



Rt.Hon. Steve Barclay MP
Chancellor of the Duchy of Lancaster and Minister for the Cabinet Office
Cabinet Office
70 Whitehall
London
SW1A 2AS

16 May 2022

Dear Minister,

RE: Cost of Living

I am writing to you as Secretary General at the Chartered Institute of Management Accountants to draw your attention to CIMA policy proposals that could help address the cost-of-living pressures now facing UK consumers and businesses. We recognise that inflation is already at a multi-decade high and is set to remain higher for longer.

We welcome the creation of a new 'Efficiency and Value for Money Committee', which will aim to ensure that the 5% efficiency target set at the 2021 Spending Review is met across Whitehall. We believe that through the more efficient use of state assets and the deployment of more technology within Government significant savings are possible. The drive to improve public sector efficiency should be a continual process.

We believe that supply side reforms are urgently needed to mitigate against UK inflation. This is especially important as we believe that supply chain pressures mean that more resilience is needed in the system to accommodate shocks. The UK must ensure that as we leave the covid crisis behind we build a resilient UK economy going forward.

Supply Side Reforms to tackle cost of living issues:

Support for businesses to diversify their supply chains:

The pandemic, Brexit and the recent crisis in the Ukraine have showed that businesses who had more diverse supply chains were better able to manage supply shortages. This is also true of the wider economy. Having more diverse supply chains means the economy and businesses within them have more resilience and are in a stronger position to be able to plan and manage disruption. This also means their recovery is often quicker.

A focus for the government going forward should be ensuring that the wider economy and businesses within it have more diverse supply chains to help build resilience in the economy. This focus would help protect both consumers and businesses alike.

Also, given one of the drivers of current inflation is supply side problems in the market place the more government can do to help businesses ease supply side issues the more it will help mitigate against further rising inflation.



Since the UK's withdrawal from the EU, the government has more scope to diversify UK supply chains. For businesses there are several aspects that make up supply chain issues and it is not just global pressures or events that are beyond the government's control. In trade, technology, licencing, and investment policy, to name a few policy areas, there are measures the government could enact to help support diversification and resilience of UK supply chains. Below are some ideas for how the government can support resilience and diversification in UK supply chains:

Support and encourage business investment in new technologies:

New technology to automate production and improve business operations will drive up productivity and make us more prosperous. Yet, this new technological investment can be a huge upfront cost for businesses, in particular SMEs. Many businesses are still heavily indebted from the pandemic too. The new super-deduction for capital expenditure is a great idea and one we fully support. **We believe this should be made permanent to encourage investment in the UK economy and businesses in the longer-term.**

Tariff Barriers:

New UK trade deals will help open more markets to UK companies, drive freer trade, boost productivity and support consumers with more choice and potential cheaper products. Yet some of these benefits do not need trade deals for them to be achieved. The government should look and explore what tariff and non-tariff barriers they can remove on products where there is no UK supplier of the good or service.

Support for Seasonal Work and Sectors:

There are several sectors that require high labour intensity only for certain seasons and periods during the year, such as agriculture. With the government committed to reducing low skilled immigration and considering escalating pressures on supply chains we are sure government is already considering this issue, but more needs to be done to ensure there is the domestic workforce that can support these sectors. The government should explore reform of the welfare system to include special arrangements for time limited work to help those on welfare take on temporary work to cover short-term labour and skills gaps.

Efficiency Reforms to support skills and supply side shortages:

The recent HGV driver shortage happened for several reasons including lack of skilled workers domestically to take on the role, workplace conditions and unexpected demand. However, part of the cause was also the efficiency of government agencies to issue licenses for HGV drivers.

There has been an expansion of jobs that now require licences to operate in the UK and while we recognise some are needed to give assurances and securities to consumers and businesses. Some are not needed. The government should drive efficiencies to ensure their agencies approve licenses in good time and conduct a



review of what sectors and jobs need licences to remove any overburdensome restrictive practices in the UK marketplace.

The Government could also consider extending out the period in which drivers who have passed their theory test have to pass their driving test from two years to five years reflecting the difficulty booking driving tests post pandemic.

The proposed measures and ideas above will help create more resilience in UK supply chains and that in turn will help alleviate some of the current rising inflation which is linked to supply chain bottlenecks.

We recognise that a less globalised supply chain and more slack in the system will dampen the growth in productivity in the absence of pro-growth measures being introduced. Therefore, it is especially vital that measures to increase productivity growth are included as part of the overall UK economic package, for further information on this please consult our recent report Tackling the UK Productivity Puzzle: <https://www.cgma.org/resources/reports/tackling-the-uk-productivity-puzzle.html>

Public Sector Efficiency Reforms:

Ask the Office for Budget Responsibility (OBR) to compile a National Register of State Assets and Liabilities:

- At this time having a firm idea of what the state owns and is pledged to fund would be of great value. Compiling a comprehensive national register of state assets and liabilities will help inform public debate and give MPs an idea of the scale of the debt challenge.
- This process may also help to increase understanding of the UK national debt and what it means for government and the wider public.
- This should include commitments the UK government has made regarding public sector pensions where they are unfunded. We believe the OBR would be best placed to lead this task.
- This would help manage inflation by the government having a clear assessment of all the assets and liabilities it has and this would help inform public policy and any financial levers the government decides to use to help drive down inflation and ease the cost-of-living crisis. Without a fully informed view of what the state is funding and where it might have assets any action taken to tackle the cost of living will not be fully informed.
- By conducting such an exercise the government may find that different public policy options open up to help mitigate against rising inflation and help ease the cost of living.

Initiate a public sector efficiency drive to lower taxpayer costs and improve services:

- The UK is a leader in tech. Research from Tech Nation suggests that the UK is now the fourth most important market for tech investment after the US, China and



India. In 2019, venture capital investment into UK technology companies reached £10.1 billion in 2019, a year-on-year increase of 44%. However, many public services are still provided in a labour intensive and bureaucratic manner with few incentives provided for innovation. The public sector needs to benefit more from the UK's tech expertise.

- To achieve this, the UK government should consider conducting a cross-department public sector efficiency review to identify areas where tech investment, a recalibration of skills and expertise and the deployment of new applications could save public funds. This should include exploring new ways to fund and deliver these projects including entering jointly owned ventures with private sector entities and launching prize funds to generate private interest in solving public service delivery problems.
- The drive to secure value for taxpayer funds should not be lost. Much of the economy is in the public sector and productivity in this sphere needs to increase substantially if the UK is to increase its living standards meaningfully in the years to come.
- If efficiencies can be found in the way public services are run and then these are passed onto taxpayers, this is a clear way the government can help reduce costs for citizens and help ease the cost of living.

Boosting Economic Growth Reforms:

Avoid a business tax surge in 2023:

The corporate tax increase to 25% is set to occur in April 2023. The super-deduction ends at the end of March 2023. If action is not taken this means that the UK will be much less competitive in tax terms compared to other leading nations. We understand that measures will be announced to avoid this tax crunch. Ideally, we would like these measures to provide as much certainty as possible for businesses and individuals to plan their business affairs effectively and to minimise the expenditure on compliance.

We would urge that efforts to retain a competitive tax structure do not introduce additional complexity to the system. A simpler system with reduced rates is preferable as it costs less to administer and is easier to understand and navigate for businesses. Attached we include a copy of our Principles of Good Taxation drawn from our experience working with accountants in business, which we hope will be of use in your efforts to make changes to the system.

At a time when businesses face increased costs and uncertainty one of the best ways governments can help them is by providing certainty where it can and ensuring their costs can remain as low as possible. On taxation policy this is one clear area where the government can provide that certainty.

Reduce red tape and support investment:

Several countries have made efforts to improve their regulatory environment in support of innovation. Chile introduced one-day registration for new businesses. Korea



introduced a regulatory sandbox covering all industries — including information and communications technology (ICT), energy, and fintech — whereby no process of deliberation or approval is to exceed three months. Weak regulatory environments are barriers to investment, but stringent regulatory environments are constraining innovation in both the fintech and life sciences industries.

Via reducing red tape where it can be done the government would reduce costs to businesses by unnecessary regulation being scrapped. These reduced business costs will help businesses put this money into either investing in their company and/or making it more resilient to survive and thrive during the cost-of-living squeeze.

Introduce a Growth Accelerator Scheme for SMEs:

- This scheme aimed to accelerate the growth of promising start-ups and small businesses in England. The programme aimed to support businesses as they scaled up, offering them access to mentoring, coaching, financial guidance, and expert professional advice.
- The then Department for Business, Innovation and Skills' (now BEIS) own research at the time showed that the scheme added an economic benefit of at least £1 billion, with the unquantifiable benefit likely to be substantially higher. The scheme had a return on investment of at least 700%.
- The introduction of a Growth Accelerator scheme would help SMEs get professional support to improve their businesses resilience and also to expand their growth at a time of increasing uncertainty for many SMEs.
- This will help ensure SMEs are more resilient to economic shocks by them using the scheme to get business support to ensure they are in the best position to weather shocks, but also understand how they can thrive during uncertain times.

The above are some suggestions we have developed with our membership on how businesses and the wider public finances can be supported during a time of rising inflation driving up the cost of living which is having effects on both individuals and businesses. Business growth and building a stronger, more resilient and productive economy will be a key route out of the cost-of-living crisis and the measures we have proposed above will help enable that.

We would be delighted to meet with you to discuss this in more detail. If you are available to meet, please get in contact with me by email on Andrew.Harding@aicpa-cima.com and our offices can liaise on dates.

Yours sincerely,

Andrew Harding
CIMA Secretary General