

Written Evidence Submission by The Chartered Institute of Management Accountants (CIMA) (LRS0029)

About CIMA

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

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

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

Contact

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Executive Summary

Levelling up the UK economy to ensure there are job opportunities and growing industries throughout the country is a worthy aim. The pandemic has led to an increase in home working and gives the UK an opportunity to explore the potential for a greater number of skilled professionals currently required to work in London and the South-East to work throughout the country in many medium sized towns and cities in the north and midlands where there previously were fewer job opportunities.

All tiers of Government need to work together to build a business environment conducive to increased business investment particularly in those areas of the country that have lower productivity and fewer high paid job opportunities. The proposals below are based on an understanding that the Government does not deliver growth, it works with business to provide the infrastructure investment and tax and regulatory structure to encourage private investment.

Government can have an impact in encouraging R&D and supporting businesses to identify opportunities to invest in technologies and different work practices that support the Government's green policies and net zero objective.

CIMA recommend that the following be considered:

- UK Government to support the growth of R&D clusters around the country to spread economic growth and opportunity nationwide.
- Investment by the UK Government to level up the UK to include investments in skills and links with academic institutions to build on the existing expertise.
- UK Government to introduce a new Growth Accelerator Scheme.
- Review the Industrial Strategy and infrastructure plans to support a net zero recovery.
- UK Government to encourage businesses to use integrated reporting.
- UK Government to use its role as a contractor to support its levelling up agenda and green growth.
- Government to look to remove barriers to private sector investment and delivery of green growth and a net zero recovery.
- R&D tax policies of other countries to be considered to learn lessons and shape the UK approach.
- Investment in broadband, transport links and skills development to help northern and midlands cities and medium sized towns to take advantage of the opportunities home working provides.
- Decide investment projects by those delivering the biggest return on investment or the biggest impact on a regions' growth prospects.
- UK Government should not seek to replace lost EU funding but to allocate funding according to UK needs and priorities.
- UK Government to look at lesson to be learnt from the London Docklands Development Corporation/Canary Wharf Group.
- Consider putting infrastructure related funds under the control of the British Business Bank or a new dedicated British Infrastructure Bank.

- Infrastructure projects could be based on bids received from local and regional government, public and private entities, and a gap analysis on a regional basis of the infrastructure most likely to boost UK productivity in each region.
- Infrastructure projects should be funded when they have a margin of safety to account for projects overruns and to ensure value for public money.

Responses to the relevant questions from the consultation:

Evidence base:

- **What evidence exists to measure the performance of the various tiers of regional and local government in the delivery of growth?**
- **Considering the cost of institutions, what cost benefit analysis exists to show the value for taxpayers' money when compared to the delivery of wealth and job creation?**

0.1 The UK does not have a planned economy and so regional, and local Government shape the business environment, but they do not deliver growth. Economic growth is the product of private investment by businesses and private individuals. Regional and local Government cannot switch on economic growth. Government entities help build an environment in which private business can grow, Government do this in partnership with business. Government at all levels has a vital role but it is in enabling the private sector to deliver growth.

0.2 Governments' role as an enabler of economic growth is vital. It can invest in infrastructure and skills to make it attractive for private companies to invest. Policies on regulation and tax can encourage or detract private investment. Similarly, the speed, efficiency, and attitude to business of local and regional authorities can aid or hamper business investment. Each of these indicators can be used to judge the success of a local administration along with the local economic growth rate. League tables on items such as council tax already exist but thought should be given to how to rate each local authority for the other indicators identified.

0.3 It should be noted that the UK is a very centralized country and a lot of state expenditure is by or at the discretion of central Government. Measuring the performance of regional and local Government on creating an attractive business environment in terms of tax, regulation and infrastructure provision is difficult when these authorities don't always raise the money spent locally and have little freedom of maneuver on items such as tax, welfare and regulation. Increasing the proportion of revenue raised and spent locally would make it easier to judge the performance of regional and local government in creating an attractive local business environment.

0.4 Allowing more local discretion would lead to a divergence of performance due to the choices that different areas make and their efficiency in delivering them. Some areas might fail or experience lower economic growth affecting their ability to finance local public services. Local electorates can of course reward or punish local government based on their performance and they may be more likely to vote on this basis if local government is more empowered. In time, this could be an important indicator of local areas success in generating economic growth.

0.5 Identifying those local authorities with the lowest local growth rates will enable Central Government to concentrate on those areas falling behind and to work with the local authority

to address the reasons why this is the case. Central Government can then offer targeted assistance with appropriate conditions attached and allow those areas that are succeeding to continue as they are. This approach would minimize costs when compared with attempts to standardize policies across the country.

Stakeholder engagement:

- **How does each tier of regional or local government engage with delivery stakeholders (such as businesses, education providers, etc)?**

0.6 Local authorities will often work with business through a recognized structure such as the Local Enterprise Partnership. CIMA is ready and willing to engage with Government partners at all levels and values the opportunity to respond to consultations. Government/business engagement should remain flexible and open to a wide variety of different businesses and not be confined to those who are members of designated local structures such as the Local Enterprise Partnerships important though those bodies are.

Sustainable local economies:

- **How could a green economic recovery stimulate local economies and embed upskilling at a regional level?**

0.7 There is a growing demand for green products and technologies. Building on the existing expertise located around the country the Government can help boost the supply of skilled labour and build an attractive environment for research and product development. Through encouraging the growth of R&D clusters spread around the country the UK Government can help level up the economy and the spread of high value jobs.

0.8 This investment should include investing in skills development and collaborations with academic institutions. Starting from a basis of where there is some capacity or local expertise already and consulting with the private sector about the current barriers to green growth could help stimulate local economies. The Government should look at models such as development corporations to help drive both public and private investment into left-behind regions and the infrastructure needed to support a net zero target.

0.9 The Government could also introduce a Growth Accelerator scheme allowing businesses to access expertise as they need it to scale up and to rebuild their operations. This will include financing the help of professionals such as finance managers, accountants, lawyers, and marketing experts to name but a few. Private companies may not be aware of the full range of improvements that can be made to reduce their emissions and the growth accelerator could help them to access much needed expertise.

- **Which tiers are best placed to provide the leadership of local net zero and skills-based priorities?**

1.0 As we indicated in our BEIS Industrial Strategy consultation response we would advise the UK Government to review the Industrial Strategy and infrastructure plans to see how they can increase with speed investing in green infrastructure supporting a net-zero recovery and investing in infrastructure projects that will support business growth and productivity

such as faster broadband and better road and rail infrastructure. This will need to be delivered in partnership with local and regional government where appropriate.

1.1 Regulators and Central Government should also encourage the adoption of integrated reporting for businesses across the UK. This will help firms concentrate on creating long-term value. It will ensure that targets such as Net Zero are part of the criteria under which business performance is assessed, helping increase its prominence and encouraging managers to prioritize its achievement.

1.2 Much of the change that needs to occur will be the product of private business innovating and changing their practices. Central Government can make it easier for businesses to transform what they offer to accommodate green improvements. The adoption of integrated reporting should be widely encouraged for businesses across the UK as it will encourage businesses to account for and make delivery of green targets a priority. The accountancy profession has a role in achieving the net zero target by ensuring the importance of accounting for factors wider than the financials as part of reporting.

- **Should leadership responsibilities be separate from delivery responsibilities?**

1.3 In theory leadership and delivery management should be combined to ensure that leaders are responsible for achieving their stated policy goals. However, as we mentioned in our previous comments Government's role is in shaping the business environment. Government is seeking to achieve changes to private sector behaviour and thus must concentrate on creating a business environment conducive to green growth and achieving the net zero target. Government will have to work through third parties.

1.4 In terms of Government expenditure leaders at all levels may wish to deliver their goals through contracted third parties that they manage. Given the high percentage of GDP accounted for by Government spend the Government's role as a purchaser can be used to incentivize green practices. In addition, we have commented previously on how for some essential goods the UK Government may wish to encourage the development of a strategic reserve and encourage diversity of suppliers.

1.5 As green growth requires changes in private business practices it will require a partnership between Government and business to deliver green growth in that sense the leadership Government can provide will be about removing barriers to private sector delivery of green targets as well as using its power as a contractor. In addition, Government should look to what lessons from other countries can be learned on R&D tax incentives and aligning them with the net zero target.

Targeted regional investment:

- **How could 'shovel ready' growth projects in England drive local growth and jobs?**

1.6 As previously noted the Government has an essential role in ensuring the provision of infrastructure to support private business growth. Improved transport links particularly in the north of England and Midlands to join up cities in these areas will help them have the scale to compete more effectively in retaining talent and attracting investment. The pandemic has accelerated a move to home working, and this could give a new lease of life to many medium sized towns and northern cities where housing is affordable but high paid jobs were formally scarce.

1.7 The UK has very poor connectivity and investment in full fibre broadband and its more rapid deployment will be essential to business growth. During the pandemic, the percentage of the population working from home increased substantially and it looks like this trend may continue as the pandemic gradually fades – fast and reliable broadband is more essential than ever. CIMA has moved all its exams online as part of its response to Covid and changed its qualifications to meet the needs of the new digital economy. The UK needs a broadband infrastructure that can meet the requirements of a country that has one of the largest economies in the world.

1.8 National Government can also incentivise business to redeploy investment and workers in the ways required for a green recovery by making it easier for business to adapt and transform to fulfil new tasks, and adopting integrated reporting so businesses can capture long-term value creation in the way they report on progress and what they monitor and manage. This is one of many reasons that CIMA encourages businesses to report on items wider than financials.

- **How could clustered R&D investment support local growth?**

1.9 The UK government should look to create skills clusters across the country. As we have noted in previous consultation responses, to an extent, this model already operates in the UK. For example, Barrow/wider Cumbria has an economy somewhat focused on the nuclear submarine and nuclear power industry, London has finance and the professions, South East England has motor sports. This model also works in other countries, for example Silicon Valley in the United States.

2.0 This regionalisation of expertise should and could be built upon, so each area of the UK has a highly skilled field in their local economy that can support jobs through their supply chain and wealth generation. One area the government should look at with this model is linking education to the local economy. This will include considering how schools, colleges, and universities support employment in these skilled sectors in their localities. CIMA is willing and able to work with the BEIS Committee, the Government, the Labour Party and other opposition parties to explore how this could work in the accountancy sector.

- **How should priorities be agreed across the regions?**

2.1 The investments that deliver the biggest return on investment and the biggest increase to a region's growth prospects should be prioritized. This is preferable to allocating equal funding to each region which might mean that investments of lower value are made to ensure a regions' allocated funding is fully spent. The projects to be funded could be finalized through a formal bidding process where local authorities and regions bid for funding from a central pot. This process could give greater weight to projects that involve collaboration between different local authorities and clear business benefits.

Regional funding:

- **How should the UK Shared Prosperity Fund be specifically targeted to replace EU Funding and address regional inequality?**

2.2 The UK should not seek to replace EU funding; the shared prosperity fund should be allocated to invest in boosting the countries growth potential not simply to make up for lost EU investment. EU funding was allocated according to EU criteria, the UK will now set its own priorities and thus funding should be allocated according to UK priorities. The UK

Government should seek to ensure that in matters of infrastructure such as broadband or transport links all areas enjoy high quality infrastructure that supports local growth.

- **What role should local structures play in allocating funding to best achieve regional growth?**

2.3 If Central Government is providing the funding it will set the criteria or the institution it assigns the responsibility to distribute funding. It is unlikely that the UK Government will distribute funding without conditions attached for understandable reasons. Allowing local authorities to keep more of the benefits generated from any increased economic growth would be desirable. In addition, ensuring that the UK move to have more tax revenue generated by local and regional authorities from the people in their areas will also increase transparency and efficiency.

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

- **What role could the British Business Bank have in the post-Covid-19 levelling up of regional economies?**

2.5 Investment to improve the infrastructure in areas outside London and the South-East is urgently needed and has the capacity to substantially increase UK productivity. However, it is possible that revising the standards by which value for money is determined will allow the funding of projects of dubious value or for current spending to be disguised as investment. Provision of support through the British Business Bank could ensure that investment is made according to commercial criteria ensuring better value for money.

2.6 In addition, the Government should consider the creation of a British Infrastructure Bank based outside of London to support regional growth. Learning from the experience with the Green Investment Bank and the British Business Bank. The new infrastructure bank could be funded through combining existing funding allocations to different infrastructure projects and/or new seed capital provided by the Government. This would also help build up infrastructure funding expertise to ensure there is an appropriate emphasis on value for money from Government investment.

Project Speed:

- **How should Project Speed identify and distribute growth opportunities into communities across the country to best achieve its levelling up agenda?**

2.7 It would make sense to ask local, regional Government, private entities, and the public to identify projects and pitch them to central Government. Separately, the UK Government can produce a gap analysis on a regional basis to identify which infrastructure investment would boost UK productivity the most for each region. Project Speed should identify investments based on these two sources, prioritizing those projects with the highest rate of return and/or the biggest impact on growth for each local economy.

2.8 The UK Government will need to provide the funding according to clear criteria with a focus on securing value for money. The projected return on investment should exceed the cost of the project by a healthy predetermined margin either as an individual project or

combined with other funded infrastructure projects. This will give a margin of safety to account for project cost overruns and any future increase in interest rates given these investments will be funded through borrowing.

2.9 It is recognized that in certain places multiple investments may be needed to improve road, broadband and other key infrastructure and that the return on each will be dependent on improvement in all the areas. The Government should ensure that investment is not confined to physical infrastructure such as roads and broadband, it should include investment in skills because skilled labour is a major attraction for private investment.

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