

EXECUTIVE SUMMARY



A SKILLS ANALYSIS OF THE
NORTH WEST
ACCOUNTANCY
SECTOR

1. INTRODUCTION

pro-manchester was commissioned by the NWDA to produce a report about skills needs of the accountancy sector in the region and to recommend actions to address any potential skills needs and gaps. Armstrong Craven was appointed to carry out this work which included desk top research and consultation with members of the profession.

The work was to be undertaken in conjunction with Professional Liverpool, Manchester Metropolitan University and the Association of Professional Accounting Bodies which includes the Institute of Chartered Accountants in England and Wales (ICAEW), the Association of Chartered Certified Accountants (ACCA), and the Association of Accounting Technicians (AAT).

2. STRUCTURE OF THE NORTH WEST ACCOUNTANCY MARKET

In the North West the accounting industry is dominated by the Big Four, all of whom have a presence in Manchester and Liverpool. The majority of the top 10 accountancy firms have a presence in both cities, with the rest, if they have a presence in the region at all, being concentrated in Manchester. Grant Thornton, BDO Stoy Hayward and Baker Tilly are key employers in the region. A small number of the top 50 firms, such as Armstrong Watson, UHY Hacker Young and Tenon Group are key players in Cumbria, Chester and Preston respectively.

"GREATER MANCHESTER ACCOUNTS FOR 49% OF THE REGION'S EMPLOYMENT IN THE ACCOUNTANCY SECTOR."

Greater Manchester accounts for 49% of the region's employment in the accountancy sector (across all roles, not just accountants), Liverpool accounts for 12%, Lancashire 21%, Cheshire and Warrington 11% and Cumbria 7%¹.

65% of employment in the Greater Manchester accountancy sector is concentrated in small firms. Approximately 20% of the North West accountancy population is employed in mid-tier firms and the remainder is employed by large firms (the Big Four²).

Accountancy firms in the North West primarily serve the local market, especially in audit services, although the larger firms are becoming ever more global, as local firms are more involved with global markets and global firms are moving to the North West. KitshoffGleaves & Co³ point to evidence that work is being secured from outside of the region. This could be as a result

of local firms servicing inward investors and using the opportunity to build credibility outside of the region. Manchester in particular is an important sector for accounting activity and is increasingly able to compete at national and international levels.

ABI Regional Data records 18,306 employees in the North West accountancy sector. Of this number, 8,890 employees are based in Greater Manchester, 2,241 employees are based in Merseyside, 1,923 employees are based in Cheshire, 3,886 employees are based in Lancashire and 1,366 employees are based in Cumbria⁴. The accounting industries in the region remained relatively static compared to other businesses and professional services in creating employment, with recorded job growth of 5% between 1998 and 2004⁵. More latterly, the large accountants have seen significant growth and investment in Manchester. The large accountancy firms are all striving to grow and the Big Four are a catalyst for bringing business into the region by offering specialist resource and skills sets.

"THE ACCOUNTING INDUSTRIES IN THE REGION REMAINED RELATIVELY STATIC COMPARED TO OTHER BUSINESSES AND PROFESSIONAL SERVICES IN CREATING EMPLOYMENT, WITH RECORDED JOB GROWTH OF 5% BETWEEN 1998 AND 2004."

3. FACTORS AFFECTING SKILLS REQUIREMENTS

The Global Credit Crunch:

As the shock of the credit crunch ripples out, regional growth forecasts have been revised down, although the Regional Economic Forecasting Panel suggest the rate of slowdown will be lower in the North West than in the UK. The sharpest slowdown is likely to be seen in the FPS sector, although this is still likely to be the fastest growing sector in the region.

The strong growth of the FPS sector in the North West, and the concentration of professional firms in Manchester in particular, makes it more resilient to current global conditions. The mood in the businesses is that despite the wider economic climate, Manchester's exposure is considerably less than feared and despite bleak national outlooks Manchester-based operations remain remarkably healthy.

There will be an inevitable dampening in the jobs market, although the emphasis so far has been on cost cutting rather than job losses... the full economic impact on employment has yet to play out. A tightening in

1-5 KitshoffGleaves & Co. October 2006. NWDA Financial and Professional Services in the North West. Sub-report for Appendix 3: 74.12 The Accounting and Auditing Profession in the North West

recruitment now could have a significant impact on the availability of experienced staff over the next several years.

Regional drivers of change:

- Alternative Investment Market (AIM)

The North West has a strengthening reputation for AIM activity. According to research from Baker Tilly, 23 companies from the North West were admitted to AIM in 2006, raising £254m. In 2005, 24 companies from the region were listed, raising £212m. The London Stock Exchange shows 132 AIM-listed companies in the region. Only London has more. The AIM market is so strong that AIM North has been established in Manchester, with the goal of providing networking opportunities for directors of AIM-listed companies based in the North.

- Private equity

The North West has experienced a boom in private equity activity in recent years, driven by a strong regional market and interest from London-based private equity houses. Deal activity is predicted to remain strong over the next twelve months, despite the downturn in the global financial markets. The increase in the number of private equity deals in the North West will help to develop the skills of accountants in the region, making the sector more attractive to the national market⁶.

- Shared service centres

Financial shared service centres provide a centralised finance support service function. A 2005 report by Xayce Consulting for MIDAS⁷ states that the North West has one of the highest concentrations of shared service centres in Europe, with at least 40 in the North West and 25 in Greater Manchester. The high volume of shared service centres and the number of small firms providing high-volume services makes the North West an attractive location for potential service centre investors. Critical to maintain this competitive edge is making sure the right skills are available in the local labour market to fill these jobs.

- Growth in business and professional services in the North West

Major inward investment by major banks such as the Royal Bank of Scotland and Bank of New York makes the area an attractive business centre, where the majority of fees are taken from Financial Services for accountancy firms. This has fuelled growth and investment in the large firms in the sector in Manchester in particular.

National drivers of change:

- Globalisation of accounting standards

In response to the globalisation of markets, there has been a drive towards the convergence of a globally enforceable set of accounting standards. This has opened the market to international competition, particularly at the high-volume/low-skill end of the

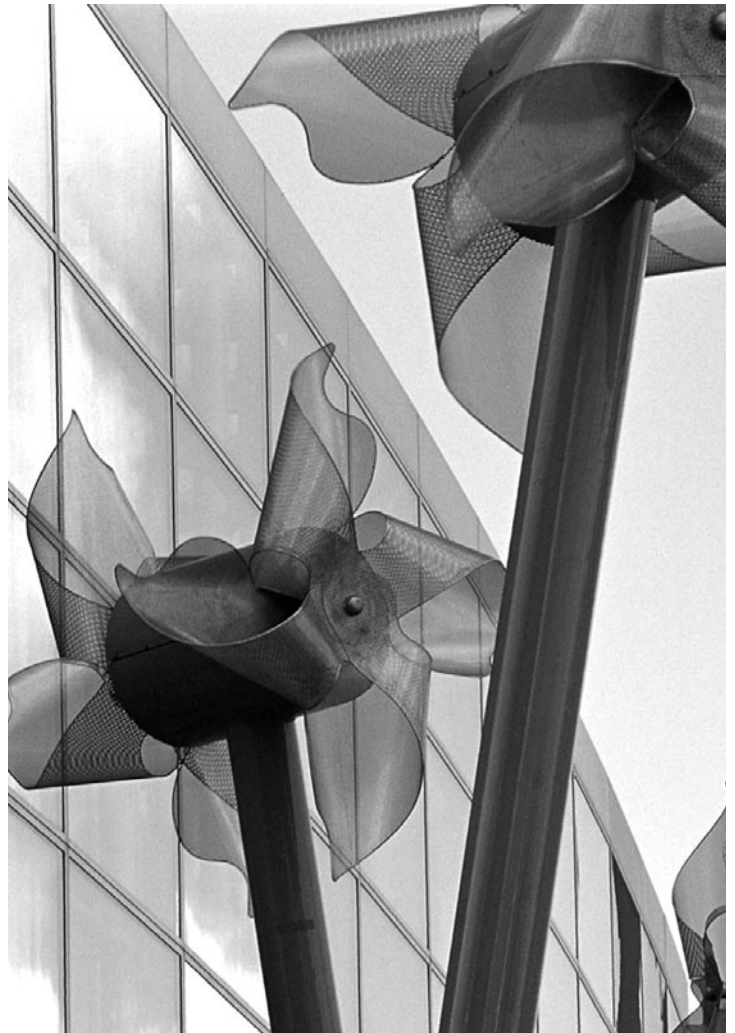
market, where overseas competitors can provide lower priced services than providers in the UK due to lower labour costs.

- ICT

Technological advances are enabling off-shore providers to supply paperless accounting services to small businesses and sole practitioners in the UK. These changes are likely to increase competition at small-business level, where over 60% of accountancy employment is concentrated in the North West. A survey undertaken by Sage⁸ in 2006 reported 40% of the 1,000 businesses interviewed expressed an interest in hosted or online solutions for their accounts. However, 90% of that 40% also wanted to have dual access to their accountant.

- The Big Four

There is a continuing awareness with the EU and US regulatory authorities that the Big Four are very dominant in the marketplace. The loss of one of these firms would have an obvious impact on skills availability in the region.





4. CURRENT SKILLS NEEDS IN THE ACCOUNTANCY MARKET

In practice:

- The inability of firms to recruit the right people was cited as a major constraint on growth. There is a plentiful supply of graduates applying for jobs, and although the Big Four still attract the top tier of applicants, the mid-tier firms are able to attract plenty of candidates in their own right. But there is a concern at all levels with the quality of graduates: the lack of business acumen, the “can-do” attitude and personal qualities that differentiate excellence. Basic skills are also an issue.

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- The “Generation Y” factor was an issue, as graduates expect and demand more of employers in terms of quality of work, flexible working and footloose ambition.
- There is a fairly common view that the current and widening gap is for enthusiastic middle-tier staff. For example, in small and medium practices, people who can deal with SMEs competently without substantial supervision.
- A slow down of graduate recruitment up until a year or so ago has led to a shortage of qualified accountants at the 1-5 year PQE level. In addition, as the Big Four continue to improve their retention strategies, there is less of the traditional fall-out at the 2-3 PQE. The shortage of qualified accountants with up to 1-5 PQE should be redressed over the coming years as more recent graduate intakes qualify.
- There is concern about levels of basic skills (e.g. 3Rs) from school leavers to graduate entrants.
- Areas cited as shortfalls include Audit (outside the Big Four), AIM, private equity, international accounting standards, outsourcing and literacy levels.

In business/industry:

- The large companies do not have the same issues as smaller firms because they are able to attract well qualified graduate accountants, including some from the Big Four. “Soft” skills and communication skills are always a priority requirement, as technical skills can be trained in. Broader skills sets may need to be trained in, as accountants in industry require a broader skills base than in practice.

- Smaller companies look for broad all-round skills that large-practice accountants do not always bring with them.

- Companies rely on the “footsoldiers” and middle flyers. In business, members typically perceive the economy needs more AAT’s non-graduate/part-qualified accounts staff. Potential skills needs in these ranks need to be explored carefully and up-skilling can create as well as alleviate difficulties. Qualifying staff to higher levels can create instability in the workforce, raising career and salary expectations.

- It was generally felt that graduates lacked entrepreneurial skills.

- There could be a need for high flyers in industry to have training in other business areas, such as strategy and marketing so they understand business practice. There are plenty of CPD modules around but cost could be an issue – day courses costing upward of £350 can be prohibitive. The question of the need for a MBA-type qualification – or modules – for qualified accountants was raised.

- There is a potential north/south divide in the quality and frequency of CPD courses and events and a need for more industry update events – “what’s new” in property tax, insurance, strategy etc.

- There is a difference of opinion about the availability of online training, which needs further exploration.

- There was a divergence of opinion about management accounting training and whether this is too theoretical or a necessary underpinning knowledge.

- There could be a shift towards recruiting A-Level candidates as they can add more value to a business than graduates. The “Value Added” element is crucial. Many smaller companies, especially family businesses tend to recruit A-Level students and fund or support their professional qualifications – this fosters loyalty in these staff.

- Deficits in the graduate market are problem solving, analytical skills and communication.

- Many small accountants train clients’ staff to trial balance level. A foundation course would provide these skills, but staff may only need 10% of the course. Is there a need for basic level short courses that companies can afford? Research required into the availability of such courses.

- There are plenty of CPD modules available according to the ACCA, and the need for new qualifications would need to be clearly identified.

SUMMARY OF RECOMMENDATIONS

Understanding the sector, its constituent parts and specific issues

- Widen research to other parts of the sector including small practices and accountants in finance, public sector and industry, in conjunction with professional accounting bodies to provide better understanding of the sector and its issues in the North West.
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Increasing the supply of professionally qualified staff

- As the increased uptake by the 'Big Four' filters through the sector this should balance out; cuts in recruitment now will lead to further shortages over the next few years.
 - Gaps in newly qualified skills could potentially impact on senior accounting staff (5 years PQE) in future. i) assess recruitment activity to attract senior qualifieds into the region and ii) programmes to accelerate newly qualified higher level and managerial skills.
 - Examine ways of supporting recruitment consultants to improve the recruitment of talent.
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Supply of mid-tier staff

- Further research required to understand needs across different parts of the sector to determine action.
 - Mid tier staff recruitment is a general problem. Explore the need for additional mid tier qualifications, and support uptake of new programmes with firms.
 - Promote training and career options in schools and colleges.
 - Assess the cost of training - to increase the number of practices and companies training it must be an affordable investment.
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Issues for small practices

Research to assess the skills gaps specific to small practices.

Improving the quality of graduates – commercial skills and attitude

- Identify the expectation of employers and how HE can deliver them. There may be an expectation gap as to what further & higher education can deliver well.
 - Establish how "higher" skills (communication, selling skills, empathy & 'emotional intelligence') can be developed through HE-business programmes or mentoring.
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Outsourcing and offshoring

Explore this further to understand to what extent it could be used to enhance/supplement the skills and resources within North West based employers.

CPD

Generally the sector is well supported by CPD but there could be issues with affordability.

- Assess need for local catalogue of training provision with peer recommendation.
 - Consider need in industry for CPD in broader behavioural skills, strategic planning, understanding business and do these exist?
 - Assess need for more local delivery.
 - Assess how FE/HE could deliver more cost-effective training.
 - Develop networking skills with FPS and cross-sector events e.g. with cluster organisations.
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BACKGROUND

pro·manchester is a 22-year-old private sector membership organisation representing the 241,000 employed in the Financial & Professional service community in and around Greater Manchester. Its aims are to support F&P sector growth, generating an additional £3.5bn in GVA terms and 70,000 net new jobs over the next ten years. In promoting Manchester's skills and expertise locally, nationally and globally, pro·manchester generates opportunities for Manchester professionals to develop their businesses.

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