

Written evidence submitted by the Association of Accounting Technicians (AAT)

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to this inquiry into jobs, growth and productivity published on 1 April 2021.
- 1.2. The macro-economic questions are not particularly relevant to AAT or its membership so we have instead decided to respond on to those questions where there is a strong link to AAT member activities and interests.
- 1.3. The comments particularly reflect the potential impact of such issues our 90,000 students and prospective students as well as on SMEs and micro-entities, many of which employ AAT members or are represented by AAT's 4,250 licensed accountants.

2. Executive summary

- 2.1. **Measurement weaknesses may go a long way to explaining why the UK has comparably poor levels of productivity.**
However, a range of other factors from skills and management deficiencies to late payments, play a role too.
- 2.2. **AAT has long campaigned for the Government to introduce tax relief for self-funded work-related training as a means of better equipping people to upskill, reskill and move between sectors and occupations.**
AAT urges the Treasury Select Committee to consider recommending the same.
- 2.3. **AAT acknowledges the many examples of British failures to monetise technological discoveries but believes the numerous success stories of financially successful innovators in the UK demonstrates that the country is more than capable of commercially exploiting innovation and may in fact be rather well placed to do so.**
This is explained in more detail at 3.43-3.70 below.

3. AAT response to the consultation paper

- 3.1. **What are the causes of the gap in the UK's level of productivity compared to other advanced economies, and why has productivity growth been persistently weak in the aftermath of the 2007-09 financial crisis?**

Measurement

- 3.2. As AAT has repeatedly stated¹, 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.
- 3.3. There is also much to question in simplistic international comparisons. For example, 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 France can deliver in four days.
- 3.4. High labour costs in France make employer investment in the latest technology more attractive than it is for UK firms. However, the significant trade-off here is that it has endured comparatively high unemployment rates since the financial crisis; has always been higher in France over the past decade and has regularly been more than double that of the of the UK since 2009.
- 3.5. In 2009 the unemployment rate was 8.74% in France compared to 6.5% in the UK, rose to over 10% in 2014 and 2015 (compared to 5.7%, Dec. 2014, and 5.1%, Nov 2015 in the UK) and remains stubbornly high at over 8.4% in 2019 compared to 3.8% in the UK in the same year.²
- 3.6. It is also worth noting that in the UK the ONS simply asks how many hours have been worked and uses such responses in their received form without adjustment. In contrast, many other countries make numerous adjustments to respondent's information. For instance, France reduces the number of hours worked because it believes workers overestimate how much work they have actually performed, thus boosting apparent productivity rates³. This seriously undermines the credibility of such results. Indeed, as a 2018 OECD report states, *"Evidence from the 2018 OECD/Eurostat national accounts labour input survey shows that the adjustments made to align measures of labour input with the corresponding measures of production according to the domestic concept, vary considerably across countries, with many countries making no adjustments, in particular, for the measurement of hours worked. This paper demonstrates that **countries making no adjustments to average hours worked measures** extracted from the original source, such as self-reported hours actually worked in the LFS, appear to systematically overestimate labour input and, so, **under-estimate labour productivity levels**"*⁴
- 3.7. In addition to problems with international comparisons, official statistics may not be accurately reflecting what is really happening in British workplaces either.
- 3.8. This is because the way in which productivity is measured is likely to impact the UK more than other countries given that the effects of the technological revolution appear to be more pronounced here than elsewhere – and may become even more pronounced post-pandemic.

¹ BEIS Select Committee inquiry into Small Businesses & Productivity, 2018:

https://www.aat.org.uk/prod/s3fs-public/assets/SME-Productivity-Inquiry.pdf?yCAnsw.k_HxWkKpl13LwqkTpaKtdKZ3

² Statista.com 2021:

<https://www.statista.com/statistics/263697/unemployment-rate-in-france/>

³ OECD, December 2018:

[https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SDD/DOC\(2018\)12&docLanguage=En](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SDD/DOC(2018)12&docLanguage=En)

⁴ Ibid

- 3.9. Like the UK, Ireland has benefitted from the technological revolution of recent years. 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.

Skills

- 3.10. With poor numeracy skills in the UK estimated to cost the economy up to £20bn a year and literacy and numeracy standards that fall below many other OECD nations, improving these basic skills would likely lead to a significant improvement in productivity.
- 3.11. According to a 2016 OECD report, the UK has, “...*the third highest level of poor literacy and numeracy skills amongst youth and is one of the few countries in which literacy and numeracy skills have deteriorated between the older and younger generation...*”⁵

Management

- 3.12. The quality of management is a real barrier to productivity, particularly in the SME sector – and particularly to scaling-up. There are substantial management resources in the UK market, Government must do more to promote them.
- 3.13. The launch of the Small Business Leadership Programme⁶ last year was a good example of how business and government can work together to deliver meaningful change in this area.

Technology

- 3.14. AAT has long argued that 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.
- 3.15. AAT therefore welcomes the Government commitment to a “Help to Grow: Digital” package to be launched later this year and hopes the provision of a 50% on the costs of approved software, worth up to £5,000, will significantly increase SMEs digital capabilities.
- 3.16. In addition, AAT has previously suggested that, given all jobs in the future are likely to require some form of basic digital skills understanding, a requirement for all students to have basic digital skills at GCSE grade 4 (grade C) or above in the same way that most employers currently require for GCSE Maths and English, would be a welcome statement of Government intent and of ensuring young people, parents and employers appreciate the rapidly increasing importance of digital skills⁷.

Third parties

Government could better utilise credible third-party organisations like AAT, the FSB, Chartered Association of Business Schools and Institute of Directors - 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.

⁵ OECD 2016:
<https://www.oecd.org/unitedkingdom/sag2016-uk.pdf>

⁶ The Small Business Leadership Programme – helping businesses adapt, grow and thrive, AAT Comment, 2020:
www.aatcomment.org.uk/news/the-small-business-leadership-programme-helping-businesses-adapt-grow-and-thrive/

⁷ AAT response to the Women & Work APPG consultation on Women & the Industrial Strategy, November 2017:
<https://www.aat.org.uk/prod/s3fs-public/assets/Women-and-Industrial-Strategy-call-for-evidence-response-15.11.17-FINAL.pdf>

Prompt Payment

- 3.17. The multi-billion pound UK late payment culture means that many small businesses waste time and resources chasing payment for work already completed rather than being productive. AAT undertook a long lasting and high profile campaign for the maximum permitted payment time under the Prompt Payment Code to be halved from 60 to 30 days so welcomed this change becoming effective earlier this year.
- 3.18. However, the Code is voluntary and therefore the majority of signatories (AAT included) already meet such requirements. It is the minority of UK companies (47% according to BEIS statistics) that fail to pay within 30 days for whom action is necessary. As AAT has repeatedly suggested, legislating to make 30 days the maximum payment term appears to be the only means left that will achieve the desired effect.
- 3.19. Government officials frequently cite the poor example of France as being the key reason why the UK would never legislate for maximum payment terms. However, this fundamentally fails to understand the reasons behind the poor performance of such legislation in France. The main weakness in France is not the existence of a maximum payment term but a lack of clarity around terms and a maximum payment term/s that remains far too long. For example, there is a maximum of 45 days for periodic invoices, 60 days for construction industry invoices and 90 days for those exporting outside the EU (as well as some other variations). A single maximum is required and one that is not too long. 30 days would appear to be perfectly reasonable and is line with what most companies (53%) pay already.

What policies are effective in helping people to reskill, move between occupations and sectors and take advantage of new opportunities? How could these be best implemented in the aftermath of the pandemic, and as technological developments such as artificial intelligence change the nature of work?

- 3.20. AAT believes considering what is working well in other countries may have some relevance to policymakers in the UK.
- 3.21. For example, 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.⁸ This has led to sizeable increases in reskilling and retraining participation rates and feedback from both employees and employers has been very positive⁹.
- 3.22. Similarly, in South Korea, the unemployed are entitled to almost \$2,000 for technical/vocational education and training, indicating serious Government intent to upskill and reskill its workers, especially important in a country that ranks as first in the world for robot density in the workplace¹⁰.
- 3.23. In the UK, AAT has repeatedly recommended that Government introduce tax relief for self-funded work-related training as a means of better equipping people to upskill, reskill and move between sectors and occupations.
- 3.24. Under current legislation, the self-employed can deduct the costs of training incurred “wholly and exclusively” for their business where it maintains or updates existing skills but not when it introduces new skills. This is clearly inadequate when the country is facing an urgent need for workers to upskill and reskill.
- 3.25. Likewise, whilst many employers pay for their employees to undertake training, many more do not. Where their employer doesn’t reimburse them, employees cannot receive tax relief other than in very limited circumstances when the training is an intrinsic contractual duty of their existing employment.

⁸ Singapore, Future Skills Credit:
<http://www.skillsfuture.sg>

⁹ Straits Times, 26 March 2018:

<https://www.straitstimes.com/forum/letters-in-print/skillsfuture-a-holistic-movement-with-multiple-indicators-to-measure-it>

¹⁰ International Federation of Robotics:

<https://ifr.org/ifr-press-releases/news/robot-density-rises-globally>

- 3.26. The Government previously consulted on this issue in 2018 but abandoned its proposals for change.
- 3.27. The reason for the decision was supposedly that, “...consultation responses indicated that tax relief is unlikely to be effective in addressing the barriers to learning or incentivising training.”
- 3.28. This was not a wholly surprising decision given the skewed nature of the public consultation and it was also a very misleading conclusion to reach given the reason most respondents said tax relief would fail to incentivise training was because of the Government’s insistence on capping the relief at such a low level – a maximum of £500.
- 3.29. AAT believes that concerns about affordability and sustainability are reasonable but that greater investment in workers is likely to lead to greater taxable incomes. In addition, the loss in tax revenue due to allowable training costs for individuals will become taxable trading income in the hands of thousands of training providers. That’s to say nothing of the likely savings from state benefit costs – an increasing concern as millions more switch from employment to claiming Universal Credit thanks to the impact of Coronavirus.
- 3.30. If affordability and sustainability are of such importance then limiting the types of training eligible for the tax deduction, rather than imposing a cap on the amount, is likely to be a better way of ensuring sustainability and affordability for public funds whilst simultaneously enabling the greatest likely return for the taxpayer.
- 3.31. AAT does not believe a cap is necessary, and evidently neither do two thirds of OECD countries who already provide tax relief for self-funded work related training but impose no cap.
- 3.32. If having a cap is the only way the British government will agree to provide such tax relief then it must be considerably higher than the derisory £500 it suggested in 2018. It should be at least £5,000 the cost of becoming a plumber or AAT qualified, only a little more than the cost of becoming a fully qualified HGV Driver or bricklayer and roughly half the cost of becoming a Chartered Legal Executive.
- 3.33. There is a wide spectrum of training available from a diverse range of learning providers in the UK but value for money and tangible benefits to individuals and the UK economy should be a key criterion in deciding eligibility for tax relief.
- 3.34. Rather than re-inventing the wheel, AAT suggests focusing on support for training provided by providers who have already been approved to offer formal qualifications i.e. those that appear on the Register of Regulated Qualifications, providing the government additionally allows tax relief for formal qualifications offered by professional organisations approved by HMRC for the purposes of tax deductions related to fees and subscriptions (the recently updated HMRC “*Approved professional organisations and learned societies*” list).
- 3.35. With tens of thousands of British businesses set to collapse owing to the Coronavirus pandemic, significant employment and skills disruption caused by Brexit, and an even more acute need to reskill and upskill British workers, the decision not to extend tax relief for self-funded work related training in 2018 appears to be even more short-sighted and self-defeating than it was at the time.
- 3.36. As a result, AAT submitted a Budget 2021 representation on the subject, continues to press the Government to reconsider its position and urges the Treasury Select Committee to consider recommending the introduction of such relief in its report on jobs, growth and productivity.
- 3.37. Furthermore, it is also worth noting the widespread support AAT’s recommendation has gained amongst MPs from all parties.

- 3.38. AAT commissioned YouGov, a global public opinion and data company, to undertake polling of MPs on the issue last month (March 2021). MPs were asked if they agreed with the following statement;

“Most OECD countries provide tax relief for self-funded work related training. The UK Government should also consider introducing this to encourage more upskilling and reskilling.”

- 3.39. Two thirds of MPs (66%) either “agreed” or “strongly agreed” with the statement and just 6% disagreed (no MPs “strongly disagreed”).
- 3.40. Breaking these results down by the two major political parties revealed that 64% of Conservative MPs backed the proposal and an even larger number of Labour MPs (74%) did so.

Is the UK well placed to take advantage of future technological breakthroughs and translate them into economic opportunities?

Barriers to success

- 3.41. Short-termism, a lack of awareness and the regulatory system are three oft stated barriers to the effective deployment of patient capital in financing growth in innovative firms, a key area for translating technological breakthroughs into economic opportunities.
- 3.42. However, as AAT highlighted in its 2017 response to the HM Treasury consultation on this issue¹¹, there are positive signs emerging in each of these areas.
- 3.43. For instance, in relation to short-termism, patient capital overtook traditional venture capital as a source of investment for the UK technology sector more than five years ago (2015).
- 3.44. In relation to regulation, the Financial Conduct Authority (FCA) introduced a regulatory sandbox which gives firms better access to finance, reduced time to market (often at lower cost) and of course, the ability to test products and services in a controlled environment. As a Deloitte study of the effectiveness of this sandbox concluded, *“While the benefits of going through the FCA sandbox vary, perhaps its biggest achievement has been to break the myth of regulation being a barrier to innovation.”*¹²

Success stories

- 3.45. So, with commonly stated reasons for failure appearing less significant when examined, it is reasonable to question whether or not the UK really is so poor at successfully exploiting innovation for commercial gain.
- 3.46. Inevitably some other respondents to this inquiry will highlight the frequently stated example of graphene, a material that is 100 times stronger than steel, as a classic British failure to capitalise on its intellectual property.
- 3.47. Despite being invented at The University of Manchester, the US, China and South Korea between them hold the majority of graphene patents (several thousand) whilst the UK has barely one hundred.
- 3.48. Likewise, perhaps the single most economically important creation anywhere in the world, the world wide web, was made here and commercially exploited to substantially greater effect overseas.

¹¹ AAT response to HM Treasury consultation, “Financing Growth in Innovative firms” September 2017:

<https://www.aat.org.uk/prod/s3fs-public/assets/AAT-consultation-response-HM-Treasury-Financing-Growth-innovative-firms-18-8-17.pdf>

¹² Deloitte, A journey through the FCA regulatory sandbox, 2018:

<https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/financial-services/deloitte-uk-fca-regulatory-sandbox-project-innovate-finance-journey.pdf>

- 3.49. However, there are other examples that prove the opposite. For instance, multi-billion pound Dyson, founded in the UK decades ago who have consistently innovated and succeeded commercially from the invention and sale of bagless vacuum cleaners to hand dryers to hair styling products and more¹³.
- 3.50. The UK has also become a European tech hub with numerous successful technology companies competing globally, with cyber security, one of the most important, economically and socially valuable concepts being a particular strength.
- 3.51. Main stays of the British economy, UK founded “big four” firms EY, PwC, KPMG and Deloitte, may be more traditionally associated with accountancy but are the worlds four biggest cyber security consultancies, and unsurprisingly are also the four biggest cyber security recruiters in the UK¹⁴.
- 3.52. However, it is not simply long standing, traditional companies who are innovating and taking advantage of global trends. A range of new organisations are blazing a trail in the cyber security space too.
- 3.53. DarkTrace is one such firm, founded in Cambridge in 2013 and now boasting a 1,200 workforce across the globe and eyeing a £3bn+ London listing – notwithstanding question marks over the initial source of some of its start-up funds from Mike Lynch¹⁵.
- 3.54. Synik may be less well known than DarkTrace in the British business media but is another £3bn+ rapidly growing cyber security firm founded and based in the UK (Reading).
- 3.55. The UK boasts the third highest number of unicorns (companies valued at \$1bn+) after the US and China (which account for almost 80% of unicorns globally) with 24 such companies¹⁶.
- 3.56. These range from electric vehicle unicorn Arrival and Cazoo, the UK’s fastest ever unicorn (an online car sales firm founded in 2018) to Europe’s most valuable FinTech unicorn, payments platform checkout.com (\$15bn).
- 3.57. AAT suggests that these numerous success stories demonstrate that the UK is far from incapable of commercially exploiting innovation and may in fact be rather well placed to take advantage of future technological breakthroughs.

The future

- 3.58. AAT believes it is also important to note the significant role Government can play in encouraging technological change that has far reaching economic opportunities.
- 3.59. The accountancy sector provides a good example of British technology businesses taking advantage of Government driven change.
- 3.60. The Government’s £1.3bn “Making Tax Digital” investment programme, to make HMRC one of the most digitally advanced tax administrations in the world, has led to the likes of Xero, Intuit, QuickBooks and Sage developing more consumer-friendly software packages businesses and their agents. Whilst much of this may have occurred organically, there can be little doubt that Government imposed deadlines have accelerated development, increased understanding and prompted wider take-up.
- 3.61. This example suggests that Government can play an effective role in increasing the adoption of automation and the development of technology products by setting relevant frameworks and imposing realistic deadlines for change.

¹³ Dyson recently relocated from Wiltshire to Singapore

¹⁴ New Statesman Tech, May 2019:

<https://tech.newstatesman.com/security/kpmg-pwc-cyber-security-talent>

¹⁵ Financial Times, Darktrace IPO filing contradicted earlier claim on Mike Lynch role, 15 April 2021:

<https://www.ft.com/content/5302ce7c-2d58-4e8b-843e-a181ee3a2bd1>

¹⁶ TradingPlatforms.com, March 2021:

<https://tradingplatforms.com/blog/2021/03/22/beijing-has-most-unicorn-companies-in-the-world-with-93-an-overview-of-chinas-unicorns-in-2020/>

- 3.62. Conversely, despite the good that Government can achieve here, there are also causes for concern.
- 3.63. Take for example the fact that the Government is investing billions of pounds of taxpayers' money in expanding mobile phone masts and burying fibre to ensure adequate 5G coverage across the UK, whilst simultaneously trying to overcome the technological problems of excluding Huawei from involvement in this process.
- 3.64. A very innovative, small UK company, Stratospheric Platforms Ltd, founded in 2014, appears to provide a more attractive alternative.
- 3.65. The company provides pioneering technology that can, "... *deliver fast, reliable 5G, and will allow roll out to take place far quicker than traditional terrestrial solutions.*"¹⁷
- 3.66. This company may currently have just a handful of employees but having developed technology that provides uninterrupted, broadband coverage over a wide area using a hydrogen fuel cell system that emits nothing more than water vapor as a waste product, it can ensure telecom companies could provide low latency 5G broadband connectivity in a very environmentally friendly manner at a fraction of the price of more traditional methods.
- 3.67. The company seems to have been ignored by the British Government yet has managed to attract investment from Deutsche Telecom.
- 3.68. A senior representative from Stratospheric Platforms Ltd. would probably make an ideal witness to give oral evidence to the Committee on the challenges faced by British innovators in seeking to commercialise their creations here in the UK.

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 500,000 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.

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¹⁷ Stratospheric Platforms Limited:
<http://www.stratosphericplatforms.com/>