



CASH SURPLUS RESEARCH 2012

RESEARCH REPORT
NOVEMBER 2012

Overview

Despite the UK's poor economic outlook, figures from the Office for National Statistics (ONS) suggest businesses are sitting on cash piles worth an estimated £720bn. If £10bn of this cash was injected into our economy in addition to current levels of business investment, the UK could see business investment return to pre-crisis levels.

Our latest cash reserves research suggests that the main reason for holding cash is to ensure that the business can exploit any new growth opportunities as they arise. Liquidity remains the top priority in managing a cash surplus, but safety is the number one issue for fewer businesses this year - this is a positive shift compared with 2011.

The data also highlights a number of important policy levers for Government to consider. Businesses are likely to use their cash surplus to invest in business assets (i.e. office space, equipment). Most businesses with a cash surplus are holding cash in the UK, and the majority are considering domestic investment opportunities.

Businesses tell us that the Government action most likely to encourage cash surplus investment includes an increase in tax incentives to spend (i.e. capital allowances), the relaxation of planning laws, and an increase in transport infrastructure investment. Measures announced in the 2012 Autumn Statement – such as an increase in the Annual Investment Allowance to £250,000 and £1.5bn in loans to help small firms export – may therefore incentivise businesses to spend their cash piles.

On monetary policy, our research suggests that the Bank of England should continue to focus on keeping interest rates low whereas quantitative easing is seen as less helpful to encouraging business investment.

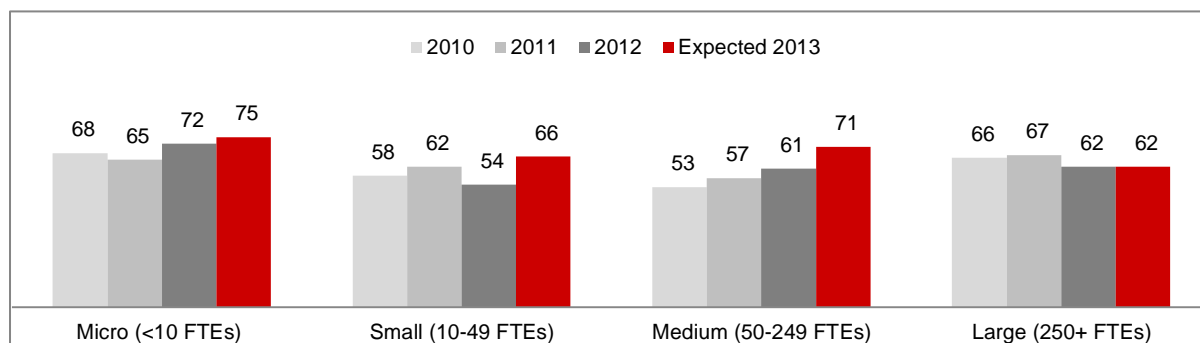
Research findings

Majority of businesses holding a cash surplus

As in 2011, around two thirds of businesses interviewed are holding a cash surplus. The majority of companies with a cash surplus in 2011 still have one this year, and overall the proportion of businesses with a cash surplus has remained steady over the past 12 months.

Among micro, small and medium businesses there are signs of an upward trend in the proportion either holding a cash surplus or expecting to have one in 2013. Many businesses without a cash surplus this year expect to gain one over the coming 12 months.

FIG. 1 PROPORTION OF BUSINESSES WITH A CASH SURPLUS



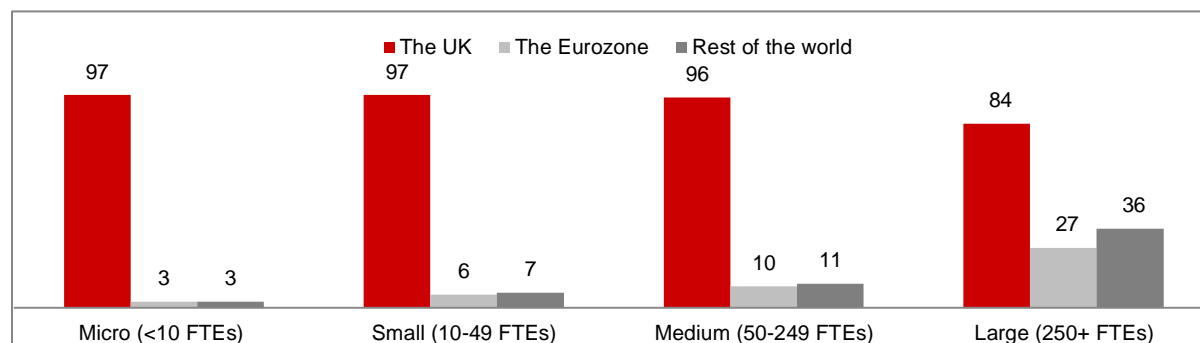
Base: All respondents. 2011, 654; 2012, 739

Businesses mainly hold cash in the UK

Companies are most likely to hold their cash surplus in domestic financial institutions. This is particularly true for micro and small businesses, very few of which hold cash outside the UK.

Large companies are more likely to hold cash in a range of locations. While most have cash stored in the UK, a significant minority do so in the eurozone and further afield, mainly to support an existing overseas operation.

FIG. 2 LOCATION OF FINANCIAL INSTITUTION WHERE CASH SURPLUS HELD



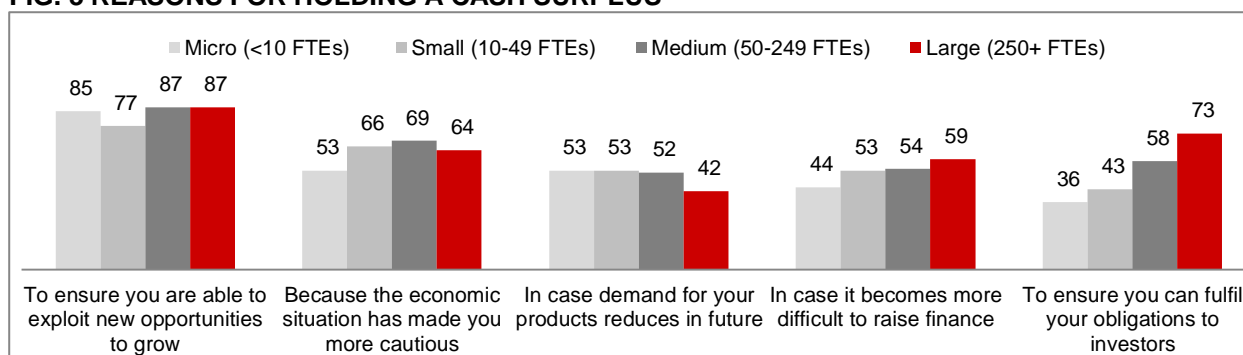
Base: All with a cash surplus that stated the location of the financial institution where the cash is held: 431

Exploiting investment opportunities is a key reason for holding cash

Among businesses of all sizes, the top reason for having a cash surplus is to exploit new growth opportunities, with almost all businesses giving this as a reason for maintaining ready access to cash. In 2011 the picture was similar, indicating a continued willingness to invest in the right opportunities if they arise.

However, cash surpluses also continue to be maintained in order to offset any potential economic downturn, with half of micro businesses and around two thirds of small, medium and large companies saying one of the reasons they have a cash surplus is that the economic situation has made them more cautious.

FIG. 3 REASONS FOR HOLDING A CASH SURPLUS



Base: All with cash surplus: 455

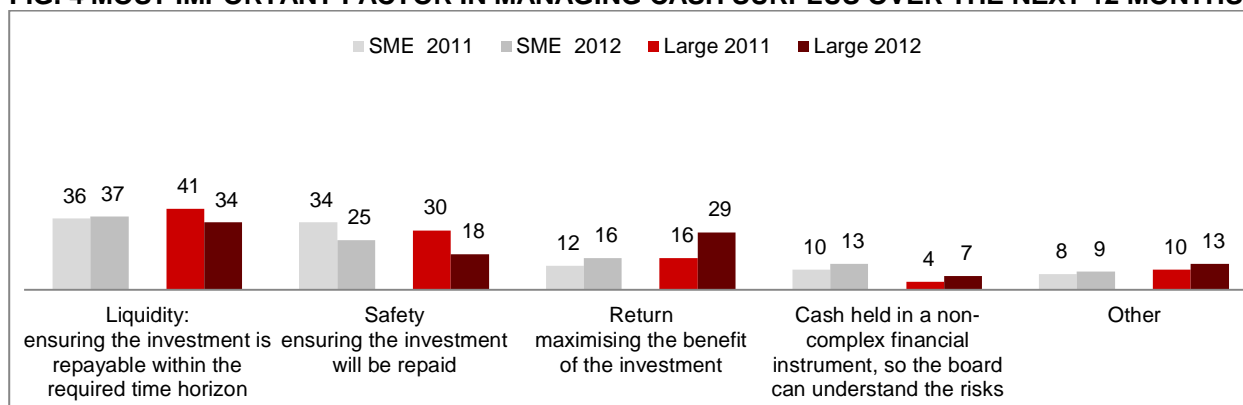
Large companies are more likely than smaller business (especially micro organisations) to be holding cash in case it becomes harder to raise finance. They are also more likely to say they have a cash surplus to ensure they can meet their obligations to investors: almost three quarters of large businesses cite meeting investor obligations as a reason, making this the second most mentioned motive among this group (for 42% it's a 'main reason').

Micro businesses appear to have grown slightly more optimistic: the proportion holding cash to guard against a worsening economic environment or reduced demand have both fallen, while the ability to exploit growth opportunities has become an important factor for a greater number.

Liquidity remains top factor in managing cash surplus

Among businesses that plan to have a cash surplus next year, liquidity is the top priority in managing that surplus, as it was a year ago. The proportion citing safety as the most important factor has dropped significantly among both SMEs and large businesses. While it remains the second most important factor for SMEs, for large companies it has fallen into third place, behind maximising the benefit of the investment.

FIG. 4 MOST IMPORTANT FACTOR IN MANAGING CASH SURPLUS OVER THE NEXT 12 MONTHS



Base: All that expect to have a cash surplus over the next year. 2011, 425; 2012, 491

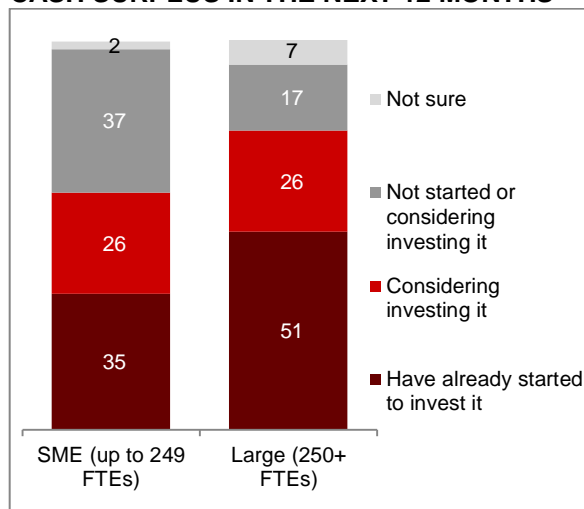
Most have started to invest, or are considering doing so

Large companies are most likely to have started to invest their cash surplus, with half having done so compared with around a third of SMEs. For both groups, an additional one in four are considering investing.

While less than a fifth of large companies (17%) are not considering investing their cash surplus, for SMEs the figure is more than twice as high, suggesting that investment is most likely to come from large businesses.

There are various reasons for not considering investing cash surpluses over the coming year, but flexibility (waiting for the right opportunity) and uncertainty (over the future economic climate) both emerge as themes.

FIG. 5 STARTED OR CONSIDERING INVESTING CASH SURPLUS IN THE NEXT 12 MONTHS



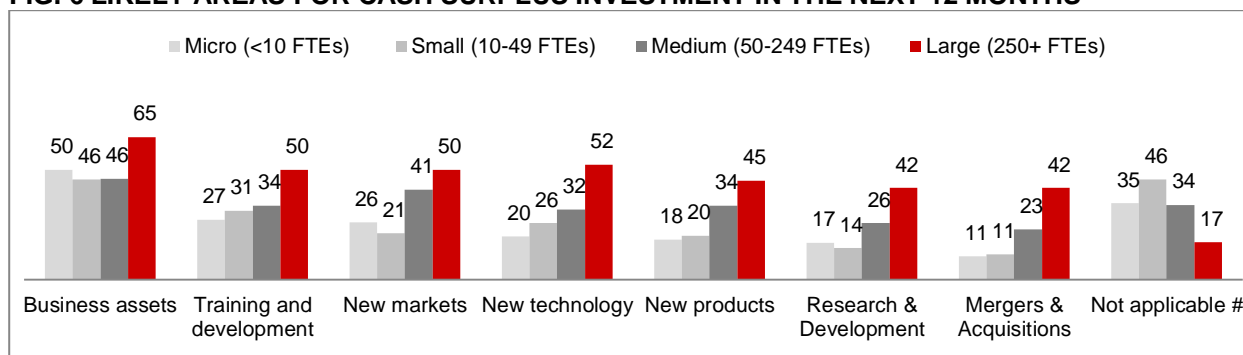
Base: All with cash surplus: 455

Business assets the most likely area for cash surplus investment

For businesses of all sizes, the most likely area for investment of a cash surplus is in business assets, with around half of SMEs and almost two thirds of large businesses likely to invest in these over the next year.

The range of investments being considered increases with company size: large businesses are most likely to consider multiple investment opportunities for their cash surplus.

FIG. 6 LIKELY AREAS FOR CASH SURPLUS INVESTMENT IN THE NEXT 12 MONTHS



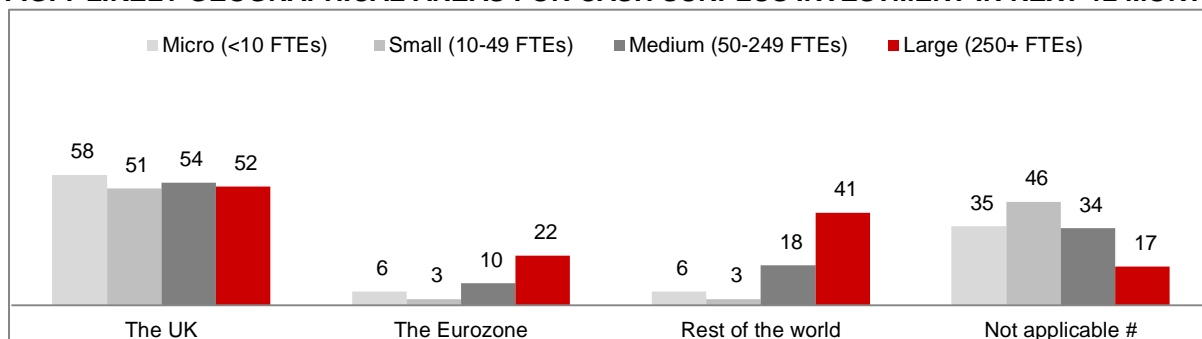
Base: All with cash surplus 455

Not applicable, not considering investing cash surplus in next 12 months

UK investment most likely

Businesses with a cash surplus are mainly looking to invest in the UK, with just over half saying they are likely to invest in the domestic market. Likelihood to invest overseas increases with company size with large businesses, and to an extent medium-sized companies, most likely to invest outside the UK. For both, the proportion looking to invest in 'the rest of the world' is roughly double that seeking to invest in the eurozone.

FIG. 7 LIKELY GEOGRAPHICAL AREAS FOR CASH SURPLUS INVESTMENT IN NEXT 12 MONTHS



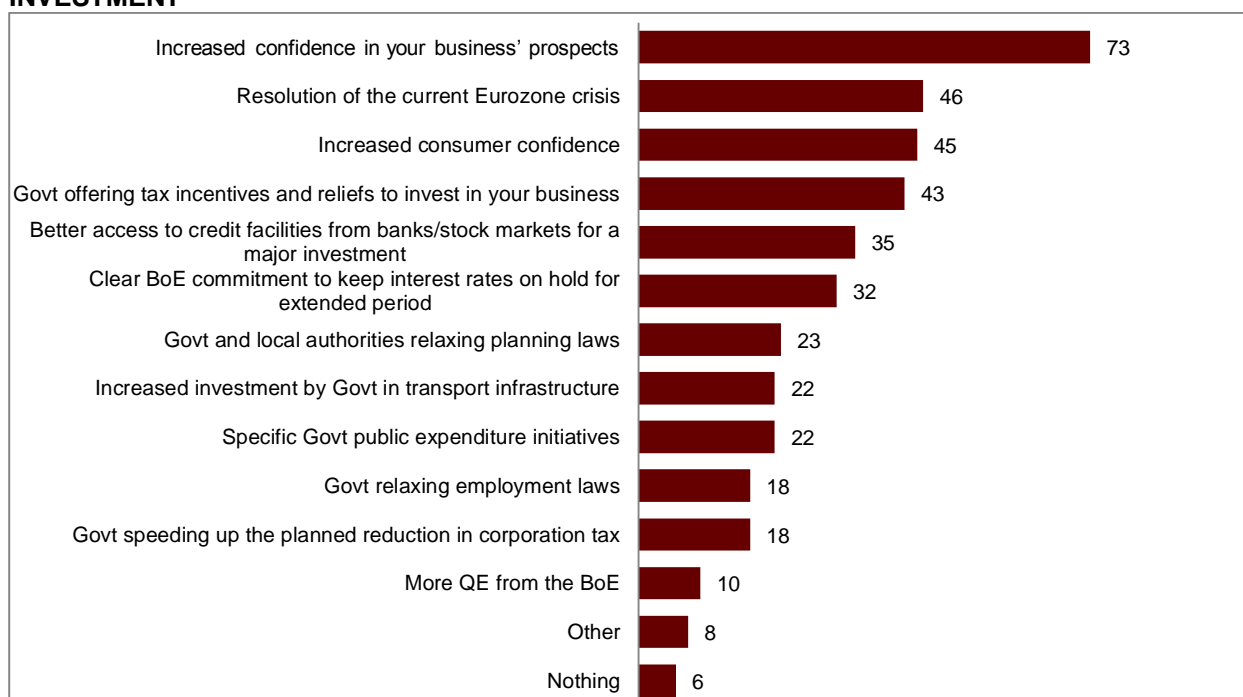
Base: All with cash surplus 455

Not applicable, not planning to invest cash surplus in next 12 months

Improved market conditions most likely to fuel investment of cash surplus

Almost three quarters of businesses say that increased confidence in their performance prospects would encourage them to invest. This reflects findings from last year when confidence was also a top issue.

FIG. 8 CHANGES THAT WOULD ENCOURAGE BUSINESS TO USE SURPLUS CASH FOR A MAJOR INVESTMENT



Base: All with cash surplus 455

Increased consumer confidence would encourage 45% of businesses to invest their cash surplus. This is supported by other research informing ICAEW's submission to the Chancellor ahead of the Autumn Statement, which found that businesses view increased consumer confidence as key to supporting growth.

Government action in the business sphere would also help boost investment, with 43% saying investment tax incentives and reliefs would encourage them to make a major investment. A relaxation of local planning laws, increased investment in transport infrastructure, and specific public expenditure initiatives were also mentioned. ICAEW's Autumn Statement submission highlighted that businesses in the production sector in particular would welcome an increase in capital allowances.

The Bank of England is also seen as playing a role. While only 10% say that more QE would encourage them to invest, around a third would be most likely to spend their cash surplus if there were a clear commitment from the BoE to keep interest rates low for an extended period.

METHOD: This report is based on 739 telephone interviews among ICAEW members working in industry and commerce. The sample was controlled to ensure a reasonable representation by region, company size and sector. Fieldwork was conducted by Kudos Research between 18 October and 19 November 2012.