**GOING FOR GROWTH**

**THE STATE OF THE ECONOMY, WINTER 2014**

***“The right skills and a talent shortage are among the biggest barriers to growth.”***

**Introduction**

ICAEW’s latest quarterly snapshot of opinion among chartered accountants in business and practice across the regions shows a more positive outlook for the economy than for many years. However, some of the problems associated with growing economies are now starting to become significant – in particular a lack of skills and the threat of wage inflation.

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

* Companies are much more willing to invest than they have been for some time;
* Access to finance difficulties have eased but by no means disappeared, especially for smaller businesses;
* Employers are expressing a marked concern about competition for skilled workers, especially in London and the South East;
* The construction and property sectors have seen a significant up-turn;
* Chartered accountants are not convinced of the benefits of auto-enrolment for workplace pensions.

**State of the economy**

1. Confidence is definitely growing. There is more optimism leading to an increase in capital projects and also more M&A activity. – Member in practice, East of England
2. There have been significant increases in sales but much of the growth is coming from overseas markets such as China and Indonesia. There is growth in Western Europe but it’s not at the same pace as Asia. – CEO large manufacturing company, East of England
3. Concern that queues at local food banks are getting longer illustrates that there is real poverty in the UK; people can quickly find themselves in very difficult situations. – Business member, South East
4. Lack of market awareness and international knowledge is limiting the desire to seek export growth. – Thames Valley LEP board member
5. The government seems to be using the housing market to regenerate the economy. – Partner, East Midlands
6. Do you know there is £4 trillion a day being traded in the foreign exchange market and it is unregulated? – CEO, East Midlands
7. Politicians are now claiming that if international companies were open and transparent it would solve word poverty. I don’t think so. – FD, East Midlands
8. Business rates are a major issue. – Director, East Midlands
9. Regulators are taking it out on the small businesses and forcing them to resource up but they are not the offenders. Regulation needs to be proportionate. – FD, East Midlands
10. Any hint that there is to be a rise in interest rates, recession will follow. – Director, Midlands
11. The government have been playing about with the calculation for inflation. The official numbers do not reflect the reality of what is happening in the economy and the challenges all face. – Director, West Midlands

**Business Sectors**

1. I am more positive now than at any time over the last 5/6 years. We are going to invest heavily in our business next year – it feels like the right time to do it. – FD, Retail Business, North West
2. My manufacturing clients are going great guns! They have benefited from strengthening domestic market conditions and a solid bounce in incoming new export orders. – Partner, Regional Practice, North West
3. We are really positive about the future. As a family business, we are able to take decisions for the long-term and we are currently planning a huge investment in the business. We are really committed to long-term growth and it feels like the right time to make this investment. – MD, Food Manufacturing Business, North West
4. There has been a notable decline in administrations in the property and construction industry over the last six to nine months. It is a significant reduction and reflects the recovering health of the sector. This drop has had a positive knock-on effect for the hospitality and leisure sector, which has also seen a decrease in administrations. It really does feel like these sectors are on the road to recovery. – Insolvency Partner, Big 4 Firm, North West
5. Corporate investment in Euro-market is flat due to regulation. We expect Asia to be key for growth. – FD, South West
6. We saw little export growth in 2013. However, the cruise market is booming, as are imports/export of cars. Far East and China are the key export markets. We are investing a lot to improve competitiveness but also in customer facilities such as multi-storey car parks. – FD, Port operations, South of England
7. We are anticipating potential reduction in UK jobs – going to Eastern Europe for cost reasons. – FD (power management sector), South West
8. We currently face two issues. Firstly, controlling staff costs, which are the biggest element of our budget and the NHS supplies the staff so there is limited room to contract services from private sector with whom we compete. The second issue is perpetual change for the sake of change seems to be the norm. – FDs (health sector), South West
9. There are no signs of recovery in the charities sector. Corporate and individual donations are down and there are many mergers – although sometimes this is a good thing. – Member in not-for-profit sector, East of England
10. Cambridge residential property is very strong – although that is not true further out of the City. Agricultural land is also strong with plenty of people wanting to buy. – Property Services Company, East of England
11. Operating in a B2B market is complicated. It is difficult to sell a quality service when procurement teams are still looking for the lowest possible price. – Services company, East of England
12. Sales of salads have reduced significantly with huge price pressure. There is pressure on large supermarkets such as Tesco and Sainsbury from the likes of Waitrose and M&S on one side and Aldi and Lidl on the other. – FD Food business, East of England
13. There is no clear message from the government on renewables which is frustrating as we are losing out to other countries. – Member advising renewable energy businesses, East of England
14. Specialised services in the travel sector are struggling at the moment. – Small business member, South East
15. The UK has insufficient manufacturing output compared to other countries such as Germany. –Business member, South East
16. Automotive industry customers expect more and more as part of the standard service; business owners in this sector are working harder than ever but for less financial return. – Small business member, South East
17. The upturn in the property market is filtering down to the trades and service industries and as a result clients are finding it a little easier to trade. – Small practitioner Croydon

**Skills and employment**

1. Skills are a major issue. – FD, East Midlands
2. Skills are a blot on the landscape. – Practitioner, East Midlands
3. Business is very good currently, mostly double-glazing into housing and schools. We expected spend to lessen in 2013 but it has not. We are taking on more staff, four apprentices this month. Employing a lot of Polish nationals, who are consistently harder workers. Demand for skilled workforce exceeds supply at a regional level and we are now sub-contracting to move our geographical limits – London, Wales, Birmingham, Winchester. – FD (construction), South West
4. Headhunters are at work and it’s difficult to recruit skilled accountants. – Member in Practice, East of England
5. There is a lack of skills in the healthcare sector (including financial skills). –Member in practice, East of England
6. A small company lost their experienced IT team to a competitor who offered a 40-50 per cent pay increase. – Small business member, South East
7. Workers in construction industry are attracted by large pay rises and are moving on elsewhere very quickly. – Business member, South East
8. The housing market has mushroomed and workers are jumping from job to job for increased pay. Concerned about how this is sustainable and what action the government will take to keep confidence buoyant. – Business member, South East
9. Wage inflation is very regional; there are huge increases in London and Manchester but in the North East rises are minimal. – Small business member, South East
10. There is a much smaller resource pool of skilled workers for employers to choose from. –Business member, South East
11. An ageing workforce in the construction industry presents health and safety issues. – Business member, South East
12. There is a real problem finding skilled engineers based in the UK; many are coming to the UK from Spain. – Business member, South East
13. UK labour is generally not very mobile although a current project at Heathrow is staffed by many workers from Scotland; often workers from Ireland and Romania are hired to meet the shortage of labour. – Business member, South East
14. The apprenticeship schemes are generally a positive initiative, although it can be hard to find committed apprentices; after a year or two many are tempted elsewhere with offers of higher pay and so they do not complete their training programmes. This is very frustrating for companies that have invested time and money training them. – Business member, South East
15. It would be interesting to know how many people have left the financial services sector in the last few years and whether there is space for them to return over the coming years. – Business member, South East
16. The younger generation need to appreciate a good employer; and companies need to keep training staff and look after them with incentives such as promotion so they will stay. – Business member, South East
17. My company undertakes a staff satisfaction survey each year and the results are benchmarked against other companies globally; this has become a real selling point to attract new and good employees. – Business member, South East
18. Although business confidence has been improving it has yet to be translated into capital spending. With the collapse in investment and M&A in recent years and an increasing reliance on temporary and part-time staff, businesses will need to act swiftly to avoid capacity shortages and be in a position to drive export growth. – Big 4, Reading
19. The right skills and a talent shortage are among the biggest barriers to growth for a business. – Partner Big 6, Oxford

**Access to finance**

1. There’s a £200m funding shortfall across the region, probably in the £15,000-£50,000 band: average £25,000, say. It’s easy to raise £5 million if you’ve a good idea and a management team, but next to impossible to raise £100k. It’s the Valley of Death. But that’s where the jobs will come from. Five years ago, three loan applications out of every ten were declined; now it’s eight and a half. – Investment fund manager, Leeds
2. We had a £250k agreed overdraft that we hadn’t been using. When the financial crisis began we needed to dip into the red, but our projections showed us climbing back into credit in a matter of months. Then the bank reduced the facility to £125k, overnight and without warning. It made no sense to carry on, so we closed the business down and went our separate ways. – ICAEW member, recruitment consultant, W Yorkshire
3. More businesses seem to be having positive experiences with their banks, but having said that there are still equally as many having negative experiences. – Partner, Regional Practice, North West
4. The banks are playing to the government’s tune, but they are not actually delivering at the coalface. – Director, Finance Provider, North West
5. Peer-to-peer lending is fantastic and gives a much better deal than the banks would give (and in many cases will give you the deal when the banks won’t). – Finance Director, Manufacturing Business, North West
6. I am finding it very hard to get finance for software. Traditional asset based lenders won’t entertain it. Our business needs to spend almost £1 million on software in the next twelve months and I am really struggling to finance it. – Finance Director, IT Business, North West
7. The way in which banks structure deals has changed dramatically and they evaluate propositions differently but attitudes have softened towards SMEs over the last year or so. – Corporate Finance Partner, Small Firm, North West
8. The Regional Growth Fund is really badly managed. The government seem to think that by making RGF available it solves all the funding issues that businesses face, but they have failed miserably to distribute the funds to the businesses that really need and deserve it and that comes down to the way it is managed. – Managing Director, SME, North West
9. It’s still hard to raise early stage finance – unless you don’t really need it. – Business Adviser, East of England
10. Clients are still finding it difficult to obtain funding and are coming up against a brick wall when seeking funds to invest in their businesses. – Small practitioner Croydon
11. Government Funding for Lending scheme appears to be working; one client had exhausted the usual avenues and secured the necessary funding from the scheme. – Small firm, Croydon
12. Clients can see glimmer of improvement but are still concerned about the future and funding needs. – Small firm, Croydon
13. Finance for growth is definitely available although the terms might not always be attractive. Additional finance options and alternatives to bank funding are in place and businesses need to be more prepared to consider these sources of growth funds. – Partner Big 6, Oxford
14. Over the past 12 months the number of deals completed year on year has more than doubled and the signs are very positive for 2014. – Medium sized practice, Reading

**Pensions**

1. Pensions/auto-enrolment issue is the big cloud on the horizon. We are concerned that scheme is not run properly. It represents an additional tax. – FDs (various sectors), South West
2. There needs to be a better fit between pensions and life savings. – Business member, South East
3. The transient nature of the working population the recent changes in legislation presents problems in the administration of pensions. – Business member, South East
4. Problems are foreseen with auto-enrolment because insurance companies appear to be uninterested in smaller company schemes; they are quoting significant fees to IFAs for setting up software assisted administration schemes, eg £5,500 quoted by an IFA for a package deal. – Small firm, South East

**Infrastructure**

1. The biggest issue facing businesses in our area is that of infrastructure in terms of transport and communications (Broadband). We have recently completed a survey of businesses and this was clearly ahead of other issues. – CEO, LEP, South West
2. HS2 is a white elephant and the sooner it's consigned to the dustbin the better. Try as they might the Government's arguments for a high-speed line convinced nobody. So now speed has been quietly dropped and suddenly all those who were arguing for speed are telling it's capacity that matters. That's a credibility rating of zero in my book. – MD, SME, North West
3. If the Thames Valley region is to continue to grow, it is important that it gets the investment it needs for a modern transport system fit for the future. – Senior partner Big 4, Thames Valley

**HMRC**

1. The HMRC contact centres are a complete waste of time. They don’t seem willing to answer most queries and just give lame excuses why they can’t give you an immediate response. I do wonder if they only do ‘quick wins’ over the phone – possibly to improve the percentage of calls that they actually manage to answer. – Sole Practitioner, North West
2. HMRC are increasingly unhelpful. The Revenue seems to be blaming the taxpayer for not noticing that codes should have been updated or that tax was not collected etc. This is simply not acceptable. – Partner, Small Practice, North West
3. HMRC response time is horrendous. FD, East Midlands

**Impact on firms of chartered accountants**

1. Business is picking up – but we seem to get three good months followed by three bad ones. It’s still bumpy. And cash seems to be getting tight: working capital requirements are increasing. – Large firm, South Yorkshire
2. It looks as though the PI Insurance market is softening – we’ve had some quite attractive quotes this time round. But they’ve been asking some searching questions about tax schemes: not whether we do them ourselves (which we don’t) but whether we refer clients to the specialist firms. I reckon the insurers are starting to be careful about potential liability. – Senior partner, independent practice, South Yorkshire
3. RTI has benefited practices as many businesses no longer want to do this work. – Practitioner, East Midlands.
4. Accountants are considering what their role will be in serving the public as the environment in which they operate is changing. The needs of businesses are changing and members are considering how they can support those changes. – Member in practice, East of England
5. Auto-enrolment is keeping people busy. – Member in practice, East of England