

Association of Accounting Technician's response to Business, Energy & Industrial Strategy (BEIS) Select Committee inquiry into SMEs and productivity

The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the Business, Energy & Industrial Strategy (BEIS) Select Committee inquiry into SMEs and productivity.

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. 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.

Irrespective of the merits of international comparisons, it is clear that the UK does not have the best rates of productivity and that addressing this shortcoming would provide many benefits.

There are many factors that can contribute towards poor productivity; a lack of investment, low pay, technology, access to infrastructure from airports to broadband, the list is lengthy. That said, there are developments in all of these areas that should provide reason for optimism, unlike the way in which our productivity is measured which provides cause for concern.

Access to management training

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.

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, but what about those that do survive, why are they not capable 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. Whilst AAT offers a range of relevant learning opportunities relating to finance for non-finance managers.

Put simply, there are substantial resources out there, the challenge is to increase businesses' awareness of the availability and worth of these resources to combat this significant problem.

Information on the availability of financial support

There are myriad financing options for SMEs in the UK, from the Business Angel or Venture Capitalist to bank and alternative finance. There are also numerous options that an accountant is likely to advise small businesses of where appropriate, from supply chain financing and leasing to factoring and invoice discounting. Government provides much help too. This is largely in the form of tax reliefs, grants and loan guarantees. The British Business Bank provides an increasing amount of assistance in the form of loans up to £25,000 for start-ups, partner assistance for scaling up or "staying ahead".

Despite this wealth of support, accessing finance remains a problem for many SMEs simply due to a lack of awareness about what is available and a lack of understanding about how what's available may be relevant for them. This is an area where accountants could and should perhaps do more.

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

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 2017² 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.

This appears to be widely recognised and understood by policymakers given a joint study by AAT and ACCA published earlier this month³ 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.

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.

Informi received almost 30,000 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.

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.

In short, Government could better utilise credible third-party organisations like AAT, the FSB, BCC and IoD and others with sizeable SME membership or access to large numbers of SMEs, to promote the various types of financial support available.

Late payment

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. 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 it can be signed but does not have to be taken too seriously, e.g. Carillion.

An obvious way to solve this problem would be to strengthen the code to require payments within 30 days rather than the current 60 days with a subsidiary commitment to "*work towards paying within 30 days*". The code could then be put on a statutory footing, perhaps initially among all listed companies and a year later, all companies employing more than 250 employees, including Government departments.

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.

However, the last publication⁴ 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.

Additional factors to consider

² FSB Report, May 2017: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/reformed-business-funding.pdf>

³ AAT Survey of MPs published 2018: <https://www.aat.org.uk/aat-news/mps-smes-not-prepared-for-brexit>

⁴ Government Payment details:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/544597/Central_government_performance_5_days_2015_16_.docx

Broadband

Almost a quarter⁵ of British SMEs have unreliable broadband access and too many have no access at all. The answer, connecting those businesses that have painfully slow, or in some cases no, broadband service must surely be a priority. The Digital Services Act, which contains a Universal Service Obligation⁶ to provide everyone with access to a connection of at least 10 Mbps is a good start although whilst 10Mbps is sufficient for residential activities it may be insufficient for many SMEs.

The 2017 Industrial Strategy announced, “... investment of £400 million in a new Digital Infrastructure Investment Fund to boost commercial finance for emerging fibre broadband providers, with £740 million earmarked for: local full fibre broadband rollout – developing the infrastructure to deploy full fibre networks into businesses and the public sector” as well as a “co-ordinated programme of integrated 5G and fibre projects to accelerate and de-risk deployment of future digital technologies.”

This is most welcome but as always, the devil will be in the detail and what is ultimately delivered. Government needs to constantly bear down on the likes of Openreach to ensure British SMEs have the broadband capabilities necessary for the digital age.

Measurement

As referenced above, the way in which productivity is measured should be of concern. 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.

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.

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.

About AAT

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.

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.

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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⁵ Independent, 26 March 2017:

<http://www.independent.co.uk/news/business/news/uk-business-broadband-quarter-connection-reliable-superfast-internet-connection-british-chambers-of-a7647661.html>

⁶ AAT response to DCMS, 2017:

<https://www.aat.org.uk/prod/s3fs-public/assets/AAT-DCMS-broadband-USO-consultation-21-8-17.pdf>