ACCA Think Ahead

Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

11 March 2022

Dear Chancellor,

I am writing to outline some of ACCA (the Association of Chartered Certified Accountants) members' priorities as you finalise measures ahead of the Spring Forecast.

ACCA was founded in the UK in 1904 and today we are the global body for professional accountants, supporting its 219,000 members and 527,000 students in 179 countries. In the UK we have over 80,000 members working up and down the country helping organisations and businesses thrive. Our members work across all sectors and in large and small organisations, including many who are micro businesses. Our practitioners are proven and trusted business advisors and support enterprises form, start and grow.

As a chartered professional body we operate in the public interest, we ensure our members operate to the highest technical and ethical standards and we conduct independent research globally in order to advance the profession for the public good.

General Comments: Backing business at the next Spring Forecast

ACCA believes that the Spring Forecast offers an opportunity to further support businesses to maintain momentum through a difficult recovery and where possible, dampen the impacts of incoming economic and geopolitical headwinds.

Businesses are fighting against a rapidly changing fiscal context with rising energy costs, impacts on profits from supply chain delays, significant levels of inflation and prospect of interest rate rises, as well as an often inaccessible funding landscape. Alongside this, businesses face rising minimum wages costs, a tapering of business rate reliefs, new liability in the form of the Health and Social Care Levy as well as rising VAT costs for some of the hardest hit in hospitality and retail.

It is vital that the Chancellor uses this fiscal statement to support the UK's small and medium businesses to flourish, rather than over-burdening small business with an expanding list of liabilities.

Ensuring Help to Grow maximises the opportunities for business growth and productivity

ACCA believes there is significant scope to open the digital scheme to a wider pool of businesses. Current eligibility criteria exclude 90% of small businesses, including many micro businesses employing fewer than 5 people which stand to benefit the most. Additionally, the range of providers and software available could be broadened particularly in the accountancy field to provide options for a range of additional planning and forecasting software from a larger provider pool that is more reflective of the current marketplace and market need. Accounting, CRM and e-commerce software is currently covered by the scheme but Enterprise Resource Planning (ERP), which is inextricably linked with CRM and just as important, is not.

In December 2021 ACCA's SME Tracker Survey which polled practitioners representing 11,251 SME businesses, found that 70% of professional advisors believed SME clients only had moderate to low levels of digital readiness, including in software and staff competency. For those that wish to catch up and explore new technologies, ACCA strongly advocates for a broadening of the eligibility to ensure aspirational, high-growth SMEs can unlock full productivity potential. This should include their ability to access training and advice to support them in the use of eligible software.

Visibility and promotion will be key to ensuring the Help to Grow Scheme reaches the widest possible cohort of eligible businesses. Exclusion of resellers and partner networks may only serve to limit the visibility of the scheme, naturally placing it in competition for promotion alongside other programmes, and ultimately dampen take up.

Finally, it is important that the offer remains practical to the needs of business. At present the scheme does not allow for funds to be applied to the range of costs involved with software implementation, to include installation, training and advice/consultation. This would come at no additional cost to the Exchequer, but allow businesses to make better use of funds to account for the true cost of digital adoption.

Meeting Future Skills Needs

Recent expansion in the range of education and skills provision, such as T Levels and Bootcamps, in addition to some of the more established routes to a qualification such as apprenticeships or university degrees, means that both employers and learners have a broad range of skills provision to understand, navigate and engage with. While system simplification is welcome, employers need support to understand these new learning pathways and the transitions to and beyond them.

High quality careers guidance provision will be key to ensuring individuals are able to effectively navigate the landscape and meet employer skills needs. This provision must be accessible not only by those at the early stages in their career, but by individuals of any age seeking to reach the next level in their career or change direction into a new area.

Council-led careers services often encourage Individuals seeking careers guidance towards potentially short-term roles such as warehousing or roles within emerging high-profile sectors at a regional level. However, this can lead to a deepening of the skills gaps of existing employers. While the newly announced Future Skills Unit will play an important role in bringing skills data and information held across government together, we would welcome a focus of levelling up resources to support data collection on parity of careers advice and destination data to ensure learners from all backgrounds are able to access well paid and diverse careers. This could be trialled at a local level in the form of pilots within social mobility cold spots as identified in The Social Mobility Commission Index; ACCA would be happy to support a pilot of this kind, utilising our networks wherever helpful.

Using apprenticeship levy to deliver public value

- *Increasing apprenticeship funding caps in line with CPI:*

Five years after the introduction of the Apprenticeship Levy, many employers continue to face significant challenges when seeking to provide apprenticeships, many of which are being further exacerbated by rising business and wage costs.

The CIPD estimates that between May 2019 and March 2021, almost £2bn of employers' levy funds expired and were returned to the Treasury. Apprenticeships are an important and high value part of the skills landscape; we believe that all expired levy funds must be ring-fenced for the purpose of supporting the future of apprenticeships.

Training providers are going increasingly concerned about the rising impact of inflation and wage increases on the cost of delivery, particularly relating to the cost of delivering apprenticeships. If the apprenticeship funding caps are not tracking the rate of inflation, there is an increasing risk that this cost pressure may have a negative impact on the quality of learning provision.

The quality of apprenticeship provision remains a leading priority for organisations seeking to upskill current employees or build a talent pipeline. In order to better utilise expired apprenticeship levy funds to safeguard the continued quality of provision, we propose an inflationary increase to all funding band caps in recognition of the continuing increases to delivery costs to account for current 30 year high inflationary levels.

- *Incentivising continuous learning through apprenticeships*

As part of regeneration projects being planned for 20 towns and cities across England, we believe a new pilot project designed to encourage employers to hire apprentices for their second apprenticeship would support progression and reduce the attainment gap in some of these areas. We would be happy to assist further with any development of new pilots of this kind funded from the levy, such as the following:

This employer incentive would take the form of a wage subsidy of £10,000 for the first year of employment per apprentice paid at the national living wage. This in turn would encourage higher wages for apprenticeships, making them significantly more appealing to prospective learners, while wage subsidy would make offering such apprenticeships viable for more SMEs.

The mechanism for administering this wage subsidy could be utilising existing mechanisms, such as the employment allowance. This would enable organisations to deduct the allowance from their national insurance and PAYE bill.

The number of wage subsidy apprenticeships per organisation could be capped at 10 per year, and employer eligibility could be all non-levy paying employers based in pilot areas of England, to ensure the opportunity is spread amongst a broad range of employers in focus areas of regeneration.

Removal of the EIS and VCT sunset clause – providing certainty past 2025

ACCA is supportive of the EIS/SEIS and VCT schemes which members tell us have been successful in generating long-term investments into nascent innovative businesses. HMRC data suggests 40,000 small businesses benefit from this relief each year, helping to keep Britain a globally competitive market to start and scale a business.

Feedback from our members show that many smaller businesses are optimistic about growth but continue to struggle with access to finance and working capital. In January, members representing 48,000 SME businesses fed back that although 40% of clients were actively looking to grow in the next 6 months, just 32% were aware of the types of finance available to them. It is vital that investment schemes, are given a long-term horizon to gain traction with SMEs and support advisors to offer schemes as routine advice to viable companies. ACCA strongly recommends the removal of the existing sunset clause for EIS and VCT schemes in order to grant businesses assurance over the continuity of existing investment relief.

Economic context surrounding the introduction of the Health & Social Care Levy

In our recent letter we shared feedback from members showing that around 1 in 4 SME clients were expected to struggle to meet payroll costs form April in light of the Health and Social Care Levy alongside the rising cost of doing business, inflationary pressures and supply chain disruption. Extrapolated across the 5.5m SME businesses in the UK, this could mean around 1.4m small businesses failing to meet payroll costs in the coming months with the resulting cascade through the supply chain impacting many more.

For this reason we asked the government to create some breathing room for businesses with a 12 month delay to the Health and Social Care Levy.

We would again reiterate our concerns around the timing of this levy, particularly in light of worsening international tensions which may further affect supply chains, the cost of doing business and which the Governor of the Bank of England has warned may present an additional inflationary risk.

Using capital allowances to create a greener, more productive recovery

With inflation hitting a thirty year high, many businesses may be concerned about the performance of their investments. The Super-Deduction Allowance has been broadly welcomed by businesses but we believe this can go further to encourage more sustainable behaviours.

Following the introduction of the scheme, 47% of members in our network (in a poll of 1700 professional accountants) said they foresaw their business or their clients' businesses changing their investment decisions in light of the SDA.

Currently the Super Deduction Allowance is only available to businesses buying new plant and machinery outright (via cash or hire purchase). This acts as an artificial barrier for many that would consider investments in newer, often more energy efficient or innovative equipment through lease or short-term hire agreements.

Noting that the current allowance is available until 2023, ACCA would support a review into the performance of the scheme with a view to introducing a revised allowance that incentivises a wider pool of small business investment into a cutting edge and greener recovery.

Employment allowances in line with CPI:

Employment allowances represent a relatively low tax expenditure to the Exchequer but support many of the smallest businesses across the UK to grow their workforce while managing the cost of employment. As inflation drives wage increases, it is vital that employment allowances are increased to reflect the increased payroll liabilities for employers. While the last increase was made after a four year period, we believe that given recent, unexpected rises in operating costs and further forecasted economic uncertainty, a further review and rise should be made accordingly to ensure allowances track market costs. In this instance we would support a rise to £5000 per business.

Long-term support for a struggling hospitality sector

ACCA was pleased to see the introduction of the temporary 12.5% reduced VAT rate for the hospitality sector. As you'll be very aware, the hospitality sector suffered dreadfully through the pandemic, from being completely closed during the lockdowns to re-opening in very challenging and uncertain circumstances. Whilst we are grateful for all efforts made by the Government to protect businesses from the impacts of the pandemic, we believe that the timetable to return the hospitality sector to the 20 per cent VAT rate could serve to cause huge damage to the sector and make many businesses unviable.

We feel that in light of ongoing fiscal, supply chain and staffing pressures creating a drag on the sectors' recovery, an indefinite rate of 12.5 per cent for the sector would enable a stable and more certain recovery for the sector; one of which may encourage growth beyond pre-pandemic trajectories.

Yours sincerely

Glenn Collins
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