



‘RESILIENCE AND RENEWAL’ – SPRING BUDGET 2023 REPRESENTATION

Issued 31 January 2023

ICAEW welcomes the opportunity to submit a **representation to HM Treasury ahead of the Spring Budget taking place on 15 March 2023.**

ICAEW believes that the government needs to establish a clear set of strategies to improve the resilience of the UK economy and the public finances if its plans to develop the pillars of ‘Enterprise’, ‘Education’, ‘Employment’ and ‘Everywhere’ are to be successful. A renewed mission for public services and clarity around economic objectives are required to deliver a more prosperous and carbon neutral future for everyone.

We have identified six recommendations for specific policies for inclusion in the Spring Budget 2023:

- Establish an emergency cross-sector taskforce to eliminate HMRC’s backlog.
- Make affordable childcare an economic priority, with targeted tax measures to support lower-income households and sectors with critical shortages of workers.
- Provide longer-term funding certainty for regional and local authorities to better plan services and infrastructure investment.
- Update the design of the Apprenticeship Levy to remove the cap on apprenticeships in SMEs; review funding bands given inflationary pressures; accelerate uptake and completion rates; and incentivise sectors with people and skills shortages.
- Provide incentives for business investment in net-zero aligned R&D and in businesses’ own transition to net zero.
- Implement the recommendation in the Independent Review of Net Zero to “simplify the net zero funding landscape for all local authorities”.

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ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports, and regulates more than 165,000 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical, and ethical standards.

For questions on this submission please contact us at representations@icaew.com quoting REP 8/23.

DETAILED COMMENTS

Overview of the UK economy

1. The economic backdrop to this budget is tough for people and businesses. Findings from our Business Confidence Monitor – one of the largest and most comprehensive quarterly business surveys – suggests that the UK economy went from bad to worse at the end of last year. Sentiment tracked by ICAEW's Business Confidence Monitor put confidence at -23.4 on the index, the weakest since 2009. A weakening economy, high inflation and concerns over customer demand drove confidence down. Among sectors, Construction, Property, Retail and Manufacturing – often the drivers and barometers of a growing and confident economy – are the least confident.
2. Input price inflation hit another record high during the survey period. As a result, selling prices increased at a record rate. However, input and selling price expectations for the year ahead eased for the first time since 2020.
3. A third of businesses said they faced growing difficulties with customer demand, as the cost-of-living crisis, higher interest rates and a slowdown in the world economy continued to bite. These problems were most acute in the construction sector, where more than half of firms reported issues, followed closely by manufacturing, retail and wholesale. ICAEW Chartered Accountants are confirming this from the economic frontline, reporting that housebuilders are finishing builds off, but not buying land to start new projects.
4. ICAEW believes that 2023 is likely to be a bleak year for the economy as record inflation, rising taxes and interest rates push the UK into a technical recession.

Resilience and Renewal

5. The Prime Minister, in his 2022 Mais Lecture while Chancellor of the Exchequer, outlined the four pillars he believed were essential for a modern, innovation-led economy: 'Enterprise', 'Education', 'Employment' and 'Everywhere'. The current Chancellor of the Exchequer reiterated these during his Bloomberg speech last month.
6. ICAEW agrees with these areas of focus, and believes that to tackle the underlying causes of the underperformance of the UK economy and public services, the government needs to establish a clear set of interlinked strategies if it is to have any chance of improving the resilience and performance of the UK economy and the public finances, or of renewing enterprise and public services to deliver a more prosperous and carbon neutral future for everyone.
7. Since 2015, the UK's business community have witnessed the leadership of the government change four times, each bringing a relaunch of economic policy. Since 2019 alone, we have seen an Industrial Strategy, featuring 'Grand Challenges' needing tackling; the 'Build Back Better' strategy, focused on investment in infrastructure, skills and innovation framed around transitioning to net zero; and 'The Growth Plan', containing short-lived tax cuts to boost the UK's economic growth which were reversed after a matter of weeks.
8. The constant changing of strategy has led to investors and businesses not having certainty about the government's long-term plan for the economy, and how long-lasting the measures to incentivise businesses will be. The message which we hear from ICAEW Chartered

Accountants operating across every region and every sector of the UK economy is clear – they want clarity, stability, and the right incentives to influence the right behaviours.

9. There is an urgent need for a clear economic strategy to address weak productivity and tepid economic growth, focusing on how to unleash the potential of UK business and the population. Such a strategy needs to address obstacles facing businesses wanting to grow, individuals wanting to develop, and public services wanting to improve, in addition to ensuring the economic, social and legal infrastructure needed is built and working.
10. The tax system is not fit for purpose, with overcomplicated taxes that often disincentivise investment, antiquated and inefficient systems combined with poor customer service, and an under-resourced tax authority struggling to overcome huge backlogs to the detriment of business activity and economic growth. The UK's tax system contains cliff edges which act as a structural block to growth, such as the VAT threshold of £85,000 – inhibiting job creation and economic activity which would otherwise generate tax receipts for the Exchequer. A tax strategy is needed to establish the route to simplify taxes and digitalise tax collection in order to transform the tax system. The tax administration strategy published in July 2021 must be revised to reflect a more realistic timetable for projects already running behind and extended to a new deadline, as well as examine how to smooth cliff edges such as the VAT threshold.
11. A long-term fiscal strategy is needed to put the public finances on a sustainable path, addressing the generational challenge of more people living longer sometimes less healthy lives and the need for greater fiscal resilience following three successive economic crises in the last fifteen years.
12. Poor quality public services are an obstacle to economic development as well as making all our lives more difficult and wasting the public money spent on them. A public service strategy is needed to deliver high quality public services efficiently with investment in technology prioritised to both improve service quality as well as reduce costs.
13. Investing in strong central and local government finance, counter-fraud and procurement functions, as well as internal and external audit, will be essential for achieving value for money in public spending, especially at a time where there is a need to keep borrowing under control. High quality and timely financial reporting to aid decision-making will be critical. We believe the Whole of Government Accounts is an underutilised resource in developing financial resources and action is required to get its timetable back on track.
14. The costs of the climate emergency are becoming clearer, elevating the importance of the government delivering its net zero strategy to achieve carbon neutrality and save the planet.

Resilience – supporting businesses and workers

Economic growth

15. ICAEW's Business Confidence Monitor found a large number of companies said they faced growing difficulties from late payments, access to capital, and bank charges – all traits of rising financial distress within the economy. Around one in five businesses said late payments and access to capital were a growing challenge. This suggests that investors and lenders – wary of the looming recession and increased uncertainty – are becoming more reluctant to provide finance. The experience from 2012 onwards, which saw a drying-up of bank lending and a mismatch of demand for – and supply of – finance, undoubtedly had an impact on the UK's slow recovery and small levels of economic growth in the aftermath of the global financial crisis.
16. Cashflow and access to finance is critical to the success and survival of businesses. However, ICAEW's members have for months been reporting slower payment times, which is having a rippling effect with a knock-on impact through supply chains. We are also increasingly hearing reports that traditional bank lending is becoming harder to access, particularly for consumer-facing businesses which are seen as higher risk.
17. Last year, ministers announced the Payment and Cash Flow review to look at supporting small business via current payment practices and measures to combat late payment. The first of these two main projects was launched on 31 January 2023: a consultation on the

Payment Practices and Performance Regulations. ICAEW will be responding in detail to this consultation – given the impact of this issue on businesses across the UK, we strongly encourage the Chancellor to use his statement to take forward the review into the effectiveness of the Small Business Commissioner (if not progressed by this date).

18. One of the challenges which businesses raise with ICAEW, and which is in the control of government, is the tax system. Every year the tax code gets longer, and tax becomes more complex. The vast majority of the UK population, whether individuals or businesses, have considerable difficulty in understanding the technical aspects of tax law and struggle to navigate the system, increasing the cost of compliance and the difficulty for taxpayers to pay their correct amount of tax owed. ICAEW welcomes the government's commitment to embed simplification within HM Treasury and HMRC, and are keen to support this work – however, a commitment to simplification of the tax system will require active political choices by ministers given that policy changes are likely to create winners and losers. Ministers should set out how they see such simplification aligning with the delivery of wider policy objectives.
19. An efficient digitalised accounting system can help even the smallest business to be more successful, leading to growth as they are able to take on more profitable work; however it will not be relevant or suitable for all. Any move to digitalisation needs to work effectively as soon as it is operational. In this context, we welcome the extended period before the introduction of the MTD Income Tax proposals and suggest this time is used to refocus this project to support rather than constrain business expansion. Using the tax system to force digitalisation leads businesses to adopt changes which may not be suitable for every business' needs, merely to fulfil a filing requirement with HMRC.
20. ICAEW believes the greatest tax challenge facing our members and the businesses they serve is delays by HMRC. Whether this relates to financial or other resource constraints is for HMRC to answer, but the time it takes for HMRC to respond is perceived by many chartered accountants to be the single biggest obstacle to growth and is the subject about which we have most complaints. It is a problem regardless of the means of communication being used where intervention or action cannot be undertaken automatically. For example, VAT registration for a new or growing business or re registration where an existing business incorporates should be expected to happen quickly. Such businesses are growing, and their administrative workload will double while they wait for HMRC to act. ICAEW is increasingly of the view that HMRC is now trapped by its backlog, and this is now an anchor on the UK's economic growth. To build the pillar of 'Enterprise', the government need to tackle this issue.
21. **ICAEW calls on ministers to establish an emergency cross-sector taskforce with the objective of eliminating HMRC's backlog. In addition to identifying where support is needed to resolve the immediate crisis, the taskforce should identify and make recommendations on how to improve HMRC's service standards going forward so it supports rather than inhibits business growth.**

Labour market participation

22. The latest headline data official data from the Office for National Statistics (ONS) reveals that while the labour market remains tight, there are indications that conditions are starting to cool. Redundancies increased by 30,000 on the quarter while unemployment increased by 56,000. The number of job vacancies fell for the sixth consecutive quarter, a sign that labour demand is easing. ICAEW's Business Confidence Monitor also shows that businesses expect employment growth to slow over the next twelve months. Although economic inactivity due to long-term ill health remains well above its pre-pandemic levels, inactivity due to early retirement is now back to pre-covid levels. illustrating that the challenges that we are now facing are primarily around fewer people entering work rather than more people leaving it.
23. From a retention perspective, the government should explore policy measures to enhance retention of workers in the labour market – as well as increase the attractiveness of coming back into employment. This includes working with employers to increase the flexibility of roles within organisations to help smooth a transition out of employment, as there is value

from highly skilled individuals taking on mentor roles within organisations to help pass on their skillset to younger workers. Ministers should also support the development and implementation of a campaign to encourage these individuals to take on different roles within the business and third-sector community, for example as non-executive directors or as trustees. Other options that should be explored should include phased retirement, enabling workers reaching retirement age to reduce their hours gradually rather than stopping work completely.

24. However, ICAEW firmly believes government's more immediate priority must be helping individuals into the labour market, whether they are returning to employment or getting their first job. Analysis by the Institute for Employment Studies suggests that overall, 1.7 million people (around a fifth of all of those who are economically inactive) state that they would like a job at the moment, including 560,000 of those with long-term health conditions. They also found that among those who do not want a job right now, there are more than 300,000 people with long-term health conditions who state that they will definitely or probably work again in the future. Among those out of work due to caring responsibilities, 390,000 want a job now while a further three quarters of a million expect to work again in future.
25. To support individuals back into work, ministers should focus on two key areas: health and childcare. Although these two areas are traditionally seen as social policy, the pressures on the long-term successful functioning of the UK economy indicate that they should be increasingly seen as instruments of economic policy
26. To assist individuals with long-term health conditions to participate in the labour market, or stay in their current roles, ministers need to review the welfare system, pursuing a policy objective of ensuring it has the flexibility and incentives to make sure the individuals it supports are not financially disadvantaged by working.
27. However, ICAEW believes the most pressing priority must be childcare. The availability and affordability of childcare is a challenge for many working households, especially at a time of high inflation, and an issue that disproportionately affects lower-income families and women. It is also a growing barrier to early retirees either remaining or returning to the labour market as they need to take on caring responsibilities for their grandchildren. The cost of childcare to families, and the lack of priority which the government is giving to tackling the issue, is now acting as a barrier to our economic success and the functioning of the 'Employment' pillar of a modern, innovation-led economy.
- 28. ICAEW recommends that the government treats the access and availability of affordable childcare as an economic priority, including actively exploring how the tax system can support lower-income households and those sectors with critical shortages of workers.**

Resilience of UK companies and the public sector

29. As the UK faces economic headwinds, the confidence which investors have in the resilience and reporting of companies is more important than ever. However, more than five years have passed since Carillion's collapse, yet reform of the UK's corporate governance, reporting and audit regimes has still to be delivered. This is now vital for restoring investor and public confidence, and for reducing the likelihood of further disorderly corporate collapses.
30. Momentum behind reform must be maintained by publishing the Draft Audit Reform Bill at the earliest opportunity, with an immediate priority of legislating for the new Audit, Reporting and Governance Authority (ARGA) to provide the statutory foundation for success. There are also reforms which can be taken forward without primary legislation. These provide ministers with an opportunity to improve the UK's reporting regime while waiting for parliamentary time – ICAEW stand ready to support government in delivering these.
31. Tackling the crisis in local authority audit and financial reporting should also be a priority as it is vital for strengthening local authority financial management and providing confidence to citizens that taxpayers' money is spent effectively. The government should establish ARGA as the system leader for local audit as soon as possible and ensure it is equipped with adequate powers to take the 'whole-system' approach required to address the complex

issues. This should include powers to strengthen local authority reporting as well as audit and to increase the attractiveness of the local audit market.

32. As the recent [National Audit Office progress update on the timeliness of local auditor reporting](#) states, the audit process provides valuable assurance over the financial information that local authorities use to set budgets and plan services. Improving the quality of financial reporting by local authorities and strengthening governance arrangements needs to be a priority. Recent local government failures highlight how significant amounts of public money can be wasted as a consequence of inadequate stewardship and accountability, all the more disappointing when every penny counts.
33. The ability of local authorities to set budgets and plan services is also hindered by ongoing uncertainty over longer-term funding and formulae for allocating fundings based on out-of-date information. The current formulae date back to 2013-14 and there have been significant demographic changes since then. For example, [research from the Institute for Fiscal Studies](#) last year found that the population of Tower Hamlets had increased by 21% compared to a 2% reduction in Blackpool. A similar dynamic is apparent in local growth funding, with multiple competitive pots leading to wasted time and effort on the part of both local and central government in preparing and evaluating bids, as well increasing the uncertainty that local authorities have in their efforts to regenerate local economies.
34. **ICAEW welcomes the government's commitment to fiscal devolution, equipping regions and localities with the financial capability they need to renew and level up local economies. We believe this must include much greater longer-term funding certainty to better enable regional and local authorities to plan services and infrastructure investment, as well as ensuring funds are allocated to the areas where there is the highest need.**

Renewal – laying the foundations of a net zero economy

Skills and training

35. According to the latest Business Confidence Monitor, labour market challenges have eased, but still remain high, with both availability of non-management skills and staff turnover problems remaining widespread. The availability of non-management skills, and staff turnover, remain the most widespread growing challenges faced by companies. The former is a more pressing issue for 37% of companies, while 36% cite the latter. However, in both cases the incidence is a little lower than in recent survey periods. This probably reflects a combination of problems being addressed, and companies are also likely to be feeling less pressure to recruit given the increasingly uncertain economic environment.
36. The issue of skills mismatches is not a recent feature of our economy, attributable to the pandemic. For a generation a shortage of business skills has undermined business confidence, investment, and productivity across the UK, and as a result limited the trajectory of the UK's economic growth. Our economy is hampered by inadequate skills in the workforce – a new approach is needed. ICAEW supports the work being done by the Department for Education and the Department for Levelling Up, Housing and Communities as part of skills devolution within Trailblazer Devolution Deals. Devolving responsibility for developing adult skills to regions and localities is important and needs to be accelerated.
37. Following the pandemic and with the rise of the digital economy, more workers are operating and receiving training remotely. This underlines the necessity of government delivering reliable and affordable internet access in all parts of the UK, helping address existing regional inequalities from an educational and training perspective. This will also support a move towards making the delivery of education and training more digital friendly, skill specific and “bite-sized” in consumption.
38. As apprenticeships continue to develop as an increasingly preferred training route, it is vital that ministers address design issues in the Apprenticeship Levy to enable employers of all sizes to adopt apprenticeships and train in the sectors where skills shortages or emerging skills are needed. Looking specifically at training the next generation of ICAEW Chartered Accountants through apprenticeships, the accountancy sector has been a success story in

terms of adoption, access to the profession, completion rates and quality. Employers recognise that students don't need to go to university to become a chartered accountant, making the sector an engine for social mobility.

39. With over 165,000 members across the world, many of which serve in influential leadership roles in practice, business, public and charity sectors, ICAEW's scope of interest in apprenticeship policy is broader than just the accountancy sector. The design of the Apprenticeship Levy is an issue regularly raised by ICAEW's members, so it was disappointing that Autumn Statement given last November did not seek to tackle long-standing concerns held by businesses.
40. We are aware of four specific concerns which the government should look to address as it pursues the 'Employment' pillar of our economic success:
- a) Remove the cap of 10 apprentices in SMEs – At present SMEs who don't pay the apprenticeship levy have a cap of 10 apprentices allowed at any one time. This stifles career progression and limits investment. The ultimate goal of apprenticeships is to boost the productivity of UK PLC and although the cap of 10 has been reset to zero in previous years, employers lack the confidence to conduct workforce planning using apprenticeships.
 - b) Funding band reviews – When an apprenticeship standard is designed, the funding band is the maximum amount of levy funding which can be used to train the apprentice. For some apprenticeships this has not changed for over 5 years. During this time inflationary pressures on costs such as staff and energy amongst others has meant some tuition providers now charge more than the funding band. This extra is charged directly to employers and impacts SMEs the most. A revised schedule of reviewing funding bands more frequently would help safeguard against the risk of fewer new apprentices in SMEs.
 - c) Accelerate uptake and completion rates – Time spent on off-the-job training is the largest barrier in perception and practicality to employers choosing apprenticeships to train their staff. Recent changes reduced the minimum volume of off-the-job training from 20% of working hours to a minimum of 6 hours per week. Off-the-job training is important to dedicate time to be competent in an occupation, so further reductions to minimum volumes risk impacting quality and already low completion rates in some sectors.
 - d) Incentivising sectors with people and skills shortages – Apprenticeships are an increasing important lever which government and employers can use to address build capacity in sectors facing potential skills shortages, such as construction, teaching and healthcare. Linked to this, emerging themes around technology, sustainability and digital skills are fuelling the need for significant growth in careers relating to STEM subjects. The use of long-term financial incentives for employers or completion incentives for apprentices could boost the volume of entrants to occupations, trades and professions which we are lacking.
41. **ICAEW recommends that the government updates the design of the Apprenticeship Levy, including the four specific reforms outlined: remove the cap on apprenticeships in SMEs; review funding bands given inflationary pressures; accelerate uptake and completion rates; and incentivise sectors with people and skills shortages.**

Productivity and investment

42. The latest Business Confidence Monitor suggests that the outlook for investment has weakened considerably. Largely due to the rise in both input and wage costs, annual profits growth has slowed over the course of the past year, and now stands at 4.3% in the latest survey. In some sectors, high stock levels are also adversely impacting company finances. The proportion of companies with above-normal levels of raw materials and components (25.5%) is almost double the historical average for UK businesses, acting as a drag on company profits.
43. The weaker outlook for profits, combined with a marked fall in business confidence, underpins a planned slowdown in capital investment growth. The latest survey results show a 3.2% annual rise in spending on capital assets over the past 12 months, but only a 1.5% increase planned in the 12 months ahead. Except for the sharp contractions during the pandemic, this would be the slowest rise in capital investment in over a decade.

44. The same can also be said of R&D budgets. After rising by 2.2% in the latest survey period, growth is set to slow to just 1.4%, which would mark the weakest rise in over 10 years. These plans for both capital spending and R&D budgets are concerning, particularly given their importance to future productivity gains and, thus, competitiveness in global markets. This has become more crucial for businesses as they deal with record high input price inflation and challenges in the post-Brexit trading environment.
45. For a growing number of SMEs, part of the challenge they are facing is growing bureaucracy in accessing government schemes. ICAEW members are reporting that SMEs organisations are having to lean more and more on professional advisers to complete bid documents for increasingly complex funding mechanisms – which comes with a cost to SMEs, leaving less funding for innovation. Ministers need to review this issue, providing funding schemes which are quick and easy to access as possible while maintaining appropriate checks to prevent fraud and deliver value for money.
46. A significant issue for business is the lack of certainty regarding the status and timing of key public investments. Inflation has eroded the value of capital budgets, leading departments and local authorities to scale back, delay or cancel plans to invest in local infrastructure and regeneration projects. Public investment is often essential to unlocking private investment, but this is only possible with more stable and longer-term funding settlements that give public bodies the ability to stick to their plans and hence business the confidence to invest.
47. Last month, the government launched a consultation on the design of a single, simplified R&D tax relief scheme, merging the existing research and development expenditure credit (RDEC) and SME R&D relief. We agree with the government that relief for research and development expenditure needs careful control. We recommend that increased compliance is better achieved through targeted compliance activity rather than using legislation that also impacts compliant taxpayers, potentially preventing precisely the innovative research by smaller businesses which the UK needs to encourage.
48. To support this, any enhancement to the R&D regime should consider the Treasury's ability to provide more targeted support as appropriate, for example, in the area of life sciences. We also suggest extra relief could be directed towards those sectors that the government wishes to encourage for public interest purposes, such as climate change, which would help to satisfy its other policy objectives. It is also important that the government create an environment which give businesses certainty and stability as they plan their investment for the future – a key message ICAEW regularly hears from its members.
49. **ICAEW recommends that the government use the R&D consultation to inform the case for introducing a tax relief which incentivises business investment in net-zero aligned R&D and in their own green transition. This relief should be multi-year in design with a sunset clause, with a mandated review sunset to allow HM Treasury to assess its effectiveness, and if necessary, amend its design in the future.**

Levelling up to net zero

50. Investment in net zero is one of the biggest growth opportunities for the UK and presents itself to be one of the major attributors to levelling up the UK regions. Key locations outside London and the South East may have the greatest potential as hubs of clean growth. The Tees Valley and Durham, together with Derbyshire and Nottinghamshire, are the areas with the UK's highest share of green patents and yet tend to underperform in terms of productivity comparatively to other parts of the UK.
51. Government has the opportunity to develop a successful net-zero investment strategy that sets out to strategically target the relevant business sectors, at the necessary scale and pace with appropriate incentives, regulation and government spending alongside participation from civil society. This strategy is essential to prevent future cases like Britishvolt, and ensure that regional economies are able to attract inward private-sector investment as they specialise in net zero technologies. As other international players such as the US and EU pursue their own industrial strategies to take advantage of the opportunity presented by the transition to

net zero economies, the government must be proactive to make the UK economy competitive.

52. All businesses will play a part in the transition to a sustainable economy, however the pressures on SMEs will be greatest. Unfortunately, they are the ones most struggling to make the transition as they inevitably, given their size, lack the resources and scale to devote time to this during a period of difficult trading conditions. As SMEs make up 99% of the UK's business population, the government need them to succeed. ICAEW has long advocated that government build on its previous 'Help to Grow' initiatives to support them in this transformation. We welcome Chris Skidmore MP's [Independent Review of Net Zero](#) report proposing a 'Help to Grow Green' campaign, offering information resources and vouchers for SMEs to upskill, plan and invest in the transition to net zero. This recommendation should be adopted and implemented at the earliest opportunity.
53. The role of the public sector in delivering net zero is critical. Not only must it set an example by eliminating its own emissions, but it has a key role to play in enabling private sector investment and using its regulatory and planning powers to facilitate change.
54. As the recent Independent Review of Net Zero report highlighted, over 300 local authorities have set a net zero target or declared a climate emergency. Local authorities are keen to play their part in the UK's transition to net zero but are impeded by the current funding arrangements that require local authorities to waste valuable resources preparing bids for funding from multiple pots. The short-term nature of this approach discourages vital longer-term investment in the infrastructure and skills that is needed to have a significant impact on delivery net zero, and limits the government's ability to develop its 'Everywhere' pillar of its economic strategy.
55. **ICAEW calls on the government to take forward the recommendation in the Independent Review of Net Zero for the government to “simplify the net zero funding landscape for all local authorities”. This should include multi-year funding settlements for net zero initiatives allocated on a formula basis to all local authorities rather than through competitive bidding processes.**