**GOING FOR GROWTH**

**THE STATE OF THE ECONOMY, SPRING 2014**

***“London’s the State – we all live in the national park.”***

**Introduction**

The latest snapshot of chartered accountants’ views on the state of the economy, gleaned over the past two months by ICAEW regional directors, show a marked divergence in preoccupations between different regions.

Concern about skill shortages, the fight for talent and pressure on pay, as well as the improving property market, are predominantly issues for members in London and the South East. Elsewhere, the emphasis is more on the failure of the recovery to reach all parts of the country. However our members:

* Are generally positive about the economic climate and business prospects;
* Welcome many of the measures in the March Budget;
* Are concerned that access to finance is still a big problem for small businesses;
* Remain cautious about the UK’s export prospects.

**State of the economy**

1. The small businesses have weathered it and are now coming out the other side. We’re starting to see the next generation emerging in the family businesses. – Small practice, Humberside
2. Clients still seem to be taking advantage of the improved climate; my engineering companies are still doing well; one in particular is showing exceptional profits with results for the five months already ahead of the results for the whole of the last year – and that was a good year. – Small firm, East England
3. There’s downward price pressure from the large retailers. The largest four – Tesco, Sainsbury’s, Asda and Morrison – all lost market share to either the hard-discounters or Waitrose and M & S. There’s also price pressure in continental Europe. Last week I was in Spain and Poland. All European markets are seeing extremely low prices for salad products. Having said that, conditions are difficult, we’re continuing with capital investment programmes and other measures to expand the business. – FD Food producer, East England
4. Independent retail clients still have major problems; I think the days of the independent retailer are numbered. – Small firm, East England
5. The majority of our clients are pretty confident about future growth. Turnover growth has been strongest in wholesale and retail, professional services, hospitality and manufacturing. It is encouraging to see that economic sentiment is improving across the region and across the sectors, however, some significant challenges remain. Not least around the region’s links with international markets, where there is still room for improvement. – Large Firm, North West
6. Whilst there is a lot of positive news around for our clients at the moment, cash-flow continues to be an ongoing problem and is holding some businesses back from expanding to meet their growing levels of demand. – Small Firm, North West
7. Much more confidence about, although based on little evidence; it’s as if clients are fed up with holding back. – Small firm, Wales
8. Farming clients are rather uncertain because of recent changes in support. – Small firm, Wales
9. Retail continues to be at risk, partly because of uncertainty over local government and NHS employment locally. – Small firm, Wales
10. The economy is still in the woods and there are still massive inefficiencies in the public sector. – FD, West Midlands
11. It is hard work. We are pedalling harder just to stand still. – Managing Partner East, Midlands
12. Business confidence is rising. For instance we are doing more IPOs now than we have compared to the last five years. – Senior Partner Big 4, Midlands.
13. We are seeing more far more people starting up business. – Partner, East Midlands.
14. There is a growing strength returning in the recruitment market. – MD, East Midlands.
15. 30 years ago we made a mistake and did not support manufacturing. – Sole Practitioner, West Midlands
16. Within two and a half years interest rates will have risen but the worry is what impact this will have on mortgages, especially in the South East. – Small firm, West Midlands
17. Rising interest rates are bound to affect businesses that are highly-geared and threatening to those that are starting to grow. As ever, interest rate increases are bad for industry and business. – MD, West Midlands
18. Low interest rates are bad for savers. They are causing me to carry on working because I can’t possibly live off the interest on my savings. – Small firm, West Midlands
19. Private schools are finding it tough at present. Seeing some school mergers in region as a result of poor trading conditions. They have stopped looking more than year ahead as parents are leaving decisions later. Curriculum is being hit but not as badly as it is for local authority schools. – FD, private school sector, South West
20. 80 per cent of SME businesses are financially illiterate in relation to debt. Borrowing for growth scares them. They do not understand good debt vs bad debt and see borrowing in a negative light. – Management coach, South West
21. The overall theme is cautiously positive. Some firms say they expect to achieve well in the next 12 months. – Large firm, London
22. We are cautiously positive; there are improving margins as we expect clients to pay a little more. – Large firm, London

**Access to finance**

1. There’s more transactional work about – but the banks are still being extremely selective. – Chief Exec, Investment Fund, South Yorkshire
2. During the financial crisis, when the likes of (Bank A) were being complete (expletive deleted), there wasn’t a single client we couldn’t re-bank if we needed to. At first it was with the Co-op, Yorkshire Bank and Handelsbanken; more recently Lloyds and Handelsbanken. When the dust settles, Handelsbanken will come out of it really well. – Small practice, Humberside
3. Banks are still not interested in lending to the owner-managed business market regardless of what they say. They are happy to do so when the OMB has plenty of cash otherwise it is a lot of promises and talk and no delivery. I would prefer them just to say no but they are not allowed to do that and just string their customers along. – Small firm, East England
4. Finance is available but there is no doubt banks are totally averse to lending for anything relating to property. I don’t think that’s a bad thing in this country because otherwise it always ends in a property boom. The more cautious they are the better. But there’s no shortage of funding for other investments. – Large firm, East Midlands
5. D2N2 Investment for Growth (local £6.8 million growth fund) is an absolute farce. The rigmarole to try and get a 10 per cent funding paid up is ridiculous. – Large firm, East Midlands
6. There are two markets. There are a lot of bank interested and keen to lend you money. But those who don’t fit the normal banking criteria are still suffering a lack of supply. Banks are still looking to shoring up their balance sheets, which is why they don’t like property. If they have a customer who doesn’t fit the bill they don’t have the money – too many qualms about losing it. – Large firm, East Midlands
7. We are looking to see how the Government’s Business Bank will work. It’s very well-funded, they are trying to get the infrastructure in place. One of the big hopes is that rates over base will not have to follow base rates in the same way as the High Street banks. – MD, West Midlands
8. There is not a lot of money available for SMEs. People don’t bother even trying the banks any more, not unless you are a dead cert with security up to the hilt. – Small firm, West Midlands
9. You have to find other ways of obtaining finance but they are emerging. I’m quite optimistic SMEs will be adequately funded over the next five years – and at decent rates as well. – MD, West Midlands
10. Most commentators feel quantitative easing was necessary. It stopped things happening which could have been even worse. But most of the money stuck with the big banks. – MD, West Midlands
11. Access to capital still an issue. Banks put you in special needs regardless of whether you are failing or not. Getting funding via HMRC was easier. Supply-chain finance is also an issue. Due diligence on suppliers is key. Starting to look at financing down the supply chain. – FDs, South West
12. B2B struggle to find people who will put investment money up; there is no improvement whatsoever in bank lending for the £10,000–25,000 level. – Consultant, London
13. There is still a problem with bank lending to business. It is too risky to put bank borrowing on the balance sheet and risky to rely on banks. – Small firm, London
14. Credit is still hard to obtain, no help from clearing banks. There is chatter around crowd funding but not aware of a lot of activity. The seed element of corporate finance is higher. The Growth fund for £2m+ is good. Venture funding in the middle range is difficult. With regards to banks, the issue is not the availability of credit but the conditions around which banks are prepared to lend. – Medium-sized firm, London
15. Clients I work with will not even go to the bank; it’s not worth the effort of doing so. There is a greater reluctance by SMEs to give personal guarantees. – Consultant, London
16. Young business owners without equity in house are looking for business angels. We do very little work with VCTs, haven’t done much with them for the last six years. – Medium-sized firm, London
17. A technology client has been funded by a US VC. They got US$4-5m which they would never have got in the UK. – Medium-sized firm, London
18. The UK funding structure is not fit for purpose for fast growing companies. There is very little lending on the profitability of the business rather than on the assets. This is biggest limit to growth. Three times EBITDA over five years would be ideal whereas what I see is 2½ times EBITDA. – Medium-sized firm, London
19. There are risks for companies taking on bank debt and concern about what the bank might do if things don’t go according to plan. Companies want to be in control of the banking relationship. – Large firm, London
20. We are unsure what will be the impact of the regulatory front end of alternative funding, such as crowd funding and Business angels, when the FCA becomes responsible from the beginning of April. I am not sure that there should be a difference between taking on a small debt or a small equity stake by crowd funding from a regulatory perspective. – Large firm, London
21. There is always something wrong with the proposition when clients approach banks. There is no such thing as the perfect proposition. – Medium-sized firm, Thames Valley
22. Banks are not prepared to take on risk. The funds will not come unless the Government forces it. –FD, Thames Valley
23. We needed funding of £450,000 for five months by overdraft. We did everything including personal guarantees, offered £2m of stock as security but the bank would not lend it; the banks are so risk averse. – FD, Thames Valley
24. I have had a much better experience with Handelesbanken than the conventional banks, they have a different model. The local manager has a sign off limit of £750,000. – FD, Thames Valley
25. We have issued two of our own retail bonds. The first retail bond was at £600,000 at six per cent and the second one is £800,000 at seven per cent. Both are totally unsecured. The bondholders are users of our product. We have £10m turnover. The bond has to be signed off by accountants and regulated. – FD, Thames Valley

**Insolvencies**

1. A lot of zombie companies were always on the edge but I don’t think there’s any desire by the banks to knock people over; they don’t want to crystallise their losses and they don’t want the publicity. – Insolvency practitioner, East Midlands
2. There’s no doubt we are learning the lessons of previous recessions. The damage done in earlier recessions was ridiculous, throwing out the baby with the bath-water. There’s a lot of businesses that are not really zombie companies. They could do very well with the right funding structure and the right management. – FD, East Midlands
3. HMRC are not taking the final step to close down the ‘zombie’ companies, those that are surviving because interest rate is low. Pre-packs all happened a few years ago. – Medium-sized firm, London
4. There was reluctance by banks to put companies into insolvency in the last recession. There may be new insolvencies happening in near future. Recovery rates from insolvency are so much lower than balance sheet repair and so there is a reluctance to put firms into insolvency. – Large firm, London

**North-South divide**

1. There’s a sort of twelve-month ripple from London, outwards. People aren’t as worried as they were about business, and things are smoother. But the recovery hasn’t really happened here yet. – Chief Exec, Investment Fund, South Yorkshire
2. Transport links in the Midlands and North are starved of investment and crying out for improvement. If it were possible for people and businesses to connect up between Northern cities and travel-to-work areas this would hugely boost economic activity and employment. – FD, North West
3. The economic upturn has not come to West Bromwich. – FD, West Midlands
4. The recession still exists in parts of the provinces. Take a look at Mansfield. – Partner, East Midlands
5. Specific businesses are doing well but major swathes of the region are not seeing the improvements coming along. We have still got High Streets sinking – 60 per cent of the shops in Uttoxeter have shut. – Small firm, West Midlands
6. A sustainable recovery is one which gets to all parts of the country where people live. – Consultant, West Midlands
7. I’m astonished how any small shop survives. – Small firm, West Midlands
8. Northfield shopping centre in Birmingham changed hands. The previous owners paid £40 million. The Mars pension fund has bought it for £22 million. That says it all. – Small firm, West Midlands
9. We are very conscious of the North-South divide. – Small firm, West Midlands
10. It’s supply and demand – the jobs are in London, everyone wants to be where it’s happening. It’s not just the buzz but it tends to be exponential, it feeds on itself. – Consultant, West Midlands
11. You would think we had communications which meant people don’t need to be face to face to do business these days but who is suggesting you can be really big in the City or the advertising world if you are outside London? That really hasn’t changed. No amount of high-speed trains are going to change that. – Consultant, West Midlands
12. London’s the State – we all live in the National Park. – Consultant, West Midlands
13. London is a different world but they don’t recognise it as worse. – Consultant, West Midlands

**Skills and salaries**

1. I note sustained confidence, displayed by boards of companies making senior appointments and actively thinking about what to do for existing staff to avoid losing them. There is talk of investing in staff training and development (aided by public funds subsidy). – Member advising tech companies, East England
2. Finding well-qualified and skilled staff is a real problem for us. We get loads of applications, but they are just not the right quality people. The push on apprenticeships is fine but we need people at a higher level. – Managing Director, SME, North West
3. My niche retail client expects increased demand and outlook, but also cost increases from buying prices and salary increases of around two to four per cent. Concerns are skill shortages and the ability to pass on cost increases to customers. – Small firm, London
4. There are staff issues and skills shortages. The feeling is that if you have good people you have to pay them well. There is a fight for real talent and there are retention issues. Key staff have moved out of London because of high housing costs and now have 1½ hours commute. Some people might start to look for work nearer to where they live. Employment legislation is an issue. Some clients are “managing people out” by not giving pay rises. – Medium-sized firm, London
5. Clients are using technology a lot more, it enables them to adapt management information and make decisions on the back of that, for example to identify and clear out low margin clients. One client did so; first they went through a redundancy programme and now have eliminated high overhead costs following the loss of a high maintenance client. – Medium-sized firm, London
6. An expanding client based in outer London could not recruit high-end technology talent and has now moved into the centre. The talent pool is greater for firms based in London. – Medium-sized firm, London
7. Clients have kept a lid on wages rises but now are thinking it is time to increase. As a firm we have gone from inflation increases to market-based salaries so we can reward staff that are doing well. – Medium-sized firm, London
8. Pay settlements have been quite tight recently but the staff that need to be retained will be rewarded. Investment banks and the Big 5 firms are recruiting and we expect to lose people. The replacement staff will cost more than those we retain. Generally speaking we have kept a lid on costs. – Large firm, London
9. A leasing client expects a lower yield on investments but better capital repayments. There is high demand for ‘pay as you go’ goods (e.g. white goods paid weekly). There has been a bumper year on Flat screen TVs over the whole of last year. – Large firm, London
10. We are in recruitment mode. There is a war on talent with investment banks; they pay £70k and we pay £55k. Staff who move to investment banks get a two year salary jump. Nevertheless we are able to attract talent. – Large firm, London
11. Staff are getting poached. – Finance Director, construction company, Thames Valley

**Property**

1. We’ve had a spurt of activity fuelled by the home-buying initiative. Help-to-buy is picking up around 85 per cent of sales and this will have a big impact in future years. Construction prices are shooting up. Initiatives around apprenticeships – both for us and developers. Bedroom tax means more rent arrears so move them off benefits into employment. Pressure to build smaller homes due to bedroom tax – particularly one and two-bed homes. There’s concern we could generate too many in this bracket. – FD, Community Housing, South West
2. Private clients negotiating to buy property find that the mortgage information required now includes evidence of tax liabilities which has delayed exchanges. – Small firm, London
3. Clients with money achieve almost no return on capital and are now investing in property. It takes eight weeks to negotiate a mortgage. Mortgage company staff have no knowledge of accounting and do not understand gross salary, dividends and tax which causes unnecessary delay in the process. – Small firm, London
4. A house builder/developer client is employing more sub-contractors. The ‘wet’ trade wages have increased by three per cent from last year but there is no increase in productivity from them. I am not hearing of pressure on other costs except energy. The developer is selling property ‘off plan’ so has no cash worries. – Consultant, London
5. A property management company’s research reveals strong occupancy demand for high end retirement accommodation; in real estate management the pipeline of activity is stronger than same time last year. – Large firm, London

**International trade**

1. Clients still made money during the bad times – a bit less than before, but they were okay. To do that, though, they had to look for business in London and overseas. – Sole practitioner, West Yorkshire
2. There’s double digit growth in Western Europe, with pleasing numbers in Spain, Portugal, Benelux and, best of all, UK up nearly 30 per cent. China and India are both going forward well, after sticky patches in 2012 and 2013. Some regions, notably South America and Eastern Europe remain less positive. In summary, a good start to 2014, we feel optimistic about the year ahead but I do feel it is still a little fragile out there and it wouldn’t take a lot of bad news to slow it all down, so I hope politicians and experts don’t upset things with negative comments. – CEO printing machine manufacturer, East England
3. Ukraine/Crimea appears to be that far-flung territory which is apparently having no impact on decision-making, with the exception of a Polish contact of mine who is very fearful of what this could mean for EU. – Small firm, East England
4. There’s nervousness in Poland over the events in Ukraine. They’re concerned over the West’s willingness to stand firm against Putin. – FD Food producer, East England
5. I deal with a lot of international businesses and the big driver is how stable the platform is they are moving into. If they invest in the UK, they want to know the tax platform is going to be stable. – Large firm, East Midlands
6. Large companies are moving from Paris to London because of the high employment tax rates in France. My message to the Chancellor is ‘keep it stable. The more you tinker the more you create instability and the more multi-nationals have a problem coming here’. – Large firm, East Midlands
7. My clients are investing heavily in Britain. They are spending large sums of money. The press are one of the deterrents because of the endless public scrutiny. If you buy a business in this country you just get battered all the time. We have the world’s worst press and that’s a barrier to entry for foreigners. It’s not a nice place to conduct your business. – Large firm, East Midlands
8. The ICAEW should actively encourage people to put good news stories into the media. – Large firm, East Midlands
9. This is an unbalanced recovery. Someone has to say the king has no clothes. We ought to be fixing the trade deficit. Bombardier say 72 per cent of the Crossrail contract will be made in the UK. What about the other 28 per cent? We should take exports and imports together. They are interlinked. Get the trade deficit down. – MD, East Midlands
10. Manufacturing is fundamental to our economy. It has changed in the last 25 years. We have taken out a lot of low-value businesses but we have expanded the clever-end stuff, design and engineering, power trains, composite materials. That polarisation doesn’t create much employment. Unfortunately the people are still alive and we are paying their social security. We need the low-value work as well. – MD, East Midlands
11. There is service-led growth and what’s performing strongest within that is professional services leading the way. A lot of our export growth is about professional services. It’s got to be around improving the ability of ICAEW members to go and practice abroad through things like IFRS and reciprocity agreements. – Large firm, East Midlands
12. Some manufacturing is ‘re-shoring’ to Britain because of the long supply chains from the Far East though much of it is being lost to Eastern Europe. – MD, East Midlands
13. Eastern Europe is getting more expensive than Derby. People keep telling me it’s cheaper; I want to shout (*expletive deleted*). – MD, East Midlands
14. One of the accusations against business is that we are addicted to immigration, which is back to the skills problem. – MD, East Midlands
15. There is something about the British brand people trust. – Large firm, East Midlands
16. The problem is the risk-reward ratios aren’t right. You hear about companies that put the effort and investment into export and are doing very well. Once you’re in export markets you have the infrastructure and you know what to do. But the effort initially to go get over these hurdles look appallingly difficult. – Consultant, West Midlands
17. If you want to export, the opportunities are there but you have got to go to get everything in place first and it’s a long old haul. – MD, West Midlands
18. UK Export Finance isn’t set up properly in the first place. – MD, West Midlands
19. Having the courage to make that step. The most powerful thing we can do is have case-studies in an inspirational way. – MD, West Midlands
20. It requires an investment of time and effort as well as money but people aren’t prepared to make that investment in they feel uncertain about the future. – Consultant, West Midlands
21. We are leading UK-based thermo-formers and, whilst smaller, are causing German market leaders some concern. We have an export market to UK subsidiaries – some growth, but not consistent. Exporting is about getting your name out there but trade exhibitions doesn’t pay off very well. Government need to support SMEs to be at trade shows if we are to increase exports. Help to compete with the big players. – FD (Packaging), South West
22. Our sales grew 27 per cent last year, 30 per cent year before. Most sales in Q4 and mostly to US customers. Exchange rate not helpful at present. The life-sciences market is fairly recession resistant. – FD, South West)

**Flooding and other disasters**

1. The statistics for recovery from fire and disaster are very poor, less than 50% survive. – Director, Thames Valley
2. Climate change is going to happen so businesses have to mitigate it eg people working from home. – Director, Thames Valley
3. One of our supply chain was flooded in December and three months later the loss adjuster had still not sorted out the claim. – Director, Thames Valley
4. ICAEW should encourage boards of directors to have a disaster recovery plan and ensure they have tested it out – rehearse it, eg a chemical spillage. There could be bronze, silver, gold award level of quality of the recovery plan. For example, the processes of switching the computer from the main building to a standby location should be documented. – Former Director, transport service company, Thames Valley
5. Twice a year we practice attempting to access an access-denied building. We get reduced insurance premiums because of our disaster recovery plan. When bidding for contracts we have to demonstrate we have a disaster recovery plan. The bit we found the most difficult was identifying the potential IT problem before we could start to find a solution. – Finance Director energy-related company, Thames Valley
6. One of our depots caught fire and all the cables under the building melted. The solution is to become wireless. Broadband is outdated for disaster recovery purposes. – Finance Director, distribution company Thames Valley
7. We formed our own disaster recovery plan. There is a need to keep it up to date and carry out maintenance procedures. We practice part of the plan every quarter and carry out a full practice twice a year. – Former Finance Director small energy company, Thames Valley
8. We were one of the first that went onto the Cloud and we didn’t ask them what their disaster recovery plan was until the system went down for a day. – Interim CFO, Thames Valley

**Tax and budget reaction**

1. Boards are recognising the Budget as a further confidence boost; the comments fall into two categories (a) what’s in it for individuals, and (b) R&D tax credits being enhanced. – Small firm, East England
2. The Budget was pretty good for businesses. The increase in R&D tax credits and the doubling of investment allowance to £500,000 per annum, to name a few, should provide ample encouragement to shift the focus to expansion. – Medium-sized firm, North West
3. The Budget should put wind in the sails of business investment, especially for manufacturers. It will certainly help businesses hungry to invest and export. – Small Firm, North West
4. The Government deficit is massive. The best thing Osborne can do is get re-elected and carry on. – Large firm, East Midlands
5. As a firm we say there’s no point in going in all guns blazing for tax reform. It’s softly, softly over a period of time. – Large firm, East Midlands
6. We do have a responsibility to get it out to members that there are tax schemes and there are tax schemes. – Large firm, East Midlands
7. Local authority funding is a (*expletive deleted*) muddle. – Small firm, West Midlands
8. There is a fair amount of Regional Growth Fund money coming through. Birmingham is the accountable body for increasing amounts of funds, both Government and European money. – Small firm, West Midlands
9. Both Governments have withdrawn funding from local authorities and I don’t see it being replaced, unfortunately. – Small firm, West Midlands
10. Pensions budget announcement – is this a tax grab? Is it a good thing? It should generate economic movement positively. – FD, South West
11. A service client outsources its work and is not encouraged by government policies around employing new people; employment policies are heavily weighted towards the employee rather than the employer. – Medium-sized firm, London

 **Impact on firms of chartered accountants**

1. Transactional work is picking up. My entire corporate finance team is out of the office today doing due diligence. But the audit market is viciously competitive: prices now are about two-thirds of what they were in 2007. – Office Partner, Big 4, South Yorkshire
2. The abruptness and apparent lack of knowledge of HMRC contact centre staff is absolutely dreadful. The number of my clients who feel that ‘HMRC are threatening’ is unbelievable. They need to get their act together. – Small firm, North West
3. My PI insurance has gone through the roof and for no apparent reason. My practice won’t be viable if it continues like this in the coming years. – Sole Practitioner, N Ireland
4. The [ICAEW] probate news is fantastic! We can’t wait to get our application in. It is going to be great for our practice to be able to offer probate services. – Small firm, North West
5. The change in Probate rules is good news! ­– Group Accountant East Midlands
6. I don’t think the possible change in audit threshold is going to be an issue. Most small practices have given up with it anyway due to its growing complexity. – Small Practitioner East Midlands
7. The jobs shed in the public sector internal audit department should be a great opportunity to gain more work. – Partner, East Midlands
8. There are concerns about the regulatory environment such as the EU accounting regulations and particularly the accounting treatment of goodwill impairment. – Small firm, London
9. We have seen a lot of increases and decreases and closing doors in capital markets. There is a lot of activity in the IPO pipeline and M&A activity. A lot of inward work, particularly US firms coming into UK, US companies coming to start up or acquire feel that investing in UK is safer than Europe eg France. – Large firm, London
10. IPO and M&A work tends to lead to service and compliance work later. We have done a lot of compliance work this year. – Large firm, London