Ymateb gan: Ymateb gan: Sefydliad y Cyfrifwyr Siartredig yng Nghymru a Lloegr Response from: Institute of Chartered Accountants in England and Wales

IMPACTS OF COVID-19: ECONOMY, INFRASTRUCTURE AND SKILLS COMMITTEE – CALL FOR EVIDENCE AND EXPERIENCES



Issued 06/08/2020

ICAEW is pleased to submit written evidence to the call for evidence from the Economy, Infrastructure and Skills Committee on impacts of Covid-19. We welcome the focus of a Welsh centric inquiry, particularly with regards to measures central to delivering an economically and environmentally sustainable recovery.

We have identified several key issues which the Welsh Government should take into account when it creates its action plan for recovery and sustainable growth in the Welsh economy:

- Support infrastructure investment
- Increase consumer confidence and continue to provide funding to enable viable welsh businesses to return to profitability
- Encourage businesses to take action on sustainability risks
- Drive education and retraining to develop skills of the future to boost productivity

These are explored in more detail within this written submission alongside other observations made by our membership. We would welcome the opportunity to discuss any of all of this with the Committee.

There are more than 1.8m chartered accountants and students around the world. More than 186,500 of them are members and students of ICAEW. ICAEW promotes inclusivity, diversity, and fairness. We attract talented individuals and through our high quality professional qualification in conjunction with training contracts and work in practices, business and the public sector provide the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

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ICAEW's has a dedicated Director for Wales who is well connected with the Welsh Government and is an active member of several consultative groups providing advice for the Minister for Economy and Transport. There are almost 3,000 ICAEW members living and/or working in Wales across all sectors of business as well as in practice and the public sector. A high proportion of the business members occupy senior positions in their organisations and are leaders within the Welsh economy. The Director for Wales and his team provide support, help and advice to this membership alongside a programme of professional development and business networking events. Through these activities ICAEW can gather intelligence from its members about the issues facing Welsh businesses and their perception of Government policies and actions. In addition, the ICAEW Business and Industrial Strategy team works at a UK level gathering similar information and putting the voices of Chartered Accountants across all regions and nations at the heart of UK policy making.

This response has been put together using both these information channels and been supplemented by expert knowledge from the ICAEW Technical Strategy Department. However, the content most directly reflects the views of ICAEW members across Wales who have given their views freely.

ECONOMIC OVERVIEW

- 1. In May 2020 ICAEW published a report in partnership with Oxford Economics which examined the differing impacts of the coronavirus pandemic on the UK regions and forecast the likely impacts for the period 2020-2025. In general, the report showed a correlation between the reliance a region has on manufacturing and the speed of any recovery the higher the reliance on manufacturing, the slower the recovery was.
- 2. The findings for Wales showed:
 - Given Wales' relatively high reliance on manufacturing, in terms of both GVA and employment, Wales is contracting by more than the UK average in 2020, and is likely to recover more slowly in 2021;
 - although employment is forecast to recover in 2021, the overall jobs number is forecast to be lower than in 2019 at 1.46m compared to 1.49m; and
 - the population of Wales is forecast to decline in absolute terms in the period to 2025, helping to ensuring that economic growth for Wales lags behind the UK national average over this period.

EFFECTS OF THE PANDEMIC ON BUSINESSES

- 3. Our members are reporting that the businesses they run or the client base they support is being affected in different ways. The effect of the pandemic is largely dependent upon the sector within which they trade and the strength of business's liquidity before the crisis hit. Manufacturing, retail and hospitality have been the hardest hit sectors.
- 4. Highly geared companies have had little room for manoeuvre if their income streams have significantly dried up and are struggling. Businesses carrying a large amount of debt, based upon coronavirus loan and deferred tax liabilities, on top of the reintroduction of business rates, will struggle to survive if no additional transition assistance is provided. Maintaining cash in the real economy in conjunction with managing a potential liquidity problem for companies once the variety of schemes comes to an end is therefore vital to ensure that businesses are able to finance and sustain operations.
- 5. It is true that some businesses have pivoted their model in order to maintain operations and revenues. In the hospitality sector, for example, many restaurants have offered takeaway options. In the construction sector, reassessment of staffing measures to incorporate social distancing measures has meant that some activity on construction sites has been able to have been maintained.
- 6. However, most businesses remain in survival mode, especially given the uncertainties regarding the possibilities of a second wave of cases. Given this mindset, and the wider evaporation of confidence from consumer and businesses, the general impression is to cancel or at least delay any potential investment or expansion plans. Any policy measures at a UK and national level therefore needs to address the issue of confidence and demand-side incentives in a targeted, sectorally-focused way.
- 7. The two-metre social distancing rule in Wales has presented challenges to workplaces, particularly in manufacturing, where it is difficult to introduce revised processes which comply with rules while ensuring the flow of manufacturing takes place. Office-based staff, particularly for smaller business, also find it difficult due to simple restrictions of space.
- 8. Most service-based businesses including accountancy practices have adapted well to most of their workforce working from home. Broadband and mobile infrastructure appears to have to stood up well to increased demand, although a small minority of employees have struggled where their service reception is poor. For some office-based businesses this

- success is making them reassess their need for large office space and instead changing more roles which may work wholly or partially from home.
- 9. On the matter of access to finance for Welsh businesses, the Welsh Government Economic Resilience Fund has been considered by many members working in Wales to have filled many of the gaps in the UK COVID funding for businesses ecosystem and has particularly helped to support SMEs across Wales.
- 10. Travelling to work and access to childcare are both barriers for employees returning to work outside of the home. There are concerns about the safety of using public transport which, in some cases will mean more using their cars. Many nurseries are unable to reopen or take the numbers of children that they may have done previously, which may increase costs.

EFFECTS OF THE PANDEMIC ON JOBS

- 11. Most businesses and organisations unable to operate have utilised the Job Retention Scheme. The uptake of the Scheme has been greater in Wales than any other part of the UK and has been seen as a strong policy success, reducing any potential rise in unemployment during the height lockdown and cessation of much economic activity.
- 12. However, few businesses and members see the Chancellor's bonus of £1,000 per employee to be sufficient in the face of the present economic situation to maintain employment. That means that a substantial rise in unemployment is expected once the Job Retention Scheme has begun to wind down. Given the factors mentioned earlier on reliance upon manufacturing and strong uptake of the scheme in Wales, it is expected that Wales could be hit worse than other regions and nations of the UK.
- 13. The lack of confidence and expectation of a significant and sustained downturn in economic activity has therefore dampened recruitment plans for businesses. The traditional graduate recruitment process amongst businesses and practices embarking upon a training contract in September has either been cancelled or delayed into next year.

STEPS NEEDED TO SUPPORT THE RECOVERY

14. Based upon the findings above we have identified several areas where public policy can be deployed to assist the Welsh economy.

Demand-side measures to increase consumer confidence

- 15. Although supply-side measures are important, the fundamental economic problem for the Welsh economy as it emerges from the public health issue is maintaining consumer confidence to assist demand. Declining consumer confidence, arising from pessimism regarding their own as well as the country's economic prospects, coupled with psychological reluctance to return to economic normality will reduce demand, thereby risking a spiral of further reductions in demand and employment. Using devolved powers in the setting of Income Tax paid by Welsh taxpayers should be considered as a principal means of stimulating demand and confidence.
- 16. As we noted above, sectors have been affected in significantly different ways. The Welsh Government should use its devolved powers regarding culture, sport and recreation and tourism as a means of both assisting businesses within these important sectors while increasing demand.
- 17. The Welsh Government's devolved powers of economic development should be utilised to ensure survival and recovery. The Welsh Government has been successful in attracting inward investment: it is to be commended that Wales secured 62 inward investment projects

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in 2019/20, an increase of 22 per cent on the previous year and amounting to almost 3,000 new jobs. As a means of securing inward investment which could stimulate further demand and safeguard and create employment, we would recommend that the Welsh Government pledge more resources to its inward investment arm.

Maintaining cash in the real economy

- 18. From the outset of the crisis, maintaining liquidity has been essential to safeguard jobs and businesses. However, as government schemes and reliefs come to an end through the next few months, two aspects emerge: first, transitionary support will still be required to help support cash flow within the economy. Secondly, as mentioned earlier in this submission, liabilities on tax and repayment of loans could combine to provide a significant liquidity crisis for businesses, meaning they are no longer viable. In ICAEW's view the continued provision and potential extension of government financial support must be managed with an appropriate and targeted mix of continued forbearance and recapitalisation. The question of transfer of facilities to commercial arrangements will arise over time and needs special consideration to ensure the best use of taxpayers' money while avoiding onerous terms that might themselves cause business failure. The scale of these issues is unprecedented and will need to be handled sensitively and equitably. While these issues will inevitably receive great scrutiny, it would be best to give them thorough examination at inception.
- 19. Welsh Government financial support must operate in tandem with HMRC activity to determine how best to manage enforcement activity for tax owed without undermining the viability of a large number of companies. There would be an economic consequence to HMRC taking money out of the wider economy during a recovery, and it would have a substantial impact on individual taxpayers affected. It is a similar case where HMRC is a creditor in insolvency cases. It is essential that these activities are aligned with the Government's wider policy objectives in supporting an economic recovery. Government should reassess whether now is the right time to reintroduce 'crown preference' on insolvency. The prospect of subordination may well prompt some floating charge holders to initiate recovery before crown preference is reintroduced in December.
- 20. As the Welsh economy contends with the biggest economic shock in a century, the uncertainty arising from Brexit and the possibility of an end to the transitionary period without a deal will also need to be contended. While this submission is not the place to go into detail regarding the economic consequences of Wales leaving the European Union, it remains the case that substantial sums of capital and resource monies will no longer be available for Wales. While it is true that projects will continue to receive EU funding until such programmes are closed in the early 2020s, it remains the case that such investment specifically designed to address regional imbalances, stimulate economic activity, innovation and employment will no longer be available. Wales has been a key beneficiary of EU funding. ICAEW members in Wales contend that it is a key priority that the Shared Prosperity Fund as proposed by the UK Government to replace EU funding provides in full the development monies lost to Wales as a result of the UK's departure from the European Union.

ENCOURAGE BUSINESSES TO TAKE ACTION ON CLIMATE RISK

- 21. We understand that achieving a green recovery is a core objective for the Committee. To support and enable a green recovery, the Government has a once in a generation opportunity now to encourage businesses to better measure their dependencies on people and planet.
- 22. Speaking to ICAEW members across the Wales there is a real appetite to 'build back better', however SMEs have concerns about taking on debt to fund investment in non-core areas of their business, such as innovation and sustainability. As they form the backbone of the UK

and Welsh economies, the we would recommend that the Welsh Government should consider providing targeted financial support to SMEs for green adoption.

SKILLS

- 23. The impact of COVID-19 on the opportunities for young people is of particular concern to ICAEW. Previous economic downturns show that young people are disproportionately affected; lack of relative experience may mean that younger people find it difficult to obtain or retain employment. Education and training for young people must therefore be a key priority to ensure we do not see an entire generation held back. This will damage the long-term economic recovery.
- 24. Such emphasis on younger people should not exclude other workers, particularly older workers. Coronavirus has accelerated shifts in the global economy, meaning that sectors in which employees have been employed for many years may shrink or become obsolete. Emphasis on a flexible retraining scheme to give the workforce the skills they need to maintain employment should be a key policy measure.
- 25. Having employees with the right business skills has been a long-standing concern for companies across the UK. The limited availability of both management and non-management skills has consistently been shown as a majority factor affecting business confidence, investment and productivity in ICAEW's quarterly Business Confidence Monitor. Members across the UK, not just in Wales, have said that any skills strategy must take into consideration both the digital skills of the future but also the interpersonal skills required.
- 26. As mentioned in ICAEW Representation 77/19 Treasury Select Committee: Regional Imbalances in the UK Economy, skills are paramount to economic growth and to economic recovery through increasing productivity and improving workers' quality of life. Having an appropriately skilled workforce locally attracts inward investment and boosts productivity-both important drivers of business growth.
- 27. Certain sectors will require more support than others. Hospitality workers are not seeing much of a light at the end of the tunnel currently and many have already been laid off. These are predominantly young workers with low or specific skills which are non-transferable. Retraining programmes will need to be put in place to reskill them if they are to re-enter the job market, and these programmes will need to consider both capability and aspiration alongside the "skills of the future". Blanket policies to upskill into technology are likely to see lower take-up rates amongst those who need it most.
- 28. Entrepreneurship will also be key to economic growth. While there is no shortage in Wales of business advice or financial expertise, more can always be done to support future and current entrepreneurs. Chartered Accountants can help deliver this through the ICAEW Business Advice Service alongside utilising the Business Finance Guide which is supported by ICAEW and the British Business Bank. This is available here, and the Welsh language edition is available here.