British Chambers of Commerce
Winter Plan for Business

October 2021

Having weathered what is hoped by all to be the worst of the Covid pandemic, businesses' attention is now firmly on getting back to growth and prosperity. However, despite their ambitions, they face significant shortages of people and materials, rising costs of energy, materials and shipping, imminent tax rises and worries about consumer consumption, which are together depressing business investment and slowing economic recovery (see Annex A for more details). Despite all the ingenuity, creativity, and steadfastness they have shown, businesses simply cannot tackle these systematic issues themselves.

Swift action and a coherent plan are needed from government, working with business, to meet these challenges. If not, firms will be held back from recovering and delivering on their growth ambitions.

In June 2021, the BCC published '*Rebuild'*, setting out key actions for government to support businesses through a crucial period of recovery for UK business communities after the pandemic.

Rebuild highlights the particular risks to Small and Medium Enterprises ('SMEs'), who reported worse problems from the pandemic and from adaption to the Trade and Cooperation Agreement than larger firms, and the risk of regional 'Levelling Down' in areas which the government has committed to level up. It also pressed for action on the growing problems from skills shortages.

Three months on, the challenges businesses face show no signs of subsiding. Urgent action is needed to help businesses steer a path back to growth and prosperity.

To meet these challenges head on, we propose a coherent **Winter Plan for Business**, complementing and building upon recommendations from the *Rebuild* plan, and setting out action government can take across four core areas:

1. **Contingency** plan for the winter (Annex B)
2. Help businesses address **skills** shortages (Annex C)
3. Tackle key shortages and **inflationary** pressures (Annex D)
4. Deliver a more **supportive** business environment (Annex E)

More detail on each is Annexed.

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ACTION PLAN

TOPIC	ACTION NEEDED
1. Contingency plan for the winter	• Publish a full Covid contingency plan
	• UK-wide co-ordination of virus management and recovery;
2. Help businesses address skills shortages	• Immediate expansion of the temporary visa programme for all sectors suffering acute national skills and labour shortages
	• Rapidly expand the Shortage Occupation List to include roles where skills shortages are damaging the economy
	• Longer-term, address structural skills blockages by delivering the Workplace Training and Development Commission's recommendations in full
3. Tackle key shortages and inflationary pressures	• Convene a Business Supply Taskforce
	• Create an SME Energy Price Cap
	• Revise steel tariff quotas
	• Consult urgently on revising the Trade Remedies Authority's remit
4. Deliver a more supportive business environment	• Agree a moratorium on all policy measures that increase business costs for the remainder of the parliament, excluding only evidence-based changes to the National Living Wage
	• Abandon up-rating Business Rates for the next financial year
	• Protect and support our vital regional airports
	• Continue to improve implementation of the TCA, reducing the cost burden and delays for business
	• Work with business to create a clearer path to net zero

Annex A - Why Action is Needed Now
The first official estimate of UK GDP revealed that the UK economy grew by 5.5% in Q2 2021, up from a contraction of 1.4% recorded in Q1 2021. However, there are early indications that economic activity is losing some momentum in the third quarter with the UK economy growing by just 0.1% in July, amid staff shortages, rising cost pressures, supply chain disruption and growing consumer caution to spend.

Our most recent Quarterly Economic Survey (published 06/10/21), the UK's largest independent business survey with around 6,000 respondents each quarter, shows that in Q3 of 2021:

- there has been some improvement in indicators for immediate business activity as the economy reopened. This is reflected by almost half of firms reporting increased domestic sales, albeit from a very low base as they continue to suffer the effects of closures and restrictions;

- however, indicators for structural business conditions remain a key concern. There has been no surge in the percentage of businesses reporting improvements to cash flow or investment. This is very worrying. Our data indicate that firms are borrowing, but not to invest. If there is no improvement to cash flow, many firms could be in jeopardy; and

- inflation has clearly grown to be a major problem. Two thirds of manufacturers and retailers/wholesalers expect prices to increase over the next three months – the highest on record. We have many case studies of firms reporting very large, unprecedented, jumps in input prices from the price of steel to shipping containers.

The UK's economic recovery is projected to slow further into the autumn as staff shortages and supply chain disruption partly limit the gains from the lifting of restrictions in July. Consequently, the UK economy is only expected to return to its pre-pandemic level in Q1 2022 with growth of 5.2% forecast for 2022.

The damage done to firms' finances by the pandemic, a more onerous tax regime and concerns over the potential for future Covid restrictions are expected to weigh heavily on investment intentions, despite the introduction of the super-deduction incentive. Consequently, business investment is forecast to remain 5.4% lower than its pre-pandemic level by the end of the forecast period in Q4 2023.

Heightened uncertainly still looms over UK's economic outlook. A prolonged period of acute supply and staff shortages could derail the recovery by forcing firms into a more permanent reduction in their operating capacity, eroding their ability to fulfil orders and meet customer demand. Renewed restrictions to tackle rising Covid cases would also weaken the projected economic revival by damaging confidence and limiting activity.

While businesses have stepped up to deal with great challenges over the last 18 months, individual businesses or sectors alone cannot address the systemic challenges they face as we enter the final quarter of 2021. Government must work together with business to find solutions that get the UK economy rapidly back to growth and prosperity.

Annex B – Winter Plan – 1. Contingency plan for the winter

The government's Autumn and Winter Plan 2021 sets out how a strategy for managing Covid without applying additional restrictions on businesses, including through vaccination and Test, Trace and Isolate.

A full Covid contingency plan

Some of the government's Autumn and Winter Plan responds to calls in BCC's *Rebuild* report, including for continuing free testing and scaling up testing capacity further, but there remain areas where more action is needed.

Businesses are concerned about those gaps, which may be undermining confidence and investment intentions. For example, the Autumn and Winter Plan accepts that if 'work from home' rules are brought back into force then that will have a significant negative impact on many businesses which rely on footfall from office workers, but it does not set out whether or how businesses would be supported if so.

Perhaps most importantly, the Autumn and Winter Plan holds out the potential for sectors to be closed or local restrictions imposed but provides no detail for the circumstances that would trigger the need for such measures or how they would be applied. Government should be clear about lessons learnt from the use of national and local restrictions over the last 18 months and only take steps that have been proven to work. For any restrictions, government must also be clear on what support would be put in place, for example the reopening of furlough or a renewed grants scheme.

We call upon the government to provide further detail on those areas and give businesses the reassurance that if the government does close them by force of law or create an economic climate in which they either cannot operate or cannot operate economically they will be supported by adequate an effective programme of furlough, grants, and payment holidays, building on the 2020 model.

UK-wide co-ordination of virus management and recovery, ensuring consistency of approach across nations.

The variation between nations has caused a great deal of confusion over the course of the pandemic and has created a competitive disadvantage to firms in some nations compared to others within the UK. Recently this has been seen in different rules about the use of Covid Vaccine certification.

All governments should commit to greater consistency of approach for the remainder of this pandemic and any future crises.

Annex C – Winter Plan – 2. Help Businesses Address the Skills Shortage

Business will support the Government's ambition to move to a sustainably high-skilled, high-wage economy which does more to harness homegrown skills and talents, but this a huge transition that will not happen overnight. It will take time to up-skill and retrain the workforce. In the meantime, many businesses face skills shortages. No individual business or sector can make this adjustment alone. It requires government and business to come to develop a plan for the future which addresses short term challenges and meets longer term ambitions. Simply riding it out is not an option.

In *Rebuild*, we outline how many businesses were already feeling the pressure of skills shortages. This is a well-established problem for UK businesses, but in June it was already clear that the problems had become even more acute, including below Level 3 (A Level). Even as furlough has tapered we have seen more and more problems, including, but not only, around HGV drivers and workers in food production. Hospitality, the care sector and construction firms are all facing significant shortages which is hampering their ability to provide their services and recover from the pandemic. Given the mismatch between skills of furloughed workers and available roles and the structure of furlough's taper, we do not believe the end of furlough will solve these problems.

Our Quarterly Economic Survey for Q3 2021 saw a surge in the percentage of firms facing recruitment difficulties, with three quarters overall reporting problems. In the 'hotels and catering' sector, more than nine in ten reported difficulties.

"Recruitment is becoming significantly more challenging*, especially in technical roles. We're just not seeing anything like the usual volume or quality of applications, and this could stunt growth".*

Micro services firm, Lincolnshire

"Huge shortage of skilled chefs *to work within the kitchen. We need to able to recruit overseas non-EU workers with Visas".*

Small Tourism/hotels/catering firm, Lincolnshire

"Demand is high in hospitality sector but ***staffing difficulties*** *make this difficult to deliver. Existing staff under too much pressure and likely to lose some".*

Medium-sized Tourism/hotels/catering firm, Scotland

"Recruitment is proving to be incredibly difficult. We have opportunities for senior, experienced staff, junior trainee staff, administrative roles and apprentice roles and are having great difficulties filling those roles, including the apprentice positions. ***The business is slowing due to the lack of available staff****".*

Medium-sized prof services firm, Hull & Humber

This is supported by the Office for National Statistics' Labour Market statistics for September 2021, which show a further rise in vacancies, confirming the ongoing struggle to hire staff. The recruitment difficulties faced by firms go well beyond temporary bottlenecks and with many facing an increasing skills gap, staff shortages may drag on any recovery.

The number of job vacancies in June to August 2021 was 1,034,000, the first-time vacancies have risen over 1 million since records began and is now 249,000 above its pre-Covid level.

The government's announcement of around 5,000 3-month emergency visas for (each of) HGV drivers and food processing workers will not fix the problem. The scheme will not be attractive enough for overseas drivers to give up permanent jobs elsewhere. Even if all visas are used, more workers are required across more sectors for longer.

The medium-term options for HGV driver tests and Skills Bootcamps are welcome, but we similarly do not think they go far enough. In addition to the Business Supply Taskforce in Annex D below, we have developed a plan of immediate, shorter- and longer-term skills options we ask government to begin implementing immediately.

Immediate – go further with temporary visas
The government should expand the recently announced temporary visa programme (for HGV drivers and poultry workers) so that:

- emergency visas are introduced for all sectors experiencing acute national skills and labour shortages that prevent normal business operations;

- a minimum 2-year visa is offered to attract experienced workers to come to the UK to fill urgent job vacancies, providing sufficient breathing space for businesses to upskill and reskill people. For example, HGV drivers with contracts of employment and employee benefits in European countries are unlikely to come to the UK for the uncertainty of a 3-month visa; and

- the number of visas matches the likely demand, based on evidence of the number of vacancies in the affected sector. For example, 5,000 HGV driver visas will not resolve the scale of the immediate problem in the sector. ONS data suggests that the number of EU HGV drivers in the UK has fallen from 37,000 to 24,500 since January 2020, part of an estimated (by the industry) 100,000 shortfall in drivers.

> A farm in Essex furloughed all their 450 staff who run the tea shops last year. They brought them off furlough to pick fruit in the absence of experienced seasonal workers from outside the UK. The inexperienced workers, including some qualified at Level 3, picked at a quarter of the rate of experienced workers.

Elsewhere we have seen reports of similar shortages of experienced seasonal agricultural workers harming farm production, with crops having to be left to rot in the fields.

Delivery of this fuller programme should happen as quickly, transparently, and effectively as possible.

Short-Term – rapidly expand the Shortage Occupation List to include roles where skills shortages are damaging the economy

The Points-Based Immigration System requires a minimum qualification equivalent to Level 3 for workers to qualify for the Skilled Worker visa. The Shortage Occupation List ('SOL') enables businesses experiencing shortage occupations to pay 80% of the minimum salary threshold and there is no cap on the number of visas that can be given. However, all jobs must be at level 3 or higher to be eligible for inclusion in the SOL.

Only specifically named occupations, including, at present, skilled contemporary dancers, can be included on the SOL. At present, HGV drivers are not included, and many of the sectors reporting shortages have job vacancies at Levels 1 and 2, and so would be excluded from the SOL.

In addition, the SOL is expensive to use, with fees to register as an employer sponsor, for the Immigration Skills Charge, Immigration Health Charge, and visa. This creates an additional cost barrier, a particular problem for hard-pressed SMEs.

The SOL is reviewed infrequently, with the next review scheduled for some point in 2022. The Migratory Advisory Committee ('MAC') reviews the SOL in a process that can take many months to complete, with additional time needed for the government to respond.

Given present circumstances, we ask the government to take three steps regarding the SOL.

- First, it should immediately commission the MAC to rapidly review the SOL in relation to specific occupations not currently included but where there is evidence of current national shortages, with a view to adding these job roles urgently. If given effect to, this will help to alleviate some of the medium-term pressure.

- Second, the government should build on the SOL in its current form to deliver a mechanism able to deal with the kind of pressures businesses are seeing. This should include the creation of a temporary option to swiftly include roles, such as HGV drivers, in the SOL without the existing Level 3 requirement. This will give hard-pressed sectors, such as social care and food production, more scope and time to train future workers from within the UK without risking the delivery of vital goods and services.

- Third, the costs of using the SOL should as far as possible be suspended for roles where the temporary mechanism is used.

Now is also the time for a cross-government skills and labour strategy that tackles the acute and critical staff shortages that are damaging business and the economy and that sets out a clear plan for the decade ahead.

Longer-Term – address structural skills blockages

Without a coherent long-term strategy, skills shortages will continue to be a deep-rooted problem for UK business. This government has shown ambition to deliver reform in this context, particularly the Local Skills Improvement Plan work which will give SMEs a stronger voice in skills planning.

There is scope to go further. The government should adopt the recommendations of the independent Workplace Training and Development Commission to help firms fill skills shortages through upskilling and reskilling of adults in the workplace, including by:

- funding impartial support to help employers identify and address workplace training and development needs linked to innovation and improved productivity;
- creating a more agile and flexible skills system, with access to high quality modular learning, and digital skills training, to help employers upskill and reskill people quickly for new opportunities;
- increasing the focus and funding for technical education;
- creating an all-age careers service to help people train for new jobs in different sectors; and
- ensuring schools are developing the employability skills young people need to be successful in the workplace and are engaging with business to deliver careers advice that promotes the value of technical and vocational routes to quality and sustainable jobs.

Annex D – Winter Plan – 3. Tackle key shortages and inflationary pressures

Many firms have seen large increases in the cost of doing business. Businesses are reporting these pressures across a wide range of materials (e.g. steel and cardboard), energy (e.g. electricity price rises) and shipping and transport. Many of our members are reconsidering investment decisions, and the rebuilding of our economy is clearly, and potentially permanently, being harmed.

> *"We have experienced dramatic increases in many raw materials, the most concerning of which are* ***steel products*** *which in some instances have risen by more than 150%".*
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> ***Medium-sized construction firm, Scotland***

Convene a Business Supply Taskforce ('BST')

The government should quickly move to create a Taskforce charged with understanding and managing (as far as possible) shortages and inflationary pressures within the UK economy, including of materials and skills, and energy and transport costs. Critically, the taskforce must be a genuinely Public-Private body, chaired at the highest levels of government and comprising senior Ministers and Officials from all the governments of the UK and senior representatives of business.

Meeting regularly, all parties would work together to identify the key issues and their causes and deliver solutions for specific sectors. Actions might fall to the public or private partners. For the UK government, all affected Departments should be represented and agree to take forward actions as a priority.

The BST's remit should also include skills shortages (see Annex C), with a focus on addressing problems which hamper recruitment within specific industries. For HGV drivers, for example, the government should immediately remove barriers to the improvement of HGV lorry parking and welfare facilities for drivers and should support businesses (including through the planning system) to secure local accommodation for workers where helpful. Government should be prepared to invest in these facilities for the wider good of the economy, perhaps through a designated fund.

The BST will look carefully at the detailed issues arising for specific areas of shortage and deliver solutions around those.

In advance of the BST's work, and given how pressing the problems are, we propose changes for two key areas of cost for many businesses: energy and steel.

Create an SME Energy Price Cap

In the past few weeks, the UK has reached crisis point over the price of gas and, consequently, electricity. Consistent rises in wholesale prices have made energy production much more expensive. This has forced many smaller providers to exit the market, and Ofgem is moving their customers to other providers.

Prices are now at record high levels: wholesale forward contracts (the typical way for a supplier to purchase their energy) are now nearly twice what they were a year ago.

Many creditable sources foresee wholesale prices continuing to rise. Inevitably, energy prices for business will rise. More providers are likely to have to leave the market.

Some domestic consumers are already given costs energy protection by a price cap (which operates on a per unit basis). Despite recent increases in the cap, which will affect around 11 million households, Ofgem estimates that each protected consumer saves between £75 and £100 per year.

In our view, there is a clear case to create an SME Energy Price Cap (including for microbusinesses) and protect smaller firms from some of the price increases they would otherwise face, given the risks current trends pose to employment and prosperity across the country. The cap would include firms transferred to new providers to strengthen the 'reasonable costs of supply' limit at present, and firms locked into enforceable multi-year contracts.

Whilst the current domestic price cap(s) came about following a prolonged CMA investigation, we ask government to look carefully at this option as quickly as possible.

Revise Steel Tariff Quotas
In the summer, the government decided not to follow recommendations from the Trade Remedies Authority ('TRA') to allow safeguard measures (tariffs) on steel imports to expire. The UK government decided to retain many of the safeguard measures. The TRA has commenced a consultation to reconsider its original decision.

These quotas govern how much steel (of particular types) can be imported into the UK without an additional tariff. Steel imported above the quota levels faces tariffs at 25%.

Over Q3 of 2021 we have some of the steel quotas begin to be exhausted by importers even before two-thirds of the way through the quarter, and we may see more quotas exhausted before the year is out.

There are serious issues with both levels and cost of domestically produced steel (now exacerbated by energy price rises) required for manufacturing supply chains in the UK.

We ask government to review the tariff quotas with a view to expanding the quotas amounts so that more steel can be used by UK manufacturers without additional costs.

Consult urgently on revising the TRA's remit
Alongside the decision to retain some steel safeguard measures, the government committed to consulting on how the TRA operates. This consultation, when it takes place, presents an opportunity to include a wider range of economic data into decisions on future safeguards and wider trade remedy measures by the TRA or by the Secretary of State. We ask government to bring this consultation forward as a matter of urgency.

Annex E – Winter Plan – 4. Deliver a more supportive business environment

Many businesses were shocked by the decision to increase National Insurance contributions from April 2022, particularly as Corporation Tax will rise sharply one year later. National Insurance rises are a particularly unwelcome development as they increase the upfront costs for businesses.

As the economic recovery appears to be petering out, and with a clear risk of permanent damage, businesses need a more supportive business environment. As a start the government should deliver the following options in addition to the other measures outlined in the BCC's Budget Submission.

A moratorium on all policy measures that increase business costs for the remainder of the parliament, excluding only evidence-based changes to the National Living Wage

In addition to sky high Business Rates, firms have already had to take on additional burdens in recent years, including Making Tax Digital, Immigration Skills Charge and the shortcomings of the Apprenticeship Levy as well as a doubling of the Insurance Premium Tax since 2011. Businesses are also faced with the costly task of adapting to new trading arrangements with the EU.

The cumulative effect of creating such an onerous cost burden is causing many firms to implement cost reduction measures, weighing down on firms' ability to invest, recruit and grow their business and dampening the entrepreneurial spirit needed to drive the recovery.

The government should commit to not bringing forward any policy measures that increase business costs for the remainder of this parliament, excluding only evidence-based changes to the National Living Wage.

Abandon up-rating Business Rates for the next financial year

Despite recent improvements, the fundamental unfairness of Business Rates remains. In contrast to most other taxes, Business Rates do not consider the stage of the economic cycle, company performance or ability to pay. Addressing this upfront burden is essential if firms are to invest more in training, recruitment and growth plans.

Despite enduring the deepest recession on record, businesses are now facing a punitive rise in Business Rates in the next financial year because of soaring inflation figures. These are caused in part by temporary distortions in the data during the pandemic, including from last year's VAT cut and Eat Out to Help Out scheme. UK CPI inflation rose from 2.0% in July to 3.1% in August 2021, the largest percentage point rise on record and the highest rate since March 2012. If continued, this will create significant pressures on businesses and high streets alike.

In advance of fundamental reform of Business Rates, the government must abandon the up-rating of business rates for at least the next financial year, and work with all three devolved governments to ensure the freeze is UK-wide.

Protect and support our vital regional airports
The ability of airports to bounce back from the pandemic underpins economic recovery across the UK. In England, a Business Rates holiday would allow time to for recovery while international travel remains at a low ebb. In the meantime, Government must ensure that the UK can safely encourage more visitors back to the UK. That includes reinstating the VAT Retail Export Scheme so that we remain an attractive destination for overseas travellers.

Continue to improve implementation of the TCA, reducing the cost burden and delays for business
We continue to see problems for firms seeking to export goods and services, including businesses whose international activities were halted by the Covid crisis. For goods, paperwork remains a severe burden, with many firms unclear about new requirements, and smooth passage through ports on both sides of the Channel cannot be relied upon. As international travel opens up again, we are also see increasing problems with new business travel requirements, including reports of conflicting advice from government sources.

We welcome the engagement BCC has with Lord Frost and others as we adjust to our new trading relationship. We encourage the Government to continue to work with European partners to ensure that more businesses are able to maintain and grow trading relationships with customers and suppliers in the EU.

Work with business to create a clearer path to net zero
In the face of many challenges, the path to net zero presents an opportunity for businesses of all shapes and sizes to embrace a greener and more prosperous future. However, uncertainty remains about how the transition to net zero will be achieved, and what the demands and requirements placed upon businesses will be.

For the member businesses of the UK's 53 Accredited Chambers, the Climate Challenge is the single most important long-term issue. Our members want to rise to the occasion and play their part in meeting this inter-generational problem head. To harness this opportunity, government must work with business to put the flesh on the bones of the Ten Point Plan, setting out clearer requirements and incentives for businesses across all sectors.