beverage production. At 24% East Mids. has the highest proportion of manufacturing jobs and highest manufacturing share of GVA of all English regions but has lowest productivity per hour and per job. - Sheffield City Region**:** to help boost competitiveness of key sectors including aero, auto and steel. Yorkshire & Humber has 2nd lowest productivity per job and per hour of all regions; highest proportion of SMEs manufacturers; highest manufacturing exports. - North East/ Tees Valley: to give a much-needed boost to manufacturing worker and job productivity given the importance of manufacturing jobs and exports to the region. Manufacturing productivity is amongst the lowest; high manufacturing share of jobs.	£50m[40]
Unlock the full value of the £147m Manufacturing Made Smarter Challenge by approving the remaining £117m in funding that will secure industry investment in the UK and support manufacturing SMEs with low cost solutions for adoption of new digital technology	£117m
Fund an additional £14m for the Made Smarter Commission to support nationwide coordination, leveraging and scaling of digital skills to help us accelerate this important enabler for increased technology adoption	£14m
Increase the Budget of Be the Business to £10m to build on the success of the programme	£10m
Launch a call for evidence into how the tax system can be used to increase the adoption of digital technologies by business	£Nil

INFRASTRUCTURE AND ENERGY

3. Powering the UK's low carbon future

The UK was the first major economy to set a Net Zero climate goal, a commitment warmly welcomed by business who are willing to play their part. This world leading ambition will define the decades to come. Achieving it must be a collective effort between government, the public sector, civil society and business to deliver low-carbon solutions at an accelerated rate right across the economy.

And it must be a cross party effort. We cannot afford to experience constant chop and change – the UK requires a long-term, stable energy, transport and climate policy framework which encourages

[37] Static cost – does not take account of the positive economic impact
[38] Based on expected revenue in Budget 2018 policy costings, October 2018
[39] Made Smarter Commission, 2019
[40] Made Smarter Commission recommendations, August 2019

investment in low carbon technologies and security of supply, while ensuring a low cost to the consumer.

The UK has already reduced its emissions by 42% between 1990 and 2017, and we reduced the carbon intensity of our economy faster than any other G20 country since 2000. The government's strategy for delivering Net Zero should build on this success. But it is clear that for this to happen, a comprehensive strategy is needed to address these priority sources of carbon emissions: heat, transport and heavy industry.

In pursuit of reaching our net-zero target, the Government should use this Budget to:

CBI recommendation	Annual exchequer cost[41]
Net-zero energy and transport emmissions	
Maintain the carbon price support (CPS) freeze at £18/tCO2 from 2021/22 until we have more clarity of the post-Brexit environment for Carbon Pricing in the UK	£Unknown
Make a decision on the trajectory of the CPS from 2022/23 onwards: clarity is needed to avoid disruption of the carbon price trajectory and to ensure the UK is able to reach carbon neutrality in a cost-effective way. In addition, any reform to the CPS in these turbulent times could further damage competition for energy intensive industries and would send a negative signal to low-carbon investors.	£Nil
Provide clarity on the manifesto commitment to invest £9.2bn in the energy efficiency of homes, schools and hospitals and make energy efficiency a national infrastructure priority	£9.2bn (time period unclear)[42]
Make a minimum energy efficiency standard for non-domestic properties of EPC B mandatory by 2030 and set out a trajectory for this adopting the recommendations from the Green Finance Strategy on accelerating the flow of finance into the technologies that will help meet climate targets.[43]	£Unclear
Fund a new business consultancy service to support businesses of all sizes with information about energy efficiency measures, links to local suppliers and funding opportunities (public and private)	£Unclear
Increase the cap for landlords facing costs to upgrade EPC ratings to Band D from £3,500 to £7,000 to maximise energy efficiency activity and tackle fuel poverty.	£Nil
Strengthen policies and financial support needed to retrofit energy efficiency measures in homes by increasing the rate of installation of energy efficiency, with a focus of targeting social housing, with the aim of increasing the energy efficiency rating to C or better by 2030	£100m[44]
Pass legislation for the Future Homes Standard by the end of 2020 with full implementation in 2025	£Nil
Urgently outline plans on the future long-term incentive package for ultra-low emissions vehicle sales and company car tax and benefit in kind rates beyond 2023 to signal a clear strategy to support the mass uptake of low carbon vehicles	£Nil
Establish an integrated mechanism for the forward planning of the electric vehicle infrastructure so it is considered as part of the wider whole energy system and enabling sufficient and timely investment. Ofgem should clarify its role urgently and implemented through RIIO-2 price control	£Nil
Subsidise the provision of rapid charge points in rural and remote areas such as the South West and North East by 2022 where the market will not	£1bn (time period unclear)[45]

[41] Static cost – does not take account of the positive economic impact
[42] Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019
[43] HMG, Green Finance Strategy, July 2019
[44] National Infrastructure Assessment, National Infrastructure Commission, July 2018; this cost also includes recommendation 6.7
[45] Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019

deliver in the short term, to ensure complete coverage throughout the UK using the £1 billion commitment to completing a fast- charging network as set out in the Conservative manifesto	
Deliver a nationally driven but locally coordinated infrastructure plan to double the number of 'fast' public charge points for electric vehicles by 2024	£Nil
Create an Office for Sustainable Aviation Fuels to secure the policies needed to support the development of sustainable fuels and build on the UK's pioneering work in electric and low carbon flight, and deliver match public/private funding of £500m over five years to provide the initial boost the sector needs.	£500m[46] [over five years]
Outlined investment plans for the development of a Gigafactory in the UK such as in the West Midlands that will provide battery technology across all forms of transport	£Nil
Maintain the current Contracts for Difference timescales as it is an effective market mechanism for enhancing competition and delivering investment in large-scale renewable power across the UK. Onshore wind should be provided with a route to market via the Contracts for Difference auction immediately. The publication of the Energy White Paper can send a clear signal that the UK is open for investment in a range of low-carbon power technologies.	£Nil
Introduce the RAB finance model for new nuclear power in the UK by providing details as soon as possible on the Government Support Package including risk sharing arrangements, Economic Regulatory Regime, appointment of the Economic Regulator as well as a route for the RAB funding stream during both the construction and operational phases of new nuclear power stations	£Nil
Cross-sector technologies for net zero emissions	
Support the scale-up of hydrogen-based technologies by developing a competitive market framework to support innovation and cost reduction of electrolysis to produce clean hydrogen that will have potential uses across the economy.	£Unknown
Progress the trials of hydrogen solutions in a range of priority sectors, including heat, transport, heavy industry, and energy storage in the power sector.	£Unknown
Deliver on the manifesto commitment of £800m to fund development of Carbon Capture, Use and Storage (CCUS) such as in the North East by introducing a privately financed RAB model in the early 2020s to support the delivery of CCUS transport and storage infrastructure finance investment. This should be the first step with further investment needed	£800m (time period unclear)[47]

4. Investing in infrastructure to increase the economic potential of all regions

Getting the right infrastructure in place plays a crucial role in connecting people to where jobs are being created and raises productivity right across the country. Better connections between urban areas broadens the labour market pool, provides access to a wider range of markets and suppliers and makes it easier for firms to share best practice, ideas, people and technology. And it will play a key role in driving productivity and prosperity for all.

The government has already significantly increased investment in infrastructure over the past two decades, rising as a share of government spending from 1.7% to 2.3% between 2006 and 2017.[48] But the performance of UK infrastructure is still ranked behind Germany, the Netherlands and France.[49] Committing to the National Infrastructure Commission's fiscal remit for capital expenditure on economic infrastructure to be 1.2% between 2020 and 2050 is a vital first step.

[46] Recommendation lifted from the Sustainable Aviation Report, February 2020
[47] Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019
[48] ONS, "Experimental comparisons of infrastructure across Europe: May 2019"
[49] House of Commons Briefing Paper "Infrastructure policies and investment", 16 December 2018

This year, the government has a critical opportunity through the National Infrastructure Strategy to focus on connecting all corners of the UK to drive private sector investment in poorly connected regions. There should be more local control over how investment is made and coordinated with the skills strategy so that people all across the country are able to fulfil their potential.

The Government should use this Budget to:

CBI recommendation	Annual exchequer cost[50]
Follow through on commitments to deliver large infrastructure projects, including HS2, Crossrail 2, Northern Powerhouse Rail and Heathrow Expansion	£Nil
Deliver on the manifesto commitments to fund improvements and delivery of strategic infrastructure projects such as: • Midlands Rail Hub • South West improvements • East Anglia Rail improvements (linked to Crossrail 2) • Extend contactless ticketing in the South East 9see recommendation below) • Upgrades to the Calder Valley Line and Trans Pennine Route • Upgrades to the East Coast Mainline • Ely North Junction • Lower Thames Crossing	£Unclear[51]
Deliver on the manifesto commitment to invest in the road network, such as: • Delivery of the M4 Relief Road • Upgrades to the A55 • Dualling of the A303 • Upgrades to the A47 • Expansion and upgrades of the A66 and A69	£Unknown
As part of the upcoming Aviation Strategy, the government should recognise the regional objectives that sustainable aviation growth can deliver on and the contribution regional airports can play in facilitating growth and maximising the whole of the UK's potential.	£Nil
Make all maintenance-based funding in local transport formula based, which should include current bid funding, such as the Pothole Action Fund and the Local Highways Maintenance Challenge Fund as well as the exiting formula-based maintenance funding: Highways Maintenance Block and Integrated Transport Block.[52]	£Negligible[53]
Make the Transforming Cities Fund the umbrella fund for all challenge-based funding pots for active travel, new stations and safer roads into this umbrella fund, which should include the current challenge / bid based funding pots: Cycling City Ambition Fund, Cycle Ambition Fund, Access Fund, New Stations Fund, Pothole	£Negligible[54]
Support reform of the rail fares regulations and facilitate the testing and development of the necessary technical changes to make fare reforms a reality to ensure passengers always get the best value fares and enable the national roll out of Pay as You Go ticketing.	£90m[55]
Confirm £5bn digital infrastructure investment in the Budget and channel funding to hard-to-reach areas	£5bn[56]

[50] Static cost – does not take account of the positive economic impact
[51] The cost will depend on the strategic infrastructure projects undertaken.
[52] The Government should use the principles on what should be maintenance cost outlined in the National Infrastructure Assessment: *"Maintenance allocations should be determined according to the cost of keeping the relevant infrastructure assets held by the authority in working order."* (p74)
[53] Together the funds make up around £1.1bn in 2020/21: £50million pothole action fund, £100m local Highways Maintenance Challenge Fund, £725m Highways maintenance block fund and £258m Integrated Transport Block
[54] The Transforming Cities Fund is £485m in 2020/21
[55] Based on estimations by the Rail Delivery Group of around £150m for 3 years; £50m for the funding of fares trials; £40m to deliver a National Rail 'National Back Office
[56] This has been committed and will be scored as part of the budget process

Government should set out plans for a replacement vehicle for private investment in public infrastructure	£Nil
Retain access to the European Investment Bank and if this is not feasible, create a similar mechanism to help facilitate international participation in the UK infrastructure finance market	£Nil
Remove pooling restrictions on Section 106 in all circumstances, through forthcoming secondary legislation by 2020	£Nil
In its Social Housing White Paper, the government should outline clear funding streams for social housing providers to improve the quality of existing social housing stock	£Nil
Increase the Structures and Buildings Allowance	£130m[57]

PEOPLE AND SKILLS

5. A national skills mission: equipping the UK's workforce with the skills for the future

Looking ahead to the next decade, it is clear the workforce is changing. Recent CBI research shows that by 2030 one in six workers will go through a radical job change. Businesses need skilled talent to stay competitive, but the working world is changing faster than people can develop the necessary skills Virtually every job will change in the next decade - some radically, some incrementally. New CBI research shows that by 2030 one in six workers will go through a radical job change, and nine in ten workers will need more training. Yet more than half of workers on the lowest incomes have had no training since leaving school.

There are some solid advantages for the UK. 40% of the UK workforce has a tertiary education above the EU average of 29%.

The widening skills gap is a problem with no quick fix. It requires a wide range of interventions – and concerted effort from business and government in unison – to turn the tide. Opening up the right routes to new skills is key, and though T-Levels and apprenticeships are promising developments, the Levy is in need of urgent reform. There must also be dedicated action around digital skills: as firms become increasingly reliant on the shifting landscape of technology, this skill set will only grow in demand.

Your Government's National Skills Fund will be a critical pillar of a skills strategy that delivers a flexible training system to create good jobs for people throughout their lives in their local communities as technology develop.

At this Budget, the Government should:

CBI recommendation	Annual exchequer cost[58]
Consult on the delivery of the National Skills Fund and ensure that it is sufficiently ambitious to match the scale of the challenge, and provide clarity on the future of the National Retraining Partnership, to support a step-change in supporting workers at risk of chronic under-skilling	£Nil
Commit to maintaining the rate at which firms pay the Apprenticeship Levy at no more than 0.5% for the duration of the next Spending Review period	£Nil
Introduce immediate and regular transparency around the level of Levy receipts and expenditure, including analysis of level of taxes paid and then which firms uses the funds, so firms can see how their contributions are being used and spent	£Nil

[57]Get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019, £130m for 20/21
[58] Static cost – does not take account of the positive economic impact

Provide a £100 million annual government top up to ensure that Levy payers and SME non-Levy payers can continue to use the Levy to spend on apprentices of all ages and levels	£100m[59]
Launch a comprehensive review into how the levy can evolve to support all forms of training that we need to meet the upskilling challenges facing business in the coming decade	£Nil
Deliver the previously committed £38m[60] in capital investment for T-levels in 50 colleges and deliver on the £2bn manifesto commitment to invest to upgrade the entire college estate	£2bn (time period unclear)[61]
Ensure all parts of England are covered by careers hubs, building on the 40 already announced, a move welcomed by businesses. According to DfE projections this would require 140 hubs across England	£7.5m[62]
Publish a Ministerial Statement on the next stage of post-18 review of education and funding	£Nil

6. Make the UK a great place to employ and be employed

UK productivity has lagged behind the rest of the G7 for a decade, impacting everything from competitiveness through to living standards. But with unemployment at its lowest since the 1970s, it’s clear that simply creating jobs isn’t enough; work must be fair, provide opportunities and give people a voice on the issues that matter. To ensure the UK continues to be a great place to employ people and be employed, we must create a fair and flexible labour market that benefits everyone. It’s important that UK legislation keeps up, and that workers have clear rights and the ability to enforce them. But good work goes beyond the bare minimum – people must feel that there is fairness and transparency in their work and in the system.

The national strategy that is needed is flexibility in the UK labour market that workers want and businesses need, businesses that lead the way by adopting great people practices, from leadership through to engagement and a labour market where workers can uphold their rights and firms can operate on a level playing field.

At this Budget, the Government should focus on three key areas:

- **Pension Tax:** many budgets in recent years have made changes to the pensions tax relief framework. Businesses are clear that they don’t want to see anymore piecemeal changes, as they believe that constant tinkering to the tax relief framework over the last decade has damaged saver confidence. The Tapered Annual Allowance came into force as of April 2016 but has recently made headlines in relation to doctors in the NHS incurring large unexpected tax bills. Businesses support HM Treasury’s review of the taper but are clear that any review should not be sector specific. Changes to the pensions taxation system must apply to everyone, regardless of their employer. In the private sector, like the NHS, once an employee starts to be affected by the taper, then all additional paid work they agree to do adds to their earnings (which reduces the taper) and increases the value of their pension, meaning they get hit twice on the additional pensions tax. The taper is incredibly complex, and it is unlikely that an employee will understand the system without support from an independent financial adviser. Consequently, there’s the potential for a significant amount of annual allowance tax to be owed by individuals who genuinely have no idea that they owe it, further damaging trust in pensions. A wider review of the pension tax landscape is overdue and necessary for people to have the confidence to save for retirement through a pension scheme.
- **National Living Wage**: the minimum wage has increased the earnings of the lowest paid while protecting employment opportunities for 20 years. Putting the expertise of the Low Pay Commission at the heart of decision-making has been critical to finding the right balance. But

[59] There is likely to be an overspend from 2020/21 onwards. The government should provide £100m in the first year. Absent any policy change this will have to be addressed at the multi-year spending review in 2020
[60] This has already been scored as part of the Autumn Budget 2018
[61] Get Brexit Done Unleash Britain’s Potential, The Conservative and Unionist Party Manifesto 2019
[62] Up to £17.5m in 2023/24 based on DfE projections

reducing the role of the LPC to monitoring the delivery of a politically set target through the creation of the National Living Wage was a risk and it is too early to fully judge its impact as it hasn't proven it can protect workers during a recession. As the UK economy heads into a period of uncertainty, the LPC should have a stronger role in assessing the impact on employment prospects and opportunities of the lowest paid workers.

- **Employment Tribunals:** most employment rights are enforced by employees submitting complaints to an Employment Tribunal. This makes a well-functioning employment tribunal system essential to fairness at work. Fairness for workers that they have quick recourse to justice if their rights are not respected. And fairness for good employers who want neither to face unfair competition or false accusations that they can't swiftly contest. Employment Tribunal waiting times have increased significantly. Not only does this undermine confidence that employment rights are upheld but it also increasingly makes it a business issue. Unresolved disputes that drag on add to the cumulative burden companies face. Having an easily accessible, informal, speedy and inexpensive employment tribunal is in everyone's interest. The current state is a barrier to justice for employers and employees and damages trust in business

The Government should therefore use this budget to:

CBI recommendation	Annual exchequer cost[63]
Avoid further cuts to pensions tax relief and undertake a formal review of the tapered annual allowance for both the public and private sector, not just the NHS	£Nil
The Low Pay Commission should recommend the pace of NLW increases, including not meeting the 2024 target if evidence suggests it is damaging the employment opportunities of lower paid workers and the economy	£Nil
Introduce a new fees regime that is designed to encourage resolving disputes by agreement whenever possible, and look into increasing the administrative capacity of Employment Tribunals	£Unclear [Depending on findings]
Reduce the holding period for the Shared Incentive Plan (SIP) from 5 years to 3 years to make the scheme more attractive to all employees	£Unknown

7. An open and controlled immigration system

To create Global Britain the UK needs a new immigration system. Getting this right is as important for many businesses as our future trading relationships. From waiters supporting Cornwall's hospitality industry, to advertisers sharing global perspectives in London, to welders in the oil and gas industry in Aberdeen – international workers from all skill levels underpin businesses right across the UK. Not only do workers from abroad help to fill skills gaps and labour shortages, they bring fresh ideas, drive innovation and make the UK an attractive destination for global investment.

The Migration Advisory Committee's recent report recommending a reduction in the headline salary threshold was welcomed. Yet even with a commitment to world class business training, it remains unclear how firms can hire for mid-skilled roles such as LGV drivers, joiners and lab technicians who don't meet the £25,600 test. Flexibility will be needed to build a system that lets wages rise where there are shortages while helping businesses to access the skills and labour needed to grow all parts of the UK.

Business shares the Government's ambition that global Britain should welcome workers from overseas who are contributing.

[63] Static cost – does not take account of the positive economic impact

The Government should use this Budget to:

CBI recommendation	Annual exchequer cost[64]
Respond to the Migration Advisory Committee report, including on salary thresholds and points-based system	£Nil
Introduce a minimum salary threshold of £20,100 based on the 25th wage percentile of the lowest eligible occupation	£Nil
Introduce a new unsponsored points-based route for skilled workers	£Nil
Scrap the £1,000 immigration skills charge	£161m[65]
Ensure the £400 immigration health surcharge does not apply to EU nationals by negotiating a reciprocal agreement on social security coordination with the EU	£Nil
Deliver a reformed sponsorship process for the first day of operation. This new process must be tested and implemented before switching to a new system to ensure smaller businesses in particular can access.	£Nil
Introduce a temporary visa route available to all sectors of the economy. This route should be unsponsored, 24 months in length and should include a cooling off period of 6 months. It should also allow in-country switching to the skilled worker visa if eligibility criteria is met.	£Nil

TRADE AND INVESTMENT

8. Showcase Global Britain and prepare business for trade

As of 2020 the UK will have its own independent trade policy for the first time in almost half a century. This sets a precedent for renewal across the country's international and trading relations and should be met with strong and clear commitments from the government to ensure the UK's position as a global player.

That starts at home: from domestic incentives that best enable firms to import and export; to building capacity across the civil service globally to support businesses already in market; through to ensuring that the country is operating as a trusted player at a global level, boosting the UK's soft power. This should all be informed through extensive stakeholder engagement, as is the case in countries with a long history of independent trade. The upcoming Spending Review will be an important for the UK to affirm trade policy as a priority across all government department by ensuring it is properly resourced within the Department for International Trade. The first step will be the creation of an Office for Trade Impact, similar examples for this can be found in Australia and the United States.[66] This independent office should responsible for delivering relevant testimony to government and parliament, ensuring that all groups are informed on the economic basis and implications of different policies.

At this Budget the Government should:

CBI recommendation	Annual exchequer cost[67]

[64] Static cost – does not take account of the positive economic impact
[65] This is based on the revenue received from the ISC in its current form and an estimate of the revenue that would have been received had EEA nationals been in scope. As it is based on data from 2016, it does not take into account any behavioural change of companies or individuals.
[66] Australian Productivity Commission and United States International Trade Commission
[67] Static cost – does not take account of the positive economic impact

Increase funding for the SME trade show support scheme (TAP)	£6.5m[68]
Maintain UK spend to deliver the UN target of 0.7% of gross national income on aid and development	£Nil[69]
Create an independent Office for Trade Impact such as in Australia and the USA	£18m[70]

TAX AND REGULATION

9. Ensure simplicity and certainty in the tax system to attract investment into the UK

In order to invest and grow in any country businesses require stability and certainty. At a time when the world is questioning the attractiveness of the UK as place to invest, a predictable and stable tax system is paramount. Tax is critical in funding the public services the UK relies on but the government must look sustainably at where that tax is coming from, without disproportionally contributing to the burden on business, and provide firms with enough time to implement changes.

There are many factors that impact business investment. However, corporate income taxes play an important part in encouraging business investment to the UK. Whilst at 19%, the corporation tax rate remains competitive, there are many more factors (ranging from complexity and unpredictability of the tax system to the administrative burden on business) which determine the competitiveness of the UK tax system than the headline corporate tax rate alone.

These issues must be addressed holistically – and be supported by the expertise of businesses. The Government should avoid hastily introducing change, that add to the administrative burden businesses face and put the UK out of lockstep with its international competitors. There are three areas, where business is looking to the Government for clarity at this Budget:

There are three areas, the CBI is calling on the government to act at this Budget to protect one of our most internationally revered economic assets: our tax system:

- **Corporate capital loss restrictions**: this is inconsistent with the broader policy objective of ensuring the UK is an attractive place for business, in particular, but not exclusively in the property and construction industry. The case for restricting carried-forward capital losses, bringing the loss restrictions in line with income loss carried-forward restrictions, moves away from the well-established principle of ensuring that companies are taxed on net capital gains over the long term and the proposed reform is likely to result in taxpayers being subject to a significantly higher tax burden.
- **HMRC relationship**: certainty is an important pillar of the competitiveness of the UK tax system, particularly in terms of promoting investment and growth. The relationship between business and HMRC plays a key part of providing businesses with this certainty. The international business community has long recognised HMRC as a world-class, well respected tax authority which maintains excellent relationships with business taxpayers. This is driven by its reputation for integrity and reliability meaning business can trust that their tax affairs are being treated with confidence and in a fair way. But in recent years a growing number of businesses are reporting a steady breakdown in their relationships with HMRC. Whilst the CBI's In Need of a Reset report focused on HMRC's relationship with large business[71], the impact of HMRC's relationship is being felt more widely. One recent example of this is the administration of the R&D tax incentive regime. Businesses have been particularly frustrated with the delay in settling R&D tax credit claims, with some claims taking up to 6 months to be processed and paid. Delays in receiving payments can have serious

[68] This is based on written evidence that shows the TAP budget in 2019/20 was £6.5 million.
[69] Already scored, in the baseline
[70] Based on the cost of the Australian equivalent, the Australian Productivity Commission, which had a budget of AUS$35mn in 2018/19
[71] CBI, In Need of a Reset report, January 2019

cash flow implications and in some instances can disrupt the day-to-day running of some businesses – particularly for SMEs. To address this problem there must be greater investment to ensure that HMRC are sufficiently resourced to settle claims on a timely basis

- **IR35:** businesses understand and fully support the rationale behind the IR35 legislation. It is right that the government is looking to address non-compliance but as part of this the CBI has long called for a holistic approach between the Mathew Taylor review and off-payroll working, alongside unambiguous rules to determine individuals' tax status before proceeding with any private sector implementation – this is vital to ensure both certainty and simplicity for business and individuals. However, pressing ahead with IR35 reform for the private sector ahead of this has resulted in an outcome which has been, and continues to be, resource intensive and adds a significant increase in the administrative burden for business with internal system updates being required across multiple functions for business to ensure they are fully compliant with the reform - all of which takes time and the administrative burden of which has been compounded through the late publishing of draft guidance and legislation, with final versions still lacking but a commencement date looming only two months away. The government launching a review into IR35 reform in January 2020 is welcome, but it is vital that HMRC acts quickly on the evidence presented to ensure that business are able to operationalise the reform in practice from April 2020.
  - **Firstly**, clarity should be provided over when businesses are required to apply to reformed rules from - the current reference to "payment for the services is made on or after 6 April 2020**"** is vague in providing clarity over which payment the legislation refers to, particularly problematic where there are long supply chains and a much simpler commencement criteria would be for work performed from this date.
  - **Secondly**, the IR35 reform has transferred significant risk to business, carefully drafted final guidance and legislation which outlines businesses responsibilities and provides clarity will significantly ease the burden on business - this should focus both on the test for employment status but also extend similar clarity to the definition of outsourced providers and what steps businesses need to take to fulfil their obligations of taking reasonable care and a soft touch approach where this has been taken. The absence of a swift focus by government over these points, will lead to a further additional administrative burden on business and increased uncertainty.

At this Budget, the Government should:

CBI recommendation	Annual exchequer cost[72]
Halt its plans to extend the loss restriction rule for carried-forward losses to include capital losses	£110m in 2020/21, £140m in next two years[73]
Invest in HMRC to ensure the department is sufficiently resourced to provide businesses with greater upfront certainty over their tax affairs and to respond on a timely basis to matters (such as R&D tax credit claims) which can have a significant impact on business cash flow	£unknown
Outline a long-term strategy to determine individuals' tax status taking a holistic approach with the Taylor Review and publish carefully drafted final guidance and legislation which outlines businesses responsibilities and provides clarity will significantly ease the burden on business	£Nil

10. Outline a roadmap for future taxation of the Financial Services sector

Financial services matter, both for the whole economy and in their own right. From helping risks to be managed, wages to be paid, and payments to be made, financial services is an essential enabling industry. The products and services provided by this critical sector keep the economy moving, driving prosperity and boosting productivity. Along with providing 1.1 million high-skilled, productive jobs

[72] Static cost – does not take account of the positive economic impact
[73] Based on expected revenue in Budget 2018 policy costings, October 2018

across the regions, the sector contributed over £75bn in taxes last year – 11% of total UK government tax receipts and equivalent to almost half of the NHS Budget.

Yet the UK's vibrant world-leading sector faces a host of challenges as the UK leaves the European Union. It is vital that the UK retains its long-term attractiveness as a place to do business and preserving the competitiveness of financial services is key to the UK's global competitiveness.

The CBI urges this Government to use this Budget as an opportunity to return to the normalisation of UK financial services taxation and to provide the confidence in the future direction for UK tax policy to foster an environment where the financial services sector can thrive to the benefit of the whole economy.

At this Budget, the Government should:

CBI recommendation	Annual exchequer cost[74]
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 firm's long-term growth ambitions by committing to continuation of Entrepreneurs Relief	£Nil

11. Reform the outdated Business Rates regime

In an increasingly digitalised world, with a slowing retail and manufacturing sector, there has never been a more crucial time for the government to act and set out a path for reform to the broken business rates system. With a tax rate close to 50% and a shrinking tax base, the system is no longer sustainable. It is holding back business investment across sectors and regions in England. Reaching a fair and sustainable system in the long-term will require fundamental change from the status quo. A new system should continue to be based on annual rental values but will have the following characteristics: a fixed tax rate with a common uniformed business rates, frequent realignment with the economic cycle, incentivises investment, removal of the rule of fiscal neutrality and a system that works with possible devolution.

However, in the meantime the burden of business rates will continue to increase, damaging the competitiveness of retailers, manufacturers, logistics firms and others, which have a footprint in every region of England. The UK is already more reliant on property taxation than the rest of the G7 and therefore an increasing burden will only make the UK less attractive to international investment, particularly when that investment includes the acquisition of commercial property.

Ensuring the system supports investment in property will be a crucial part of the reform. Business rates is a key factor when making decisions on both large capital investments where the return is realised over a longer period and smaller investments, such as improvements or upgrades to existing properties. The current level of business rates burden often means such investments are not economically viable, particularly as the property enhancements often result in an increased business rates bill. This is particularly important for productivity enhancing investments and investments in energy efficiency. These investments could contribute towards the government's targets for net zero and full-fibre rollout[75], and the wider economic benefits these will realise. The benefits of full fibre are clear, with nationwide connectivity offering a potential £59bn productivity boost.[76] Yet business rates have a significant impact on the investment case for rolling out full fibre. However, in many instances

[74] Static cost – does not take account of the positive economic impact; aggregate cost for each policy package
[75] As the Government has recently accelerated its target for gigabit connectivity by 2025, it must now match that ambition with a pro-investment tax policy that facilitates quick rollout so that businesses can benefit from the best connectivity technologies as soon as possible
[76] Cebr 2019, Full Fibre Broadband: A platform for growth https://www.openreach.com/full-fibre-impact

business rates can be the tipping point in delaying that investment decision putting the UK at risk of missing out on these benefits.

The Government's objective must be to reduce the average rates burden on individual businesses over time. To set the UK on a track to achieving this long-term objective, it is crucial that the government uses its recently announced review to understand why the business rates system is broken, to develop policy options for how it should be improved and subsequently set out a strategy of how these policy options will be implemented over time. Previous reviews have been constrained by the rule of fiscal neutrality, it is vital for this review to not be constrained by this rule to ensure it results in fundamental action that supports all business. The review should allow for sufficient time for business consultation and be reported on at Budget 2020, with a view to starting to implement changes in 2021. The review should incorporate the following:

- Ensuring the system is simple and transparent
- A feasible pathway to reducing the multiplier to a reasonable time period
- The narrowing of the tax base over time and an ability for the system to progressively flex and adjust to this narrowing without placing the additional burden on the remaining players
- Changes in the distribution of the burden over time (sectors, regions, size)
- The impact of business rates on investment and how the business rates system can be used to encourage investment to achieve government policy objectives, this should include a review of plant and machinery
- Using existing business taxes to reduce the multiplier and allow for a fixed rate
- Linking business rates to the economic cycle, by exploring annual revaluations and self-assessment
- The capacity and resourcing of the VOA
- The transparency, ease of use and timescales of the appeals system

The Government should use this Budget to:

CBI recommendation	Annual exchequer cost[77]
Introduce a similar measure to Scotland's Business Growth Accelerator that enables new properties or improvements to existing properties to receive a holiday from business rates payments	£500m[78]
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	Unclear[79]
Transitional arrangements should be removed for properties whose rateable value decreased because of the 2017 revaluation. The rates bill of these properties should reflect the 2017 rateable value, while upwards transitional relief should be maintained	£300m 2020/21[80]
The check challenge appeal system should include a workable VOA portal and business rates valuations should be transparent, with the evidence upon which values are based being made available to rate payers	Unclear[81]
Exempt productivity enhancing investments from the rateable value. This should include gigabit capable broadband technologies and energy efficiency measures	Unclear[82]

[77] Static cost – does not take account of the positive economic impact
[78] Based on costings from Consultation on the transitional arrangements for the 2017 business rates revaluation, Summary of responses and Government's response.
[79] Cost depends on the guidelines enforced but should be small
[80] Based on costings from Consultation on the transitional arrangements for the 2017 business rates revaluation, Summary of Responses and Government's Response, November 2016.
[81] Cost depends on scale of systems changes
[82] Cost depends on the scope of exemptions

Extend full fibre business rates relief to 2029 (to align with the business rates regime in Scotland)[83]	£12m[84]
Use the recently announced business rates review to ensure reform leads to a fair and sustainable system over time. To achieve this, the review should not include the rule of fiscal neutrality.	Depends on the scope

ENABLING A FRAMWORK FOR REGIONAL IMPACT

12. Provide a long-term strategic approach to regional policy to reignite regions

The UK's productivity puzzle is not just a national story, but crucially also a regional one and while successive governments have strived to address the regional productivity challenge, they have been hampered by a lack of genuine buy-in from all parts of the government and in some instances rely heavily on already stretched local institutions.

The most productive area of the UK remains almost three times more productive than the least. And this is having an impact on our international competitiveness too: more than half of UK cities are among the 25% least productive in Europe.[85] The UK remains the most centralised nation in the G7, which may go some way to explaining why our productivity lags behind. Each region has its own priorities, including historical investment, employment opportunities, education, transport and exports. Tailored local strategies with access to the right funding, and the ability for areas to make local decisions, will make a real difference in closing the productivity gap.

Businesses are clear, that in order to address the productivity challenge in regions, clarity is needed both on the formula-based funding side but also the government's devolution agenda for the English regions.

The Government should use this Budget to:

CBI recommendation	Annual exchequer cost[86]
Urgently publish the White Paper on the future of the UK Shared Prosperity Fund to consult on the design of the fund. The government should commit to continued funding regardless of the outcome of EU negotiations and at a minimum match the size of those funds in each nation.	£Nil
Deliver on the manifesto commitment to fund city regions so mayors can make decisions about what local transport projects to invest in, such as continued investment in London's integrated transport network	£840m committed in 2022/23 and 2023/24[87]
Publish a devolution White Paper setting out plans to devolve powers in England including: - a framework setting out clear guidelines to support the development of new deals and establish criteria for assessing deal proposals - clarity on a definition of a functional economic area, considering what it means for cities, towns and rural areas, and align Combined Authority and Local Enterprise Partnership boundaries.	£Nil

[83] Business rates relief would free up resources for roll out to potentially thousands more properties; during the government's consultation on full fibre business rates relief, it sited how increased broadband speed alone could add £17bn to UK output by 2024
[84] Based on costings for previous 5-year exemption from Autumn Statement 2016: policy costings
[85] Unlocking Regional Growth, CBI report, 2017
[86] Static cost – does not take account of the positive economic impact
[87] Committed in get Brexit Done Unleash Britain's Potential, The Conservative and Unionist Party Manifesto 2019 and costing based on intra-city transport settlements in the accompanying costings document.

- set out how the success of deals will be measured, with further devolution of power and funding tied to this	
Set up an independent advisory board to impartially assess and advise on devolution deals against the published framework	£Nil
Ahead of every fiscal event going forward, the Government should convene the metro mayors to help determine regional priorities.	£Nil
Ensure the remaining Local Industrial Strategies are published by summer 2020	£Nil
Reform the Green Book to build in transformational impacts into current models of cost benefit analysis when assessing new infrastructure	£Nil
To support the government's commitment of levelling up the regions, funding should be provided to regional groups. These groups encourage greater collaboration between Local Enterprise Partnerships, local authorities and businesses to help tackle the challenges facing the UK, including delivering on clean growth and supporting the ageing society, whilst also making the most of new opportunities to export South West goods and services globally.	£Unclear