

Association of Accounting Technicians (AAT) response to the BEIS Business Productivity Review - call for evidence

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the BEIS Call for Evidence on Business Productivity, published on 23 May 2018.
- 1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of taxes.
- 1.3. The comments particularly reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by AAT's 4,250 licensed accountants.

2. Executive summary

- 2.1. **Productivity measurement issues are likely to impact the UK more than other countries.** This is because the effects of the technological revolution appear to be more pronounced here than in other countries.
- 2.2. **The quality of management is a real barrier to SME success and particularly to scaling-up.** There are substantial management resources in the UK market, Government must do more to promote them.
- 2.3. **Productivity enhancing technology and innovation would be more rapidly adopted if there were additional short-term financial incentives to do so and the UK had a more digitally skilled workforce.**
- 2.4. **Government could better utilise credible third-party organisations like AAT, the FSB, BCC and IoD and others with sizeable SME memberships - or access to large numbers of SMEs - to promote not only the various types of financial support available but other productivity raising issues including technology, training and management, marketing and so on.**
- 2.5. **The Prompt Payment Code must be put on a statutory footing and the maximum permitted payment time halved from 60 to 30 days.**

3. AAT response to the call for evidence

The UK's Productivity Challenge

- 3.1. Much is made of the often-repeated statement that it now takes a UK employee five days to produce what his or her counterpart in Germany can deliver in four days but comparisons to other countries are not always helpful.
- 3.2. UK employees work more hours over the year than those in France and Germany¹, and there is a high rate of employment, so it is important to put these numbers into context.
- 3.3. There is much to be done to boost productivity in the UK but official statistics may not be accurately reflecting what is really happening in British workplaces.
- 3.4. The way in which productivity is measured should be a concern to BEIS and Government more widely. Measurement issues are likely to impact the UK more than other countries given that the effects of the technological revolution appear to be more pronounced here than in other countries.

¹¹ OECD: <https://data.oecd.org/emp/hours-worked.htm>

- 3.5. Ireland has similarly benefitted from this revolution and as well as being home to the European headquarters of many high-tech companies from Google to Facebook, has a wealth of SMEs in the FinTech space. The Central Statistics Office in Ireland has started to use a different methodology to measure productivity in the high-tech sector. If applied to the UK this would mean the real value added in the UK economy is about £100bn higher than estimated – approximately 5 per cent higher than it is today and accounting for much of our supposed productivity shortfall.
- 3.6. Irrespective of the merits of international comparisons or problems with measurement, it is clear that the UK does not have the best rates of productivity and that addressing this shortcoming would provide many benefits.

Leadership & Management

- 3.7. The quality of management is a real barrier to SME success and particularly to scaling-up. The UK has a tremendous track record in starting up new businesses, a poor record at maintaining these businesses and an even worse record at scaling up those that remain. It therefore comes as little surprise that the quality of management is consistently identified as a feature in these problems.
- 3.8. With almost half of all new businesses failing within three years, the Chartered Management Institute found that bad management was to blame for 56% of these business failures (2011-2014). If SMEs cannot survive the first three years then clearly, they cannot scale up.
- 3.9. Of those that do survive it is worth examining why they often prove incapable of scaling up. It is not just about funding or psychological barriers but management skills too. SMEs could and should perhaps make greater use of the world-class business expertise and knowledge available from University business schools across the UK, especially the many that have gained the Small Business Charter. They should also consider utilising the excellent resources available from the Chartered Management Institute, including qualifications where appropriate. Similarly, the Federation of Small Businesses does much good work in this area too.
- 3.10. AAT offers a range of relevant learning opportunities relating to finance for non-finance managers and www.informi.co.uk offers help and advice on how to effectively manage the workforce.
- 3.11. Put simply, there are substantial resources in the UK market, Government must do more to promote them, utilising credible third-party organisations such as AAT, FSB, IoD and the BCC. Increasing businesses' awareness of the availability and worth of these resources will certainly help to combat this significant problem.

Technology & Innovation

- 3.12. Simply investing in and improving technology may not be a panacea but it is perhaps the most significant piece of the productivity puzzle given recent estimates suggest Britain's manufacturing sector alone could unlock £455bn over the next decade, creating thousands of jobs if it were to properly embrace the fourth industrial revolution.²
- 3.13. According to the 2018 Automation Readiness Index, Germany is investing over 200m euros in digital manufacturing. In the UK, much was made of the £18.4m Government funding for digital manufacturing announced late last year³. This level of discrepancy may go some way to explaining why the UK ranks 8th in the Index compared to second placed Germany.
- 3.14. Productivity enhancing technology and innovation would be more rapidly adopted if there were i) additional, short term incentives to do so and ii) the UK had a more digitally skilled workforce.
- 3.15. In terms of incentives, BEIS would do well to consider some of the actions taken in Germany. For example, the fact that German companies can recover from Government up to 80% of the costs of automating HR processes such as recruitment.

² Made Smarter, October 2017:

<http://industrialdigitalisation.org.uk/wp-content/uploads/2017/10/Made-Smarter-Review-Final-Report-2017.pdf>

³ Over £18 million to go to manufacturing innovation, November 2017:

<https://www.gov.uk/government/news/over-18-million-to-go-to-manufacturing-innovations>

- 3.16. There are myriad ways in which technology can help UK businesses to prosper. Many of these require not just hardware or software but digitally skilled employees to make this a reality.
- 3.17. For example, many businesses are failing to turn their data into usable information. Data, as Facebook would testify, has huge financial value but companies need staff who can analyse and identify what may be valuable in informing business decisions to improve services and products.
- 3.18. AI and automation is already automating repetitive, mundane but often time-consuming tasks – especially in the accountancy sector. This leaves employees free to undertake more complex tasks, which inevitably drives up productivity but these staff need to be digitally capable too.
- 3.19. In Singapore the Future Skills Credit, a \$500 credit -paid directly to the training provider, is available to any Singapore Citizen over the age of 25 for retraining purposes.⁴ In South Korea, the unemployed are entitled to almost \$2,000 for vocational education and training.
- 3.20. In the UK by contrast, HM Treasury and HMRC are still consulting on whether or not to join the two thirds of OECD nations who already allow self-funded work-related training to be deducted from taxable income. AAT responded to the 2018 consultation on the subject, suggesting reform was long overdue and that Government proposals did not go far enough⁵.

The UK market for business support & advice services

- 3.21. There's strong evidence that accountants are the most trusted and used source of business support amongst SMEs in the UK. The Federation of Small Businesses produced a report in May 2017⁶ that indicated accountants were a more favoured source of business advice than LEPs, local authorities and growth hubs. In fact, there was no one more favoured.
- 3.22. This appears to be widely recognised and understood by policymakers given a joint study by AAT and ACCA published earlier this year⁷ indicated that over two thirds of MPs (69%) believe that professional accountants play a vital role in supporting small businesses and helping them to grow. Only 1% disagreed.
- 3.23. AAT recognises that some businesses might not have an accountant and likewise that those looking at establishing a small business rather than those who are already established, are unlikely to have an accountant. This was a key consideration when AAT established the free SME resource site www.informi.co.uk which includes free information and advice on a wide range of SME issues, not just finance, ranging from marketing and management to sales and administration.
- 3.24. Informi received almost 50,000 unique visitors last month which not only demonstrates the success of the site but a large appetite for such information from a very large audience.
- 3.25. AAT actively encourages its members to find out about financial support that will benefit their clients. For example, AAT recognises that as many as nine out of ten companies eligible to claim Research and Development (R&D) tax relief are failing to do so, that this is damaging for the companies concerned and the UK economy but it is evident that the accountancy profession can help. As a result, AAT actively encourages its members to better understand the scheme, ensure they are advising eligible clients about it and to offer to assist with applications.
- 3.26. In short, Government could better utilise credible third-party organisations like AAT, the FSB, BCC and IoD and others with sizeable SME memberships - or access to large numbers of SMEs - to promote not only the various types of financial support available but other productivity raising issues including technology, training and management, marketing and so on. The key to success is firstly providing consistent messaging via myriad third party organisations and secondly ensuring that this is sustained over a lengthy period of time rather than one-off or short-lived campaigns.

⁴ Singapore, Future Skills Credit:
<http://www.skillsfuture.sg>

⁵ Taxation of self-funded work-related training:

<https://www.aat.org.uk/prod/s3fs-public/assets/Taxation-of-self-funded-work-related-training.pdf>

⁶ FSB Report, May 2017: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/reformed-business-funding.pdf>

⁷ AAT Survey of MPs published 2018: <https://www.aat.org.uk/aat-news/mps-smes-not-prepared-for-brexite>

Miscellaneous

- 3.27. The success or otherwise of supplier relationships can be key to productivity. Late payment is a significant factor.
- 3.28. AAT is proud to be a signatory to the Prompt Payment Code and believes it not only sets a good example to AAT's customers but to AAT members, 60% of whom work for an SME but just as notably who also span more than 80% of the FTSE 100.
- 3.29. However, it has become increasingly clear that the code is being signed by two sets of companies, those who already took this issue seriously and were unlikely to have had any issues with payment and those who believe that because it is merely voluntary and no enforcement ever takes place, it can be signed but does not have to be taken too seriously, e.g. Carillion.
- 3.30. The code must therefore be placed on a statutory footing, perhaps initially among all listed companies and a year later, all companies employing more than 250 employees, including Government departments.
- 3.31. Government departments should be included because their focus on this issue appears to have waned. Government departments were supposed to pay 80% of all valid invoices within 5 days and the rest within 30 days as well as publishing their performance against this target from April 2015.
- 3.32. However, the last publication⁸ of performance was in August 2016 and there does not appear to have been any since. It is particularly interesting to note that given the costs of departments doing this would ultimately impact the Treasury, the Treasury failed to meet its targets on a single occasion.
- 3.33. In addition to placing the code on a statutory footing, the code itself needs to be changed. Payments must be made within an absolute maximum of 30 days rather than the current 60 days with the rather weak subsidiary commitment to "*work towards paying within 30 days*".

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy at:

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⁸ Government Payment details:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/544597/Central_government_performance_5_days_201516_docx