



Renew

RECOMMENDATIONS FOR BUILDING BACK STRONGER

MARCH
2022

Restart

Rebuild

Renew

Building
Back
Stronger



British
Chambers of
Commerce

About the British Chambers of Commerce

The British Chambers of Commerce represents and campaigns for business.

Our roots are local, but our reach is global.

We're owned by, and work for, a network of Chambers of Commerce that champion and support our members all across the UK and in countries and markets around the world.

Our unique perspective gives us unparalleled insight into British and global business communities – every sector, every size, everywhere.

They trust us to be their advocates, and we're passionate about helping them trade and grow.

Working together with Chambers, we drive change from the ground up – and our bottom line is helping companies, places and people achieve their potential.

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INTRODUCTION FROM SHEVAUN HAVILAND

A PRO-GROWTH RENEWAL OF THE UK ECONOMY



SHEVAUN HAVILAND
DIRECTOR GENERAL,
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The welcome revival in economic output in 2021 confirms that the UK economy, and the business communities that drive it, are showing their propensity to bounce back from a crisis – a true testament to the flexibility and innovation shown by businesses. With UK output now currently 0.8% above pre-pandemic levels, there is room for optimism.

However, despite the easing of Covid-19 restrictions, we have seen economic conditions become even more challenging over recent months. The situation in Ukraine will be deepen worries for businesses in the region as well as here in the UK. The BCC will continue to work closely with the UK government to ensure that businesses have all the advice, information and support they need to make decisions, adapt to these circumstances and navigate the challenging times ahead.

Chamber business communities across the UK also continue to report mounting concern over the 'cost of doing business' crisis. If not addressed, the surging cost pressures will continue to lead to higher inflation and fuel the cost of living crisis currently being faced by people across the country. The cumulative effect of increasing raw material costs, soaring energy bills, rising interest rates and an impending National Insurance hike weigh down on firms' ability to invest, recruit and grow their business, particularly during this time of heightened uncertainty.

After almost two years of restrictions, huge swathes of business communities are struggling just to keep their heads above water as the cost of doing business crisis continues to eat away at their cashflow. BCC's Quarterly Economic Survey found that almost 1 in 4 firms (23%) reported a decrease in their cashflow in the final quarter of 2021.

Recovery from the pandemic and rising costs are not the only challenges that the UK economy faces. Chronic skills shortages and anaemic investment levels have long been a significant drag anchor on the economic potential and prosperity of regions and nations across the UK and must be viewed as a significant failure of policymaking. Addressing these critical areas are vital to both 'levelling up' communities around the UK and the transition to net zero.

To truly renew our economy, we must take the opportunity to not only recover from the damage caused by the pandemic and the brutal costs of doing business, but also do things differently and grasp the opportunities to lift our growth trajectory over the long term.

Ultimately it is businesses that generate prosperity, create jobs and support communities. The focus should be on creating the best possible environment for them to grow and thrive. Through their success they can sustainably deliver the tax revenue needed to support our public services and the wider economy.

Throughout the pandemic, businesses have proved time and again their resilience and adaptability, but they need support and the right conditions to achieve their full potential. Renew follows on from our 2020 Restart and 2021 Rebuild documents which set out frameworks for a phased reopening of the economy and building greater resilience for firms and households. We are pleased the government enacted a number of our proposals, including blunting the impact of the broken business rates system, additional investment in skills and infrastructure, and better access to finance. However, with the UK economy facing significant challenges this year, more action is urgently needed.

We have purposely focused on targeted measures in this report which build on Restart and Rebuild. If delivered, they would help create the best possible environment to harness the innovation and optimism of businesses to grow, prosper and power the wider recovery.

The Accredited Chamber Network will do all it can to help businesses, consumers, and the wider economy through this challenging period. I urge the UK government and governments across the devolved nations to adopt the 'pro-growth' spirit needed to deliver greater economic activity, productivity and prosperity across the UK. It is vital that decision makers across the nations take the active steps this year set out in this report, to create the conditions needed for firms to be able to rebuild, renew and power the recovery.



SECTION 1

EASE THE 'COST OF DOING BUSINESS' CRISIS

There remains a lot of disappointment at the lack of action on the historically high costs faced by businesses, which weigh heavily no matter the company performance or ability to pay. In addition to sky-high raw material costs, rising employment costs and soaring energy bills, firms are now faced with a significant rise in National Insurance.

The effect of the cost of doing business crisis will cause many firms to raise prices further and will weaken their ability to invest, recruit and grow their business, particularly during this time of heightened uncertainty. A recent BCC survey found that 73% of firms say they are raising prices in response to rising costs and almost 1 in 5 firms (18%) said that they would scale down investment in responses in higher cost pressures. The upward pressure of energy and commodity prices from Russia's invasion of Ukraine is likely to add to the cost pressures on businesses and consumers.

Against this backdrop, the BCC proposes a Five Step Plan to address the cost of doing business crisis:

- 1 Delay the impending National Insurance rise** by one year to give firms much-needed financial headroom to weather this unprecedented surge in costs and power the recovery.
- 2 Temporary energy price cap for small businesses** to protect smaller firms from some of the price increases they would otherwise face, offering the same protection as households.
- 3 Additional financial support**, through the expansion of the energy bills rebate scheme for households to also include small firms and energy intensive businesses, a new support fund, administered by Ofgem to support the smallest firms with their soaring energy bills and a six-month extension to the Recovery Loan Scheme, leaving it in place until the end of 2022.
- 4 A commitment from the government's Supply Chain Advisory Group and Industry Taskforce** to continue to work with industry to urgently deliver practical solutions to ease the supply and labour shortages that continue to drive the upward pressure on prices.
- 5 A moratorium, for the life of this parliament, on all policy measures that increase business costs**, including no new business taxes or added regulatory burdens, but excluding only evidence-based changes to the National Living Wage.

Our Five Point Plan gives firms a chance to stabilise without having to seriously increase their prices, cut jobs or cut the investment that is so vital to sustaining our economic recovery from Covid-19. If not addressed, the surging cost pressures produced by the cost of doing business crisis will continue to lead to increased prices and fuel the cost of living crisis currently being faced by people across the country.

"The largest direct challenge to our business right now is the energy costs - this looks due to hit us with a 120% increase this year and whilst we're shopping round for the best deals, I think we'll end up having to commit on a longer-term deal than we would like to secure the price and give us known stability for 18-24 months."

Small manufacturing firm, Sheffield

"Overhead costs are becoming critical, new electricity contract has increased dramatically and we have no control over it; landlord governed."

Micro service firm, East Lancashire

"Raw material pricing and supply chain delays are worse than I have experienced ever. Some of these increases are opportunistic and some are real - but all are beyond anything we could have planned for or imagined: 61% in marine grade stainless steel, 40% in aluminum extrusion and components, 12% in high-grade plastics and service increase of over 10%."

Small manufacturer, Kent



SECTION 2

A CONTINGENCY FRAMEWORK FOR LONG-TERM MANAGEMENT OF THE PANDEMIC

Businesses welcomed the government's ambition to move us closer to pre-pandemic trading conditions as part of the 'Living with Covid-19' strategy. However, they need to understand how government will respond to further variants of concern – or indeed a future pandemic – and what support would be put in place if new guidance or mandatory restrictions are introduced that have a negative impact on the economy. Firms will only truly be able to 'Live with Covid-19' when they are confident that a plan is in place for future outbreaks.

Therefore, a contingency framework should be published, setting out a provisional plan for staged interventions in response to the nature of the challenge, as government has done in its various plans through the pandemic. This should be developed by drawing on the lessons of the past two years and should clearly set out what support measures would be put in place for businesses impacted at each stage.

As part of this framework, it should state what support would be available to firms if their operations are restricted, either directly or indirectly, by government measures and guidance. There is precedent for this detail being shared, as the government showed in its Spring 2021 roadmap.

This framework should include a series of strong policy options to support businesses and the wider economy, that could be set out if restrictions are required once more. The BCC's own research found that over half (54%) of firms thought that the business support provided by the UK government in response to Plan B measures was not sufficient. Therefore, this framework should include:

- **Revert the VAT for hospitality and tourism back to its emergency rate of 5%.**
- **Reinstate 100% business rates relief for retail,** to give businesses the financial headroom to weather the financial impact of restrictions.
- **Make additional grant funding available which can then be administered locally and distributed on a need's basis.** This additional support should be provided irrespective of whether the business is the direct business rate payer.
- **Further support for businesses who have used government loan and tax deferral schemes.** HMRC with preferential creditor status in insolvencies should also outline what steps it will take in supporting businesses at risk of failure.

We all hope that restrictions and therefore the contingency framework will never be needed. However, by being clearer about business support upfront, firms will have more confidence to invest, knowing that government will support them should they be negatively affected by circumstances beyond their control.

SECTION 3

BOOSTING BUSINESS INVESTMENT TO LIFT PRODUCTIVITY AND GROWTH

Although UK economic output is now just 0.4% above pre-pandemic levels following record growth in 2021, business investment remains 10.4% below pre-pandemic levels, following a contraction of 0.7% last year.

More needs to be done to incentivise business investment during this period of heightened economic and political uncertainty, to increase business investment to levels required to deliver meaningful and sustained increases in productivity. The BCC now forecasts that business investment will remain 6% lower than its pre-pandemic level by the end of 2024. In contrast, consumer spending is projected to be 2.4% higher than its pre-pandemic level over the same period.

The damage done to firms' finances by the pandemic, rising input costs, a more onerous tax regime and concerns over the potential for future Covid-19 restrictions are expected to weigh heavily on investment intentions, despite the introduction of the super-deduction incentive.

An economic recovery without business investment is one built on shaky foundations, as weak investment damages productivity and limits our growth prospects. Turbocharging business investment is also crucial to 'levelling-up' communities across the UK and to the transition to net zero.

Policymakers should focus on three key priorities to drive greater investment:

- **Reducing cost pressures on businesses to give them the financial headroom to invest**
- **Ensure greater access to finance to help fund investments**
- **Strong incentives to give companies the confidence to push ahead with new projects.**



“We need to be careful in spending as my fixed costs are increasing and I am trying to stay competitive.”

Small hospitality firm, Cumbria

“Haven’t got anything left to invest. Used most of company reserves to stay afloat.”

Small services firm, North East England

“Uncertainty, we can’t invest without having a better view of the future.”

Micro manufacturer, Black Country

“Uncertainty due to Covid and Brexit means we are likely to delay any investment in our business until at least 2023.”

Micro services firm, West Cheshire and North Wales

Therefore, in addition to the moratorium on increasing business costs for the life of this parliament, as referenced in Section One, we propose the following interventions:

Boost funding to support the transition to net zero - the BCC’s own survey found that the main barriers to preventing respondents from making their business more sustainable are high upfront adaptation costs and a lack of finance. Therefore, schemes that support SMEs making the transition to net zero by providing low cost loans and significant grant support are vital.

Further expand the British Business Bank’s Regional Programmes to enable it to continue to make a significant contribution to Britain’s growth companies of the future, across all regions and nations of the UK.

Extend the Recovery Loan Scheme (or an equivalent initiative) beyond June 2022 to ensure that businesses struggling to access finance get the support they need.

Reaffirm commitment to ensure that the UK Shared Prosperity Fund matches receipts from the EU structural fund and also consider matching the funding element that often would have been found by local public sector, to avoid damaging cliff edges in local projects that are vital to the government’s levelling up strategy.

Introduce a new skills tax credit to incentivise employers to invest in training for workers with no or low qualifications and help to revitalise employer-led training.

Renew and enhance R&D tax credits, by increasing investment to improve the claims process and expand the scope of eligible R&D expenditure to help increase innovation in key areas, including net zero.

Extend the super-deduction beyond 2023, or a commitment to providing generous capital allowances such as full expensing over the long-term, to provide a major incentive for firms and give them the confidence to push ahead with new projects.

SECTION 4

ADDRESS THE CHRONIC SKILLS SHORTAGES FACING BUSINESS

The British Chambers of Commerce independent Workplace Training and Development Commission¹ found that in the years leading up to the Covid-19 pandemic, businesses of all sizes and sectors were finding it increasingly difficult to access the skilled people they needed. However, since the pandemic, many firms have found the situation to have got worse. The BCC's latest Recruitment Outlook found that 4 out of 5 firms that attempted to recruit in Q4 2021 were facing significant difficulties in finding staff, with many firms citing major issues arising from lack of foreign nationals to recruit as well as disruption due to Covid-19.



"It is very difficult to recruit staff so we have had to limit the amount of business that we can take. This is full time and casual staff and is not looking any better, even after Christmas."

Large services firm in Cambridgeshire

"Our company is in a disastrous situation because of lack of staff and the inability to recruit from Europe. We are running approximately 300 staff short at our busiest time of year. We are letting our customers down. We should be running 6-8-night shifts at this time of year, but because of lack of staff, none are running."

Large manufacturer, Aberdeen and Grampian

"This is a tough labour market. Due to settlement status visas, and returning home during the lockdowns, we are finding it increasingly difficult to recruit enough team members. This has an impact on the output and volume we can maintain."

Large tourism firm, Plymouth

"The main issue is the lack of manpower in the unskilled sector, we pay above average for our sector and cannot recruit as the people are just not there any more."

Small service firm, Sussex

¹ <https://www.britishchambers.org.uk/media/get/BCC%20Commissioners%20v4%20reduced.pdf>

Addressing the current challenges around skills now will mean more people are able to contribute to lifting business productivity, boosting overall economic growth and playing a crucial role in 'levelling up' communities across the UK and achieving the transition to net zero.

There are several key recommendations from the BCC's Workplace Training and Development Commission², which detail measures to support the training and progression of all adults in the workplace. Key priorities for employers include:

Further expand rapid, bite-size flexible training

- to ensure it becomes embedded in the adult education system to help business and individuals to quickly upskill people to keep pace with digitisation, automation, net zero and new opportunities in the workplace. Fund the roll out of skills bootcamps to all areas of the country and find ways to provide more access to accredited modular learning.

Invest more in technical education

- to address growing skills shortages at levels 4 and 5, upskill and reskill adults in the workplace and boost business productivity. Secure long-term funding for T levels and extend the financial support for employers beyond 2022 to enable more industry placements.

Invest in local skills planning - support businesses to identify, articulate and meet workforce training needs. Roll out Local Skills Improvement Plans across England, enabling local areas to build upon best practice identified by the 2021/22 trailblazers.

Reform the apprenticeship levy - work with business to review how the apprenticeship levy can be developed into a more flexible fund to meet workforce training needs. Increase apprenticeship funding where necessary to ensure SMEs maintain access to apprenticeships at all skill levels.

In addition to the proposals from the commission, BCC also recommend the following:

Ensure all young people understand the full range of high-quality technical and vocational routes to employment. Schools must provide impartial careers advice, access to information and employer engagement.

Simplify childcare funding by introducing a childcare budget for every family, giving them the freedom to choose the right model for their individual circumstances and the support needed for parents to work.

Support firms to develop diverse and inclusive workplaces through greater uptake of flexible working practices, underpinned by universal access to digital infrastructure and affordable public transport services with flexible fares and ticketing that reflect modern working practices.

Address the structural decline in labour supply caused by Brexit and Covid-19 by issuing temporary visas for lower skilled jobs where there is clear evidence of a damaging national shortage, and by expanding the Shortage Occupation List to help businesses access the skills they need when they can't recruit locally.

Accredited Chambers of Commerce have been the 'first responders' to their business communities throughout the pandemic and have a deep understanding of what will make a difference to firms on the ground as they begin to rebuild their businesses. The recommendations within this report can help firms to harness the innovation and optimism of businesses to rebuild, renew and power the wider recovery.

² <https://www.britishchambers.org.uk/media/get/Final%20WTDC%20Progress%20Report%20August%202020-Brand.pdf>

