

MONEY'S TOO TIGHT TO MENTION

THE STATE OF THE ECONOMY, AUTUMN 2010

“EVERYBODY’S HOLDING THEIR BREATH. A LOT OF CLIENTS HAVE TREATED IT AS A NATIONAL EMERGENCY AND TAKEN 10% PAY CUTS ACROSS THE BOARD.”

Introduction

This is the ICAEW’s ninth quarterly report on the state of the economy as seen by members in the front line across all the regions of England and Wales. It is based on face-to-face conversations between regional directors and chartered accountants in business and practice.

On the basis of the comments in this report and similar views, we can conclude that:

- Access to finance continues to be a problem for many smaller businesses and those in the property sector. The cost of finance and the security required are also issues.
- Public spending cuts are expected to slow the economic recovery particularly in regions heavily dependent upon public sector activity.
- A rise in the VAT rate from January is causing further concerns about the impact on consumer facing businesses.;
- Few businesses expect the private sector to be able to take up the slack in the medium-term;
- A North-South divide is emerging between those regions heavily reliant on the public sector (the northern regions) and those with less dependency on the taxpayer;
- There has been a deterioration in confidence since our last report in the summer;
- Few members have much faith in the Local Enterprise Partnerships which are to replace regional development agencies.

State of the economy

1. We are starting to see an increase in activity but buyers are outside the region which is a long-term concern for the region’s economy. – Corporate Finance partner, North East.
2. My clients were starting to feel better in January and February, but since the election they’re feeling bad again. – Small firm, S Yorks
3. The road to recovery will be long and thwart with many new challenges for businesses. The problems caused by the credit crunch have continued to linger and show no real signs of disappearing. Margins remain tight for businesses, with many owners still unable to secure the additional funding they need. – Head of Recovery, Large Firm, North West
4. We still have clients that are looking to make acquisitions and grow over the next 2 to 3 years. It’s not all bad news out there. – Partner, Top 10 Firm, North West

5. There seems to be more stability in the SME market now. The majority of companies are still cautious though as they know that we are not out of the woods yet. – Partner, mid sized practice, North West
6. I feel that confidence in business decreasing, but there are exceptions to every rule – there are still some good manufacturing businesses bucking the trend. – Partner, small firm, North West
7. Businesses are still nervous about investing too much and doing too much expansion. – Medium-sized firm, West Midlands
8. A lot of businesses have looked at what's happened in the last 18 months and decided to get out now – owner-managed business people are thinking of getting out because they can't see long-term improvement. – Medium-sized firm, West Midlands
9. It has been a very quiet 2010 and several small companies have given up in the last few weeks. They can't afford to hang on to Christmas. They can't get in customers in sufficient quantity so they are out of the game. – Small firm, West Midlands
10. The forthcoming VAT increase is feared (nearly 5% increase within the year); People are likely to spend in December producing famine in January. – Small firm, Wales
11. Anyone selling to Joe Bloggs is doing OK – hairdressers, restaurants, some retailers. Those in jobs are benefiting from lower mortgage payments and have more disposable income. – Small firm, East of England
12. It seems no longer to be the case that we are all travelling together at the same speed. It is difficult to generalise about the state of the economy as there is polarisation between say, local and international and small and large businesses. – Small firm, East of England
13. General concern that things are getting worse and will continue to do so. The reality is now starting to hit home. VAT changes can only make it worse. We have crept margins up steadily to avoid a big rise in prices. Also putting pressure on suppliers to lower prices. – FD, Retail, South West
14. Concern that bills are all rising (energy, VAT, wages, etc.) this can only lead to pressure on number of employees. – FD, Retail, South West
15. Businesses are concerned about the effect of the government cuts and increase in VAT to 20%. We could easily go back into negative growth, especially if we all follow the "herd mentality" and/or if we have a bad winter. – MD, South West
16. It is getting harder to persuade potential clients to spend money. Work is being postponed, causing programming issues. – MD, South West
17. Private sector will not develop the capacity to pick up public sector job losses. – This is the view from many MD/FDs in South West
18. Any jobs that are created likely to be on minimum wage. – FD, Cornwall
19. Any increases as a result of the 20% VAT rate from January 2011 will be passed on. – Business adviser, South London
20. Larger organisations are generally faring better than SMEs. – Business adviser, South London

21. The outlook is less uncertain than six months ago, but it is too soon to say that things are looking rosy. – Big 4, London
22. Although the SE has recently reported a fall in business confidence and the recovery continues to be described as 'cautious and hesitant', there are now also reports of 'remarkable growth'. – South East
23. An encouraging high number of inward investment inquiries are being reported in the region. – South East

Impact of public spending cuts

24. In a region with above average employment in the public sector there are going to be, once the cuts start to bite, a lot of households that will have no buying power. That will knock on to all the private sector businesses the government tells us will fuel the recovery. They can't all export, so those businesses reliant on the local spending power will struggle for the next 18 to 24 months. – Large firm, North East
25. The public spending cuts are likely to impact on us as we benefit from defence budget spending. To replace that we are told to drive for export, but I hear just exhortation, no words of inspiration. The finance for export growth scheme was beneficial – but that seems to have dried up altogether now. – Manufacturer, North East
26. Sheffield's economy's about 52% public sector. The private sector's now OK again, more or less, but what are the public sector changes going to mean? Slow down? Double dip? – Large firm, S Yorks
27. There is no great confidence (in any sector) in what the future looks like. Major capital expenditure and hiring decisions are either taking longer, being delayed or postponed indefinitely. – Small firm, East Midlands
28. Limping along is how I would summarise it , some great stories and some sad ones as has been the case for some time. – Medium-sized firm, East Midlands
29. The economy is delicate, it's in the balance. Government spending cuts will have a huge impact. – Small firm, West Midlands
30. A number of charities and organisations in the public sector will be hit. – Medium-sized firm, West Midlands
31. Everyone in the quango world is worried about the cuts. – Consultant, West Midlands
32. The messages are very bad for construction and property companies in the region. With AWM not being there they are not the industry is going to pick up. – Small firm, West Midlands
33. AWM is committed to spending but the in-year cuts mean suppliers are being asked to file in advance to get payment in before they run out of money. – Consultant, West Midlands
34. Charities and the third sector are likely to have a very thin time; some have closed already, others likely to become insolvent as secondary funding withdrawn. – Small firm, Wales

35. The combination of high potential exposure to public sector cuts, high unemployment and low forecasted private sector employment growth makes the areas of Kent, East Sussex and Hampshire a particular concern. – South East
36. Some coastal areas have been described as bearing similarity in structure to recognised high risk areas such as parts of northern England. – South East

Banks

37. We see no pick up in the market. We are getting by, by making savings way above our original expectations. – Commercial property, North East
38. We see some encouragement in our sector however the supply and pricing of finance is still a major issue. – Commercial property, North East
39. We are finding an increasing demand for back office services. Customer deposits are strong, new advances are not in great demand, reflecting a slowing down in the housing market locally and further afield. – CEO, Building Society, North East
40. The banks are still not wanting to lend in some sectors. We had a copper-bottomed proposal turned down for no apparent reason other than this is a sector in which this bank does not seek any additional exposure. – Partner, Law firm dealing in commercial property, North East
41. Banks are just not lending to small businesses like my clients. And it's not that they are bad risks – according to my knowledge of their accounts and business. Banks should be broken up so that none are too big to fail, then we might get some proper competition and lending in the marketplace. – Small practitioner, North East
42. We are negotiating a modest increase in our bank facility (£2m on top of £8m). The bank are wanting to charge a fee of 10% on the full £10m – effectively 50% of the new finance. The Chairman will go ape when he finds out. – Property group, North East
43. Businesses aren't good at accessing alternative sources of finance. Compared to businesses in, say, Germany or France, companies are much larger before they consider the likes of external equity finance and venture capital funding. Perhaps now banks are reluctant to lend this might persuade UK businesses to look to their European competitors for a business model. – FD, manufacturing business, North East
44. Banks are finding ways to turn down lending applications yet don't know the requirements for audit or other reports. They accept "audit reports" from non-qualified accountants and ask us for audit reports on businesses which are well below the statutory limit and which already have the relevant report attached to their accounts. No wonder we find their dismissive approach to many applications bordering on a joke. – Small firm, North East
45. The banks' attitude to small business has been (expletive deleted). Bankable propositions just aren't being taken up, and property-based lending has pretty much stopped altogether – and almost all deals come down to property lending in the end. How can a business grow? You can't borrow, and you can't change banks. – Small firm, Humberside
46. The banks are just going through the motions. They talk like they are going to be able to help, you go through all the rigmarole, but in the end it is almost always a no. – Finance Director, SME, North West

47. The property sector is a no go area for the banks. They won't touch it with a bargepole. – Partner, Top 10 Firm, North West
48. The banks are claiming new funding is being issued, but the real situation is that they have just replaced the overdraft with invoice discounting (the invoice discounting counts as a new lend, and the overdraft is just expiry of existing facility). – Audit Partner, mid sized practice, North West
49. The bank's attitude to property companies is diabolical. There are property companies who are servicing their debt on time and have never missed a payment or incurred a bad debt from a tenant, who are being made to put assets up for sale with good covenants on yields of 10% just because the loan-to-value covenants have been breached, when the sensible course would be to sit tight and let the market recover. There are vulture buyers out there who will pick up quality assets and the banks will get their money back, but allow the risk-takers who they backed in the past to go under because of the fire sale prices. No doubt the same banks will then lend money to these new investors, having destroyed value in the system and market confidence. This is bad banking, bad business and does nothing to inspire confidence in our banking system. It is just the banks trying to rebalance their books at the expense of British industry and enterprise. Talk of a double dip – the banks are forcing us into one! – Chairman, Property Company, North West
50. (Bank A) said they were open for business but at a recent meeting their own economist said that's really not true. – Small firm, West Midlands
51. (Bank B) wanted to withdraw facilities on a sure-fire contract. They said it was unsecured and wanted the owner to put his house up as security. – Medium-sized firm, West Midlands
52. (Bank C) won't do a small overdraft without the house as security. – Small firm, West Midlands
53. One of my clients has a £200,000 turnover. He wanted a £50,000 loan. He had to put up his house as a guarantee and pay 10.5 per cent interest. The banks are using any opportunity to make more money. They are also moving people very quickly into 'special situations', charging huge fees for doing less. – Medium-sized firm, West Midlands
54. One client's bank put up the rate of interest by four per cent on a £5 million loan. – Small firm, West Midlands
55. One of our clients is a subsidiary of a German company. They were offered lending at eight per cent over base. Their parent company approached a German bank and obtained a facility at one per cent over base. – Medium-sized firm, West Midlands
56. I had a client whose overdraft facility was reduced by text, from £50,000 to £40,000. The bank is highly exposed to his sector and they just want out. – Large firm, West Midlands
57. The overall economy seems to be patchy with some sectors (eg food production and processing) seeming to be OK and others still suffering. – Small firm, East Midlands
58. This small, young company of 63 staff is owned and managed by its founders, a chartered accountant and a thermo dynamics specialist. A green technology business supplying major infrastructure providers, it has grown rapidly in the last three years but its growth is now on hold as the company cannot secure banking finance. It has also

suffered from payment terms of one of its major customers being changed unilaterally from 30 to 70 days. – Finance Manager, East Midlands

59. The press may claim an increase in lending but unless they are lending to themselves on the inter-bank market, it's hard to see where it's going. – East Midlands
60. Clients are continually complaining of increased bank costs/reduced bank flexibility/lack of commercial approach/unreasonable attitudes and delays in dealing with issues. – Medium-sized firm, East Midlands
61. Banks only wish to lend to companies who don't need money. – Small firm, Wales
62. There was a huge oversupply of finance previously; the swing to almost total lack of supply has been complete. – Small firm, Wales
63. My clients are having to convert their overdrafts into fixed term loans. Small businesses are being starved of cash. – Small firm, East of England
64. Bank lending is still poor. You must have rock solid proposals to get any money. – Small firm, East of England
65. We have been successful in securing funding of all types in the SME level c£300k-£500k with no unreasonable demands for security. – Business adviser, East of England
66. Banks are starting to say you may not draw dividends out of last year's profits. This is the case even if you have built up reserves. – Small firm, East of England
67. We had a major problem refinancing. Our (then) bankers would not even discuss it. We have now moved banks. – FD, South West
68. Banks are not being at all helpful to micro-businesses. Relationship Managers cannot cope with/understand the businesses or their issues. Don't even try. The tick-box mentality abounds. – Consultant, SMEs, Exeter
69. Activities have increased substantially over the last six months, and the outlook is much more positive but we are not hiring and not replacing leavers unless really necessary. – International wholesale banker, London
70. Bank finance for SMEs is extremely difficult to obtain and very expensive when offered. – Non-exec director, London
71. There is a lack of liquidity for SMEs, with little or no support from the banks, all of whom demand more and more from their clients. – Sole practitioner in London
72. Bring back bank managers who can make a decision. – Non-exec director, London
73. Lending under the Enterprise Finance Guarantee scheme has dropped 70% in the last year. – South East
74. Businesses are still reporting it is really difficult to obtain finance and the business environment has been described as 'very fragile'. – South East

Business sectors

75. We are doing OK at the moment. We have re-introduced overtime but are worried about exchange rates. We do hedge currency fluctuations but that can't mask a long-term trend. – Engineering business, North East

76. Engineering, construction, retail and property companies are amongst those most at risk. It's those companies most dependent on business with the public sector who should now be preparing themselves to see where the axe will fall. We are bracing ourselves for more than our fair share of the pain. – Insolvency partner, North East.
77. We deal with steel transport and know just from our business what a huge impact the closure of the Corus plant has had. Beyond that there were thousands of jobs in the Middlesbrough area directly dependent on that manufacturing business. That it was acclaimed as efficient and producing a quality product is all the more galling. If the Thai acquisition goes ahead and production restarts – even though it will take six months to get production running – there would be a boost to the local economy that is likely to overcome the public sector cuts around the corner. – Logistics company, Teesside
78. A few weeks ago we said we thought we were seeing signs of an upturn. Now we definitely know we are. – Recruitment business, W Yorks
79. Underlying sales were down 7-8% in 2009, but we had a windfall because of swine flu this year and have more or less made it up. There's a lot of cost pressure from Chinese suppliers – inflation at 5-8% – and margins are tight. We had a salary freeze in 2009, but are paying bonuses again now. We took the pain early. – MD, Safety equipment and clothing, Humberside
80. We have a client who does ground work for house builders. He had no new jobs in for more than 16 months, then two on one day and his order book is now its fullest ever. – Small firm, Humberside
81. We have a lot of Construction Industry Scheme contractors. They've really suffered over the last eighteen months, but have started to bounce back quite well. – Sole practitioner, S Yorks
82. There is real concern in the construction sector at the impact on house building of cuts to social housing budget. – Small firm, East Midlands
83. Charities are struggling the most as expenses continue to rise yet they are getting less income from donations and legacies (property market not helping on legacies) – some are reverting to mergers with other charities as they cannot continue on their own. – Medium-sized firm, East Midlands
84. Niches are flourishing – bio/care and medical seem OK. Manufacturing is as we'd expect. Construction is still suffering (public sector and lending issues) although house builders seem to be girding their loins ahead of needing some sites to build out in the future. – Medium-sized firm, East Midlands
85. Though business opportunities are available, electronics firms are unable to source components easily. Supply is being eaten up by rapidly growing Far East demand. – Regional strategy board, East Midlands
86. Big businesses are not willing to let small businesses make a profit. Small businesses can't dictate terms they have to take what they're given. If their customer won't pay within 90 days they have to accept it. – SME, East of England
87. The space industry is doing well. – Business adviser, East of England
88. The housing market in Cambridge which has been resilient is now slowing down. – Small firm, East of England

89. Orders as a result of companies re-stocking have petered out. – SME chairman, West Midlands
90. There are shortages of equipment in the electronics industry. – Small firm, West Midlands
91. Manufacturing is going from strength to strength. – SME chairman, West Midlands
92. I have a fence manufacturer who can't buy wood because it's all going to China and a paint manufacturer who can't buy oil because it's all going to China. – Medium-sized firm, West Midlands
93. The exchange rate is having a direct impact on the costs of importers. – Medium-sized firm, West Midlands
94. Increasing enquiries from Far East for pupils to study in UK, despite new legislation that makes this more difficult. – Bursar, South West
95. Sales are flat but the energy market, particularly renewables, very active. – FD, Manufacturing, South West
96. Continuing issues in retail markets – excess property investments making rents too high. eRetail sales increasing and marked change in shopping patterns. – FD, Fashion Retail [UK & USA], South West
97. Trading in our conference business is very poor, some major annual events withdrawn at last minute due to lack of take-up. Spending on hold pending CSR but anticipate negative impact on research which will have a domino effect in local economy. – FD, University, South West
98. I have deep concerns about business for the 2011 season. Signs at present are not encouraging. – FD, South West Tourism business
99. Venture capital opportunities are considerably up. – Non-exec director, London
100. Manufacturing (electronics) supply chain has moved a further 4 weeks to 6 months. High skills shortage in manufacturing. – Non-exec director, London
101. A number of property companies are having to restructure to service their debts and to keep going; restaurant businesses are struggling to keep competitive and to retain staff. – Top 20 firm, London
102. We are not immune to the recession but demand for household name products has kept up. There have been some lay-offs at the 'factory' level and also at Head Office. – International consumer product manufacturer, South London
103. Fashion industry – confidence, growth and demand much weaker but exports are up, staff still being recruited and they are able to increase prices. – Sole practitioner in London
104. Internet businesses – business flat; lots of competition; unable to pay salary increases; nothing available for investment. – Sole practitioner in London
105. Advertising companies are very buoyant and confident; growth and demand on the increase; but making do at same staff level (no recruitment). – Sole practitioner in London

106. Entertainment agency – high level of growth; live concerts have kept going strong and they are much more in demand. – Sole practitioner in London
107. Larger companies are placing investment decisions on hold particularly for contracts relating to IT, the National Health Service and local authorities. – South East

Local Enterprise Partnerships

108. We worry that LEPs based on local authorities will squabble to get their “share” and spread what little jam there is thinly over the whole area to no useful effect. – Consensus of members, North East
109. Removing RDA support is disastrous to this area (Teesside), which is already on its knees. I am concerned that local authorities have enough to worry about and, for me, are unlikely to put the input needed behind a LEP. – FD growing listed company, North East
110. There is concern over the numerous bids for Local Economic Partnerships in the North West (too many in my opinion) and where these are heading and there has been virtually no real business input. I have no confidence that these LEPs will be able to help real businesses like ours. – FD, SME Manufacturing Business, North West
111. Business Link was/is a shocking service – calibre of their people is very poor. – FD, Cornwall
112. Businesses cannot get excited about the change from RDAs to LEPs. Concerned about the potential lack of accountability that afflicted RDAs continuing with LEPs. – FDs, South West
113. LEPs need to ensure good support for micro-businesses, both start-up and expansion stages. – FDs, South West
114. Following the announced abolition of RDAs and intended creation of 3-4 LEPs per region, confusion and uncertainty has taken hold. There are 18 competing LEP bids. – South East

Impact on firms

115. The squeeze is on audit fees at the moment. Clients are looking to cut costs wherever they can, professional fees are seen as an early target. So to seek a 10% increase to cover the increased costs of implementing and applying Clarity ISAs is just a non-starter. That will severely squeeze our already-tight margins. – Medium-sized firm, North East
116. About 40% of the delegates at our Scarborough Conference had faced a client insolvency in the previous 12 months, and almost everyone has written off a bad debt.
117. It's not been pretty, but we've got some clients in niche markets who are doing well and feeling apologetic about it. Otherwise, everybody's holding their breath. A lot of clients have treated it as a national emergency and taken 10% pay cuts across the board. – Independent firm, S Yorks
118. Fee pressure has been intense but is starting to ease a little, and we're starting to recruit again. –Group A firm, Humberside
119. Cash flow's been a challenge, with a lot of clients deferring work as long as they can. And there have been some we've supported for the past twenty years and felt we had

to carry on doing so, even though it might be painful. But there's been a real upturn in the last six or so months. – Small firm, W Yorks

120. There was a second dip earlier this year, when the Revenue started trying to collect two years' tax in one as they unwound the deferral scheme, but now we're seeing a lot of start-ups. Admittedly we're a small sample, and many are being forced into it by circumstance, but there are lot of tiddlers getting going. And buy-to-lets are suddenly booming again, for those who can look more than seven years ahead. – Sole practitioner, W Yorks
121. We grew 1% year on year, but now we're feeling some real fee pressure. Two clients failed in the last six months – though one of them, admittedly, had been badly injured in an accident. It feels like the recession came to us late. – Small firm, E Yorks
122. Fees are still being slashed. We are working for some clients virtually for free! – Partner, Small Practice, North West
123. We have seen a steady stream of audit proposals (particularly in charity sector) but still very fee sensitive and some firms are cutting their own throats on fees to win work. – Small firm, East Midlands
124. There is more corporate activity but at this stage it is described as "dating not consummation". – Large firm, East Midlands
125. The region's corporate recovery teams are very busy on both corporate and personal insolvency. – East Midlands
126. Corporate finance is making a return with a few notable deals hitting the press and firms claiming that pipelines are building. The big concern is the real lack of bank appetite for lending. – East Midlands
127. Boutique practice working in M&A reports inexplicable large increase in inquiries and related work over past month. – Wales
128. My firm hadn't been badly hit by the recession until about six months ago when we started to feel the pressure. – Small firm, East of England
129. Any thought of acquisition of other practices is on hold. – Growing firm, East of England
130. There is plenty of work available for experts on pensions; there is a general talent shortage in a number of client activities; consultancy work is definitely on the increase, but with much tighter margins. – Big 4, London
131. A number of our departments are restructuring, but graduate recruitment levels being maintained (at c1,000). – Big 4, London
132. It has been a 'flat' year but there is increasing new work in the pipeline. – Top 20 firm, London
133. We have many applicants for each position but there is a general shortage of staff at the recently-qualified level. – Top 20 firm, London
134. Plenty of work involved with pension advice and pension fund valuations. – Top 20 firm, London
135. We need more hours in the day to get all the work done. – Small firm, London

HMRC

136. HMRC are continuing to employ heavy handed tactics. They treat businesses appallingly in many cases. If they treated them better they would get a better result for everyone concerned. – Sole practitioner, North West
137. Lack of easily accessible point of contact with HMRC continues to cause delays and frustrations. – Regional strategy board, East Midlands
138. Care needed on time to pay as HMRC are turning the screw, after being too lenient. – MD, South West
139. Major problems with HMRC Help-lines. Only 'agent designated' lines work well. Otherwise, staff do not have ability/understanding to deliver. Quality of correspondence is deteriorating further. – Partner, South West practice
140. Insolvency practitioners have not been as busy as expected but are still expecting an increase in business towards the end of the year. – South East