

# Finance & Management



FINANCE &  
MANAGEMENT  
FACULTY

ISSUE 240  
FEBRUARY 2016  
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**CUTTING BACK**  
COST-CUTTING  
METHODS THAT  
CAN WORK FOR  
YOUR BUSINESS

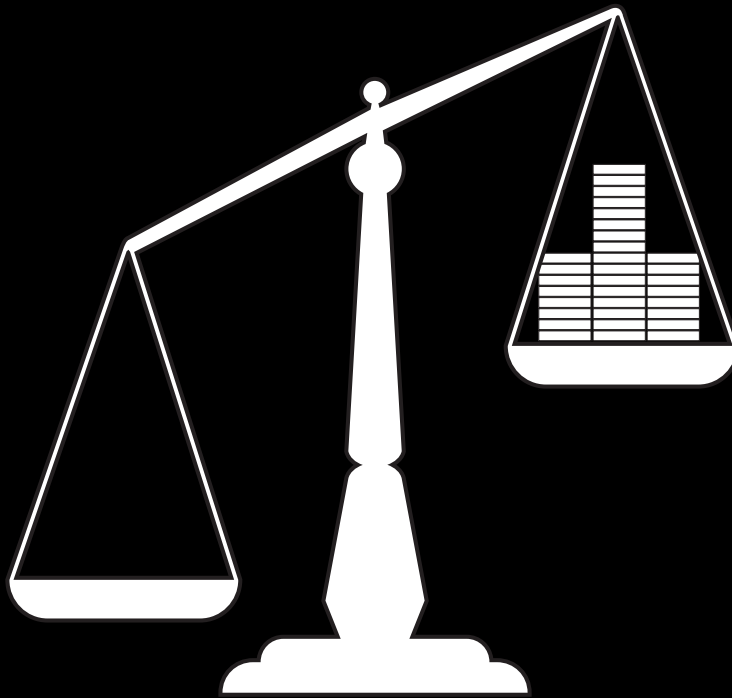
**NO WIN NO FEE?**  
FUNDING OPTIONS  
FOR MAKING  
LITIGATION  
CLAIMS

**THE APPRENTICE**  
HOW WILL THE  
NEW LEVY  
AFFECT  
BUSINESSES?

## THE GIFT OF GIVING

Working as an FD in the charity sector









# Doesn't look right? Flag it up

**Accountants, protect yourself and your business reputation from money-launderers.**

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-  Are there reasons not to trust your client?
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**If the answer's YES, flag it up!**

**If you're suspicious, submit a SAR.**

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February 2016

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“Good financial management in a charity is about maximising resources to deliver a positive impact for beneficiaries”

Sarah Broad,  
CFO, Leonard  
Cheshire Disability



# Smile like you mean it



The 2015 Careerbuilder survey (see On a lighter note, p34) highlights some of the habits that put off recruiters at interview. Certain obvious errors at interview could be easily avoided



- such as ensuring that your phone is off and not having coffee stains on your shirt - but the employers involved in this survey were put off by ingrained habits which are part of the potential employee's persona. Failing to make eye contact, fidgeting and making too many hand gestures are all in the top 10. It seems rather odd to have a person reach interview and be failed owing to nervous tics which cannot always be controlled. One important and engaging aspect of interview success is smiling.

Smiling doesn't come naturally to all of us and in fact the Victorians interpreted smiling as a sign of mental weakness. "The only people who smiled broadly were the poor, the lewd, the drunk, the innocent, and the entertainment" writes Nicolas Jeeves in his article *The Smile in Portraiture*. Any self-respecting person would not bare their teeth at all, let alone in a formal interview. "There are some people who raise their upper lip so high... that their teeth are almost entirely visible. This is entirely contradictory to decorum, which forbids you to allow your teeth to be uncovered" [*The Rules of Christian Decorum and Civility, 1703*].

How times change. Smiling is not only our easiest way to connect with others, it is likely to be a good indication of productivity. *Start Smiling: It Pays To Be Happy At Work*, published by *Forbes*, detailed research conducted by Iopener Consultants that happy workers are the most productive ones and that smiling employees are the happiest ones. It's the smiling politician who wins elections.

How one smiles, however, carries great risks. Forced smiles can convey meanings that are not intended. Joshua Luke, in the career advice manual *Fast Forward Your Etiquette: The Ten Steps to Conduct Yourself with Poise at Work & at Play*, classified smiles into five types, to each of which a meaning is attributed. The meaning of these smiles is then altered by the number of teeth shown and if the top or bottom row of teeth is bared. The author summarises the whole chapter with the suggestion that a slight but sincere smile is best for most occasions; try practising in the mirror!

We hope that you enjoy this magazine whatever type of smile you wear; please drop [stephen.ibbotson@icaew.com](mailto:stephen.ibbotson@icaew.com) or [robert.russell@icaew.com](mailto:robert.russell@icaew.com) a line if you have any thoughts or suggestions for the faculty or the magazine.



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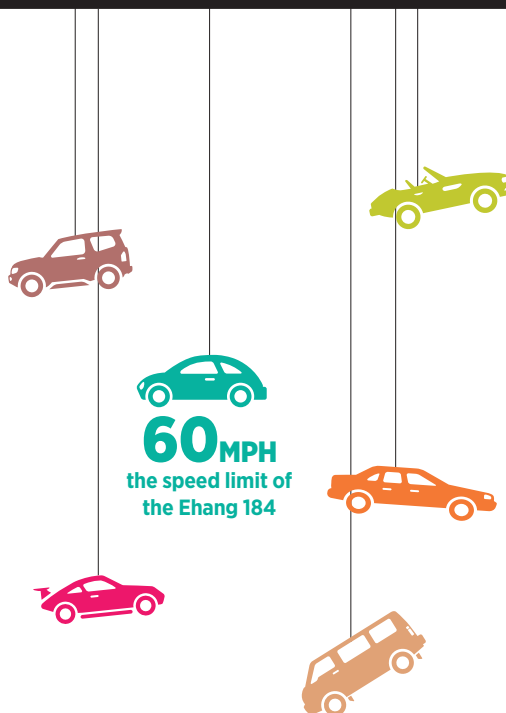




# News

## HANGING AROUND

The flying cars seen in 1960s cartoon *The Jetsons* took a step closer to reality with the launch of a prototype flying drone vehicle. Chinese company Ehang has created the Ehang 184, a single-person cabin that is lifted by eight propellers and controlled by on-board sensors, detailed skyline maps and GPS to prevent it from colliding with other objects. It can carry a single passenger for 23 minutes at a speed of 60mph, and will market at between \$200,000-\$300,000 (£140,000-£210,000). For more information see [tinyurl.com/FM-Ehang184](http://tinyurl.com/FM-Ehang184)



## DISCOVERING NEW ELEMENTS

The International Union of Pure and Applied Chemistry (IUPAC) announced last month the discovery of four new “super-heavy” chemical elements, completing the seventh row of the Periodic Table of Elements. The elements do not naturally occur, but were created in a lab and decay almost immediately into other known elements. They’ve been given the temporary names ununtrium, ununpentium, ununseptium and

ununoctium, based on their atomic numbers of 113, 115, 117 and 118 respectively.

“The chemistry community is eager to see its most cherished table finally being completed down to the seventh row,” Jan Reedijk, president of IUPAC’s inorganic chemistry division, commented. These are the first additions to the periodic table since 2012, but the IUPAC expects to start an eighth row in due course.

## OIL PRICE DISPUTE

The International Energy Agency is forecasting oil prices of no more than \$50 (£34) a barrel into 2018; bank RBS is much more bearish, forecasting less than \$20 a barrel. Andrew Roberts, RBS’s credit chief, advised clients to “sell everything” owing to the “nasty cocktail” of high global debt ratios and a credit squeeze. “Equities and credit have become very dangerous,” he added. Boston Private Wealth strategist Robert Pavlik responded: “[That’s] probably the worst recommendation you could make.”



## TWITTER TO GO BEYOND 140

Twitter is reacting to challenges from other social media platforms Blah, Periscope and Meerkat and its difficulty in recruiting beyond its current 300 million users by attempting to alter the very basis of its popularity. Tweets became famous owing to the necessity of keeping messages to a maximum 140 characters. Blogger Re/code announced last month that Twitter is reportedly targeting a launch date early this year for a product that would let users tweet up to 10,000 characters, in a project known as Beyond 140.

Twitter is attempting to alter the very basis of its popularity

## SUPERMASSIVE BLACK HOLE

A globe-spanning array of radio telescopes is being co-ordinated to ‘photograph’ the supermassive black hole at the heart of the Milky Way, known as Sagittarius A\*, located some 26,000 light years away. The Event Horizon Telescope, a collaborative project between several dozen universities and agencies, is intended to prove Hawking’s theory of the existence of black holes. Visit [eventhorizontelescope.org](http://eventhorizontelescope.org)



**26,000**  
light years to  
Sagittarius A\*



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Numbers never looked this good. **We call this Intelligent Motion.**

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Compare the tax savings of running a Mitsubishi Outlander PHEV as your company car against these market leaders.

	OUTLANDER PHEV GX4H AUTO	HONDA CR-V EX AUTO	BMW X3 XDRIVE 30D SE AUTO	AUDI Q5 S-LINE PLUS AUTO	MERCEDES E-CLASS E250 CDI AUTO
COST OF THE CAR - P11D VALUE	£38,899	£33,035	£40,060	£39,355	£37,675
GOVERNMENT GRANT REDUCTION	£5,000	£0	£0	£0	£0
ADJUSTED FINAL PRICE	£33,899 <sup>10</sup>	£33,035	£40,060	£39,355	£37,675
CO <sub>2</sub> EMISSIONS G/KM	42	179	156	157	147
BENEFIT IN KIND RATE	5%	30%	29%	29%	24%
VEHICLE BENEFIT CHARGE WITHOUT FUEL PROVIDED	£778	£3,964	£4,647	£4,565	£3,617
THE EXTRA TAX YOU PAY VS PHEV (40% TAXPAYER)	–	£3,186	£3,869	£3,787	£2,839
VEHICLE BENEFIT CHARGE WITH FUEL PROVIDED	£1,220	£6,616	£7,211	£7,129	£5,738
THE EXTRA TAX YOU PAY VS PHEV (40% TAXPAYER)	–	£5,396	£5,991	£5,909	£4,518

**THE NEW MITSUBISHI OUTLANDER PHEV**  
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**FROM £29,249 - £40,499**  
Including £5,000 Government Plug-in Car Grant<sup>10</sup>  
**WITH A 5 YEAR WARRANTY<sup>12</sup>**

Find out just how good the numbers look. Search PHEV.

1. Outlander PHEV GX4h compared with Honda CR-V, BMW X3, Audi Q5 and Mercedes E-Class – average saving £5,701 for a 40% taxpayer. The savings for business drivers with a company fuel card are higher. 2. Official EU MPG test figure shown as a guide for comparative purposes and may not reflect real driving results. 3. Outlander PHEV qualifies as low CO<sub>2</sub> emissions vehicle for the purpose of Capital Allowances. 8% write down allowance used for comparison. 4. Savings achieved due to lower Profits Chargeable to Corporation Tax (PCTCT). 5. Class 1a NI only payable on 5% of list price compared to 25%+ average. 6. 5% BIK rate for the 2015/16 tax year. 7. Congestion Charge application required, subject to administrative fee. 8. Domestic plug charge: 5 hours, 16 Amp home charge point: 3.5 hours, 80% rapid charge: 30mins. 9. Government subsidised charge points are available from a number of suppliers for a small fee - ask your dealer for more information. 10. Prices shown include the Government Plug-in Car Grant and VAT (at 20%), but **exclude First Registration Fee**. Image shown is an Outlander PHEV GX4h at £35,999 including the Government Plug-in Car Grant. On The Road prices range from £29,304 to £40,554 and include VED, First Registration Fee and the Government Plug-in Car Grant. **Metallic/pearlescent paint extra**. Prices correct at time of going to print. For more information about the Government Plug-in Car Grant please visit [www.gov.uk/plug-in-car-van-grants](http://www.gov.uk/plug-in-car-van-grants). The Government Plug-in Car Grant is subject to change at any time, without prior notice. 11. For more information visit [www.mitsubishi-cars.co.uk/outlander/plug-in-car-grant](http://www.mitsubishi-cars.co.uk/outlander/plug-in-car-grant). 12. All new Outlander PHEV variants come with a 5 year/62,500 mile warranty (whichever occurs first) and an 8 year/100,000 mile traction battery warranty. For more information please visit [www.mitsubishi-cars.co.uk/warranty](http://www.mitsubishi-cars.co.uk/warranty)

Outlander PHEV range fuel consumption in mpg (ltrs/100km): Full Battery Charge: no fuel used, Depleted Battery Charge: 51.4mpg (5.5), Weighted Average: 156.9mpg (1.8), CO<sub>2</sub> emissions: 42 g/km

# Events

## WEBINARS

All webinars are free for faculty members

### BRIBERY AND CORRUPTION

**24 February 10:00**

The Bribery Act carries significant pitfalls for business, and the FD is central to many aspects of compliance. Arun Chauhan, a solicitor specialising in fraud, and David Clarke, who has more than 20 years' experience as a police inspector dealing with fraud, will explain how the law operates in practice with a few pertinent case studies. This practical lecture will also cover the five key areas that FDs should look at to minimise the potential fallout from inadvertently falling foul of the Act.

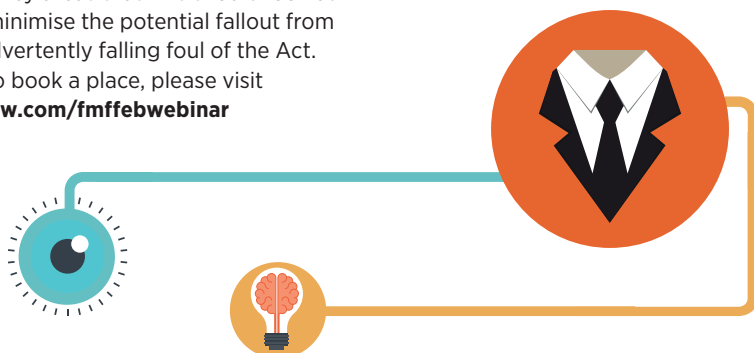
To book a place, please visit [icaew.com/fmfebwebinar](http://icaew.com/fmfebwebinar)

### CONCISE INTEGRATED REPORTING

**23 March 10:00**

Reporting is time consuming; small changes in the numbers can cause an undue and disproportionate amount of finance's time amending reports. Neil Stephenson explains how to report effectively and efficiently with shorter, punchier papers, conveying a picture of the financial situation on a single page by using good graphics.

To book a place, please visit [icaew.com/fmfmwebinar](http://icaew.com/fmfmwebinar)



## EVENTS

Events are free for faculty members unless specified

### BUILDING RESILIENCE AT WORK

**17 February 18:00 – 20:30 CAH**

Stress causes more days off on average than physical ailments according to the Health and Safety Executive. A Chartered Accountants' Benevolent Association (CABA) survey in 2015 showed that a third of UK chartered accountants feel stressed every day and some 17% take time off as a result. CABA will talk through practical steps to reduce work anxiety and Andy Shambrook will provide advice for finance directors and finance staff to achieve a better work-life balance through delegation and learning to say "no". Book at [icaew.com/fmfebevent](http://icaew.com/fmfebevent)

### RECRUITING AND RETAINING THE RIGHT STAFF

**13 April 18:00 – 20:00 CAH**

It's important to attract, engage and retain the people your business needs to achieve optimum productivity, profit and growth. Attracting and retaining the right staff with the direct and – generally unquantified – indirect costs associated can be tough. This evening lecture, presented by Jane Sunley, business author and CEO of Purplecubed, will provide tips on engendering a more appealing working environment to attract and retain staff both within and without the finance department. To book a place, please visit [icaew.com/fmfaprevent](http://icaew.com/fmfaprevent)



## SAVE THE DATE

### WEBINAR: ERROR-FREE RAPID REPORTING

**12 April 9:30 – 11:00 (session one)**

**13 April 9:30 – 11:00 (session two)**

**From £84 for FMF members**

Too much time can be spent on routine reporting, whether month-end or quarterly month-end. These reports often end up being no more than memos, just flicked through by executives. If your month-end takes more than three days and reports are large and filled with errors, then this is a must-attend double webinar. Presented by author David Parmenter, session one will cover:

- fast reporting practices – 10 lean practices for your month-end; and
- winning agile practices – 'post-it' re-engineering, Kanban, abandonment, Kaizen and scrum.

Session two will cover:

- quality assurance processes to ensure your numbers are error-free;
- long-term solutions to lock in efficiencies – 4,4,5 reporting, AP solutions, replacing spreadsheets; and
- lean one page reporting – A3 CEO finance reports, budget holder reports and A3 dashboards.

Book at [icaew.com/rapidreporting](http://icaew.com/rapidreporting)

## GET INVOLVED

The faculty is interested in hearing members' experiences of business performance management. To find out more about participating, email [Robert.Russell@icaew.com](mailto:Robert.Russell@icaew.com)





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# Powering through

Overcoming stress could be a case of managing energy levels. **Andy Shambrook** addresses ways in which this could be done

**W**hy is it that some of us glide effortlessly through life dealing with the challenges thrown at us, while some of us seem to get weighed down by the stress?

I view stress as the balance of two things: the demands placed on you vs your ability to cope. The people who glide through life effortlessly manage both parts of the equation. Some may even use proven techniques to manage the demands on their time, and to increase their ability to cope.

## WHERE DOES PRESSURE STOP AND STRESS START?

The line can be fine. Pressure can be useful, it can result in exceptional performance, heighten the senses and reactions and increase the blood flow to our brain and muscles. Often without pressure we fail to achieve anything. Without the pressure of a looming deadline - and an editor with high standards - I know this article would have been lower quality.

Hendrie Weisinger maintains that pressure happens when you feel you need to produce a specific result - when you perceive that something at stake is dependent on the outcome of your performance. Stress happens when we have too many demands and not enough resources to meet them. Stress can also happen if the pressure to perform becomes so great that the end result is compromised.

Put simply, not many of us perform well under stress. Mainly because we lose the ability to think clearly.

## REDUCING THE DEMANDS

The art is to manage the demands on your time and be more able to cope with them. Most people tend to try to

deal with stress by attempting to juggle or rearrange the demands on their time. They write lists, use urgent/important frameworks, work longer hours...

The least stressed people tend to have more effective methods that actually reduce the demands on their time. They stop doing things, say no to people. They remove waste from their schedule. They stop checking their emails and Facebook every five minutes. They cull the amount of time they spend in meetings that go nowhere. In short they take responsibility for their own time, and don't let anyone else dictate it.

## THE ABILITY TO COPE

When it comes to increasing your ability to cope with the demands, the big win is managing your personal energy. When you feel energised you can cope with almost anything life throws at you. You know those days when you wake up and jump out of bed, excited about what lies ahead like a child on

Christmas morning? That's energy.

We all get our energy from different places. Mine comes from time on my own, playing my guitar and tinkering with my 1988 VW Golf GTI. From spending time with my friends and family, playing football every Wednesday, writing articles like these or working with people and seeing them grow personally.

Administration, long meetings, traffic and time wasters are some of the things that drain my energy. I like to think of my energy as a bank account. Take more out than you put in and your balance falls. At some point you go into overdraft. Keep going and you go bust. I spent a good 10 years going bust.

One day someone let me into the secret of happiness: simply minimise the activities that sap your energy and maximise the amount of time you spend on the things and people that give you energy. Your stress will soon evaporate. As if by magic, you'll have fewer demands on your time (energy-sapping people and tasks are generally very demanding on your time). And you'll be so much better able to handle your remaining demands.

Energy is an amazing thing. It is an investment. When was the last time you took control of your time and invested in your energy? ■

An event on building resilience takes place on 17 February. Book online at [icaew.com/fmffebevent](http://icaew.com/fmffebevent)



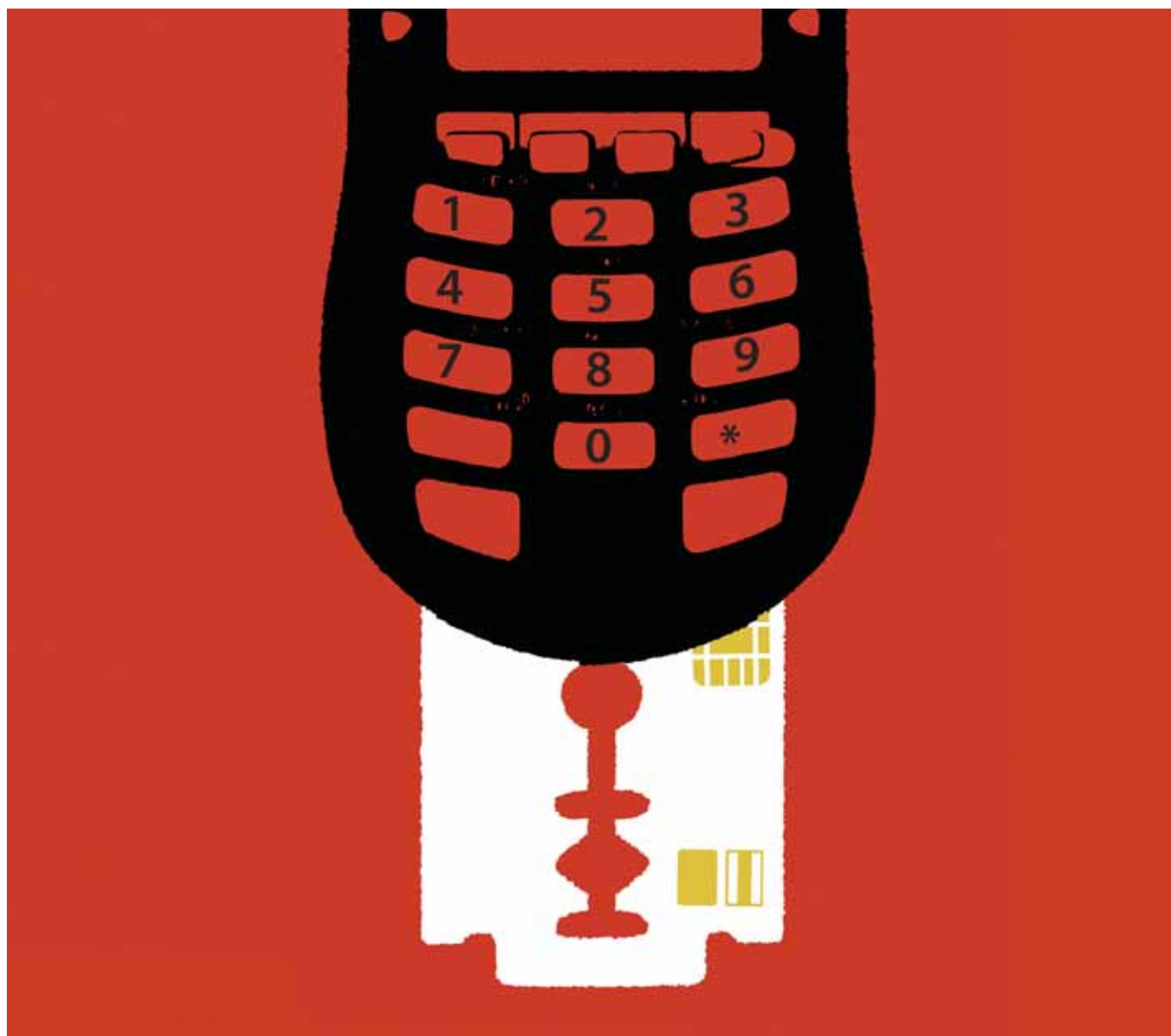
**Andy Shambrook**, founder of business training and consultancy firm Adapt

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# SMART CUTS

Managing and cutting costs remain right at the top of management's agenda.

**Andrew Wileman** describes how to do this intelligently



GILLIAN BLEASE/JKON

**E**ight years into the global financial crisis we are seeing recovery, but it's patchy and weak - top-line growth is still hard to find, eurozone markets are flat, emerging markets are shaky. In the UK, many labour-intensive businesses are working away at moderating the profit impact of the cost of introducing the living wage over the next five years.

Here are some tips on cutting costs without undermining core values or growth potential.

### STRONG MANAGEMENT BEHAVIOUR AND LEADERSHIP

What constitutes strong leadership?

- A continuous improvement culture, always seeking productivity gains - mainly in small steps, not radical changes.
- Work to short timeframes - what can be achieved in the next month, the next quarter?
- Strong feedback loops to see where progress is being made or not made.
- Expect the need to be persistent, to ask the same question multiple times.
- Continue to challenge and push the top team - the CEO and MDs - on costs, and critically, get HR working with finance on in-house staff cost.

The finance function should step up to a full leadership and operational role

- Businesses should be looking to allow finance to have a greater say in strategic matters - not stay within its technical box - driving the analysis and ideas, and managing cost reduction programmes.

### USE A BOX OF ANALYTIC TRICKS

For a big cost cut 10% sounds too easy, and 20% impossible, so 15% seems a reasonable target. When working as a strategy consulting partner, how would I start trying to find these cost savings?

- Understand cost dynamics - what really creates cost, and how do costs move with activities and decisions?
- Build a solid database of costs and headcount - both current and looking back at least five years - with and without consumer price index inflation.
- "Slice and dice" profit and loss statement (P&L) cost lines to find real cost opportunities - for example, "sales and service" cost can be broken down across a matrix of customer value and type of interaction.
- Use best practice benchmarking if possible - if, say, you are a retailer with multiple outlets, or you have a large field salesforce. Make sure you adjust for structural differences (like small vs large stores) before you draw best-practice conclusions.
- In a cost-cutting crisis, focus on bang for buck - find the cost opportunities that are material and quickly actionable.

### IN-HOUSE STAFF COSTING

Full-time staff cost is sticky and emotional. Bad hiring decisions can take years and a lot of money to reverse. The living wage is about to add 3-4% pa to wage cost growth for the next five years for those businesses where the majority of staff are on the minimum wage. What to do?

- Minimise the core organisation - only keep in-house those skills and functions that can generate super-returns for the business and push lower-value functions out to suppliers and contractors.
- Slow down hiring decisions and make them more flexible.
- Use rigorous appraisal and ranking systems as the cornerstone of raising productivity, particularly for the solid performers who make up 80% of the workforce - don't just focus on the 10% stars and 10% advised to take on a different role.
- Don't allow annual wage creep that lets new competitors operate with lower staff costs.

- If you need to restructure and fire, do it quickly and completely - don't let it drag out; be fair, but firm. Don't worry about long-term staff motivation - staff respect organisations that recognise and reward merit.

### MANAGING SUPPLIERS

These are the core procurement principles, distilled:

- Consolidate to fewer suppliers.
- Negotiate intelligently - understand your supplier's economics and try to find win-wins; don't push good suppliers out of business.
- Understand and manage total lifecycle cost or total cost of ownership.
- Shine the spotlight on forgotten costs such as travel, maintenance, professional services - any cost where, looking around the table, it's not clear which senior manager is responsible.

### THINK OUTSIDE THE BOX

As well as working down the natural cost lines on the P&L...

- Think of the internet as a cost-reduction tool, to cut the cost of interactions - with customers, suppliers, employees and shareholders.
- Consider outsourcing and offshoring back-office functions - and these days, as offshoring matures, even front office and knowledge-intensive research can be outsourced.
- Think how cost can be created and attacked indirectly, eg, by:
  - taking less time to do things - such as fashion re-ordering, or annual budgeting;
  - increasing quality - spend more upfront to save the cost of fixing later;
  - reducing complexity in business processes and in business focus.
- Stop doing things customers don't value or would prefer to do themselves - eg, think IKEA's approach to the shopping experience and the trend for consumers to book travel online rather than via travel agents.
- Turn cost into revenue - as Ryanair and easyJet do with menu pricing - or even turn cost functions into new businesses, such as Amazon's cloud services. ■

**Andrew Wileman**, an independent consultant, was previously senior partner with Booz Allen and BCG. His book, *Driving Down Cost*, is published by Nicholas Brealey



# JOINING THE CLUB

In the third of the series looking at FDs in different businesses Christian Doherty talks to those involved in partnerships



**T**he business partnership is one of the oldest forms of business structure. The Partnership Act of 1890 governs the relationships and rights between partners where there is no formal agreement, allowing individuals to join together with equitable and transparent division of revenues and costs.

But for FDs, working within a partnership presents a unique set of challenges. Some FDs may not be partners, and so while the title of FD may bestow a certain power and responsibility, assuming authority over the company's financial direction may not be straightforward. Balancing the needs of many different partners, each of whom feels that it is their business, can be a daunting prospect.

“As FD in a partnership, there is a temperament issue, and if one is too focused on the trappings of the role then you'll struggle”

For some FDs, though, operating within a partnership environment can be exceptionally rewarding, offering the chance to work alongside some very intelligent people at the cutting edge of professional services in particular.

*Finance & Management* spoke to three FDs about their role in partnerships. Simon Russell has been FD at law firm Burges Salmon (the firm has about 80 partners and a turnover of just over £90m) for 12 years, following a stint at CMS Cameron McKenna. Mike Giles was the FD at the global law firm SJ Berwin from 2000 until his departure in April 2014. Finally, Fiona Hotston-Moore is a forensic accountancy partner at Ensors (formerly of Reeves) and member of the practice committee at ICAEW. As such she advises

FDs and other accountants on how to manage the tricky business of running the finances in a partnership.

### LEAVE YOUR EGO AT THE DOOR

One of the recurring themes that emerges from conversations with partnership FDs is the need to adopt a certain political stance when seeking to influence the direction of the business. “When you’re the FD in a partnership, there is a temperament issue and I do think that if one is too arrogant and too focused on the trappings of the role then you’ll struggle: effectively, if you’re self-important you will be shot down in flames,” says Mike Giles.

“So as FD you have to be a very patient and forgiving individual in order to succeed in a partnership environment where, by and large, most partners are not deliberately disruptive, but they are trying to make money, and trying to make a success of both their client work and the business. And sometimes they lack the business acumen, so the trouble is they can turn it on and turn it off depending on the day of the week because they don’t have a reporting line to the FD, it’s the other way round; you are there to be used and abused as they see fit.”

### DON’T BE SURPRISED IF IT’S LONELY

One of the more interesting aspects of partnerships is the absence of a traditional board structure where the CFO can share concerns with like-minded professionals, as Russell points out. “I’ve now got a finance team of about 35, with six or seven

### TICKING THE TAX BOX - A BIG ASSET

Fiona Hotston-Moore says that of all the technical skills the FD must have, understanding the intricacies of how partnerships are taxed is a big asset. “Having a tax background is a huge advantage for the FD given how partnerships have evolved,” she says.

“Professional partnerships were typically set up as general partnerships whereby the partners were treated as self employed individuals taxed on their profit shares. However, increasingly LLPs have been chosen over a general partnership as the tax position remained as self employment but there was the benefit of limited liability status.

“More recently a number of smaller practices chose to incorporate into limited companies and potentially have achieved tax savings on incorporation and through paying dividends rather than salary. However the upfront savings have gone and the imminent changes to dividend tax will reopen the debate as to which trading structure is best and each partnership needs to look at the pros and cons for their firm.”

other qualified accountants among them. But when I joined I only had one other financially qualified person. So it can be a lonely role and that’s not just true of finance - all the support leads would recognise that - there is only one HR director, one IT director and so on.”

At Russell’s firm there are 80 partners, but only one FD who can understand the strategic issues of the business. “My number two is great, but there’s only one of me, and it can be a lonely place as the one professional.”

### COVER YOUR BACK

As a forensic accountant, Fiona Hotston-Moore has sometimes come across situations where an FD isn’t being given the requisite authority to run the finances. “And when things go wrong the individual has to shelter behind the fair defence that they were being ignored and decisions were being taken elsewhere,” she says.

FDs also have to understand that they are likely to have a lower profile than they might have in a corporate. “So in terms of their own careers, it is a challenge to get noticed. They might not be at the same level as the partners - in a corporate they would be considered virtually equal with the CEO, in a partnership that doesn’t apply.”

In Hotston-Moore’s experience, the FD that manages to make a success of working in a partnership will have both autonomy and security. “The average ‘lifespan’ of a partnership FD tends to be longer than their counterparts elsewhere,” she says, “and there tends to be less



appetite to change the FD, so it's probably less stressful than working in a large corporate."

### BE PREPARED TO GET YOUR HANDS DIRTY

But without doubt, even in a large multi-partner firm, it is necessary for the FD to adjust their sights to a new way of operating. "Because there are very few other professionals in the firm, we have to operate seamlessly between very high-level strategic issues and very low-level detailed, operational angles," Russell says.

"We have a £90m turnover, £30m profit, so it's a good strong business. But the CFO of a similar-sized, non-partnership business would never have to deal with some of the detail I have to look at. You simply wouldn't get those questions and you'd be doing different things."

In a partnership, though, most FDs will experience a much flatter management structure. "That means you can get calls from anyone at any time on any subject and it's just a case of handling those," says Giles. "I think that's the key; being able to manage multiple interruptions and requests. Often it's the same request coming from different sources on different days. The challenge is simply managing the number of interruptions and the number of people you effectively report to indirectly."

### WORKING FOR 90 BOSSES

Giles recognises the dangers of getting sucked into the minutiae of the partners' concerns. "Dealing effectively with the

"It's often the case that a managing partner will have a three- or five-year tenure, so the boss the FD reports to can change with more regularity. The FD has to retain independence and autonomy"

number of interruptions you get is tough, and it's very difficult to distance yourself from the partners during the working day. Having not really worked in a PLC environment I don't know to what extent the FD is able to insulate themselves from those outside - I suppose it would be like trying to insulate themselves from the shareholders. I guess you get certain shareholders on the phone every day, but in a partnership it happens a lot."

As Giles points out, the FD in a partnership will be working in an environment with a large number of other managers, "all of whom believe they have the right to take your time and to ask you questions. You have a reporting line which may be to the board. In reality you are answerable to every single partner and every single issue that comes up, be it personal finance, tax or business performance - it could be a range of topics."

As with any business, some partners have no interest in the finances and just

want to get on with client work, and there are others that do care and want to know how the business is doing. "They want to know how the FD is portraying each partner's performance, that's for sure," says Russell. "The FD needs to know that the level of materiality is a lot lower than you'd expect for a business of our size, because each individual partner sometimes thinks of their own practice and they will have low materiality levels."

### CHANGE IS THE ONLY CONSTANT

Hotston-Moore points out that another contrast to a typical corporate structure that partnership FDs have to cope with is that the leadership tends to change more frequently. "It's often the case that a managing partner will have a three- or five-year tenure, so the boss the FD reports to can change with more regularity," she says.

"So that means that the FD has to retain independence and autonomy; and they have to be aware that there may be more of the internal politics to negotiate. Because the other thing to remember is that often the most influential person in a partnership isn't the managing partner, or the management team."

In Hotston-Moore's experience, often the most influential person in the firm will be the largest billing partner, so the FD has to manoeuvre around those egos. "In a corporate organisation the board can simply say, 'this is how it's going to be'. But in a partnerships things are different, and you may have partners who refuse to change their views," she says. ■



# Friends in high places

One of the keys to success in business is a good relationship with investors. **Rachel Maguire** suggests ways to stay amicable

**S**mall, privately held companies may think that investor relations don't apply to them, but that misses a great opportunity to provide support and encouragement to the various stakeholders involved in the business. In fact, maintaining a consistent communication channel helps to build and maintain strong relationships. This in turn can inspire continued interest and loyalty from them. But how do you go about polishing your communications with stakeholders?

## PROVIDE REGULAR INFORMATION

Top of the list is providing a regular flow of information. Companies that provide timely and relevant updates keep stakeholders interested, making the company seem more desirable as an investment. If a company does not regularly disclose information, investors and stakeholders can begin to lose confidence. Through regular communication, feedback and improvements based on that feedback, your company and its shareholders can mutually help each other and increase the company's valuation. A useful rule of thumb is that communications can be short but never skipped.

There are a number of easy ways to keep stakeholders informed. Posting corporate presentations on your website is a low-cost approach, as is posting press coverage if it's not already up there. Another popular method is circulating a newsletter highlighting topical developments. Above all, don't forget to share your passion for the business in these communications.

## BUILD CREDIBILITY

Building credibility with your stakeholders is critical to long-term success and translates into a stronger corporate reputation. A clear articulation of your company's purpose and objectives will help you communicate more meaningfully and effectively. Honest communication is critical: letters, reports and meetings should include frank discussions about the company's successes and challenges without glossing over bad news.

## LEVERAGE YOUR AGM

Best practice corporate governance says that the board should use its annual general meeting (AGM) to communicate with investors and to encourage their participation. The formality of an AGM can be turned into a great opportunity to meet and educate your investors about your business so that you carry them with you. Over and above the statutory notice, consider sending invitations to investors to encourage them to attend. The chairman or CEO can present and provide an update on current trading and you could follow up with a note that provides an update for all stakeholders, including those who were unable to attend the meeting.

## EXPLAIN THE DYNAMICS

Companies who share knowledge of how their respective markets work and how they can benefit from the markets enable stakeholders to understand the

external drivers affecting performance. This in turn helps them to gain confidence in the company and maintain support for the board over the long term despite any macro headwinds that may come into play.

## HAVE A PLAN

An investor relations plan for managing stakeholders in a private company does not need to be lengthy or detailed. Setting out a simple roadmap of how your company plans to target, engage and manage stakeholders can benefit your business by building solid support for the board.

Your stakeholders want your company to succeed, and building stronger relationships should result in them becoming advocates who are happy to use their own network to benefit the company. In time, it may make it easier for your executive team to raise capital and leverage investor resources for future growth. ■



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# INDICATING IMPROVEMENT

Paul Golden looks at how SMEs can get it right when it comes to selecting the most appropriate metrics or KPIs to ensure continued growth

**T**he sheer volume of information available to managers of start-up or early-stage enterprises can be a distraction. This is why they are encouraged to focus on indicators that reflect the performance and progress, are measurable, can be compared to a standard (such as a budget) and are actionable.

According to business adviser Tina Marie Parker, these key performance indicators (KPIs) are vital to monitoring the growth

and development of an emerging enterprise: “If you are not measuring and monitoring your performance you cannot know what is working and what is not in the process of growing your business.”

Among these indicators will be those which are key markers of the business performance, and hence the emphasis on the identification of those markers which are so vital to the business that they become “key”. One of the key success factors for a start-up is recruiting

the right people, and it is critical that the management team is in full control of the process, says KPI expert David Parmenter.

“Measures to be taken include contacting candidates who have been offered a position and have not accepted it within 24 hours,” he says. “Entrepreneurs are busy people, but in a growing economy candidates will shop around and you don’t want to give them that opportunity.”

Time is of the essence when it comes to performance indicators, according to

“Entrepreneurs are busy people, but in a growing economy candidates will shop around, and you don’t want to give them that opportunity”

Parmenter. “There is no such thing as a key performance indicator that is monitored monthly. Weekly management meetings are an opportunity to measure progress and ensure that delayed projects don’t slip further behind. Similarly, cash flow needs to be monitored on a weekly basis - the end of the month might be too late.”

It is also important to understand that activity alone does not equal progress, observes Russell Streeter, founder of Excelsior Business Development: “KPIs provide confirmation that the actions you have taken in a given time period have had the desired results. When you are taking risks, such information is invaluable.”

#### AN INSTINCT FOR KPIs

However, profit improvement specialist Dr Philip Smith warns that KPIs are only relevant if they relate to key success factors: “Managers need to understand the strategy of the business, the threats and opportunities and the key success factors that will drive performance to meet goals. In many cases, successful entrepreneurs will develop their own KPI-type approach without even realising it.”

Rob Hill, non-executive director and former finance director of metal spray technologies manufacturer Metallisation, reckons KPIs are at their most useful when presented as part of a balanced scorecard and accompanied with informed narrative and explanation.

“Users also need to keep in mind that KPIs typically deal with historical data and even if ‘gaming’ is not overtly happening, there is a risk that management may act in a way to achieve a good KPI outcome now, at the risk of putting longer term prospects in jeopardy,” he says. “For instance, strong sales or productivity could be achieved in the short term through a reduction in quality standards or maintenance programmes. I would also be concerned if an individual or board started to use a KPI result to automatically trigger business decisions.”

#### TARGETS AND DRIVERS

A proper planning process will guide managers towards the KPIs that are most suitable, says Streeter: “Think of setting KPIs as the final step in the planning cycle that begins with a statement of what you want your business to become, to achieve or to help others to achieve and explains the purpose of your business.”

Stephen Pugh, finance director at brewer, hotelier and wine merchant Adnams, refers to the difficulty of balancing high-level KPIs that don’t point sufficiently closely to problem areas, and performance indicators that can confuse by their sheer number. “Nothing substitutes having the right corporate targets and analysing the drivers behind achieving them,” he adds.

According to Pugh, there is always a risk that a business can become over-reliant on KPIs: “There is a well-known principle that setting a measure can make it meaningless as people start to manage the measure rather than the real drivers of the business. No usable set of KPIs can capture the full complexity of a business. KPIs assist in measuring performance and flagging problems early, but they cannot substitute for a wider appreciation of what is happening within the business.”

PwC suggests that between four and 10 measures are likely to be key for most types of company. Hill accepts that the bigger the organisation and the more managers employed, the more KPIs there are likely to be across the whole organisation. “However, at the level of an individual manager or board, too many KPIs can lead to confusion and over-complexity,” he says. He would use no more than six on individual dashboards.

#### BE SPECIFIC

While diversified businesses have more to monitor, which creates a need for more KPIs, Pugh also doubts that more than half a dozen core KPIs would be useful and adds that while they need to be industry specific, it is more important that they are specific to the business.

Given that the larger the organisation, the more KPIs proliferate, danger arises when the CEO is distracted by indicators that subordinates may think are more relevant, adds Len Jones, group finance director of Practical Car and Van Rental.

Jones says companies need to carefully consider why they are setting KPIs: “Are they being used to gauge business performance or as another lever of

#### CASE STUDY: A CLOSE-UP ON INDICATORS

Online accounting software provider Xero categorises KPIs into four groups to help identify its most important metrics:

- 1. Efficiency** – reducing waste and making the most of resources; finding ways to improve staff productivity; lowering inventory days on hand to reduce storage costs.
- 2. Growth** – increasing sales measured by gross and net revenue; improving wealth measured by business equity.
- 3. Health** – balancing debt and equity levels to the best proportions; balancing inventory levels with trade payables to get the best performance; optimising trade terms to speed up receipts.
- 4. Resilience** – reducing credit risk by optimising debt levels; increasing interest coverage by improving profitability; lowering financial risk by increasing equity-to-asset levels.

internal control on the basis that they replace direct supervision? The danger at SME level is the disproportionate use of resources for recording when they should be directed to product service delivery.”

PwC observes that management should reflect on whether KPIs continue to be relevant as strategies and objectives evolve. Access to new information may facilitate reporting of new KPIs that provide a deeper understanding of the business.

“As KPIs get produced they may lead to other measures of performance being introduced, so they will change over time depending on what the firm is actually monitoring and - more importantly - what it is doing as a result of the measurement being reported,” says Jones.

Additionally, KPIs may be imposed on the business (for example, in bank covenants) so stakeholder management is another key factor. He concludes: “In my experience, most stakeholder-focused KPIs are reported on an ad hoc basis when things go wrong rather than actually assisting the day to day operations of the business.”

So it all comes back to what Parker said at the beginning: if you don’t measure and monitor performance, then you can’t know what is working to grow the business. ■



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# THE GOOD LIFE

The charity and volunteering sector undeniably helps millions of people in difficulty, therefore good management is crucial. David Adams speaks to FDs in the sector to find out what it takes to be successful





## Alison Hopkinson

*Finance and IS director at Oxfam*

Before working in the voluntary sector Alison Hopkinson's previous roles included 12 years working for IT hardware company Dell. In 2011 she joined the development charity Tearfund, where she worked until beginning her new role at Oxfam in early 2016.

She says some of the most important lessons she has learned working in the sector relate to people management: "I now work harder on getting the trust of the team."

She believes she made a major contribution to Tearfund's finances. "I introduced simplicity, getting people across the organisation to ask if things could be done in a simpler way," she says. "I improved the way the organisation makes decisions. My commercial skills have been important in ensuring that when risk is transferred in a commercial contract the charity is not left exposed."

She also raised the status of the FD within the organisation. "At Tearfund, when I arrived, the position of the FD was focused on good accounting and management reports. Now the FD is very much involved in operational performance, ensuring efficiency and value for money at all levels."

She was also grateful for the opportunity to travel to South Sudan and other countries where Tearfund is active to see the work it does at first hand. "You see why you're doing this," she says. "It's so rewarding being part of an organisation that is directly improving peoples' lives."

resources to their finance function, regardless of any public pressure not to spend on administration," she says, highlighting the value of sound financial management and information as a means of helping organisations measure and demonstrate impact.

But many smaller charities lack the resources to invest in the finance function, or even to employ an FD. Gillian Murray is chief executive at Pilotlight, a small charity that offers free, tailored strategic planning support to charities and social enterprises working to address social disadvantage, matching directors from these organisations with business people.

These small organisations tend to be very focused on frontline costs, says Murray: "Many live a hand-to-mouth existence. The treasurer may be the only person with any genuine accounting ability and understanding."

Whatever the size of the organisation, those managing a charity's finances need to balance good practices with the underlying drive to achieve the charity's core purposes. Chris Kinsella is CFO for Victim Support, a charity that supports victims and witnesses of crime, but he has worked in senior financial management, FD and CFO roles for private sector companies including Dyson and Arcadia Group. He believes his experience within the private sector is helping the charity operate more effectively during this stage of its development. "In many ways I work here as if the organisation were a private business," he says. "I've told my colleagues that cash is king and we have a daily cash balance. I review all the bids and tenders, so the organisation now keeps a tighter grip on things such as payment terms within a contract. And the organisation is now more aware of the need to be commercially minded in finding new business opportunities."

Differences in working culture may stand out to someone coming into the sector for the first time. Alison Hopkinson has just started a new job as FD for Oxfam,

"I've told my colleagues cash is king. The organisation is more aware of the need to be commercially minded in finding new business"

**T**he UK's charity and voluntary sector makes a vital contribution to the national economy. On the basis of Office for National Statistics' data, the National Council for Voluntary Organisations estimates that the sector made a contribution of £12.1bn gross value added to the UK economy in 2012/13.

But the charity sector is also enduring extremely difficult operating conditions. The recession hit it hard and government spending cuts are reducing or removing funding sources. Charities of all kinds are being forced to diversify and create new funding streams, in some cases adopting business models such as trading or service provision to generate income.

There has been negative publicity too, with recent examples of financial mismanagement and high profile failures, such as Kids Company. Public attitudes to the sector remain broadly positive, but there is a need for charities and other voluntary organisations to improve the effectiveness of financial management and governance.

The charity sector consists of many thousands of very different organisations, from tiny community groups to huge national or international operations run in much the same way as large businesses. Every FD or CFO role within the sector is unique. That said, most charity FDs say that most assumptions about the roles are either outdated or wrong.

However, it is true that some charities' finance functions are under-resourced, says Iona Joy, head of charity effectiveness at New Philanthropy Capital (NPC), a think tank and consultancy for the third sector. "Charities should be allocating more



after working for four years as FD at the development charity Tearfund. She has enjoyed working in an environment that she believes is more respectful of individual employees' needs. "There's more flexibility, in terms of working patterns, there's more interest in employees' opinions," she explains.

She thinks she learned more about managing and motivating staff during her time working in the charity sector than when working for commercial organisations. She also rejects the suggestion that the sector is full of people who work for charities because they are in some way not good enough to work elsewhere. "For many people working in this sector, it's not just a job, it's a passion," says Hopkinson. "One thing that shocked me was people with MBAs working in junior roles, just because they wanted to work for Tearfund."

But she also had to adapt to a very different decision-making process. "You find there are many people who feel they have a right to be involved in decisions," she explains. "That slows things down. So you can get quite frustrated. I improved the way the organisation makes decisions."

It would be wrong to assume this was the case in every charity. "It depends on the charity's approach to governance," says Malcolm Munro-Faure, director of finance and ICT at the Royal Star and Garter Homes, which provides nursing and therapeutic care to former members of the armed services. He also has extensive private sector experience. "There are some organisations I'm aware of where you have a heavy committee structure and this can slow down decision-making. We have put a lot of effort into making sure we have an appropriate governance structure, which has allowed us to develop our strategy and business plan with our trustees."

Another change for those with a

private sector background is the different legal and regulatory status of a charity. Regulatory compliance can be complex in this sector, stretching beyond Charity Commission rules, if, for example, a charity also helps its beneficiaries access financial services tailored to their needs.

What can be harder to adapt to are working relationships with the chief executive and with trustees. "The number one issue for many people is how you work with trustees," says Andrew O'Brien, head of policy and public affairs at the Charity Finance Group, which supports charity sector FDs and CFOs. "Trustees are much more empowered under charity law than perhaps some directors or shareholders feel they are within private companies."

Yet working with trustees can also be a stimulating and rewarding experience. "We're fortunate in that [Royal Star and Garter Homes has] a very forward-thinking group of

trustees, who come from a wide range of backgrounds," says Munro-Faure. "We have senior representatives from the military medical services, together with a lawyer, accountants, property and investment professionals. It's exciting working with people who are committed to helping the organisation, providing input and support."

But FDs who were used to dealing with shareholders may find that a lack of shareholder input weakens the approach to financial management within the financial sector. This is the view of Len Jones, the highly experienced private and voluntary sector FD and author of the *Thoughtful Accountant* website and blog. "First, it is a barrier to mergers and acquisitions as there is no market benchmark for respective values of each organisation, as balance sheets don't always show the true worth of a charity," he explains. This may make it less likely that organisations refresh systems, processes and delivery methods in the

## CASE STUDY



## Sarah Broad

*Chief financial officer at Leonard Cheshire Disability*

Sarah Broad trained at PwC, then worked in the private sector before joining Leonard Cheshire, a large, national charity dedicated to helping disabled people live their lives the way they want. She joined the charity as managing director for finance in 2012 and was promoted to CFO in 2015.

"The underlying motivation is different from the private sector; good financial management in a charity is





“Getting used to being in the spotlight can be a challenge. Individuals who are really committed are not going to give you an easy ride”

way private sector firms would in the event of mergers and acquisitions. In the worst-case scenario, it can even mean that in difficult times the finance function is driven to cut costs and compromise on service delivery to the extent that it causes serious damage to the organisation.

He acknowledges that stakeholder engagement can play a similar role, but suggests there is a danger this may tempt charities to adopt a lowest common denominator approach, as they try to please everyone.

about maximising the resources available to deliver a positive impact for beneficiaries,” she says. “The second aim is to ensure we offer our donors value for money.

“On a day-to-day basis there’s not that much difference in the role. My deliverables are the same. We’re looking for opportunities to maximise income, to get the best possible value from our purchasing and to be as efficient as we can in the back office.”

But her role is as multifaceted and complex as a CFO position in a large private sector company. “I cover finance,

In some circumstances an organisation’s donors, supporters and beneficiaries may subject the charity’s FD to a greater degree of public scrutiny than they might expect to experience in private sector companies. “Getting used to being in the spotlight in that sense can be a challenge,” says O’Brien. “Individuals who are really committed to the cause are not going to give you an easy ride.”

Finally, one cliché that is generally true is that you won’t earn as much money in this sector as you could elsewhere. “You have to be motivated for the right reasons,” says Kinsella. “Look at it as a career enhancement opportunity, rather than necessarily a career advancement. It’s a chance to make a huge difference to a sector which has a huge need.”

“I’ve found it extremely rewarding,” says Hopkinson. “Helping people out of poverty is a lot more rewarding than helping rich people get richer.” ■

procurement, shared services, IT, legal, insurance, risk, company secretarial and corporate governance. So from a personal professional development perspective that role offers as much as any in the private sector.

“I’ve now become the CFO after being the number two, but the possibility of promotion wasn’t the reason I came to work here – I know this does sound cheesy, but in some small way the work I do is helping make a difference, as opposed to maximising dividend payments. It’s been a fantastic experience.”



## Helga Edwards

*Director of corporate services at the Woodland Trust*

Helga Edwards trained as a chartered accountant then worked in the insurance, retail and financial services industries before joining the Woodland Trust as head of finance from 2000, and director of corporate services since 2012.

She believes that whatever the organisation, if you get the books right other parts of the FD role will fall into place. “When I joined the Woodland Trust it was not bad, but it wasn’t quite right,” she says. “We’ve implemented new systems and improved processes, so now it’s much better.” Another key part of her role has been to bring a commercial sensibility to negotiations around corporate partnerships and other interactions with external organisations.

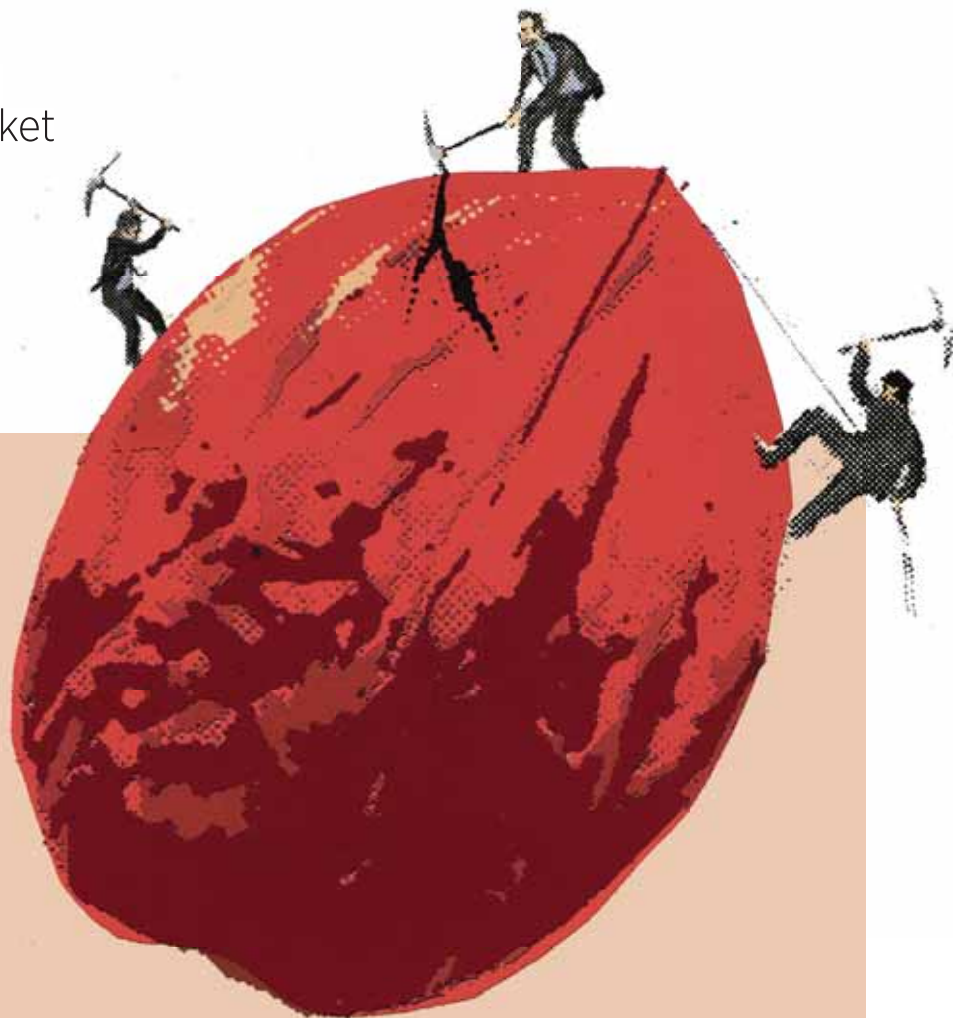
The difference in organisational culture between the private sector and the third sector is “interesting and challenging”, according to Edwards. “Whereas working at Vision Express as financial controller, if I said something’s going to happen it just happened; in the charity sector you get people saying ‘well, we need to discuss that, have you thought about this...’, You have to be much more consultative.”

She says the major focus at the moment is improving the way the organisation describes its impact and achievements, becoming ever more transparent. “One of the reasons I’m happy working in the sector is the way it fits with my values in terms of openness and honesty.”



# FINDING FUNDING

**Peter Petyt** elaborates on the application of litigation finance in the UK SME market



**T**he line ‘the cheque is in the post’ sits alongside the term ‘commercial litigation’ in its ability to turn your average FD’s face to a definite whiter shade of pale. Commercial litigation is an expensive, deeply unpredictable, resource-intensive and risky business. So much so that a significant number of companies shelve the idea of pursuing a claim before even investigating the options.

Sometimes, however, a business will have no choice but to get involved in litigation because it may be in a position where it cannot afford not to pursue a claim – indeed, its very existence may depend on recovering the losses caused by a breach of contract.

But then it gets tricky. Once a decision has been made to sue, the costs of litigation – law firm, barristers, experts, court fees and insurance to pay the other side’s costs if you lose – need to be met. Depending on the complexity of the case and the volume of evidence involved, a business can expect to pay anything from £100,000 (significantly more than this if the matter proceeds to trial) simply for the services of their solicitor to pursue a claim of, say, £500,000. That’s a potentially a big dent in your EBITDA and certainly in your balance sheet which may also carry implications for banking covenants and exit valuations.

## THIRD-PARTY FUNDING

In addition, claimants often underestimate the timescale involved (litigation takes an average of 18 months to conclude) and the degree to which their involvement is critical to success. Lawyers will require

senior managers to assist in the preparation of the case whether by providing detailed witness statements or helping the lawyer to understand the relevance of certain key documents. All of this is a big distraction and means time away from the core business.

Most claimants will have heard of lawyers who are prepared to undertake this work on a conditional fee agreement, a so-called ‘no win, no fee’ deal. On the surface, this would appear to provide a solution to the cash flow problem. The lawyer agrees to work for free until the claim is successful whereupon he will extract his fees plus an uplift from the resultant damages recovered. If the claim fails, the client will have no fee liability to the lawyer and the risk of having to pay the

## £100,000

THE LIKELY BASIC COST OF SOLICITOR SERVICES TO PURSUE A CLAIM OF £500,000

## £250,000

THE MINIMUM LEVEL OF POTENTIAL DAMAGES TO BE WON FOR MOST FINANCE LITIGATION FIRMS TO CONSIDER FUNDING A CASE

other side's costs will be covered by virtue of a specialist after the event (ATE) insurance policy. The problem is that although this model is prevalent in the consumer end of the legal market (slips, trips, road accidents etc) where cases are relatively straightforward and usually settle before trial, it is less attractive to law firms in commercial cases due to the significant costs risk they are being asked to bear and the potential for things to go wrong. Even if a claimant is fortunate enough to find a firm willing to take a punt on this basis, the likelihood is that the work will be undertaken by a relatively inexperienced member of staff, whenever their fee-paying work allows. You get what you pay for.

There is a solution to all of this, however. Third-party litigation funding allows you to bring good-quality commercial claims at little or even no financial risk to a business, in return for giving up a pre-agreed percentage of the resultant damages. It can be used by claimants who simply cannot fund the costs of litigation themselves or by claimants who do have the ability to pay but prefer to deploy their cash into other more lucrative projects. Most SMEs certainly fit into one of those categories.

The funder's success fee can seem high if you enter the transaction with expectations built around bank interest rates. But the key difference is that this is non-recourse money. If the case fails, the litigation funder loses all of the money it put into the case and so if they win, the compensation is quite high. Litigation finance is effectively an equity investment in the claim.

### ACCESSING FINANCE

So how do you access litigation finance? First, you must be a claimant and the case must seek to recover clearly quantifiable monetary damages - many firms have a *de minimis* investment level of at least £250,000. Injunctions, defendant cases, libel and divorce are currently outside the mandate of the mainstream commercial litigation funders. These sorts of matters

have variable damages regimes or no damages at all and are therefore unsuitable for investment purposes.

The defendant must also be in a position to pay in the event of success. There is little incentive for anyone (other than perhaps the less scrupulous lawyer if he is being paid along the way), to pursue claims against businesses that do not have the means of satisfying a financial award of the court.

Next, take care in choosing your legal adviser. The legal team charged with running the litigation must be capable and have a verifiable track record of success. There are numerous examples of strong cases being ruined by poor lawyers and even more instances where lawyers have adopted a hopelessly optimistic stance on the prospects of success, to the detriment of the client and his bank balance. If required, the third-party funder will certainly be able to recommend law firms who can deliver on a properly incentivised basis.

It goes without saying that your case should have strong legal merits. Litigation funders are serious investors, not reckless gamblers. They are investing other people's money so they need to be sure that the case in question is grounded in both fact and solid case law. New points of law, clever legal arguments or other speculative litigation will not secure funding. Remember, this is a commercial proposition for all parties and you are in this to secure a commercially acceptable outcome for your business, not make *The Times* Law Reports.

Plan ahead. The longer you leave it, the more difficult it will become to persuade a funder to get involved. Don't bank on your claim settling early. Assume that your case will proceed to trial and budget accordingly. If you do not wish to commit the funds necessary to take the case to court, talk to a litigation funder as soon as possible.

Finally, beware the 'loss of opportunity' claim. These cases always find their way across a funder's desk and have usually done the rounds. They tend to involve a

Litigation funders are not reckless gamblers. They are investing other people's money so they need to be sure that the case in question is grounded both in fact and solid case law

claim for lost earnings or revenue brought about indirectly by the defendant's actions or omission. Were it not for the fact that company B reneged on an agreement to pay company A the sum of £1m, this money would definitely have been used by company A to bankroll a young Bill Gates in his fledgling business venture, therefore the resultant loss is £50bn at today's Microsoft share price. There is nothing intrinsically wrong with such claims, but there will be a high evidential bar involved including the production of significant accounting evidence. In the UK legal system, damages are designed to put you back in the place where you would have been were it not for the actions of the defendant. They are definitely not intended for claimants to make a profit from the wrong they have suffered.

### CHECK YOUR INSURANCE

You should always consider whether you have any pre-existing legal expenses insurance to help cover the costs of your claim. This insurance is often connected to your general corporate insurance policy. Sometimes, you may be able to combine this insurance with other funding options where it is anticipated that the insurance cover will not provide sufficient protection for the full costs of the claim. However, the funder will also be able to cover the premium of an ATE policy that covers the costs of the defendant - which you may have to pay some or all of in the unhappy event that your claim is unsuccessful.

And that is litigation finance in a nutshell - a way of monetarising a dispute at little or no risk, and of increasing interest to business owners and senior management in the SME community. ■

Peter Petyt, director of origination,  
Augusta Ventures

### AT A GLANCE: A GLOSSARY OF LEGAL TERMS

**After the event insurance:** a newer type of policy protecting the client of a solicitor after or when the claimant/defendant establishes a need to be involved in litigation.

**Loss of opportunity claim:** also known as 'loss of chance'. This is where the law can be used to establish if a claimant has been deprived of an opportunity to derive a benefit or avoid loss as the result of a breach of contract.

**Non-recourse money:** Typically a loan secured using collateral, ie, property. When the asset is seized, there is no option to pursue the borrower for further compensation.

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# AVOIDING THE CASH CRUNCH

There's a lot at stake for businesses when it comes to paying suppliers on time and, as a survey from Concur shows, not everyone is good at keeping up to date. **Chris Baker** issues a call to action



It's often said that financial management is mainly about avoiding surprises. These are usually surprises that surface as a result of inaccurate forecasts, cash flow disruptions or unexpected expenses. The good news for financial managers now is that technology can be harnessed more easily than before to eliminate surprises from a company's balance sheet. Activity that was once invisible to finance officers can now be tracked, processes can be shortened and decisions can be made based on data-driven insights, not just reams of numbers.

But payment processes may not be the area that first spring to mind when reviewing financial risk and stability of cash flow. After all, a payment is cash out of the business and there are intuitive reasons to manage payment cycles to keep cash in the business as long as suppliers will permit. But payment processes are sometimes not as easy to control as we would like.

Companies that tightly manage the prompt payment of their suppliers are the ones who are more likely to enjoy predictable cash flow overall, along with a host of other benefits. One of the biggest risks of an inefficient payment process is when a supplier decides to stop delivering a company's goods or services due to late payments. According to an Accenture study shared by the World Economic Forum, a supply chain disruption can actually cause up a decline of up to 7% in a company's shareholder value. A similar article in *CFO magazine* states that in the case of a lost supplier, it can take up to 18 months to find a suitable replacement. So for the sake of financial health, it's worth keeping suppliers happy.

### THE STATE OF PLAY

A Concur survey of 500 businesses has highlighted how prolific late payments can be. Some 78% have paid their suppliers late, and many businesses don't really know the true health of their business - only one in 10 businesses is able to accurately forecast their cash flow in relation to supplier liabilities at any time.

This demonstrates that late payment is not just happening every now and then - it has the potential to blight British business and create a significant cash crunch. Is it any

Two thirds of those surveyed by Concur said that they believed they pay invoices in a timely fashion - clearly at odds with the number of late payments being made

wonder that businesses find themselves on the receiving end of pre-emptive action from suppliers?

Recognising the severity of the situation, the government has recently stepped in to try to tackle the issue. Plans are under way for a new small business commissioner role to focus on late payments. Its aim is to support small companies by mediating disputes and raising awareness of the problem among larger organisations.

Despite facing penalties for late payment, two thirds of those surveyed by Concur said they believed that they pay invoices in a timely fashion - clearly at odds with the number of late payments being made.

### UNTOLD EFFECTS

Indeed, suppliers are forced to expend a huge amount of energy chasing payment for work that they have already done. According to the study, 88% of those surveyed said that their suppliers would call about updates on the payment of their invoice, around seven in 10 saying this happens on a weekly basis. However, three in five reported that it is difficult for their organisation to provide an accurate update at any given time.

The most concerning data from the survey revealed that supply chain disruption appears to be rife among the respondents - pointing to significant financial risk. Charges for late payment of supplier invoices were reported by more than a third of respondents and 22% had seen their orders cancelled. A quarter of respondents had even had a supplier refuse to work with them because of a late payment.

If 25% of UK businesses are losing their suppliers because of late payments - an action that decreases a company's shareholder value by 7%, according to the information from Accenture - then the state of supplier payments could be having an as yet untold effect on the health of the overall UK economy.

### TIGHTENING THE PROCESS

The prize for getting the supplier payment process right is high. According to another survey of finance professionals by the Aberdeen Group, *From the Shadows to the Forefront: AP Automation and the Strategic Vision*, if a company's invoice management process is set up for success, it stands to reap huge financial benefits: a 38% decrease in days payable outstanding, and 62% greater early payment savings.

Today, what defines success in managing the supplier payment process is changing. In the not-too-distant past, a company that could electronically archive and retrieve invoices would consider its invoice management a success. Studies such as Aberdeen Group's, however, point to the need to go beyond just electronic archiving and retrieval.

Of the companies surveyed by Aberdeen, 32% are beginning to use, or are expanding usage of, cloud solutions which are accessible by employees and suppliers in many locations, and can keep a process moving whether on or off site. In fact, the accessibility of cloud-based documents and data make it the ideal way to supercharge a workflow.

Aberdeen Group's survey also revealed a surge in efficient payment processes: 50% of companies are enabling suppliers to electronically submit invoices, while 45% are using automated notifications of errors. What these trends demonstrate is the focus today on making the invoice workflow move as efficiently as possible, without the usual bottlenecks. Companies want to say goodbye to the days of chasing paper invoices, and the cloud is helping them do it. ■

Chris Baker, managing director of enterprise business, Concur UK  
[tinyurl.com/Concur-Inv](http://tinyurl.com/Concur-Inv)



# SMEs: The Cinderella Of The Banking World

Small- and medium-sized enterprises have long been underserved by the banking community – but with a better understanding of their frustrations, needs and preferences, we can build a much fairer economy.

Mark Wilson,  
Business Head - Europe, iGTB

**D**espite representing 99%<sup>1</sup> of businesses in the UK and pinpointed as “critical”<sup>2</sup> to the growth of the economy, SMEs have traditionally been poorly treated by banks. “Ignored”, “under-served”, “neglected”; all words we hear repeatedly when it comes to the banking industry’s handling of smaller corporate clients.

The good news is that this is now a recognised problem; banks have come to realise this growing segment actually offers huge opportunity, and are looking to address the imbalance in their client service and solution offerings.

However, one significant issue remains; the misconception over what, precisely, SMEs need. To clear the mist, iGTB has conducted a survey of 162 UK SMEs – delving into the problems and preferences that characterise their banking demands – and in doing so has turned common perceptions on their head. Armed with such knowledge, banks should reevaluate their approach and finally allow SMEs, the economy’s Cinderella, to go to the ball.

## Myth 1 The larger the corporate client, the more sophisticated their needs

**Truth:** It is in fact the smaller SMEs that are crying out for more sophisticated solutions. For 35% of organisations, only one or two employees have access to business banking online portals, and 27% of SMEs spend a cumulative three-to-five hours each day conducting tasks via such portals. In fact, 8% spend 6-10 hours, and 3% spend over 11 hours – which becomes more understandable when considering that over half (56%) don’t have a treasury management system. This is clear supporting evidence of SMEs’ reliance on a small number of multi-tasking staff assigned to manage the full spectrum of banking, payments and treasury every-day tasks.

Larger corporations have the scale to retain personnel for specific areas, whereas SMEs often feature employees that must cover all bases all at

once. It is this over-stretched multi-tasker that is in greater need of more sophisticated tools and expert guidance to make their work easier and more effective.

## Myth 2 Good customer service = the human touch

**Truth:** SMEs have made it clear that human involvement – bringing more people into the process – can actually prove a frustration and hindrance. The elements regarded as critical to good customer service – convenience of access, brevity of response time, and added-value advisory services – can all be provided most effectively through the leveraging of innovative technology.

For example, 69% stated that documentation not being online was “somewhat” (40%) or “very” (29%) cumbersome or irritating. In order to become more efficient and effective, 77% would like to see better provision of automated “what-if” scenarios on future cash flows, with 70% calling for improved automated money movements between accounts (to secure the best rate of interest or degree of accessibility or safety), and 70% demanding the automation of secure bank-SME messaging with attached data. The message is loud and clear: for SMEs, better service means more, not less, automation.

## Myth 3 SMEs’ top need is for speed

**Truth:** While this was previously true, technological progress has already gone a long way in terms of streamlining processes, and today SMEs have a bigger priority; gaining insight and accessing expertise. The ability to detect and investigate wayward cash flows, and to receive guidance on how to address different scenarios, are their biggest concerns, with 76% keen to see better bank provision of market data coupled with recommendations for possible actions, and 69% wishing see banks improve at anticipating and suggesting actions using background trend

<sup>1</sup>Page 3, House of Commons Briefing Paper, Number 06152; 7th December 2015; Chris Rhodes  
<sup>2</sup><http://buyingbusinessstravel.com/news/1625079-sme-growth-critical-uk-economy>



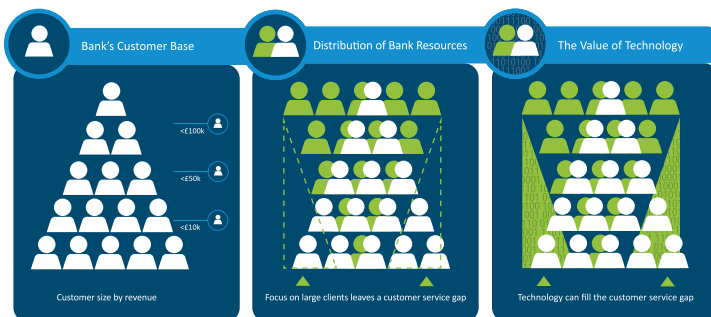
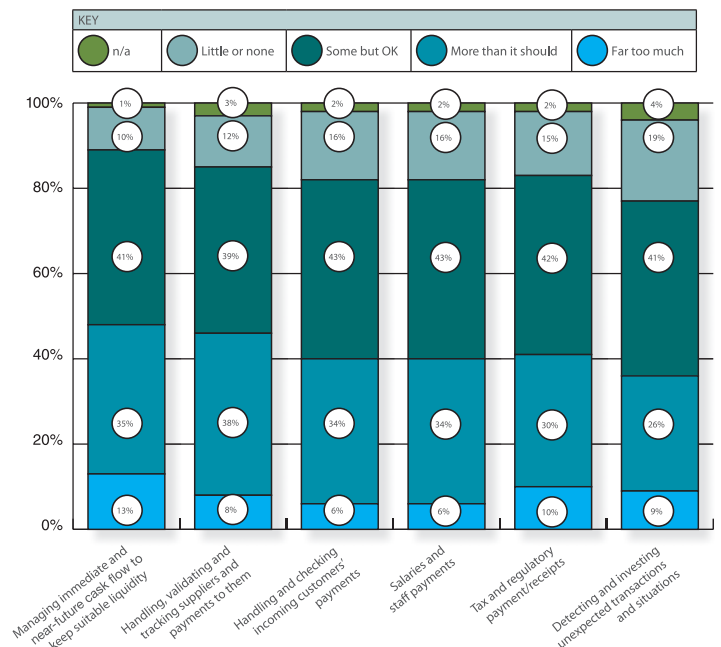
analysis. Such large percentages underscore the fact that expertise is the real priority when it comes to the solutions required.

**Myth 4** Banks can't afford to waste time on "small fry"; they're better off concentrating on big corporations.

**Truth:** This may have made sense in the past, when the relative cost of serving many small clients was likely to outweigh the profit to be made, but technology has changed this. Indeed, sizable value can be added by automation: 70% of SMEs would like "somewhat" or "much" better automation of money movements between accounts; 77% desire the provision of automatic "what-if" scenarios regarding cash flow; 64% would like to see banks improve their automation of recommended options for action, leveraging SME data; and 70% believe banks should be better at automating secure messaging.

Using solutions such as automated forecasting and "what-if" scenario suggestions, banks can now add much more value with much less effort. Technology creates a truly "win-win" scenario: enabling banks to finally tap the enormous SME market in an economically viable manner, and making possible the "many hats" solutions that SMEs are looking for.

**The time and effort spent on treasury tasks**



Addressing the Customer Services Gap

**The power of knowledge**

SMEs are the overlooked workhorses of our economy, yet such neglect is the result of circumstances that no longer exist. New technological capabilities mean banks can benefit from improving their client offering to this segment. A large part of the problem has been a misunderstanding of banking requirements, but by analysing afresh the needs of SMEs and by leveraging the latest technology, SMEs can look forward to a much rosier future.

To get a copy of the full survey report go to [www.igtb.com/smesurvey](http://www.igtb.com/smesurvey)



## IS IT WORTH IT?

The apprenticeship levy aims to rectify the lack of skilled workers in the UK. But will it do more harm than good for the employers taking the financial hit?

**F**ew people would dispute that there is an urgent need to tackle the skill shortages that threaten Britain's economic prosperity, and certainly there is a groundswell of business support for an industry-wide expansion of apprenticeship programmes as a way of doing that.

However, the announcement of the apprenticeship levy in the chancellor's autumn statement - effectively asking larger businesses to shoulder the cost of expansion - has muddied the waters.

The announcement confirmed that from April 2017, employers with a wage bill of more than £3m would have to pay an additional 0.5%, on top of 13.8% employers' National Insurance (NI) contributions, to fund apprenticeships. The first £15,000 of this additional charge is waived effectively removing the burden from those businesses with total salary bills of less than £3m. The government will also establish an



Institute for Apprenticeships, where employers can submit apprenticeship standards and assessment plans. The plan is to reform the current batch of apprenticeship frameworks so they become 'standards', developed in conjunction with employers.

However the broader aim is to raise £3bn a year to meet a target of three million new high-quality apprenticeships by 2020.

In his speech, Osborne described the move as "a huge reform to raise the skills of the nation and address one of the enduring weaknesses of the British economy". But some industry leaders have expressed concerns about the levy, including the fact that as much as a quarter of the money collected will be spent on its administration. Others want assurance that the quality of the schemes will also be increased.

Among employers, opinions are divided. Some argue they are already investing heavily in training and see this as unfair. Certainly, employers in the construction industry may be concerned, as the Construction Industry Training Board (CITB) already operates a levy scheme, albeit one considerably different to the new scheme. While the new levy will be used to fund apprentice training only, the CITB levy is used by employers to fund a wide range of skills and training, as well as research, and initiatives to raise the profile of the industry.

CITB chairman James Wates said that while the announcement regarding the apprenticeship levy created a challenging environment for CITB, it would continue to support industry and work with government to ensure the best possible outcome. "Our next step is to engage in extensive consultation with employers and work out the most effective way to continue providing the construction industry with the skills and training it needs," he added.

But some employers remain unconvinced. POD Point, which manufactures electric car charging points, has employed a number of apprentices, several of whom have

gone on to become valued, permanent members of the team. While clearly recognising the value of apprenticeships the company is less supportive of the levy, seeing it as just another tax.

"We do our bit by training up youngsters," says financial controller Linda Ashong. "Why do we now need to pay an extra 0.5% on top of this? It feels like a blunt instrument to me."

She points out that while the levy only applies to companies with a £3m payroll, which helps smaller businesses, a company that has a £3m payroll isn't necessarily that big.

"Companies with just 50 to 100 employees will be caught by this. This is still quite a small business and it really doesn't need an extra £150,000 tax bill," she argues. "Why not give an exemption to companies where 1% or 2% of the workplace are apprentices? That would incentivise companies to give apprentices a job, and reward companies that do with a tax break."

Kevin Collett, finance director at Digital Window, a provider of online performance marketing solutions, is also sceptical: "We are looking at an extra cost of £30,000 per year as a result of the apprenticeship levy. I recall last year the government pledging that it would not raise NI contributions, but they have simply tacked on another 0.5% payroll tax that just chips away at our profits."

Like POD Point, Digital Window already invests a significant amount in staff training, developing a number of new schemes, as well as funding Open University degrees for some staff members, all aimed at boosting skills and talent retention. An apprenticeship

"I recall last year the government pledging that it would not raise NI contributions, but they have tacked on a 0.5% payroll tax"

## IMPACT ON WAGES

Another area of concern over the apprenticeship levy was the potential impact it may have on wages. According to the Office for Budget Responsibility, because the levy behaves like a payroll tax, employers were likely to pass the entire cost of it on to their staff by suppressing pay rises, an outcome that could undermine the chancellor's aim of a "lower welfare, higher wage" economy.

However, Sarah Vero, director at the Living Wage Foundation, said: "To date we haven't had any accredited employers tell us that the apprenticeship levy will put their payment of the voluntary living wage at risk. The employers we work with are leading the way on tackling in-work poverty, and more often than not show leadership across a variety of workplace issues, going above and beyond statutory requirements."

scheme may well be in the pipeline.

Collett says: "I think we are going to see a sharp rise in the number of apprenticeship positions. If companies are paying an extra £30,000 a year, they will be looking to get some of that money back by setting up their own apprenticeship schemes."

However some employers are seeing the levy in a more positive light. Chris Greenough, director of Salop Design & Engineering says that the levy sends a clear message to employers that they need to build their staff and prepare for the future: "Manufacturing has seen a resurgence over the last couple of years, and this has now left us with the biggest problem to businesses: the skills shortage. Upskilling your existing workforce is one way of closing this skills gap, and one of the most rewarding ways is through apprenticeships. This allows business to pass on key skills, and allows the





**£3bn**

needed to support a target of three million apprenticeships by 2020

apprentices to 'learn while they earn'.

"If this levy leads to more training opportunities for young people, then as a starting point this must be a good thing. However, there needs to be proper and rigorous policing, not only of the way the levy funds are spent, but also of the value of training provided and the jobs created."

Greenough would also like to see more funds made available for work with schools: "There is an impetus from government, and funding available through the various local enterprise partnerships, but there does need to be more emphasis on business, working with training providers and schools to make sure we have a rounded career advice service."

This could ensure that students are given information about the best options for their futures, with the focus on helping to push the UK economy forward, not just on exam results.

Feedback from other employers, including many of those working with BPP, a training partner for more than

"There needs to be proper and rigorous policing of the value of training provided and jobs created"

1,300 professional apprentices across the UK, has also been positive.

Emma O'Dell, head of strategic partnerships at BPP Professional Apprenticeships, says: "The skills gap is causing major issues for Britain's business community, with companies struggling to recruit effectively and productivity levels also affected. Many of our partners are looking at how they can utilise the levy to address this, creating tailored apprenticeship schemes that will allow them to mould the future generation of workers and provide more young people with the high-quality training needed to thrive in the sector of their choice." ■

## CBI/ACCENTURE SURVEY

One in six businesses (16%) believe the new apprenticeship levy is the right approach to tackle the UK's skills challenges, with almost half (47%) anticipating it being costly and bureaucratic, according to the CBI/Accenture Employment Trends Survey 2015.

The survey, which was carried out between August and October 2015, showed that job creation is on the up, but also revealed that businesses are concerned about rising labour costs.

The CBI described the apprenticeship levy as extra tax for companies that would have an effect on smaller businesses.

CBI director-general Carolyn Fairbairn said: "The UK's labour market has continued to outperform expectations with businesses delivering jobs in every region of the UK. But there's a danger of government complacency, with companies facing multiple increasing costs through the apprenticeship levy, the national living wage and unreformed business rates. These are acting as a cumulative drag that could hamper growth."

**47%**

of businesses surveyed anticipated the levy as being costly and bureaucratic

## COLLEGE SUPPORT

Many Further Education colleges that provide apprenticeship training are in favour of the levy, citing the negative impact that underinvestment in skills has on the UK's productivity and

economy as a compelling case for the introduction.

East Midlands-based Tresham College of Further and Higher Education, which runs apprenticeships to suit the needs of local employers, has welcomed the announcement.

"Improving the skills of the workforce is essential to increasing productivity levels and it has been proven that employers' skills investment yields a significant amount of additional value added to them," said vice principal, finance and

corporate services, Lynn Curtis. "It is important for the majority of employers in Northamptonshire to remember that even if their business does not need to pay the levy they can – and should – access the government's support for apprenticeships."

# Technical updates

Our regular roundup of legal and regulatory change

## TAX

News and updates from the Tax Faculty weekly newswire. Subscribe free: visit [ion.icaew.com/taxfaculty](http://ion.icaew.com/taxfaculty) and click the sign-up link on the right.

### COMPANY DISTRIBUTIONS: CAPITAL OR INCOME?

Many small companies will accumulate cash and if the shareholders don't need the funds, there is no reason to pay out profits and thereby make them incur tax. The new dividend tax rates aren't the only proposed changes affecting company distributions.

From 6 April 2016 the new dividends tax (charged at 7.5%, 32.5% and 38.1% for dividend receipts in excess of £5,000) will make it less attractive to pay out funds that aren't needed for personal expenditure or investment. We are expecting to see many taxpayers reconsider their distribution plans ahead of the changes.

Meanwhile, companies may continue to accumulate funds until one of the following occurs:

- sale of the company to a third party;
- purchase by the company of some of its own shares;
- repayment of some share capital; or
- liquidation.

In each of these situations the shareholder can receive a payment which is taxed as a capital gain, and so taxed at 18%, 28%, or 10% when entrepreneurs' relief (ER) applies, rather than as income. Note that the distributions made on an informal winding-up will be taxed as income where the total exceeds £25,000 (s1030A, CTA 2010). Also ER won't necessarily apply to a cash-heavy

company on sale or winding-up.

The government believes that shareholders achieve a 'tax advantage' by being taxed on a gain rather than on income, so is now consulting on changes to the tax treatment of company distributions.

The changes being proposed will only affect individual shareholders; there is no change to the corporate tax position. However, that may not be the end of the upheaval as the consultation document suggests a broader consultation may be undertaken on the company distributions and the transactions in securities rules.

### NEW ATED DIGITAL SERVICE

HMRC has announced that it is developing a new digital service for annual tax on enveloped dwellings (ATED). In our news item, *Annual tax on enveloped dwellings - forms and filing*, we reported that HMRC had published a set of new ATED relief declaration return forms, and that just one form is now needed to cover all properties in a portfolio for which the same relief is claimed.

Live testing of Phase 1 of the new ATED digital service has already started and the public version of Phase 1 will be launched in time for it to be used for the 30 April 2016 filing deadline. Phase 2 of the digital service is scheduled for release on 1 April 2016 and this will enable the

chargeable person or their agent to:

- file an online return declaring a liability for chargeable periods 2016/17 onwards;
- file an online ATED relief declaration return for 2016/17 onwards;
- obtain a payment reference number; and
- make an online amendment to an ATED return already filed using the new digital service.

### HOW TO APPLY FOR A UK CERTIFICATE OF RESIDENCE

HMRC has recently published a web page called *Apply for a certificate of residence in the UK* ([tinyurl.com/GOV-ResForm](http://tinyurl.com/GOV-ResForm)) which explains how an individual can apply for a certificate of residence in the UK. An individual may require a certificate of UK residence from HMRC in order to claim relief for overseas tax, typically under a double tax treaty. HMRC's web page allows you to complete the form online and email it with no requirement to use the Verify service.

To use the first option you need an account with GOV.UK Verify service, a new route into government services which incorporates an identity check. It can be used for a number of government services already and will soon be available for many more. Find out more information in the HMRC manuals at [tinyurl.com/GOV-Resi](http://tinyurl.com/GOV-Resi)

## FINANCIAL REPORTING

You can find out more on the latest from the Financial Reporting Faculty, including UK GAAP and IFRS standards and consultations at [icaew.com/frf](http://icaew.com/frf)

### NEW LEASING STANDARD

The International Accounting Standards Board (IASB) has issued IFRS 16 *Leases*, a new standard effective for accounting periods beginning on or after 1 January 2019. It is a major revision of the way in which companies account for leases.

Under current accounting guidance, leases are classified as either 'finance leases' or 'operating leases'. If a lease is classified as a finance lease, it appears on the balance sheet of the lessee, along with a related lease liability. If it is classified as an operating lease, the asset and liability are off-balance sheet, with rental costs expensed in the profit and loss account over the lease term.

Under IFRS 16, almost all major lease arrangements will appear on the balance sheet of the lessee for the first time, ending the division into finance and operating leases. There are, however, important pragmatic exceptions on cost: benefit grounds for short-term and low value leases.

Read more at [tinyurl.com/IASB-IFRS16](http://tinyurl.com/IASB-IFRS16)

### ASSOCIATES AND JOINT VENTURES

Planned narrow-scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* relating to some aspects of how

Under IFRS 16, almost all major lease arrangements will appear on the balance sheet of the lessee for the first time, ending the division into finance and operating leases

entities account for transactions between investors and associates or joint ventures that were to come into effect from 1 January 2016 have been postponed.

The reason for this decision is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Find out more at [tinyurl.com/IASB-Post](http://tinyurl.com/IASB-Post)

### NARRATIVE REPORTING

The FRC has issued a report giving an overview of recent developments in narrative reporting and providing practical tools to help companies achieve more succinct reporting.

*Clear & Concise: Developments in*

*Narrative Reporting* also includes a study showing that annual reports have become more cohesive since the publication of the FRC's guidance on the strategic report in 2014. However, while it seems that companies are taking on board the objectives of the FRC's *Clear & Concise* initiative, the report notes that opportunities for further improvement still exist.

Read the report at [tinyurl.com/FRC-Rep](http://tinyurl.com/FRC-Rep)

### DIVIDEND DISCLOSURE

The FRC's Financial Reporting Lab has issued a report entitled *Disclosure of dividends - policy and practice* which explores how companies can make dividend disclosures more relevant for investors.

The issues raised in this report are likely to be relevant to all listed and AIM quoted companies, irrespective of size and dividend policy. The report focuses on the annual report but also considers other channels that companies use to communicate dividend policy and practice.

Read the report at [tinyurl.com/FRC-Disc](http://tinyurl.com/FRC-Disc)

### ANNUAL REVIEW OF FRS 101

The FRC has published FRED 63, its annual review of FRS 101 *Reduced Disclosure Framework*. FRED 63 principally proposes disclosure exemptions in relation to IFRS 15 *Revenue from Contracts with Customers*.

## EMPLOYMENT LAW

This section is summarised from the bulletins of various law firms and associations. None of the information in this update should be treated as legal advice.

### FRS 103 PROPOSALS

FRED 64 proposes amendments to FRS 103 *Insurance Contracts* to reflect changes in the regulatory framework, with the introduction of Solvency II, including updating some of the terminology used. However, established accounting policies can continue to be applied if an entity so chooses.

Read more on the FRC proposals at [tinyurl.com/FRC-FRS101](http://tinyurl.com/FRC-FRS101)

### JOIN THE FINANCIAL REPORTING FACULTY

With several new IFRSs in the pipeline and the introduction of a new UK GAAP regime, keeping up-to-date has never been more of a challenge. The Financial Reporting Faculty has a wealth of resources to help you keep abreast of the changes. Prices start at £117 for ICAEW members. Find out more or join online at [icaew.com/joinfrf](http://icaew.com/joinfrf)

### PRIVATE MESSAGES CAN BE MONITORED BY EMPLOYERS: EUROPEAN COURT RULING

The European Court of Human Rights has ruled that an employer can look at a worker's personal use of email while at work. This follows the case of an engineer who was dismissed for using a Yahoo! messenger email account to send emails during work hours.

Although Romanian Bogdan Barbulescu appealed under article 8 of human rights legislation - the right to respect for private and family life - the court held that the employer's conduct had been reasonable as it had followed the correct dismissal proceedings.

Mr Barbulescu had allegedly been asked to set up the account for his work at the company's request, but the company was able to establish whether a disciplinary breach in his employment contract had occurred by monitoring use.

The original Romanian court judgement had not revealed the content of messages, but recorded the fact that messages had been sent.

In response, the general secretary of the TUC said staff should not be punished for occasional checking of personal messages when they put in many hours of unpaid overtime each year. The Chartered Institute of Personnel Development's Ben Willmott added that the ruling shouldn't be seen as a "green light for

businesses to start snooping on employees". He added: "Employees often respond to work emails on personal devices outside of usual working hours so it makes sense that, on occasion, they may want to engage in social correspondence during the working day on a work device."

### ZERO HOUR CONTRACT UPDATE

New legislation came into force in January to offer additional protection to zero hours contract workers.

A dismissal of a zero hours worker is deemed unfair if the reason given is that they breached a clause in their contract which forbids them to work for another employer. It is also deemed unfair if no qualifying period is needed to bring such a claim. In addition, it is now unlawful to submit a worker to detrimental treatment if they also work for another employer.

See the legislation in full at [tinyurl.com/GOV-ZeroHrs](http://tinyurl.com/GOV-ZeroHrs)

### EMPLOYMENT APPEALS TRIBUNAL HAS NEW PRESIDENT

The Honourable Mrs Justice Simler has been appointed as president of the Employment Appeals Tribunal (EAT) by the Lord Chief Justice. Mrs Simler took up the post on 1 January, succeeding Mr Justice Langstaff in the role. He became EAT president from 2012.



# On a lighter note

## PERMA-DRUNK DRIVER

A driver beat a drink-driving charge after she claimed to suffer from a disorder which makes her permanently drunk. Magistrates dismissed the charges against the 35-year-old schoolteacher in Buffalo, New York, last month, despite her being four times over the limit - medical tests showed the woman had auto-brewery syndrome where carbohydrates break down into ethanol in the gut through endogenous fermentation. The verdict contradicted the findings of a July 2000 University of Washington paper *Endogenous Ethanol 'Auto-brewery Syndrome' as a Drunk-Driving Defence Challenge* which concluded: "The notion that a motorist's state of intoxication was caused by endogenously produced ethanol lacks merit." As does the prospect of a perma-drunk schoolteacher...



**35 yrs**

THE AGE OF THE SCHOOLTEACHER WITH 'AUTO-BREWERY SYNDROME'

## VIRTUAL HIT?

The Consumer Electronics Association (CEA) has nominated the gadgets it expects to take the tech market by storm in 2016. The list includes virtual reality gadgets, sales of which are projected to hit \$540m (£376m) in 2016; connected cars, with sound and navigation being controlled from a driver's phone; enhanced wearables; plus robots and unmanned aerial vehicles. Beware, though - the CEA doesn't always pick a winner. Consider some of its previous nominations of a virtual reality television (MySpace TV, in 2007), sunglasses which operate as a camera (Polaroid GL20, 2011), a remote-controlled belt (Belyt, 2015) and bendable TVs (Samsung, also in 2015).



**\$540M**

PROJECTED SALES OF VIRTUAL REALITY GADGETS IN 2016

## BODY TALK

Ever thought you had aced a job interview, only to be rejected? Maybe what you did, rather than what you said, let you down? A 2015 CareerBuilder survey of 2,500 recruiters highlights the following body language failings:

1. 67% - Failing to make eye contact
2. 39% - Failing to smile
3. 33% - Playing with something on the table
4. 30% - Having bad posture
5. 30% - Fidgeting too much in their seats
6. 29% - Crossing their arms over their chests
7. 27% - Playing with their hair or touching their faces
8. 21% - Having a weak handshake
9. 11% - Using too many hand gestures
10. 7% - Having a handshake that was too strong



**67%**

PERCENTAGE OF EMPLOYERS PUT OFF BY INTERVIEWEES FAILING TO MAKE EYE CONTACT

## SUSPECT SELFIE

Police in Ohio, USA use Facebook to post mugshots of those wanted for questioning, which they find a useful tool for solving crime. One culprit, Donald Pugh, wanted for drink-driving, having seen his photo posted online, decided that he would assist the police by providing a more flattering photograph. Pugh sent in a selfie with a message: "Here is a better photo; that one is terrible." Police say Pugh is still at large.



## PHANTOM VIBES

A couple of studies conducted in the US uncovered a phenomenon branded "phantom vibration syndrome". In two separate studies of several hundred people, 70% and 90% of mobile phone users respectively were found to regularly erroneously feel that they had received messages or phone calls. Randi Smith, associate professor of psychology at Metropolitan State University of Denver, said: "There's a fear that we're going to miss a text, somebody is trying to reach us and we're not being responsive."

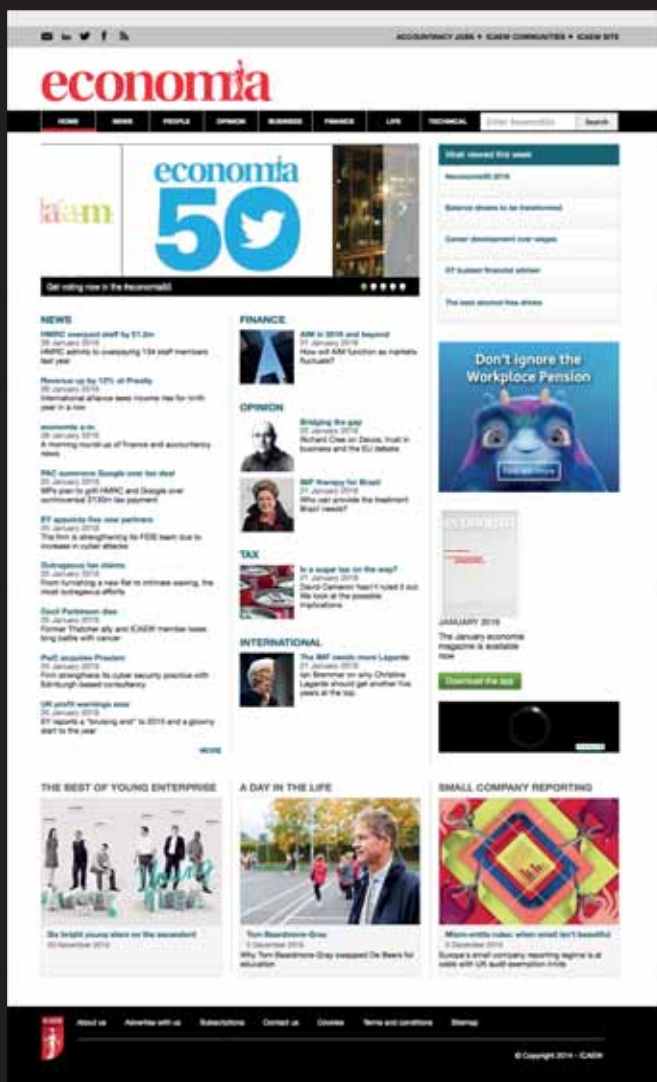


**70%**

OF MOBILE USERS FEEL THEY RECEIVE 'PHANTOM MESSAGES'

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