The Chartered
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CIMA Submission Spring Statement 2022

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Introduction

The UK and global economies have faced a number of economic shocks in recent years including from the pandemic and the public health measures to tackle the virus. This global trend of business risks and uncertainty seems set to continue, with global inflationary pressures and the current geopolitical considerations, most recently from Russia's decision to invade Ukraine.

Current conditions, coming in the wake of the pandemic, will have consequences for businesses of all sizes, and for wider public finances. In the context of the UK's Levelling Up ambitions, local economies will be impacted directly, as well as the whole UK economy. Once again, and for the second time in two years, business will need government to provide as much certainty as is possible, so that they can remain resilient, plan and invest for the future and contribute to the UK's long term economic growth.

The Productivity Puzzle

Last year CIMA produced a report titled, Tackling the UK's Productivity Puzzle. This report found that in the period since 2008, the UK has had some of the slowest productivity growth compared to its nearest neighbours and other G7 countries. The UK now faces some long-term economic structural challenges, perhaps aggravated by varying productivity across the UK, and its regions and cities.

Recently the UK Government released its Levelling Up White Paper. We welcome the ambition for delivering growth outside of London by ensuring all regions develop the right skills and competencies within a local workforce, so as to attract high wage jobs and industries.

In this submission, ahead of the expected upcoming Spring Statement we explore some thoughts on how HM Treasury can support business and aid economic recovery. We also outline proposals that would help increase the resilience in UK public finances, businesses, supply chains, skills and productivity. Resilience will be a key factor for the government in the coming session, as it looks to wean business from a lengthy pandemic and set the economy on the road to recovery. There are still challenges and risks in the coming months, but government might also learn much from business in terms of how it plans for the future (and manages risk).

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The Top Three Priorities:

Increasing resilience in

- SMEs and the wider Business Environment, including UK Supply Chains:
- Skills and Productivity'
- The Public Finances:

Recommendations:

Increase Resilience among SMEs and the wider Business Environment, including UK Supply Chains

- Provide More Certainty for Businesses
- Introduce a Growth Accelerator Scheme for SMEs
- Review Regional Stock Exchanges
- Support Businesses to Diversify their Supply Chains
- Consider introducing legislation to create a strategic national stockpile in partnership with businesses

Skills and Productivity

- Invest in Skills and Reskilling
- Introduce a Productivity Strategy
- Introduce a Productivity Commission

The Public Finances

- Merge the national insurance, income tax and new health and social care levy tax rates to simplify the tax system.
- The Office for Budget Responsibility to compile a national register of state assets and liabilities

Increase Resilience among SMEs and the wider Business Environment, including UK Supply Chains

Provide More Certainty for Businesses

Good businesses are underpinned by strategic planning and strong risk management; they anticipate and are prepared for a range of risks with plans to mitigate against their impact. However, many businesses in the UK have faced multiple challenges in short succession (pandemic, Brexit, supply chain and rising inflation), and still face a number of risks and uncertainties in the near future.

Businesses know how to manage risks, but government can play a crucial role in providing a more stable platform for decision makers and consumers. By outlining business regulation and tax plans, government can encourage investment and business growth for the medium to longer term.

There are a few clear ways the government can provide certainty for business right now and we list them below:

1. Outline Tax Plans for the Next Two Years

This is an important way for the government to provide certainty to business. This would give businesses knowledge of the tax framework they will be operating in for the medium-term and mean they can make better investment decisions. The government could cut taxes within this framework but would need to desist from further increasing taxes. Tax increases scheduled to occur in this period could continue as planned.

Tax policy and clarity of future changes (if any) is very important for businesses. A 2011 Treasury Select Committee report said: 'Tax policy is only one of the factors on which businesses and individuals make their decisions, but lack of stability and clarity about the direction of travel in tax policy will, over time, undermine the competitiveness of a tax system and make it impossible for businesses to plan. If tax policy is to support growth, then the direction of travel of tax policy should be clear'.

2. Create an SME Investment ISA

Many SMEs will require ongoing access to finance to continue their operations and make necessary adjustments to their offering to adapt to the new ways of doing business. During the pandemic household savings rates surged as people were confined to their homes, it reached 23.7% in Q2 2020 before steadily dropping to 8.6% in Q3 2021.[1] These personal savings are often being invested in cash accounts rather than invested in the economy. The Bank of England predicts that the inflation rate will peak at around7% in April 2022, it was 5.4% in 2021 both significantly above the Bank's target rate of 2%.[2] Matching the increased savings with productive investment opportunities will help UK savers, UK businesses and the overall economy. It will help to build a long-term savings culture in the UK by providing an investment vehicle that can deliver a real return for savers while providing much needed long-term capital for businesses

The government should consider policies that will achieve the following:

- Simplifies the existing complex government support schemes to encourage UK SME investment.
- Easy to brand and can generate investor interest and matches familiar existing financial products that people understand.
- The new product will provide a government-financed financial incentive to invest.
- That incentive will be spread over several years so that it encourages long-term patient capital.

We believe the answer could be a new SME ISA. It could work like this:

- The SME ISA would allow people to invest up to £10,000 a year.
- A government-funded bonus would be paid at a rate of 30% of the original investment.
- The bonus could be paid in instalments over a three-year period at 10% per year on the anniversary of the original investment to encourage long-term investment

The SME ISA could be in addition to the existing £20,000 ISA allowance. The SME ISA could be invested in:

- UK SMEs directly where they are listed on the AIM market.

[1] Households (S.14): Households' saving ratio (per cent): Current price: £m: SA - Office for National Statistics (ons.gov.uk)
[2] Monetary Policy Report - February 2022 | Bank of England

- A new employee share ownership scheme to add to the existing schemes.
- Tracker funds that encompass a basket of securities provided they qualify as UK SMEs.

3. Corporate Governance and Audit Reforms
   Within the wider government agenda, there are regulatory measures which can help provide clarity to business. To help FTSE 350 companies and other PIEs plan for the future framework for corporate governance, reporting and audit, the government should start legislation this year following the White Paper, *Restoring Trust in Audit and Corporate Governance,* released in 2021.
   This will allow PIEs to prepare for the new requirements and give time for the sector to plan and prepare for changes and help businesses manage and navigate the reforms.

4. Pause Business Regulations for SMEs
   The government currently has plans for a whole range of changes to business regulation which will affect SMEs. While we support many of the planned reforms, we think that it would be best for these to be paused for SMEs to allow time for businesses to recover.

   Businesses and in particular SMEs need to focus on changing their models to cope with the reality of their changed operating environment and on how they can start to recover and build and grow again. A pause on additional regulation plans SMEs will have to comply with would support a small business recovery in the UK and support job growth and economic recovery. The Centre for Policy Studies report titled, After the Virus: A Plan for Restoring Growth, called for 'A moratorium on all new non-urgent regulation on business, and a cross government review of which regulatory measures could be delayed or waived'.

Introduce a Growth Accelerator Scheme for SMEs called Help to Grow – Business Support

The previous Growth Accelerator 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 had a significant return on investment.

The government's own analysis at the time showed this 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%. As mentioned above many SMEs have a real need for professional support to be able to not only survive but also in some cases thrive over the next six months to a year. A scheme such as this proposed would help them be able to access this support and deliver real value for both the SMEs that access the scheme, but also the wider economy.

We note the government have brought forward the Help to Grow Management and Help to Grow Digital schemes for SMEs which we support and think both will help SMEs grow and boost their productivity. However, the Help to Grow Management scheme needs to be opened up to SMEs with less than five employees to help support all SMEs. We are aware that access advisory help over software solutions is not part of the Help to Grow Digital Scheme, we believe it should be so SMEs who access the scheme are able to get the advice and support for their new technology investments.

Yet, both the Help to Grow schemes, while welcome, do not offer SMEs the access to the professional advice and support that they need in order to become more resilient, improve their business models and operations and support them to grow and expand. The previous Growth Accelerator Scheme did. In order to encourage businesses to grow and become more resilient we recommend the government introduces a third Help to Grow product – Help to Grow – Business Support. This would help to address this missing piece of an important support package.

Review Regional Stock Exchanges

Regional stock exchanges have experienced long-term decline along with many of the institutions that kept power and expertise in big regional cities such as Manchester and Birmingham. The UK government's levelling up agenda could be an opportunity to rethink how investment could be targeted outside of London and what structures would encourage this. Currently, it is difficult to see how UK savers can invest in the Midlands Engine or the Northern Powerhouse and much of the support granted is from financial institutions or central government.

We recognise the London Stock Exchange has an Alternative Investment Market aimed at getting capital into SMEs which has had some success. However, for many SMEs, it is still difficult to access this and therefore the opportunities for them to raise capital to expand and grow can be limited. Accessing capital is a clear problem for SMEs with more than 50% of SME owners saying they can't get access to all of the funding they need to grow. The government focus is often on encouraging lending, but equity is also important and helps build stronger companies.

Virtual regional stock exchanges could help meet the needs of the medium sized companies in the regional SME sector and increase the investment options for ordinary savers in regional businesses. Government should review re-introduction of regional stock exchanges

The re-introduction of regional stock exchanges although in a new form could be a solution to this problem and help drive growth in SMEs and the wider economy across regions of the UK. It could also help generate more finance and professional jobs associated with stock exchanges in each region. It would create an infrastructure that could be used to promote public offerings within the regions and to encourage more businesses to be listed to reverse the decline in public companies and help them become more resilient with better access to capital and equity.

In our report, *Budgeting for Recovery and a Long-Term Economic Plan for the UK,* we explore what this review of regional stock exchanges could look like and what other countries have regional stock exchanges. We have included a link to this report in the appendix.

A main focus of any new regional stock exchanges should be to allow SMEs in their regions to list and have access to capital and private investment to help them scale up and grow. There would of course need to be registration requirements and regulations to list on any new regional stock exchange. We would not expect that to be at the same level as AIM and that those listed on any new regional stock exchanges unless they qualify as a Public Interest Entity would not need to be regulated by any new corporate governance legislation and regulation that comes forward.

Focus on UK Supply Chains:

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.

Since the UK's withdrawal from the EU, the government has more scope to diversify UK supply chains. For businesses there are a number of 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 up 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 a number of 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 in light of 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 a number of 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 in order 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.

HM Treasury to consider introducing legislation to create a strategic national stockpile in partnership with businesses to continue delivery of key goods and services.

In the US there are considerations underway to introduce Strategic National Stockpile legislation. This legislation would incentivise commercial enterprises, both public and private companies, to produce products and goods in quantities that exceed the company's normal annual level of sales. The production in excess of the level of sales results in excess inventory designated by the legislation. Governmental agencies could then draw upon the excess inventory held by the companies at any time of need at prices agreed in advance by contract.

The UK government should consider introducing similar legislation to help secure its supply chain for products and goods of strategic importance in future. This policy would only need to be linked to the most strategically important products and goods, such as gas, oil, PPE, medical equipment, defence equipment and products from similar sectors. It does not need to be for every single product or goods — we are not advocating a planned economy

Increasing Resilience in Skills and Productivity

Tackling the UK's sluggish productivity growth will not only benefit individual companies, but also increase real wage growth, support government revenue, bolster public finances and promote economic growth. As Nobel Prize winner Paul Krugman has stated, 'Productivity isn't everything, but in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker'. Productivity starts with skills.

Investing in Skills and Reskilling

Investing in skills and improving workforce reskilling is an important element of improving productivity and building resilience in the UK labour market. Improving skills will also support UK businesses as they have a more skilled workforce and are better capable of meeting the differing challenges of the future including from economic shocks and increasing technological and digital adaption.

Research shows that the UK is underperforming in terms of job-related training and low- and middle-level skills, both of which have deteriorated over time. There are also significant regional disparities in adult skills and training, where variations are among the most significant for any OECD country. Our recent report on productivity explored these issues and came up with the following suggestions to help improve skills supply in the UK:

- Introduce a similar scheme to the Government's Multiply scheme for literacy and soft skills too.
- Create Skills Clusters across the UK

- Invest and support the creation of higher-level apprenticeships across the UK.
- Improve skills mapping across the UK economy.
- Explore mandated time of for training and a rebuttable right to retrain.

More on all of these ideas can be found in our report, *Tackling the UK's Productivity Puzzle,* that we have included in the appendix. However, in light of the recent Levelling Up White Paper we have explored the Skills Cluster idea further below.

<u>Levelling Up and Skills Clusters</u>

We note that the recent Levelling Up White Paper has proposed three new Innovation Accelerators in Greater Manchester, the West Midlands, and Glasgow-City Region to create clusters of innovation. The White Paper proposed to introduce Local Skills Improvement Plans across England which will give local employer bodies and stakeholders a statutory role in planning skills training in their area. We support both of these aims and have previously called for the introduction of skills clusters and productivity hubs in the UK.

We look forward to these plans coming forward and what the framework will look like for the Local Skills Improvement Plans. In bringing these plans forward we would urge the government to look at how similar systems work in other counties such as Germany and Singapore. In our recent report, *Tackling the UK Productivity Puzzle,* we show how skills clusters in the UK could be based of the German and Singaporean models.

Part of the government's plan around the creation of skills clusters must include greater devolution of education and skills policies to metro mayors and local authorities. If businesses in their area are going to have skills clusters that match their workforce needs now and, in the future, then policy designed to plug skills gaps in the regions must be designed and implemented locally.

Introduce a UK wide Productivity Strategy

Since the 2008 financial crisis, the UK economy has failed to return to its pre-crash rate of growth, a phenomenon that economists call the "productivity puzzle". The UK's growth lags 15% behind its G7 peers the US and France. Research shows that in the past decade UK productivity growth has been slower than at any time since the Industrial Revolution, affecting 83% of all sectors in the UK. The UK has a longstanding and structural problem with slow productivity growth.

In order to help improve UK productivity both at a micro and macro level there needs to be a clear and holistic focus on improving it. Enhancing productivity right now will help support business revenue growth at a time when higher inflation and rising interest rates are poised to impact business significantly. This is why there needs to be a UK wide productivity strategy solely focused on increasing productivity in every region, across businesses large and small and in the private and public sector.

The Industrial Strategy has gone and been replaced with the Plan for Growth Strategy. However, the underlying issue with much of the UK economy is poor productivity growth. Neither of the above strategies focussed solely on improving productivity which is such an important long-term structural issue within the UK economy. If the government wishes to level up the UK, create real wage growth and have more sustainable economic growth than they need to have a clear plan to improve productivity.

Introduce a Productivity Commission

Linked to introducing a holistic Productivity Strategy for the UK we think the time is right for the UK to have a Productivity Commission focussed at driving up productivity both at a micro and macro level, to help track UK productivity improvement and inform policy in aid of productivity growth. Australia, New Zealand and South Africa all have Productivity Commissions, and all have seen how the Commissions have helped explore and to improve their unique productivity issues. We believe these models could be replicated here in the UK.

A UK Productivity Commission should have the ultimate aim of improving productivity in every region of the UK. This body could help the government deliver on Principle 1 of the Levelling Up White Paper which states 'By 2030, pay, employment and productivity will have risen in every area of the UK, with each containing a globally competitive city, with the gap between the top performing and other areas closing'.

The Commission could help drive up UK productivity by focussing on four keys areas:

1. Improving Productivity Reporting and Measurement across the UK at both a business and sector level.
2. Research - The Commission should research the issues in productivity and horizon scan on future issues too to inform policy makers and decision makers across all areas of government and business.
3. Promote Productivity issues, guidance, research and information across both the private and public sectors and wider society.
4. The committee should be given a mandate to close the productivity gap between London and the South-East and the rest of the UK.

This new Commission should be set up similarly to the Bank of England or Office of Budget Responsibility (OBR) with it being independent and having the ability to sound the alarm independent of government on issues around productivity.

Increasing Resilience in Public Finances

Merge the national insurance, income tax and new health and social care levy tax rates to simplify the tax system.

Former Chancellor George Osborne suggested that National Insurance and Income tax could be merged to simplify the tax system and launched a consultation on this in 2012. The difficulties in coordinating the merger have put previous Governments off but the benefits in terms of a transparent and easier to administer tax system are clear. There is little reason for National Insurance (NI) to exist as a separate tax. The Office for Tax Simplification backs the merger of NI and Income Tax. It is not hypothecated to fund pensions or the NHS. There is no fund from which state benefits and services are paid despite a popular misconception that there is. The IEA describe a range of broader issues with NI that make the case for reform:

- "National insurance is complicated, with rates and cut-off points which don't match up with income tax rates and bands. It creates discontinuities in effective marginal tax rates which can have a disincentive effect.
- It's costly to administer. In the early days national insurance payers were a distinct group from income taxpayers: prior to WWI there was no overlap. So different systems made sense. Today most workers pay both imposts: net pay and the government's total take is what counts. A unified system would be cheaper to run.

- The system involves employer as well as employee contributions, again a bit of a fiction which confuses employees into thinking that somebody else is paying for their benefits.... In reality its effect is that of any payroll tax: the incidence falls on employees in terms of lower net wages and/or less employment.
- On grounds of transparency, then, merger is sensible. It would create cost savings for employers and [the] government."

As part of the merger process compromises could be made to ease the process for groups that are more impacted. A special relief could be applied to the self-employed who pay lower rates of National Insurance to prevent them being subject to a tax increase. Special arrangements for those who live off savings, those who take seasonal work or work for a limited time and those who have more than one job simultaneously could also be considered.

Contribution based benefits could be fixed to the number of years a specified level of tax contribution is made. This would match the current system where the number of years of National Insurance credits is linked to the right to receive a full state pension. A more general move towards a more contributory based system of welfare would help ensure that the link between contributions and benefits is preserved and enhanced.

The Office for Budget Responsibility 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 moderate calls for higher spending as MPs and the public develop an appreciation of the size of the UK national debt and the need to reduce it. 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.

Contact

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Appendix:

Budgeting for Recovery and a Long-Term Economic Plan

Tackling the UK Productivity Puzzle