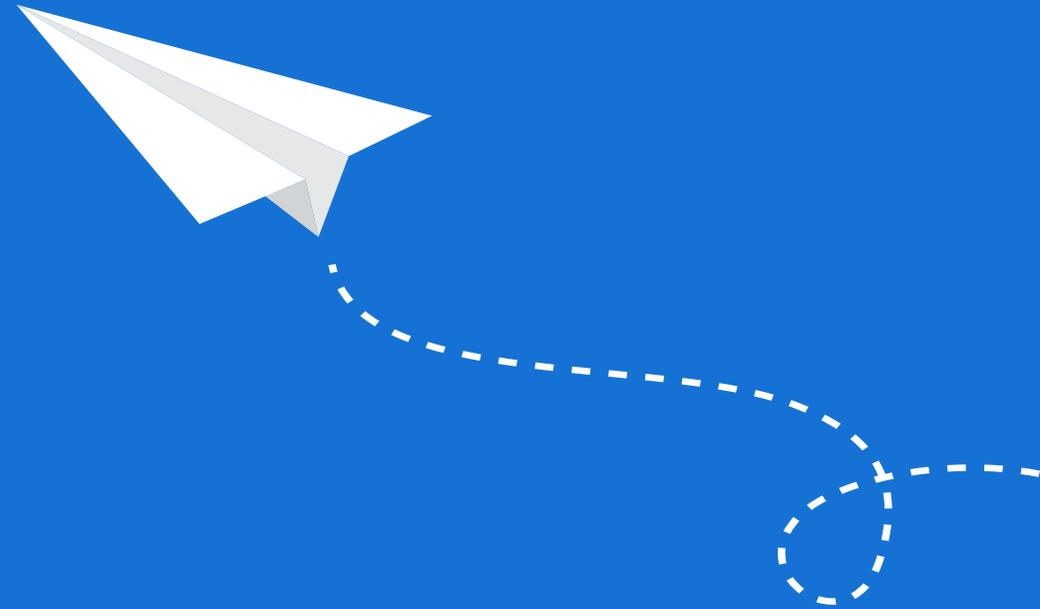




accounting for change

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1. Introduction

“The accounting, bookkeeping and auditing professions have transformed radically since 2010. These have been traditionally cautious industries when it comes to technology adoption, but that has changed profoundly this decade. The introduction of Making Tax Digital, the rise of cloud accounting apps and the embrace of technology to automate basic compliance functions have all helped modernise the profession and help provide a better/more proactive service to clients. Progressive firms now prioritise and cultivate innovation from their staff in a manner unheard of ten years ago.

“At the same time, we’re witnessing a race to the bottom on compliance that is fast approaching its end. There has been a shift towards advisory services to counter the loss of revenue from increasingly commoditised compliance functions, which has created its own unique challenges too. Despite the great promise of advisory, many firms have found it difficult to restructure their business models in favour of proactive advisory activities – which can be much more complex and time consuming than services like end-of-year tax.

“Accounting, auditing and bookkeeping are certainly industries in flux – but what do official UK labour market statistics tell us about the growth of these industries and their potential futures? What kinds of business models are falling out of fashion and which regions are becoming hotspots for accounting?”



“Our ‘Accounting for change’ report looks to answer these questions using previously unreleased Official Labour Market Statistics from the Office of National Statistics.”

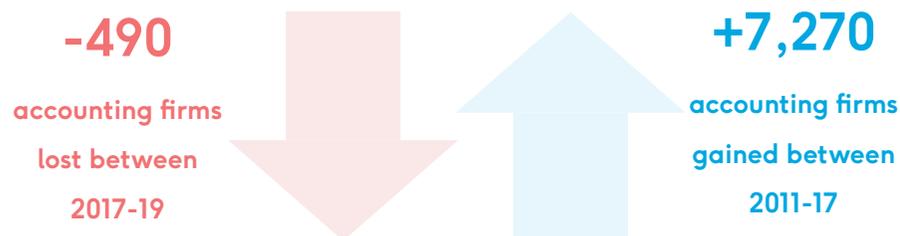
Colin Hewitt – Float Founder and CEO



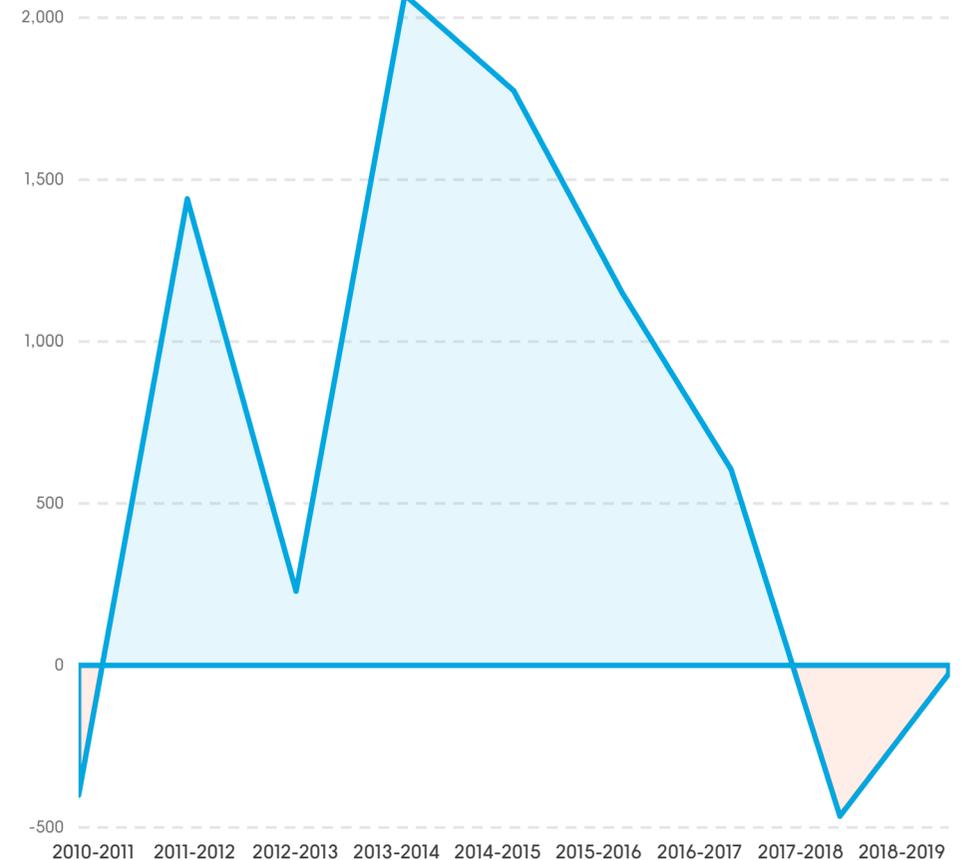
2. Accounting firm numbers

Starting with the big total figures, there are now 35,520 accounting and auditing firms in the UK*. Between 2011 and 2017, the number of accounting and auditing firms in the UK grew by 7,270, an average net growth of 1,212 extra firms per year. This steady growth represents a UK accounting industry boom, reflecting the rude health of the industry and ease with which accountants could start and grow their own firm. It's likely that the digitisation of tax and rise of cloud accounting software contributed to this trend, streamlining many of the processes that may have prevented would-be accounting firm owners in the past.

This boom did not last, however. Between 2017-19, the UK had a surprising net loss of nearly 500 firms (490). The growth of new businesses appears to have tailed off during this time. The industry also saw increased market consolidation over the last two years, with larger groups acquiring smaller/mid-size firms, which would have contributed to a net reduction in firms.



Annual change in accounting and auditing numbers UK



3. Bookkeeping firm numbers

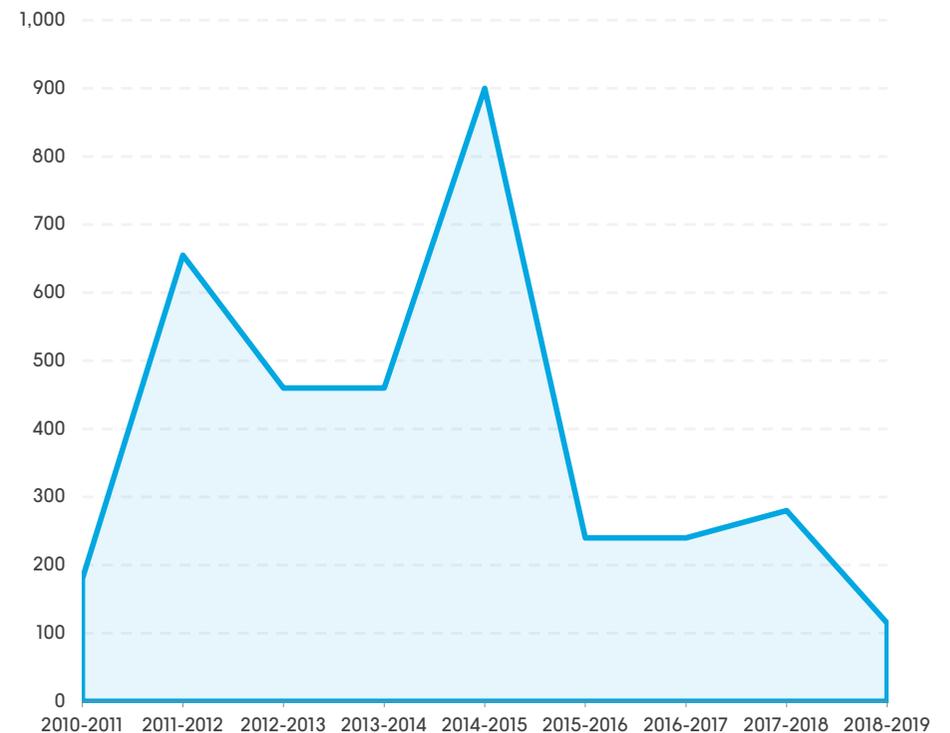
Bookkeeping is still in a period of tremendous growth. The number of bookkeepers in the UK continues to rise, and increased by 395 during the same time period in which accounting growth slowed (2017-19). There are now 6,640 bookkeeping enterprises in the UK, more than double the number in 2010 (3,110) representing – a 113.5% increase**.

“This growth shouldn’t surprise anyone in the industry. Solid, regular bookkeeping is the cornerstone of any business’ financial data.

“We’re also in the middle of a technological revolution that represents an incredible opportunity for bookkeepers. Cloud accounting services, smartphones and the introduction of Open Banking mean bookkeepers can scale up like never before. Bookkeepers today can provide better, more efficient and more accurate services to more customers, thereby helping them make better business decisions. Bookkeepers have never been better or more important.”

Colin Hewitt – Float Founder and CEO

Annual change in bookkeeping firm numbers in the UK

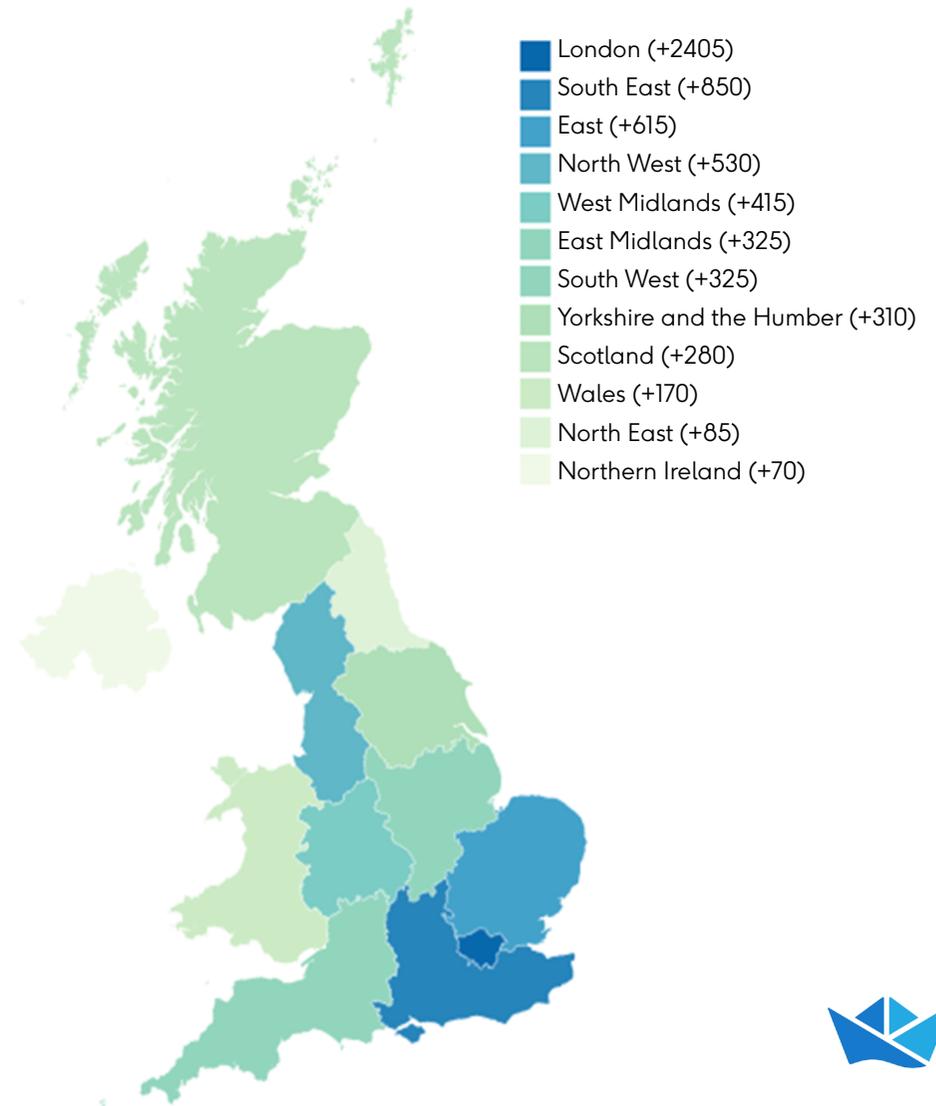


4. Regional trends

By region, London has the highest net growth of accounting and auditing enterprises in the last decade (+2,405) but it has also lost the most since 2017 (a total net loss of 325 in 2 years). The South East and East of England have grown by 850 and 615 respectively since 2011, while Northern Ireland (+70) and the North East (+85) have grown the least.

These metrics encapsulate the massive disparity between business opportunities in the South East of England and elsewhere in the UK. The low growth for Scotland, Wales and Northern Ireland may be of particular concern to these regions. Scotland has two thirds the population of London, yet the number of accounting firms in the capital has grown by ten times as much.

Growth of accounting firms in UK by region



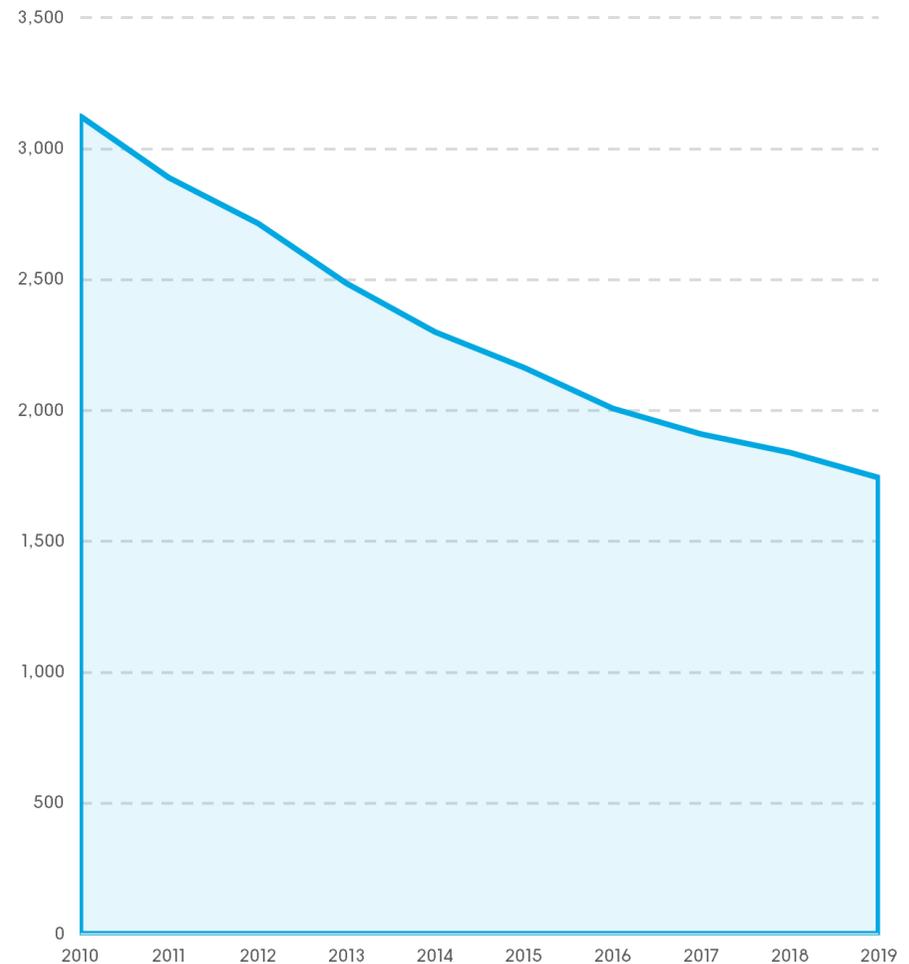
5. Decline of partnerships

The business structure of accounting firms is also changing. Partnerships used to be a popular model for accounting firms, but they have fallen out of favour in the last decade. In 2010, there were 3,125 accounting firms classified as a 'partnership', representing 11% of total firms. However, this number has nearly halved (1,745 in 2019) – meaning just 5% of total UK accounting firms are now partnerships.

This suggests that having a business partner is less of a prerequisite, or less desirable, than it once was. It is possible that the ease with which people can now register and start their own business using digital tools and services has driven this change, meaning people can do more themselves rather than relying on a partner.

Just **5%**
of firms are now
partnerships

Partnership numbers



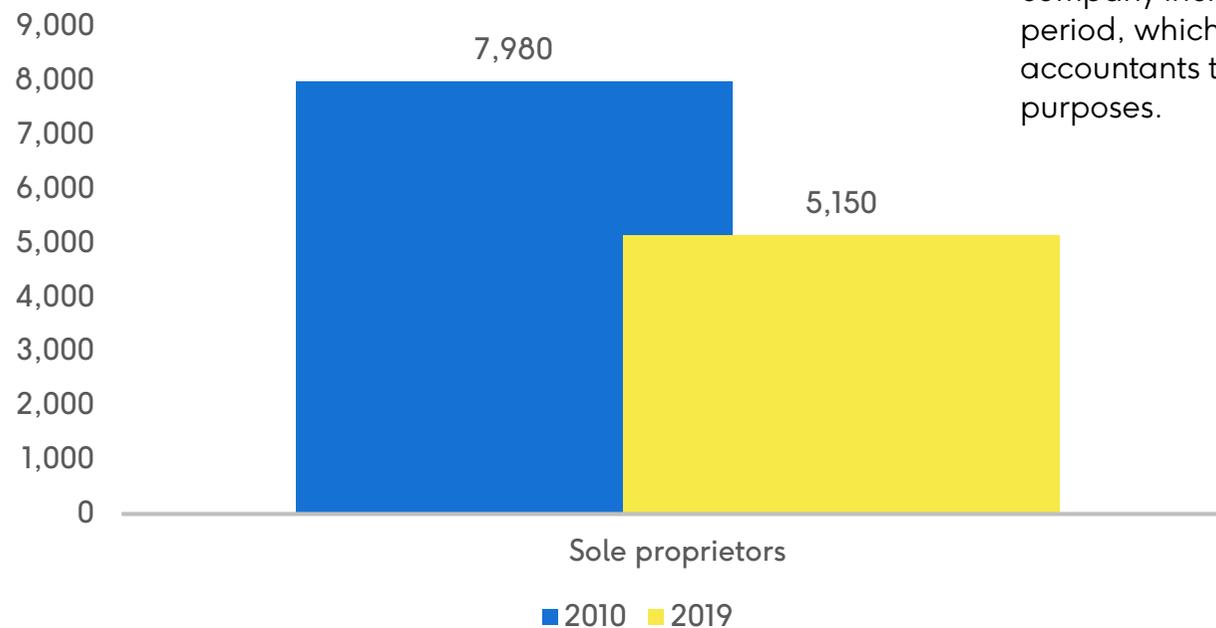
6. Sole proprietors

Number of sole proprietor firms in UK 2010-19

Similarly, the number of sole proprietors recognised by ONS' official labour market statistics also reduced by nearly 3,000 – from 7,980 in 2010 to 5,150 (latest figures available).

This doesn't necessarily mean that fewer people are starting their own business, it is likely that more new business owners are simply opting to register as a company instead of being a sole trader.

Indeed, the number of accounting firms registered as a company increased from 17,975 to 28,565 over the same period, which suggests that this is becoming the default way for accountants to run their business – probably for tax and liability purposes.

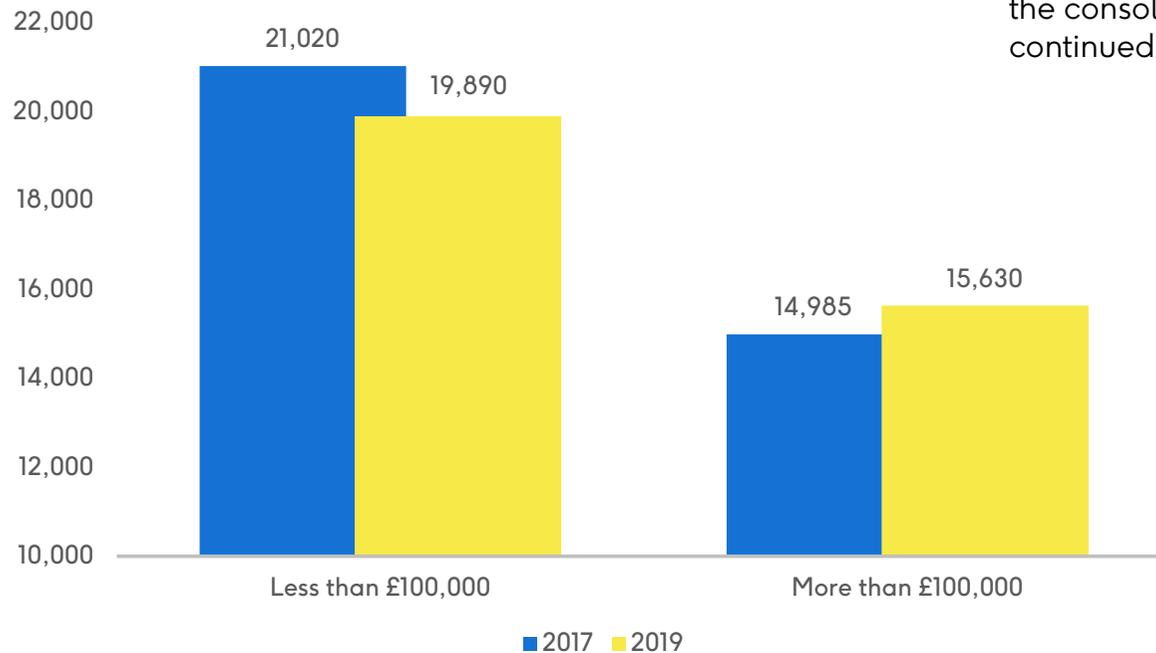


7. Trends by firm size

Number of accounting firms by turnover 2017-19

The UK accounting industry now has a smaller number of accounting firms, but the data suggests that growth still exists among larger firms.

The number of firms with a turnover of less than £100,000 decreased by 5.4% between 2017 and 2019, from 21,020 to 19,890. However, the number of accounting firms with a turnover of more than £100,000 increased by 4.3%, from 14,985 to 15,630. We expect that these numbers are driven by the consolidation and growth of smaller firms, as well as the continued profitability of larger firms.



8. The next ten years

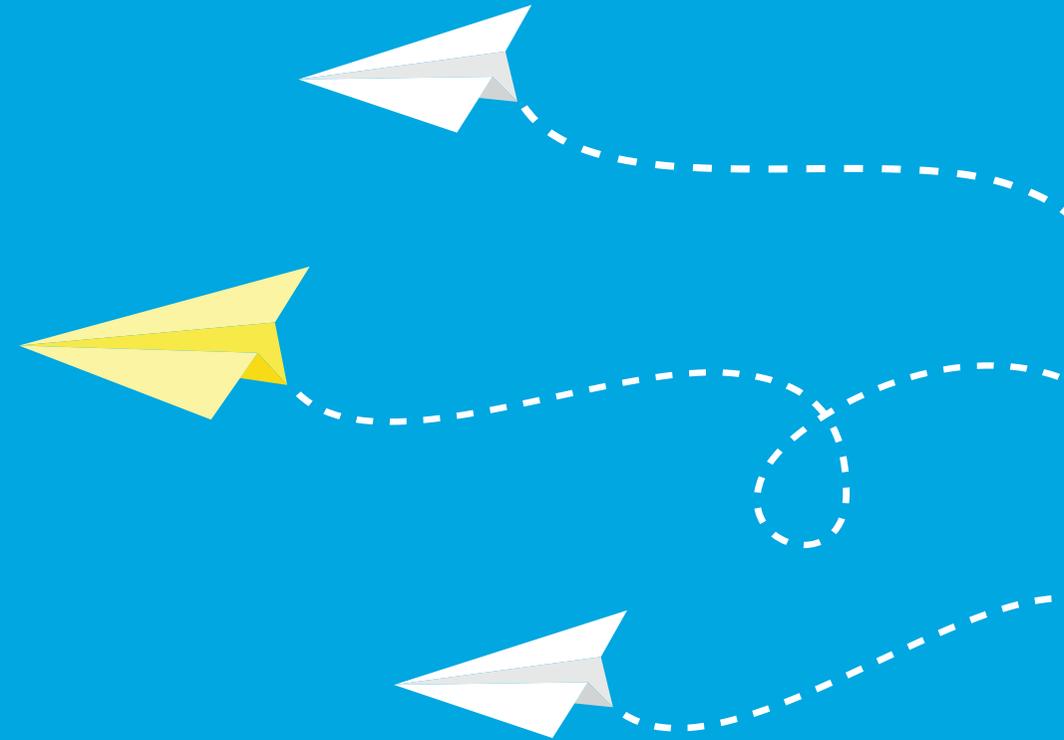
As we head into the 2020s, expect the role of accountants and bookkeepers to continue to transform, and for the trends outlined above to accelerate.

Getting the right future-facing financial insights and advice will remain as important as ever to business success, and it will be accountants and bookkeepers who fulfil this role. They will continue to be freed from compliance activities, and empowered to help with business growth, direction and development.

The upper end of the market will continue to grow in the UK, along with revenues. Accountants will invest more in advisory services that enable them to offer more bespoke, upscale services to their clients and grow revenue. Firms that have struggled with advisory to date will also iron out the kinks and restructure their business models to prioritise repeatable advisory services that can be rolled out and scaled as easily as end of year tax services are today.

Try Float today, a powerful cash flow forecasting and scenario planning tool that gives you and your clients an accurate picture of their business's future.

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About Float

Float is a cash flow forecasting software company based in Edinburgh and founded by Colin Hewitt in 2010 to help SMEs using Xero, QuickBooks Online or FreeAgent to manage, budget, and forecast their cash.

To find out more about how Float can help your practice provide clients with crucial future-facing cashflow insight, please visit www.floatapp.com.

Contact

support@floatapp.com

