The Chartered Institute of Management Accountants®

CIMA Submission – Department for Business, Energy and Industrial Strategy Economic Recovery Roundtables

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About CIMA

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CIMA is a founder member of The Association of International Certified Professional Accountants (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 professional but also the wider and global finance sector.

Contact

For further information about CIMA and our submission please contact Ross Archer, Lead Manager – Public Policy on ross.archer@aicpa-cima.com

Questions

1. HOW TO CAPTURE GROWTH OPPORTUNITIES FROM THE SHIFT TO NET ZERO

1. **Which areas of infrastructure investment should we prioritise for early action to drive economic recovery and support delivery of net zero?** (e.g. building energy efficiency and heat, low carbon power, energy systems, electric vehicle infrastructure)

Low carbon power should be a priority. If your electricity sources are high in emitting carbon then it does not matter if you have more and more electric cars on the road, emissions will still be high due to the source of the energy being dirty.

Infrastructure to support businesses and consumer choices to go low carbon is crucial. There, priority must be given to building energy efficiency and the infrastructure to support greener and cleaner transportation such as more electric car charging points. This investment in infrastructure would help consumers and businesses make more concise decisions to use cleaner energy goods, products and services.

2. **What action should we take to align investment in the UK and globally with net zero?** (e.g. incentives for investment in net zero aligned infrastructure to reduce exposure to unsustainable investments and sectors)

The area of tax credits for investment should be explored as a way to align investment in the UK with net zero targets.

3. **What are the key regulatory barriers weakening incentives to invest in net zero, and how do we address them?**

The area of reporting is a key area that needs to be explored in the regulatory context. Historically reporting from organisations and businesses has purely been focussed on the financials. We believe reporting should be wider than that and businesses should incorporate integrated reporting structures. Integrated reporting would help businesses and their regulators look wider than just the financial situation of the entity. This in turn would help the business and sector shape decisions to support moves to net zero and help government and regulators see where positive steps are being taken by industry and where more support and help is needed to move to net zero.

The adoption of integrated reporting should be widely encouraged by businesses across the UK.

6. **What actions should we take to ensure local and regional economies can effectively contribute to the Net Zero target?**

Electric and hybrid cars need charging points more accessible. More joined up approach from consumer to business decisions encouraging both sides of the market to choose net zero.

The local and regional economies need to be plugged into a broader UK plan to contribute and build the infrastructure needed to support a net zero target.

2. HOW TO LEVEL UP ECONOMIC PERFORMANCE ACROSS THE UK

2. How can government and businesses work together to identify meaningful opportunities to invest across the whole of the UK, including in the Midlands, the North and the Devolved Nations?

The government should look to a model of specific skills in certain geographical areas. The government should look to create skills clusters across the country. To an extent, this model already operates in the UK. For example, Barrow/wider Cumbria has an economy somewhat focussed on the nuclear submarine and nuclear power industry, London has finance and the professions, South East England has motor sports. This model also works in other countries for example Silicon Valley in the United States.

This regionalisation of expertise should and could be built upon so each area of the UK has a highly skilled field in their local economy that can support jobs through their supply chain and wealth generation.

One area the government should look at with this model is linking education to the local economy. So how can schools, colleges and universities support employment in these skilled sectors in their localities.

4. **What could be the single most meaningful priority for business and government to work towards in order to level up?** (e.g. skills, transport, science & innovation, net zero etc)

Skills development should be a focus for government. The government should look at ways it can help sectors re-skill their employees and future workforce for the economic and workplace challenges ahead. One avenue for doing this would be to change the apprenticeship levy to an apprenticeship and skills levy allowing employers to upskill and reskill their entire workforces to help with recovery and long-term economic challenges. The government should also look to continue with investment in higher skilled apprenticeships that help increase productivity and in turn secure economic growth.

Post crisis the creation of a rebuttable right to retrain as part of any package of recovery measures could increase the investment in UK workers' skills development. It would also fulfil the 'ultimate ambition' to establish a 'Right to Retrain' that the Conservative Government included in the 2019 manifesto.

It would allow UK workers to increase their skills while maintaining their employment and an income, and boost opportunities to train where employers are currently sceptical about offering this and where employers do not offer schemes themselves.

A right to retrain would make it easier for employees to broach the conversation with their employer. It resets the question by making the default position to be the approval of extra training and skills development. The right could be rebuttable because there will be cases where the employee is urgently needed for a core business need.

Having said that you need to create demand for the skills too. The government should look at how to create regional demand. One way may be through the creation of a Growth Accelerator Scheme targeted at SMEs and start-ups in the regions that are more likely to keep money and invest into the local economy. This scheme should look to the Coalition government model of the scheme for how it could work and operate. Money directed to businesses from this scheme should be focussed on skills, training and development that will help businesses to grow, but also to build resilient models and structures that can help them weather future shocks.

5. **How can government strengthen the support provided by publicly-funded economic development institutions?** (e.g. the role of Mayor led Combined Authorities)

The government should look to see what lessons can be learnt from the London Docklands Development Corporation/Canary Wharf group that helped transform a very deprived area of London and turn it into a finance and employment hub. These bodies contained both elected officials, local officials and businesses. If development institutions are to work, they need a mix of people from business, industry and government who are steeped in the locality being developed and not in Whitehall.

3. HOW TO ACCELERATE BUSINESS INNOVATION AND ADOPTION ACROSS THE COUNTRY

1. **What are the systematic barriers to business innovation?** (e.g. regulatory systems, procurement or the network of contacts and exchanges that promote the sharing of ideas)

Lack of skills is a major barrier to business innovation and the government should have a focus on upskilling and reskilling both the current and future UK workforces.

Other areas the government should look at is the stigma attached to business failure on entrepreneurs and SME directors. Often it takes many attempts to build a successful business and this should be recognised. Government should look at how other nations such as the USA and South Africa help support entrepreneurship and restructuring of businesses going through bankruptcy/administration.

Regulatory systems should also be revived for example planning laws do create a barrier to investment in property building.

3. **What are other countries doing better than the UK in encouraging and promoting innovation?**

Several countries, including Argentina, Canada, Chile, China, Italy, Korea, and Poland, have implemented strong and innovative tax measures, such as more generous R&D tax credits, investment incentives as well as collaborative tax credits.

A lack of tax incentives has been identified as a German weakness, and a U.S. weakness is that its collaborative R&D tax credit is that it applies only to energy-sector collaborations. Beyond taxes, Poland has introduced innovation vouchers and loan programs in an effort to specifically stimulate innovation by small and medium-sized enterprises.

A number of countries have made efforts to improve their regulatory environment in support of innovation. Argentina and 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, and stringent regulatory environments constrain innovation in both the fintech and life sciences industries.

4. **What specific actions would enhance the adoption and diffusion of innovation across the full breadth of UK businesses, including those far from the frontier?** (e.g., are there policies that government should stop / start / continue, what role do big firms have in pulling innovation through the supply chain etc)

Supply chains is an area that the government should focus on as we emerge from this crisis. Government should support businesses to have more resilient supply chains and prioritise the strategic goods and products that need to have enhanced and resilient supply chains.

5. **What more can government do to enhance access to the finance needed to support innovation? At what stages of innovation would this support be most beneficial (e.g. at commercialisation stage)?**

The crisis highlighted the difficulty many businesses faced in getting access to finance from the high-street banks. Going forward any schemes to enhance business's access to finance would need to address these challenges to ensure the same issues did not arise again.

In the UK, public R&D funding has been relatively flat since the financial crisis, though the private sector has stepped up to make up for it. UK Research and Innovation (UKRI) needs to play a more leading role.

6. **How can government better identify and support the key technological trends** that will drive innovation-led growth and productivity in the recovery (e.g. diffusion of artificial intelligence, emergence of quantum technologies).

In terms of productivity growth, the UK is significantly behind the G7 countries' average. The lag in R&D funding has most likely contributed to this. The government also need to look to reskilling the workforce and changing the apprenticeship scheme to enhance productivity and provide businesses with the skills they need in the workforce to take advantage of technological changes.

4. HOW TO MAKE THE UK THE BEST PLACE IN THE WORLD TO START AND SCALE A HIGH-GROWTH BUSINESS

1. **What are the most significant barriers to starting and growing a business in the UK, and what can business and Government do to address them?** (e.g. regulations, costs to business, access to markets)

The lack of skills, over burdensome regulations and the bureaucratic costs to businesses are some of the biggest barriers to starting and growing a business in the UK.

2. **What specific actions should we take to ensure the UK creates a strong pipeline of investable start-ups that have the potential to grow into future UK Unicorns?**

The government should look at changing insolvency practices in the UK so they can support business recovery where appropriate. There also needs to be a culture change that accepts new start-ups failure and encourages SME owners to continue trying on their entrepreneurial quest.

The government should also look at what tax breaks and grants they can give to new start-ups to encourage economic growth and activity.

3. **Beyond making sure businesses have the access to finance to support growth, what are the most critical factors for successfully growing a business in the UK?** (e.g. access to talent, level of ambition, access to markets)

Access to talent and markets is crucial. The government needs to review bank lending to SMEs and how they can be made more accessible and ensure the UK workforce has the right skills for the future.

4. **What more can be done to encourage businesses to invest in their own success?** (e.g. capital investment, tech adoption,

The government should look to see what tax encouragement it can give businesses and particular new start-ups to invest in their own success. It should also look to extend R&D allowances.

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.

Currently, 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, etc. Many of these 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 severe social distancing measures that will harm their reopening and thus income and profits.

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.

Under both schemes dividends are unable to be included in the calculation for money claimed. 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.

This should be reviewed so the owners and directors of the very smallest businesses can access financial support. This would help enable of them not only to support their own and family incomes, but also that of their business. This would mean more SMEs survive this crisis and are able to help build and contribute towards the economic recovery.