

RECOVERY ESTABLISHED BUT FUTURE UNCERTAIN

THE STATE OF THE ECONOMY, APRIL 2010

“We have moved from a glass half empty to a glass half full.”

Introduction

This is the ICAEW’s seventh 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:

- Chartered accountants are more optimistic about the prospects for their own businesses and for the economy than they have been for 18 months;
- The economic climate is offering opportunities for entrepreneurs;
- The banks remain a stumbling block for business, with higher charges and delayed or confused decision-making the main complaints fuelling concerns about businesses ability to finance their potential recovery and growth
- Cash-flow difficulties continue to represent one of the greatest areas of concern
- Optimism is tempered by the prospect of severe public spending cuts;
- Despite their more buoyant mood, many chartered accountants are not yet convinced the recovery is firmly rooted.

The economy

1. The economy is showing improvement particularly amongst our precision engineering clients. Some property developers are looking for new projects. – Medium-sized firm, East of England
2. We have moved from a glass half empty to a glass half full. – Small firm, Wales.
3. The whole county is like an ailing business with no signs of any green shoots. – Small firm, Wales.
4. Things are not as bad as everybody says. Actually there are some very successful private businesses quietly getting on with the job of making profits and accumulating assets. – Adviser to private businesses, West Midlands
5. Every job we go to at the moment, the problem is lack of sales. Until you start seeing sales performing you can’t see how we can get out of recession. The low pound must be helping exporters but this is a worldwide recession and there is a lot of slack in other countries. – Insolvency expert, West Midlands
6. People do actually think the economy is turning. – Member in business, West Midlands
7. When people tell you things are going really well, it’s always worth doing a search on their accounts. – Medium-sized firm, West Midlands

8. Some officials do not expect positive employment growth until 2017. – Medium-sized firm, West Midlands
9. The point is not that it's a road back, it's a road somewhere else. – FD, West Midlands
10. I have a client in Cleobury Mortimer making £500,000 a year with two employees in Cape Town and five engineers in Dubai. We see that more and more. It doesn't matter where you are. It enables people to be totally immune to the UK economy. More and more of our clients are thinking like that. – Medium-sized firm, West Midlands
11. I am chuffed to bits my main client has survived but the profits won't be anywhere near as good as in 2008. In real terms it's a disaster. – Sole practitioner, West Midlands

Cash flow

12. Clients are unable to pay my bills so we face cash flow problems. Debts to my firm have increased by 20% and still rising. I've made two staff redundant and placed some on a reduced working week. No pay rises for 2nd year, and unlikely for next two years. – Small firm, London
13. Our firm has renegotiated many suppliers' contracts; we've controlled overheads; brought in better cash flow management; holding back on recruitment; had a pay freeze in 2009 and only likely to give 1% to 1.5% in 2010. – Large firm, London
14. Credit control is a big issue – those clients who have concentrated on this, perhaps taking on additional part-time staff, have seen considerable benefits. – Small firm, Wales.
15. Large businesses are squeezing small firms. – FD, West Midlands
16. Some of the things being done are absolutely horrendous. You wonder why politicians haven't jumped on it. Big companies are making things worse for small ones. – Consultant, West Midlands
17. If there's any whiff of a liquidation, large companies won't pay on the grounds that the liquidator knows they can't take on a big plc because of the amount of legal work involved. – Ex-FD, West Midlands
18. Big banks are holding onto their capital; plcs are holding onto their cash; so the poor old little man at the end of it all is going bust. – FD, West Midlands
19. Businesses are struggling. We have a problem prizing money out of clients. A couple of them won't come near me because they know they owe me money. – Small firm, West Midlands
20. We are recruiting. I am so busy. Clients are not paying as quickly and they are wanting to pay in instalments. We have had to get a credit-controller in. – Small firm, West Midlands
21. Our clients have been hit by late payment. There have been some failures we would attribute to cash flow rather than profitability. Smaller businesses are certainly struggling for funding. – Small firm, North of England
22. We should give credit to the public sector quick payment pledge. I was asked to prepare a 2025 scenario and was promised payment of my fee within 10 days of submission. I wasn't paid in 10 days, I was paid in 8. This really helps when many private sector businesses are delaying payment. – Consultant, North of England

Business sectors

Property and construction

23. There is some evidence that house-builders are starting to use their land bank now and are fairly confident for the back end of 2010. – Medium-sized firm, East Midlands
24. There's some sign that property is starting to move. Prices are low and attractive for those with cash in the bank. There's a lot of interest in distress sales and workouts. – Insolvency specialist, W Yorks
25. My estate agencies' businesses are improving, especially in the residential rental market. – Small firm, London
26. Although the market has picked up there is a fear of reduction in house prices and possibly a "double dip" recession. – Partner in property company, East of England
27. The construction industry is still struggling. It's a buyer's market. Finance is still tricky, particularly for first time buyers. – Member in business, South East
28. The workforce has been reduced by 25% to reduce costs. Developers have come back. There are lots of bidding opportunities at the moment. Order books are not bad. Public Sector orders still good, particularly education. There has been an erosion of approximately 20% on price. – Member in business, South East
29. Some businesses are doing very well mostly due to a reduction in competition. However, construction is still very difficult, poor margins and difficulties obtaining finance. Developers are holding back pending the forthcoming election. We are seeing some clients land-banking. – Small firm, South West
30. Our architect practice is doing well as we specialise in new technology and culture, areas in which we have done well in the previous year and have good prospects ahead for the next 12 months. – Architects, North of England

Retail

31. We advise a luxury retailer, where the average purchase is well into four figures, and they've never noticed the recession at all. – Large firm, W Yorks
32. Small retailers have been badly hit. – Small firm, Wales
33. Supermarkets continue to put pressure on their food suppliers for keener prices. – Medium-sized firm, East of England
34. Mixed fortunes in the retail sector, the following example illustrates what is being seen locally: client sold his furniture business at the end of 2008 and rented the property to a new owner. That owner's business failed and the client is now returning to set up a new furniture business. – Small firm, South West
35. We have a client who supplies retailers. In the past year he has been asked to stock more, to reduce margins and to accept longer settlement terms. Having done so he is suffering liquidity problems – despite this being a profitable business the bank are not prepared to help. – Small firm, North of England

Business start-ups

36. Funding for start ups is dead but companies with good engagement with the market are getting funding. – East of England
37. There is no lack of enthusiasm for business start-up but there is a lack of quality. There is a lack of knowledge about how to generate revenue. – Medium-sized firm, East of England

Farming and food

38. Farmers in west Wales have done well out of the TB compensation scheme; stock prices are at an all-time high, farmland prices remaining buoyant. – Small firm, Wales
39. Farmers are still doing well as the wheat prices are high. – Small firm, South East
40. Agriculture is more buoyant because the government have realised we actually need food as opposed to just keeping parks. – Medium-sized firm, West Midlands

Motor industry

41. The motor trade's not doing so badly now. The scrappage scheme helped; it looks as though a lot of buyers just decided to miss a year. – Large firm, W Yorks
42. Car dealerships are doing well; for some people, replacing their car has become an imperative. – Medium-sized firm, East of England
43. For some reason or another the automotive sector is doing very well. – Member in business, West Midlands
44. If this is a recession, give me a recession every year. We've never done as well. – Member in motor industry, West Midlands
45. Business from commercial car fleets is down. The market in general is down 5%. Buying habits have changed with cheap imported tyres being purchased in favour of quality brands. The market was very flat at the end of 2009 but in January and February there was a sudden increase. – Member in business, South East
46. Q1 trading on new cars has been very good but no confidence that it will continue. However, second-hand market has collapsed. – MD, South West

Manufacturing and engineering

47. Engineering clients are having a tough time – laying people off, losing skilled staff, cash flow problems. – Small firm, London
48. We've just had a record month – again. The commodity end of our market is flat, but where there's new product development and a high intellectual property element we've done well. – Manufacturer, S Yorks
49. Though we are sinking in the world, we are not sinking to the point where we have a huge population out of work – the people doing manufacturing work in this country are from Poland and other Eastern European countries. – FD, West Midlands
50. One client took corrective action 12 months ago. He used to employ 80 people, now he has 40 and they have made as much money as they did a year ago. They are

weathering the storm and I am very keen to get them to start exporting. – Medium-sized firm, West Midlands

51. I have a high-tech engineering client who spent several million on a factory. They bore very small holes for fuel cells for MoD aircraft but the MoD are scaling down their commitment to the Eurofighter so they have moved into medical equipment and are doing ten times more business than they were five years ago. Businesses have got to be more aware of new markets. – Medium-sized firm, West Midlands
52. Still bumping along the bottom. The (engineering) company has cut back on shifts but made no redundancies. The last couple of weeks has seen the grass roots coming back but have lost 30% turnover in the last 6 – 9 months and cannot emphasise enough the fragility of the recovery. – Member in business, South East

Other sectors

53. Industry experts predict another 25% headcount loss before things improve. We have retained all our staff on a three day week since last summer. – FD, East Midlands
54. The business is chasing work to keep going, with a little more optimism than six months ago. – MD (electronics business), East Midlands
55. There are signs that specialist magazine advertising is just beginning to return. Circulation has held up well throughout. – FD (publishing), East Midlands
56. Advertising and media clients – improving in 2010, eg sales up 5-10% on 2009. – Small firm, London
57. Clients with export businesses are doing well. – Small firm, London
58. Biotech is having a very difficult time and it is particularly hard for them to raise finance. –East of England
59. Green technology doing well. – Small firm, Wales
60. Turnover trend is downwards (this is generally reported). – Small firm, Wales
61. Hotels doing reasonably well. – Small firm, Wales
62. Entertainment clients – looking better, but business likely to take 2-3 years to improve. – Small firm, London
63. Our order book has filled up again and we are finding that the challenge is to meet demand. – FD, South West
64. Expect the big shake up in the legal profession to continue with increasing numbers of small, aggressive and good law firms starting up. We are routinely tendering to get better prices for legal work and have seen an 80% cost reduction over past 12 months. – FD, South West

Impact on firms of chartered accountants

65. There's good volume in the market, but some pressure on pricing. The public sector's busy, and restructuring and tax work, where we've done a lot of schemes designed to generate liquidity over the short-medium term. There's some transactional corporate finance work around. – Big 4, W Yorks

66. The amount of tax administered through the office at the self-assessment deadline was way down this year compared with last and the refunds of payments made on account much increased. – Small firm 4, S Yorks
67. We've had double-digit growth for the last ten years, but in the year-ended August '09 it was only 2.8%. There's no sign of green shoots yet. Corporate finance did OK but they scrapped for business. Recovery's busy. Manufacturing is way down still. – Large firm, W Yorks
68. We're flat year on year – about 10% down in like-for-like fee income, but with corporate finance and insolvency work compensating. – Small firm, S Yorks
69. Compliance work has held up well, but corporate finance has been difficult and we're beefing up insolvency. We've had problems with bad debt and cash flow. We had to make five redundancies at audit senior level, have had a recruitment freeze and used natural wastage to reduce headcount a bit further. – Small firm, S Yorks
70. Corporate Finance activity looks promising, and insolvency services are in demand, eg from restructuring. – Big 4 firm, London
71. None of my clients have ceased trading and none are expected to do so. – Small firm, London
72. Tax practice is very active, recruiting staff – mainly due to proposed 50% tax rate. – Big 4, London
73. Regional offices much quieter than London. – Big 4, London
74. Business restructuring has not been as busy as expected but deals are beginning to be done at small levels. – Medium-sized firm, East of England
75. We're having big problems in negotiating audit fees, typically 10% less. – Medium-sized firm, East of England
76. We're getting more forensic work as the incidence of fraud is going up. – Medium-sized firm, East of England
77. With uncertainty around business taxation, businesses are now deciding not to come to the UK. Overseas businesses are not viewing the UK favourably at the moment. Clients are behaving very cautiously particularly around investment and pay increases, and plan to do so for at least the next six months. However none have plans to cut staff. – Big 4, South East

Banks

78. Competition is beginning to return to the bank lending. Several firms had at least one example of a client who had "shopped around" and achieved a better deal. – East Midlands
79. Banks still have no real appetite for lending. They're careful in their decisions and there's not much demand in the marketplace. – Insolvency specialist, W Yorks
80. If the banks don't resume lending we will have a double dip recession. – Medium-sized firm, East of England
81. I approached my bank for an increased £20k facility. They asked for 10% above base rate despite the fact that my firm has used them for over 35 years (they normally charge

base + 3%). Their attitude is unbelievable – and this, coupled with evidence from my clients' experiences with the banks (aggressive charging), shows that they are not serious or truthful when stating that they are lending again. They are strangling small businesses. I am considering making formal complaints, eg to the Ombudsman. – Small firm, London

82. Some of the banks my clients and I deal with are useless – nobody wants to make a decision or knows who in the organisation to approach for a decision. They are looking at any excuse to impose more charges and cause delays. – Small firm, London
83. Many clients having bad experience with banks – delays in coming to decisions; enhanced and penal charges; they seem to be going over all contracts with fine toothcomb in order to detect any breach of covenant. – Member in business, London
84. Banks are still demonstrating unreasonable behaviour to well-run businesses. – Small firm, Wales
85. Decisions are made too far away for local knowledge to be of benefit, even where businesses are sound. – Small firm, Wales
86. I have had some banks reducing clients' overdrafts and charging £200 a month for monitoring them. – Small firm, West Midlands
87. I think the whole banking sector is going to have a tremendous year. They have managed to widen their margins very considerably. – Small firm, West Midlands
88. Banks are very worried about property as security and they're taking a very dim view of valuations. This is a double threat because the valuers have already marked down the price of the property. – Medium-sized firm, West Midlands
89. We are negotiating a debt-only MBO which is very rare these days. – Medium-sized firm, West Midlands
90. It's going back to sensible banking. There were some high risks being taken, now we are back to where we used to be. – Small firm, West Midlands
91. I have had to change my view about invoice discounting; it is the modern way of financing business. – Medium-sized firm, West Midlands
92. It's still difficult to get local decisions on any proposal put to banks. – Small firm, South West
93. Personnel changes cause difficulties locally. You never seem to speak to the same manager twice. – Small firm, South West
94. We supported two significant refinancing deals for clients last year. Both of them took a long time to resolve and the banks insisted on the inclusion of covenants. – Small firm, South West
95. We expect banks to begin to move on those customers they have concerns about after the election. HMRC deferment schemes have helped but will not do so in the longer term. – Medium-sized firm, South West
96. Local issues with a particular bank consistently changing their minds on deals after they have agreed, and our clients have acted, have led to a complete loss of confidence in them. We have now refused to deal with some managers as a result. – Small firm, South West

97. We raised the funds we needed for our new business via EFG (Lloyds). No problems and the bank were very helpful. Financing agreed in less than a month. – FD, South West
98. Just changing banks (to Lloyds) and have been able to negotiate much better terms. – FD, South West
99. Raising finance has not been easy. I have a professional practice client who took a call from their state-owned bank in November to say that their 15 year old unused facility would not be renewed in Feb 2010 – no discussion. After some work I arranged alternative banking facilities with a non-state-owned bank. Four weeks later they had a call from their previous bank to say please disregard our earlier conversation, and we would be happy to extend the facility. My clients were happy to give him short shrift. – Regional firm, North of England
100. I had a business last year that had undergone a successful cost saving exercise and now needed finance. No bank would help. Funds were eventually raised from existing shareholders and their friends and family. – Corporate “troubleshooter”, North of England
101. We arrange finance and other support for small companies. Clients have been short of funding but recently complaints have died down. I can’t decide if that’s because things are getting better or because they are sick of complaining. – Consultant, North of England
102. We manage micro funds in the region and witnessed huge demand for our transitional loan fund last year. We currently have a fund with a £25k ceiling – enquiries for this have never been greater. Our debt rescheduling service has also never been busier. We are seeing a big increase in our angel fund events “Dragon’s Den with manners”. Those with cash are seeking a better return and businesses are recognising Angel funding as a good alternative to bank funding. – Business support agency, North of England
103. We won’t be reducing our margins any time soon. The cost of each advance is governed by the risk factors and the size of the advance. – Bank manager, North of England
104. As managers of a new regional loan fund we received enquiries that were significantly ahead of our expectations. We interpret this as evidence there is good business confidence.. – Venture Capital managers, North of England

HMRC

105. HMRC is tightening its line: if you take advantage of the time-to-pay scheme you’d better be sure to honour your obligations. – Large firm, W Yorks
106. HMRC is preparing to instruct Insolvency Practitioners to review those who’ve defaulted on their time-to-pay agreements. But there’s inconsistency: some clients have been allowed to run up vast amounts of Crown debt. – Insolvency specialist, W Yorks
107. HMRC are being tough on those who didn’t keep to the deals they’d agreed, making examples of them. – Big 4, W Yorks
108. HMRC are getting more aggressive and less negotiable, using debt collection agencies. – Small firm, Wales

109. HMRC made it too easy too quickly. Now they won't help people with perfectly legitimate problems. I have got a restaurant client, with a good payment record, which was closed for three weeks because of the snow – HMRC won't help him and he's got a real problem. – Small firm, West Midlands
110. I find it amazing that HMRC have put a lot of people out of business and when they go to the wall, they take a lot of other people with them. – Medium-sized firm, West Midlands
111. We are not seeing HMRC tighten up on payment schemes at all. In fact, they have just offered us a very reasonable scheme for our own business, despite the fact that we have not sought one. They seem to be very happy to agree to 3-6 month deals, possibly 12 months but nothing longer. – Small firm, South West
112. HMRC have hardened their stance on payment schemes since the start of this year and are calling in existing schemes. New proposals have to be very well worked out and not many are being accepted. Those that are are typically 12-18 month schemes. – Medium-sized firm, South West
113. Whilst asset prices are falling, HMRC and the banks have shown forbearance and not started winding up proceedings. As asset prices rise, there is some concern that this will cease and insolvencies will now start to rise significantly. – Small firm, East Midlands

Skills

114. Businesses will need people with higher level skills if we are to compete with emerging economies yet support for the development of skills is fragmented. – Medium-sized firm, East of England

Business rates

115. Just received revised RV which has been increased by nearly 40%. Have been told that 'Cornwall is being brought into line with the rest of UK' but suspect we are not the only ones to suffer. Changes in Business rates will not help either. – FD, South West

Public sector

116. We're hearing of 20-30% head count reductions in the public sector. It's going to mess up public sector consultancy work, apart from anything else. – Big 4, W Yorks
117. We are concerned about the possible effect of cuts in public sector funding on our business (similar sentiments reported by several FDs) – East of England
118. Throughout the area, there is concern for the knock-on effect of public sector cuts. – Small firm, Wales
119. My public sector, quango clients are very nervous about what work they will have in two years' time. – Small firm, West Midlands
120. Public spending cuts are going to force the economy down. It will be a ten-year recession. – Member in business, West Midlands
121. We are all worried about the next 12 months. It's the calm before the storm. People are worried about what the Government will be doing in the next five years. There is fear of a double dip. Government contracts have been pruned back hard. – Medium-sized firm, West Midlands

122. Not convinced that they (politicians) will be able to deliver the public-sector spending reductions that are being called for. So, where do the funds come from? – Medium-sized firm, South West)