



JOBS, GROWTH AND PRODUCTIVITY AFTER CORONAVIRUS INQUIRY

Issued 17 May 2021

ICAEW welcomes the opportunity to comment on the *Jobs, growth and productivity after coronavirus inquiry* published by the Treasury Committee on 1 April 2021, a copy of which is available from this [link](#).

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To build and sustain jobs and productivity in the longer term, the Government needs to communicate how its economic and fiscal strategies will evolve to address demographic changes as more people live longer and there is a proportionate reduction in working age population.

A mechanism for independent oversight and review of progress must be provided for the Plan for Growth. There must also be careful consideration of the outcomes of various reviews planned, to avoid contradictory measures, or undermining policy in other areas.

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This response of 17 May 2021 has been prepared by ICAEW's Corporate Finance Faculty and Tax Faculty, and its public sector team.

Recognised internationally as a source of expertise on corporate finance issues and for its monthly *Corporate Financier* magazine, the Corporate Finance Faculty is responsible for ICAEW policy on corporate finance issues including submissions to consultations. The Corporate Finance Faculty's membership is drawn from professional services groups, advisory firms, companies, banks, private equity, law firms, consultants, academics and brokers.

Internationally recognised as a source of expertise, the Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business.

KEY POINTS

1. Government measures for an immediate boost to jobs, productivity and growth conditions include a clear commitment to tax credits and reliefs for innovation (R&D) and investment (EIS and SEIS); business incentives for training and re-skilling; and practical and financial support for exporting businesses.
2. To build and sustain jobs and productivity in the longer term, the Government needs to communicate how its economic and fiscal strategies will evolve to address demographic changes as more people live longer and there is a proportionate reduction in working age population.
3. A mechanism for independent oversight and review of progress must be provided for the Plan for Growth. There must also be careful consideration of the outcomes of various reviews planned, to avoid contradictory measures, or undermining policy in other areas.

JOBS, GROWTH AND PRODUCTIVITY***How much difference can government policy make to economic growth?***

4. Central and local government both have a key role to play in providing or enabling the physical, economic, social, legal, regulatory, financial and tax infrastructure and high-quality public services that are necessary to foster economic growth. National and local policies – and how well they are implemented – can have a significant impact on the ability of businesses to thrive or not.
5. Stability in policy is often just as important as the specific policy choices made. There should be sufficient advance notice for policy changes that directly affect business and consideration should be given to phasing in changes where appropriate.
6. Increasing investment in transport and digital infrastructure is particularly welcome, but it is important that this investment is spent in an effective way that benefits local economies across the entire country.
7. Both central and local government have key roles to play in supporting the emergence of sector hubs that can foster innovation and build pools of talent.
8. Education remains a key area for improvement, especially in STEM subjects at school and in further education, to support careers that need to be much more flexible over the course of working lives.
9. The Coronavirus Job Retention Scheme was designed to protect viable jobs as businesses were forced to close or reduce their activities earlier in the pandemic. Since then, there are likely to have been redundancies among staff furloughed in the initial stages, but the effect of this will have been gradual. Through changing the scheme incrementally, the economic shock of a sudden major increase in unemployment appears to have been avoided. The full impact will be seen when employers begin to pay part of the cost of wages for hours employees are furloughed from 1 August 2021 onwards. They may be less willing to support the cost themselves of employing staff who are not working.

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?

10. There are numerous potential reasons for the UK's lower level of productivity than other advanced economies and for persistently weak growth since the financial crisis, but long-term underinvestment in infrastructure and education are likely to be amongst them.

How successful has the Government's pandemic response been in protecting jobs to date, and how can it help reduce and mitigate the economic scarring effects of the pandemic going forward?

11. The most recent Government statistics for CJRS claims made to 14 April 2021 show that:
 - Since the start of the scheme a cumulative total of 11.5 million jobs have been supported by the CJRS at various times.
 - There has been a decrease in levels of furlough between February and March 2021.
 - At 28 February, 41% of employers had staff on furlough. Provisional estimates show that this decreased to 39% of employers as at 31 March 2021.
 - 16% of employments eligible for furlough were on furlough as at 28 February. Provisional estimates show this decreased to 14% as at 31 March 2021.
 - 4.2 million employments were on furlough as at 31 March 2021.
12. These figures highlight the large scale of the intervention to support businesses and which was developed and rolled out at considerable speed by HMRC for which they deserve credit. As the CJRS is due to end on 30 September 2021, it remains to be seen whether many of the jobs that have been protected as set out above will nevertheless be terminated with effect from 1 October 2021. We expect that the Government will be scrutinising the economic data very carefully over the next few months to see whether the economy has recovered sufficiently to allow CJRS to be brought to an end as planned.
13. The CJRS was only one of a number of Government support schemes and we expect that the Government will be reviewing their effectiveness and cost over the next few months and whether any of them would be retained. There might also be a need for some other longer term support measures to be developed, and the CJRS statistics should provide an indication of sectors in need of such measures.

Do economic statistics adequately capture growth in the modern economy, and what lessons can be learned from the pandemic about the measurement of economic activity?

14. The Office for National Statistics (ONS) has made significant progress in recent years to improve the quality of economic statistics, for example in its use of more 'big data' sources to enhance the accuracy of its calculation of GDP. However, there remain significant issues with the timeliness and presentation of economic data and there is much still to do to expand the range and quality of data sources available to the ONS.
15. The pandemic has further emphasised the difficulty in measuring the impact of technology on the economy, and measurement needs to adapt to changing patterns of work, for example in a likely significant increase in remote working post-pandemic.
16. While the ONS should continue to work on developing the quality of its statistics, and in exploring wider measures of prosperity such as wellbeing, a key lesson from the pandemic has been the ability of non-traditional sources to provide more immediate data about the economy than the much slower schedule of official statistics releases.
17. The pandemic has also highlighted weaknesses in the reporting of financial information by the public sector, with regular revisions in the tens of billions of pounds to monthly public sector finance statistics. Government decision-making could be improved significantly if better information was available on a timelier basis.

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?

18. The CJRS allowed furloughed staff to undergo training while on furlough. This aspect of the policy design will have enabled some to develop new skills to move into other areas of work.
19. Cost effective training and flexible work patterns will help people to retrain and move between occupations.
20. In its previous inquiry, the Treasury Committee considered the ongoing difficulty of the taxation of work and noted that reform of the tax treatment of the employed and self-employed is long overdue. Generally, self-employment allows for a more flexible work pattern than employment. The rise of technology is promoting the growth of the gig economy and the ability of employers to hire labour more flexibly. However, lack of clarity over status creates problems not just in tax but also employment law more generally, where there are three possible states (employed, worker and self-employed) as against only two for tax purposes (employed or self-employed). The recent Uber case has highlighted again the problems in the area of employment law and there have been many cases in recent years about whether a person was employed or self-employed for tax purposes. These different approaches do need review so that we have one coherent system which provides certainty. Technology such as AI might help to provide more certainty on status for tax, but the tax costs and benefits entitlements will remain as key drivers to fall into either the employed or self-employed category.
21. The pandemic has forced many more office-based workers to work from home for the first time. In many cases it has been demonstrated that it is not only commercially and environmentally advantageous for them to work remotely but facilitates a better work / home balance and improved wellbeing. We are now seeing more and more employers allowing employees to work some or all the time from home with far less time in the office. Recent reports suggest that the proportion of individuals who will work less than 50% of their time in the office will increase dramatically. Unfortunately, the UK tax code has demonstrated that our tax legislation does not support this 'new normal' and consequently we believe that more needs to be done to support this seismic shift in work patterns, with new legislation and new guidance from HMRC needed to facilitate certainty and support for the new home working future.
22. The move to home working has the potential to increase efficiency and reduce costs, for both the employer and employee. However, such a move will also have a profound impact on other areas, including existing pay rates, the reduction in office space and the need for it to be repurposed to reflect the new normal together with associated costs such as business rates, reduced transport needs, the impact on local businesses which rely on footfall, housing needs etc. In order to maximise the benefits of the new working landscape, all of these considerations need to be factored in, to shape the 'new normal'.
23. The pandemic will have accelerated the need for workers to be flexible and to encourage them to learn, retrain and develop new skills, especially in IT. The tax system should be reviewed to ensure that it encourages these trends so that we have a well-educated, flexible, workforce which can adapt successfully to future changes.

Does the Government have the right mix of policies and a coherent strategy to promote long-term productivity growth and create new high-quality jobs?

24. Clearly tax reliefs have an important role in rebuilding the economy and promoting economic growth and efficiency. Historically, reliefs that have been used successfully to encourage

innovation and entrepreneurship include R&D tax credits and tax-advantaged schemes like SEIS and EIS. We understand the UK is anticipating record numbers of start-ups and our perception is the current regime of tax reliefs works well. We suggest better and more timely feedback would be helpful for government to review whether reliefs meet their behavioural intent.

25. The Government has signalled its intentions with policy announcements such as the new 'super deduction' and Freeports which should encourage investment which in turn should feed into long-term productivity and support (along with some of the suggestions mentioned earlier) high quality jobs. Care will need to be taken to ensure that these new reliefs are properly targeted and don't result in substitution or, worse, undesirable changes such as tax avoidance or even the encouragement of illegal activity such as money laundering. In the case of Freeports, it will need to be clear whether the jobs and investment being created are new jobs or merely existing jobs moved to a new area.

Is the Government doing enough to encourage corporate investment?

26. Government measures announced in the Budget have the potential to encourage corporate investment - these include reliefs for losses, a super deduction for qualifying capital expenditure and the new Freeports around England which will attract favourable tax and other incentives. As set out in our briefing for MPs on Finance (No.2) Bill 2019-21 clause 91, the full potential of the capital allowances announced will not be felt as a significant proportion of expenditure that would otherwise have qualified for capital allowances will be excluded as a result of an exclusion for leased assets. Moreover, the positive impact of the Budget announcements on investment may last only until planned corporation tax rate increases kick in for many companies.
27. Certain policy changes and regulatory approaches are under review which may have a range of effects on corporate investment, and an overall positive effect may not be apparent in the short term.
28. An example is the National Security and Investment Act which, while strengthening the government's ability to investigate and intervene in mergers, acquisitions and other deals that could threaten UK national security, introduces a substantial screening and assessment process for a very wide range of transactions. The new regime is intended to increase confidence and certainty for the public, businesses and potential investors and this may eventually increase inward investment to UK businesses. However, investment may in fact be dampened until the market becomes familiar with the new regime, as we noted in our response to the BEIS, [National Security and Investment White Paper](#) in 2018². ICAEW recognises the link between corporate investment and this legislation and continues to support BEIS' efforts to implement an efficient regime through our participation in the Expert Panel.
29. In another example, [Subsidy control: designing a new approach for the UK](#), the need for a new regime is already overdue given that the EU state aid regime ceased to apply from 1 January 2021. The proposed approach to subsidies does not, in our view³, articulate how state support can be best harnessed to foster innovation, growth and sustainable development. A timetable has not been published for final proposals and actions to be taken, although it is certain that awarding authorities and businesses will need time to understand and use the new regime. In the meantime, we note that targeted [revisions of the EU state aid](#)

¹ ICAEW REP 35/21

² ICAEW REP 119/18

³ ICAEW REP 33/21

framework, focused on research, development and innovation activities, are due to be adopted later in 2021.

30. There are also ongoing issues that stand in the way of businesses investing and where more is needed to be done. Two major issues that have, since the start of 2021, featured consistently in ICAEW's weekly outreach programme to members across the UK, relate to export activities, and to problems in the supply chain.
31. Exporting challenges reported by businesses and which provide grounds for the government to accelerate the timetable for refreshing its Export Strategy, include:
 - Bottlenecks at Companies House and HM Revenue & Customs when setting up UK bases and EORI numbers.
 - Multi-fold increases in airfreight costs.
 - Difficulties with obtaining credit insurance.
 - Tariffs on sales that fail to meet the UK origin test.
 - Uncertainty about how export duty works.
 - Multi-fold increase in cost of shipping containers, and shortage of these.
 - Red tape at customs (principally, paperwork), broker charges, import duties.
 - Export of farm machinery into EU now requires different certifications and inspections on vehicles pre-sale.
32. Challenges within supply chain include a scarcity of construction and manufacturing supplies (steel, foam, chips, semi-conductors, timber), stockpiling of raw materials by larger businesses, and increased demand within countries of origin. In addition, there are delays in production lines resulting from the bottlenecks described in the paragraph above. Prices are rising due to a combination of genuine logistical issues (eg freight and COVID-19) and opportunistic hiking.

Is the “Plan for Growth” an adequate replacement for the “Industrial Strategy”?

33. The 2017 Industrial Strategy was superseded in March 2021 by the Plan for Growth. ICAEW welcomed the framework set out in the 2017 Industrial Strategy because it indicated where and how the public and private sectors could cooperate to achieve stated policy outcomes – over the long term. A review of that framework was a reasonable step to take given the passage of time, the distinct challenges of post-COVID 19 and post-Brexit recovery, and shifting priorities at domestic and international level. We have the following observations:
34. The Plan for Growth is a missed opportunity to demonstrate continuity of policies. The ultimate objectives are similar to those of the Industrial Strategy – to increase productivity and earning power across the UK – albeit framed differently, namely, around innovation, skills and infrastructure. The scope of the Grand Challenges in the Industrial Strategy feature in the Plan for Growth, either under different guise or in evolved form, and it would have been efficient to make this clear. Instead of showing how the Industrial Strategy has been reviewed, retuned and carried forward into the Plan for Growth, there is picture of apparent ‘loose ends’. These create uncertainty that negatively impacts market sentiment.
35. A range of new dedicated funds are included in the Plan for Growth, but curation and targeted signposting of these will be needed to create awareness among businesses and facilitate ease of access. It will also be important to indicate where new funds are replacements to existing funds, or fill gaps in the fund landscape.
36. There are few specifics in the Plan for Growth on how the new Advanced Research and Invention Agency (ARIA), an independent UK scientific research agency that is intended to fund cutting-edge science and the technology, will work alongside UK Research and Innovation, the current largest public funder of R&D in the UK. More certainty would be desirable regarding support for Innovate UK and its focus on commercialisation of R&D. It is

unfortunate that the Innovation Strategy, 'to be delivered over the coming year', is not being published at the same time as changes are being announced for the UK's existing innovation infrastructure.

37. The Plan for Growth includes substantial emphasis on promoting and facilitating innovation but, while it recognises the importance of international trade and international cooperation on climate control, it falls short of recognising the role of international/multilateral collaboration in R&D and innovation. The Government's **UK Research and Development Roadmap** identified that a high proportion of UK business R&D is financed from abroad, yet the Plan for Growth references few measures to both address and encourage this.
38. The Plan for Growth is not explicit on independent oversight and review of progress. A mechanism independent of Government - the Industrial Strategy Council - was created to assess, monitor and advise on the progress of the Industrial Strategy. It is not clear how such expert and impartial scrutiny is envisaged under the Plan for Growth, where a central performance reporting system is to provide an ongoing picture of departmental activity, with regular reporting to the Cabinet. In our view, the proposed National Economy and Recovery Taskforce, National Economy and Recovery Taskforce (Public Services) and the Better Regulation Committee (BRC) must include an effective balance, perhaps majority, of independent members. In our response to the 2017 Industrial Strategy green paper, ICAEW highlighted the need for 'clearer goals, metrics, and greater consideration of systems of delivery... to unify the strategy and demonstrate, specifically, whether policy changes are making a positive impact and attaining value for money'.

Are we in a period characterised by long-term low economic growth (secular stagnation), and if so, what are the implications for Government economic policy?

39. Economic growth is unlikely to return to levels seen in the 20th century, a period in which the UK population increased by over 80% and rapid technological development, world wars and societal changes that transformed the economy and how people live. While technological progress will continue to be extremely important to growing the economy, particularly in achieving net zero carbon, economic and fiscal policy will need to provide for more people living longer and a proportionately smaller working age population. Productivity is therefore likely to be just as, if not more, important to the future wellbeing of the UK.
40. Lower levels of economic growth will also make it more difficult to deal with government debt and other public liabilities that have previously been 'inflated away' rather than repaid. A long-term fiscal strategy is needed to put the public finances onto a sustainable path.

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

41. The UK is an advanced economy with many of the building blocks that in theory should allow it to take advantage of future technological breakthroughs. These include technologically sophisticated businesses, world-class universities and research institutions, a deep pool of finance, talented workforces, flexible labour markets, and a generally positive environment for establishing and growing businesses.
42. The UK has particular strengths in some deep technologies and in life sciences and this will be better sustained by a clear commitment for continued support.
43. However, there are also many obstacles and weaknesses that mean that the UK may not be able to take be able to take advantage of the opportunities presented by technological advancement, several of which are discussed in this response. The primary need is for an active and engaged government that uses public resources to the best effect to equip businesses and individuals with the infrastructure, support and skills that they need to succeed and that adapts to a changing world.