**ECONOMY’S GROWING PAINS**

**THE STATE OF THE ECONOMY, WINTER 2015**

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**Introduction**

Britain’s economic growth is exposing serious short and long-term skills shortages with employers struggling to recruit bricklayers, engineers and chartered accountants.

Meanwhile uncertainties beset British businesses, ranging from the plummeting oil price and sanctions against Russia to the future of the Eurozone and the outcome of the General Election.

These concerns are highlighted in our latest quarterly report of ICAEW chartered accountants’ comments gathered over the past couple of months by regional directors around the country. Their views include:

* The skills-shortage, which is no longer confined to London and the South East;
* Nervousness about Britain’s future relations with the EU;
* The impact of lower oil prices;
* Continued concern over access to finance.

**Business prospects**

1. We’ve had a couple of tough years. The luxury end of the car business was OK, but the other marques, which depend, for instance, on builders buying new trucks, was down and is only just starting to pick up – when money’s tight you don’t buy a new vehicle, you service the old one for another year. But at the moment we’re ahead of target for the first time in two years. – FD, car dealership group, South Yorkshire
2. We’ve had about 15% growth year on year, led by corporate finance work; the rest of the firm’s up about 6% year on year. – Large independent practice, Yorkshire
3. We’ve one chap who just makes washers. He’s doing really well and it’s more or less all from a garage at the back of his house. – Large firm, South Yorkshire
4. There’s a lot more optimism around but it’s coupled with some uncertainty. People can see improved prospects, but haven’t worked out exactly what it means for them and their business. – Big 4 firm, Humberside
5. Clients with international business operations are doing very well. Those who sell within the UK but outside this region are doing fine. The ones giving us cause for concern are those dependant on the local economy; something like 60% of local employment is with the public sector – hospitals, universities and local government – and those areas are all depressed and their jobs uncertain. – Two-partner practice, South Yorkshire
6. Retail’s still very difficult. The clients aren’t necessarily losing money, but they’re having to trim their lifestyles to live within what the business will do; mind you, we’ve a few who are in denial and aren’t cutting spending, and the banks are still lending them more and more. – Large firm, South Yorkshire
7. We sell a lot of refurbished kit on the secondary markets and that’s become more difficult recently; it’s often restrictive and litigious, a bit rough and ready. And China’s started to open up, so people can now go direct to suppliers there when once they came through us. – FD, Small business, hardware/tech sector, South Yorkshire
8. Most businesses we work with are confident about prospects for turnover and profits and for the moment appear to be unconcerned about the risk of interest rate rises or exchange rates. – Managing Partner, Regional Practice, North West
9. Confidence amongst our manufacturing clients has definitely been dented. With global conditions becoming increasingly challenging, it was only a matter of time before it happened. Given their reliance on exports, manufacturers have borne the brunt of weakening global demand, but the effects of stuttering worldwide growth are obvious throughout the economy. – Managing Partner, Top 10 Firm, North West
10. We must stay in the EU. It makes no sense to disengage from our major market and it is fanciful to think we can just pull up the drawbridge and walk away with no economic consequence. – Finance Director, Manufacturing Business, North West
11. Businesses are more cautious now. There are concerns about the sustainability of the recovery and uncertainly about the impending election and a possible stalling of the US economy. – Member in large firm, East of England
12. There has been a substantial amount of activity in deals but this is now slowing. IPOs are happening but in niche spaces and possibly happening not in a sustainable way. – Member in large firm, East of England
13. We are not short of innovators in this area or short of money but we lack the means to bring them together. – Adviser to early stage companies, East of England
14. Business (flour milling) is good but tough. The market is too competitive and the supply chain is being brutalised by the supermarkets. Major capital investment has ensured we have the lowest cost-base so are in a good position to survive and grow. – FD Food manufacturer, East Midlands
15. This has been the first quarter’s growth for a year. We have not replaced staff and downsized during the period. – Plc Tax Director, East Midlands
16. The airline industry is a mess. There are 22 UK airports with many artificially held up by support from their regional government. – FD, West Midlands
17. I am not optimistic in regard to exports growing in the UK as there seems to be no general desire in people or companies to excel in this area. – FC, West Midlands
18. Business cannot be strong in this global marketplace given the negative global winds. – CFO machinery manufacturer, West Midlands
19. The political focus on the low-paid sector and the General Election are bound to increase pressure on business. We are experiencing on-going wage-increase pressure for above-inflation rises and downward pressure on prices. Business is picking up but not enough to raise prices. – FD, South West
20. Confidence always dips at this time of year....hibernation...doom and gloom. Underneath we are quite positive that we are seeing an up-turn but the supply chain is becoming harder to manage as stocks of material are not being held by suppliers. – FD, South West
21. The automatic enrolment issue is the big cloud on the horizon. We are concerned that scheme is not run properly. It represents an additional tax. – FDs, South West)
22. We see underlying business improving. We are winning good work but unravelling what was signed up in recession and resolving associated issues is time/resource consuming for us. Seems to be typical across our sector. We are trying to close down anything in the former Russian states. Getting out is a real nightmare and we can’t make money successfully there. Political risk as well. – FD, utilities sector, South West
23. Private equity investors in the healthcare sector are pausing to see what happens in the General Election. If the Labour party form the next Government, private healthcare will shrink and so will equity deals in that sector. – Finance Director, Financial Services sector, Thames Valley
24. Private equity houses have a lot of money available but there is very little that they want to invest in currently. – Finance Director, Financial Services sector, Thames Valley

**Skill shortages**

1. I’ve a friend who’s a specialist recruiter in the financial sector. He doesn’t have enough qualified chartered accountants on his books to fill the vacancies that are going around. – FD, marketing agency, South Yorkshire
2. In the region (North West) we are seeing as promising an economic outlook as there has been for many years. This is led by engineering linked to aerospace and automotive in Lancashire, but there is a profound skills shortage and it is having a really negative effect on these businesses’ ability to continue to thrive and grow. – Managing Partner, Small Firm, North West
3. The shortage of skills is apparent in all areas and will restrict business growth. – Business Adviser, East of England
4. We are finding it harder to recruit and retain qualified staff. We’re now too lean and this is putting us under pressure. – Member in medium-sized firm, East of England
5. There’s pressure on salaries. We lost someone and haven’t been able to replace at anywhere near the same salary. – Member in manufacturing business, East of England
6. If policy on immigration is tightened significantly there will be an adverse effect on agriculture, particularly the salad vegetable industry. – Adviser to agricultural businesses, East of England
7. There is a severe lack of skilled and suitable staff. – FD, East Midlands
8. We hire immigrants from Europe. They are grateful, motivated and educated. – FD, East Midlands
9. Bricklayers are walking off site for more money elsewhere. 100,000 engineers are needed in the UK but only 30,000 are studying physics which is a pre-requisite for engineering. – Finance Director, natural resources engineering plc, Thames Valley
10. We only make 5% margin, so there is not much room to pay our skilled workers more. – Finance Director, natural resources engineering plc, Thames Valley
11. Engineers get a Phd qualification in Germany (Dr Eng) and so engineering as a career is more respected. – Finance Director, natural resources engineering plc, Thames Valley
12. UK has the lowest rate of girls doing engineering. – Finance Director, natural resources engineering plc, Thames Valley
13. The UK needs to create a culture of pride and reputation in being an engineer. – Matt Simon, Interim manager, commercial finance, Thames Valley
14. It needs to be made easier for young people to get into the engineering workplace, for example by engineering work experience and University fees should be lower for engineers. – Finance director, IT solutions sector, Thames Valley
15. We have had to protect our business by rewarding our skilled workers more. – Finance director, IT solutions sector, Thames Valley
16. Our biggest skill shortage is electrical and mechanical engineers. – Director, financial technology consultancy, Thames Valley
17. It is difficult to find suitable employees to take on the increase in commercial legal work. – CFO, Guildford based Solicitors
18. It is difficult to find good attitudes and values when looking for new employees. – Chief Accountant, Insurance South East
19. We take on between 30 and 40 graduates each year and that generally they stay once trained. – Chief Accountant, Insurance South East
20. There is a supply gap in ACAs that are 2-3 years post qualified – 18 months ago this was not such a problem but is very evident now. – Guildford based practitioner
21. House prices in the South East deter people from re-locating to the area. –Guildford based practitioner

**Oil price**

1. We’ve a couple of clients who were doing very well until about six months ago. They’re tied into the oil industry. Orders are being delayed as the price falls, or there are Stops put on orders while stocks of consumables are run down. – Large firm, South Yorkshire
2. The oil industry is in crisis and business development needs care and attention. Our foreign (former Russian state) contracts are going OK and we are ramping up to take advantage of opportunities there and related to UK power station (Hinkley Point) developments with an eye to future potential. We expect to double turnover at worst in 2015. – MD, Utilities sector contract specialist, South West
3. There areno pay rises and contractors are being cut in Aberdeen. The amount of money spent on oil will be halved. There will be 40,000 job losses in Aberdeen. – Finance Director, natural resources engineering plc, Thames Valley
4. This has happened before in 1986, when the oil price fell to $12 barrel. Oil prices will come back. – Director, SME strategic planning, Thames Valley
5. Oil prices falling puts more money in pockets which expands the economy. – Director, financial technology consultancy, Thames Valley
6. As a small energy supplier there may be some benefits to factoring in a price freeze; there may be an opening up of how energy companies buy oil which would be a positive. – Finance Director, energy sector, Thames Valley

**Access to finance**

1. The banks seem to chop and change. Some lend but some pull out. Clients generally don’t want to be into the banks more than they can help, so they’re keeping money in the business and only growing organically. It slows down investment and the pace of growth. – Large firm, South Yorkshire
2. We’re advising clients not to keep all their financial eggs in one basket. Too many have an overdraft, a stock loan, a property loan and invoice factoring. At the first hiccup the bank calls in a reporting accountant, and the accountant’s fees cause a cash-flow problem that brings the whole lot crashing down. The Government-owned banks are especially jittery. So if you can, factor with someone other than your bank. – Insolvency practitioner*,* South Yorkshire
3. Access to working capital continues to be an issue for a number of our clients. The banks ‘talk the talk’, but often don’t really deliver in our experience. – Director, Small Firm, North West
4. Many businesses don’t bother with banks now. Few clients borrow money that way and most small businesses try to work within their own resources. – Small firm, East of England
5. Banks are more interested in talking now than ever in past five years. They still keep changing the rules of the game though and Relationship Managers, which is less than helpful. – FD, South West
6. My company has £2 billion in bank, yet we are not welcomed at the bank. – Finance director, IT solutions sector, Thames Valley
7. Banks don’t want to touch construction or leisure. – Director, SME strategic planning, Thames Valley
8. I respect the caution in 2014; banks were over-lending in 2007. – Director, financial technology consultancy, Thames Valley
9. Access to funding keeps companies awake at night. – Interim Finance director, media, Thames Valley
10. The rate at which banks have capitalised is too fast, the stress-tests are too onerous. We need to move on from the financial crisis. – Managing partner, Thames Valley
11. The Government needs to have a policy to encourage small manufacturing/engineering companies. The access to finance for these companies has gone. The banks have just repaired their balance sheets with the low interest rate, they are not lending. – Finance director, Thames Valley
12. My company re-negotiated its finance with the bank and it was a worthwhile exercise. – Director, motor industry, Thames Valley
13. Clients are getting good rates from the banks, and small manufacturing companies are getting loans. – Partner, financial services sector, Thames Valley
14. SMEs are still finding it hard to raise finance; the banks are being choosy who they lend to. The banks are very risk averse, looking backwards rather than forwards. The lending community are looking at the P & L for last 3 years rather than the balance sheet. – Interim manager, leisure industry, Thames Valley
15. The conventional banks are more averse to risk. IT businesses are having more success at other banks. – Finance director technology sector, Thames Valley
16. Getting an overdraft with a bank is very difficult. Banks only want to lend to good risk. Equity funders are better at judging risk. – Director, owner managed business, Thames Valley

**Property**

1. The market for properties above £400-500k has tailed off – but it’s still busy for first-time buyers. – FC, Housebuilding, North Yorkshire
2. The property market in Cambridge is still extremely buoyant but this has not yet spread out to the villages. – Consultant to property company, East of England
3. Scaffolding is going well however the construction market is bit quiet though that is typical this time of year. Prices up 30%. Brickies up 150%. Expect more fallout amongst larger construction firms. – MD/business owner, South West
4. Labour represents 70% of our costs and we are struggling to recruit key skills. In addition to skill shortage we face some key materials shortages. – FD, construction, South West

**Red tape**

1. As a small business, we’re over-regulated in employment law and VAT. For instance, flexible working: there’s no problem with the law itself, but outsourcing the compliance advice comes to £500 or £1,000 a time and that’s a significant amount for us. Or, on top of a value-based EU sales return we now have to complete, an Intrastat return which declares the weight of all the products we’ve sold into EU countries. – FD, Small business, hardware/tech sector,South Yorkshire

**Regional devolution**

1. There is now real momentum behind the Northern Powerhouse supported by a long-overdue and vital infrastructure investment programme which will make a real difference to business and business people across the North. The absence of ‘joined-up thinking’ across this hugely important economy has long been an impediment to progress and growth. Let’s just hope we can get it right and move forward now. – CEO, Private Equity Group, North West
2. All this talk about the Northern Powerhouse sounds all well and good but we need to sell the North West as a place to do business – attract business away from South East on grounds of cost, property stock and quality of life. We also need a greater export drive with enhanced subsidies to SMEs in region. – Managing Partner, Small Firm, North West
3. Investment in infrastructure across the region and, indeed, the country is vital but we must scrap the vanity project that is HS2 & use (say) 25% of those funds to improve transport infrastructure across the North West. – Finance Director, SME, North West
4. Better internet connection bandwidth/speed outside of the major towns and cities would help small and rural business immensely. We have been saying it for years but still nothing is done about it. – Finance Director, manufacturing business, North West
5. HS2/HS3 and devolved assemblies – I am not persuaded by any of these initiatives – I simply don't see that getting to meetings 30 minutes sooner is going to regenerate our economies but perhaps that is over-simplistic. It's getting from/to end destinations and to/from transport hubs that is often the problem. – Partner, Small Firm, North West
6. The Midlands does not pull together for the common good. They all are looking after their little patch and LEPs have not helped. – FD, West Midlands
7. The Midlands are not a cohesive unit. We therefore cannot muster any political clout to match say London and the emerging northern powerhouse. – Partner, East Midlands.

**UK deficit and tax avoidance**

1. The reduction of deficit will take money out of the economy – it is nonsense for politicians to say that they can balance the budget. – Director, financial technology consultancy, Thames Valley
2. With the fall in oil price there is less duty paid and so there is a loss of tax take, also 50% less tax from North Sea profits. – Finance director, SME, Thames Valley
3. The Education sector is feeling nervous about the future and expects more austerity measures after the election no matter which party forms the next Government. Investment is needed to build the UK but this is not happening. There is a concern that the level of service will reduce even further in the public sector. – Deputy Director of Finance, University sector, Thames Valley
4. Any multinational will want to minimise its tax liability to maximise management duty to maximise returns to shareholders. – Interim manager, technology sector, Thames Valley
5. Companies have more than one group of stakeholders; they must look after employees and customers, whilst dealing with pressure from shareholders. There are reputation, practical and moral issues to take into account. Tax avoidance is legal but may be morally wrong. – Interim manager, technology sector, Thames Valley
6. Tax advisory work has changed – it’s more about managing tax reputation risk than reducing tax bills. It’s good that there is a debate about tax avoidance; people need clarity on what the rules are. – CFO, London based, Top 20 international firm

**HMRC**

1. HMRC is one of our biggest costs and challenges because of the wasted time they cause us that we can’t recharge. They ring us, so they know who they’re calling, but then they put us through a full suite of security questions. Now we do the same to them. – Two-partner practice, South Yorkshire
2. We keep getting into arguments with HMRC. We make a payment but still get chased for the unpaid debt. When we ring up, we’re told that the person the other end of the phone can identify the payment on their system, but debt collection colleagues don’t seem to have the corresponding information. They must have to make the individual transfers by hand. – Small practice, West Yorkshire (just one of several examples).
3. HMRC prefers spending money on PR to having properly trained inspectors. We’re reluctant to stand up to them for fear of being targeted. The way they treat the wealthy who ought to be their best customers is awful. Eight weeks’ delay on correspondence is normal and so is a seventy minute wait on the tax credit line. – Large firm, Yorkshire
4. Despite what they [HMRC] say, the service has not improved and in some areas it has deteriorated. The serious issue is still one of not getting things right first time and, when told about it, rather than simply apologising and putting it right, they defend the indefensible and making things a whole lot worse. – Sole practitioner, North West
5. HMRC is appalling. They make up the interpretation of VAT rules as they go along which makes it as difficult as possible for taxpayers but easy for HMRC to deal with. This is bad for small businesses. – Chairman, manufacturing company, Thames Valley

**Europe**

1. Exchange rates in Europe are a complete economic disaster. The euro was done for political reasons and does not make sense with the underlying reality. – CFO plc machinery manufacturer, West Midlands
2. UK is the second largest economy in the EU. I cannot think why we would want to withdraw. – Director, financial technology consultancy, Thames Valley
3. We would be decimated if we leave the EU and duty is put on UK imports. – Interim Finance director, media
4. Continental Europe is going down and is not a good environment for the media sector. We are looking at the Far East for growth. – Interim Finance director, media
5. The prospect of an EU referendum causes more insecurity. There are concerns about the huge disruption and uncertainty that may come if the UK withdraws from the EU. The EU debate seems to be all about immigration but the main concern is that Eurozone countries are dictating to non-Eurozone countries and it is this that needs re-negotiation. – General manager, motor industry, Thames Valley
6. Even if the UK withdraws from the EU, the UK will still want to be part of the G7. – General manager, motor industry, Thames Valley

**Accountancy profession**

1. I think accounting standards have ‘lost the plot somewhat’; when preparers expand the front part to explain the back part of the accounts, then something is wrong. The accounts are confusing people. I have to explain to our bond holders what hedging is and what the discounted value of a loan is. – CFO, software technology company, Central London
2. Attempts to improve the financial statements have made them complicated. Some aspects have become incredibly complicated; our auditors [Big 4] have to use technical helplines because our numbers are so complicated. – CFO, software technology company, Central London
3. A small finance team in a small company is challenged to keep current with various accounting standards and we have to rely on third-party assistance with applying accounting standards to the financial statements. Our primary statements are 30 pages long and we are not a listed company; they will never get any smaller. – CFO, software technology company, Central London