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

7th February 2025

Dear Chancellor,

2025 Comprehensive Spending Review: Submission from the British Chambers of Commerce

I write on behalf of the British Chambers of Commerce, our Global Chamber Network, and Chamber business communities across the UK, to outline our members' priorities for the 2025 Comprehensive Spending Review (CSR).

As you will know, our network encompasses 51 Accredited Chambers of Commerce in the UK and over 75 British Chambers and Business Associations overseas, representing thousands of businesses of all sizes and in all sectors. Our work is further supported by our Business Council, convening up to 25 of the UK's largest organisations, and collectively we have developed key proposals for the future of the economy, many of which were adopted within the Labour Party manifesto.

Our Quarterly Economic Survey for Q4 2024 – the largest private sector survey of business sentiment – shows that business confidence has slipped to its lowest level since the aftermath of the mini-Budget in Autumn 2022, with taxation now as the top concern for businesses. However, despite our Quarterly Economic Forecast (QEF) for Q4 2024 upgrading growth expectations for 2025 and 2026, investment indicators remain fragile. Over the last few years, businesses across the UK have weathered challenging times and they are looking ahead to this government's Spending Review to inject the necessary stability and give them the confidence to grow.

Firms recognise the challenging fiscal context, but to incentivise investment, and to meet the objectives of your Growth Mission to help Britain prosper, we would encourage focus on:

Get Britain Thriving

- Invest in regional infrastructure by delivering transport projects and grid connectivity, improving rail capacity and electrifying key sections of the rail network.
- Boost growth and incentivise investment of local business through reform of business rates, with the aim of lowering the multiplier to 45p by the end of this Parliament.
- Provide long-term funding and practical support to help SME's adopt Artificial Intelligence to improve business productivity

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Get Britain Working

- Invest in young people to bridge the gap between education and work.
- Support a healthier workforce and keep people in jobs by reducing the employer and employee tax on workplace health services.
- Involve more employers in skills planning by extending investment in Local Skills Improvement Plans and addressing gaps in training provision.

Get Britain Trading

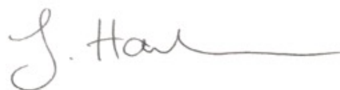
- Provide global leadership by investing in digital trade.
- Give SMEs better support to export and promote their products.
- Build upon the success of the International Investment Summit to develop a pipeline of overseas investors into the UK.

In addition to these proposals, to underpin economic growth the voice of business must be heard in strategic long-term thinking to ensure Government meets its needs, building on the productive relationships established in opposition and since the election.

Attached to this letter you will find our full submission that outlines the BCC's view on current economic conditions and our proposals for Government spending. My team have focused on measures which are cost effective for government but will have the biggest impact on the domestic business environment. We would be pleased to work with your officials to develop these, and in due course to commence work towards Spring's Comprehensive Spending Review.

I look forward to continuing our productive discussions on the future of the economy and how Government and business can work together to achieve growth and prosperity. In the meantime, if your officials have any queries regarding our proposals, please ask that they contact Craig Owen (c.owen@britishchambers.org.uk) in the first instance.

Yours sincerely,



Shevaun Haviland

Director General

CC: Rt Hon Angela Rayner MP, Secretary of State for Housing, Communities and Local Government

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Rt Hon Jonathan Reynolds MP, Secretary of State for Business and Trade
Rt Hon Liz Kendall MP, Secretary of State for Work and Pensions
Rt Hon Ed Miliband MP, Secretary of State for Energy Security and Net Zero
Rt Hon Bridget Phillipson MP, Secretary of State for Education

Rt Hon Heidi Alexander MP, Secretary of State for Transport
Rt Hon Darren Jones MP, Chief Secretary to the Treasury
Lord Livermore, Financial Secretary to the Treasury
James Murray MP, Exchequer Secretary to the Treasury
Emma Reynolds MP, Economic Secretary to the Treasury

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ANNEX A: BCC VIEW ON CURRENT UK ECONOMIC CONTEXT

CURRENT ECONOMIC CONDITIONS

The British Chambers of Commerce conducts extensive research into UK business conditions, and our Insights Unit supports colleagues across the UK Government and Bank of England. This programme consists of three core strands:

- The Quarterly Economic Survey (QES) – the UK's largest independent business conditions survey, established in 1989, made of up around 5,500 responses from mainly SMEs each quarter.
- A series of thematic surveys exploring business conditions across the following areas: access to skills, international trade, and net zero.
- The Quarterly Economic Forecast (QEF) – a macroeconomic forecast of the UK economy over the next three years, awarded best UK GDP forecast in 2024 by FocusEconomics.

In recent years, UK businesses have faced a series of major economic and political shocks, including the lasting impacts of Covid lockdowns, the global supply chain crisis, increased energy costs, and EU trade barriers. These challenges have been compounded by significant skills shortages, particularly in sectors such as hospitality and construction, and persistently low levels of business investment. Recent BCC research[1] highlights that tax and labour costs have now become growing concerns for businesses. Confidence among firms remains fragile, with many reporting weak cash flow and subdued investment activity as they navigate an increasingly uncertain economic landscape.

Our Quarterly Economic Survey for Q4 2024 showed that:

- 63% of businesses say tax, including national insurance, is now a concern, following the Chancellor's Budget – the highest level since 2017
- Business confidence has slipped to its lowest level since the aftermath of the mini-Budget in Autumn 2022
- A majority of firms (55%) now expect prices to go up in the next three months, with labour costs the biggest driver
- Only 20% of businesses have increased investment in the past three months – 24% have decreased
- Business conditions are weak, with only 24% of firms reporting increased cashflow and 30% a decrease

Taxation is now by far the top external concern for businesses

Following the Budget, concern about taxation is now cited by 63% of responding firms, up from 48% in Q3. This is the highest level of tax concern on record. The levels in certain sectors are higher, with

[1] BCC's Quarterly Economic Survey (QES) Q4 2024

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72% of production and manufacturing firms, and 68% of construction and engineering businesses raising tax as a concern.

Concern about inflation remains broadly similar to the previous quarter – 47% compared to 46% in Q3. Worry about interest rates has fallen slightly to 28% (29% in Q3).

Business confidence hit by Budget measures

There has been a significant drop in business confidence since the Chancellor's statement. Only 49% of firms say they expect their turnover to increase in the next twelve months, down from 56% in Q3. This is the lowest figure since the aftermath of the mini budget in late 2022. A fifth (21%) of businesses expect turnover to worsen, up from 15% in Q3, and 30% expect no change.

Profitability confidence has also been hit, 40% of firms expect profits to increase over the next year (48% in Q3), while 32% of businesses expect them to fall.

More businesses expecting to raise prices

Over half (55%) of responding firms say they expect to raise their prices in the next three months, compared with 39% in Q3. While 43% of businesses expect prices to stay the same, and only 2% expecting to decrease.

Labour continues to be the main cost pressure for firms – but the issue is now raised by 75% of businesses, up from 66% in Q3. The issue is most significant for the hospitality sector with 87% reporting it as a challenge, followed by 84% of firms in the transport and logistics sector.

Fewer firms have increased investment plans

Only 20% of businesses say they have increased investment plans over the last quarter, down from 23% in Q3. 24% of firms say they have cut back investment plans, a steep rise from the Q3 figure of 18%. 56% of businesses say their plans have remained the same.

The issue is more marked in certain sectors, with 42% of retail and hospitality firms reporting a scaling back of investment and 30% of manufacturers.

Business conditions struggle

The percentage of respondents reporting increased domestic sales has fallen again to 32%, compared to 35% in Q3. 42% reported no change and 26% of firms said they had seen a decrease in sales.

Retailers were the most likely to have seen a fall in sales (36%) followed by manufacturers (33%).

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OUTLOOK FOR THE UK ECONOMY

In our Q4 2024 QEF we downgraded growth expectations for 2024, amidst rising taxation, while slightly upgrading 2025 and 2026. We are in the process of producing the QEF for Q1 2025.

UK Economic Outlook

The QEF for Q4 2024 expects the UK economy to grow by 0.8% in 2024, a downgrade from the previous forecast (1.1%). Growth has been revised upwards for the next two years – with 1.3% expected in 2025 and 1.5% in 2026, higher than previous forecast (1.0% and 1.1%). Upgrades to 2025 and 2026 are driven by increased levels of government spending, but the overall growth landscape remains relatively weak.

The rise in employer national insurance contributions, announced at the Budget, has had a small impact on the forecast – including average earnings and unemployment.

Inflation is now expected to remain above the Bank of England's target until the end of 2026, due to increased business costs and global trade uncertainties. CPI is forecast to be 2.2% in Q4 2025, unchanged from the previous forecast, and 2% in Q4 2026, slightly higher than the last forecast.

National insurance costs to impact business investment

Business investment will continue to struggle throughout the forecast period, exacerbated by the upcoming rise in employer national insurance contributions. It is expected to increase by 1.5% in 2024, but then grow only 0.9% in 2025, recovering to 2.1% by the end of 2026. That's a revision down for 2025 compared with the previous forecast of 1.4%, as firms will face a number of increasing costs next year.

The forecast picture on growth varies significantly across different sectors. Manufacturing production is expected to grow by 0.6% in 2025 and 1.2% in 2026. In comparison the construction industry will grow by 1.4% in 2025 and 1.5% in 2026.

Trade picture remains challenging

The outlook for trade is expected to remain challenging due to trade barriers with the EU, global conflicts and the threat of tariffs. Imports are expected to contract by 0.2% in 2025 and grow by just 0.9% in 2026. Exports are forecast to grow by 0.2% in 2025 rising to 1.1% by the end of 2026.

But net trade continues to contract with figures of -1.5% in 2024, -1.4% in 2025 and -1.5% in 2026. This a downward revision across the period on our last forecast.

Average earnings hit by growing employment costs

Average earnings are expected to grow more slowly next year as businesses deal with increased employment costs, including national insurance and the national living wage. Annual wage growth is

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expected to be 3.5% in Q4 2024, rising to 3.8% in 2025 and 4.0% in 2026. That compares to our previous forecast of 4.0% in 2024 and 2025 and 3.5% in 2026.

Unemployment to rise as businesses face hiring decisions

The average unemployment rate is expected to be 4.5% by the end of 2025, falling to 4.2% in 2026. That is a slight increase from last quarter's forecast as businesses are likely to face difficult decisions on recruitment going forward due to increased employment costs.

Youth unemployment will remain stubbornly high, with the percentage out of work forecast to be 14.9% in 2025 before falling to 14.6% in 2026.

Bank to take cautious approach on interest rates

The BCC is forecasting the Bank of England will continue with a cautionary approach to further interest rate cuts, as some inflationary pressures persist. The forecast expects the base rate to be 4% by the end of 2025 falling to 3.50% by the end of 2026.

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ANNEX B: PROPOSALS FOR COMPREHENSIVE SPENDING REVIEW

1. People and Skills

According to the most recent ONS figures, there are currently over 812,000,000 job vacancies[2]; down from the spring 2022 peak but still higher than at any point in nearly 20 years (see chart 1). In this context the BCC's 2024 Workforce Survey found that almost two thirds (62%) of all respondents were experiencing skills shortages. Manufacturers (74%) are most likely to report shortages, hindering them from operating profitably, taking on new orders, investing and growing[3]. Similarly, the BCC's Quarterly Recruitment Outlook (QRO) for Q4 2024 found that 59% of firms overall attempted to recruit, with 79% reporting recruitment difficulties, up from 76% last quarter- That's the highest level since Q2 2023. *Chart 1: The estimated number of vacancies in the UK (Source ONS Vacancy Survey)*

Solving this challenge will require both business and government making changes to current business-as-usual policies and operations. Businesses can and should do more to train their existing workforce, including offering work experience to those preparing for the world of work, making more use of Apprenticeships and T-Levels and upskilling and reskilling people in work. Flexible working and other equitable workplace practices can also help firms to attract, retain and develop a skilled workforce.

There is progress in this regard, with our research finding that most organisations intend to use some form of training for their staff over the next twelve months, with many showing a preference for shorter courses. Larger organisations are far more likely to plan to use training over the next twelve months than smaller organisations. Only 3% of organisations with more than 250 employees say they 'do not' intend to use training, compared to 28% of organisations with fewer than 10 employees.[5] Businesses can do more to harness the skills and experience of working age adults who are economically inactive through recruitment and training, but individuals and employers will need

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support to address health related barriers. This section of our submission proposes ways in which the government can help business to train and upskill the workforce.

1.1 *Planning jobs, skills and qualifications*

A lack of skilled resource in local authority planning departments is leading to delay, inconsistency and a poor-quality planning service. This hinders infrastructure development, jeopardises business investment and damages economic growth. Resolving this issue is a major priority for business and employers would like to be part of the solution.

Therefore, the BCC is convening industry to develop a UK-wide, private sector funded programme to help boost planning skills and capacity in local planning authorities. Our aim is to complement the existing government led programmes designed to boost planning skills and capability. Our initiative will help the government to meet its target of recruiting additional planners. We will fund 100 individuals to take planning qualifications and support them to find work in a local planning authority. We will also fund existing council planning staff to upskill to better meet the needs of the economy.

We urge the Government to recognise and harness this business investment. We ask that Government supports the programme by ensuring local planning authorities can access funding to employ our planning graduates for 2 years post qualification.

We welcomed the previous government committing to match this industry-led funding of £3 million for planning capacity and resourcing in the next Spending Review period. We ask that the new government renews this commitment to funding jobs in local planning authorities for graduates of this programme.

BCC is happy to share more details of the Planning Skills and Jobs Programme and to meet with you to discuss how this can complement existing government funded programmes.

Policy recommendations: 1. *Planning Skills Fund:* The government should continue the commitment to match our private sector fund to enable local planning authorities to employ the planning graduates and mid-level skilled planning staff who have been supported by the fund for at least 2 years post qualification.
Policy Costs: 1. Up to £3m over 3 years from 2026

1.2 Local Skills Improvement Plans

Chamber-led LSIPs are transforming skills planning in local communities, helping more businesses than ever before to identify and plan for their skills needs and access the right training for their workforce. Convening employers, stakeholders, and training providers, LSIPs are ensuring local economies have the skills for growth, and that people can develop the technical know-how to prosper in good jobs now and in the future.

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BCC and the Chamber network welcomed the English Devolution White Paper which confirmed that LSIPs will remain a key part of the skills system, under joint ownership by Employer Representative Bodies (ERBs) and Strategic Authorities. BCC also welcomed a letter from the Secretary of State confirming that funding will come directly to ERBs from April 2025.

Business engagement and long-term skills planning requires stability and certainty. The government should confirm long-term funding for employer-led LSIPs to embed stakeholder engagement.

The Local Skills Improvement Fund (LSIF) has delivered positive impact across England. However, it has not been sufficient to deliver all activities in response to LSIP identified priorities, and many areas have had to rely on local authorities match funding the projects. Furthermore, the funding has been split between two financial years: £80 million in 2023/24, split equally between revenue and capital, and £85 million in 2024/25 for capital only. ERBs reported that the timescale was too short to spend the capital funding effectively, and many LSIPs required more revenue funding to operate training programmes.

Policy recommendation: 1. Commit to long-term funding for employer-led LSIPs, to embed the good progress made so far in engaging employers, stimulating demand for training and meeting local skills needs. 2. The Local Skills Improvement Fund (LSIF) should be increased to ensure LSIP priorities can be addressed and reflect the central role of skills to Local Growth Plans. 3. The structure of the LSIF should be rebalanced, as the fund is currently heavily skewed towards capital, with too little available for revenue to enable delivery of the projects.
Policy Costs: 1. Tbc 2. £180m - an increase of £15m from 2023 to reflect an above-inflationary rise. 3. Nil – rebalancing of funds

1.3 Apprenticeship Levy Reform

The OBR forecasts that in 2025/26, the Apprenticeship Levy will yield £4.2bn, yet only a fraction of this is allocated to the Department for Education apprenticeship budget.[2] Following the OBR forecast, the Treasury margin will reach more than £1bn in 25/26, climbing to £1.5bn by 2029/30. The new Growth and Skills Levy will likely drive increased employer demand for training, and there is a significant risk that there will not be enough money allocated for SMEs to access training.

Chamber-led Local Skills Improvement Plans have highlighted concerns about the financial pressures on training providers as a result of apprenticeship funding bands not meeting the true cost of provision. This could lead to reduced capacity in the market and increase the risk of businesses and learners being unable to access the training they need in their local area.

[2] OBR Forecast - https://obr.uk/economic-and-fiscal-outlooks/

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Policy recommendation:

1. Allocate a greater proportion of Apprenticeship Levy revenue to the Department for Education apprenticeship and training budgets, to ensure there is sufficient funding to allow for more employer-led training under the Growth and Skills Levy. Employers also need full transparency about what happens to the Apprenticeship Levy take, and how it is spent.
2. There should be no increase in the Levy rate or threshold for payment. As the economy grows, and wages rise, more businesses will become Levy payers over time.
3. Ensure apprenticeship funding bands meet the true cost of training provision to maintain capacity in the provider market, by allocating a greater proportion of levy take to the Department for Education budget.

Policy Costs:

By 2028-29, the OBR forecasts that the Apprenticeship Levy will yield £4.6bn. At the current rate of spending allocated to DfE and the Devolved Nations, HM Treasury will retain a margin of £1.5bn from this Levy take. A greater proportion of this must be allocated to the apprenticeship and training budget.

1.4 Lifelong Learning Entitlement

To shift the dial on investment in training to tackle skills shortages, there needs to be a tectonic cultural shift in Britain, where learning is seen as a lifelong necessity rather than something to be completed at an early age. Making full use of the Lifelong Learning Entitlement (LLE) will be critical. It will create a single funding system to help people pay for college or university courses, and train, retrain and upskill flexibly over their working lives. It will provide learners with a tuition fee loan entitlement to the equivalent of four years of post-18 education to use up to the age of 60, equivalent to £37,000 in current fees. The LLE is intended to be used flexibly, for full-time or parttime study of modules or full qualifications at levels 4 to 6 in colleges or universities.

BCC welcomed the government’s commitment to continue the rollout of the LLE, despite a delayed launch. Currently, employer awareness of the policy is low. The government needs to fully engage employers in the design and roll-out of the LLE, to help firms understand how it can supplement, rather than replace, their own investment in skills and the positive role it can play in terms of recruitment, retention, and employee benefits.

Policy recommendation:

1. Encourage uptake of the Lifelong Learning Entitlement through raising awareness of the scheme and engaging with employers.
2. Tackle delivery challenges to ensure the Lifelong Learning Entitlement is launched on time.

Policy Costs: Nil

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1.5 Youth Employment Subsidy

The number of young people not in employment, education or training (NEET) is on the rise. According to the ONS, nearly 1 million people aged 16-24 are NEET, more than 12% of this demographic.[3] This is a key challenge to the government's growth mission and industrial strategy, and one which it seeks to address through the opportunity mission, Get Britain Working white paper, and forthcoming post-16 strategy. Government strategies should be more ambitious and treat the under 25 age group as one cohort, by expanding the Youth Guarantee to all 18–24-year-olds.

Employers are facing skills shortages, and many SMEs want to access this talent pool. However, while the Government has a target of 80% employment, the cost of employment for businesses is rising rapidly. The combined rise in National Living Wage (NLW) and employer national insurance contributions (NICs) will add thousands to the wage bill of many businesses who are already struggling with rising costs.

Government levers to boost opportunities for young people would be to reduce employment costs or offer a financial incentive for employers to take on young people. Currently, employer NICs are not payable on employees under 21, or apprentices under 25, and this should be continued and more actively promoted.

Policy recommendation: 1. Expand the Youth Guarantee to all young people aged 18-24.
Policy Costs: 1. Unknown

1.6 Using the tax system to support workplace health and wellbeing

Helping employers to intervene quickly and positively when employees experience ill-health will help businesses recruit and retain a productive and diverse workforce. Currently, there is a workplace health crisis, with a recent Health and Wellbeing at Work report by the CIPD and Simplyhealth showing that workplace absences are now at a 10-year high.[6]

BCC research has found that 36% of businesses gave staff access to occupational health or wellbeing services; 33% provided medical insurance or healthcare plans; and that larger firms are far more likely to be offering these programmes (only 7% said they didn't offer any)[7].

Looking more widely across the UK economy, research from the John Lewis Partnership and Centre for Economics and Business Research estimated that the total cost of absenteeism in the UK due to mental health and musculoskeletal conditions is forecast to reach £3.8 billion in 2025[8].

Currently, employer-provided occupational health services are a taxable benefit and subject to National Insurance and Income Tax. There is a limited tax exemption of up to £500 but only for those

[3] ONS - https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/youngpeoplenotineducationemploymentortrainingneettable1

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that have been out of work for more than 28 days or where the health condition is a direct result of their work. The government can boost uptake of in-work health services by making these a non-taxable benefit in kind.

Insurance, which incorporates key parts of occupational health support alongside other health services, also plays a key role in supporting workplace health and is highly effective in reducing ill-health related job losses.

The government should reduce Insurance Premium Tax (IPT) for insurance products that support workforce health. IPT has doubled to 12% since 2015 and the UK has one of the highest rates of IPT for health products in Europe. The IPT is a tax collected by insurance companies and is paid directly to the government. The 12% tax is added to the cost of products. High rates of IPT will therefore be a prohibitive factor in both the general public building health cover for themselves, and employers providing cover for their employees.

Policy recommendations: 1. Government should make all occupational health, cash plans and medical insurance services a non-taxable benefit in kind. 2. Government should reduce Insurance Premium Tax (IPT) for insurance products that support workforce health.
Policy Costs: tbc based on future decisions by the government.

1.7 Complementary measures: Immigration reform

Where employers continue to experience longer-term skills and labour shortages and are consistently unable to recruit people from the UK, firms will look to immigration and automation. To support businesses in the transition to a high-skilled high-wage economy, the government must ensure a flexible, proportionate and affordable immigration system is available that meets the needs of UK businesses – as well as expanding youth mobility schemes.

The immigration system is becoming too expensive for businesses (especially SMEs). In 2023, the Government significantly raised the minimum salary threshold for skilled workers, removed the 20% going rate salary discount and increased visa fees and surcharges. While the £1.5bn immigration skills charge is meant to be used to address long-term skills shortages and fund training initiatives for the UK workforce, there is a lack of transparency in how this is being used and whether businesses are seeing the benefits of it.

Policy recommendations: 1. Ringfence the ever growing Immigration Skills Charge fund to establish a comprehensive training initiative targeted at where UK skills shortages are most acute.
Policy Costs: Nil – revenue already collected via the ISC.

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2. Economic Growth

2.1 Industrial Strategy

Consistent, clear, and reliable policy measures are vital to enable businesses to plan effectively for the future. This is why we support the ongoing development of an industrial strategy, in order to provide a blueprint for maximising economic growth. The strategy should drive investment, support the workforce and encompass the net zero transition whilst also complementing and interacting with the Trade Strategy, Small Business Strategy and others.

Productivity must be at the heart of the industrial strategy, encompassing business, people, and place. Our local economies are at the centre of prosperity and economic growth, and therefore a place lens should be a key focus. Growing place-based economic clusters should be about enhancing existing places, not trying to recreate the next London. It's also about recognising that one place is not the same as another. The West Midlands and Devon, for example, are very different places, with different strengths and opportunities.

Therefore, it is critical that the industrial strategy is linked through to the proposed 'local growth plans', ensuring joined up strategy across local and national governments. The goal of local plans must be to align and share objectives with a national industrial strategy.

Whilst recognising the need to prioritise certain sectors, a successful industrial strategy should build on the proposed government 'missions' leading to a cross-sectoral approach that acknowledges the linkages between different sectors of the economy. The focus should also be on attracting private investment as well as establishing a case for government funding.

Policy recommendation: 1. HMT should press ahead with implementing an updated Industrial Strategy and build the strategy around economic place-based clusters, not just sectoral. 2. The Industrial Strategy must be backed up with sufficient funds to implement the strategy
Policy Costs: tbc – dependent on strategy focus and public-private financing options.

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2.2 Make Business Rates a tax that incentivises growth

BCC welcomed the scope of Business Rates reform outlined in the Autumn Budget and the commitment to create a fairer system. At previous fiscal events, we have reiterated our welcome for the relief measures put in place on business rates, especially for hospitality and retail businesses during challenging financial times. Similarly, we were pleased that the previous fundamental review of business rates moved the system to a three-year cycle. The long-term goal should be to move to annual revaluations to ensure that rateable values remain in step with their market levels, as well as local economic cycles.

In its current form, however, the Business Rates system is still in a non-optimal condition. It causes an unnecessarily large burden on businesses regardless of their ability to pay and does not make allowances for the significant structural changes that have taken place in the UK economy over the last decade. The system, as it exists, is neither responsive to changes in the economic or business cycle at a national level nor to local economic needs. In some cases, it acts as a disincentive to business growth. It exists in its current form largely because it brings in £27bn of tax revenue to local and central government and there is unwillingness to find alternative ways to fund public services.

The multiplier remains one of the largest barriers to business premises occupation. If rateable values do not reduce and the multiplier remains at the current levels, businesses will simply cease to exist or move exclusively online. This is bad for business and it's bad for local economies. In contrast, if the multiplier is reduced, evidence suggests that businesses will use the funds to invest and grow, creating a boost to the UK economy.

The intention to introduce a permanently lower multiplier for RHL properties from April 2026 is a step towards BCC's ask of setting out a pathway to lowering the multiplier to below at least 45p by the end of the parliament. We hope that this will be extended to all businesses, not just those qualifying as retail, hospitality and leisure. However, the short-term reduction in the RHL relief for the 25-26 year will have a negative impact on business.

Another problem is the division between small business and standard rates. The arbitrary value of £51,000 as the cut-off point for small business rate relief has produced a boundary effect, with significant impacts on business who are caught in the higher rate. This has become more pronounced following the decision to freeze the small business multiplier and raise the standard multiplier at the Budget before last. To address this concern, we call for government to amend its policy, by reducing multipliers for both small and standard rates to 45p by the end of the current parliament.

With regard to the introduction of the higher rate on the most valuable business properties, whilst we support a system that is fair and proportionate, we are keen to understand more about what this higher rate will be. For example. a number of the large distribution warehouses will already have felt the brunt of the uplift of the 2023 revaluation.

BCC and Chambers across our network have long called for a more frequent revaluation scheme. Therefore, in this submission, we reiterate our call for a move to an annual revaluation cycle. BCC recognise that this would increase the admin burden on the VOA, however given that provisions in the Non-Domestic Ratings Act that are forthcoming place additional burdens on ratepayers, this seems

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reasonable. In the interim, whilst the revaluation process remains at a 3-year cycle, the government should continue to provide additional 'transitional' relief to cushion businesses from high uplift costs following revaluation.

In the longer term, government should develop a business rates system that incentivises rather than disincentivises growth and investment. The system should also be more responsive to the local and wider economic cycles, enabling greater retention of rate money in the local areas in which it is being paid.

Finally, in the spirit of the government's 'growth' mission, it is crucial that there is a level playing field across both the UK and between physical and online businesses. Therefore, the government should restart policy development on how the taxation system can reflect the changing nature of retail in the UK and ensure that the tax burden across businesses is equitable in nature.

Policy recommendations: 1. Move to an annual revaluation cycle 2. Set out a pathway to lowering the multiplier to below at least 45p by the end of the parliament for all sectors 3. Explore the future relationship between taxation of in-person and online sales
Policy Costs: 1. Internal VOA admin cost 2. Approximately £5.8bn[4] 3. Nil

2.3 Reform the VAT registration threshold to boost growth

There is clear evidence that the VAT threshold acts as a disincentive for smaller businesses to grow. A 2022 Warwick University study found "robust evidence that annual growth in turnover slows by up to 2 percentage points when firm turnover gets close to the threshold, and weaker evidence of higher growth when the threshold is passed"[5].

Similarly, an OTS report from 2017 noted a "significant 'bunching' of businesses whose turnover is just below the threshold, particularly businesses with lower levels of inputs relative to supplies to consumers", combined with a "very significant fall-off in business numbers immediately after it"[6]. A

[4] Broad estimation based on VOA data averages, assumption being both multipliers reduced to 45p and Small Business Rates Relief (SBBR) remaining in place.
[5] Small Firm Growth and the VAT Threshold: Evidence for the UK, 631/2022, Li Liu, Ben Lockwood & Eddy Tam. Warwick University.
[6] OTS, Value added tax: routes to simplification. November 2017 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/657213/Value_added_tax_routes_to_simplification_web.pdf

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65 Petty France
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United Kingdom

BCC study on the VAT threshold found strong evidence that the threshold was a hindrance to business growth[7] .

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

The last in-depth review noted that the options under review were limited in scope because the UK was still bound by EU rules. For instance, the UK would have had to seek permission from the Commission to introduce a smoothing mechanism which could only have been introduced in combination with a decrease in the threshold[8]. The 2018 review of the VAT registration threshold concluded with a commitment to reviewing smoothing mechanisms again once the terms of EU Exit were clear. Consequently, the previous government increased the registration threshold to £90,000 in March 2024.

Finally, the OBR reviewed the VAT registration threshold in its March 2023 forecast, concluding that there had been a marked increase in firms capping their turnover in recent years. The OBR found that *"Relative to 2017-18, the number of firms capping their turnover is expected to have almost doubled from 23,000 to 44,000. And relative to a smooth distribution of firms by size, the lost turnover associated with this distortion among these traders is expected to have risen from £110 million to £350 million.[9]"*

Policy recommendations: 1. Given the lost turnover resulting from businesses voluntarily capping their growth to avoid VAT registration, we call on government to restart the VAT registration review and explore a smoothing mechanism that could decrease the bunching effect while limiting administrative complexity.
Policy Costs: tbc, based on review outcome.

2.4 Tax-Free Shopping for International Visitors

The VAT Retail Export Scheme (RES) enabled shoppers from outside the EU to claim back 20% VAT levied on the goods they had bought. However, since the abolition of the scheme, there is evidence to suggest that luxury shopping from overseas visitors is shifting from London and other UK destinations towards shopping in Paris, Milan, and other EU destinations where such VAT rebates apply.

[7] BCC Business Taxation Survey 2019, *My business is actively trying to keep below £85k turnover so that we don't have to register to pay VAT,* N = 162
[8] HM Treasury, VAT registration threshold: Summary of responses, October 2018 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752042/VAT_Threshold_Call_for_Evidence_Summary_of_Responses_digicomms.pdf
[9] OBR, Economic and Fiscal Outlook, March 2023 https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/

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London, SW1H 9EU
United Kingdom

The estimated total policy cost of reintroducing the RES would be minimal due to the broader economic benefits of the measures. HM Treasury estimates that this is saving the taxpayer £2bn per year, but analysis by Oxford Economics forecast that total VAT refunds in 2025/26, if TFS were to be reintroduced, would be £1.17 billion, 40% lower than HMT's estimate. This lower estimate is based on evidence that TFS spending by EU27 tourists is substantially lower than those originating from China, the Gulf Cooperation Country (GCC) markets and the United States[10].

Oxford Economics also estimate that the reintroduction of TFS would attract more than 1.6 million extra visitors to the UK in FY 2025/26 and stimulate an extra £2.8 billion of tourist spending, implying that the policy would have a direct fiscal cost of £590 million in 2025/26, 70% less than HMT's projection. The analysis goes on to argue that the policy cost would be offset by the economic footprint supported by the additional foreign visitor spending, sustaining over 78,000 jobs and £4.1 billion in GDP.

Finally, overseas visitors are important for the entire economy. For example, although London remained the single biggest city for international overnight visits in 2022 (16.1 million), there were significant numbers in other major cities such as Edinburgh (1.8 million visits), Manchester (1.2 million visits) and Birmingham (803,000 visits)[11].

Policy recommendations: 1. Building on the collaborative work between BCC, the FSB and other stakeholders, government should reconsider its policy on tax-free shopping for international visitors and commission an independent review of the policy. This should consider the alternative methodologies proposed by Oxford Economics and others, including the GVA analysis of overseas visitors. 2. Government should develop a new, internationally competitive tax-free shopping incentive for international visitors, that provides clear economic benefits to the UK.
Policy Costs: £1.17bn[12]

2.5 Research & Development Tax Credits

The changes made to the Research & Development Expenditure Credit (RDEC) in the 2022 Autumn Statement and subsequently at the 2023 Spring Budget have created challenges for businesses looking to invest in new R&D and for economic growth. With reduced access, many SMEs are struggling to secure adequate funding to progress R&D and ultimately new UK based innovations.

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[10] Oxford Economics, Assessing The Impact Of Tax-Free Shopping in the UK, November 2022
https://internationalretail.co.uk/wp-content/uploads/2022/11/20221110_AIR-TFS-report_Final.pdf

[11] ONS, Travel trends: 2022
https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/articles/traveltrends/2022#data-sources-and-quality

[12] See footnote 8.

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We remain opposed to a threshold being implemented as this is a barrier to smaller SMEs being able to take advantage of a scheme that is already being reduced. The significant increase in the number of smaller claims worth under £25,000 should be seen as the scheme successfully supporting smaller SMEs accessing the help they need to pursue R&D and economic growth. It should not be seen as a policy failure, as the consultation document appeared to imply. Greater budgets do not necessarily equal greater innovation and there is no mechanism in place to assess the policy impact of such R&D.

We are alarmed by the significant increase in the number of Chambers contacting BCC on behalf of their members expressing frustration at the conduct of HMRC when it comes to enquires into R&D tax credit claims. Following the NAO's audit of HMRC finding significant levels of error and fraud, we warmly welcome the fact that HMRC have subsequently substantially increased the number of enquiries they undertake in respect of R&D claims.

Policy recommendations:

1. We ask that HMT work with HMRC to review the current enforcement campaign and ensure that it acts in a manner which reduces the collateral damage to the economy, the accounting profession, and legitimate claimants; whilst still having the intended aim of recouping tax from claimants whose claims are poorly curated or worse, fraudulent.

2. Improve accountability – There are numerous examples of HMRC failing/refusing to provide an explanation on R&D claim decisions.

3. Improve caseworker training – there are again numerous examples of inconsistent interpretation and application of the rules around R&D. E.g., a caseworker is allowed to disagree with the decision of a previous caseworker, but isn't obligated to explain why they have reached a different opinion.

Policy Costs: All 3 recommendations are changes to internal HMRC/HMT processes and therefore any cost would be internal spend on existing budgets.

2.6 - Infrastructure enhancements

Expanding our international airport capacity, investing in modern roads and railways, and rebalancing the planning system all send signals that the UK is building for a better future. With previous roll backs of large infrastructure projects knocking business confidence, BCC very much welcomed the Chancellor's recent detailed infrastructure speech, setting out a pro-growth agenda.

It has long been understood that our Victorian-era railways are not fit for purpose in modern Britain. Businesses report that unreliability and high fares are a barrier to work for many people, while a lack of capacity delays freight movement and limits growth. For example, each train that HS2's capacity

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United Kingdom

would have unlocked had the potential to remove up to 129 HGVs from the road; the cancellation of this project is a lost opportunity to build a low-carbon freight transport system.

Government must now commit and deliver on connecting the UK via rail and other measures to support growth and attract long-term investment. For example, HS2 must be completed to Euston and the tunnel opened at the same time as the Birmingham to Old Oak Common connection to unlock growth potential, realise value for money for the taxpayer and build confidence in the UK as a place to do business.

Expanding the UK's airport capacity is vital to driving economic growth and it remains a top priority for business. We wholeheartedly support a third runway at Heathrow, Gatwick's Northern Runway Project and Luton's expansion of terminal capacity. All three projects will help boost trade, attract international investment and bring huge benefits to SMEs in supply chains across the UK. Any developments must be aligned to the government's commitments on the environment. That will require the airports, the aviation sector and ministers to work together.

Furthermore, with Heathrow being a vital connectivity hub for both the entire UK, we strongly encourage the government to approve and begin construction of the Western and Southern Rail Links. This will create much needed transport enhancement between the Great Western Mainline and Heathrow, driving prosperity outside of the South East and enhancing national airport capacity.

Finally, it is crucial for cities in the Midlands and the North of England to have increased local rail, road and bus capacity to support regional growth and help meet our net zero ambitions, recognising that many 'local' projects are of national economic importance. Previous governments have accepted this point but failed to deliver on plans to address it. Delivery of these projects is now required to realise our long-term economic ambitions.

Policy recommendations: 1. Government must safeguard the land purchased for HS2, both to allow for a future policy reversal should economic conditions permit, but also to deliver vital capacity upgrades such as the redevelopment of Leeds station. 2. Deliver previously planned strategic enhancements to the transport network to unlock growth, including increased East-West rail capacity across the Midlands and the North, Ely Area Capacity Enhancement and Haughley Junction. 3. Support major airport capacity enhancements at Heathrow, Gatwick and Luton. 4. Commit to constructing the Western and Southern Rail Link to Heathrow 5. Fully electrify the rail network, incorporating lesser used lines via discontinuous electrification, meaning trains carry batteries which are recharged throughout the day when on electrified sections of track or at terminals.
Policy Costs: 1. Nil

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

2. Prioritise projects which unlock growth for the wider economy alongside value for money. For example, the Ely upgrade would increase vital freight capacity and connectivity from Felixstowe across the UK and deliver £4.89 for the economy for every £1 invested.[13]
3. Tbc but likely to be privately funded.
4. Southern Rail Link: £1.7bn private capital investment (2016/17 prices), Western Rail Link: £900m private investment
5. £15bn when delivered through a continuous, rolling program of electrification[14].

2.7 Ensuring a Competitive Investment Environment in the North Sea

The BCC welcomes that the Government listened to concerns around changes to the Energy Profits Levy and announced that it would retain the availability of 100% first year capital allowances within the EPL, as well as the decarbonisation allowance. Confirmation that the EPL will end on 31 March 2030 and that the Government would legislate for these measures is also welcome, but the industry needs certainty of what a successor regime to the EPL will look like after March 2030.

The BCC looks forward to engaging with the Government on this consultation when it is launched. A longer-term approach to taxation will support the transition to Net Zero, as it will enable industry to plan for investments in alternative energy based on reliable forecasts of taxation from oil and gas. The BCC is working with stakeholders across industry, government and the environmental community to co-design proposals for the future of the North Sea. We will continue to engage with DESNZ and other government departments on this work, which we will publish in late Spring.

[13] https://www.transporteast.gov.uk/wp-content/uploads/Keeping-Trade-on-Track.pdf

[14] Railway Industry Association, *RIA Electrification Cost Challenge Report,* March 2019
https://www.riagb.org.uk/ria/newsroom/stories/electrification_cost_challenge_report.aspx

BRITISH CHAMBERS OF COMMERCE
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3. Devolution in England and Local Funding

BCC welcomes the Devolution White Paper announced at the end of 2024. This will enable greater powers to be devolved to local areas and should be complimented with simplified funding and longer-term planning to ensure delivery. These steps are a long standing ask of the Chamber network who work closely with local authorities to deliver programmes of work. The 'pick and choose' devolution approach by previous administrations when it came to Mayoral Combined Authorities should be reviewed and a stronger element of uniformity in provision should exist across the devolution map.

3.1 Continue reforms for local authority funding

Chambers of Commerce across the UK deliver a significant amount of business support and training through funding from the UK Shared Prosperity Fund (UKSPF). The funding was extended to 25-26 providing £900m. Whilst appreciating that the new government may want to proceed with this provision in a different format (through local growth plans for example) we would urge the government to provide certainty on the long-term outlook for business support funding, including the funding and delivery mechanisms.

3.2 Business involvement in decision making in England

In England, the government has confirmed the previous decision to withdraw central government support for Local Enterprise Partnerships (LEPs) and transfer their functions to local and combined authorities.

With these governance changes taking place, it is vital that the local business community is part of decisions that will impact their operations and growth because these functions will end up interacting with the proposed statutory growth plans. We strongly believe that engagement with locally based business membership organisations should be mandated as part of the transition of LEP functions to Local Authorities and in the development of local growth plans, and we ask HMT to support that request. Furthermore, every Mayoral Strategic Authority should be mandated to work with local businesses in order to maximise local economic growth.

3.3 Review of government funded business support

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

Some of the historic challenges of government funded support include a fragmented and complex system, multiple brand identities, and lack of longevity. There is currently inefficiency and effectively a postcode lottery for business support in England due to its delivery through lower-tier local authorities.

In contrast the broader business support market often provides much needed continuity and consistency of provision in an otherwise turbulent system. In business support, trust and impartiality is paramount and government should consider working through anchor institutions/trusted intermediaries rather than attempting to establish another new brand or access route.

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Looking forward, a long-term strategic approach to government-funded business support, which provides more agency and autonomy to local and regional communities, could provide vital investment in our country's future economic success. We also advocate for a more streamlined approach in England through Mayoral Strategic Authorities. Chambers in a number of areas already run their local Growth Hubs.

Therefore, we believe that the new Business Growth Service should be put out to tender so that Chambers can have the opportunity to provide a business-focussed service. Something that Local Authorities, with a number of competing priorities, do not have the bandwidth to do successfully.

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

Policy recommendations: 1. Provide certainty on the future funding and mechanism for business support across the UK. 2. Government should mandate that any funding being transferred from LEPs to Local Authorities should be ringfenced for the purpose of local economic development. 3. The Government should put the Business Growth Service out to tender so that it can be run by business for business.
Policy Costs: 1. Dependent on future direction of the fund 2. Nil 3. Nil

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4. Transition to Net Zero

The UK has made commendable progress on many aspects of the Net Zero transition. The BCC has welcomed the good progress made by the Government in several areas since coming into office, including its support for Carbon Capture, Usage and Storage.

4.1 Sustainable Aviation Fuel (SAF)

The BCC welcomes the Government's commitment to the SAF mandate, starting at 2% of total UK jet fuel demand in 2025, and increasing on a linear basis to 10% in 2030, and then to 22% in 2040. The UK must move at pace to secure the domestic production potential of this policy, with the key element being the price support mechanism.

The revenue certainty mechanism for SAF is vital to ensuring that the SAF industry gets the investment it needs. This should be introduced as soon as possible to help the SAF industry to grow, and we encourage the Government to engage closely with industry as this is developed, recognising the significant benefits this can provide to the UK.

Policy recommendation: 1. The Government should ensure that the revenue certainty mechanism for Sustainable Aviation Fuel is delivered as soon as possible, and work closely with industry as this is developed.
Policy Costs: Nil. The Government has confirmed the revenue certainty mechanism will be industry funded.

4.2 Grid Connections

The BCC's Net Zero Survey in November 2023 found that 37% of businesses disagreed that the National Grid was giving them what they needed in terms of energy supply, connectivity, and/or future proofing, while 39% agreed. Of firms that disagreed, inadequate infrastructure was a factor mentioned.

Grid connections are vital to increasing the UK's renewable capacity and the increased reliance on electricity. In addition to ensuring that the UK is able to meet future demand, the Government needs to ensure that there is enough capacity for businesses to connect to the grid now. This is a constraint not just on connectivity for new renewables schemes, but also on the expansion of existing mainstream manufacturing capacity. Anecdotally, businesses are reporting being given dates to connect to the grid beyond 2035. It is vital, therefore, that the Government delivers on its commitment to accelerate grid investment, halve the delivery time of new transmission infrastructure and reform the connections process.

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65 Petty France
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Policy recommendation: 1. The Government should ensure the planned reforms to grid connection are completed as planned, and deliver planned transmission investments in partnership with the sector.
Policy Costs: NESO have proposed £16m for 2025-26 for their grid connections reform programme. Transmission infrastructure investment costs and processes are regulated by OFGEM.

4.3 Reform innovation funding to support low carbon technology

There is a huge economic and innovation opportunity to be gained from delivering on low carbon technology. The UK has the potential to be a leader in innovative products supplied into this rapidly growing global market. Supporting the acceleration of low carbon technologies is not only required to support progress towards net zero, but to secure this economic benefit for the UK. The Government should ensure that all innovation support can drive firms and innovation towards commercialisation.

From 2014 to 2020, the UK received approximately €5.8 billion (£5.0 billion) from the European Regional Development Fund (ERDF) for various projects, including green technology and low-carbon initiatives[15]. This funding supported investments in innovation, research, and the promotion of a low-carbon economy.

With the introduction of the UK Shared Prosperity Fund (UKSPF), the government has allocated £2.6 billion for local investment by March 2025[16]. The UKSPF aims to replace the EU structural funds, but is structured differently and it is unclear whether it fully compensates for the previous levels of funding, especially in areas like green technology.

In this tight fiscal environment, it is vital that innovation funds achieve the best possible value for money. Feedback from our members involved in innovation is that the mid-stage competition used in funding schemes is a barrier to emerging green technology, and should be reformed.

Policy recommendations: 1. The Government should refocus away from competition on mid-stage innovation funding, moving to a broader base of support for technologies once they become market viable. 2. The Government should enable late-stage innovation funding geared towards securing full commercialisation of products.
Policy Costs: Our proposals on reform of innovation funding require no additional grant spend.

[15] https://www.instituteforgovernment.org.uk/article/explainer/european-structural-funds-uk-shared-prosperity-fund

[16] https://www.gov.uk/government/publications/uk-shared-prosperity-fund-prospectus/uk-shared-prosperity-fund-prospectus

BRITISH CHAMBERS OF COMMERCE
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5. Digital

The BCC welcomes that the Government announced in the Autumn Budget that it would extend the SME Digital Adoption Taskforce to help support small businesses to adopt more advanced technology. The BCC is pleased to be on the Taskforce and looks forward to continuing to support this work.

5.1 Project Gigabit

Strong digital infrastructure is vital for ensuring that businesses have high quality connectivity across the whole of the UK, which is essential to achieve growth. However, BCC research in March 2023 showed that 82% of firms in urban areas agreed that they had reliable broadband, which fell significantly to 56% for firms in rural areas.[17] This clearly highlights the divide between businesses in urban and rural areas in having reliable broadband.

The BCC welcomes the announcement in the Autumn Budget that the Government would invest over £500 million in 2025-26 to deliver Project Gigabit and Shared Rural Network, as part of the Government's commitment to deliver full gigabit broadband coverage by 2030.

The BCC calls on the Government to set out the long-term funding for Project Gigabit through to 2030 to ensure that it can meet the commitment to deliver full gigabit coverage by 2030. The Government should also ensure that Project Gigabit can adequately address the persistent geographical disparities in the rollout of gigabit broadband.

Policy recommendation: 1. Set out the long-term funding for Project Gigabit through to 2030 to ensure that it can meet the commitment to deliver full gigabit coverage by 2030. 2. Ensure that Project Gigabit can adequately address the persistent geographical disparities in the rollout of gigabit broadband.
Policy Costs: Previous Government allocated £5bn programme for Project Gigabit.[18]

5.2 AI / Technology Adoption

The rapid development of AI presents a significant opportunity for businesses. The UK has a chance to be a world leader in AI and other technologies. However, recent BCC data from 2024 have shown that 43% of firms have no plans to use AI technology, with only 25% currently using AI, and 24% not

[17] BCC, 30 March 2023, https://www.britishchambers.org.uk/news/2023/03/public-infrastructure-and-access-to-labour-splits-uk-small-businesses-down-rural-urban-divide/
[18] Gov.uk Press Release, Project Gigabit https://www.gov.uk/government/news/government-launches-new-5bn-project-gigabit

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currently using AI but planning to do so in the future.[19] The research also demonstrated that smaller firms are much more likely to have no plans to use AI. 47% of firms with fewer than 10 employees had no plans to AI, compared to 17% of firms with more than 250 employees who had no plans to use AI.

Some of the reasons for not using AI highlighted through BCC research has included lack of relevance, investment cost, reliability, lack of understanding, and risks around scams or privacy.

Businesses need to be able to access training to ensure that staff have the skills they need to use the right AI tools for their business. This must include ensuring that they are aware of and able to overcome risks that stand in the way of being able to confidently use AI. The BCC welcomed the announcement in the Autumn Budget that the Department for Business and Trade would announce details of a £4 million pilot package to encourage technology adoption for SMEs.

Following the announcement of a £7.4 million upskilling fund pilot by the previous Government to help SMEs develop AI skills of the future, the BCC would welcome long-term funding to support SMEs to adopt advanced technology to provide certainty and clarity on what support is available to SMEs.

Policy recommendation: 1. Set out long-term funding to support SMEs to adopt advanced technology.
Policy Costs: The Autumn Budget 2024 included a £4 million pilots package to encourage technology adoption[20] (note that the Spring Budget 2024 included a £7.4 million upskilling fund pilot[21])

[19] BCC Pertemps Report, Employment Trends Report 2024 HYPERLINK "https://www.britishchambers.org.uk/wp-content/uploads/2024/07/BCC_PERTEMPS_REPORT_FINAL.pdf"https://www.britishchambers.org.uk/wp-content/uploads/2024/07/BCC_PERTEMPS_REPORT_FINAL.pdf

[20] Autumn Budget 2024
https://assets.publishing.service.gov.uk/media/672b9695fbd69e1861921c63/Autumn_Budget_2024_Accessible.pdf

[21] Spring Budget 2024
https://assets.publishing.service.gov.uk/media/65e8578eb559930011ade2cb/E03057752_HMT_Spring_Budget_Mar_24_Web_Accessible__2_.pdf

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6. Trade and Investment

6.1 Boosting exports contribution to UK economic growth

Accessing overseas markets is vital to help British businesses and the economy grow through additional exports in goods and services[22]. We recommend a package of focused investment in export support alongside a stronger role for the UK's economic diplomacy in boosting trade.

Authoritative economic studies show the positive links between exports and high employment levels. Alongside greater usage of trade preferences, export support should receive additional funding in the next comprehensive spending review to boost growth in export volumes over the next five years. This could be done through funding trade promotion activities and overseas trade missions, which would maximise the return for both taxpayers and economic growth[23]. More than 40% of Chamber members exported in 2023.

There are 315 staff in the Chamber network who collectively delivered over £16bn of dedicated trade services including trade documentation, customs services and training to 45,430 exporters in 2023. They are directly connected to over 70 experts located around the world via the international British Chamber network.

The UK Chamber network provides essential trade documentation services, including export certificates, customs clearance, and advisory services. These help businesses complete customs declarations accurately and efficiently, ensuring they comply with border regulations and avoid unnecessary delays.

The network's trade facilitation services save companies significant time and resources by simplifying the paperwork and regulatory requirements associated with cross-border trade. This level of support is particularly vital for smaller businesses with limited internal resources.

The BCC's international network – a framework of connectivity between the UK Chambers and 75 global British Chambers - works to deliver trade support programmes including delegation visits and B2B meetings. These focus on strategic and high growth markets.

Partnership proposal: DBT and BCC

The BCC and DBT should establish a partnership framework to ensure better coordination of initiatives and activities. This would strengthen the existing DBT export support offer, and better address trade export performance in fast-growing global markets. A summary of our proposal is shown below.

[22] See https://assets.publishing.service.gov.uk/media/60409e1d8fa8f577cb88ff2e/Estimating-the-relationship-between-exports-and-the-labour-market-in-the-UK.pdf accessed on 19 December 2024.
[23] See for example https://www.kcl.ac.uk/policy-institute/assets/delivering-economic-growth-through-exports.pdf accessed on 19 December 2024.

BRITISH CHAMBERS OF COMMERCE
65 Petty France
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Summary Partnership Proposal: Export Support

1. The Chamber export model has proven to boost exports by providing intensive, personalized support. This includes trade documentation services, face-to-face advice, training, and networking opportunities. Over 40% of Chamber members export, nearly four times the overall number of exporting SMEs.

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2. Chambers have many examples of successful public sector delivery projects, such as the Heart of the South-West Export Trade Development Programme and the Thames Valley Chamber's role in the EU Exit Business Readiness Project.

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3. We propose a multi-year pilot to strengthen the DBT export advice offer through direct support to find contacts, networks and connections in target markets. This would be delivered by both UK Chambers and International British Chambers in selected markets.

4. Our full proposal summarises the Chamber export model and its impact; illustrates how we can amplify the existing DBT offer and presents a costed offer with specific metrics to measure the success of the program.

Policy recommendation: 1. Work with British Chambers in the UK and Internationally to deliver enhanced export support for UK SMEs, strengthening the existing DBT advice service.
Policy Costs:

6.2 UK Export Finance

The BCC agrees with the decision, in the Autumn Budget 2024, to increase the credit capacity for UKEF and give it a new role on critical imports supply chain security. The BCC also supports it offering credit guarantees to drive supply chains for Net Zero and key economic sectors. This includes UK companies with key export relationships overseas, which import critical minerals such as lithium, cobalt and graphite for production in the UK[24]. The apportionment of lending risk between commercial lenders and UKEF is a worthwhile further area for review by HMT. Sufficient capacity should be provided from UKEF credit lines to boost exporters access to markets for climate friendly technologies and associated services.

To address the challenges facing SME exporters we recommend the widening of the remit of the Preference Utilisation Unit as resources allow, to take in more key markets where the UK has recently

[24] https://www.gov.uk/government/news/uk-approves-use-of-export-finance-to-secure-critical-minerals accessed on 19 December 2024.

BRITISH CHAMBERS OF COMMERCE
65 Petty France
London, SW1H 9EU
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agreed FTAs and also to take on responsibility as resources allow for preference utilisation in other key markets.

Policy recommendations: 1. Government should ensure UK Export Finance is working effectively to expand UK exports in key sectors. UKEF should work closely with other export finance providers to strengthen export credit availability to new or expanding exporters. Sufficient capacity should be provided from UKEF credit lines to boost exporters access to markets for climate friendly technologies and associated services.
Policy Costs: Nil

Policy recommendations: 2. To address the challenges facing SME exporters we recommend the widening of the remit of the Preference Utilisation Unit, to take in more key markets where the UK has recently agreed FTAs and to take on responsibility for preference utilisation in other key markets.
Policy Costs: Determined by spending review

6.3 Strengthen relations with the EU

The UK's exit from the EU Single Market, customs unit and common VAT area means that exporting to the EU takes longer and requires much more administration and cost than it did before 2021. Our survey data since the end of the transition period consistently shows high numbers of businesses reporting reduced sales to the EU in manufactured goods.

We welcome the Chancellor's ambition to improve the UK's trading terms with the EU and note the contribution this has to strengthen economic growth in the UK. HMT and HMRC have a crucial role to play in the negotiation and delivery of several of these priorities, particularly on VAT cooperation and the consistent application of EU rules to UK exporters.

Policy recommendations: 1. Develop simpler guidance on customs, rules of origin and other key issues, ensuring it is consistently applied across all 27 EU member states and in the UK. Consider rejoining the PEM convention to provide further flexibility on cumulation around applicable rules of origin. 2. Reach an agreement on VAT cooperation with the EU to reduce the number of UK companies requiring a fiscal intermediary in the EU to conduct cross-border trade – as exists for companies in Norway trading with the EU.

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

Policy Costs: Unknown

6.4 Raising levels of inward investment

The UK has the third highest stock of assets owned through FDI in the world, behind only the United States and China. This stock more than doubled between 2012 and 2021, rising from £0.9 trillion to £2 trillion. As a proportion of GDP, the UK's FDI stock is the highest in the G20, at 88% in 2022

FDI decisions rely heavily on education, culture, language, diversity, quality of life, and other less tangible, but no less important, factors. The UK is strong in all these areas and must do more to pitch them to the global business audience.

The BCC supports the measures Government has taken so far on implementation of the recommendations of the Harrington Review on inward investment. These included creating a concierge service for onboarding new investors and sustaining the relationship with existing investors; boosting the capacity of the Office for Investment; and reforming planning rules to create investment-ready sites for investors.

It is also important to target sectors, sub-sectors and individual foreign-owned companies which will add the most value to the UK economy and its supply chains. Renewables, the film industry, data centres, and the broader life-sciences sector are the sectors where the biggest benefits from a strong investment strategy can be yielded.

We propose a new DBT programme to implement the Harrington Review proposals on a concierge service, building on successful Inward Investment programmes run by Chambers. A summary is shown below; please see the Annex for our full proposal.

Proposal: A new concierge service for inward investment

The Harrington Review recommendations include a concierge service for onboarding and sustaining priority investment relationships. The Thames Valley Chamber of Commerce has been successful in this space, securing over 1000 foreign direct investment (FDI) successes, with direct involvement in around 65-70% of these projects.

We propose trialling a key account management programme for overseas investments to ensure priority inward investors receive the best possible service. The objectives include improving FDI flows, securing future investments, and delivering investable commercial opportunities. The pilot would involve one or two additional Chambers, ideally from the 'Midlands Engine' and 'Northern Powerhouse' regions.

The programme would target overseas investors with a high propensity to invest in the UK, in key sectors and markets, and those with multiple sites or wider supply chains across the UK. It would involve a structured stakeholder management plan, a marketing campaign promoting the Department for Business and Trade (DBT)'s Expand Your Business (EYB) programme, and a business-led 'soft-landing service' for inward investment. The proposal calls for DBT funding for a minimum of two to three years to support this project. Please see the Annex for the full proposal.

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Policy recommendations: 1. Complete implementation of Harrington Review recommendations, targeting those sectors where raising investment levels will produce the greatest economic growth, and support to supply chains. 2. Implement a concierge programme for investors with a high propensity to invest in the UK, in key sectors and markets, and those with multiple sites or wider supply chains across the UK.
Policy Costs: Proposed concierge service: Costs to be agreed with DBT following further programme development.

6.5 Improving international trade procedures: Digitalising Borders, Single Trade Window

Digitalising border processes, customs procedures and interfaces with users is a priority for modernising and speeding up international trade. The UK has published plans for the introduction of a Single Trade Window (STW) and commissioned assets for rollout of this project. The BCC believes the shift to this approach will yield efficiency savings for traders and government alike and help boost international trade. We urge Government to reach a decision in principle to continue with this programme, introduce a timeline for delivery of STW, and support it with multi-year funding through this phase of the spending review. Provide a clear commitment to digitalise HMRC and other border interfaces which importers and exporters utilise. Maximise for exporters the advantages of trends in trade document digitalisation well underway in the UK and globally.

Policy recommendations: 1. Reach a decision in principle to continue with the Single Trade Window (STW) programme, introduce a timeline for delivery of STW, and support it with multi-year funding through this phase of the spending review. Provide a clear commitment to digitalise HMRC and other border interfaces which importers and exporters utilise. Maximise for exporters the advantages of trends in trade document digitalisation well underway in the UK and globally.
Policy Costs: HMRC Chief Accounting Officer reported in 2022 that overall cost of Border 2025 strategy over initial ten-year rollout lifecycle was £330m. £180m was allocated as part of HMRC's budget in SR21. Balance due of an average £15m per annum (allowing for inflation) would be spread through this spending review period and into future spending reviews over the next decade.

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6.6 Continuing implementation of customs simplifications

We encourage Government to retain reforms and improvements to the way that businesses interact with the British customs system, which are helping to reduce costs and friction at the border[25]. These include simplifying declarations, improving access to customs simplifications, and reviewing the role of customs intermediaries. HMRC is gradually rolling out its programme to improve simplifications and authorisations such as Transit Guarantee Waivers.

Policy recommendations: 1. Retain improvements to the way that businesses interact with the British customs system, helping to reduce costs and friction at the border.
Policy Costs: Implementation costs will have been developed by HMRC as part of the policy impacting process.

[25] https://www.gov.uk/government/publications/customs-simplification-measures-december-2023/summary-of-customs-simplification-measures-december-2023 accessed on 19 December 2024.