



**TAKING THE LONG VIEW:
STIMULATING GROWTH IN THE UK**

December 2012

FOREWORD

At the half-way point in this Parliament and with the economic outlook still mixed, our report gives a unique assessment by business and finance leaders of the Coalition Government's progress. The report sets out clear recommendations for policymakers and reiterates the role that professional accountants can play in boosting economic growth.

Among leaders in the UK accountancy profession, there is clear support for the Government's drive to reduce the deficit. Concerns are raised, however, about the damage caused to consumer and business confidence by the language of 'austerity'. A more positive message on the Government's plans to support a private sector led recovery is needed.

Furthermore, businesses want to see government take a more active role to help stimulate economic growth with a long term 'industrial strategy'. Business is clear that government should focus wholeheartedly on growth, especially tackling some of the collective challenges which individual businesses can't themselves, such as skills, access to finance and infrastructure investment.

Where businesses have more mixed views is on the outlook for the economy. Uncertainty persists in the Eurozone and in whether consumer spending will pick up in the near future. This has damaged confidence and led businesses to hoard cash.

Below are the key recommendations for policymakers:

- **Set out a long-term industrial strategy with clear plans for particular sectors**

The Government's Plan for Growth set out some clear aims to help give businesses greater certainty, particularly on tax policy with a roadmap for Corporation Tax. However, more is needed on the strategies for particular sectors, including identifying what can be done to target developing export markets. It is welcome news that the Business Secretary is looking into this and the accountancy profession stands ready to work in partnership with government. Where possible, policy should also be developed on a cross-party basis to give business certainty beyond the political cycle.

- **Remove barriers to hiring and provide incentives for businesses to take on young people**

Business leaders are concerned about the damaging levels of youth unemployment and want to help nurture the business leaders of tomorrow. However, in light of the uncertainty in the economy, many businesses are put off hiring young people. More needs to be done to tackle the regulatory burden of hiring and to give businesses greater incentives to offer opportunities to young people.

- **Promote a clear pipeline of investment projects and work in partnership with the private sector to identify priorities**

The Government publishes a National Infrastructure Plan which sets out an overview of key projects and a more detailed Construction Pipeline. However, more should be done to promote these to business. This will help businesses plan their own investment and boost jobs. It will also

help enable the private sector to work in partnership with the public sector to fund and deliver public infrastructure projects, via schemes such as the revised private finance initiatives (PFI).

- **Consider a range of short term measures which could help ‘unblock’ the economy**

There is a wide range of government policies identified which act as a drag on economic growth, particularly on tax and regulation. The government should make sure the Red Tape Challenge is being used effectively to deliver quick reforms on the issues which have the most significant impact on business.

The accountancy profession recognises the role we can play in boosting economic growth, as advisors and leaders of business, and as a partner to government in developing evidence based policies to boost growth. According to the Department for Business, Innovation and Skills (BIS), accountants are cited by businesses as the most trusted source of external business advice. They also play key roles in businesses of all types and size where they use their financial expertise and ethical integrity to shape decisions in areas such as finance, cost management and investment. Furthermore, the accountancy profession helps equip people from all backgrounds with the skills to succeed by offering a wide range of entry routes to the profession. We look forward to working with policymakers to help address the issues identified in this report.

INTRODUCTION

As part of its contribution to the national conversation on economic growth, the Consultative Committee of Accountancy Bodies (CCAB) wished to draw on the expertise of senior leaders in business and finance to offer insights on the UK economy.

As a result, we commissioned independent research to explore perspectives on how the UK can move into a period of economic recovery, and what business and political leaders need to prioritise as a result.

In-depth interviews were conducted with 28 senior business and finance leaders from across the UK economy. Participants are all senior members of the UK accountancy bodies that form the CCAB (ICAEW, ACCA, CIPFA, ICAS and Chartered Accountants Ireland) and are drawn from a range of sectors, with representation from the public and private sectors.

Interviews were carried out with leading CFOs and finance directors, and senior accountants who focus on major companies or the SME sector. Participants were identified as senior professionals and practitioners in their fields by the respective membership bodies.

EXECUTIVE SUMMARY

Our research has highlighted a range of important findings for business and political leaders.

Where are we now?

The economy is ‘treading water’	Although the worst may be over, the economy is yet to turn the corner, and a sustainable recovery with growth remains some way off.
There is no ‘quick fix’	The general consensus is that there are no easy answers to the problems facing the UK economy.
Low confidence is stifling growth	A lack of confidence among both businesses and consumers is seen as a main constraint to growth.
SMEs need greater access to capital	A perceived lack of access to capital is seen as a significant obstacle to growth, particularly for SMEs. However, recent government initiatives on freeing up capital are praised.

What should politicians do?

Stop talking down the economy	The overwhelming focus on austerity from politicians is seen as holding back a favourable climate for growth.
Help restore confidence in business	Anti-business sentiment is seen as stifling growth. Politicians are thought to having a role in supporting greater confidence in business.
Take the long view on the economy	There is a desire to see the Government adopt a longer-term approach to the economy, which would provide the confidence and certainty needed to enable investment and strategic planning. As part of this, focus should be on sectors where the UK can compete internationally, and on helping SMEs maximise their potential.
Invest in infrastructure and education	Within the context of the long view, investment in education and infrastructure are viewed as key to meet the business needs of the future. Youth unemployment is a particular concern.

What role can accountants play?

Support businesses (particularly SMEs) and develop future business leaders	Accountants are seen as having an important role in advising businesses and training business leaders to build strong and sustainable businesses.
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MAIN FINDINGS

Where we are now?

Mixed views on the current economic situation

There are three schools of thought when it comes to the economy:

The most common perception is that the economy is moving in neither the right nor wrong direction, and is currently 'treading water'. There is a sense the worst may be over, but a return to sustainable growth remains some way off.

"I think we're treading water, there's a lot of energy and effort put into improving the economic environment and that's got the impact of maintaining broadly the status quo. So I think of quantitative easing, I think of very low interest rates, I see other direct forms of stimulating demand and all of that is trying to improve the economic environment, but I think the headwinds we're facing offset that."
[Private sector]

"I think that they're stagnant at the moment. I don't think that they're moving forward or backwards, I think that we're just languishing somewhere in the middle." [Public sector]

A small group feel the UK is beginning to move slowly in the right direction, and sense a return of confidence, evidenced by an increase in business investment and advertising spend. Companies are seen as starting to adapt to the 'new normal' in the Eurozone.

"I would say things are moving in the right direction, slowly ... At a macro level, I think austerity is the correct approach ... But then at a more local level, I think there are some signs of confidence returning ... It's better than it was, but we're not there yet in terms of where we need to be by any means." [Private sector]

However, a similarly sized group of participants take a much more bearish stance, and feel the UK is still moving in the wrong direction. They are concerned that government borrowing is still increasing, the public sector is yet to undergo the necessary major structural reform and a lack of access to capital is restricting business growth. A few feel we are undergoing a major rebalancing of the UK economy.

"[The economy is moving in] the wrong direction ... Government borrowing is still increasing and a lot of the cuts which should have been made 2 years ago have yet to be made and consequently it's a bit like a salami-slicing exercise, it's just going on and on and on and that's destroying confidence ... I don't think that we're close to [recovery] at all." [Private sector]

Lack of confidence is a key constraint on economic recovery

Businesses are seen to be hoarding cash, and are afraid to spend. They are not willing to make significant long-term investments, recruit staff, or engage in mergers and acquisitions.

This is seen as a result of uncertainty – from the unpredictable situation in Europe which means companies are holding back on investment for fear the economy may worsen, and also due to short-term changes on taxation and regulation, for example retrospective changes to HMRC rules.

Consumers are also seen as suffering from a lack of confidence, and a lack of willingness to spend. In response to the economic environment, consumers are perceived to prefer to pay off debt rather than spend. It is also seen as difficult for consumers to access credit.

Participants also point to the sluggish housing market, and voice a concern that many people cannot gain access to mortgage loans.

The absence of confidence on both sides, business and consumer, is felt to create a self-perpetuating cycle, with both parties responding to each other's perceived lack of faith.

"The major issue that we see is the lack of consumer confidence and how that impacts on the unwillingness of people to spend, and then the impact that that has on manufactured goods and services and all those sorts of things." [Private sector]

"I think companies are sitting on their cash. So they're not prepared to invest whilst the international economy is so uncertain and whilst the domestic economy is so flat." [Public sector]

It's time for politicians to change how they talk about the economy and business

Concerns are raised that the language of austerity from politicians has gone too far. Though there is a rational acknowledgement that austerity is the right approach given the UK's poor fiscal conditions, there is a view that negative messaging from politicians reinforces the lack of confidence in the economy. Indeed, it risks becoming a self-fulfilling prophecy.

There are calls for politicians to talk up the recovery, though without resorting to spin or meaningless statistics. Participants hope that more positive and upbeat pronouncements might help start to restore business and consumer confidence.

More broadly, members are also concerned about the anti-business rhetoric from politicians and the media. A number feel successful businesses are often criticised, or that the media paints a negative caricature of businesses, particularly in the financial services sector.

This is seen as leading to a situation where only a few business leaders are willing to engage on big issues, and to speak widely about the role of business in society. Participants feel this is an unfortunate situation, as business leaders should have a role in generating wider confidence in the UK.

"We need to start talking up the recovery rather than playing it down at every opportunity. I wouldn't advocate that we blindly sing the praises of a great economic recovery, either present or to come, but certainly I think more positive pronouncements on the part of key figures and business leaders and government does help to start to restore a little bit of confidence for the ordinary man in the street." [Private sector]

"Few [business] leaders are prepared to speak more widely on business now, partly because a number of people are bruised from encounters, so you're not going to get anyone in the banking sector talking about broader issues. Business leaders I think perhaps are wary of sticking their head above the parapet." [Private sector]

How do we encourage growth?

How to stimulate recovery in the short term: no easy solutions, but a range of measures to consider

When considering how to stimulate recovery and boost the UK economy, there is a broad recognition that there are no quick fixes to the problems currently facing the UK economy.

A number of short-term measures are suggested as ways to 'unblock' the economy in the short-term, including:

- Reducing regulation/red-tape for businesses.
- Offering short-term incentives to bring forward investment decisions, for example R&D tax credits.
- Incentivising businesses to take on young people – through innovative internship/apprenticeship schemes, such as the DWP Youth Contract.
- Bringing VAT back down from 20%.

“Things like maintaining the 20% rate of VAT I think are counterproductive at this stage, because goods and services are expensive. If you look at where we are over a 10 or even 15 year period, goods and services have become more expensive ... There is a lot of populous talk about taxing the wealthy more heavily and being seen to be doing it, but that is really just a cheerleading thing as far as the Government is concerned ... it could be counterproductive in terms of scaring folks away who may be prepared to invest money in this country.” [Private sector]

How to stimulate recovery in the long term: Government to outline a clear strategy beyond one electoral cycle

While short-term measures were suggested, participants place much more emphasis on long-term solutions to the economic situation. At the heart of this, members are looking for the Government to outline a sustainable strategy for the economy that will offer businesses certainty and stability, and the confidence to invest. This framework would go beyond the term of one, single Parliament. Members acknowledge this will require cross-party support and bipartisanship.

This is shaped in part by a frustration towards perceived policy and regulatory volatility, with too many changes impacting regulation, tax and funding frameworks. Members cite changes to corporation tax, shifts on tax policy on North Sea drilling, and uncertainty on financial services regulation post the break-up of the FSA.

“I think that politicians need to make some tough decisions which are, in the short term, politically unacceptable. So that would need cross party support and put in place a framework for 20-25 years so that businessmen can then start making long-term decisions to invest and grow their businesses.” [Private sector]

“Long-term growth needs to be based on confidence in the ground rules remaining unaltered and therefore businesses will feel more confident about investing. I think it's very important that they do feel that confidence and they won't invest without it ... I think stability is basically what businesses want and then let people get on with it.” [Private sector]

Within the context of long-term solutions and planning, members make a series of concrete suggestions.

Focus on key sectors which will underpin growth

Some participants call for the Government to focus on key sectors which will underpin UK economic growth in the long run.

They suggest that the Government should identify where the UK is strong in a globalised and highly competitive economy – for example, financial services, defence, pharmaceuticals, and engineering – and provide assistance to businesses through regulation, tax breaks and international advocacy. Linked to this, others suggest that investment could focus on certain regions or cities.

“It's just recognising in a global world what the UK is good at and what it can't be good at. And I think the significance of that is that it can align all sorts of initiatives, so whether it's government foreign trade missions, whether it's planning consents that are given ... There are some areas where I think just the Government can promote, that ‘this is part of brand UK’.” [Private sector]

Conversely, a few participants express caution about such an approach and raise concerns about becoming overly-reliant on specific sectors. They also feel it would be difficult for the Government to select champions to support and advocate for.

“The priorities should continue to be in the areas we're strong at, and financial services is one of the UK economy's great strengths ... we're international leaders and we need to continue to build on that.” [Public sector]

End the inertia on infrastructure investment and provide clarity on future plans

Government investment in infrastructure is also seen to be a key measure to stimulate growth in the short term and aid long term growth. In response to perceived inertia on major investment projects, members feel the Government needs to give clarity and certainty as to its infrastructure investment plans.

Infrastructure investment is seen to be able to give a boost to business through job creation and giving a greater degree of certainty, and also to the economy as a whole by ensuring the UK's airports, roads, railways and communication infrastructure are fit for purpose.

“Infrastructure is clearly always good from a growth point of view, and again I guess it's on the government agenda, but there's a huge amount of inertia around any kind of major infrastructure-type projects, so I guess there's probably something there as well.” [Private sector]

“I think that there is a big issue in terms of funding development and infrastructure and I think that this is where the Government does, in the Autumn Statement, need to indicate that they will put more money into investment. Roads and other infrastructure that I think is really important to drive economic development, both in terms of preparing areas, and it's actually an injection of the right money in to the economy anyway in terms of investment.” [Public sector]

It's time to re-think how we look at education and skills

There is a sense that the education system is not producing the talent that businesses and the economy need. Complaints are made about the mismatch between what is taught in schools and colleges and the requirements of businesses, the skill levels of school leavers, and the 'worthless' degrees students sometimes graduate with. Education is also front of mind for many due to concerns about youth unemployment.

As a result, there are calls for the education system to be more focused on the needs of the economy and business. This requires businesses to engage with the education system, and to provide input and intelligence to the Government. It is felt to be important that this focuses on all aspects of the education system – from university education through to vocational training.

"[We need] more engagement between the business sector and the educational sector, because if nurturing long-term talent is going to be one of the key enablers to ensuring that we're self-sufficient in the long term, then perhaps the education system needs to understand what the needs of businesses are going to be, now and in the future." [Private sector]

"In the longer term, skills are absolutely the bedrock in terms of economic growth, and there is something about the link between the unemployed, and giving them jobs that have got skills attached to them, and growing a more skilled workforce, maybe focusing a bit more on the lower end, the individuals who have got low or no skills, rather than focus on skills at the top end." [Public sector]

Businesses should look beyond the Eurozone, but many may need help access newer markets

In response to current events in the Eurozone, members feel that the UK should, in the long-term, look to developing economies beyond Europe. As growth is unlikely to come from Europe in the near future, businesses will have to look towards the BRIC countries and South East Asia. The Government is seen to have a role to play in developing international relations to assist businesses, particularly as some participants feel many UK companies may lack knowledge about newer markets.

"I think forging connections with emerging economies is very, very important and it does happen in areas, but I think in terms of looking at these sort of BRIC economies, like Brazil, Russia, India, China and looking for export opportunities there. Obviously in the short term we won't be able to grow as fast as we could in Europe but it's going to take a while for Europe to recover. So I think in terms of manufacturing we have to look further afield." [Private sector]

"A longer-term government strategy that starts to look at the BRIC countries and where there's growth in new markets, that feels like a sensible policy, thinking where the market is in 20 years' time, rather than where we need to sell our products at the moment." [Public sector]

Spotlight on SMEs

Critical to growth, but they need better access to finance

Within the context of generating an economic recovery, SMEs are seen as being critical – both in terms of short-term recovery and also long-term growth. SMEs represent the majority of businesses in the UK, and are felt to act as a catalyst for growth across the economy. Indeed, a number of participants highlight the role of SMEs in the supply chains of big businesses and multinationals.

“For me recovery is all about small business. It's small businesses that are going to take us out of the recovery, rather than large corporates, and therefore [we need] a freer flow of funds.” [Private sector]

However, a lack of access to capital is seen as a major issue holding back SMEs and aspiring entrepreneurs. Members express concern that SMEs are struggling to access the finance they need, or to access finance at a reasonable rate, in order to grow and expand. A number of participants are critical of the banks for failing to lend.

“[Businesses] have got to be able to acquire funds, invest funds, manufacture goods and sell those goods, and so really they are at the heart of it and small enterprise is probably the single biggest way – there are some big multinational companies, but to be honest it's the small medium sized organisations that employ people, have people, pay people, that generate the economic surge that will bring us forward.” [Public sector]

As a result, there is a general consensus that the Government must encourage lending to SMEs. Participants highlight a number of positive initiatives the Government is promoting, which are seen to be steps in the right direction.

- **Bank of England ‘Funding for Lending’ scheme** – This is seen as potentially helpful in making funding available at competitive rates.
- **Enterprise Finance Guarantee Scheme** – This too is seen as potentially helpful, with a suggestion made that the threshold should be raised to £10m (from £1m) in order to stimulate growth.
- **The proposed ‘Business Bank’** - The proposal by Business Secretary Vince Cable to launch a ‘business bank’ is seen as an encouraging idea, but there are calls for it to be implemented sooner than is currently planned. Some participants express scepticism towards the proposal.

Participants make a range of broader suggestions around ensuring tax policies are effective for SMEs, and providing assistance to SMEs on planning and business modelling. One participant cites the example of Germany, where there is perceived to be a better structure to help SMEs access funding and management expertise.

Spotlight on the public sector

Timing of deficit reduction is critical, and look for wider improvements on efficiency and productivity

Addressing the public sector deficit is seen to be a key stage in economic recovery and growth, with the speed at which this is done also felt to be important.

A number of participants – from both the public and private sectors – highlight the need to reduce the public sector deficit, based on the view that the public sector is overweight and underperforming.

The speed of cuts is felt to be crucial, with concerns that the speed of the cuts needed to meet the current debt reduction target of 2015/16 is damaging overall confidence. The assumption that the private sector would be able to pick up the slack left by a reduced public sector has yet to happen, and as a result, the economic situation is not improving. Though agreeing with the need for deficit reduction, it is felt this needs to be tied to making the economy fit for business, and focused on strengthening demand and confidence.

Participants also made wider comments about improving the public sector, particularly around ensuring greater efficiency and productivity. There are calls for greater collaboration between the public and private sectors, with LEPs seen as a good example of this. Partnership is felt to be critical, with the demands on the public sector set to increase, due to an ageing and growing population.

“There are huge structural issues with the public sector which I think need to be dealt with, which will be very difficult to deal with ... The public sector is overweight, overpaid, underperforming, and for [the Government] to be able to deal with that is almost impossible.” [Private sector]

“Although I genuinely believe that the public sector deficit needs to be sorted, I think the speed at which that’s being done is taking money out of the economy, at a point where we know that businesses in the private sector are not spending the surpluses that they’re generating each year, and at the same time the cuts are damaging confidence.” [Public sector]

What role can accountants play?

Participants highlight several ways in which accountants can, and do, contribute to the economy and long-term growth.

Being a trusted advisor to SMEs

This is seen as very valuable in the current climate, particularly to SMEs and aspiring entrepreneurs. Accountants are seen as being able to play a role in helping companies gain access to finance, and can also provide broader business advice to SMEs, for example on developing business plans, or helping identify opportunities in new sectors.

Ensuring corporate reporting is high quality and transparent

The accounting profession is seen as essential in terms of ensuring high quality reporting and promoting greater transparency on company numbers.

Training the next generation of business leaders

A number of participants highlight the broader role the profession plays in training future generations of business leaders, and how today's graduate trainees in accountancy firms are tomorrow's CFOs.

Providing a reasoned and evidence-based perspective on the economy

Suggestions are made that the profession has a role to play in providing a balanced and reasoned voice on the economy, and using its insight and know-how to share perspectives on economic growth and the needs of business.

"I think that one of the things that helps SMEs is access to accountants, access to an actual advisor that can get their cash flows done, because one thing that they don't have is access to an FD, and the role of the accountant is unique in providing a quasi-FD role, which is essential for these companies." [Private sector]

"I think an area where we could be making a contribution is through advising small businesses, and helping them raise capital." [Private sector]

Research method

In total, twenty-eight qualitative in-depth interviews were conducted by Brunswick Research between 18 September and 10 October 2012.

These were conducted by telephone and lasted approximately 15 minutes. Participants were asked for their views on the current economic situation in the UK and the priorities for both short-term recovery and long-term growth.

About CCAB

CCAB's core purpose is to promote sustainable growth in the UK economy through the UK accountancy profession.

CCAB has five members – ICAEW, ACCA, CIPFA, ICAS and Chartered Accountants Ireland - and provides a forum for the bodies to work together collectively in the public interest on matters affecting the profession and the wider economy. The accountancy profession forms a central part of the professional and business services sector which contributes 13% of UK output.

Professional qualified accountants have a key role to play in the economy with over 240,000 accountants employed in the UK. CCAB's credibility stems from its insight into all areas of finance and accounting, from finance director and audit partner to management accountants, professional advisers, public sector finance leaders and entrepreneurs. CCAB's members work through the financial value chain in all sectors as key decision makers and business leaders within the UK and around the world.

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