**MIXED MESSAGES**

**THE STATE OF THE ECONOMY, AUTUMN 2013**

***“Yes we are busy and our clients are busy. I just hope the growth is sustainable.”***

**Introduction**

ICAEW’s latest quarterly snapshot of opinion, in line with the Business Confidence Monitor, shows the recovery is taking hold and members are much more positive about the economic climate. Some companies are now investing for future expansion while the market for mergers and acquisitions is growing.

Based on face-to-face conversations between regional directors and chartered accountants in business and practice, we can conclude that:

* Many companies are emerging from the recession “leaner and fitter” than they were;
* Recovery is taking place but there are concerns that the economy remains fragile;
* Many firms of chartered accountants are reporting an up-turn in activity in line with economic recovery;
* Some companies remain wary of significant investment;
* The market is growing for alternative sources of funds as mutual suspicion casts doubts on the banks’ ability to finance a recovery;
* There are signs of concern that a skills shortage could hamper growth.

**State of the economy**

1. Architects are usually the first to suffer in a recession and the first to recover. We act for a lot of them, and our clients are busy and making money again, at last. – Independent practice, North Yorkshire
2. We’ve been flat out since Easter. – Corporate finance niche practice, W Yorks
3. We’re in the middle-market space: we’ve had lots of entrepreneurial clients who have taken advantage of the opportunities from the recession to push their businesses ahead. – Lead partner, Group A firm, W Yorks
4. It used to be that bars and restaurants would open only to close again in six or eight months, but things are picking up. The only whingers now are the ones who run terrible bars that no-one wants to go in. – Sole practitioner, niche practice, W Yorks
5. We went through a pre-pack administration. It was hellish at the time but it’s made the business and the management team much stronger and we’re really seeing the benefits now. – FD, retail chain, W Yorks
6. We made one round of deep cuts very early on. There was a lot of scepticism, but the Senior Partner and I were so dogmatic that we forced it through. We’ve continued to be more profitable than our immediate competitors. For the last twelve months we’ve been building capacity again with an extra 10 per cent fee-earning staff and in the first five months of this financial year it’s translated into an extra six per cent fee income: corporate work’s up, real estate’s busy, but litigation is just starting to tail off. – FD, independent law firm, W Yorks
7. Our four-star hotels dropped badly and levelled off but are now picking up again. Our 5-star did well, but is now levelling off a little. Our residential conference business dropped significantly and may never really come back again. We put a lot more emphasis on – and more work into – high occupancy these days. – Group MD, hotels, West & Nth Yorkshire
8. If the London economy’s been growing by two per cent or so the last couple of years, then it must mean the North’s been in recession all that time to compensate. – Group A managing partner, W Yorks
9. It’s the longest, toughest recession I’ve ever known. It’s just not picking up at all. – MD, Hardware supplier, W Yorks
10. Most of our clients are making profits but using them to knock debt down – we’d like them to be opening up the machine shop next door and creating five new jobs but they won’t do it just now; they’re operating well within their overdraft facilities rather than pushing the limits. – Independent practice, Sheffield
11. We never had the tsunami of failures we were frightened of – but there are a lot of people who’ve had enough: they see no prospect of things picking up, so they’re choosing to quit. – Insolvency / recovery practice, South Yorks
12. My construction clients are gaining confidence. They are buying equipment and taking on staff again. If that isn’t a positive sign I don’t know what is! – Partner, Regional Practice, North West
13. After five years of recession and retrenchment in the M&A market, we are now starting to see strategic trade buyers dip their toes back in the water as they embark on plans for sustainable growth. Many buyers are now sitting on significant war chests, and this renewed confidence is beginning to tempt them back on the acquisition trail. – Restructuring Partner, Big 4 Firm, North West
14. Business is good, but export orders are still disappointing. We hope that this will change and export demand can match that at home. Exports will undoubtedly be the key to unlocking continued growth. – FD, Manufacturing Business, North West
15. Jaguar Land Rover put their current success very much down to the devaluation of the pound. You can match the increase in sales to the reduction in the value of the pound. – Large firm, West Midlands
16. How are you going to maintain a two per cent inflation rate if you are going to debase your currency? – Large firm, West Midlands
17. A construction company can’t build any more houses, they are absolutely flat-out. The thing that’s holding them back is the supply of breeze-blocks. If they put in an order today it will be something like four months before they are delivered. The manufacturers put a lot of kit into mothballs when the recession came and they haven’t got the same confidence to bring them back into production. – Large firm, West Midlands
18. Construction is going well now. We did a restructuring on a group in the South East and they are now coming through it. – Large firm, West Midlands
19. I still believe interest rates will go up soon despite what Mark Carney says. International interest rates are going up and he won’t have any choice if we are to remain competitive. – Large firm, West Midlands
20. Because of low interest rates, there’s a generation that will want to work longer because we need to have more money set aside because the return we anticipated will not be forthcoming. – Large firm, West Midlands
21. The price of new houses is rising because there is more demand than there is supply. – Large firm, West Midlands
22. Builders are becoming more confident. I even know of a company which is going back into speculative commercial property development. – Medium-sized firm, West Midlands
23. Share prices are over-inflated because people are buying shares rather than putting their money into the bank because interest rates are so low. – Small firm, West Midlands
24. The positive news in manufacturing and exporting have been the only signs of life in the West Midlands. Other regions are now catching up with the West Midlands. – FD, West Midlands
25. There has been a deceleration in the import of manufactured goods from China and India on price and quality grounds. People are now buying from the UK. – FD, West Midlands
26. Positive signs abound; profitability of clients is good. Corporate finance side busier in last 3 to 6 months. Statement by Governor (of Bank) has helped by providing stability. – Small firm, Wales
27. There are a number of more sensible business start-ups currently. – Small firm, Wales
28. For most of our clients things are looking up now. – Small firm, North London
29. People are prepared to talk about capital projects but decisions aren’t being made quickly. – CEO, Essex SME
30. We decided we needed to prepare for the upturn now and so have committed to a substantial investment. – FD, large hotel and catering business, East of England
31. My clients have more sales than profits but profits will follow. I’m encouraged about the way things are going. – Business adviser, East of England
32. There is still pressure on price so we’ve had to look at greater efficiency and less waste. – SME owner, East of England
33. The first question people ask is about cost. Customers are going out to tender for projects just to check the price. – MD, Essex IT company
34. The market is price competitive, it’s in the DNA at the moment. – FD security business, East of England
35. It takes a long time and much chasing for invoices to be paid. – SME owner, Hertfordshire
36. Small housing development companies are doing well as they are aiming building work/sales at the right price for what the current consumer can actually afford. – Partner, Bournemouth
37. We had to turn work away in last two months, we are working 24/7. The debtor book reflects the mergers in retailing – can be concern that we have too much with individual customers. Investment in thermo formers far greater than it has been for last five years. We are getting orders without doing trade shows but we are not taking on extra staff; we are taking on no apprentices for first time in 15 years, because we cannot staff it. The local college has a track record of working with employers closely to make this work. – FD, Somerset
38. Business in construction is not as good as you might think, recovery seems construction-led. House-building may be moving but rest of construction different. Confidence is building. There are consistent improvement across region. There is competition for trades so supply chain costs are rising but sale prices remain, so margin is squeezed. – FD, Construction, South West
39. Vehicle renting still strong as businesses are renting not buying. There is a strong second-hand market for vehicles. The top end sales market is strong, cannot supply demand, but struggling at the lower end. It’s an issue for squeezed middle. People seem to be earning well but little capital behind them – buying Ferraris but on loans. – FDs, Vehicle renting and Car Sales businesses, South West
40. IT spend is restricted at present. – FD, Server mountings manufacturer, South West
41. Being able to talk to the customer is a key. We have a lot of competition and discussion with the client often leads to offering something cheaper than they had expected to pay for. – FD, Training services, South West
42. Buying activity in our key market is significantly reduced so we are focused on product-development rather than sales and do not expect major profit this year. – FD, electronic Information provider, South West
43. Hugely optimistic – there is every sign that there will be new business before the end of the year. – FD, London
44. Residential property is much better; the biggest concern is an over-supply in student market, a lot of buildings and now starting to see excess properties that are un-let. – Financier, London

**Business as usual at HMRC**

1. Working Together is a farce, a PR exercise. Some aspects of HMRC’s on-line service such as VAT Registration and on-line filing work well, but as soon as you step outside the routine it falls to pieces. We have a client who tried to organise his tax affairs properly from scratch but the paperwork was rejected on a technicality and now he’s facing penalties – and we can’t get to talk to anyone to sort it out. – Independent firm, member of large network, Nth Yorks
2. We agreed our transfer pricing with HMRC, but they’re still attacking us. Why? They’re moving the goalposts. They seem to have got it into their minds that the professions are all fat cats that need to be squeezed. – FD, independent law firm, W Yorks
3. We get answerphone messages on a Sunday afternoon from HMRC debt collectors demanding proposals for repayment of tax owing by 8am on Monday – because we’re the agents, the clients are registered to this office and we’re the only contact number HMRC has got. And a recent batch of forms that were due to be filed by a particular Saturday didn’t even arrive with us until the following Monday. – Independent practice, Sheffield

**Tax avoidance**

1. The rise in advisory activity, with clients getting back into M&A activity, has been particularly marked for our corporate finance and transaction advisory services teams. The demand for perceptive and effective tax planning remains as strong as ever – the market has long since moved away from exotic schemes. – Managing Partner, Top 10 Firm, North West
2. I am completely fed up with the incorrect information the media continue to shovel on tax issues. They are not interested in the facts as that doesn’t make for a good story, but it doesn’t do our reputation as tax professionals any good at all. – Tax Partner, Large Firm, North West
3. This tax avoidance stuff is getting out of hand. We only give legitimate tax planning advice, but we have to be very careful what we say now just in case our comments are misconstrued. It’s ridiculous. – Managing Partner, Regional Firm, North West

**Public sector and not-for-profit**

1. Things are tough in the public sector. We have to implement cuts year on year yet still maintain excellent standards of patient care and believe me that’s extremely difficult when our main costs are staff. It’s really difficult to keep all the plates spinning and I can’t see the situation improving for many, many years. – Finance Director, NHS Trust
2. Our Not For Profit organisation used to get a grant, then it was halved, then halved again, now it’s zero – so we are now investing in ‘enterprise solutions’. We are constantly having to downsize and cut staff. Not for profit is a painful industry to be in; this might be the new normal. – Director Not for profit (NFP) organisation, London
3. Public procurement is too bureaucratic. Processes take too long and are time consuming. – FD large business, East of England
4. There is no evidence to suggest that public sector jobs will fall which is key part of BOE Forward Guidance conditions (ie. that public sector jobs will be lost). – FD, London

**HS2**

1. I hope the typical stubbornness of the Government means they won't go ahead with HS2 no matter what. I've not spoken to a single person in the North West who thinks it's a good use of money. Surely sorting out the roads (especially the M6) would be better for all of us who try to get around the North West on a daily basis. – Practitioner, North West
2. HS2 is just another commuter line to London and will do little for the economy of the regions. Spend the money on regional infrastructure which is desperately in need of improvement and not on this one project. – Member in Business, North West
3. HS2 isn’t a viable project. Obviously a lot of construction jobs would be created in the build, but in the long term I think HS2 would make London more accessible and therefore increase wealth in the Capital at the expense of the Provinces. – Director, Accountancy Firm, North West
4. HS2 will have the opposite effect, concentrating wealth and opportunity in London as it becomes easier to commute from the North West. It’s not exactly slow now – what on earth do we need to reduce the time for? Better quality trains and more seats at a reasonable price on the current line will be more than good enough. – Practitioner, North West
5. I don’t believe the benefits of the HS2 scheme outweigh the costs. I read the report by the think tank and the author made a strong case for the scheme to be scrapped. I also feel it’s being pushed forward for political gains rather than economic sense. What we need is more of a public debate about the scheme. In an era of cut backs and austerity we should be making prudent decisions with taxpayers’ money. – Practitioner, North West
6. The North West has suffered over many years from the lack of forward planning of transport investment, causing uncertainty for business and undermining regional competitiveness. I am fully supportive of the HS2 scheme; the crucial benefit of HS2 is seen as releasing capacity on the West Coast route for additional rail freight to serve NW ports, industry and consumers, taking heavy trucks off roads. – Chief Executive, Business Leadership Organisation, North West

**Education and skills**

1. We should be trying to persuade young people to avoid university and take apprenticeships but we have created a culture of going to university. If this means some universities go bust, I’m in favour of that. – Small firm, West Midlands
2. I have got an engineering company where the kids don’t want to come to work. I know of another where an apprentice is doing very well but only because his mother applied for a job for him. He left school and spent his time sleeping. – Small firm, West Midlands
3. Whilst we are able to recruit the bright people we need at present, we have to pay top whack to get them. – CEO, biotech business, near Cambridge
4. I believe there will be a shortage of highly trained people, particularly in advanced engineering. – Business Adviser, Hertfordshire

**Banking and Finance**

1. We thought about new premises, but even with our track record and profitability the banks didn’t want to know. – FD, independent law firm, W Yorks
2. The High Street clearing bank that financed each of us when we bought into the practice just isn’t interested in doing that any more for prospective new partners – maybe they had their fingers burned with solicitors or surveyors. There are secondary banks which will fund the practice, not the individual, and only for a maximum of three years – and some fringe lenders who’ll charge 12 per cent. It’s a worry for succession. – Independent practice, W Yorks
3. The business world is starting to look elsewhere for its money: one SME owner financed new machinery at 13 per cent via crowd-funding rather than deal with mainstream lenders. – Yorkshire and Humberside
4. Clients don’t even bother asking their bank for finance, they look elsewhere. There still isn’t much flexibility with the banks. – Member in practice, East of England
5. We were looking to finance a major expansion and have had no problem in attracting the attention of the banks in principle but the deal is not yet signed and delivered. – FD large business, East of England
6. Banks want a lot of information and lend virtually nothing. – Member in practice, Essex
7. There are very few liquidations at the moment but as asset prices move up banks may be bolder to take action. – Member in practice, East of England
8. Availability of funding remains an issue. Finance Wales (local EU backed funding) has good availability but remains expensive. In particular, kitchen and car (both new and used) businesses doing very well. – Small firm, Wales
9. We are trying to finance new investment. Our bank has back-tracked on an offer made six months ago. No consistent approach. Staff there changes are frequent. The investment is delayed and we have increasing pressure from Local Authorities for bed spaces. In addition, there is constant pressure for reduced prices. – FD (Care Home sector), South West
10. Generally local businesses have not been overly affected by the credit crunch – this is mainly due to it being a very rural area with a lot of businesses relying in the agricultural sector which hasn’t been so badly hit. However, banks are causing a few issues when they decide to reduce existing borrowing facilities. – Partner, Devon
11. The climate for raising money is not great. It is easier to get better income out of activities. The size of discount you see in the high street is not as big as before. Landlords will be asking for more rent. Commercial rates are so aggressive – tax levies are being charged where commercial revenue can be raised. People are taking the decision to take the building roof off, ie destroy the building to avoid paying the rates. Only around 60 towns are doing well. – Financier, London

**Impact on firms of accountants**

1. Yes we are busy and our clients are busy. Corporate Finance activity is definitely on the up. I just hope the growth is sustainable. – Partner, Regional Firm, North West
2. A number of sole practitioners in York and in West Yorkshire report a sudden spike in new business and new client acquisition, starting late in Q2
3. Our firm is showing flat turnover though there is a potential big boost from a tidal lagoon project as well as a bid for Capital of Culture. – Small firm, Wales
4. There is no problem is getting work – the problem is the fee level. We are getting the same fees as 5 years ago, but are working harder. We’ve had three years of real pain. People have been hanging on by the skin of their teeth. – Small firm, North London
5. We are sitting on spare capacity and we are taking on more resource – we expected more growth than has materialised. We are tough on pay settlements – we are keeping the lid on it. Highly specialised staff, e.g. restructuring, are attractive to other firms. Credit conditions are improving – we have gone out to market with a bond – it was heavily over-subscribed – there is a lot of US money; we have been able to borrow very cheaply. – Large firm, London
6. We and our clients don’t have capacity. We will stay where we are. Now if people leave they are being replaced, but we are not actually recruiting. We keep all our costs down, insourcing rather than outsourcing. We have an ‘In-house’ team to deal with regulatory issues. We are invited to more events by Banks. – Medium-sized firm, London
7. The BASE Competition for sixth formers is a fantastic initiative. It will open up access to the profession and dispel some of the myths about careers in accountancy. Well done ICAEW – keep up the good work. – Senior Partner, Large firm, North West