17 February 2022

The Rt. Hon. Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor

As we emerge from the pandemic, companies across the country are simultaneously enjoying the tailwinds of demand returning but also facing the considerable headwinds of inflation, shortages and regulatory burdens. Your Spring Statement therefore comes at a crucial inflection point for a post Brexit, post COVID Britain.

Your aim to build 'a stronger economy of the future'[1] is one we can all get behind. Now is the first moment to act, not in the face of crisis but in pursuit of the Government's bigger goals. But the last OBR forecast showed we're up against a challenge. UK GDP growth is set to fall to 1.3% in 2024, 'as the boost to output from the fiscal loosening fades and the super-deduction ends', before increasing slightly to 1.6% in 2025 and 1.7%[2] in 2026. The recent Bank of England forecast is more pessimistic still, expecting growth of only 1.0% in 2024[3].

It's in this context that firms are looking at their investment plans, with typical investment cycles of six to 18 months. They need to know that our ambition is greater than this. Business understands that efforts must be made to bring down our national debt. But with the tax burden set to be the highest in 70 years, there needs to be a counterweight to get business investment on the move again. We must signal to domestic and global investors that the UK is serious about growth and has the ambitions and innovation to achieve it. As you have repeatedly championed, higher productivity growth is the only sustainable way to pay down our debt, meet rising spending pressures, and keep commitments to cut taxes this parliament.

So let's go for it. This Spring, it's time to take decisive action to boost long-term investment and achieve a higher path for growth. Without setting out this ambition, capital spending will fall from mid-2023 onwards, as the super-deduction expires and the corporation tax rate increases, and UK business investment as a share of GDP will be the lowest in the G7[4].

Accelerate the UK's growth trajectory to support public spending priorities

To break out of this trap, we need bold interventions that will unleash investment, innovation, and productivity. Like the super-deduction, which has achieved exactly this. CBI survey evidence shows that 20% of qualifying capital investment over the super-deduction period would not have taken place without it, a further 19% is being brought forward to take advantage of the relief, and another 2% is additional investment brought to the UK from elsewhere because of it[5]. This is a huge success for a scheme that has operated for a short and turbulent period. But we need to finish the job on investment for the long term and introduce a permanent Investment Deduction from 2023. Our survey analysis shows that this could unlock 17% more capital investment a year by 2026[6]. Investment to build the stronger, greener economy we need. And in getting this growth policy right, there's a big prize at stake.

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[1] Autumn Budget and Spending Review 2021 speech as delivered by Chancellor Rishi Sunak, 27 October 2021
[2] OBR, *Economic and fiscal outlook*, October 2021, page 13
[3] Bank of England, *Monetary policy report*, February 2022.
[4] CBI, UK economic forecast¸ December 2021
[5] CBI, Super-deduction survey, January 2022
[6] Ibid

If, instead of slipping back into a low-growth cycle from 2024, the UK raised its ambitions and achieved average annual growth of 2.5%, by 2030, we estimate this could provide more than £100bn in additional Government revenue. That's enough to pay off around a fifth of the additional debt racked-up throughout the pandemic, increase fiscal headroom to spend on vital public services or reduce the UK's tax burden.[7]

To seize the prize, the Government must make driving investment a cornerstone of tax, regulation, and industrial policy. This Spring, on behalf of our members we ask you to:

1. **Drive lasting productivity growth with a permanent Investment Deduction:** Introduce a **permanent Investment Deduction**, providing a 100% tax deduction for capital spending from April 2023 to unlock 17% more capital investment a year by 2026.[8] To further accelerate the transition to net zero, introduce a **targeted 'Green' super-deduction.**

2. **Challenge UK firms to invest in UK skills:** Turn the Apprenticeship Levy into a **Skills Challenge Fund** to provide high-quality training to meet the needs of a changing economy, giving employers flexibility to spend on a variety of training and rewarding those who outperform on skills investment. Create an independent **Council for Future Skills,** to show how business action and the Government's skills and immigration policies can fully tackle current and future skills and labour shortages.

3. **Make sure Britain wins in global Green Markets:** Build upon the Autumn Comprehensive Spending Review and **close public investment gaps in crucial green growth areas** such as buildings energy efficiency to properly retrofit homes and commercial buildings and to bring down energy bills. Set out a **Contracts for Difference model for hydrogen** by Autumn 2022 to enable investors to move quickly.

4. **Seize Brexit opportunities to create world-leading dynamic and future-focused regulation:** This Spring, announce the creation of an **Office for Future Regulation (OFR)**, that brings together the Better Regulation Executive and the Regulatory Horizons Council, to be agile in adapting regulation to changing technologies, encourage innovation and coordinate regulation across Government departments.

As Government acts, so shall we. Over the next year, the CBI will develop a blueprint for successful economic clusters across the UK and we will back the new Skills Challenge Fund with a nationwide campaign for firms to adopt it. Levelling up is a goal we share, which is why for towns in every part of the country we ask that you continue to tackle the crippling business rates burden, removing downwards transition, freezing the UBR in 2023-24 followed by a permanent cap and providing a 5-year business rates discount on all rates payable for businesses who invest in their properties.

We would value a meeting to discuss these ideas with you and look forward to working with you and your team to raise the ambition of the UK economy.

All best wishes,

Tony Danker

Tony Danker
Director-General

Rain Newton-Smith
Chief Economist

[7] CBI analysis, January 2022
[8] CBI, Super-deduction survey, January 2022

CBI Submission to the Spring 2022 Fiscal Event

Go For Growth

Unlocking private investment and productivity will be fundamental to the UK's competitiveness and our ability to level-up. This Spring, it's time to take action to deliver the plan for growth.

The latest data shows the economy bounced back strongly in 2021[9], but by the end of 2023 the CBI projects GDP will remain 3% below its pre-COVID level[10]. Growth also continues to be heavily reliant on household spending, and the Bank of England recently downgraded their GDP growth forecast for 2022 and 2023 reflecting higher global energy and goods prices weighing on household incomes and spending[11].

With rising inflation, the risk of further covid variants and continued global supply chain disruption, it is imperative that the fiscal event this Spring accelerates the Government's Plan for Growth by addressing short and long-term challenges. Failure to act now, will risk derailing recovery and stifling growth.

This Spring, the Government must deliver innovative policies that will enable firms to play their part in driving productivity and to stimulate an investment revolution – whether in skills, innovation, or decarbonisation. And with the Government navigating the competing challenges of reducing the UK's deficit, while supporting upward pressures on public spending, creating the right environment for investment is imperative.

Getting this right will bring huge economic potential. As the CBI estimates, if annual growth of 2.5% were achieved from 2024 this could provide £100bn[12] in additional revenue by 2030. This is three times the committed funding announced in the Queen's Speech for levelling up.[13] Or this could support the increased budget for the Department for Health and Social Care from 2022-23 to the end of the Spending Review period.[14]

In this submission, the CBI puts forward how we can start to do this, identifying what actions must be taken now and why they can't wait. It will also set out measures needed in the short term to ensure the recovery isn't knocked off course by rising costs, which continue to hit businesses and consumers, or by skills and material shortages and the continued challenges of living with the virus.

With years of low productivity growth to overcome, this submission will also highlight those areas where we want to engage with the Government ahead of policy decisions this Autumn. Together, business and Government can secure a new growth trajectory for the UK over the coming decade.

Now is the time to set a more ambitious course for the UK economy. Let's address immediate challenges and build the conditions for higher and more sustainable growth.

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[9] ONS, GDP first quarterly estimate, UK: October to December 2021, published 11 February 2022

[10] Household spending is the key driver in the CBI's forecast, accounting for 90% of GDP growth in 2022 and two-thirds in 2023, CBI, *UK economic forecast*¸ December 2021

[11] Bank of England, Monetary Policy Report - February 2022, published 3 February 2022

[12] CBI analysis, January 2022

[13] During the 2021 Queen's Speech, it was announced that £32bn was to be allocated to levelling up policies including infrastructure and the Cultural Revival Funds, alongside £3.7bn to build 40 hospitals and recruit 50,000 nurses across England.

[14] This calculation is based on DHSC's departmental settlement at the Spending Review 2021 which is set to increase from £145bn in 2020-21 to £189bn by 2024-25.

Top recommendations

Securing the recovery	Annual exchequer cost[15]
Support business cash flow to manage rising costs and smooth recovery	
Continue and **expand business access to Government backed loans through the Recovery Loan Scheme (RLS),** with an extension of RLS to the end of 2022 to support firms struggling with rising energy costs and strained cash flow.	**£Unclear[16]**
Address immediate labour and skills shortages to keep the economy moving	
Build on the success of Skills Bootcamps by **expanding their remit** and ensuring they continue to support roles facing critical skills and labour shortages. This is especially important until reform of the Apprenticeship Levy unlocks business investment in more agile training. Initial focus should be on **warehouse operatives, HGV drivers, welding, retrofitting and mechanical and electrical engineering**.	**£56m[17]**
Ensure the UK can live with COVID while keeping the economy open safely	
Enable the UK to Live with the Variants by continuing to provide free mass community testing as a critical economic enabler to support confidence in the return to office, even as the legal duty to self-isolate is removed. Alongside provision of **COVID and flu vaccines and antivirals**.	**£Unclear[18]**

Going for growth	Annual exchequer cost[19]
Drive lasting productivity growth with a permanent Investment Deduction	
Introduce a **permanent Investment Deduction**, providing a 100% tax deduction for capital spending in the year of expenditure (i.e. full expensing) after March 2023 and introduce **targeted 'Green' investment-focused capital allowance mechanisms** for both incorporated and unincorporated businesses to drive the UK's transition to net zero.	**£8.1bn-£11.9bn in 2023/2024[20] *brings forward tax deduction to the year of expenditure £Unclear[21]**
Challenge UK companies to now invest in UK skills	
Turn the apprenticeship levy into a **Skills Challenge Fund** to provide agile and high-quality skills and create an **independent Council for Future Skills** to address the skills challenges of today and 2030.	**£Unclear[22]**
Make sure Britain wins in global Green Markets	
Close public investment gaps in crucial green growth areas such as energy efficiency, to retrofit homes, commercial buildings and bring down energy bills. While also setting out a **Contracts for Difference model for hydrogen** by Autumn 2022.	**£3.11bn[23]** **£Nil**
Seize Brexit opportunities to create world-leading dynamic and future-focused regulation	
Establish a **new Office for Future Regulation,** that oversees the Better Regulation Executive and the Regulatory Horizons Council, to coordinate regulation across Government and provide strategic direction for business investment, as well as consumer protection.	**£Negligible**

[15] Static cost – does not take account of the positive economic impact; aggregate cost for each policy package
[16] See page 6 for full costing and policy details
[17] See page 7 for full costing and policy details
[18] See page 8 for full costing and policy details
[19] Static cost – does not take account of the positive economic impact; aggregate cost for each policy package
[20] Net cost will reduce overtime. See page 12 for full costing and policy details for permanent Investment Deduction**.**
[21] See page 13 for full costing and policy details
[22] See page 17 for full costing and policy details
[23] See page 21 for full costing and policy detail on energy efficiency of buildings.

1. Address short-term challenges to enable sustainable growth

UK firms face an ever-mounting number of challenges: living with COVID, global supply chain disruption, labour and skills shortages, rising energy prices, inflation and a cost-of-living crisis. All while navigating a new trading relationship with the EU and other global partners.

December CBI survey data showed that two thirds of firms were facing significant disruption to supply chains (65%), including 90% of manufacturers, 87% of distribution firms and 50% of services firms.[24] And while public authorities have adopted a constructive approach to supporting firms throughout the pandemic, through measures such as HMRC's Time to Pay, it's crucial this continues in the months ahead as businesses navigate these competing pressures.

The Government has also taken a welcome first step in establishing the Supply Chain Taskforce to address challenges that continue to persist. Addressing short-term issues now will enable the UK to focus on growth and investment. But there are also several long-term solutions that will help create resilience in energy, skills and labour markets. These are outlined in sections 3 (skills and labour) and 4 (decarbonisation) and will help alleviate pressure for short-term measures in the future.

Rising costs and inflation: Latest CBI data shows that firms have already seen energy costs rise by 22% on average[25], with spikes in energy prices undermining the resilience of supply chains and forcing some energy intensive firms to suspend production at certain times of the day.

The CBI's current analysis shows that the recently announced rise in the energy price cap will push CPI inflation to a peak of at least 7% in April 2022. Separate analysis points to a hit to consumer spending of £20bn, with this felt strongest by lower income households. While the measures set out to alleviate pressures on households are very welcome, targeted support is also required to help business transition to higher prices.[26]

Skills and labour shortages: As for much of 2021, labour and skills shortages continue to persist across the economy. In manufacturing, the share of firms citing skilled labour as a factor likely to limit their output next quarter (42%) has risen to its highest levels since October 1973. With the share citing labour shortages as a factor likely to limit investment in the next year rising to its highest since July 2020[27].

The latest ONS data also shows that employment continues to rise, unemployment is falling, and the redundancy rate has slowed to below pre-pandemic levels. While positive to see a continuing recovery in the labour market, the number of vacancies has reached a new record high of 1,298,400, an increase of 513,700 from its pre-COVID January to March 2020 level[28] making it harder for firms to recruit talent.

Living with COVID Variants: The removal of travel and Plan B restrictions was a positive step for business. But the previous swing back and forth between restrictions and normality has damaged business confidence. The Government must now focus on providing essential COVID infrastructure to keep the economy open safely (such as testing, vaccinations and antivirals) over the risk of re-introducing interventions in the future and once legal self-isolation is removed, as detailed within the CBI's Living with the Variants document. This infrastructure is a critical enabler of economic confidence and will be crucial to UK recovery and growth. The Government should also prioritise global vaccine equality, including the distribution and supply of vaccines, to minimise the risk of new variants and reduce global disruption in supply chains.

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[24] CBI, *Supply chain survey,* December 2021
[25] Firms across the UK have already seen energy costs rise by 22% on average over the past three months, rising to 30% on average for manufacturers. CBI, *Energy survey,* December 2021
[26] CBI, *UK economic forecast*¸ December 2021
[27] 37% of respondents cited labour shortages as a factor likely to limit investment in the next year. CBI, Industrial Trends Survey (ITS), published January 2022
[28] ONS, *Labour market overview, UK: February 2022,* published 15 February 2022

Government ambition	CBI recommendation	Annual exchequer cost[29]
	Support business cash flow to manage rising costs and smooth recovery	
Providing financial support to businesses as they recover and grow from the coronavirus pandemic	**Maintain and expand business access to Government backed loans through the Recovery Loan Scheme (RLS), with an extension of RLS to the end of 2022.** With firms of all sizes struggling with energy costs as they focus on recovery, the RLS should be expanded to cover larger firms and extended to the end of 2022, while the Government considers the development of a long-term loan guarantee scheme to support SMEs that can't access finance elsewhere.	£Unclear[30]
Preparing for and responding to energy emergencies	**Reduce network costs for Energy Intensive Industries (EII) in line with those in Germany and France.** Soaring energy prices have exacerbated energy cost disparities between the UK and our European competitors. This difference is further exacerbated by the network costs, where Germany and France for example, apply a 90% exemption to their most electro-intensive sites. Reducing network costs for EIIs in line with international competitors would ensure UK companies are no longer at a disadvantage.	£104m[31]
Preparing for and responding to energy emergencies	**Increase the level of renewable levy exemptions for Energy Intensive Industries (EII).** The current exemption level for eligible companies at risk of carbon leakage is 85%, which is low compared to c.95% in Germany. With energy intensive industries at a competitive disadvantage, increasing the exemptions to those levels seen by Germany, would ensure UK companies are not at a disadvantage to their competitors.	£13m[32]
Preparing for and responding to energy emergencies	**By the end of March 2022, respond to the consultation on the compensation for indirect emission costs and extend the regime for the current CSR period.** Higher energy prices coupled with higher costs of carbon are impacting UK business competitiveness. This disparity is already being factored into energy contracts for the next 3 years. To	£39m[34]

[29] Static cost – does not take account of the positive economic impact; aggregate cost for each policy package.
[30] Fiscal cost of the loan scheme would be a factor of uptake of the scheme, value of the loans, as well as the share of defaults on these loans. These variables are currently difficult to determine.
[31] Estimate of a 90% network cost reduction for the trade and electro EIIs. Data for the average network charges to steelmakers were provided by UK Steel. Typically cost reductions would be passed onto consumers, however given the rising cost of energy to consumers, it would be more appropriate for this cost to be borne by the taxpayer instead.
[32] Fiscal cost of the loan scheme would be a factor of uptake of the scheme, value of the loans, as well as the share of defaults on these loans. These variables are currently difficult to determine.
[34] Estimates of the cost of providing 100% compensation to those currently eligible for the scheme has been provided by UK Steel. The scheme is also intended to provide support for those EIIs that would not benefit from the renewable levy exemption.

	provide some policy certainty and allow manufacturers to plan and budget appropriately, publishing the consultation response and extending the scheme beyond its current expiry date of March 2022 will be crucial for supporting investment decisions, particularly for decarbonising.[33]	
Providing financial support to businesses as they recover and grow from the coronavirus pandemic	**Review forbearance mechanisms for coronavirus loan and finance schemes, to give firms breathing space to navigate dampened demand due to the impact of Omicron restrictions and rising costs.** This should include raising awareness of Pay As You Grow (PAYG) amongst smaller businesses as well as consideration of extended repayment periods for 6 months beyond the end of the scheme for those firms who used the Covid Corporate Financing Facility (CCFF) and are still grappling with supressed demand.	£Nil
Support the UK aviation sector to maintain international connectivity and protect global competitiveness	**Extend measures to reduce the fixed costs of the aviation sector, whose demand has been significantly impacted by international travel restrictions throughout the pandemic.** To ensure while the sector recovers it is able to maintain international connectivity and competitiveness, and focus on investment, the Government should look to extend the Airport and Ground Operations Support Scheme (AGOSS) by a further 6 months.	£95m[35]
Delivering the Bus Back Better strategy	**Extend revenue support to bus operators post-March 2022 to maintain services and protect connectivity while passenger numbers recover.** Operators are currently only seeing passenger levels of 65-70% against a backdrop of rising wage and operating costs. To protect the vision laid out by the National Bus Strategy and ensure buses play a key role in decarbonising journeys, the Government should provide further financial support to bridge the gap between current revenue levels and the money needed to deliver services across the network.	£350m[36]
	Address immediate labour and skills shortages to keep the economy moving	
Support productivity growth through	**Build on the success of Skills Bootcamps by expanding their remit and ensuring they continue to support entry into roles facing critical skills and labour shortages.**	£56m (See breakdown below)

[33] UK Steel, A Barrier to Decarbonisation, analysis shows that in the case of switching to hydrogen-based production for a comparably sized sector costs £300m more in the UK than in Germany purely in electricity prices

[35] This costing makes use of a figure provided by the Secretary of State for Levelling Up, Housing and Communities that, as of 26th January 2022, about £175 million has been made available through the AGOSS scheme. If monthly costs stay roughly the same, this implies a £95 million cost over another six months, assuming an unchanged cap. This may be an overestimate of the actual cost, as the cap was previously higher than it is now and take up of the scheme was likely at its peak in 2021 when restrictions were most severe. However, there remain uncertainties over take-up of the scheme, especially as the pandemic may lead to further restrictions.

[36] This figure is from the Confederation of Passenger Transport (CPT) which estimates a potential £350m bus funding gap for 2022/23 on removal of Government COVID-19 support.

high-quality skills and training	Focusing Bootcamps where employer demand is greatest and can't currently be addressed through immigration, will increase successful job outcomes and maximise value for money to the taxpayer. This can be done by: • Ramping up existing Bootcamps in welding, retrofitting and mechanical and electrical engineering, where businesses are reporting serious shortages • Continuing support for HGV Bootcamps • Rolling out a new 'Warehouse Operative' Bootcamp to confront delays in supply chains and at ports. This should include a forklift drivers accreditation. Looking ahead, Skills Bootcamps will complement the Skills Challenge Fund, ensuring individuals can access quick and agile training. Further details are in section 3 of this submission.	£Nil[37] £Nil[38] £56m[39]
Attracting global talent and boosting investment	**Make the immigration system more agile to respond to economic need by updating the Shortage Occupation List and points-based system.** Urgently update the Shortage Occupation List (SOL) in line with the Migration Advisory Committee's outstanding recommendations, immediately launch the 2022 review and commit to doing so annually. Where there's evidence of persistent domestic labour shortages, make the points-based system more flexible – enabling people in roles below RQF level 3 to enter the UK – if the salary threshold is met. In the longer-term, an independent Council for Future Skills can recommend which occupations need additional visas, while focusing on ensuring that skills are developed in the UK whenever possible (further detail in section 2).	£Nil
	Ensure the UK can live with COVID variants while keeping the economy open safely through essential COVID infrastructure	
Learning to live with and managing the risks from COVID-19	**Commit to providing free mass community testing to enable economic growth, maintain employee and consumer confidence to participate in the economy and support the return to office and leisure activities**	£Unclear[40]

[37] Funds to deliver these Bootcamps should come from funding committed in the National Skills Fund, where the Government committed to raise funding to £150m per year. These industries should be prioritised for Bootcamp funding.
[38] Funds to deliver these Bootcamps should come from funding committed in the National Skills Fund, where the Government committed to raise funding to £150m per year. These industries should be prioritised for Bootcamp funding.
[39] A new bootcamp programme should be established in addition to the £150m committed funding. Estimates for the cost of the bootcamp per person was based on DfE data and estimates on the number of workhouse operative vacancies that need to be filled was provided by the UK Warehousing Association. The cost is an upper bound, which assumes all vacancies are filled through the bootcamp over the next 3 years. In reality the cost of the scheme will be lower as vacancies could be filled through other channels too.
[40] Fiscal cost of free mass testing dependent on the contract price and the number of free lateral flow tests provided. Furthermore, costing difficult to determine within the broad "test and trace" budget allocation.

	The Government should commit to the provision of free mass community testing to the end of 2022, to support the UK workforce and as a critical enabler of the economy. Even once the legal duty to self-isolate ends, free lateral flow tests are a vital weapon in the UK's COVID defences and are central to living with the virus, controlling the spread if new variants emerge and keeping the economy open allowing people to return to workplaces and leisure activities safely and confidently. Removing free mass community testing could also exacerbate current labour shortages and supply chain disruption, if firms are unable to protect against the spread of the virus across their workforce.	
Learning to live with and managing the risks from COVID-19	**Provide sufficient funding to deliver future winter flu and COVID vaccines at pace throughout 2022 and 2023, to help keep people safe, the economy open and alleviate pressures from labour shortages.**	£Unclear[41]
Learning to live with and managing the risks from COVID-19	**Scale-up funding for antiviral treatments as soon as they are authorised by the MHRA, to protect the most vulnerable and allow them to live more confidently with the virus.** While also exploring scaling up the programme to the general population, once viable.	£Unclear[42]

41 Fiscal cost dependent upon contract price and number of boosters provided.
42 Fiscal cost dependent upon number of antiviral treatments requested and contract price.

2. Deliver smart taxation and regulation that incentivises investment

To set the UK on a new growth trajectory, we need a tax and regulatory system that supports and encourages investment and innovation. Ensuring the system is consistently aligned to this strategic direction will enable firms to have the confidence to invest, whether in people, new technologies or capital expenditure.

Creating a tax system that rewards investment

In the global race for investment, the need for a competitive tax system has never been greater. Yet the current trajectory of the UK's tax regime has the potential to become detrimental to our growth and competitiveness. Incoming increases to Corporation Tax and the end of the super-deduction will see the UK rank 31st out of 37 OECD countries for corporate tax competitiveness in 2023.[43] While the UK's property taxes are the fourth highest in the OECD.[44]

But bold policies that change this direction of travel are not outside of reach. HM Treasury has already demonstrated the UK can create dynamic tax policy that drives investment like R&D tax reliefs and the introduction of the super-deduction.

The UK's R&D tax reliefs have supercharged investment in innovation, with as much as £2.70 of expenditure stimulated by every £1 of tax forgone[45]. While the super-deduction pushed the UK's capital allowances regime from 30th in the OECD to 1st.[46]

CBI survey data[47] has shown the success of the super-deduction policy in turbocharging business investment. Survey respondents reported that 20% of capital investment against which claims will be made by the end of the scheme would not have taken place without the super-deduction, 19% relate to investment that will be brought forward to take advantage of the scheme and another 2% relate to investment brought in from outside of the UK.

It also showed the huge potential in making this type of innovative policy permanent. The UK is currently set to languish at the bottom of the G7 league table for business investment, with the lowest rate of investment as a percentage of GDP. When the Corporation Tax rise comes into effect, instead of dampening the investment environment, the UK should replace the super-deduction with a new permanent Investment Deduction for qualifying capital investment.

Analysis of CBI survey data show this would boost the level of total business investment in the UK by 17% by 2026 (compared with current projections) [48]. This equates to an additional £40bn capital investment in 2026. An expansion of the qualifying terms of the deductions from April 2023 (to include second-hand, leased or rented assets, as well unincorporated businesses), could raise the level of business investment by a further 4% by 2026. Taken together this would raise businesses investment as a share of GDP by 2 percentage points, lifting the UK off the bottom of the G7 league table into 5th place ahead of Canada and Italy (Figure 1).

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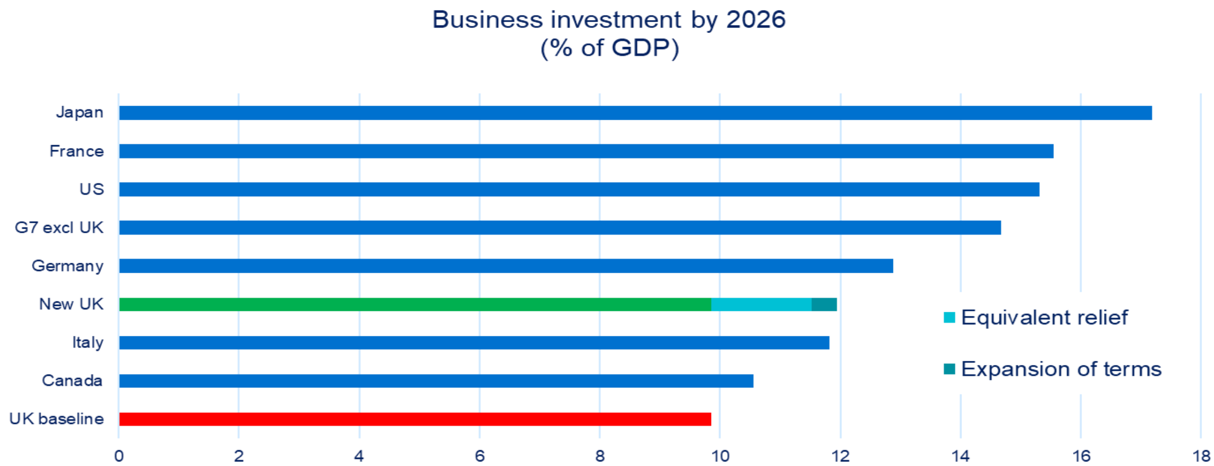
[43] Following Costa Rica's accession to the OECD in 2021, there are now 38 OECD countries. Centre for Policy Studies, *The UK's International Tax Competitiveness,* October 2021
[44] Measured by reference to property taxes as a % of GDP, OECD Revenue Statistics, *Tax on Property,* 2021
[45] HMRC's 2019 evaluation of the Research and Development Expenditure Credit scheme (RDEC) found that as much as £2.70 of R&D expenditure is stimulated by every £1 of tax forgone, HMRC, *Evaluation of the Research and Development Expenditure Credit (RDEC)*, October 2020
[46] HMT, Budget 2021 – Super-deduction factsheet and Tax Foundation, March 2021
[47] CBI, Super-deduction survey, January 2022
[48] Behavioural impact from CBI Survey on the Super deduction, January 2022 based on relief of equivalent value to both the main and special rate super deductions being introduced from 2023.

Figure 1



Other areas of tax policy that the Government should continue to explore to supercharge investment include a comprehensive 'greening' of the tax system and additional reform to business rates.

Further reform to business rates could not only remove critical barriers to business investment but also act as a powerful incentive to support levelling up, including across our highstreets, and to deliver net zero. As it stands, firms can be blocked from benefitting from HM Treasury policy incentives – such as Structures and Building Allowances and Capital Allowances – due to the increase these investments can have on a firm's rates bill. To address these issues, the Government must take urgent action to prevent a hike in the business rates multiplier following the 2023 revaluation by freezing the UBR in 2023-24, followed by a permanent cap, removing downwards transition, and to provide a 5-year business rates discount on all rates payable for businesses who invest in their properties.[49]

The use of environmental taxes and tax incentives will also be a crucial lever in driving change[50] and enabling investment that supports decarbonisation. 'Greening' the tax system must go beyond looking at different environmental taxes independently, i.e., transport, pollution, and energy taxes, and focus on developing tax and regulatory systems that holistically consider how each element drives net zero.

Seize Brexit opportunities to become the most dynamic and future-focused regulator in the world

Creating future-focused regulatory frameworks will also be critical in securing growth and the transition to net zero. With remaining pressure to balance the public finances, regulation must be one of the levers that unlocks business investment and promotes a high growth, high productivity economy. The UK must take up the opportunity from leaving the EU to build on the UK's reputation as a global regulation rule-setter and scan horizons for new opportunities and how an agile and forward-looking approach to regulation can be proportionate and encourage innovation and investment. Ensuring that our regulatory systems have aims beyond protecting low prices for consumers in the short-term but rather focus on long-term competition, UK competitiveness, investment, and innovation. Learning from the approach of the

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[49] The size of the discount to be linked to the scale of the investment. Investments in scope for such a measure would include energy efficiency improvements (evidenced by changes in the property's EPC rating or in reductions in carbon footprint), or investments to bring vacant space on the high-street back into long-term use (5 years+).

[50] Fiscal measures, including environmental taxes and tax incentives, are an important lever in driving change and reaching net zero. 'They can work to discourage damaging environmental behaviours (e.g., emissions taxation); incentivise investment in both the acquisition of, and research and development into environmentally friendly products (e.g., Vehicle Excise Duty, Research & Development (R&D) tax credit) and energy efficiency (e.g., capital allowances and reduced VAT rates)'. CBI, *Greening the tax system* - How tax policy could support net-zero, March 2021

Regulatory Horizons Council, regulatory development should be deliberately forward-looking in remit and bring in technological expertise throughout the process.

We have already seen that there are prizes on offer when we get regulation right. The UK's joined up approach on FinTech has led to record levels of investment, with an increase of 217% to $11.6bn in 2021. Almost half of all fintech investment in Europe is now in the UK, equating to 11% of all global capital investment.[51] It's imperative that we deliver this across all regulation.

The Government has taken a welcome first step in its position paper on economic regulation, which will review the remit of regulators with a consultation to follow later in the year. Business engagement throughout this process will be critical in ensuring we design a regulatory settlement for the needs of business, consumers, and investors.

But the job doesn't finish here…

While the following policy recommendations require immediate action to support the recovery, growth, and Government ambitions, we must go further. Throughout 2022, the CBI will look to engage with the Government on further tax and regulatory reform, to support a holistic approach to growth. This includes:

- **Business Rates:** Last October, the Government delivered much needed short-term business rates relief for firms in England and committed to introduce 3 yearly revaluations. But Business Rates still place a crippling burden on firms and the Government should introduce more fundamental reform in the Autumn, including allowing rates liabilities to come down with property values following the 2023 revaluation, removing downwards transition, introducing a permanent cap in the UBR and rewarding businesses who invest through discounts on all rates payable.
- **Sharing Economy tax allowances:** Ensure tax supports entrepreneurship and sustainability by increasing incentives to promote participation in the sharing economy.
- **Solvency II and the Banking Surcharge:** Maintain the UK's international competitiveness in financial services by reforming Solvency II (the prudential framework for insurance) and taking further action on the Banking Surcharge.

Government ambition	CBI recommendation	Annual exchequer cost[52]
	Create a tax system that incentivises investment	
Making capital allowances more generous to stimulate business investment	**Drive lasting productivity growth with a permanent Investment Deduction, providing a 100% tax deduction in the year of expenditure for capital spending (i.e. full expensing) after March 2023.** The introduction of the super-deduction provided a welcome incentive to turbocharge investment. But the 2023 end date is too soon for many businesses' investment cycles (especially where supply chain challenges persist) and fails to incentivise longer-term investment. Combined with the drop in annual investment allowances from £1m to £200,000, business faces a cliff edge in investment support in April 2023.	£8.1bn-£11.9bn in 2023/2024 £6.9bn-£10.1bn in 2024/2025 £6.0bn-£8.8bn in 2025/2026 £5.0bn-£7.3bn in

[51] Innovate Finance, *UK sees record year for FinTech investment – reaching $11.6bn in 2021*, 6 January 2022, accessed 03.02.2022
[52] Static cost – does not take account of the positive economic impact; aggregate cost for each policy package.

	Government should finish the job of stimulating investment by introducing a permanent Investment Deduction (full expensing) for capital beyond 2023.	2026/2027[53] *brings forward tax deduction to the year of expenditure (net cost will reduce overtime)
Delivering nationwide gigabit-capable broadband	**Extend the 100% business rates relief for new telecommunications infrastructure to 2025.** The Government should extend the current relief due to end in March 2022 and apply it to all gigabit-capable infrastructure in order to support the rollout of fibre connectivity for broadband and 5G networks to homes and businesses. This will help deliver the Government's recent commitments in the Levelling Up White Paper to ensure that by 2030, the UK will have nationwide gigabit-capable broadband and 4G coverage, with 5G coverage for the majority of the population.	£141m[54]
	Green the tax system to enable and incentivise investment in decarbonisation and to achieve net zero	
Making capital allowances more generous to stimulate business investment	**Introduce targeted 'Green' investment-focused capital allowance mechanisms for both incorporated and unincorporated businesses so firms help drive the UK's transition to net zero.** For businesses purchasing zero emission vehicles, or making any 'green' capital investment, these capital allowances should be increased to 120% of the investment's value. The policy should also be extended to the zero emission vehicles leasing and rental	£Unclear[55]

[53] This ask is not expected to provide an additional tax deduction over the life of the asset but instead brings forward the tax deduction to the year of expenditure. It also does not account for the likely behavioural response of firms increasing their total investment on account of the full expensing policy. Whilst this effect would increase the cost to the exchequer, greater investment will boost economic growth which should lead to greater tax revenues in the future. These opposing effects are difficult to estimate. This estimate is forecast in relation solely to full expensing for qualifying plant and machinery and is based on business investment in Plant & Machinery – ONS December 2021 Business Investment by Assets (latest data available as of January 2022), which is not directly aligned to the categories of qualifying plant and machinery for the purposes of the capital allowance rules. This includes Transport Equipment, within which some vehicles (particularly cars) are subject to separate rules for capital allowances purposes based on CO2 emissions. Data is not available to identify and exclude these vehicles from the total Transport Equipment spend so the costing provides a range, with the lower bound assuming no Transport Equipment qualifies and the upper bound assuming all Transport Equipment qualifies for the Investment Deduction. This is forecast in line with the OBR's October 2021 Economic & Fiscal Outlook forecast for total business investment. The new 25% Corporation Tax rate is applied from 2023/24 onwards. Annual Investment Allowance (AIA) claims figures and the cost of full 18% Writing Down Allowances (WDAs) are deducted from plant and machinery investment to account for the existing full expensing cost of AIA-and the reducing figure in future years reflects that the 18% WDAs would no longer be available to businesses claiming full expensing. It has not been possible to adjust for the existing cost of special rate WDAs or inclusion of an equivalent deduction to the special rate super-deduction.

[54] This estimate is based on the previous costs of the relief and a gradual increase in the full-fibre coverage of UK premises – from 28% in September 2021 to 85% by May 2025, as per Government's target for full-fibre rollout.

[55] This is contingent upon the definition of 'green' technologies, the current baseline capital allowance spend on green technologies, and the expected behavioural change associated with enhanced allowances. Moreover, the cost is reduced by existing capital allowances already applicable.

	sectors. This will help to incentivise investment in green technologies.	
Putting homes workplaces, schools and hospitals at the heart of the green economic recovery	**'Boosted' structures and buildings allowance.** Introduce a variable rate structure for Structures and Buildings Allowances (SBAs) to incentivise sustainable construction, renovation or conversion of buildings and structures.	£Unclear
Supporting and incentivising the development of creative ideas and technologies	**Establish a tax credit 'green' uplift to help unlock private sector investment to reach net zero.** For SMEs, adjust qualifying R&D expenditure and super-deduction rate for the development of green technologies. Top up the 130% super-deduction by an additional 20% for activities which seek to create positive climate externalities, e.g.: carbon capture, energy, heat, water, lighting, EV tech etc. For large companies, increase the RDEC rate by an additional 1.5% for activities which seek to create positive climate externalities.	£Unclear[56]
End the sale of new petrol and diesel cars and vans by 2030, with all new cars and vans being fully zero emission from 2035	**Support momentum towards the 2030 phase out date for new petrol and diesel cars and vans.** With electric vehicle purchases on the rise there is an increasing need to address the reduction in revenue from motoring taxation, as well as provide consumers with an indication of how vehicle usage will be taxed. This should include prioritising the launch of a holistic review into taxation including the future of fuel duty, road, and vehicle taxes by Autumn 2022.	£Nil
	Support entrepreneurship and innovation through tax	
Supporting and incentivising the development of creative ideas and technologies	**Expand the R&D tax credit to include Capital Expenditure as an allowable expense.** Increased R&D supports higher economic growth and greater tax revenue through the creation of thousands of additional high-value jobs every year.	£0.6-£0.7bn[57]

[56] This is contingent upon the definition of 'green' technologies, the current baseline R&D spend on green technologies, and the expected behavioural change associated with the tax credit.
[57] Assumes that R&D capital spend by business (ONS BERD 2019) grows in line with the OBR's March Economic and Fiscal Outlook forecasts for business investment over the Spending Review period, as well as assuming that capital R&D spend makes up 8.9% of total business R&D spend (the actual share in 2019 based on ONS BERD 2019) over the forecast period. The capital spend to total R&D spend ratio is applied to the total amount of support claimed through R&D tax credits (HMRC R&D Tax Credits Statistics, Sep 2020), which is also forecast to grow in line with the OBR's business investment forecast.

Supporting and incentivising the development of creative ideas and technologies	**Simplify and build in flexibility for future development of the R&D Tax Credit to keep pace with the rapid rate of change across industries.** The Government should consult on combining the SME and RDEC scheme into a model which closely mirrors RDEC model to explore how they can harness the benefits of this regime. Business consultation will be critical to ensure simplification does not come at the expense of the attractiveness of the scheme to firms who have historically made use of the SME scheme, particularly in relation to: qualifying expenditure, the generosity of the scheme, and level of burden of application.	£Nil
	Seize Brexit opportunities to create world-leading dynamic and future-focused regulation	
Developing a regulatory system for an innovative economy	**Seize the Brexit opportunity to become the smartest and most future-focused regulator in the world, through a new Office for Future Regulation (OFR).** The OFR would oversee the responsibilities of the Better Regulation Executive and the Regulatory Horizons Council (RHC)[58], coordinating regulation across Government and providing strategic direction, as well as consumer protection[59]. Reporting to the Cabinet Office, it should have a specific remit to assess the impact of proposed legislation on growth, innovation and global competitiveness, with a panel established to make the UK a world leader on regulation.[60] The OFR is an opportunity to strengthen the relationship between Government and the RHC to ensure UK regulation remains competitive, forward-looking and cohesive.[61]	£Negligible

[58] The charter of the RHC would need to be updated to align with the OFR.
[59] The OFR should work closely with Government departments, including BEIS, DCMS, HM Treasury and DEFRA to coordinate across Whitehall
[60] The panel would determine how to allocate multi-year funding rounds, allowing regulators to better identify opportunities to stimulate and support business-led innovation, digital adoption, and growth across the economy. This panel should include external expertise to promote new and innovative thinking.
[61] One way this could be achieved is to shorten the time required for Government to publish the RHC's reports. This would enable accepted recommendations to be implemented at pace.

3. Unlock business investment in skills for a future-focused economy

Business believes that in pursuing growth, we must ensure the economy and our skills system is open to all. This requires a holistic approach to make certain that regardless of background and circumstance everyone can develop their skills and access opportunities in the workforce.[62]

Firms therefore welcomed the Government's Levelling Up commitment to increase the number of people successfully completing high-quality skills training in every part of the UK, by 2030. And CBI/McKinsey research shows that the success of this mission is critical. By 2030, 9 in 10 workers will need to add new skills to their capabilities and 1 in 4 will need to 'more significantly' retrain at an additional cost of £13bn a year, to prevent skills gaps getting worse.[63]

But the current skills and immigration systems haven't adapted to these challenges, and currently, they will prevent us from meeting this 2030 ambition.

Now is the time to create a skills system that's agile in response to the demands of a post-Brexit economy.

In a post-Brexit UK, the Government is right to focus its attention on addressing skills and labour challenges domestically first. And while apprenticeships and higher education remain cornerstones of our education and skills system, the Government has also acknowledged that these are not the only solutions to our training needs and labour shortages, bringing T-Levels, Higher Technical Qualifications and Skills Bootcamps into the skills system.

Firms are eager to utilise this variety of high-quality training to diversify their skills investments, reduce reliance on immigration, and close labour shortages. But the current apprenticeship levy system is preventing many from affording this, restricting investment to apprenticeships only, which can't cater to all training and skills needs.

The CBI's Employment Trends Survey 2021 also shows that for the eighth successive year, access to skills is the key concern for UK firms, with over three quarters (77%) telling us that it currently threatens the UK's labour market competitiveness.[64] While the 2021 IMD World Talent Ranking rated the UK 40th out of 64 for investment and development of talent, bottom in the G7.[65] Now is the time to change this.

Instead, businesses are now calling for a more agile, modular and holistic training system in the shape of a Skills Challenge Fund. This would enable businesses to invest in the domestic workforce across the skills system, to regularly top-up employees' knowledge and skills, alongside the introduction of the Lifelong Loan Entitlement which will empower individuals to also invest in their upskilling or career changes.

But failing to act now will guarantee that current skills and labour shortages persist. CBI survey data highlights that 70% of firms believe access to skills will remain a drag on the UK's competitiveness in 5 years time, with particular concerns voiced by manufacturers (52%) construction (72%) and Services firms (71%).[66]

This Spring, the Government must take action to enable the UK to go for growth, ensuring skills gaps are closed and preventing current shortages being replicated in the future. It will require greater investment by businesses and a change of approach from the Government. Firstly, transforming the Apprenticeship

[62] CBI, *Seize the moment*, May 2021
[63] CBI, *Learning for life,* October 2020
[64] CBI, Employment Trends Survey, published November 2021, conducted between 16 - 31 August 2021
[65] International Institute for Management Development (IMD), *IMD World Talent Ranking,* 2021
[66] CBI, Employment Trends Survey, published November 2021, conducted between 16 - 31 August 2021

Levy into a Skills Challenge Fund will challenge businesses to invest in apprenticeships and other high impact training, spending all of their funds and increasing productivity.

In addition, we can ensure future skills needs are also addressed ahead of time, through a new independent Council for Future Skills that recommends how looming shortages can be avoided by Government's skills and immigration policies and business action, including utilising the Skills Challenge Fund. Giving an independent body responsibility for recommending how to optimise skills and immigration policies towards economic demand will minimise the risk of future situations where neither skills nor immigration policies address shortages.

But the job doesn't finish here…

Reforms to unlock investment by learners and ensure investment is well spent will also be key. Throughout 2022, we will also focus on delivery of key reforms like Local Skills Improvement Plans in the Skills and Post-16 Education Bill.

- **Local Skills Improvement Plans:** LSIP trailblazers are currently testing the potential to better align what education providers offer with the needs of local economies. The idea has great potential if it can give a voice to those employers who currently struggle to be heard.

Government ambition	CBI recommendation	Annual exchequer cost[67]
	Make skills policy agile for a transformed post-Brexit economy	
Ensuring by 2030, the number of people successfully completing high-quality skills training has significantly increased in every area of the UK	**Challenge UK companies to invest now in UK skills by turning the Apprenticeship Levy into a Skills Challenge Fund to overcome current labour and skills shortages and tackle future skills needs.** Transforming the levy into a Skills Challenge Fund would boost business and public investment in skills by challenging every business that currently pays the Apprenticeship Levy to increase their spending to their whole contribution and beyond. Enabling firms to utilise the plethora of training available to cater to individual requirements and help the Government deliver on its Levelling Up White Paper commitments. This should be a three-step process: • Extend the scope of training: Allow businesses to spend their Skills Challenge Fund on any quality training, including that assessed against employer-led standards by IFATE and other accredited training, not only apprenticeships. Support for apprenticeships in SMEs should be protected by ending reliance on cross-subsidy. • Allow modular training: Expand the range of training that companies are incentivised to invest in by allowing firms	£Unclear (See breakdown below) £0.5bn[68]

[67] Static cost – does not take account of the positive economic impact; aggregate cost for each policy package.
[68] Based on spending on apprenticeship training and assessment by Non -Levy payers in 2018/19 of £0.5bn net of the 5% that Government already contributes as part of the apprenticeship levy scheme. £0.5bn is sourced from the Department for Education written questions. It assumes if levy payers use the Skills Challenge Fund to access 100% of funds, the cost to the exchequer would be 95% of funding the apprenticeship budget for non -levy payers as they currently fund 5%. This cost would reduce depending on how much of the levy is accessed by fund payers.

	- to buy relevant modules not only whole qualifications – modularising training will also be key to the future delivery of the Government's Lifelong Loan Entitlement - Incentivise firms to increase their training spend: Introduce a challenge for firms to spend above their Skills Challenge Fund, rewarding firms that do so with additional credits in their Fund to further boost investment in training.	£Unclear[69]
Ensuring by 2030, the number of people successfully completing high-quality skills training has significantly increased in every area of the UK	**Bring new coherence to skills and immigration policies through an independent Council for Future Skills.** An independent Council for Future Skills – modelled on the Low Pay Commission – should be tasked with publicly reporting on current labour shortage areas and gaps between the supply and demand for skills in the future, on an annual basis. It should also recommend how business action, skills policies and immigration can add up to a credible plan to deliver the workforce to deliver growth.	£Nil
Using the Lifetime Skills Guarantee to enable lifelong learning	**Ensure the Lifetime Skills Guarantee supports training that caters to careers in the jobs most needed.** This can be done through: - Extension of the Level 3 entitlement to a Level 2 <u>and</u> 3 entitlement. This will give more adults access to a training pathway and help confront skills shortages at Level 2. - Removal of the equivalent and lower qualification (ELQ) funding restrictions for learners without a degree, to enable access to qualifications funded under the guarantee. This will reduce barriers preventing people retraining into jobs most needed. Targeting ELQ exemptions where economic demand is greatest will also maximise value for money to the taxpayer. - Delivery on the principles of flexible adult qualifications set out in the Government's Level 3 review; including recognition of prior learning and modular delivery of	£119m[70] (See breakdown below) £Unclear[71] £Unclear[72] £Unclear[73]

[69] The appropriate financial incentive structure and expected increase in the utilisation of levy funds would depend on the range of training brought into the levy system.
[70] The estimate is based on delivering the full £2.5bn that was previously committed over 3 years. Thus far there is a £0.53bn shortfall in spending. The cost of the Warehouse Operative Bootcamp (£56m annually) has been deducted from this. Increasing spending for the delivery of the Lifetime Skills Guarantee will also be closer to the cost estimated by the Augar review.
[71] All three recommendations are interlinked and implemented together will influence uptake of the Lifetime Skills Guarantee.
[72] All three recommendations are interlinked and implemented together will influence uptake of the Lifetime Skills Guarantee. It is unclear how many adults who have Level 3 qualifications and are unable to use the scheme again because of this inflexibility. It is therefore difficult to estimate both the number of eligible adults as well as the take up of the programme if the scheme was expanded.
[73] All three recommendations are interlinked and implemented together will influence uptake of the Lifetime Skills Guarantee. It is unclear to what extend providing flexibility will encourage further uptake of Level 3 qualifications, and thus difficult to cost.

	courses. This can give people more flexibility to build skills around their life and careers.	
	Encourage individuals to invest in their own learning	
Delivering lifelong learning for opportunity and growth	**Launch a consultation on the Lifelong Loan Entitlement (LLE) to enable individuals to retrain and upskill more flexibly during their lifetime.** This Spring, the Government should set out a timeline for the long awaited LLE consultation, with a focus on how the loan entitlement can best target areas of future skill demand by 2025. Looking ahead, the Lifelong Loan Entitlement will complement the Skills Challenge Fund, ensuring individuals can access quick and agile training inside or outside their current employment.	£Nil

4. Lead the global path to a decarbonised economy

Following the success of COP26 and as we look to deliver on the Glasgow Climate Pact, the UK must get serious about going for green growth, accelerating policy decisions, and targeting green markets where the UK can lead the world. Businesses believe that the shift to net zero is a catalyst for a transformed economy built on higher productivity and investment, as well as emissions reduction. To achieve this, we need an ambitious approach that enables the UK to be an early mover in climate technologies. As such, it has never been more urgent for Government and business to set out detailed plans and investments to reach net zero and protect our natural environment.

While the Net Zero Strategy brought much needed sectoral strategies to align to the UK's 2050 net zero target, strong consumer incentives and detailed business models were crucially missing.

The opportunities from decarbonising the UK economy are high. But so too are the health, social and economic costs of inaction.

Despite welcome funding at the Autumn Budget/CSR, the current level of announced public investment to support decarbonisation remains behind international counterparts and could see the UK fall behind in delivery of decarbonisation and winning the global race in new green markets. The £25.5bn of emissions-reducing spending announced since the Ten Point Plan[74], falls short of the US and EU flagship climate investments, worth 2.9% and 1.6% of 2019 GDP respectively[75], compared to just 1.1% for the UK.

But rather than creating insurmountable costs and debt, the OBR highlights that the transition to a low-carbon economy 'could even improve the public finances over the next thirty years were the Government to accommodate net zero investment within its existing spending plans and find a replacement for declining fuel and other hydrocarbon related revenues'.[76] While 'unmitigated climate change would ultimately have catastrophic economic and fiscal consequences for the UK'.[77]

Failing to act now – with detail and public investment – could result in the UK missing the opportunity to capitalise on new markets – being overtaken by international competition. But this Spring, we can put momentum behind these ambitions, developing progressive market mechanisms and plugging the funding gaps for critical low carbon technologies.

But the job doesn't finish here…

Over the next year, the CBI will be looking to engage with the Government to strengthen and deliver our emissions targets and develop new environmental and nature resilience objectives, including:

- **Net Zero Test and ETS:** establish a new overarching Net Zero Test for Government policy and continuing development of the UK Emissions Trading Scheme (ETS) including linking it with the EU ETS, as accounting for carbon becomes embedded in decision making.
- **Green finance:** implement the Greening Finance Roadmap and ensure Transition Plans and the Green Finance Strategy 2.0 provide long-term strategies and direction for investment and our aligned with our net zero strategy and reducing emissions across sectors.
- **IPA carbon calculator:** Develop a standardised IPA carbon calculator across the Government Major Projects Portfolio (GMPP).
- **Net zero infrastructure finance:** Ensure the UKIB prioritises early-stage investments and de-risking new technologies, particularly in the installation of rural EV charging infrastructure,

[74] £25.5bn figure reported by both Gov.UK, UK's path to net zero set out in landmark strategy, October 2021 (as £26bn) and OBR, Economic and fiscal outlook, October 2021, page 171-172.
[75] EU flagship investment relates to green transition spend included in member state's Resilience and Recovery Fund plans (until 2026), while the US figure relates to climate investments laid out in the Infrastructure Bill and Build Back Better Act (for 10 years).
[76] OBR, Economic and fiscal outlook, October 2021, page 171-172
[77] Ibid, page 171

development of CCUS, low-carbon hydrogen and sustainable aviation fuel production, and floating offshore wind.

Government ambition	CBI recommendation	Annual exchequer cost[78]
	Drive growth of low carbon hydrogen	
Scaling up the hydrogen economy	**Deliver on commitments in the UK Hydrogen Strategy to develop a thriving low carbon hydrogen sector, firstly:** • Finalise and publish the hydrogen business model in 2022, so that contracts can be allocated in Q1 2023 and projects delivered in 2025. • Launch the £240m Net Zero Hydrogen Fund, by Q2 2022. This should include a view to increasing funding as part of the £1bn Net Zero Innovation Portfolio into further hydrogen testing programmes and demonstration projects involving production, storage and distribution, if necessary, as business models come to market.	£Nil
	Invest in carbon capture, usage and storage	
Investing in Carbon Capture, Usage and Storage	**Fulfil commitments to deploy at least two more carbon clusters by 2030 and drive private sector investment in CCUS** by clearly setting out the fiscal envelope for 2025 onwards, by Q2 2022.	£Nil
	Develop greener buildings and making our buildings more energy efficient	
Greener Buildings: making our buildings more energy efficient and moving away from fossil fuel boilers	**Deliver on Conservative manifesto and Spending Review 2021 commitments in energy decarbonisation by closing the public-private investment gap in energy efficiency measures for households and businesses.** This will be essential to ensure the UK meets net zero by 2050. Start by: • Allocating a further £1.4bn over the next three years for the Home Upgrade Grant and £0.2bn for the Social Housing Decarbonisation Scheme, plugging the recent gap left after the Autumn 2021 Spending Review. • Establishing a new streamlined grant scheme for all households, with £3.6bn tapering support over the next three years, to support home energy efficiency improvements.	£3.11bn (See breakdown below) £0.54bn[80] £1.2bn[81] £1.38bn[82]

[78] Static cost – does not take account of the positive economic impact; aggregate cost for each policy package.
[80] Full cost of the Home Upgrade Grants and Social Housing Decarbonisation scheme are based on estimates from the 2019 Conservative manifesto and compared to funding announced in the 2021 Autumn Budget
[81] Full cost of the scheme is based on estimates by EEIG and compared to funding announced in the 2021 Autumn Budget
[82] Cost of the heat pumps scheme is based on cost estimates from the EEIG, assuming grants of £5,000 for the Boiler Upgrade Scheme and £10,000 for the Low-Income Households heat pump grants. Combined, the additional funding will provide a 649,000 heat pumps over three years. The estimate deducts the £450m that was committed in the Autumn 2021 Budget.

	Increasing the pot of money available to provide grants for heat pumps, to accelerate the transition, over the next 3 years to £4.15bn. CBI research found that improving building energy efficiency could create 160,000 direct jobs by 2030[79].	
	Progress advancements towards Jet Zero	
Position the UK at the forefront of aviation and maritime technology to push forward low carbon travel and build on UK strengths	**Establish the UK as a world leader in the development of Sustainable Aviation Fuels.** The Government should look to prioritise adoption of the recommendations of Sir Peter Hendy's Union Connectivity Review for the building of Sustainable Aviation Fuel (SAF) plants. This will help the UK to become a global leader in sustainable fuels. Failure to take decisive action to deliver the plants could see the UK fall behind international competitors and miss out on being a leader in this new and developing market.	£Nil[83]
	Accelerate the shift to zero emission vehicles	
Accelerating the Shift to Zero Emission Vehicles	**Urgently publish a comprehensive electric vehicle charging infrastructure strategy, setting out a clear plan to ensure the creation of a holistic charging network.** As part of the strategy, consider using the UKIB to fund charging infrastructure improvements where necessary, with the Government helping to ensure less marketable areas are not excluded from charging infrastructure. For example, in rural areas which currently remain unviable in the development of charging infrastructure.	£Nil

[79] CBI, Seize the moment, 2021 including McKinsey analysis using CCC CB6 inputs, ONS LCREE economy statistics 2018
[83] This assumes that all funding previously committed to by HMT is used to deliver on Government priorities, thus no additional funding is required.

5. Enable business to support levelling up through innovation, infrastructure, and creating dynamic regional economies

Productivity across the UK has continued to stagnate since the financial crisis,[84] impacting health, living standards, and economic divides within and across the UK's nations and regions. So it's right that the Government has set its sights on addressing inequality and levelling up, with a focus on improving key productivity drivers, such as innovation and infrastructure – both physical and digital.

The CBI therefore welcomed the Levelling Up White Paper which provided the strategic direction for how the Government will tackle and measure levelling up. And looking ahead, we look forward to working with the new Regional Directors for Levelling Up to develop the blueprint for successful economic clusters and establishing new Freeports in Wales, Scotland, and Northern Ireland and ensuring their timely delivery.

With the right environment, including improved health, infrastructure and connectivity, access to quality higher and further education, support for firms to adopt innovation and new trade opportunities and delivery of the £22bn R&D commitment (by 2026-27), we can ensure that productivity is enhanced across the whole of the UK. Because the reality is that without improved productivity and investment, the UK will not afford its levelling up ambitions. Instead, today's high spending, high taxes and low growth economy will become a vicious cycle which is hard to break, impacting on regional economies and living standards.

The below recommendations outline how across the UK's regions and nations we can equip businesses to play their part in levelling up, providing them with the tools to digitise and innovate and ensuring greater collaboration across the UK through enhanced regional connectivity and infrastructure.

But the job doesn't finish here…

Action in 2022 will be critical if the UK is to turn the tide on decades of low productivity and achieve levelling up. The CBI will be looking to engage with the Government on a variety of measures, including:

- **Economic clusters:** work with Government to develop the blueprint for successful economic clusters across the UK.
- **Post-Brexit trade:** drive a step change in UK exports and capitalise on competitive strengths by ensuring services are a strategic priority in Free Trade Agreements (FTAs) and beginning to establish bilateral agreements with key markets such as Germany.
- **Infrastructure finance:** utilise the UK Infrastructure Bank (UKIB) to provide strategic investments in emerging markets and green technologies and to unlock more private investment in infrastructure. This should include greater collaboration between the UKIB and the Scottish National Investment Bank (SNIB).
- **Transition arrangements for LEPs:** ensure businesses continue to be represented in regional decision making. And that successful LEP initiatives like growth hubs, continue to be supported while regions transition to devolved models of governance.
- **UK Shared Prosperity Fund:** deliver a simplified system of place based pooled budgets, moving away the use of competitive bids to decide funding allocations.
- **Freight Strategy:** ensure the Freight Strategy supports supply chain resilience and decarbonisation of freight.
- **Rail connectivity:** address connectivity gaps left by the Integrated Rail Plan, Northern Powerhouse Rail Plan and the removal of the Eastern leg of HS2, alongside provision of HS2 Barnet consequentials for the devolved nations.
- **Health is Everyone's Business report:** Delivering uptake of Occupation Health (HO), greater public and private collaboration to improve access to OH, creating a robust OH market, and greater innovation in OH that accommodates evolving public health challenges.

[84] CBI, *Reviving Regions* - empowering places to revive and thrive, November 20

Government ambition	CBI recommendation	Annual exchequer cost[85]
	Ensure innovation continues to be a key driver of economic growth and competitiveness	
Drive growth in innovation activity and leverage new business investment	**Underwrite Horizon Europe funding bids while the UK awaits formal association of Horizon Europe.** To maintain the UK's competitiveness as a science superpower, continue work to prioritise completion of the UK's association with Horizon Europe as soon as possible, and commit to underwriting bids while the UK is awaiting formal association. As well as providing assurances on what is covered by the guarantee within the interim period.	£Nil[86]
	Support technology and innovation adoption and diffusion across the economy	
Unleashing business and getting technologies to market	**Expand the scope of technologies covered under the Help to Grow Digital scheme to enhance SME technology adoption.** The scheme should consider expanding its scope to cover: cloud computing platforms, instant messaging, cloud storage, project management tools, Enterprise Resource Planning software, Artificial intelligence and/or machine learning, electronic payments. When identifying which solutions should be prioritised, the Government should consult business groups and lay out a plan for how the list of technologies will be expanded across the lifespan of the scheme.	£Nil
Unleashing business and driving the adoption of technologies by business	**Build on the success of the Made Smarter Programme, scaling it up to be a national programme.** Expansion of the programme will help with accelerating the uptake of advanced technologies by the UK manufacturing sector, ensuring it remains competitive, boosts productivity and investment across the UK, and delivers on the Government's net zero targets.	£180m[87]

[85] Static cost – does not take account of the positive economic impact; aggregate cost for each policy package.
[86] The CBI does not foresee this creating an additional cost as Government should commit to using the £6.9bn allocated for Departmental Capital Budgets (Capital DEL) on R&D for EU Programmes Association at the 2021 Autumn Spending Review.
[87] This is estimated by adjusting the £20m cost for the North West pilot for each UK region according to their relative size of the manufacturing sector (manufacturing GVA in 2019 relative to total regional GVA) compared to North West's manufacturing sector. For example, West Midlands's manufacturing sector represented 15.4% of total regional GVA in 2019, compared to 14.6% for the North West; as a result, the estimated cost for this region is £21.2m. Adding up the costs across all UK regions (exc. the North West) provides this estimate.

Unleashing business and driving the adoption of technologies by business	**Expand Made Smarter and fund a pilot to support AI adoption in sectors beyond manufacturing.** Based on the model of Made Smarter, fund a pilot to support AI adoption in sectors beyond manufacturing to drive greater productivity and support the UK's net zero transition. This should start with transport, construction, and hospitality sectors[88] and should seek to carry out additional research to identify other sectors which would benefit from this and apply a similar scheme to stimulate adoption. The CBI's *Seize the Moment* report highlighted that AI diffusion could add £38bn to UK GVA in 2030, and provide a potential 1.4% uplift in productivity across sectors through automation of tasks.	£50m[89]
	Kickstart essential infrastructure investment by providing delivery timelines and financing frameworks	
Investing in places	**By Autumn 2022, publish a timetable detailing delivery and funding timelines for projects committed under the Integrated Rail Plan (IRP).** The Government should bring forward a timetable providing dates for the delivery of projects committed under the IRP, indicating when funding will be approved by HM Treasury and brought to market. This will provide the market with much needed clarity and certainty to deliver projects and provide reassurance to communities that improved connectivity for the Midlands and the North will be delivered as promised under the Plan. This will be a crucial part of supporting the UK's levelling up and net zero ambitions.	£Nil
Stimulate short-term economic activity and drive long-term productivity via record investment in broadband, roads, rail and cities	**Agree a sustainable, multi-year financing framework for Transport for London (TfL) to allow TfL and business to invest confidently in the capital and network.** This will also ensure that TfL can undertake long-term contracts within its diverse UK-wide supply chain, supporting UK levelling up and net zero targets.	£Unclear

[88] For example, a recent DCMS publication, *AI activity in UK Business* (January 2022) also points to a lack of AI adoption in hospitality and leisure, construction, and retail: "the highest absolute number of firms not deploying any AI currently is in hospitality and leisure, with 380,000 non-users. This is followed by the construction and retail sectors in which 288,000 and 210,000 businesses respectively."

[89] This is estimated by adjusting the costs previously estimated for a UK-wide expansion of the programme for manufacturing to transport & professional services according to the size of these sectors in each UK region relative to the size of their manufacturing sector (manufacturing GVA in 2019 relative to total regional GVA). For example, North East's transport sector represented 3.9% of the region's total GVA, while manufacturing represented 14.7% of total regional GVA in 2019. The baseline cost for the pilot supporting manufacturing in the North East is £20m as per reported Government cost, and so the estimated cost of the programme for an expansion to support transport in this region is £3.98m. Adding up the costs across all UK regions provides the final estimate.