**TOO GOOD TO LAST?**

**THE STATE OF THE ECONOMY, SPRING 2015**

***“The killer is uncertainty.”***

**Introduction**

There is some concern Britian’s buoyant economy could be too good to last, according to the latest snapshot of ICAEW chartered accountants’ views gathered over the past couple of months by regional directors around the country. They are reporting:

* Anxiety over skill shortages and the wage inflation it tends to cause;
* Uncertainty caused by a General Election;
* Improved access to finance but slow decision-making by banks;
* Little interest in tax- planning schemes.

**State of the economy**

1. We’re purely UK-based, so we have to strap in and ride out the peaks and troughs – especially as planning decisions are at the mercy of political rhythms and tend to be stop-start. We buy the best land we can in the best way and try to deliver the right product for customers. But how sound a footing is the UK on? We’ve still got to wean ourselves off QE. – Group FD, large house-builder, North Yorkshire & national
2. We’ve had 6-9 months of clients starting to struggle as we come out of recession. One or two of them have just been imprudent, but in some cases it’s because their customers are beginning to feel flush and are spending money elsewhere. – Sole practitioner, North Yorks
3. Law firms are going OK again – but quieter since the New Year; there’s some uncertainty and caution because of the election. – Big 4, South Yorkshire
4. We’ve had just short of double digit growth. The IPO market up to Easter was good, after that there’s some caution and uncertainty; I expect May to September will be quieter. – Big 4, West Yorks
5. The FTSE 100 index was in buoyant mood immediately after the Budget and surged on the news that ‘Britain walking tall again’ which is good news for the economy and the taxpayers of the UK according to George Osborne. The big question is how long will this last and what further changes can be expected post the general election? – Partner, Wealth Management Business, North West
6. Attracting the right staff is the biggest obstacle to growth. The single most important issue that people talk to me about is people – getting the right ones into their business – it's the biggest limiting factor to growth for the majority of businesses I know. – Senior Partner, Large Firm, North West
7. We are seeing demand for our services in a number of sectors and we are currently looking to gain work in the aerospace sector, where we see some great opportunities. It’s great that we are also able to keep increasing our staff numbers as the result of our growing order book, but that’s where the difficulties lie – finding skilled staff is a real issue for us and could ultimately stifle our growth. – CFO, Engineering & Fabrication Business, North West
8. Business overall is a bit patchy. Some of our clients are doing really well, but for others it is a long, winding and bumpy road. – Partner, mid-tier firm, North West
9. There are some real hotspots in software and healthcare, hi-tech manufacturing and protection of IP. – Big 4, West Yorks
10. We’re in a bit of a bubble at the moment, looking at substantial growth much of which is from the construction sector. There are more opportunities than we can deal with and recovery is taking root. – FD, large security and logistics company, East of England
11. It’s a mixed picture. Last year property and commercial were both doing well. Property is still good but not commercial and litigation has slowed down as court fees have increased. – FD, law firm, East of England
12. We hear young people find it hard to get jobs yet we find it hard to recruit good quality people. – FD, manufacturing company, East of England
13. We employ 70-80 under 32-year-olds and they have a different view on work/life balance. – FD, telecoms business, East of England
14. Supermarkets are becoming more assertive in terms of prices agreed with suppliers. – FD large food producer, East of England
15. There is price pressure on all aspects of the aviation business. – FD Airport group, East of England
16. There is increasing nervousness and confidence is beginning to plateau or even wane; this may be the result of the impending election. – Partner, regional practice, East of England
17. Confidence does seem to have dropped but going by the experience of my own business, we are having a very buoyant time despite the euro going down. We are seeing demand from the likes of Spain and Italy which we haven’t seen for a long time. I’m optimistic. – FD, West Midlands
18. There does seem to be some manufacturing demand coming out of Southern Europe which we haven’t seen before. Demand is similar from South East Asia. The brand name ‘Made in Britain’ has a sign of quality attached to it and seems to be winning the day. – FD, West Midlands
19. The only people who haven’t got jobs are people who don’t want them. – FD, West Midlands
20. Companies are not as excited as they were. They are taking recovery for granted now, perhaps. – Large firm, West Midlands
21. We put off a building project for 12 months and ended up with additional building costs of seven per cent because of the postponement. – Member in local government, West Midlands
22. Houses are still not selling in the shires. Some have been on the market for five or six years. The only money buying things is London money. – Small firm, West Midlands
23. We will see a boost to the economy after these changes in pensions. People will spend it, there’s no doubt they will spend it. It’s going to be a problem for our kids. Those who just take the money out will have nothing and they will be looking to the state and our kids will have to pay for it. – Large firm, West Midlands
24. We are busy at the moment. We have got work in Wales and the Welsh economy bears no relationship to the English economy. You can’t sell houses or factories. – Insolvency practitioner, West Midlands
25. There are 300,000 zombie companies who can’t afford to make people redundant. – Insolvency practitioner, Birmingham
26. There is still an imbalance between the employer and the sub-contractor. If you think supermarkets abuse their suppliers, you ain’t seen nothing yet compared with the way sub-contractors are treated. Nobody seems to be championing the cause of the sub-contractors. – Large firm, West Midlands
27. There is a problem of skills shortages especially in meeting the highly-skilled requirements in the factory. We have started a new apprentice scheme with a good degree of success. There is strong local demand for skills in upholstery. The annual pay review was 1.75%. It has been 1.5% for the previous three years. – FD, Midlands
28. The issue is not demand but margin management. Businesses with high-end products need to be constantly vigilant to ride any unforeseen downturns. There is a mood of uncertainty awaiting the outcome of the general election. – Director in Practice, Midlands
29. We are growing at nine per cent, the best performance in the last seven or eight years. Consequently there is a skills shortage. Recruitment is up by 25% and we are trying to recruit suitably-qualified staff locally. – Partner Big 4, Midlands
30. There’s a big squeeze on margins: demand is up but lack of training and skills is an issue. We are employing 15 brickies from Southern Ireland and housing them because we cannot get trades locally. There are major delays in terms of commercial build due to lack of brick-layers – house builders have cornered the market. Other trades are in a similar situation. Margins are also squeezed by our inability to buy at rates the quotes were based on. – FC (Commercial development), South West
31. Lack of skills big issue for us, we cannot get good salespeople. We are squeezed by internet businesses and web pricing (of items we sell on) can be cheaper than we can buy from manufacturer. – FD, South West
32. We pay above minimum wage and we are being accused of not paying living wage but people are not considering whole package. – FD (education sector), South West
33. We are now making profit and in tricky position as staff know how company is performing and they are thus demanding more. Staff retention is big issue. – FD, South West
34. US customer demand growing quicker than expected. Southern Europe is seeing an upswing but German demand is very low. – FD (Technology peripherals), South West
35. Motor sales were very strong in 2014, this year there has been a slow start. We anticipate it will get better but no better than last year. – FD (Automotive sales), South West
36. On the whole clients are quite positive. Clients who run their businesses well and survived the recession are starting to make money. – Partner, Two partner practice, South East
37. Many companies don’t have sound business plans. The plans they produce are not forward-looking and so companies do not have robustness in the medium and long term. Businesses are just not doing it. – CEO, LEP in the London and South East region
38. Never has there been so much money available so cheaply so badly used by society. – CEO global insurance plc, London and the South East region
39. QE was designed by the rich for the rich. It is monetary methadone! QE is ‘helicopter travel’ for the rich; it is too random to do anything other than create a short consumer boom. – CEO global insurance plc, London and the South East region
40. There is a step change in attitudes towards spending money; conference calls and economy travel are more common. – Chief Executive, UK hospitality company, South East
41. Ticket sales are flying and there are record attendances at race courses. – Chief Executive, UK hospitality company, South East
42. Miliband sees business as a way of generating revenue so he can spend it on other things; he is a ‘dyed in the wool’ socialist. He had anti-market ideas when he was in the Brown Government. – CFO, energy and waste management company, South East
43. As Environment Secretary Miliband put through a policy for reducing 20 per cent of electricity consumption which was a mistake – he over-committed the UK to a reduction in EU target. – Managing Director small software company, South East
44. Our main board shareholders see the UK as a political risk because of the EU referendum, Scotland independence, tax and austerity. There is concern about reinvesting in UK. My company is withdrawing from the UK and has chosen Switzerland where more stable and sensible conversations can be had. Singapore is also good. – CFO, global shipping company, South East

**Access to Finance**

1. The local economy’s OK – the streamlining we all did a few years ago has paid off, and many clients are doing well, trading well. We’re lending for investment in new equipment, not refinancing. – Commercial bank, South Yorks
2. Banks still want belt and braces. – Regional investment fund, South Yorks
3. The banks seem quite quiet. The firms that are growing are doing it on the back of strong balance sheets and grants. – Big 4, South Yorkshire
4. The banks needs to stop giving SMEs false hope. They say ‘yes we can put a package together for you’, but then two to three months later (after it has gone through the various panels) they say no and the business has to start again with another potential lender. – Partner, Top 10 Firm, North West
5. We are starting to be approached by the banks now as they have money to lend, but actually many of our clients don’t trust the banks. They see them as fair weather friends. – Senior Partner, Large Firm, North West
6. The ‘good’ businesses are doing very well and some are making some serious money. The banks are happy to lend to those businesses so they can invest and continue to grow but for most other businesses it is a different story and it can be a real struggle for them. – Senior Partner, Top 10 Firm, North West
7. The bankers are nothing more than glorified second-hand-car salesmen. They have sales targets to meet but they don’t have the ability to make the quick decisions that businesses need. – Partner, Small Firm, North West
8. The banks do have the appetite to lend increasingly on a cash-flow type basis, but it’s generally where there is some security such as property. They are not touching anyone with cash-flow issues in any way across the board. – Investment Manager, Venture Capital Fund, North West
9. If you have an ‘ideas’ business it’s hard to get bank finance. They want to increase the level of personal guarantee. – FC small software company, East of England
10. Banks take too long to make lending decisions. One business in which I invested had already used finance secured from crowd funding before the bank had even made a decision. – Partner, local firm, East of England
11. There is almost a paralysis with businesses not wanting to go through the hassle of approaching banks. Crowd funding seems more attractive. – Partner, local firm, East of England
12. There’s a lot of money around at the moment, there’s tons of cash available. Funds in London are coming up to Birmingham because they have run out of deals in London. – Large firm, West Midlands
13. If anybody ever says there is no money around for businesses they want their heads examined. – Insolvency practitioner, West Midlands
14. Just sourced funding but not from bank as they could not do it. You have to clearly identify exactly what you want and why and have a business plan that stands on its own. Remember, it won’t be your local banker judging it; they will be remote, so bear that in mind in what you provide. – FD, South West
15. No banks are easy to work with, they want information on a regular basis and are slow to respond, except for the London banks which are much quicker to respond. – Partner, Two partner practice, South East
16. It is true that SMEs are engines of growth but there is no free money! – Board Member, LEP in the London and South East region
17. Banks are not throwing money at people, but they are getting better at lending. – Restructuring specialist small practice, South East
18. Once alternative funding becomes established and regulated we won’t go back to the banks. The banking system is stagnant; they don’t know how to evaluate risk. All they do is provide secured lending. Alternative funding is effective so why go back to the banks? A lot of things are irreversible. – CFO, energy and waste management company, South East

**Oil price**

1. The oil price is affecting businesses selling into the oil industry. We are not getting any work out of the Middle East. – FD, West Midlands
2. Lower oil prices are stimulating the European economy. The reductions seem to have come so fast they caught everybody by surprise. The reverse can happen and that, too, could catch everybody by surprise. – FD, West Midlands
3. Our business is horrendous – things very uncertain. Haliburton are taking a lot of staff out. We sell to oil and gas industry and things are very uncertain. – FD, South West
4. Business is quite buoyant but it’s a funny time. Tendering and schemes are all coming very late in winter when we can’t do the work. It is very difficult to get money out of people at present. The Russian situation is affecting us. – FD (Oil/gas infrastructure), South West
5. Distribution costs are down for many firms because of the decreasing oil price. This should particularly boost the retail sector. – Restructuring specialist small practice, South East

**Tax**

1. The appetite among our clients for tax schemes has reduced a lot. – Independent practice, North Yorks
2. You can’t just shift all your profits to another country. I can’t see why the ICAEW can’t stipulate an accounting principle which says just that. – Large firm, West Midlands
3. The simplest answer would be a tax on turnover. – Small firm, West Midlands
4. Companies like Starbucks are paying huge taxes by way of NI and VAT. The Government doesn’t want to kill the golden goose. – Small firm, West Midlands
5. There is a mood, especially by the press, to vilify and accuse and no attempt to recognise the essential role of business is affording the UK. – Partner, Big 4 Midlands
6. Margret Hodge is being very negative and grandstanding. It is popular with the masses but does not reflect a balanced view on what all these business contribute. – Partner, Midlands
7. Is corporation the right tax? VAT raises 30 per cent of receipts and corporation tax is only eight per cent. Viewed sensibly these major global corporations contribute huge sums to the treasury. (VAT, income tax, NI, business rates etc.) There seems to be a growing consensus that liability for tax should be based on the location of sale and not domicile of head office. – Director, Midlands

**HMRC**

1. HMRC’s agent helplines are getting worse: their advice is hit and miss, and their responsiveness is poor. Sometimes they seem not even to understand the difference between evasion and avoidance. – Sole practitioner, North Yorks
2. HMRC are a complete and utter waste of time. It’s about time they started employing people who know what they are talking about – or at least giving them some proper training. I know more than they do, but half the time they don’t listen. – Partner, Small Firm, North West
3. Scrapping paper tax returns should, in theory, prompt cheers up and down the country, with none louder than those coming from the approximately five million self-assessing taxpayers who run their own businesses. However, if it’s going to be a truly reduced burden then information will probably need to be drawn directly from accounting systems. That’s a massive technological challenge for HMRC to achieve in a relatively short space of time. Are they up to it I ask? – Tax Partner, Big 4 Firm, North West
4. I feel our job is to get the money in for the Revenue. – Partner, Two partner practice, South East

**Regulation**

1. FCA Regulation: getting things done is awful. We signed a deal in October, and we’re still waiting for approval. The clock doesn’t start ticking until they agree the application is complete, and then they have 60 days to consider it. So the deal has been in limbo for nearly six months, and the long-stop date on it has changed three times. – FD, Insurance firm, North Yorks

**Productivity**

1. While it is encouraging to see strong business confidence, the continuing poor labour productivity performance is a very significant concern. Although employment growth in recent years has been strong, much of this has been in part-time jobs. Productivity ultimately determines our prosperity so it is a crucial area that must be addressed. Policymakers of all persuasions must take on this productivity puzzle. – Managing Partner, Large Firm, North West

**Accountancy profession**

1. Unqualifieds promise everything, the client gets his head turned and leaves. We lost one over R&D tax relief when he simply wasn’t eligible, but the other chap told him he was. – Sole practitioner, North Yorks
2. We’ve seen a distinct shift back to male domination in applications – though not yet in our intake; mind you, we often find there’s a direct link between the gender and ethnicity of whoever we send to a careers event and the composition of the applications immediately afterwards. – Big 4, West Yorks
3. The Government are approaching the issues about audit in the wrong way. Shareholders, banks and financial backers etc all need the assurances that an audit provides and it isn’t the burden on business that they keep saying it is. – Partner, Small Firm, North West
4. Audits are a loss leader for us. As a small practice it is really tough and we need audit clients in order to be able to sell our value-added services. Having said that tax advice is by far our biggest growth area at the moment. – Managing Partner, Small Firm, North West
5. We’re doing OK – just have a problem dealing with all the work. – Partner, local practice, East of England
6. As businesses grow, disputes are on the increase and mediations are increasing. – Partner, regional practice, East of England
7. We are generally in the position where we have to wake the client up about auto-enrolment. – Partner, Two partner practice, South East
8. The practitioner world is moving away from us. The tax and bookkeeping and accounting market is being squeezed because of software eg, Zero is phenomenal and is free and the reports are fantastic. – Career change portfolio FCA, South East

**Public spending**

1. We have got to change the mind-set on the way public money is spent. They say, ‘It’s alright, we just got the numbers wrong’. That will not wash any more. – Large firm, West Midlands
2. We don’t need to be concerned about whether we can afford the NHS or not. We probably can. But there are such inefficiencies in the system we can’t afford it in its current form. – Small firm, West Midlands
3. The clever, inventive people are probably working for Apple not the NHS. – Small firm, West Midlands
4. Domestic demand seems to be stronger but there’s no major movement in exports. Banks are tripping over themselves to lend money but only to the “right sectors”. This is therefore giving growth to lenders in the non-banking sector. The elephant in the room is public deficit. When and how will it be honestly resolved? – Partner, Practice Midlands.
5. A big concern is that there is not enough money to pay the interest on the national debt. If there is an increase in interest rate the UK will go bust. The only place to get the money is out of the wealth and assets of the population. If Labour wins the General Election they will do the same with business assets. – Managing Director small software company, South East

**Devolution**

1. When I talk to colleagues from other regions in the Midlands and the South East they perceive the Northern Powerhouse as solely Manchester. It’s a real issue for those of us in the outlying areas in the North West. – Chief Executive, Professional Services Business, Lancashire
2. Does anyone really know what the Northern Powerhouse means for us in the North West? There’s a lot of talk about devolved powers for Manchester, but what about the rest of us in the region? – Finance Director, SME, North West
3. The review of the business rates system is certainly needed. Commitment to the ‘Northern Powerhouse’ is great in principle – we need to make sure that it has a positive link to the North of England as a whole and doesn’t just assist the major city regions on the M62 Corridor. – Managing Director, Manufacturing Business, North West
4. We are finding more and more businesses wanting to come to the region. – Member in local government, West Midlands
5. People have worked out the numbers as far as HS2 is concerned and want to buy in Birmingham now. Professional services seem to be very, very excited by Birmingham. HS2 is making property in Birmingham very attractive. – Large firm, West Midlands
6. There is an infrastructure deficit in this area; around £500 million is needed to bring us up to date before we can move forwards. – Board Member, LEP in the London and South East region
7. HS2 is a waste of money and old technology; France Germany and Spain are pulling out of HS2 type technology. The UK should invest in better Broadband instead; the Broadband in Serle is six times that in the UK. We don’t get our minds round Broadband in this country. – CFO, energy and waste management company, South East

**European Union**

1. In the end it will be alright if the UK leaves the EU but the concern is how the process will work. – CFO, global shipping company, South East
2. It can work if the UK withdraws from the EU; the killer is the uncertainty. – Financial controller, global insurance company, South East
3. Europe is becoming less and less the centre of the world. The world is gravitating towards Asia. UK has an aging population and is bureaucratic, whereas the Asians just get on with it; 50% of the Indian population are under 25. – CFO, energy and waste management company, South East