

Response to the Business, Energy and Industrial Strategy Select Committee Covid-19 Inquiry on 'The Impact of Coronavirus on Businesses and Workers'

Written Evidence Submission by The Chartered Institute of Management Accountants (CIMA)

Executive Summary

1. The Department for Business, Energy and Industrial Strategy could explore ways to make it easier for businesses of all sizes to adapt their business models in the wake of the different economic circumstances resulting from this crisis. The Department for Business, Energy and Industrial Strategy may wish to utilise CIMA's Covid-19 Business Recovery Toolkit to help achieve this.
2. The Department for Business, Energy and Industrial Strategy and HM Treasury could explore ways to create incentives for businesses of all sizes to increase their business reserves in the long-term.
3. The Department for Business, Energy and Industrial Strategy could consider the introduction of options to re-balance corporate equity to encourage equity without introducing complicated changes to the tax system to deal with debt. HM Treasury and the Department for Business, Energy and Industrial Strategy could consider introducing an allowance for corporate equity as a means of achieving this rebalancing.
4. The Department for Business, Energy and Industrial Strategy could support businesses diversifying their supply chains. The Department could review what incentives they can create to support businesses to diversify their supply chains. Business supply chains should include a range of either domestic or foreign suppliers but not one foreign country or company supplying goods. This will help ensure there is resilience in their supply chain.
5. HM Treasury could consider introducing legislation to create a strategic national stockpile in partnership with businesses to ensure the continued delivery of key goods and services.
6. HM Treasury could ensure there is parity between the Coronavirus Job Retention Scheme and the Coronavirus Self-Employed Income Support Scheme. Both schemes should be extended in line with each other. Support for self-employed workers should be extended following the same timeline as those receiving support from the Job Retention Scheme.
7. HM Treasury could explore ways to allow more directors and owners of SMEs to access and receive support from the Job Retention and Self-Employed Income Support schemes.
8. HM Treasury might want to consider using the 'Close Company' definition in the Corporation Tax Act to allow directors of SMEs that fall in this definition to use dividend payments in their request for support from either the Job Retention or the Self-Employed Income Support Schemes.

9. HM Treasury could extend the business rates holiday to SMEs across all sectors.
10. HM Treasury could extend the existing £25,000 cash grant funding for SMEs in the hospitality, retail, and leisure sector to SMEs across all sectors.
11. CIMA welcomed the introduction of the Coronavirus Bounce Back Loan scheme.
12. The Department for Business, Energy and Industrial Strategy and the Department for Education could allow Apprenticeship Levy funds to be spent on training and upskilling of furloughed workers.
13. The Department for Business, Energy and Industrial Strategy and the Department for Education could amend the Apprenticeship Levy to become an Apprenticeship and Skills Levy.
14. HM Treasury could consider an immediate cut to VAT by 5% to help aid economic recovery and give consumers confidence to spend.
15. The Department for Business, Energy and Industrial Strategy could introduce a Growth Accelerator Support Scheme for SMEs to aid economic recovery and support SMEs to expand and grow out of the crisis.
16. The Department for Business, Energy and Industrial Strategy and the Department of Health could consider if two metre social distancing guidelines are proportionate to the health risk and possible economic impact of this guideline.

About CIMA

The Chartered Institute of Management Accountants (CIMA), founded in 1919, is the world's leading and largest professional body of management accountants, with members and students operating in 179 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector, and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employers' choice when recruiting financially trained business leaders. Chartered Global Management Accountant (CGMA) is the most widely held management accounting designation in the world. It distinguishes more than 137,000 accounting and finance professionals who have advanced proficiency in finance, operations, strategy, and management.

CIMA is a founder member of The Association of International Certified Professional Accountants (the Association). The Association is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs (AICPA) and CIMA to power opportunity, trust and prosperity for people, businesses, and economies worldwide. It represents over 650,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. In the UK alone CIMA has over 80,000 members working across all sectors. With broad reach, rigor and resources, the Association advances the reputation, employability, and quality of CPAs, CIMA and CGMA designation holders and accounting and finance professionals globally.

One of the core missions of the organisation is to develop research and analytical thinking of the challenges faced by both our management accounting professionals but also the wider and global finance sector.

Contact

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Business Models

1.0 During a time of economic crisis businesses of all sizes need to review their business models in order that they can adapt to the new reality and survive the immediate danger. We are hearing from our members around the world about how they are adapting their businesses to deal with the new threats and opportunities the crisis poses. Successful businesses during this time will be those who take advantage of opportunities outside their core specialism.

1.1 We are hearing that companies whose operations have been compromised by the lockdown measures are taking a strategic look at their business model. One of our global members described how the New Zealand small business sector is responding. The country's agile economy is based around small and medium-size enterprises (SMEs), many employing ten or fewer staff. These businesses are adapting to the new situation that the coronavirus has caused and are pivoting — they are shifting into other areas very quickly. Tourism and therefore the car rental sector have taken big hits during the crisis, but the rental companies are now providing a goods delivery service for online businesses that are rapidly growing but do not have the necessary logistics in place.

1.2 CIMA has changed the way we work in response to the crisis. We have moved our exams to remote testing, so students do not have to attend examinations in person. This move will enable students to continue to make progress on their journey to become Chartered Global Management Accountant (CGMA) designation holders and increase the pool of management accountants able to support businesses and public services. Our students can now do their learning and examinations all on an online platform.

1.3 The UK business sector needs to look to how they can remodel to take advantages of new needs and opportunities within the economy. The Department for Business, Energy and Industrial Strategy should look to ways they can make it easier for businesses to adapt their models to create economic growth from the challenges this crisis brings.

1.4 The lockdown is a chance to rethink strategy. Often businesses are so caught up in the here and now, and with reacting to current events, that they struggle to develop robust strategies for the future. In contrast, we are aware of an example from a hotelier within the wellness industry whose organisation moved its learning programmes and wellness retreat assessments online to create revenue during the crisis.

1.5 We have released a Business Model Toolkit recently which is free to use and access for all businesses¹. This toolkit has been created to enable our members to meet the challenges that they have identified: how will they initially “Come out of Lockdown and Ramp-Up” their businesses, and then “how can they create a more resilient and dynamic business model than they had before this Pandemic crisis hit.”

1.6 Considering the “Ramp-Up” challenge and putting resilience at the heart of our research efforts to support our members, we've specially selected and repurposed three key tools

¹ <https://insights.cgma.org/story/business-resilience-tools-for-preparing-to-reopen-businesses/page/2?vngagetrans=z13LM8d5kf>

from our recent Research back catalogue. Together we think that these three tools will strongly empower Business to develop resilience strategies as organisations move from working within the conditions imposed by the lockdown to a post Covid-19 new reality².

Business Reserves

1.7 One big issue linked to business models and building resilient UK businesses this crisis has shown is that of business reserves.

1.8 Most big businesses have around six months of reserves to help weather crisis and difficulties, but for SMEs their reserves could be as little as a week or two of cash. In the long-term, following this crisis, we would urge all businesses to start building their reserves again to help protect against future disruptions whether related to this virus or not. Government should also consider what good corporate behaviour for large and small businesses look like in relation to reserves and this may be an area they wish to review post this crisis and once the economy is on a better footing and growing again.

Allowance for Corporate Equity

1.9 Incentivising companies to increase business reserves is an important long-term objective. We understand this may be difficult at this time while businesses are already struggling to survive. However, the possibility of future virus outbreaks and any economic decline means increasing company equity including business reserves will help strengthen companies to withstand any future shocks. The Government should consider the long-term incentives to increase company equity within the tax system.

2.0 An Allowance for Corporate Equity could be considered as a means of achieving this. For example, in Italy this has worked through multiplying net equity assets since a certain date (the start date of the scheme) by a nominal rate of interest. The allowance is then deducted from a company's net taxable income or carried forward. Equity increases that qualify for the allowance include cash contributions, undistributed profits, and waivers of amounts the company owes to its shareholders. The equity increases must be net of any decreases and there are anti-avoidance measures in place. This will help encourage the growth of corporate equity without penalising companies that use debt.

Supply Chains

2.1 A major issue we have seen developing due to this crisis and one that our members have raised with us is the issue of supply chains. This is an issue that has global and local reach and consequences.

2.2 Supply chains both internationally, regionally, and locally have been interrupted and affected due to this crisis with the affects of lockdown disrupting supply chains and countries holding back stock to keep it for domestic use.

2.3 This can most acutely be seen with the issue of personal protective equipment where mass orders across the globe went in for these products and we could see nations in some instances holding supplies back for their own healthcare systems.

² <https://www.cimaglobal.com/Press/Press-releases/2020/CIMA-launches-free-business-recovery-toolkit-to-help-the-economy-get-back-on-its-feet/>

2.4 Yet it can also be seen with less important items such as flour where there has been a huge increase in demand for flour from household customers due to them being indoors with limited activities to undertake, but the food retail shops did not have enough flour in smaller bags for the demand. This is in part due to the fact a lot of flour in the supply system was in bigger bags for commercial bakeries and restaurants who were unable to use it due to being closed.

2.5 Disruptive events can come in all shapes and sizes. In recent years there have been global pandemics, cyber-attacks, floods, and ash clouds to name a few. Every disruption is a test of risk management processes and resilience in supply chains not only for countries but for businesses big and small too.

2.6 We believe that going forward both government, industry and businesses of all sizes need to give greater thought to their supply chains and how they can be more resilient and secure against events that can cause disruption regardless of what these disruptive events may be.

2.7 This crisis has shown the cost to organisations of not having a diverse supply chain and relying on only a few suppliers.

2.8 Due to the difficulties in supply chains we are hearing that countries around the world are reviewing supply chains and what sectors and products are of strategic importance. They are considering measures to change the supply chain, so it is more resilient to shocks.

2.9 In the United States there are considerations under way 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 as a component of the legislation and then governmental agencies could draw upon the excess inventory held by the companies at any time of need at prices agreed to in advance by contract.

3.0 The UK government may wish to 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 oil, PPE, medical equipment, defence equipment and products from similar sectors. It does not need to be for every single product or good, we are not advocating a planned economy.

3.1 It is prudent that businesses regularly review their supply chains and we advise our members on how they can help their businesses and clients make their supply chains more secure and what best practice in this area looks like. It is important businesses have diversity in their supply chain and that they are not over-reliant on one or two suppliers.

3.2 We believe government should be issuing industry and companies of all sizes guidance on supply chains going forward, especially when there could be a second peak that would require a further national lockdown, regional lockdowns within the UK or a further international lockdown and policy changes that can affect supply chains here in the UK.

3.3 On this point on potential regional variances of lockdowns in the UK as we go into recovery, or maybe in the future to deal with local outbreaks of the virus, the government must give thought to how to implement policies that will contain and suppress any future outbreaks, but also not disrupt supply chains.

3.4 This is because you could have one business in a region out of lockdown and open for trade, but they rely on goods supplied from a business in a region that cannot open due to

them being in a regional variance of lockdown policy. Policymakers must give this some serious thought so that businesses as they try to recover are not unduly harmed by rushed policy.

SMEs and the Self-Employed

3.5 We have welcomed many of the measure's government have introduced to help SMEs and the self-employed survive this crisis. We especially welcome the introduction of commercial rent holidays for SMEs, the Self-Employed Income Support Scheme, and the introduction of Coronavirus Bounce Back Loans all of which we called for.

3.6 However, we think the government could have and should still go further to support SMEs and the Self-Employed. Below we list some areas where we think policy changes are still needed.

Coronavirus Job Retention and Self-Employed Income Support Scheme

3.7 We welcomed both being introduced and the announcement of the extension of the Coronavirus Job Retention Scheme.

3.8 This extension of the Job Retention Scheme should also extend to the Self-Employed Income Support Scheme so there is parity across both schemes. There will be many self-employed workers who will still be unable to return to work in the coming months due to lockdown and their sectors requiring social distancing measures that do not support opening full-time if at all. Therefore, the Self-Employed Income Support Scheme should be extended in line with the Job Retention Scheme.

3.9 One area we feel the government could support businesses and workers more is around allowing better access to the Coronavirus Job Retention Scheme and Self-Employed Income Support Scheme from directors and owners of very small businesses.

4.0 Currently, there are nearly 2 million people employed by limited companies in the UK. These are very small businesses often employing only a few people. They are often builders, construction workers, hairdressers, small shop owners and people in similar sectors. Many work in sectors that have had to close due to the virus and face the prospect of being unable to open for many months to come, or only being able to return to work with severe social distancing measures that will harm their reopening and thus income and profits.

4.1 These owners are often encouraged to pay themselves in dividends by the current taxation system. They also pay themselves in this way as it helps keep much needed capital in the business.

4.2 Dividends are unable to be included in the calculation for money claimed under both schemes. We think this should change. This is because the taxation system encourages these SME owners to pay themselves in dividends and it helps support the business with maintaining capital in the company.

4.3 One way these very small business owners could be supported is by using the 'Close Company' definition within the Corporation Tax Act that describes these businesses as having 5 participants or fewer. Using this definition owners of very small companies should be allowed to have their dividends included in the calculation for the Job Retention Scheme. However, this would be limited to directors whose sole employment is the company they are director of and not include those who have paid employment elsewhere.

4.4 This would mean that only the very smallest businesses can claim for this support and help and mean that HMRC would not have a huge additional workload because of this change. This would go a long way to help some of the smallest businesses that have been most adversely affected by this crisis apply for support that will help their businesses survive and support family incomes.

Business Rate Holiday and Cash Grant Funding

4.5 We welcome the move to introduce business rate holidays for SMEs in the travel, tourism, leisure, and hospitality sectors. However, we feel this should apply to SMEs across all sectors.

4.6 Allowing all SMEs across all sectors to access the business rate holiday on the same conditions as businesses in leisure, retail and hospitality would help free up this cashflow and support SMEs to stay in operation. We would also like to see cash grants for SMEs increased to the maximum level of funding available for hospitality, leisure and retail which is £25,000. This parity is because many SMEs are not in these sectors and they equally need support.

4.7 We recognise this move would be costly and have implications in years to come in how HM Treasury would pay for this. Yet the more businesses that survive this crisis the more will generate money in the economy and create more tax receipts for the Treasury to pay for the crisis response.

4.8 It is not just SMEs in the hospitality, leisure and retail sectors that have been hit by this crisis, but companies across a range of sectors. All will be vital to bringing back economic recovery, but they can only do this if they survive this crisis and that means they need support and to have these schemes extended to them.

Coronavirus Business Interruption Loans and Bounce Back Loans

4.9 We support the various loan schemes that the government have brought into effect to support businesses through this crisis.

5.0 However, from our members we have heard that CBILs are not as effective as intended, and many of our members had issues with banks getting money out quick enough. We believe government should have backed loans by 100% for loan values up to £250,000 for SMEs. This would have encouraged banks to lend quicker and they would not have needed to do their affordability checks quite as stringently. Instead they could have just conducted their financial crime and fraud checks. We do recognise though that when the government announced their Bounce Back Loans scheme, they backed it financially by 100%.

5.1 From views from our members we heard that banks were mostly slow in the early weeks of the crisis to get these loans approved and money out to SMEs. We have not heard the same reports for the Bounce Back Loans.

5.2 Another issue with the loan is ensuring that loan interest rates are passed to the customer. We have heard of cases where SME owners are being given incredibly high interest rate offers on loans which mean they cannot access the support and therefore are not able to continue their businesses.

5.3 The introduction of the Coronavirus Bounce Back Loans was very much welcomed by SMEs and we are glad the government backed these loans up to 100%. We feel these loans could have been introduced sooner into this crisis.

Digital Skills and Reskilling

5.4 This crisis has seen an increase in home working as business premises were closed here in the UK and across the globe. This presents a huge opportunity to reskill employees and ensure businesses have the digital skills and capabilities needed for the future.

5.5 The UK faces a long-term productivity problem. British workers produce less output per hour than their European counterparts and productivity growth has stalled. Currently, millions of UK workers are being paid not to work and many are not participating in training during this period.

5.6 Business can take advantage of the lockdown to reskill employees. When businesses emerge from the other side of the COVID-19 crisis, they will find that the world has changed significantly. In particular, the large-scale shift to home working will put pressure on organisations to accelerate their digital transformation processes and use technological tools to operate more efficiently. Lockdown could be a good time to invest in employees' learning and development. As well as enabling them to pause and reflect, training can be a means of equipping them with the skills they need to thrive in a more digitalised future.

5.7 Businesses should also be using this time to ensure they have the digital capabilities and skills to weather another potential lockdown in future in case the virus peaks again. Also, we expect to see an increased demand for more flexible working and remote working in the future partly due to fear from the workforce of the virus, but also because some industry and workers would have been used to this style of working.

5.8 We are already hearing that many companies are considering allowing more remote working going forward as the crisis has shown how it can work and while this may not be appropriate for all businesses, sectors and employees, companies should ensure they are set up for home working, and their staff have the skills to allow this kind of working to take place.

5.9 This is also not just an opportunity to invest in digital skills, but in other talents businesses may need going forward to help recovery. There are many organisations like CIMA who offer remote learning that businesses could be taking advantage of.

Apprenticeships

Apprenticeship Levy and Furloughed Workers

6.0 We would like to see Apprenticeship Levy funds spent on training for furloughed workers during the lockdown.

6.1 A significant level of apprenticeship funds are languishing in employer apprenticeship accounts unspent, with some employers viewing the levy as a tax to be paid rather than a training fund.

6.2 In normal times training and skills development takes workers away from profit generating opportunities and there is an opportunity cost, no such barrier exists now. It is understandable that the furlough scheme does not allow those in it to work full time for their employer because it is there to allow employers to retain staff for whom there is temporarily no work. The furlough scheme is not there to subsidise employment more broadly.

6.3 Training is a sensible use of the furlough period and it benefits everyone.

6.4 In contrast, a period of extended stasis for millions of UK workers is likely to reduce productivity growth as skills are forgotten, skills become obsolete and workers fall out of the rhythm of work. Deploying the unspent apprenticeship levy funds to expand training opportunities makes sense. This money has already been collected but it is not being spent.

6.5 Ensuring workers are ready to return to work is vital. Furloughed staff should be expected to engage in training to increase their skills. A more skilled and productive workforce could generate more output on their return to work.

The need for an Apprenticeship and Skills Levy

6.6 Significant levy funds are being lost to employers as they languish in apprenticeship accounts. The cost of setting up an apprenticeship scheme is prohibitively expensive for some firms. Many employers will be understandably preoccupied with fighting to save their firm during this difficult period for the UK economy.

6.7 Furlough offers employees the opportunity to learn skills and take qualifications that will help advance their career. Expanding the range of qualifications that apprenticeship funds can be spent on will help rapidly expand the number of people participating in training during lockdown.

6.8 Professional development courses should be included in this expansion. They provide value through activities such as academic and professional qualifications, internal and external training courses, conferences, events, coaching and mentoring, reading technical reports and journals, online learning, research, and discussion forums among other practices.

6.9 Recognised professional development courses should be allowed to be funded via the Apprenticeship Levy this would mean that furloughed workers would have access to many courses they could take online while not working. This will teach them new skills ready for them to be more productive as the economy starts to reopen and they return to work.

Recovery

7.0 The government plans for recovery are going to be crucial for businesses of all sizes and across all sectors.

7.1 As we have mentioned above it is crucial government makes changes to its current schemes to ensure more businesses survive this initial crisis and are able to help lead the country to an economic recovery. It is also vital that businesses take this opportunity to look at their business models, so they are ready for future changes, potential shocks and to ramp up their business operations. And it is very important that both government and businesses look to how they can secure their supply chains in the future.

7.2 The government will have a crucial role in helping business recover and generate growth to support the economic recovery in the months and years ahead. We believe there are three ways they could help support growth and build consumer confidence to spend.

7.3 The first is to introduce a cut in VAT. As the economy reopens, we believe that the Chancellor should announce a 5% reduction in VAT to help encourage consumers to spend in re-opened businesses. VAT reductions have been used in the past to good effect to help

boost economies across the world. The UK used a similar measure in the wake of the 2008 Financial Crash and this helped keep many businesses afloat. We believe a similar measure now would support businesses re-starting.

7.4 The second is to look to start a scheme like the previous Growth Accelerator scheme. This scheme aimed to accelerate the growth of promising startups 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.

7.5 The Government's own analysis at the time showed this scheme added an economic benefit of at least £1 billion, with the likely benefit much more³. The scheme had a return on investment of at least 700%⁴.

7.6 Businesses as they come to recover and restart business operations are going to need the help of professionals such as finance managers, accountants, lawyers, marketing experts to name but a few. Schemes such as this one would help them access this expertise in the region where they operate. Many will not have the money for this much needed professional business support expertise as they would have spent all they had surviving this crisis.

7.7 We believe a scheme like the Growth Accelerator which would allow small businesses to access professional support to expand their growth and create jobs could be vital to securing economic recovery across the regions of the UK.

7.8 The final way is to conduct a review into the two metre social distancing guidelines. We are hearing from many members, particularly those in the hospitality and leisure sectors that they could reopen their businesses if this were reduced to one metre, but at two metres this makes these businesses financial unviable. These concerns are not just limited to the hospitality and leisure sectors, it applies to businesses whose main operations are in offices who are also raising this issue.

7.9 Countries across the world all have different guidelines for social distancing to help slow and stop the spread of the Coronavirus. In Europe countries such as Italy have adopted a one metre rule and the World Health Organisation recommends one metre too.

8.0 We do not want to risk another rise of infections just for the sake of business, but we do feel business deserves a review into this so there is certainty going forward on what the social distance guidelines should be. This would help businesses prepare to reopen and direct investment in changing their premises to where it is most needed to ensure the safety of their staff and customers. Following the review, the UK would have a confirmed distance guideline that was backed by scientific evidence and economics. This would enable businesses to invest with confidence in changing their business models to account for this.

8.1 We are aware there will need to be adjustments to take account of the increased debt and preserve market confidence. However, the economic recovery looks likely to need support and therefore policies should seek to encourage business investment and private endeavour to generate the necessary tax revenues. Reforms should seek to create a long-term dependable and attractive environment for the business investment upon which the UK relies.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/375059/bis-14-1204-interim-evaluation-of-growth-accelerator-2014.pdf#page=32

⁴ <https://www.accountsandlegal.co.uk/small-business-advice/why-did-the-government-put-the-brakes-on-growthaccelerator>