**ECONOMY’S BUILDING BLOCKS IN SHORT SUPPLY**

**THE STATE OF THE ECONOMY, AUTUMN 2014**

***“Brick manufacturers can name their price – one client exceeded last year’s entire turnover in just three months and hasn’t capacity to fill all the orders that are coming in.”***

**Introduction**

A national shortage of bricks clearly demonstrates the level of economic growth Britain is enjoying at the moment – but many ICAEW chartered accountants regard the situation as brittle.

Many of the concerns expressed in this report, which is based on comments gathered over the past couple of months by ICAEW regional directors, are the result of economic growth.

Others suggest a level of apprehension remains. Issues highlighted include:

* Growing skills shortages;
* Nervousness about interest rate rises;
* The Eurozone and sanctions against Russia;
* The uneven distribution of economic growth.

**Business sectors**

1. Clients are more confident and there is no longer the doom and gloom that was around. – Managing Partner, 3 partner practice, Thames Valley
2. Last year we got a sense of change and 2014 has seen a steady growth. – Managing Partner, 3 partner practice, Thames Valley
3. The general feeling is that the economic climate has improved because we have seen a growth in our clients’ businesses as well as our own client base. – Managing Partner, 3 partner practice, Thames Valley
4. There is shortage of bricks. New house building has taken all the bricks in the pipeline. – Financial Controller, Water Company, Thames Valley
5. We are not seeing any drop off – quite the reverse. – Financial Controller, Mechanical and electrical installations, South East
6. Business confidence from travel is good now. The £/Euro is good and makes holidays cheaper. Consumer confidence allows holidays to be booked earlier. In the recession years, people went for cheaper holidays. People are now confident they will be employed in 2015 and are booking holidays. – Director, Travel, South East
7. Over the last nine months to a year there has been an upswing in attitude, people wanting to talk about things. For previous years businesses were sitting on their hands but now businesses feel like it is the first best opportunity to do something. – Partner, 3 partner practice, Thames Valley
8. It is a dangerous moment when coming out of recession – people go mad and there is a risk of over-expansion but businesses are cautiously optimistic. – Partner, 3 partner practice, Thames Valley
9. Our location in Thames Valley is protected. It is very different here compared to up north, because of the divide between services and manufacturing – services have been hit less hard. – Partner, mid-tier practice Thames Valley
10. People are confident but still cautious – recovery is still a bit patchy. Manufacturing companies are not seeing the green shoots. It picks up and slows down but there is not a consistent picture. – Audit Partner, 3 partner practice Thames Valley
11. Thames Valley (and the South East generally) has had a good recession. – Audit Partner, 3 partner practice Thames Valley
12. The removal of the Agricultural Workers’ Scheme means people are moving away from agricultural work to “softer” options such as hotel or shop work. Agricultural businesses will have to pay more to their workforce which will increase costs if technological solutions cannot be found quickly. – FD, East of England
13. US drugs and technology companies are bringing business here to take advantage of tax breaks. – Member in practice, East of England
14. The UK market has performed well and is one of our best territories which is good to see. India has also been a success and China is improving after a couple of years of slowdown. – CEO manufacturing, East of England
15. We are now told the recession was not as bad as we thought; in that case it might not be as good as they say it is now. – FD, West Midlands
16. The recovery has not petered out but it has stuttered a bit. – FD, West Midlands
17. We have got JLR and JCB going from strength to strength – JCB are opening a £30 million golf course like a Cadbury for the 21st century. – Large firm, West Midlands
18. Houses are over-priced outside London by about 20 per cent but there is a shortage of housing. – Small firm, West Midlands
19. I wouldn’t be surprised to see a modest increase interest rates before the election because of the grey vote. – Small firm, West Midlands
20. An increase of only a quarter or half a per cent in interest rates would push a lot of businesses into the insolvency process. A quarter of a per cent doesn’t sound a lot but if you are borrowing £5 million it can be enough to push you over the edge. – Large firm, West Midlands
21. I have seen a few more insolvencies coming through. I have had four this summer which, for a small firm, is a lot. I don’t think they were zombies, they all had individual circumstances. – Small firm, West Midlands
22. I don’t think an increase in interest rates of a quarter or half a per cent will have much impact but I think it will spook a lot of people. – Small firm, West Midlands
23. Most of my clients are in the south of the country and they are experiencing good growth. They are doing well and expecting to do well. – Small firm, West Midlands
24. There’s still a lot of misery in the third sector, the arts and charities. The cuts are working their way through. – Small firm, West Midlands
25. There’s a huge appetite amongst larger corporates to grown to acquire, there’s a lot of momentum. – Large firm, West Midlands
26. Most of the IPOs stalling before the start of the summer are gaining momentum. It’s as good as we have had it for a long time. – Large firm, West Midlands
27. There will be a lost generation of young people who have been to university in a recession and are coming out to find that companies are not recruiting. – Small firm, West Midlands
28. Cities are being hollowed out. There are increases in high-paid jobs and low-paid jobs but less in the middle. Stoke-on-Trent and Coventry figure particularly badly. – Small firm, West Midlands
29. The Chinese are buying sites in Birmingham as trophies. London has become too expensive. The Chinese are focusing their energies here, snapping up sites just so they can tell their friends on the golf course what they have bought. – Small firm, West Midlands
30. Business is good but it is very tough. I’m pleased we have invested in our business and can now compete on price. – CEO, East Midlands
31. There seems to be a better feeling about the economy but it is not apparent in my small practice in Worcester. – Sole practitioner West Midlands
32. I sense in this area of Kettering, Wellingborough and Northampton, it is still struggling compared to the rest of the region. – Director, East Midlands
33. Things are better but not as good as London and the south east. – FD, East Midlands
34. The spectre on interest rates and real salary increases has not yet been factored in by businesses. – FD Building Society, East Midlands
35. The economy is getting tangibly stronger but it is dominated by London. – Senior Partner, East Midlands.
36. There has definitely been a decline in optimism within our manufacturing clients over the last few months. Weak demand in the euro zone has contributed to this as many in the sector rely heavily on exports to European nations. – Partner, Large Practice, North West
37. Lots of companies have done their cost cutting and so will not be able to do it again if there is another downturn. – Partner, Small Firm, North West
38. For our clients in the private sector, business conditions continued to improve strongly across the region. Strong expansions in activity were also supported by another increase in workforce numbers, although it would appear that the rate of hiring slowed from previous months. – Partner, Regional Practice, North West
39. Engineering, manufacturing and construction are all doing better. Brick manufacturers can name their price – one client exceeded last year’s entire turnover in just three months and hasn’t capacity to fill all the orders that are coming in. But retail’s still on its arse. – Senior partner, Yorkshire and Humberside
40. We increased turnover five-fold between 2009 and 2012. There are huge barriers to entry in our industry, and regulation is our friend; two-thirds of our revenue is repeating licence business. We now have a large investment from an American VC organisation, and we continue to innovate. – FD, Yorkshire and Humberside
41. We’re pretty busy. We got some benefit from the reconstruction work after the 2007-8 floods, but it’s also from new schools and public buildings. We’ve increased from two estimators to five. – FD, Yorkshire and Humberside
42. It’s a relatively benign market, so there are still a lot of zombie companies about. I’d have expected more over-trading by this point in the recovery, but it hasn’t happened yet. – Insolvency practitioner, Yorkshire and Humberside

**Foreign affairs**

1. There is a problem in Europe. The level of demand in Europe is really challenging and so it is hard to export and make a profit. – Director, building materials manufacturer, South East
2. Russia and Ukraine is a big market for us but we have had a 50 per cent drop. The Asian market is still strong. English as a Foreign Language (ELF) has picked up in the last year in Portugal and Spain. – Director, Training company, South East
3. Our parent company laid people off and the reason given was Russia. – Director, building materials manufacturer South East
4. Sanctions against Russia are affecting our fresh food operations in countries such as Poland as Russians begin to source food from outside Europe. There’s also concern unsold food will be dumped on the European market causing a reduction in prices – good for consumers but bad for suppliers. – FD, East of England
5. UKTI is very keen to do business. The strength of the British brand overseas is underestimated. – Consultant and Interim Senior Executive, Thames Valley
6. We export. We are one company with three cultures. We behave differently in different markets. – Operations & Finance manager, Speciality plastics manufacturing, Thames Valley
7. The Chinese market needs a local manager. We would not win the business if we did not use local people. – Finance Director, Engineering and technology, Thames Valley
8. There is a respect for Western values and conduct. – Operations & Finance Manager Speciality plastics manufacturing, Thames Valley
9. Once you have started to export it is OK. You need to build up trust. – Consultant, Thames Valley
10. Attendees at big ‘trade shows’ reveal that people from Asia are looking for Western products. – Operations & Finance Manager Speciality plastics manufacturing, Thames Valley
11. Europe isn’t really picking up in the same way as the UK, nor has America and they are our biggest export markets and we are told we are going to export our way out of the problems but it’s hard. – Large firm, West Midlands
12. Uncertainty caused by the geopolitical situation will have an impact on our economy. – FD, East Midlands
13. Deal activity has been relatively active across the UK and wider European markets and we have been able to capitalise on businesses gaining more confidence as well as private equity firms looking to buy and sell. This has resulted in a strong summer period and we expect the market to remain open for the rest of the year with deal pipelines looking solid across our offices. – Partner, Corporate Finance Firm, North West
14. With anaemic growth enduring in our key trading partner [Europe] and external shocks such as the crisis in Ukraine further dampening confidence, no one should be surprised to see growth impacted in the second half of the year. – Managing Partner, Top 10 Practice, North West

**Corporate finance and bank lending**

1. It is almost uneconomic for big banks to lend less than £10 million. – Partner, 3 partner practice, Thames Valley
2. Clients are more confident and you very rarely hear horror stories these days. – Partner, mid-tier practice Thames Valley
3. Banks want to lend but no one wants to borrow. People have been consolidating and hoarding cash – they are now confident but don’t need to borrow. – Partner, Top 15 practice Thames Valley
4. It is hard to borrow but also hard to lend – the only people who want to borrow, you don’t want to lend to. – Partner, mid-tier practice Thames Valley
5. The banks might have appetite to lend, but they do not actually do it – they are so risk averse. – Group accountant family building materials company South East
6. People are doing ROI calculations and switching from a CAPEX model to OPEX model. – Director, building materials manufacturer South East
7. There needs to be more competition in banks. There are a number of hoops to go through to set up banks. – Director IT systems, South East
8. SMEs are always asked for personal guarantee – puts people off borrowing. – Franchisor of accounting services, South East
9. More entrepreneurial companies are on the market now, looking for exits after holding on for the last couple of years, with buyers coming from abroad, notably the US. – Member in practice, East of England
10. Early stage companies still find it hard to raise money. Peer-to-peer lending is better than it was but isn’t necessarily cheap. In some cases corporate deals are the best approach. – Business adviser, East of England
11. Corporate bonds are re-emerging and are even being considered for smaller amounts. – Member in practice, East of England
12. Banks say they are lending money – they’re under huge pressure to do so – however, there’s little evidence of finance going to the SME sector. – Member in practice, East of England
13. Larger established companies have little problem in securing bank finance and decisions are made quickly. – Member in business, East of England
14. The banks are scared of their own shadows. They are afraid of being accused of mis-selling. In the personal sector if you ask how someone got into this mess they say ‘the bank lent me too much money, they should have asked me more questions, it’s their fault therefore I don’t have to pay it back.’ – Large firm, West Midlands
15. The Co-operative bank moved on all of its corporate clients with turnovers greater than £25m, so we will have to change banks when our existing facilities expire in the autumn; we’re going to be with Santander. – FD, Yorkshire and Humberside
16. We warned the bank well in advance that we were likely to breach one of our covenants. When the time came, they put in [A big 4 firm] who charged £100,000 to look us over and found lots more work they apparently needed to do, all of which we had to pay for. – FD, Yorkshire and Humberside
17. Access to finance remains a concern for our clients, as is the increasing complexity of funding deals, although of greater concern is the impact that the tightening of credit is having on clients. – Partner, Regional Firm, North West
18. I think that finally the banks are starting to see sense as they do seem to be lending more and taking a generally more sensible approach to lending. Let’s hope this continues as funding is still one of the biggest issues for many small businesses. – Partner, Small Firm, North West
19. If you’re seeking a significant amount from a bank you will need to do a deal with three or four banks these days. When you are dealing with four banks they all want their share and want ancillary business but if they all want it there is not enough to give them just to improve their margins. If they were more joined-up in their thinking about the whole proposition it would make dealing with them, and getting the deal done, much easier. – Finance Director, Chemical Business, North West

**Recruitment and skills**

1. Biggest challenge is keeping staff when living costs are so high. Part of this is the lack of housing supply. Many houses have no lights on at night and are not lived in. Property is used as a stone of wealth. – Partner, London-based private client practice
2. Employees expect to spend 18 months in a company and then move on. – Chief Financial Officer,food distribution, London
3. We are trying to recruit a chartered accountant but it is difficult to find the right skills. We are not attracting the people we want. We see increasing specialisation and applicants are less well rounded than 10 years ago. – Chief Financial Officer,food distribution, London
4. We interview only those with Grade A at A-level Maths. We require good clear English. Clients need clearly understood communication. Numbers are important. Year on year brilliant GCSE and A level results do not help us to differentiate the clever from the hard working. – Partner, London-based private client practice
5. Our last pay round was 2.5 per cent, I expect the same next year. – CEO, Leisure industry South East
6. Recruitment is very difficult just now. – Director, building materials manufacturer South East
7. Where is inward investment going? If it is going to the South East then it is just adding to our problems. Politicians have to get their heads around the concentration in the South East. – Consultant, NED, Interim Finance Director, Thames Valley
8. It is difficult to get people to move and really hard to recruit the right skills. It took nine months to find the right person for a client. – Director of Corporate Finance, Medium practice, Thames Valley
9. We have recruited engineers and chemists. Problem is not finding them but the housing costs in London. – Operations & Finance Manager Speciality plastics manufacturing, Thames Valley
10. In construction we went from very stable to staff being poached. We have been trying to recruit since Jan/Feb this year. Fairly newly qualified surveyors are being offered £20k extra pay to move. – Group Finance Director, Construction, Thames Valley
11. There is a need to persuade schools that being a vehicle technician is a good job. Trainees need five GCSEs to have the basic skills to cope with an apprenticeship. – Finance Director, Car dealership group, Thames Valley
12. We are looking to recruit sales people with technical understanding of products, and good quality project managers. We had recruited a new starter but he was offered £10k to stay at his current firm. – Finance Director, Engineering and technology, Thames Valley
13. There used to be a training levy in construction, but now people are deterred from training because when they do train the people then get poached. – Consultant, Thames Valley
14. It is best to get employee retention clauses all agreed up front before training them. – Consultant and Interim Senior Executive, Thames Valley
15. It is a bizarre situation where there are so many graduates and at the same time skill shortages. – Interim CFO, Thames Valley
16. Teachers without external work experience do not understand accounting and engineering careers. – Consultant, Thames Valley
17. Recruitment of qualified staff is difficult outside main towns. It may be easy in London but not in Saxmundham. – Member in practice, East of England
18. Some technology companies are struggling to find developers and programmers. – Business Adviser, East of England
19. Companies are having to poach staff from each other. – FD, East of England
20. Skills and retaining our talent is still one of the biggest issues for us. As a small to medium sized firm we are losing our brightest newly qualified staff to the Big 4 firms which gives us some real problems going forward. – Managing Partner, Regional Practice, North West
21. We didn’t manage to fill all of our graduate vacancies this time around which came as a real surprise to us. There just weren’t the right quality of graduates out there. We ended up taking on more school leavers and to be honest they look like they will be the better trainees. – Training Partner, Big 4 firm, North West

**Tax**

1. The cultural change in HMRC over the last few years is one of our challenges. The amount of time we spend filling in forms is not adding value. HMRC attitude is much more aggressive. – HMRC often get it wrong. Chief Financial Officer,food distribution, London
2. The Office of Tax Simplification (OTS) could get some easy wins. Eg change the tax year so that instead of starting from April 6 it starts at the beginning of a month. If you are an FD, you have to look at 13 months instead of 12. The tax year should end on the last day of the month. – Finance Director, Car dealership group, Thames Valley
3. Tweaking tax to drive behaviour is fruitless. It does not matter what the incentives are, you will not make people do uncommercial things. – Consultant, NED, Interim Finance Director, Thames Valley
4. HMRC’s service standards are not getting better despite all of their promises. I’ve experienced a significant increase in waiting times [for HMRC to answer calls] over the last few months. Now I use a phone that I can put on speaker while I get on with something else while I wait for them to answer. It’s ridiculous. – Sole Practitioner, North West
5. HMRC make mistake after mistake and our clients have no confidence in them whatsoever. Their actions do not give the taxpayer a warm fuzzy feeling with proposals afoot for HMRC to take tax directly out of taxpayers' accounts. – Partner, Small Practice, North West

**Accountancy firms**

1. All our graduates do ACA because it is the best qualification – since we are investing a lot of money anyway, it is worth spending a bit more to get the best. It is also a promotion tool to trainees – they will be trained with the premier qualification. – Partner, 3 partner practice, Thames Valley
2. We are just not getting good enough CVs. School leavers are slightly better than graduates but both are awful. – Partner, Top 15 practice Thames Valley
3. If audit is done in the right way it gives value – good audit involves trying to find something to improve. If you challenge yourself to come up with things you are more likely to be successful in fee negotiations. – Partner, 3 partner practice, Thames Valley
4. Regarding the UK audit market you just need to adapt what you do to the market. For me it is an opportunity – the more companies fall out the more opportunity there is. – Audit Partner, 3 partner practice Thames Valley
5. The biggest threat is the impact of technology on the profession – not on us but for traditional small practices. – Audit Partner, 3 partner practice Thames Valley
6. We are looking at our profitability. Do we need to recruit as many graduates as we have done historically? As for as pay and rations, there’s not going to be a major up-tick. – Large firm, West Midlands
7. We are not totally convinced by taking on 18-year-olds. We are really happy with their work but they are struggling with the exams. They are not good at studying by themselves. – Large firm, West Midlands
8. There were lots of audit re-tenders during the recession but mainly they were to drive price down. There are as many opportunities now but they’re more genuine. Our M&A team is busy and so is our Tax department. – Large firm, Yorkshire and Humberside
9. There’s a lot of low-balling on audit work in the city – not so much from the large firms as from some of the smaller ones. And the quality of work they offer is often a real concern. – Large firm, Yorkshire and Humberside
10. As a small firm we need to constantly reinvent ourselves and our offerings to clients. It’s not an easy task though and I’m not sure where the future lies for small high street practices such as ours. – Managing Partner, Small Practice, North West
11. There is work out there, but you have to go and actively seek it out – it won’t come to you and there’s plenty of competition from other practices. Having said that we are currently tendering for work at a rate that far exceeds anything we have experienced in the past twenty or so years. – Managing Partner, Regional Practice, North West

**Politics and business**

1. The next General Election is a good one to lose. There are a lot of problems ahead – ISIS, Russia and the National Health. – Director, building materials manufacturer South East
2. My fear about more local powers is accountability. There is no process for assessing how money given to LEPs is spent and how effective their performance is. – Large firm, West Midlands
3. Well of course the 2015 elections and its policy promises of each party are going to dominate the news and the confidence of the economy. – Senior Manager in Business, West Midlands
4. The Conservatives were given the mandate by their supporters at the last election to make some tough decisions. They have somehow managed to double the national debt in the past four years. – Partner, West Midlands
5. The fiscal deficit is the government’s first priority. – FD, East Midlands
6. For anyone in business in the North West, the Scottish ‘No’ vote is good news – who would have wanted to see the political landscape dominated for the next 18 months by rows over the currency, Scottish pensions and the location of nuclear submarines? Never mind a costly and complex financial cost of separating the two nations. – Managing Director, Manufacturing Business, North West