**STILL UNDER THE WEATHER – SUNNY SPELLS AND FURTHER RAIN**

**THE STATE OF THE ECONOMY, SUMMER 2013**

***“Five hundred years of double-entry book-keeping – where’s it all gone?”***

**Introduction**

ICAEW’s latest quarterly snapshot of business opinion supports recent surveys including the Business Confidence Monitor in suggesting a general improvement in the trading climate. However, there is no doubt things remain tough in some areas of the country and in some sectors.

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

* Many companies are “running harder to stand still” but there are genuine signs of an improvement in the country’s economic prospects;
* Members are as concerned at the poor performance in the public sector as they are at the impact of public spending cuts;
* Many chartered accountants are still wary of the banking sector while the mis-selling of interest-rate swaps to SMEs is likely to be a growing problem;
* While some members are content with the service received from HMRC, it would appear there is a growing number of complaints;
* The unpredictable weather has had an adverse impact on a number of businesses.

**State of the economy**

1. Our clients are doing OK. Typically though there isn’t much left in the tank in most businesses. – Sole Practitioner, North West
2. Business is OK for us. Most of our clients have survived the difficult climate, but the ones in the construction sector are still a worry. It’s tough for us to pick up new clients though – it’s all about fees. – Partner, Small Practice, North West
3. My clients are getting on with business; the climate may not have moved, but people have. – Partner, Top 10 Firm, North West
4. Apprenticeships are key to a vibrant and thriving economy. We need to start making things again. – Chief Executive, SME, North West
5. My clients do seem more positive: I think they have come to the conclusion that this is the ‘new norm’ and they just need to get on and do business. – Partner, Small Practice, North West
6. I think there is a ‘realistic optimism’ amongst our clients. – Partner, large firm, North West
7. International trading is going to be absolutely vital for our business in the future. The business won’t grow and move forward unless we export so we are going to take the plunge. – FD, manufacturing business, North West
8. We hear time and time again the government saying that SMEs need to start exporting, but many of the businesses we work with have a fear of exporting. They simply think that it is too big a step for them to take. – Senior Partner, Small Firm, North West
9. Whilst there are success stories for companies in niche markets, businesses are still cautious, holding on to their money. – Member in practice, East of England
10. There is much faster investment in the US, Middle East and Asia which is fuelling their growth. – CEO of manufacturing company, East of England
11. There are green shoots but it is still taking a long time for approvals to come through for, say, capital expenditure or recruitment. – Member in practice, East of England
12. Government procurement is horrible. They have no concept of value. It’s just price driven. – Member in logistics business, East of England
13. The recent changes in the weather structure patterns have shown the weakness of some of the UKs infrastructure to cope with such things as snow and flooding. These events would adversely affect GDP and were worthy of investment. The feature of decaying town centres and London-centric nature of the UK economic landscape was discussed and that perhaps positive discrimination needed to be practiced in order to re address the imbalance. – FD, Midlands
14. Broadband in this country is lagging behind the developed world and is a key necessity in driving forward the growth agenda. – Partner, Big Four Firm, Midlands
15. The press in this country love to give business negative coverage. Rolls Royce is a case in point when comments made about their small tax bill do not understand the huge sums invested by this company in research and development. – Large firm Midlands
16. Business is not in the doldrums with the notable exceptions of construction, public sector and quangos – Retired Member, Midlands
17. We are running harder to stand still because the demands of information and regulation grow larger. Employment is a classic. – FD, Midlands
18. Heseltine said we are not hungry enough. There is no immigrant mentality that the world does not owe them a living. – MD, Midlands
19. Given the government’s inability to tackle the fiscal debt and the spiralling of the national debt, coupled with the printing of money through quantitative easing, currency debasement must be a key policy in tackling our economic woes. – Partner, Big Four, Midlands
20. There does appear to be more confidence around at the moment though we never thought it was as bad as the statistics said it was and so it proved. – Small firm, West Midlands
21. We are suffering significant recession-lag in our order book. Customers are reluctant to invest again having run through budget. – Financial Controller, South West
22. Business is very mixed in UK at present, particularly in relation to investing in new developments. Creating new jobs is stifled by regulation and infrastructure providers. Councils up north (Sunderland) are very helpful and look for solutions rather than being obstructive, but not so in South West. A similar develop in Devon had significant problems negotiating the local planning department. – MD (UK and Overseas Green Energy), South West

**Sectors**

1. European markets are still flat or in decline. The US is picking up, but they’re good at putting informal barriers in your way – pesticide alerts, that sort of thing. – FD, Food, Humberside
2. The Unions have been making biggish demands. We negotiate, then we impose something that we think is reasonable and that we can afford and they don’t react. But the pressure’s building, and I think we might have problems when things really pick up. – FD, Transport, Humberside
3. The local economy’s OK and our corporate finance team is busy. – Large independent firm, Sth & West Yorks
4. If you deal with farmers, 2012 was really good: profits were up and there was no tax to pay on the previous year. The best time to be an accountant. ­ General practitioner, independent firm 1, North Yorkshire Coast
5. I wonder if agribusiness is going to be the next bubble. There’s such easy money for things like wind turbines, £10-11,000 per acre for small bits of land. – General practitioner, independent firm 2, East Coast
6. Last summer season was awful, largely because of the weather. Restaurant turnover was 15-20% down. Everyone’s battening down the hatches. – General practitioner, independent firm 3, North Yorkshire Coast
7. Our local market’s poor, very flat. But we’ve a specialisation in care homes that’s going well. We get a lot of bank referrals through it. – General Practice, Nth Derbyshire
8. Our clients with restaurants in London are doing well, some of them up 10% this year. –Member in practice (Essex), East of England
9. Weather has affected food production and prices will be higher as a result, as produce has to be brought in from abroad. – FD in fresh vegetable business, East of England
10. Our tea rooms are doing well – up 10 per cent but our farm business is three weeks behind owing to the weather. – FD in jam producer, East of England
11. Self-build clients are coming back to the construction market. – Member in practice, East of England
12. Cambridge appears to be in a bit of a boom – particularly the housing market. Cambridge is in a bubble when it comes to the property market. – Partner Property Company, East of England
13. Construction is beginning to return but with squeezed margins which could cause problems later. – Member in practice, East of England
14. Caution is creeping into the sub-£1m tech market as investors can’t get the exits they’re looking for. – Business adviser, East of England
15. Manufacturing is springing up but it was really hammered down over the last 10 to 15 years. – Small firm, West Midlands
16. I expect unemployment to rise when zombie companies start to get shut down. The banks are keeping them alive and they can’t afford to make people redundant. As a result we have had an unrealistic unemployment rate in this country for some time. – Large firm, Midlands
17. Many businesses still don’t have the confidence to activate orders. We need to get confidence going. – Small firm, Midlands
18. All the indicators in the automotive sector have gone negative. The orders aren’t around. There’s more short-time working. Some programmes are coming towards the end of their lives. Things are a touch tougher in the sector. – FD, Midlands
19. The construction sector is still not very healthy though house-building is improving. We have been building too few homes and house prices need to fall by 20 per cent to get back into kilter with people’s earnings though what we are seeing is four per cent or five per cent increases. – FD, Midlands
20. If we are not careful, we’ll talk ourselves out of HS2 (the high-speed Birmingham-London rail link) though the rolling stock will be made in Germany and France. We have to make the argument that it is to increase local rail capacity not so a few people can save a few minutes travelling to London. The region has been under-funded for transportation for 10 to 15 years compared with the capital city. – Small firm, Midlands
21. A lot of shops are in big difficulty. The High Streets will soon be full of nail bars, money-lenders, bars and shop windows showing what you could buy on the internet. – Small firm, Midlands
22. Small shops are defeated all the time by the internet and the Tescos of this world. – Small firm, Midlands
23. We need a different idea of what’s on the High Street of small towns in the future. – FD, Midlands
24. Successful old towns are moving towards becoming residential and leisure areas. But there is a slowness in the system where there should be a willingness to change. – Small firm, West Midlands

**Public spending**

1. Private sector must be brought into the NHS in order to drive efficiency but we must ensure that they are not allowed to cherry pick. – Partner, small firm, Midlands
2. The public sector lack of work ethic is shocking. – FD, Midlands
3. Simplification of what support is on offer to business should be available with a single straightforward phone/web link. This facility is urgently needed. It has to be properly marketed and add value to its customers. It should be like the 999 of business, with customer focus, simple to use by busy businessman who needs help. Public sector should facilitate not participate and let the private sector get on with it.” – CEO, Midlands
4. Public sector cuts are still coming on stream. For clients funded by the Arts Council, the Sports Council or local authorities, most of the cuts have happened already but there are more to come. The funded sector is a very difficult place to be but how do you get out of it? – Small firm, Midlands
5. Local authorities face 10 per cent cuts on top of 28 per cent cuts already. The low-hanging fruit has been taken and we have significant decisions to make in the public sector. – Member in local government, Midlands

**RTI and HMRC**

1. HMRC called me about something, but I was with a client and didn’t take the call. Tried to ring back, but there was a wall of security questions to answer. I couldn’t even get through to find out what the call was about in the first place. – General practitioner, independent firm 3, North Yorkshire Coast
2. HMRC has improved a great deal. They’ve been dealing with correspondence about PAYE enquiries in seven days over the last two or three months. I’m quite impressed. – General practitioner, independent firm 2, East Coast
3. There’s no two-way communications with HMRC. We’ve reached an impasse with a consultant client who’s been under investigation. We arranged a meeting, but they just said: “Oh, if you’re not bringing us any new information, then we’ve reached a decision already.” The agent helplines are good, though: responsive. – General practitioner, independent firm 1, East Coast
4. The VAT people will use e-mail – but they take seven weeks to reply. And you need a new 64-8 for VAT work – you can’t link it to through the UTR to the client you’re already authorised to act for. – General practitioner, independent firm 3, East Coast
5. Staff spend hours trying to get through to HMRC. We just can’t get through to speak to anyone on the helpline numbers. Typically we can be waiting on the phone for anywhere up to an hour before you actually get to speak to anyone. – Partner, Small Practice, North West
6. The Revenue is a faceless organisation that hides behind its call centres. If you have a difficult issue that you really need an answer on you just can’t get to speak to anyone senior enough to get a response. – Partner, regional firm, North West
7. RTI is a nightmare with queries which can’t be answered and HMRC software falling over. – Member in practice, East of England
8. Maybe HMRC would not be facing so many issues if it were allowed to employ some more people. – Partner, Small Firm, Midlands
9. Maybe if HMRC employed a few more "highly intelligent individuals, not poorly skilled professionals with restricted knowledge of the tax laws". – Partner, Small Firm Midlands
10. The Revenue is concentrating on small sums and not major issues. – Partner, Large Firm, Midlands
11. Is the tax system falling apart? – Director, Small Firm, Midlands
12. Service levels in HMRC have not radically improved. – Large firm Midlands
13. There is serious resentment in incurring 45p a minute in going through the hierarchy of the HMRC telephone system. – Partner, Large firm, Midlands
14. We are comfortable to identify exotic tax schemes and not encourage or support. However the government need to properly resource the tax department and pass correct and legal legislation. – Partner, Big Four, Midlands
15. The new child benefits where one partner earns over £60k pa and the other stays at home looking after the kids and then deciding not claim the child benefit because it is clawed back through tax misses the point that the non-earning carer then misses the state pension eligibility that goes with the child benefit. How honest has HM Treasury and HMRC been in identifying this situation to the many thousands involved and who have stopped claiming? –Partner, Small Firm, Midlands

**Lending**

1. A generation of SME owner-managers are so bruised by how the banks treated them that they won’t go back to the banks for money at any price, even though it’s available to them. – Owner manager, W Yorks
2. We like to use several banks and spread our money and risk around. But lately they’ve tightened up and they’re all demanding all of our business. – FD, Transport, Humberside
3. Availability of credit’s still a problem. Not so much for us, but where we used to get an order we now get a letter of intent, even from fairly blue chip clients, and a risk that the order will be shelved. – FD, Construction sector, Humberside
4. There’s still plenty of companies around that are just servicing their debts because interest rates are so low, but they couldn’t take on any more. The appetite’s all for debt, though – nobody seems to want equity finance. – Investment fund Chief Executive, Yorkshire
5. We had a problem with a client who is a farmer and contractor and who wanted to sell up. He had a lot of borrowing, well secured on lots of assets, but the bank insisted on putting him into special measures. It all worked out as planned in the end, just took a bit of time. And another who had £1 million a year in rental income but Yorkshire Bank just said: “We don’t want you as a client anymore.” Common sense has gone out of the window. – General practitioner, independent firm 2, East Coast
6. The banks are a complete waste of time unless the business has triple-A security. It’s the biggest issue for our clients. – Partner, Small Practice, North West
7. The banks – well they are an ever moving feast of what they will do and what they won’t do. – Partner, Small Firm, North West
8. The banking system is still dysfunctional and, in my personal opinion, the economy won’t be able to move on until it is fixed. – CEO, financial services business, North West
9. The banks are going to face thousands of claims from small businesses over mis-sold interest rate swaps. The number of businesses we have seen that have had issues with rate swaps is growing month on month. It’s going to be bigger than PPI. In simple terms the banks put their own profits ahead of their customers’ interests in selling them interest rate swaps that ended up crippling the businesses. – Insolvency Practitioner, North West
10. A number of our clients’ businesses have been badly affected by the interest rate swap mis-selling by high street banks. Many have lost their businesses altogether and I think there will be more to come. – Partner, mid-sized firm, North West
11. Banks are still being disingenuous in lending eg: one bank refused a seasonal increase in a client’s overdraft and suggested a three-year EFG loan instead, presumably on the basis that the Government is taking more of the risk and they get more fees/interest. Client got funding through Funding Circle, a peer to peer lending operation. – Small practitioner, East of England
12. There’s a wide range of lending rates – you have to be in the banks’ “sweet spots” to be offered good rates. – Member in practice, East of England
13. Banks have got money and want to lend and clients still claim it is difficult. The truth is somewhere in the middle. – FD, Midlands
14. Banks are tripping over to lend to me at two per cent over base. – FD, Midlands
15. Businesses are hanging on to cash while the uncertainty continues. – Partner, small firm, Midlands
16. We are seeing a change in the attitude of the banks. When we come out of recession, unemployment will go up. We have had a lot of referrals recently. – Insolvency specialist, Midlands
17. We need the banks to gain confidence and deal with some of their problems. There is still a nervousness there. They are still inclined to give interest-only loans which only delay dealing with the problem. – Insolvency specialist, Midlands
18. The banks want to lend money. There’s loads of money about. There is a shortage of funding for risky businesses – always has been, always will be – though the risk assessments are more detailed than they used to be. – FD, Midlands
19. There is undoubtedly more money to lend but the concerns about the availability of bank lending to smaller businesses has deteriorated, the problem has got worse. – Small firm, West Midlands
20. The problems at the Co-op Bank will have a big impact in the small business sector. – Small firm, Midlands
21. A large number of businesses still don’t bother trying to borrow money because they know in advance it’s not worth it. – Small firm, Midlands
22. We have benefitted from recession with corporates running smaller fleets and hiring. Biggest issue has been funding. Funding offers much better from banks where they are funding assets and reflects pre-recession availability. Assets are secure so it works for them, they see it as safe and secure. – FD (Vehicle Hire business), South West
23. Access to finance is still incredibly hard. Business are accessing private finance through retained profits or family money. – Partners (Mid-tier Practice), South West)
24. Cash flow continues to be an issue as customers are taking increasingly longer to pay. There is a big end-of-month bubble where people have been paid and want their work done in relation to that. – FD (Automotive), South West
25. We are proactively identifying customers whose business we believe to be good, secure bets and approaching them with offers of funding on the basis that ‘you can have this much, now what do you want to do with it?’. Ability to approve lending locally is returning but extent and amount is specific to individual relationship managers and is based on and assessment of their ability and track record. – Bank Relationship Manager, South West
26. Access to finance still big issue. One bank gives favourable noises then pulls out at the last minute. Still far too many hoops to jump through in order to get finance equals message that says we don't want to lend. – FD (Engineering), South West

**Other issues**

1. LEPS are under resourced and doomed to failure. – FD, Midlands
2. Disaster recovery plans – most have them, but who tests them? If Internet goes we are all up the creek. Are there reliable alternatives? Our internet connection ceased for three day and threw us into complete confusion. – FD, Electronics manufacturer, South West

**How firms are faring**

1. The BAS initiative from the ICAEW is great. It sets us apart from the other practices on the high street and we have definitely had at least one new client from it recently. – Partner, Small Practice, North West
2. Margaret Hodge – don’t even mention that woman’s name to me!! – Partner, mid-sized firm, North West
3. The continuous talk of tax avoidance by large companies isn’t doing anyone any favours. It is the government who need to get the tax system sorted – not the companies. – Head of Tax, North West
4. The year end’s coming up. It won’t be bad, and all the core clients are still there – but there’s not so much consultancy or high-end transactional work. – Tax specialist, W Yorks
5. RTI: it’s not hard, but it is costly. Do you charge your clients for it, and if so how much? The set-up cost is more than a small business will pay. – General practitioner, independent firm 4, East Coast
6. We’ve avoided being swept up in the Fat Cat name calling so far – but there’s a definite risk that won’t last. – Big 4 Senior partner / LEP Board member, W Yorks
7. Five hundred years of double entry book-keeping – where’s it all gone? There must have been a whole bunch of civil servants in a room: ‘Do you understand this?’ ‘No, do you?’ ‘No, let’s change to cash accounting instead.’ You can’t run a business properly on a cash accounting basis. – General practitioner, independent firm, North Derbyshire
8. If you don’t tell the client the scheme exists, someone else will – but you’ve got to be clear with them about the risks they’re running. – Tax specialist, W Yorks