**EVEN THE GOOD TIMES ARE BAD**

**THE STATE OF THE ECONOMY, SUMMER 2014**

***“Without Hungarian and Polish construction skills UK building projects would have ground to a halt.”***

**Introduction**

The UK skill shortage is becoming more acute as the economy recovers and expands, according to the results of the latest snapshot of ICAEW chartered accountants’ views.

This report, based on comments gathered over the past couple of months by ICAEW regional directors, suggests it is no longer London and the South East where key skills are in short supply.

Other issues raised include:

* The patchy nature of the recovery and concerns over its sustainability;
* Continued suspicion about the availability of bank finance;
* Apprehension over Scottish independence and an in-out EU referendum;
* Widespread dissatisfaction with HMRC and concern over corporate tax policies.

**The state of the economy**

1. The industry consolidated and we were forced to right-size ourselves, after five generations of being family-owned and run. Perhaps we took our eye off the ball as well. The print industry didn’t die but we had to invest in new kit and bring our debt levels right down. [An outside investor] bought the trade and assets of the business – and now we’re back at pre-recession levels of turnover. – Financial controller, print business, North YorkS
2. There’s no sign of a housing recovery yet and incomes aren’t rising. Consumers are still hard-pressed and looking for bargains – but there’s business to be had in the times when we’re making good offers. – Finance Director, household name furniture retailer, South Yorks
3. This recovery is very regional. – Partner, East Midlands
4. There is no shortage of Range Rovers in Lincolnshire. – FD, East Midlands
5. The house market is overvalued. – Head of Finance, Building Society, East Midlands
6. The government and personal debt is now of biblical proportions and has saddled future generations with a disgraceful legacy. – CEO, West Midlands
7. Stoke seems to be the opposite of London. No big highs and no big lows. – Senior Partner West Midlands
8. No, the government has not been much use to growing our business – FD, High tech business, West Midlands
9. The construction sector is moving forward, margins remain same but volume of opportunity rising, student accommodation projects in particular. Larger investors are coming out again – a bit easier to find for big projects £100m plus. – FDs, South West
10. We are still not taking on more employees although the order book has increased significantly due to exports to Asia. We were conservative in our HR approach during the recessionary period and are now taking up slack – FD, South West
11. New vehicle registrations are up in 2014 again, about 12% compared to 2013. The industry body predicts year will be 6% up so a decline in second half anticipated. We have increased our workforce too. Increase sales across all marques, but Skoda 30% up at end of March, so there are some differences. Audi have now moved into first place ahead of BMW. – FD, South West
12. Construction sector is on the up, the tendering pipeline is good, the order book as good as pre-crash. We have to be careful about ability to deliver on margins the customers require. Issues are getting skilled staff: brick-laying skills and materials at a premium. We are bringing in skilled staff from Ireland but can’t get the bricks to lay and lead times are therefore difficult to predict. You have to win at the right price then have the ability to deliver. – Property Development, South West
13. It is too cheap for non-dom, non-residents to have property in London. They are using London as a store of wealth and this is driving up the costs of doing business in London. They should contribute to infrastructure costs and pay tax on a buy-to-leave basis. Their increase in wealth is being subsidized by those working in London. – Finance Director plc technology, London
14. Operations are increasingly moving overseas. UK office staff numbers have been reduced considerably. Many work at home for the majority of the week and have more flexible working hours. – Global finance team manager plc, business communications South East
15. Things are generally tough in the industry at the moment and there is no sign of change. – Group Accountant plc, technology services, South East
16. Interest rates are artificially low. £ compared to $ is strong. We should be acquiring companies rather than growing organically. – Former investment banker and vice chair of investment bank, Thames Valley
17. There is talk in the press of China slowing down, but it’s an enormous population and a market with an interest in Western culture. Consumer spending will grow. – Former Finance Director now adviser
18. The biggest threat to Europe is Russia. They are starting to flex their muscles and are funding projects, eg nuclear power scheme in Hungary. Russia will have an effect on the energy market. – Advisor Eastern European transport services, Thames Valley
19. The big six energy companies include two German, one French, and one US supplier. There may be an effect of the proposed energy price fix on the market. – Finance Director, energy supplier, Thames Valley

**Skill shortages**

1. It’s taking an increasing amount of time to find the right people to work in our (IT based) business. Skills shortages are by far the biggest issue for us at the present time. ­– Group FD, Service Business, North West
2. Getting the right staff with the right skills is a big problem for us at the moment. It takes a long time (and costs a lot of money) to recruit the right people and it’s holding our business back. – Finance Director, SME Business, North West
3. There are skills shortages. We got rid of manufacturing then decided it was a bad idea. – FD, West Midlands
4. Most corporations in the region are recruiting and our people are in great demand. – Large firm, West Midlands
5. We are keener to take school-leavers than we used to be. They struggle a little with the exams. We have had to go into schools and educate them quite a bit. – Large firm, West Midlands
6. Some of our clients feel they are not getting the right sort of students. They don’t have the work ethic. They don’t think they should be there at 8.30 in the morning when they are supposed to start and these sorts of issues. – Medium-sized firm, West Midlands
7. When we have to recruit people with engineering skills it’s a slow process. If you are prepared to take your time eventually we recruit the ones we need but there isn’t a big pool of engineers and we are very worried about JLR who are on our doorstep. – FD, West Midlands
8. There is a high driver to remove staff from the payroll to protect the EPS in bad times. Then when good times arrive they are missed. – Consultant, London
9. The best incentive to train is the profit incentive. In my business we train what we need. – Finance Director, construction group, London
10. Teachers should be encouraging engineering as a career instead of the professions. There is a disconnect in the economy when engineers are entering the City. – Finance Director, construction group, London
11. Without Hungarian and Polish construction skills UK building projects would have ground to a halt. – Managing Director, energy product supplier Thames Valley
12. Other countries build houses more sustainably. We don’t put the infrastructure, eg schools, roads, where the homes are. – Director small exporting service company, Thames Valley
13. People are coming here to be economically active rather than inactive. I know an engineer bringing people from his own country to staff a domestic cleaning company; all staff are from overseas, to the extent that he has developed a property portfolio to provide accommodation for them. British workers have a poor work ethic, they don’t turn up on time. – Managing Director, energy product supplier, Thames Valley
14. We plan to double our office in Prague because this is where the skills are. We pay two thirds of UK salaries. One of our managers spends three days a month in Prague. – Director ‘green’ energy engineering company, Thames Valley
15. It’s a reflection on the education system that we don’t get the skills we need. – Finance Director, multi franchise car dealership, Thames Valley
16. British firms have done a lot less training. French and German companies train staff and they come here. – Consultant, Thames Valley
17. Russell or near Russell Universities, are contracting people to do sessions on preparing for work. – Director small exporting service company Thames Valley
18. Academics don’t teach life-skills, they don’t teach them to write a report in a proper way. There is a production line of thousands of graduates who don’t have the right skills. We either have too many in a discipline or not enough. – Advisor Eastern European transport services, Thames Valley
19. Summer internships are not long enough. It takes two years to get graduates to think pragmatically rather than academically, eg produce two pages rather 20. – Managing Director, energy product supplier Thames Valley

**Exporting**

1. Over half of our turnover is from exports, but I have never sought the advice of UKTI. To be honest I don’t really understand what they do and it’s not obvious to me. We do have issues that we need help on, but I just don’t know if they can give me the assistance I need. My impression is they can’t. – Finance Director, Engineering Company, North West
2. Never try to set up as a manufacturer overseas, it is too difficult. – FD, East Midlands
3. We are in high tech area with a niche product and growing at 15% pa with 90% of our sales are overseas. – Group Financial Accountant, West Midlands
4. There was nothing in the budget to differentiate the UK for inward investment. – Finance Director plc technology, London
5. The expansion of the Export Credit Guarantee Scheme is only useful for bigger firms. – Consultant, London
6. There is a lot of paperwork to get through on the Export Credit Guarantee Scheme. – Finance Director plc technology, London

**Impact of EU Referendum in 2017**

1. It would be a dip into the unknown to come out of Europe. – Director construction company, Thames Valley
2. Inevitable that it will slow things down as people pause to contemplate. The window of 2016-19 may be difficult to get commitment during the uncertainty. – Chair plc financial services, Thames Valley
3. For some car manufacturers operating in Europe there is already uncertainty. – Finance Director, multi franchise car dealership Thames Valley
4. Decisions will be deferred and management time spent on small decisions. – Managing Partner, large local practice Thames Valley

**Scotland**

1. One insurance company has registered 120 companies in the UK in case there is a ‘yes’ vote. – Chair plc financial services, Thames Valley
2. For Scottish-related contracts suppliers, are requiring payment in British £ sterling. – Director small exporting service company Thames Valley

**Access to finance**

1. Banks are still awkward to deal with. There’s no flexibility. The branch says yes, but the committee says no. They’re more demanding over mortgages too – you have to show your ability to service the debt under quite extreme circumstances. They use it like a sledgehammer. And margins are a big issue: you used to be able to get 0.5-0.75% over base, but now it’s 2-3% and perhaps up to 7% for a risker proposal. – Small firm, North Yorks
2. From talking to one of the local banking people here it seems that cash-flow is more important to a bank than profit and historical trading information. Perhaps we need to be talking to the banks more about what information we provide them to help our clients. – Senior Partner, Small Firm, North West
3. The banks are so inconsistent and full of pedantic rules. They say they want to lend, but do they really? – Finance Director, SME Business, North West
4. The majority of our clients still have no confidence in the banks. They say they are open for business, but that’s not that reality for most small businesses. – Managing Partner, Small Firm, North West
5. I don’t think it’s changed at all in the last five years. The banks are not lending. – Small firm, West Midlands
6. I think we are going to find at the small end of the market the High Street banks are going to be contributors to CDFI schemes as it’s not worth their while to lend directly. – FD, West Midlands
7. More and more companies are doing their own due diligence these days and don’t appoint professional advisers. If they do, it’s not because they think it will add any value. Private equity want someone to blame. – Large firm, West Midlands
8. If you go to banks with a proposal, as long as you have demonstrated a track record they are not going to turn you down. – MD, West Midlands
9. There is less economic uncertainty and so it is easier to plan ahead. Banks are now appearing at events, they haven’t been seen for a while. – Consultant, Thames Valley
10. We get all the right noises from the banks in the initial stages, then a credit committee says no – we tend to find the finance from another route. – Former Finance Director now advisor, Thames Valley
11. The process of getting a loan from the bank is getting harder, getting funding from shareholders is another matter. Things are turning, green shoot investment will attract shareholder funding. – Managing Director, energy product supplier, Thames Valley
12. A lot of applications to us for funds were unfundable; there is a lot of opportunity for those serving them to assist them make better applications. – Part time Finance Director, SME funding, Thames Valley
13. We are building £10m facility R&D centre and we have £3m grant funding. You have to be careful how you put the application together. It took a long time. – Director ‘green’ energy engineering company Thames Valley

**Tax policy and HMRC**

1. HMRC phone lines haven’t improved one jot – and the staff don’t know the rules when you get through. The agent helplines are good, but you do tend to get passed around. And the post delays are still bad, both in- and out-bound. – Small firm, North Yorks
2. HMRC are a complete joke. We took advice from a revenue helpline that turned out to be completely wrong, but they still came down on us really hard, despite the fact that we had followed their advice. – Finance Director, Construction Business, North West
3. HMRC are definitely more intrusive now than they have been in the past. It seems clear to me that they are target driven and to be honest their service is pretty shambolic. – Group Finance Director, SME Business, North West
4. It is outrageous that the HMRC sends speculative letters warning of potential tax liabilities. You seem to be guilty before the case is proved. – Partner, East Midlands
5. HMRC has stopped listening to members at ‘Working Together’ local meetings. – Partner, medium sized practice, North West Surrey
6. It seems to me that ICAEW quote HMRC policy all the time without sufficient critical analysis of HMRC powers. I would like to see ICAEW articles that carry critical analysis of HMRC policy and tax legislation. – Partner, medium sized practice North West Surrey
7. There is a nasty tone at HMRC. There is a confrontational approach. No regard is given where people have acted in good faith. Retrospective action is unfair. – Partner, medium sized practice North West Surrey
8. Tax should be levied at the point of delivery for everything – it is harder to evade. – Finance Director plc technology, London
9. HMRC has tools, if they are not enough they should ask government for more tools. Transfer pricing and taxation should be based on rules not moral/immoral argument. US may take the lead. – Managing Director, energy product supplier, Thames Valley
10. Margaret Hodge has made a career out of tax avoidance. The Government are acknowledging they have to change their approach. Boardrooms and NEDs are asking: what is our tax policy? – Managing Director, energy product supplier Thames Valley
11. Tax is part of cost structure and if companies pay tax, the cost of goods will rise. – Advisor Eastern European transport services, Thames Valley

**Public sector**

1. The amount of time we spend on regulation and red tape is ridiculous. Pensions, tax, payroll (RTI etc), data requests from the NAO – you name it we get queries on a daily basis. – Finance Director, SME Business, North West
2. We’re struggling in some of our key UK markets – local government and the NHS. We save them a lot of money but the public sector procurement rules and the way they’re having to focus on cost-savings mean they can’t really appreciate it. They can’t see the wood for the trees. – Group FD, large medical / hi-tech supplier, W Yorks
3. We need to find £2m of cost savings each year – on a total budget of £16m. The easy cuts went years ago, so now it’s all strategic projects like outsourcing, joint ventures and shared procurement, which take a lot of negotiation, effort & planning. – Financial controller, local government, North Yorks
4. There was a recent European court decision concerning a European Working Time Directive on the calculation of holiday pay entitlement to employees. It was decided that the pay should include commission. This decision would demand a possible retrospective payment to staff, going back many years, even when it was not in the employee’s contract. – FD, West Midlands
5. Government pensions which were transferred into the public sector are now retrospectively being required to include overtime into the pensionable salary calculation, again with massive financial consequences. – CEO, West Midlands

**Pensions**

1. The low pension cap is causing an unexpected consequence in the property market. –Finance Director plc technology, London
2. There is concern about how free advice will be made available to everyone following the removal of enforced annuities. – Tax specialist Croydon
3. More flexibility and fewer rules is a positive move. – Former CEO, engineering company, London

**North-South divide**

1. I think London has got a problem. – Small firm, West Midlands
2. It’s very hard to get across to younger people the quality of life argument. They haven’t had the guts drained out of them by working 20-hour days. – FD, West Midlands
3. People in the provinces do feel they are second class citizens. They are discriminated against. – FD, West Midlands
4. The provincial towns have the more junior people and the less interesting jobs. – FD, West Midlands
5. In the last ten years the North-South divide has been a massive change – only now are we beginning to see the impact of it. – FD, West Midlands

**Firms of chartered accountants**

1. Our audit practice is shrinking – it’s halved in five years and will fall again when the exemption limits rise later this year or early next. Audit is now something that a few specialists do within the firm, not all of us. – Small practice, North Lincs
2. We don’t really have juniors to do the number-crunching any more – as soon as we train them, they leave. – Small firm, North & West Yorks
3. Cash flow’s quite difficult – our practice manager has to focus on it quite hard – and our fee per client isn’t rising; there’s still a lot of price pressure. – Small firm, North Yorkshire
4. We’ve one newly-qualified coming through, but financing the succession is proving difficult. – Small firm, North Yorkshire
5. We lost about fifteen percent of our turnover during the recession – an architect client went from 90 staff to 18, a recruitment agency from 24 staff to 2. But we’re busy again now and have clawed it back – partly by acquiring a practice from a sole principal. – Small firm, North & West Yorks
6. We lost a third of our income during the recession and had to find other ways to make money. This is the first year in a long time when we’ve signed up more clients than we’ve lost. – Sole practitioner, North Lincs
7. The ones who’ve done well through the recession are the ones who’ve adapted, grasped the nettle and changed. – Large independent firm, W Yorks/Nth Lincs
8. We gained clients through the recession – but had less work to do for them. – Small firm, North & West Yorks
9. Things are good in the Birmingham office but we are treading water in the provinces. – Managing Partner, Mid-Tier, West Midlands
10. Business is excellent with no web site. All our new customers are referrals from our community. – Partner, West Midlands
11. In my own firm, I used to be at the top. Now I’m working my way down. – Older member, West Midlands
12. The macho committed culture has changed. It’s not quite as bad these days. – Large firm, West Midlands
13. Technology has changed the way people work in all sorts of ways. We are pushing against some of this. Face-to-face contact is what people enjoy about their jobs. People are quite happy to work until midnight if they are with 20 members of their team. – Large firm, West Midlands
14. The process of standard-setting is not fit for purpose. An Exposure Draft goes round the world and lots of issues get added and the result is a very lengthy reporting document – HSBC financial statements run to 450 pages. – Partner large firm, South East
15. Finance directors say they never see the audit team these days – they sit in a room and carry out the audit on their computers. – Partner large firm, South East
16. Vince Cable sees an audit as a cost burden, which displays a lack of understanding. The profession has failed to explain the value of an audit. – Partner large firm, South East
17. The profession has not answered the question ‘Where were the auditors’ during the financial crisis? – Partner large firm, South East
18. As businesses get more complex they will need external verification. The profession will have to convince clients that an audit gives value. – Partner large firm, South East
19. Assurance work is more valuable than an audit for business. – Business member, South East
20. In two cases where my firm lost the audit because of higher threshold the client did not want assurance. – Sole practitioner, South East
21. The Business Advice Service is a positive. – Partner, medium sized practice, North West Surrey
22. The ability to conduct probate administration is a great step forward. – Partner, medium sized practice North West Surrey