



POST-PANDEMIC ECONOMIC GROWTH

Issued 17 July 2020

ICAEW welcomes the opportunity to submit written evidence to the **Post-pandemic economic growth inquiry**, opened by the Business, Energy and Industrial Strategy Committee on 3 June 2020. We welcome Parliament's focus on exploring those measures central to delivering an economically and environmentally sustainable recovery.

As the Government sets out its plan for the UK's economic recovery, it needs to focus on ensuring that it:

- is environmentally sustainable: it's time to evidence and measure progress toward delivering the UK's UN Sustainable Development Goal (SDG) commitments;
- is investment-led, focusing on business growth and innovation, skills, and infrastructure (social and economic) to build regional resilience across the whole of the UK;
- maintains cross-departmental work to promote social mobility, diversity and intergenerational fairness;
- includes a business tax system that encourages enterprise and maintains international competitiveness; and
- includes a long-term fiscal strategy to put the public finances onto a sustainable path.

This response has been prepared on behalf of ICAEW by its Policy and Public Affairs Team. It draws on the work of ICAEW's Business and Industrial Strategy, Communities and Regions teams, who consulted with ICAEW members across all regions and nations of the UK to share their insights with the Business, Energy and Industrial Strategy Committee at a sectoral and regional level. We would like to thank those members – working in, leading and advising organisations of all sizes – who shared their insights and ideas so willingly. It also leverages the expertise of ICAEW's Public Sector team, Learning and Professional Development team, and Technical Strategy Department.

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We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create strong economies and a sustainable future for all.

1. We are responding to the Business, Energy and Industrial Strategy Committee's call for evidence as part of the *Post-pandemic economic growth* inquiry. We understand that the Committee will be launching sub-inquiries into different aspects of the recovery, and we look forward to providing more targeted information when responding to those.
2. Our points on policy areas where the government may wish to take further action are stated as of 17:00 on Friday 17 July 2020, but we are aware that some of them are under active consideration by government and might be acted upon in the near future. ICAEW is a body whose members (1) are accountable under a code of ethics; and (2) have unequalled access to all sizes of UK businesses and organisations. In that context we have been seeking to play and want to play a constructive role in supporting government and would be willing to provide further detail in understanding any of the issues raised in this response.
3. Throughout this submission, we have sought to provide the Business, Energy and Industrial Strategy Committee with insights from our members operating across all regions and sectors of the UK economy. We would be happy to facilitate further engagement between the Committee and our members during the course of this super-inquiry.

KEY POINTS

Principles and investment

4. The priority for the Government this year must be to **stabilise the economy, build a sustainable and fair recovery, and secure our international competitiveness**. When producing the package to deliver this, the guiding principles should be:
 - the recovery should be environmentally sustainable, transparently evidencing progress toward delivering the UK's UN Sustainable Development Goal (SDG) commitments;
 - the recovery should be investment-led, focusing on business growth and innovation, skills, and infrastructure (social and economic) to build regional resilience across the whole of the UK;
 - the recovery should maintain cross-departmental work to promote social mobility, diversity and intergenerational fairness;
 - the recovery should include a business tax system that encourages enterprise and maintains international competitiveness; and
 - the recovery should include a long-term fiscal strategy to put the public finances onto a sustainable path.
5. Actions which the Government can take to deliver on these principles are:
 - finalising its Infrastructure Strategy, clearly articulating priorities for investment and the steps that are needed to achieve those priorities;
 - helping businesses better measure their dependencies on people and planet;
 - catalysing investment in innovation, skills and social and economic infrastructure to power the recovery; and
 - supporting the recovery with a fair tax system that encourages enterprise.
6. Government can improve infrastructure investment in the UK by recognising that finance innovation has the power to transform infrastructure investment, that public investment is an enabler, and that there is capital available that needs to be unlocked.

Support measures

7. We need to see a strategy for sustainable recovery driven by investment in green skills and technologies and seizing opportunities to reform and rebalance the tax system to deliver long-term growth. Economically and environmentally sustainable growth must be underpinned by businesses having confidence in government's willingness to invest in infrastructure, skills, and in regional and local economies.
8. Additionally, there must be confidence in a long-term fiscal strategy to move the UK public finances onto a sustainable path. A failure to address the challenges to make the public

finances more sustainable would not only entrench intergenerational unfairness, but also incredibly constrain policy options available to the Government in the future

9. Government has a once in a generation opportunity now to encourage businesses to better measure their dependencies on people and planet. While much progress has been made on reporting, more needs to be done to build the capacity within businesses to measure and respond to their dependencies on natural and social capital, and to encourage greater use of these metrics in management decision making.
10. Focus should be given to investing in new green skills and technologies as part of a 'levelling up' agenda, as well as to the role of UK financial and professional services in greening the UK economy. Vitally though, as we develop a green economy, the role of assurance will be integral to preventing greenwashing and maintain confidence in the measurement and reporting of climate-related issues. The need for innovative reform of audit remains, starting with the formation of the Audit, Reporting and Governance Authority.
11. Cash flow will remain an issue during the recovery, with around £130bn of financial and tax debts owed to government. Focus must turn to a strategy for maintaining an economic recovery while examining how these debt burdens can be managed and repaid.
12. The UK's environmentally and economically sustainable economy must include an internationally competitive tax system. Government should explore steps to retain a flexible labour market, address long-standing problems with business rates, and leverage the tax system to stimulate investment. Longer-term, there should be a review into what is taxed, and how, in the digital age to produce a sustainable stream of revenue to support our society. This review might, for example, take the form of a Parliamentary Commission.
13. The impact of coronavirus has been felt differently depending on which sector the business operates in. Government and Parliament must remain open to the unique circumstances facing individual sectors and should consider offering further support if necessary. However, the wider support package should be focused on delivering a recovery based on the aforementioned principles, rather than taking a sector-specific approach.
14. When providing further support, government should give a higher priority to demonstrable and transparent environmental goals. The sooner we begin to make the transition to a green economy, the easier it will be for businesses, especially SMEs, to absorb the changes.

Skills

15. We are concerned at the impact of the coronavirus crisis on the education, development and training of young people and adults. The pandemic risks greater disparities and lack of opportunities for not only graduates, but those young people who have lacked any formal education whether in schools, colleges or on the job. We must make education and training an immediate priority as we risk holding back an entire generation and further damaging our economy, hampering efforts to improve social mobility and diversity.
16. We need a focus on what the future of work will look like in a digital economy, with more workers and training done remotely. Part of this will involve identifying and supporting those skills and sectors essential for the future economy – we believe that accounting and finance, with its growing emphasis on data, AI, IT and other technology skills, undoubtedly has a role to play. Another priority must be around maintaining access and ensuring that learning and assessment reaches those people who may not have access to digital tools. The delivery of reliable and affordable internet access in all parts of the UK would address existing regional inequalities from an educational and training perspective.
17. Business skills have been a long-standing concern for companies across the UK. The availability of both management and non-management skills has consistently been shown as a majority factor affecting business confidence, investment and productivity in ICAEW's quarterly Business Confidence Monitor TM.
18. Our members believe that any skills strategy should take into account the new mix of interpersonal and digital skills which will be central to the new economy. They suggested a

move towards making the delivery of education and training more digital friendly, skill specific and “bite-sized” in consumption. Additionally, retraining will be essential to delivering a sustainable recovery to ensure that workers can migrate into innovation and green sectors. The focus should be on retraining to address skills gaps in areas such as engineering to drive productivity. Consideration should also be given to making the Department for Business, Energy and Industrial Strategy responsible for post-16 education policy to ensure it is aligned with the needs of business and the economy.

19. Longer-term, as the UK moves through the immediate crisis towards delivering a world-leading environmentally sustainable economy will require an investment in green skills to guarantee our ability to attract the best and brightest talent from across the globe, as well as equipping the domestic workforce for the future. Part of this will be investing in those skills required to measure dependencies on natural and social capital, one example being CO2 emissions. There is also a need for a wider education strategy for businesses across the UK to be able to develop an understanding of the steps they should be taking and measure the progress they are making to address climate change, and the best way of doing so.

Industrial Strategy and Regions

20. We believe that the Industrial Strategy remains relevant and appropriate as a vehicle to deliver post-pandemic growth. However, the degree to which it can succeed will come down to how it is leveraged – focusing on too many objectives runs the risk of different policies acting against each other. The Government should clearly articulate what it sees as the role of the Industrial Strategy as we recover from this crisis, allowing for greater focus on achieving set aims.
21. The recent approach of centralising decision-making in London benefits big business at the expense of SMEs operating in local and regional economies. This needs to be addressed, as well as pursuing a devolutionary framework that includes a funding model more aligned to local priorities and greater transparency of decision-making.
22. Too many businesses don’t understand the benefits that LEPs can bring. A nationwide communications improvement programme, with the objective of levelling-up the communications of each LEP, would help address this issue. To address strategic issues that cross LEP borders, such as skills, housing and infrastructure, there should also be consideration of new “super-LEP” structures where mayoralities or combined authorities don’t exist.
23. Reviewing the scope of regional powerhouses and combined authorities would ensure that previously industrially strategic towns receive the focus they deserve. Additionally, those regions worst hit in terms of industry and coronavirus cases, such as the North East, should be prioritised in any regional/local growth funding.

Economic framework of the UK

24. The SDGs provide an existing framework for improving our economy. In addition to building back green, we need to embed strategies to improve social mobility and diversity, tackle regional inequality and protect intergenerational fairness into our economy.

Lessons for improving the UK’s resilience

25. Government has discovered it had more financial firepower than previously thought, and the scale and pace of stimulus delivered has been unprecedented. These successes should be examined to see what can be learnt and build on.
26. Government should examine where there is inflexibility and complexity of public sector processes, including the tax and welfare systems, which hampered the ability to respond quickly – in providing support to businesses and in some cases may have exacerbated gaps in scheme coverage. Reform and investment is needed in these areas.
27. The better use of data across government will be critical to its ability to support the economic recovery and finalising the Government Data Strategy should be a priority. There is a lot of

valuable data that is not being shared across government or made available externally where it could be used to add value.

28. Government itself also needs to improve how it works, with better co-ordination and collaboration across government departments and between central and local government. Better use needs to be made of specialist skills and the work of civil service functions and professions should be developed further.

Opportunities post Brexit and Pandemic

29. The Professional and Business Services sector is a driver of export growth across the UK economy, as well an engine for social mobility, diversity and levelling up regions. Future trade deals should include Professional and Business Services issues to ensure the sector remains globally competitive and continues to attract investment and income for the UK.

Government as a shareholder or investor in business

30. Speaking to our members, there is a hesitation around the Government becoming a major direct shareholder or investor in businesses – instead preferring that existing routes to provide support and finance to businesses were leveraged first. If this option is pursued, it must be aligned with the strategic objectives of delivering a sustainable recovery.

ANSWERS TO SPECIFIC QUESTIONS

What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?

31. Ahead of the Summer Economic Update, ICAEW's Chief Executive, Michael Izza, wrote to the Chancellor of the Exchequer¹ outlining our view of the priorities for the coming year: **stabilising the economy, building sustainability into the recovery, and securing our international competitiveness**. We believe that implementing a strategy for a sustainable recovery, driven by investment in green skills and technologies, could help re-balance the national workforce towards new areas of growth, and safeguard future employment.
32. When putting together its recovery package, there are five principles which the government should adopt:
- the recovery should be demonstrably and transparently environmentally sustainable, with all decisions made according to the objective of delivering the UK's UN Sustainable Development Goal (SDGs) commitments;
 - the recovery should be investment-led, focusing on both skills and infrastructure (social and economic) to build regional resilience across the whole of the UK;
 - the recovery should maintain cross-departmental work to promote social mobility, diversity and intergenerational fairness;
 - the recovery should include a business tax system that encourages enterprise and maintains international competitiveness; and
 - the recovery should include a long-term fiscal strategy to put the public finances onto a sustainable path.

How can the Government borrow and/or invest to help the UK deliver on these principles?

33. To deliver an economic recovery which aligns with the above principles, we recommend that the Government explores action in the following areas:
- Help businesses better measure their dependencies on people and planet through:
 - keeping pace with regional & international developments (eg. the European Commission's initiative to extend the non-financial reporting directive);

¹ ICAEW Rep 42/20, *Stabilise, Sustainable, Secure – Priorities for the UK's economic recovery* ([link](#))

- building capacity in businesses to understand their climate-related externalities, enabling them to make informed decisions;
 - working with global partners to standardise the measurement and reporting of climate-related issues to meet societal expectations of accountability; and
 - legislating to enable the shareholders and stakeholders alike to seek assurance over the robustness of these disclosure.
- Catalyse investment in innovation and social and economic infrastructure to power the recovery by:
 - unlocking private investment for infrastructure and innovation;
 - prioritising those regions worst affected in terms of an industry and coronavirus cases for regional and/or local growth funding;
 - safeguarding national security while maintaining investment; and
 - recapitalising businesses in a way that supports enterprise.
 - Supporting the recovery with a fair tax system that encourages enterprise by:
 - clarifying employment status in law and tackling the tax differential of self-employment;
 - taking the opportunity to redesign the tax and welfare systems and use digital technologies to improve delivery of public services;
 - reforming business rates; and
 - launching a Parliamentary Commission on tax in the UK economy.
34. In ICAEW's submission to the Infrastructure Finance Review², we highlighted that more investment is needed if the Government is to deliver the infrastructure upgrade that the country needs. There is a clear need for greater investment in transport, particularly outside London and the South East, and much of the UK still does not have direct access to fibre optic connections, entrenching regional disparities. Most importantly, while renewable energy generation is being built, a lot more is needed to meet climate change goals.
35. We believe that this underinvestment is not because of a lack of available finance. Our experience is that investors are keen to invest in the UK's infrastructure, and will do so where they are presented with the right opportunities. We highlighted three principles that the Government should take on board to improve infrastructure investment in the UK:
- finance innovation has the power to transform infrastructure investment in the UK;
 - public investment is an enabler; and
 - capital is available, but it needs to be unlocked.
36. We recommended establishing a dedicated investment partner for infrastructure businesses, particularly those developing smaller and medium scale projects. One model that could be adopted would be an Infrastructure Growth Fund, operating on similar basis to the BGF (formerly the Business Growth Fund). With a focus on infrastructure, it could attract a wider range of long-term investors than the BGF, including pension funds and other investors seeking long-term returns. Such a fund should work with and complement the Green Finance Institute to support renewable energy and the development of green technologies.
37. With the UK's departure from the European Union, we also recommended that formation of a new domestic development bank, a UK Investment Bank (UKIB), with a similar governance structure and operating model to that of the European Investment Bank. This new UKIB should include a diverse shareholder base encompassing the devolved administrations, city-regions and regional groups of local authorities in addition to central government. Shareholders should be represented in the governance structure by professionals with appropriate expertise; they should not be political appointees. Again, such an institution should complement and work closely with the Green Finance Institute to finance renewable energy and decarbonise the UK economy.

² ICAEW Rep 59/19, *Infrastructure Finance Review* ([link](#))

What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?

38. The coronavirus pandemic has had an impact on our economy without precedent. We have witnessed the state-decreed mass closure of businesses for the first time, with millions of people being made unable to work. The scale of the financial intervention required by the Government to protect businesses and jobs demonstrates the scale of the challenge when it came to maintaining consumer confidence – rebuilding this, alongside delivering economically and environmentally sustainable growth, will require a long-term government strategy.
39. While the Chancellor's Summer Economic Update will help with the short-term stabilisation of the economy, by autumn there needs to be a plan for a sustainable recovery driven by investment in green skills and technologies. There are also opportunities to reform and rebalance the tax system to deliver long-term growth.
40. Vitally, economically and environmentally sustainable growth must be underpinned by businesses having confidence in the Government's willingness to invest in infrastructure, skills, and in regional and local economies.
41. Additionally, there must be confidence in a fiscal strategy to move the UK public finances back onto a sustainable path. In ICAEW's recent publication *Public Sector Fiscal Insight: Coronavirus and the public finances*³, we highlighted that a failure to address the challenges to make the public finances more sustainable would not only entrench intergenerational unfairness, but also incredibly constrain policy options available to the Government in the future.

Delivering a sustainable recovery

42. To support and enable a green recovery, the Government has a once in a generation opportunity now to encourage businesses to better measure their dependencies on people and planet.
43. The UK has had some ambition to show leadership in this area and has made good progress, for example through the Companies Act Section 172 reporting that large companies are now starting to do. The PRA is also showing ambition in its plans to extend environmental transparency of banks' activities. However, more needs to be done to build the capacity within businesses to measure and respond to their dependencies on natural and social capital and to encourage greater use of these metrics in management decision making.
44. Although many companies are now required to comment on environmental matters in their 'strategic reports', we are concerned that the capacity to report reliably lags the legal requirement. The Government could encourage development in this area by helping support the development of tools and processes, through its procurement policies and by itself setting a good example in its own measurement of dependencies and embedding of these in its decision making.
45. The Government should also recognise that it risks falling behind of progress internationally. More could be done to support and catalyse the development of international sustainability reporting standards, which might, for example, be developed by a board alongside the International Accounting Standards Board as envisaged by Accountancy Europe in their Cogito paper *Towards Interconnected Standard Setting*. The Government should also examine what it plans to do to keep pace with and participate in efforts by the European Commission to develop non-financial reporting standards for the EU.
46. Speaking to ICAEW members across the UK, there is a real appetite to 'build back better', however SMEs have concerns about taking on debt to fund investment in non-core areas of their business, such as innovation and sustainability. As they form the backbone of the UK

³ ICAEW, *Public Sector Fiscal Insight: Coronavirus and the public finances* ([link](#))

economy, the Government should consider providing targeted financial support to SMEs for green adoption.

Investing in skills and technology

47. The ability to build the sustainable recovery will come down to investment in new skills and technology. When speaking to our members across the UK, they consistently emphasise the need to support businesses in investing in new technologies.
48. For example, ICAEW members in the East Midlands recommended pursuing measures which would encourage and incentivise investment in automation. They felt that capital allowances could be leveraged to deliver this. Meanwhile our members operating across Buckinghamshire, Bedfordshire and Hertfordshire highlighted a need to incentivise the adoption of technology across business.
49. Research & development was a key priority for our members operating across the North East. They suggested that a further increase in the Research and Development Expenditure Credit would incentivise investment by businesses, as well as reforming the patent box rules so that the regime isn't just beneficial to profit-making companies. One option from our members was to use a tax credit style payment related to sales from patented products.
50. Investment will also essential, especially in green transport and technology infrastructure. Our members working outside the South East highlighted how a lack of good broadband was limiting their productivity and growth – and this regional inequality has only grown during the current crisis. Any 'levelling up' agenda in this sustainable recovery needs to address this. Green transport could also be supported by incentivising consumer expenditure in this area – for example, consideration could be given to providing grants to individuals to replace their current vehicles with electric vehicles.
51. We make more detailed comments and recommendations on skills in paragraphs 108 – 132.
52. We make recommendations regarding the tax system supporting the recovery in paragraphs 64 – 77.

Green Finance

53. ICAEW highlighted the importance of the UK's financial and related professional services firms in carbonising the UK economy in our response to the Business, Energy and Industrial Strategy Committee's inquiry, *Decarbonisation of the UK economy and green finance*⁴. As we stated in that submission, the UK's financial and professional services ecosystem is ideally placed to provide world-leading green finance: with lenders will provide finance to activities designed to decarbonise their activities, insurance companies assessing the risks arising from climate change on such matters as frequency and probability of adverse weather like flooding, and accountants providing business advice regarding investment opportunities as well as the provision of assurance in relation to the disclosure of green financial information.

Delivering Audit and Corporate Governance Reform

54. Audit reform, alongside corporate governance reform, should contribute to our economic recovery, and assist with the delivery of our commitments under the SDGs. The social value of audit has been underlined by the challenges facing businesses during the pandemic, and the importance of restoring public trust in audit remains. There has also been a societal shift in expectations regarding audit and assurance with the evolution of corporate responsibilities to wider stakeholders. This was one of the underlying themes of Sir Donald Brydon's report into audit quality and effectiveness⁵. Additionally, as we develop a green economy, the role of assurance will be integral to preventing so-called 'greenwashing' and maintaining confidence in the measurement and reporting of climate-related issues.

⁴ ICAEW REP 74/19, *Decarbonisation of the UK economy and green finance* ([link](#))

⁵ Sir Donald Brydon, *Assess, Assure and Inform: Improving audit quality and effectiveness*, Report of the Independent Review into the Quality and Effectiveness of Audit ([link](#))

55. ICAEW has set out five goals for the final package of audit reform measures that will come out of the Department for Business, Energy and Industrial Strategy⁶. We believe that in the immediate future, the Government must prioritise the formation of the Audit, Reporting and Governance Authority as the successor to the Financial Reporting Council (FRC). While the new leadership is right to explore what reforms can be introduced pending this change, the key recommendation from Sir John Kingman's review into the FRC⁷ was the move to a strengthened regulator underpinned with statutory powers – this needs to be delivered to maintain investor and public confidence.
56. ICAEW has been prioritising the development of resources to equip companies and auditors across the UK to respond to the challenges of the coronavirus crisis, particularly in areas such as going concern. However, the need for wider reforms to establish a more reliable core audit remains. Auditors need a renewed focus on internal controls, going concern and viability, and fraud. Additionally, as the importance of investor and public confidence in climate-related disclosures grows, we believe reform should be considered to give flexibility to shareholders to request the commissioning of on-demand audit extras – including assurance on sustainability disclosures – to reflect how 21st century businesses are evolving.
57. We will be setting out further details in our submission to the Business, Energy and Industrial Strategy Committee's *Delivering Audit Reform* inquiry.

Cashflow in the real economy

58. From the outset of this crisis, maintaining liquidity was essential to protect jobs and businesses. The Summer Economic Update highlighted the scale of cash which has been injected into the system, with just under £73bn of loan support approved to date. The addition of the Bounce Back Loan Scheme was a positive addition in supporting SMEs. Alongside this, we saw the deferment of payment on VAT and income tax self-assessment by businesses and taxpayers – at an expected cost of around £50 billion⁸.
59. These measures have helped in their objective of protecting jobs and businesses. However, this has also resulted in the accumulation of more than £120bn of financial and tax debts now owed to government⁹. Focus must now turn to a strategy for maintaining an economic recovery while examining how these debt burdens can be managed and repaid.
60. The scale of debt by way of government-backed loans schemes carries the risk of unsustainable debt. One estimate, in a report by TheCityUK's Recapitalisation Group, quantifies this at approximately £35bn by March 2021¹⁰. The report considers the need for recapitalisation of such debt and explores a number of innovative ways to achieve this.
61. ICAEW has commented to TheCityUK on its proposals for recapitalisation. We welcome TheCityUK's efforts to identify innovative solutions for the 'unsustainable' debt that many businesses will be carrying. Government should give further thought to these tools and the potential establishment of a dedicated body to facilitate restructuring, as suggested in the paper. Nevertheless, the more conventional extension and forbearance options also outlined in their paper will undoubtedly be most suitable for many businesses. In ICAEW's view the continued provision and potential extension of government financial support must be managed with an appropriate and targeted mix of continued forbearance and recapitalisation. The question of transfer of facilities to commercial arrangements will arise over time and needs special consideration to ensure the best use of taxpayers' money while avoiding onerous terms that might themselves cause business failure. The scale of these issues is unprecedented and will need to be handled sensitively and equitably. While these issues will inevitably receive great scrutiny, it would be best to give them thorough examination at inception.

⁶ *Audit reform: getting five out of three*, Michael Izza ([link](#))

⁷ Sir John Kingman, *Independent Review of the Financial Reporting Council* ([link](#))

⁸ Figures taken from HM Treasury's *Plan for jobs*, page 17, published 8 July 2020 ([link](#))

⁹ Figure taken from HM Treasury's *Plan for jobs*, page 17, published 8 July 2020 ([link](#))

¹⁰ TheCityUK, *Supporting UK economic recovery: recapitalising businesses post Covid-19* ([link](#))

62. Transparency is essential so that businesspeople in communities across the UK, including our members and many businesses our members advise, can make appropriate decisions to support recovery and growth. ICAEW members have deep experience in helping businesses manage and conserve working capital and attain sustainable recovery and will be drawing on these skills and knowledge to best support the businesses with which they are involved. ICAEW has published detailed guidance on working capital forecasts, going concern analyses and cash flow management, specifically to support these activities. In making decisions about recapitalisation government will need to consider the role of the tax system as well as the value of transparent and reliable financial information about entities benefiting from public support. Other creditors, including trade creditors, who will be affected by government's decisions, will also have a keen interest here and they are vital to recovery. Many of these entities will be small and are not required to prepare audited accounts.
63. Government financial support must also operate in tandem with direction to HMRC on how they should manage enforcement activity for tax debts owed - especially as many companies will naturally be reporting uncertainties about their ability to continue as going concerns. There would be an economic consequence to HMRC taking money out of the wider economy during a recovery, and it would have a substantial impact on individual taxpayers affected. It is a similar case where HMRC is a creditor in insolvency cases. It is essential that these activities are aligned with the Government's wider policy objectives in supporting an economic recovery. Government should reassess whether now is the right time to reintroduce 'crown preference' on insolvency. The prospect of subordination may well prompt some floating charge holders to initiate recovery before crown preference is reintroduced in December.

Building a competitive tax system

64. ICAEW believes there are a number of options which the Government can explore to build a sustainable economic recovery some of which also deliver on its climate objectives.

Retaining a flexible labour market

65. ICAEW welcomed the delay until April 2021 of the introduction of the off-payroll working (OPW) changes in the private sector. However, with an urgent need to stabilise the economy following the coronavirus crisis, it is unfortunate that this impending reform continues to create uncertainty in the jobs market at a time when we most need a flexible labour force to weather the storm.
66. This was a key issue raised recently by our members operating across the Thames Valley. They were concerned that moves by the Government to extend the off-payroll working rules now used in the public sector to much of the private sector were "out of sync" with the times, and that the focus should be on introducing measures to support flexible working which keep people in employment.
67. They also felt that this reform doesn't reflect a more joined up approach to taking forward recommended by Matthew Taylor's review of modern working practices¹¹. This was echoed in a letter from ICAEW's Tax Faculty to the Financial Secretary to the Treasury ahead of the Summer Economic Update of 8 July 2020¹².
68. ICAEW believes that there should be a fundamental review of the world of work, which should include employment and self-employment and which takes both tax/NIC law and employment law into account. The extension of the OPW rules (frequently referred to as IR35) will move many more people onto the payroll, but many of them will end up with few, or no, employment rights. This is an unsatisfactory position which has been brought into sharp focus by reports that there are substantial numbers of people in the UK workforce in this

¹¹ Good work: the Taylor review of modern working practices ([link](#))

¹² ICAEW REP 43/20, *Stabilise, Sustainable, Secure – Priorities for the UK's economic recovery post COVID-19 (summer tax statement)* ([link](#))

category. Their circumstances mean that they have been shut out of both the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS).

Business Rates

69. It was somewhat inevitable that business rates had to be suspended for large parts of the economy at the outset of the crisis. Its inability to flex according to economic circumstances underline the need for reform – and the lockdown has further accelerated retail traffic towards online retailers at the expense of physical stores. The reintroduction of business rates in April 2021 will bring these issues back onto the political agenda. Business rates are a significant and fixed expense for many businesses, with no flexibility or easy adjustment to current conditions, so some will simply find themselves unable to pay.
70. When we spoke to them, ICAEW members in the South-West region urged a focus on this issue, highlighting how small businesses on local high streets are suffering from a loss of local parking, as well as footfall, due to social distancing and extended pavements for distancing. Reforming business rates to help small retailers in local towns could help offset to financial pain from these changes.
71. We have previously commented on this issue, see our submission to the Treasury Select Committee’s inquiry, *The impact of business rates on business*¹³. Our recommendations focused around building in a clearer link between business rates and rents, taking advantage of the rollout of digital tax systems to enable more timely maintenance of valuations, and having greater transparency about how rateable values are calculated. This area needs urgent review by the Government.

Stimulating investment

72. Capital spending is a long-term decision. The crisis has highlighted the need for greater investment in business resilience, which will include the need to re-engineer supply chains and to invest in digital solutions which will help make business operations more resilient and capable of operating effectively in a crisis. Frequent changes to capital allowances rules/rates etc discourage investment so need to be kept to a minimum and announced well in advance. On this basis, retaining the temporary increase in the amount eligible for the Annual Investment Allowance at £1m (it is due to revert to £250k on 1 January 2021) would not only provide welcome stability, but would help support capital investment by all businesses seeking to rebuild and strengthen their capabilities.
73. More widely, it is important that allowances and reliefs introduced through the tax system to incentivise business investment deliver on their policy objectives. Earlier this year, the National Audit Office (NAO) published a report¹⁴ following its review of the management of tax reliefs. This review called for a “proper and systematic review” of tax changes including the growth in tax reliefs. The Government should now undertake this review and consider in particular non-structural reliefs where the Government has granted tax relief to pursue social or economic objectives. This should seek to identify how successful reliefs and allowances are in achieving intended policy purposes, where they are falling short, and how they interact with other reliefs and allowance. To build a competitive tax system with the level of investment we need, it is vital we understand what works.

Long-term strategy for the tax system

74. We continue to support the re-introduction of postponed accounting for VAT on all imports at the end of the transition period, which would help the cashflow of all businesses who import into the UK. In the longer term we believe that there should be a fundamental review of the VAT system which should include a review of the multiplicity of rates and the numerous exemptions. Although zero and reduced-rating and exemptions were all introduced for understandable policy reasons, many of them stretch back nearly 50 years and their continued existence or relevance today should be reviewed. In particular, exemptions add

¹³ ICAEW REP 40/19, *The impact of business rates on business* ([link](#))

¹⁴ National Audit Office, *The management of tax expenditures* ([link](#))

complexity and encourage tax planning and avoidance. We would be happy to contribute to such a review.

75. More broadly, the UK's public finances have been badly affected, and we need to consider fair and equitable ways in which the UK Government might increase revenues. We have already suggested above that the time has come for a national debate on employment status and tax, business rates and on the VAT system, but the debate needs to go further and consider how and what should be taxed in the digital age which will produce a sustainable stream of revenues which support our society. There is also the role of the tax system in delivering our SDG commitments, including a net zero economy.
76. This should include all areas of the tax system, and should include, but not be limited to, how we tax all businesses, the role of business rates in a digital world, the tax treatment of savings and investments, the income tax and NIC systems and rates, and capital taxes. The review could start by re-examining the earlier reports from the Office of Tax Simplification, where many of the suggestions and recommendations remain unacted. The UK tax system is incredibly complicated with, at the last count, well over 1,000 reliefs across the tax system, making it complicated to administer, understand and increasing the risk of avoidance. In principle, we would favour a broadly based tax system with few reliefs and fair and reasonable rates.
77. We would welcome the opportunity to help host, or contribute to, the start of a debate on what sort of tax system we need in a digital, post COVID-19 world. There is clearly an interest in Parliament on this issue following the launch of the Treasury Select Committee's *Tax after coronavirus* inquiry. Once this has reported, the Government could form a Parliamentary Commission to bring forward recommendations for reforming tax in the UK economy.

Sectoral comments

78. To provide the Business, Energy and Industrial Strategy Committee with an understanding of the challenges facing different sectors, ICAEW's Communities team spoke with our members operating in set parts of the UK economy. We have included this feedback from our members in those sectors most affected by the coronavirus pandemic so the Committee can understand the unique challenges they face – however they do not form part of our main recommendations. We would be happy to arrange for the Committee to engage further with our members in this area.
79. ICAEW are conscious that this economic crisis has not affected all sectors of our economy equally. A report produced by Oxford Economics and ICAEW in May 2020¹⁵ found that losses in output were “*spread very unevenly between sectors*”, highlighting in particular the impact on those businesses in manufacturing, hospitality, leisure and culture, and education. ICAEW welcomed the steps that the Chancellor took in his Summer Economic Update to support those working in the hospitality and tourism sectors via a temporary VAT cut and a discount scheme for restaurants, stating:
- “He has made a good start...offering targeted and tailored help to companies to get them through to what we hope will be better times in 2021”*¹⁶
80. While ICAEW's recommendations in this submission are sector-neutral policies and urge the need for a recovery strategy that covers the economy as a whole, we do believe it essential that the Government and Parliament remain open to the unique challenges facing individual sectors – and consideration available to further targeted measures where necessary. ICAEW is ready to help with this task, through our network of members across the UK.
81. Reading through the insights from our members, there were two consistent messages that appeared during conversations: a need for **clear and consistent guidance** so that

¹⁵ ICAEW/Oxford Economics, *Coronavirus Economic Outlook – Differences between sectors* ([link](#))

¹⁶ Michael Izza, ICAEW Chief Executive ([link](#))

businesses can plan their operations during the recovery; and measures which **stimulate consumer demand**, as well as address existing issues suppressing this.

Travel, Tourism and Hospitality Sector

82. This sector has been among the hardest hit by the coronavirus crisis. The onset of COVID-19 came at a time when many of them were still seeking to recover from the impact of Thomas Cook entering liquidation in September 2019. Additionally, many of them will be among those businesses who will take the longest to recover from this crisis.
83. ICAEW members operating in this sector have told us that there will need to be continued government intervention over the coming weeks and months to protect the sector – even despite recent actions by the Government to reopen the sectors. Many drew comparisons to the steps being taken by the governments of other European countries to support these sectors as sources of inspiration.
84. Our members also raised concerns that consumer confidence in this sector had already been weakened by the collapse of Thomas Cook – there remain legacy regulatory issues which need to be addressed in order to most effectively restore consumer confidence. Once this was resolved, the Government should pursue the enhancement of measures to promote and support safe travel by consumers.
85. Our members also stressed that businesses in this sector require clear and consistent guidance to allow them to plan their operations over the coming months. While some guidance will need to change according to circumstances and scientific advice, businesses can better adjust to ‘evolution’ rather than ‘revolution’. Additionally, owing to the length of time it might take for this sector to recover, they cautioned that the Government be considering retaining, and if necessary expanding, employment support measures those workers in the travel, tourism and hospitality sector.

Retail Sector

86. ICAEW members in this sector welcomed the relaxation of the 2-meter social distancing rule, the benefits of which included increasing capacity for smaller stores to accommodate shoppers and helping the hospitality sector reopen which could lead to increased retail footfall. However, many of our members raised frustrations that the 2-meter rule was only relaxed after retail stores across the UK had already made extensive reconfiguration plans to accommodate this distance. They commented that the support packages implemented so far do not include measures to help businesses with the cost of reconfiguring retail units for social distancing – exploring the introduction of capital allowance support or tax relief would help stores in making this transition.
87. Crucially, there was a feeling among our members that the current situation where many shops remain closed, and long queues outside those shops who have reopened owing to social distancing requirements, does not inspire consumer confidence. They suggested that shop owners and customers are both nervous about returning to Britain’s high streets.
88. Our members also had concerns that consumer spending could end up being a drawn-out issue. While there might be a short-term spending boom as customers come out of lockdown, enhanced by stimulus measures announced by the Chancellor during his Summer Economic Update, this initial ‘excitement’ was likely to die down. Longer-term, their suggestion was that it is likely to be decreased spending owing to labour market uncertainty, which will make the public save money rather than spend. The Christmas season will be a big test for consumer confidence, especially as to whether people are comfortable in crowds.
89. Additionally, they observed that the lockdown has accelerated the already rapid move towards online shopping. This intensifies the need for a recovery strategy that encourages consumers to direct their spending to physical locations, rather than just across the economy.

Construction and Real Estate Sector

90. ICAEW members in this sector agreed with the Government in focusing on infrastructure as a central pillar of the UK's economic recovery. However, the action required to stimulate growth would vary depending on the type of construction.
91. From a housing perspective, our members had concerns that there will be a reduced appetite and/or capability to buy among low-income and first-time purchasers, driven by circumstances in the labour market. They suggested that improving the planning system could help to unblock development, and there could be consideration of increasing the value of grant provided by Homes England to finance greater development of social housing. Our members also suggested looking at Stamp Duty Land Tax and VAT savings targeted towards key workers and affordable housing.
92. Looking to wider infrastructure, our members looked to the construction of the Nightingale Wards in response to the coronavirus crisis as proof of the efficiency which modern methods of construction can bring. Incentivising construction companies to invest in improving methodologies and processes would bring benefits to the delivery of infrastructure projects. Streamlining the procurement process would also help, for example having pricing based around value for money in procurement, rather than lowest cost.
93. No matter the type of construction being pursued, the viability of the companies themselves is important. Our members stressed that the cash liquidity of businesses in this sector will become even more important as they lay the foundations for the UK's long-term economic recovery, and confidence will be damaged if they are unable to grow and succeed. A topic which our members raised was the impact of Coronavirus Business Interruption Loan Scheme (CBILS) repayments, as there was the risk that an overly short timescale for repayment could lead to too much cash leaving the system.

Manufacturing Sector

94. ICAEW members in this sector raised concerns over how businesses would be able to repay loans received through business loan support schemes, with many feeling that repayment would make the company's financials unviable in the long run, preventing a sustainable recovery. In these circumstances, grants would function better than loans in helping the manufacturing sector return to growth and should be actively considered by the Government.

Health, Dental and Social Care Sector

95. ICAEW members in this sector commented that the levers available for stimulating consumer confidence in healthcare were different to the rest of the economy. While private healthcare practices have seen financial pressures from coronavirus, others had continued to receive funding. Additionally, traditional stimulus measures such as cutting VAT doesn't broadly affect them.
96. Those involved with dental practices highlighted the need for adjustments to targets under NHS licences owing to the requirement that they remained closed during the lockdown, and that there remained capacity challenges for seeing patients moving forward.
97. Our members involved in adult social care, and in particular care homes, were the most sensitive to the need for measures to rebuild consumer confidence following this crisis. They stressed that care homes are safe places for vulnerable people to live where good infection control procedures are adhered to, and that investment would allow them to future-proof themselves and deal with any future outbreaks in a more positive manner.
98. One recommendation made by our members in the adult social care sector was to amend the current rules so that extensions and refurbishments of existing care homes attracted a discounted VAT rate, or were zero-rated, rather than being standard-rated. They felt that the current rules favour new build care homes owing to their zero-rating, which can push care fees higher because they cost more to build than using existing assets. They suggested that sustainably expanding existing assets would deliver additional beds without incremental increases in care fees.

99. Another major priority for our members was around needing insurance companies to be required to tie their Infectious Diseases exclusions in Public Liability insurance to Public Health England's list of Notifiable Diseases. Our members were concerned that currently insurance companies were seeking to exclude COVID-19 from new and renewed Public Liability insurance policies for care homes, which would have severe consequences for the sector in the event of future outbreaks.

Entertainment, Media and Sports Sector

100. ICAEW members in this sector raised concerns over the difficulty of planning for the future owing to uncertainty of when customers will be able to return at scale. They commented that theatres might be able to reopen until spring 2021 which would make it difficult to retrain staff, even with the Coronavirus Job Retention Bonus scheme; and that those in cinema chains weren't sure how requirements around face masks might affect customer spending on good and drink – a large proportion of profits for these businesses. Similarly to ICAEW's Travel, Tourism and Hospitality Community, our members in the entertainment, media and sports sector urged the Government to be open to retaining, and if necessary expanding, employment support measures those workers in the entertainment, media and sport sector.
101. Another issues raised by our members in this sector were around restarting production. They felt it was urgent for production to restart again with simplified rules, and their lifting at the earliest opportunity. They also highlighted that there were growing issues around insurance for film production, with quotes "very high" at the moment – this was acting to depress and prevent this sector moving back to 'normal'.

Energy and Natural Resources Sector

102. ICAEW members in this sector suggested that government investment to accelerate the UK's hydrogen economy had the potential to bring in huge number of investors, while incentivising Oil & Gas companies to invest in new infrastructure and production. They commented that it could stimulate engine designs for HGVs and Buses, materials sciences, and create a whole host of skills and a supply chain in the UK first, that can give rise to companies able to export production and services. This could also be applied to a number of emergent technologies, including sensors, advanced materials, advanced nuclear reactors, space and aerospace, satellites, and internet of things devices.
103. Our members also highlighted that heat pumps are another huge stimulus enabler, suggesting that a small subsidy will create jobs for electricians, plumbers, manufacturers, and reduce reliance on gas, oil and solid fuel heating. They stated that any stimulus should be applied to avoid the mistakes of the solar feed in tariff, which led to importing rather than domestic production, so the measure should apply to UK manufactured goods where possible.

Whether the Government should give a higher priority to environmental goals in future support?

104. Yes, the Government should give a higher priority to environmental goals in future support. The UK has entered a Decade of Transition and delivering on our SDG commitments, especially on climate change, will require action to start now, with an expectation that progress can be reliably and transparently evidenced. The sooner we begin, the easier it will be for businesses, particularly SMEs, to absorb the changes. Additionally, research suggests that most of the investment needed will be required in the next 10 years.
105. We note, for example, that as part of the first support package provided under Project Birch to Celsa Steel, the Department for Business, Energy and Industrial Strategy included conditions related to climate change obligations. It is right that government activity is co-ordinated within wider policy frameworks, including delivery of our SDG commitments.

Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?

106. In paragraph 32, we outline the principles which the Government should adopt as part of their recovery strategy. Any measures brought forward should prioritise the delivery of those principles – this will naturally lean towards environmentally sustainable industries and technologies.
107. More widely, we would encourage the Government to look at how they can invest in public services to make them more efficient and effective. Additionally, work should include ‘greening’ government, which is just as important as priority as the private sector.

How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?

108. Like many other organisations, ICAEW is deeply concerned with the impact of the coronavirus crisis on the education, development, and training of young people and adults. Now more than ever, we need to support flexible on the job and off the job training and professional development. There are also regional disparities which need to be addressed. ICAEW’s members operating across the East Midlands have emphasised the challenges which they face with graduate retention and in encouraging graduates to start business. At the moment, London is very attractive, so any strategy should involve a focus on how to retain skills in regional economies.
109. We need to focus on what the future of work will look like in a digital economy with more workers working remotely and therefore up-skilling remotely as well. We need to identify the changing skills needed by workers and employers in this new landscape. For example, before the pandemic, businesses in finance and accountancy reported that they lacked workers with the right skills and on the job experience needed to perform. Now these skills will have changed.
110. Specifically facing and concerning for the accountancy sector and profession, is that the current crisis is likely to result in redundancies for both trainees and apprentices studying the ACA which would potentially reduce ICAEW’s student intake to between 20-40%. Therefore, we need the Government to identify which are the key sectors and skills essential for the future prosperity of the country and prioritise actions for these sectors. Accounting and finance, with its growing emphasis on data, AI, IT and other tech skills, is one of the key sectors we believe the government should identify and prioritise support.
111. For those trainees who lose their jobs, we believe that the Government should explore measures to help finance their continuing studies and allow them to study full time if necessary. Similarly, those who would like a job in accounting and finance, but who are unable to find a position because of the expected jobs retraction, should be funded for full time training or apprenticeships. Without this intervention, we are concerned that the country will be facing a skills shortage of newly qualified accountants in 3 to 5 years’ time.
112. Secondly is access. Training and education programmes must be able to upskill through innovative and flexible learning tools. Educational institutions whether higher education, further education, or professional bodies such as ICAEW will need to support training and assessing remotely. Learning and assessment must be able to reach those people who do not always have access to digital tools. Such opportunities for training and development delivered remotely will rely on solid access to internet connection and equipment. The UK must ensure reliable and affordable internet access in all parts of the UK, so that certain regions are not put at a disadvantage furthering existing regional inequalities.
113. Furthermore, we must identify the current training schemes that were already suffering before the pandemic crisis. For example, apprenticeship take up was already dropping despite the vast amount of funding from the levy. We must ensure that apprentices can quickly come back into training. We must also ensure that all people, from whatever

background, are aware of and can access training and professional opportunities through apprenticeships.

114. Thirdly, and equally important is the need for government to take into account that the educational sector will also be impacted by the UK's departure from the EU. For example, they will need to ensure that the funding for students studying in universities, or in vocational programmes such as apprenticeships, is sustained or replaced. For example, apprenticeships in Wales are funded in majority by the European Social Fund, (£73 million from the EU for the next 4 years). This funding will disappear and the Government will need to secure new sources of funding.
115. The Government also needs to ensure that mutual recognition of UK-EU/EEA professional qualifications is included in a comprehensive free trade agreement so that (a) the mobility of UK qualifications (and hence their attractiveness) is maintained and (b) UK employers can secure the talent they need, wherever it comes from.

Business and green skills

116. ICAEW's members operating in Kent had a very clear message: "*skills and people are a key driver of growth*". Global organisations will do business where they have access to the required skill base, so it is important that the UK is ready to attract and win business in the post-coronavirus global economy. However, business skills have been a long-standing concern for companies across the UK. The availability of both management and non-management skills has consistently been shown as a majority factor affecting business confidence, investment and productivity in ICAEW's quarterly Business Confidence Monitor™. ICAEW's Business and Industrial Strategy team have undertaken a skills consultation involving our members operating across the UK economy. This is due to be published soon, and we will share with the Committee once available.
117. One message that came from our members working in business was that any skills strategy should take into account the new mix of interpersonal and digital skills which will be central to the new economy. They suggested a move towards making the delivery of education and training more digital friendly, skill specific and "*bite-sized*" in consumption. The lockdown of the UK economy and rapid shift towards remote working has demonstrated that we can digital technology effectively – bringing this to an educational setting can improve performance and efficiency.
118. Retraining will also be essential to delivering a sustainable recovery to ensure that workers can migrate into innovation and green sectors. Speaking to members, we heard about an engineering companies in the South East who retraining a hairdresser as an engineer themselves owing to gaps in government support. Our members in Wales were also keen to highlight the Proact scheme¹⁷, which they felt worked well as providing retraining to those workers who are unfortunately made redundant. Engineering and technology will be at the centre of a green economy, so the Government's recovery strategy included a focus on retraining to address skills gaps in areas such as engineering to drive productivity. This could be supported, for example, through the provision of vouchers to individuals by the Government to be spend on retraining.
119. More widely, the Government needs ensure that there is the appropriate ministerial focus on the role of apprenticeships, further education and universities as the engine for delivering skills for the workplace. We believe consideration should be given to transferring responsibility for post-16 education from the Department for Education to the Department for Business, Energy and Industrial Strategy to ensure that the UK's post-16 policy is in tune with the needs of business and economy as a whole.
120. If the Government has the objective of positioning the UK as a world-leading environmentally sustainable economy, then investment in skills will be essential for guaranteeing our ability to attract the best and brightest talent from across the globe, as well as equipping the domestic

¹⁷ <https://gov.wales/written-statement-proact-outcomes>

workforce for the future. Part of this will be investing in those skills required to measure emissions.

121. Additionally, there needs to be a wider education strategy for businesses across the UK to be able to develop an understanding of the steps they should be taking to address climate change, and the best way of doing so. This will include the Government producing standardised guidance on what businesses should be measuring and disclosure, and consideration given to financing an outreach programme to build awareness across the economy.

Sectoral comments

122. When speaking to ICAEW's Communities, we asked them what challenges individual sectors were seeing when it came to retaining skills, reskilling and upskilling.

Travel, Tourism and Hospitality Sector

123. ICAEW members operating in this sector suggested that the Government have a greater focus on apprenticeships, and that there should be more incentives for businesses to take them on – for example through tax credits or increased funding.

Retail Sector

124. ICAEW members operating in this sector commented that upskilling was currently taking place on an ad hoc basis, and that more versatility is needed to enable stores to adapt to changing circumstances. They highlighted that staff will possibly need to take on new roles in the future, such as leading logistics hubs, providing back office support for customer services, appearing on videos talking people through their stores, and setting up virtual showrooms. As a result, staff roles have become more flexible to accommodate for some of the workforce being furloughed. They cautioned however that this may lead to unemployment as store owners realise they do not need as many staff members. Additionally, while the retail sector is a good training ground for school leavers, this option for employment might decline as more and more shoppers move from the high street to online shopping.
125. Our members focused on two areas where retail will need to be investing in skills. The first is online skills, with stores needing to make large investments to ensure a high-quality online presence. The second is in languages, as our members commented that they are expecting a reduction in European Union staff employed after the end of the transition period.

Construction and Real Estate Sector

126. ICAEW members in this sector suggested that there needed to be greater investment in training and more use of experience-led apprenticeships. In particular, they commented that incentives should be provided aimed at increasing investment in research and development, including around modern methods of construction. They felt that the Government should encourage and address relevant training, incentivising the development and retention of new technologies and methodologies.
127. Additionally, our members urged a new approach to training, focused more on electronic and online facilities rather than just physical, daytime training.

Manufacturing Sector

128. ICAEW members in this sector agreed with a focus on this issue, feeling that it was an ongoing issue which the coronavirus crisis had "*shed a spotlight on*". They suggested that in addition to more government support on apprenticeships, there also needed to be an effort to upskill business leaders and owners on top of staff. They commented that one way of doing this would be to provide support schemes to drive innovation and research & development.

Health, Dental and Social Care Sector

129. ICAEW members in this sector felt that social care was treated as a “low skilled” job despite the training and investment required into staff. They highlighted that domestic workers were a limited resource, so as the UK population ages there will be a need to require more workers from overseas to fill the gap, and that currently proposed Points-based immigration system may fail to bring in sufficient care workers to meet our need. Our members also felt that if local authority funding was increased, then employers would be able to pay their staff more, therefore retaining valuable staff, as well recruit more.
130. Our members also commented that the healthcare sector as a whole had been pushed from a resource perspective during this crisis, and so there was a need to build more resilience in terms of capacity. They highlighted that while recent changes had reduced the exposure of GPs to high taxation charges, many were still going to be affected in this tax year. Additionally, they suggested that with the lockdown which prevented them from practicing, those operating in dental care might bring forward plans to leave the sector as there wasn't enough work for them to undertake.

Entertainment, Media and Sports Sector

131. ICAEW members in this sector suggested that there should be a focus on upskilling at a lower level, with more investment going into apprenticeships as they felt that there was a shift towards fewer people looking to go to university. They felt that there could be more support from government to make backstage at theatres more diverse, and people needed to be trained in multiple roles – they commented this could be helped by the provision of training skills grants for specified roles where there might be gaps.

Energy and Natural Resources Sector

132. ICAEW members in this sector suggested that the Government should focus on encouraging and supporting inward investment into the UK. They highlighted that both the US and Canada have created advanced reactor technology parks, where common research & development can accelerate the development of advanced reactors. Observing that some UK innovators are reportedly considering to Canada, they suggested that this could be reversed through the creation of a similar advanced reactor facility in Britain, with the Department for Business, Energy and Industrial Strategy providing support for technology acceleration.

Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?

133. We believe that the Industrial Strategy remains relevant and appropriate as a vehicle to deliver post-pandemic growth. However, the degree to which it can succeed will come down to how it is leveraged - whether in delivering specific objectives and seeking to achieve multiple. The Government should clearly articulate what it sees as the role of the Industrial Strategy as we recover from this crisis.
134. There are many challenges which the Industrial Strategy could be used to address. For example, delivering a 'levelling up' agenda for our regional economies which ensures that those areas which have been worst affected by coronavirus, and some which declined before this crisis, are revitalised. It can also be geared towards the Government's 'Plan for Jobs', trying to keep as many people in employment as possible as business recovers and we undergo the transition into a green economy. These are on top of the priorities of moving to net zero, maintaining our international competitiveness, and tackling wider socio-economic challenges facing the UK.
135. Our view is that the current Industrial Strategy is looking to meet all of these objectives. It is right to recognise the range of challenges facing the UK, however it risks trying to do too much over too many areas, limiting its ability to deliver meaningful improvement. At worst, some of these objectives might be contradictory – for example, any sectoral approach with

focused on those sectors which have a comparative advantage might undermine a wider 'levelling up' agenda. We recommend that the Government consider whether it would be better to define the Industrial Strategy as seeking to deliver just one or two objectives - allowing for a greater focus on identifying those steps required to achieve these objectives, and for a greater amount of resources to be allocated to delivery.

How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?

136. Speaking to ICAEW members operating across the UK there is a feeling that recent months including those pre-coronavirus crisis, has unfortunately seen the Government take an approach that has involved a greater degree of centralisation of powers and responsibilities for itself and for Whitehall. This is the wrong approach. It benefits big business, who have regular discussions with government ministers and officials, to the detriment of smaller businesses and those who operate in local and regional economies.
137. While supportive of LEPs as an institution, our members feel that there can be issues with their structure and leadership, to the detriment of the service to local business. They don't include the right stakeholders in order to deliver real improvement for local economies. Our members in Kent told us that all too often, local business leaders are being left out of the process, and those currently involved in LEPs frequently don't have a high opinion of local business support. This variability of business support meant that some LEPs were more successively than others. As was put by our members:
- "If you have a series of high profile but locally committed business people involved, with a clearly branded single county wide entity you are more likely to have action. In practice we have a high degree of fragmentation."*
138. This situation is exacerbated by problems with how LEPs communicate. Our members told us that businesses generally had a low awareness of what LEPs are doing, leading to a situation where businesses are not getting involved in LEPs because they aren't hearing about what they offer.
139. To deliver effective regional growth strategies, there also needs to be greater alignment and co-operation between neighbouring LEPs. ICAEW's members in the North East highlighted how their local LEP was seen to have limited value, especially on issues such as infrastructure, skills and housing, which require a regional focus that crosses borders between LEPs. These issues also require LEPs to have the necessary funding and powers to make a difference on these policy areas.
140. The importance of joining up economic and governance structures cannot be underestimated. Our members operating in the West Midlands raised concerns that while the West Midlands Combined Authority (WMCA) benefits from a clearly defined structure of LEPs and combined authorities, the WMCA doesn't cover the whole of the West Midlands. There are challenges encountered when different council leaders work together, with different viewpoints and different priorities. Additionally, our West Midlands members suggested that gaps in responsibility can exist between combined authorities and regional powerhouses – citing Stoke-on-Trent as an example of a previously strategic industrial town that risked being supported by neither the WMCA nor the Northern Powerhouse, losing out in the process.
141. Devolved, regional and local governments will have the best understand of the economic and business priorities of their area. However, without the right devolutionary framework, they can lack the ability to take long-term decisions for their area. ICAEW's members in Wales observed that:
- "the Welsh Government needs a more long-term and strategic policy approach to support regional growth...the ability to raise funding is severely limited, which inhibits a much-needed larger capital spend on infrastructure"*

Yet greater devolution on its own is not enough. We need confirmation that the HM Treasury Green Book criteria have changed for deciding where to invest in the UK based on return on investment, otherwise the much-needed levelling up of regions outside the South East will never happen.

142. To ensure regional and local government is equipped to deliver growth locally, we recommend that the government undertake a nationwide communications improvement programme, with the objective of levelling-up the communications of each LEP. As long as businesses' low levels of awareness inhibits their involvement in them, the potential of LEPS is wasted. Additionally, in areas without mayoralities or combined authorities, such as the North East, the Government should explore a new "super-LEP" structure could bring LEPs together to work on key issues such as housing, skills and infrastructure.
143. We also recommend that the Government review the scope of regional powerhouses and combined authorities to ensure that previously industrially strategic towns, such as Stoke-on-Trent, fall within the responsibility of one organisation. Regions worst hit in terms of industry and coronavirus cases, such as the North East, should be prioritised in any regional/local growth funding.
144. Finally, we recommend improved 'financial plumbing' underlying devolution, including a funding model more aligned to local priorities and greater transparency of decision-making. Local and regional government should also be encouraged to invest in local infrastructure and in supporting local business activity – within a prudential framework that protects the public interest.

What opportunities does this provide to reset the economy to drive forward progress on broader government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

145. ICAEW is committed to building a world of strong economies, and we believe that as the economy recovers from the impact of coronavirus, there is an opportunity for chartered accountants to create strong and sustainable businesses which are mindful of their wider societal responsibilities – a message conveyed by ICAEW's president:

*"Societies and governments want businesses to deliver more than just short-term profits, and by identifying risks and providing insights to support sustainable decision-making, chartered accountants can help organisations provide more meaningful information to achieve broader policy goals, such as net zero emissions. This is particularly important now, given the post-pandemic focus on economic restart and recovery."*¹⁸

146. As we rebuild the UK economy to be more environmentally and economically sustainable, the UN SDGs provide with a framework for delivery. ICAEW recently signed a letter alongside other interested organisations and stakeholders recommending that the Government:
- use the SDGs to unite all sectors behind a plan to build a stronger and more resilient economy;
 - use the SDGs to prioritise the most vulnerable in our society and level-up regional and societal inequalities; and
 - use the SDGs to build coherent policies for a healthy planet and to aid the transition to net zero.
147. The SDGs are an important guide on how to reset our economy because there are social and economic challenges facing our economy in addition to climate change. **In addition to building back green, we need to embed strategies in our economy to improve social mobility and diversity, tackle regional inequality and protect intergenerational fairness.** Therefore, levelling up regional and local economies should be a big focus.

¹⁸ David Matthews, ICAEW President 2020/21 ([link](#))

Decentralised decision-making and greater devolution may help improve regional and local economic performance.

What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?

148. Through this crisis, the Government has discovered it has more fire power than previously thought. The scale and pace of stimulus delivered has been unprecedented and has made good use of digital capabilities only recently developed by HMRC. As was said by the Financial Secretary to the Treasury:

“...had [the schemes] been done in normal circumstances, it might have taken months or, more likely, years to deliver just one of the schemes, let alone two”¹⁹

These successes should be examined to see what can be learnt and how these new digital capabilities can be further built on.

149. At the same time, the Government should also examine where there is inflexibility and complexity of public sector processes, including the tax and welfare systems, which have hampered the ability to respond quickly – in providing support to businesses and in some cases may have exacerbated gaps in scheme coverage. Reform and investment is needed in these areas.

150. The better use of data across government will be critical to its ability to support the economic recovery and finalising the Government Data Strategy should be a priority. There is a lot of valuable data that is not being shared across government or made available externally where it could be used to add value. The Government itself also needs to improve how it works, with better co-ordination and collaboration across government departments and between central and local government. Better use needs to be made of specialist skills and the work of civil service functions and professions should be developed further.

151. Also, a NAO report published recently highlights the lack of integration between adult social care and the NHS and a lack of investment over the last 10 years was significant in making it even more challenging to deal with the emerging problems posed by the crisis.

Sectoral comments

152. When speaking to ICAEW's Communities, we asked them what support could be provided to help improve their resilience to external shocks.

Travel, Tourism and Hospitality Sector

153. ICAEW members operating in this sector suggested that there needed to be risk assessments in place quicker to deal with potential issues, and that there needed to be greater regulatory oversight of this sector. They stated that consumer confidence in the sector was undermined at the beginning of the coronavirus crisis by airlines not adhering to existing repayment policies, and the provision of 'coronavirus vouchers' which did not hold the consumer rights as cash bookings.

Retail Sector

154. ICAEW members operating in this sector commented that UK retailers might move towards UK-sourced goods in the future as those working in retail observed imported goods being held up in various locations during the lockdown, and that following the end of the transition period, there might be cost and logistical implications for importing. They suggested that this could create opportunities for the construction of UK-based distribution centres, and that there would be a 'first-mover' advantage to moving to UK production and sourcing.

¹⁹ Hansard ([link](#))

155. Our members also suggested that there needed to be a focus on measuring going concern in the future. They stated that metrics could be applied to show how well businesses would be able to react to new situations, enabling them to prepare for worst-case scenarios. This would be part of retail businesses moving to a “*new normal*” of planning six months ahead, rather than month-to-month. More widely, they suggested looking at the resilience of the sector across the whole retail lifecycle, rather than just shop fronts, and how childcare provision might disproportionately affect it.

Construction and Real Estate Sector

156. ICAEW members in this sector suggested that there needed to a greater emphasis on domestic supply chains and an investment in sustainable growth, with a priority given to improving the UK’s communications infrastructure – especially broadband. More widely, they felt that there should be incentives provided to encourage a greater level of working from home, including from a design and planning perspective.

Health, Dental and Social Care Sector

157. ICAEW members in this sector pressed the need for a long-term funding solution for social care. They felt that care home funding needed an immediate uplift in local authority funding per resident, which would allow care homes to remove fee discrepancies between private and local authority funded residents. They suggested this could either be achieved through central government funding to local authorities increasing, or responsibility for social care funding should be transferred from local authorities to Clinical Commissioning Groups – which remove any duplication of resources between both local authorities and the NHS.

158. Our members also commented that the dental sector hadn’t been taken seriously as other parts of the healthcare system during the crisis. They stressed that dental care is an essential service and that as they are required to have hygiene measures in place, they should be allowed to remain open in the event of future shocks. They also suggested that greater urgency should be given to providing clear guidance on allowable treatments to enable forward business planning.

159. Finally, our members stated that this crisis had shown the need for clear plans on both the domestic stock of Protective Personal Equipment and on its distribution. They also urged that care homes should be included in government healthcare planning for support and testing.

Entertainment, Media and Sports Sector

160. ICAEW members in this sector suggested that the priority needed to be looking abroad to international partners, particularly in East Asia, to see how they adapted from previous serious pandemics. Our members felt there needed to be a focus on more manufacturing taking place in the UK, and that plans should be in place to support freelancer workers if there are future shocks similar to coronavirus given they are not currently covered by either the CJRS or SEISS. Within the sector, they commented that there needed to be more diversification, and that theatres are looking at an entirely slate for content with smaller casts, less set dressings and shorter plays – the feeling is that it could be too expensive to have larger productions like musicals.

Energy and Natural Resources Sector

161. ICAEW members in this sector suggested that the focus should be on rebalancing the economy regarding the generation of electricity. They observed that prior to 2008, the UK was a net exporter of energy, but that by 2018 we were importing 35MTOE of energy (approximately 370TWh). They stated that the UK needed to be able to generate and export power to the Republic of Ireland, Norway and to the EU, reduce our reliance on gas considerably, and consider exporting natural gas and hydrogen if we are able to grow our supply sufficiently.

What opportunities exist for the UK economy post Brexit and the pandemic for export growth?

162. The Professional and Business Services sector is a driver of export growth across the UK economy, as well an engine for sociality mobility, diversity and levelling up regions. As the UK agrees new trading relationships with the European Union and other international partners, there is the opportunity to cement Britain’s global competitive position by securing comprehensive access for UK services businesses. Professional partnerships and mutual recognition between international bodies strengthens the UK’s soft power through locally owned qualifications, training and standards. This soft power can be aided by removing barriers to allow international students to study at UK universities and then qualify as chartered accountants with employers in the UK.
163. ICAEW believes that as the transition period following the UK’s departure from the European Union comes to an end, it is vital the Government ensures the sector remains globally competitive and continues to attract investment and income for the UK. We believe that new trade deals must include Professional and Business Services issues, including full adequacy agreements for personal data, mobility of professionals, and mutual recognition of qualifications. This will ensure the sector remains globally competitive and continues to attract investment and income for the UK.

What role might government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned and held to account?

164. Government is already playing a role in the provision of debt capital through its loan guarantees. Work needs to start now on considering how this support can most effectively be continued and how ‘unsustainable’ debt can be restructured. The CityUK’s report on recapitalisation envisages an extended role for government through the creation of a UK recovery corporation and a range of innovative instruments. These include, for the smallest businesses, innovative use of the tax system to recapitalise unsustainable debt. Government will need to give careful consideration to the role it intends to play to ensure that viable businesses have the best possible chance of recovery and how it can best contain the call on taxpayer funds - including its exit options. Conventional forbearance and recapitalisation options are also included in the CityUK’s report and it should be noted that these will be the most suitable option for some businesses. The CityUK’s innovative suggestions raise important issues around conduct and borrowers’ understanding of scheme terms, given their complexity. These will need careful resolution.
165. Speaking to ICAEW members across all regions and nations of the UK, many had a hesitation around the Government becoming a major shareholder or investor in individual businesses, instead preferring that existing structures and frameworks were leveraged as a support option. For example, those operating in the North East suggested that the focus should instead first be on increasing investment in LEPs and regional powerhouses as an existing route to support businesses. Other options favoured included setting up local investment bodies along the same lines as investment businesses – with an expectation of growth, a form of return for taxpayers, and board membership – or establishing regional equity investment companies to provide support for businesses in their area.
166. If the Government did become a major shareholder or investor, our members stressed the importance of this not being long-term and having a clear exit strategy. They also suggested it should be careful selection criteria which included a focus on analysing the effect on jobs and other businesses locally. This was a key issue for our members operating in London, who felt that in the event government took a financial interest in a business, their behaviour be aligned with the wider strategic goals of the recovery – such as improving diversity and ESG measures. However, they cautioned that it be essential that this didn’t make the business uncompetitive in an international environment, and that chartered accounts would be well place to “safeguard the national purse” as strategic leaders in, and advisers to, business.

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