

# Business & Management

## GOING GREEN

A LOOK AT THE RETURN  
ON SUSTAINABILITY  
INVESTMENTS

## CASH CONUNDRUM

HOW TO ENSURE  
OPTIMUM CASH  
FLOW EFFICIENCY

A stylized illustration of a city skyline. The buildings are in various colors (orange, purple, blue, green) and are tilted at different angles. In the foreground, there is a street with several cars (blue, orange, white) and green trees. The overall style is modern and graphic.

**STANDING TALL**

How an effective business continuity plan  
can make or break your organisation

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## September 2017 Issue 257

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# Find your happy place



Returning to work after a relaxing holiday is not always a joyous occasion. The resumption of the normal routine and having to deal with ordinary day-to-day issues again can trigger a decrease in well-being and a fall in productivity. This somewhat irrational reaction is symptomatic of post-travel depression and not dissimilar to the feeling experienced after completing a major milestone.

Some practical advice to deal with the volume of work that has accumulated in one's absence includes taking a day off on your return to "triage" the email backlog and coming back a day early to reintegrate yourself into work. This will assist with some of the more down-to-earth issues, but a much more difficult problem is dealing with one's mindset.

We tend, as humans, towards nostalgia, reflecting positively about past experiences, making associations between places and feelings that emphasise the positive and negative about locations. Anderson and Bower, in their book *Human Associative Memory*, remind their readers that associationism, the most popular theory of memory, holds that ideas and memory are associated through experiences which reinforce emotional responses to stimuli.

Something to bear in mind, however, is the phenomenon of remembering our own experiences as a series of small incidents. This "peak-end effect" - an expression coined by psychologist Daniel Kahneman - means that we measure the intensity of experiences and not their duration, so that the dull parts and any hassle is forgotten and we are left with the good and bad and the last day. In this way, we may trick ourselves into thinking that we had a much better time on our holiday than we did in reality.

In case this doesn't help, psychologists recommend the following steps to address post-holiday blues:

- Integrate new experiences into your life - trying new activities is good for your mental and physical health. New experiences allow the brain to develop stronger and more numerous neural networks and challenges can be diverting.
- Relive your holiday experiences - imagining yourself in your "happy place" will yield a temporary mental boost, although psychologists recommend that people should not then associate negative feelings or resentment of your current physical location. Some recommend integrating aspects of the holiday that you enjoyed into your routine.
- Accentuate the positive aspects of your life - reinforcing positive messages to yourself about the things around you that make you happy or relaxed will enable you to integrate back into work more easily.

We hope that you get back into work mode relatively painlessly and that you enjoy reading this issue. Please email [matthew.rideout@icaew.com](mailto:matthew.rideout@icaew.com) or [robert.russell@icaew.com](mailto:robert.russell@icaew.com) if you have any questions or suggestions.

**Robert Russell**  
Technical Manager

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### SUBSCRIPTIONS

Annual membership of the faculty costs from £96 for the whole year.

### FACULTY EVENTS AND WEBINARS

Events and webinars are listed in this publication; details can be found on page 6

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## NEWS



## ALTCOINS BUBBLE FEARS RISE

The soaring price of Bitcoin in recent months has triggered a warning from *Forbes* of a cryptocurrency bubble. With more than 850 cryptocurrencies available, new ones can easily be created online using blockchain networking. These alternative currencies (altcoins) can be bought through the purchasing platforms such as Coinbase, which this month linked up with Fidelity Investments to allow customers to view their altcoin holdings.

## TOP 10 ALTCOINS BY MARKET CAPITALISATION

Rank	Name	Total market capitalisation	US dollar price per unit
1	Bitcoin	\$68,669,606,531	\$4160.25
2	Ethereum	\$28,476,416,583	\$302.97
3	Ripple	\$6,770,813,800	\$0.18
4	Bitcoin Cash	\$5,026,266,416	\$304.79
5	NEO	\$2,486,890,000	\$49.74
6	Litecoin	\$2,404,439,277	\$45.84
7	IOTA	\$2,356,107,758	\$0.85
8	NEM	\$2,263,176,000	\$0.25
9	Dash	\$1,498,400,817	\$200.02
10	Ethereum Classic	\$1,346,827,725	\$14.25

SOURCE: COINMARKETCAP

## NO LONGER SMALL CHANGE

Debit cards surpassed cash to become the most popular payment method in 2016, according to the British Retail Consortium (BRC). As non-cash finally exceeded cash transactions, debit, credit and charge cards were used for 10.3 billion transactions last year. This

took plastic's share of all retail payments by volume to 54%. The BRC believes that the popularity of contactless payments accelerated the use of credit and debit cards, with the average spend on them falling to £25. The UK's total retail sales climbed by 3.5% to £351bn in 2016.

## POUND LOW, TOURISM HIGH

The UK continues to prove its popularity with the world. Office for National Statistics figures reveal the number of tourists rose 20% in the second quarter of 2017 to 4.7 million. Overall, 10.75 million foreign visitors came to the UK, with VisitBritain noting a record 650,000 visitors in June from the USA. VisitBritain believes that the trend will continue as sterling's relative value to other currencies makes the UK great value for money. Overseas visitors are now spending a total of £24bn a year.

## PASSWORD FOUNDER'S APOLOGY

The man who created the rules on safe computer password protocols has admitted that they do not lead to greater cyber security. In a 2003 paper, Bill Burr advised using passwords containing capital letters, numbers and non-alphabetic symbols - and updating passwords every 90 days. But brute force cyber attacks simply work through every possible combination no matter what the configuration of characters. "Much of what I did I now regret," Burr, who is now retired, told *The Wall Street Journal*.

In 2015 GCHQ advised companies to stop resetting passwords as the inconvenience outweighed security benefits, and to use a sequence of ordinary words. For instance, "horsecarrotsaddlestable" would take a trillion years to crack, compared to a minute for "P@55w0rd".



4.7m

The number of tourists coming to Britain in the second quarter of 2017



3.5%

The increase of the UK's total retail sales figure to £351bn in 2016



54%

Debit, credit and charge cards' combined share of all retail payments

## WOODEN CARS MAY BE THE FUTURE

Car manufacturers, in their search for greater efficiency for electric and fossil fuel vehicles, are always looking at new ways to reduce the weight of their vehicles. Morgan Cars has used wooden parts in its frames since the company was formed in 1909. Now others are looking at using wood as a lightweight alternative to steel.

Kyoto University, working in conjunction with a Toyota Motor Corp supplier, is researching the use of wood pulp, which weighs about 20% of steel and can be significantly stronger when incorporated into plastic resin. "This is the lowest-cost, highest-performance application for cellulose nanofibres, and that's why we're focusing on its use in auto and aircraft parts," Kyoto University Professor Hiroaki Yano, who is leading the research, told Reuters in an interview.



# EVENTS & WEBINARS

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## EVENTS

ICAEW.COM/BAMEVENTS

### COURAGEOUS LEADERSHIP

21 September 18:00 - 20:00

Chartered Accountants' Hall, London; live-streamed to venues in Birmingham and Manchester

What does it take to become an exceptional leader? This event, which includes time for networking, will explore the skills – and courage – required. Guest speaker for the evening will be Colonel David Hopley.

For more details and to book, visit [icaew.com/bamsepevent](http://icaew.com/bamsepevent)

### DEFINED BENEFIT PENSIONS WORKSHOP

3 October 13:00 - 17:30

Discover how to demystify your Defined Benefit Pension scheme, ensuring that you have the correct processes and procedures in place to de-risk ongoing liabilities, at this half-day workshop.

For more details and to book, visit [icaew.com/dbpworkshop](http://icaew.com/dbpworkshop)

## WEBINARS

ICAEW.COM/BAMWEBINARS

### FREE 20-MINUTE LUNCH WEBINARS

#### GRAPHS - CLARITY AND IMPACT IN YOUR DOCUMENTS AND SLIDES

18 October 12:30

Visual presentation of information can either enhance or detract from the main points you might be trying to make. Jon Moon has years of experience teaching how to present in a straightforward and powerful way. He says: "Imagine creating documents that people praise and envy, ones that have clarity and impact and that win new business or impress and influence the board. Now imagine the impact on the rest of your working life." This webinar offers a taster of Jon's full-day course. To book a place, please visit [icaew.com/lunchoct](http://icaew.com/lunchoct)

#### STATS FOR BUSINESS - USE OF STATS TO DETECT FRAUD

15 November 12:30

This short talk is the third of our webinars on statistics for business to refresh your memory (or to introduce you). Nigel Marriott of the Royal Statistical Society will explain how statistics can be used to identify anomalies in data sets and will assist in deterring and preventing fraud. Statistics provide an effective technology for fraud detection and have been successfully applied to detect money laundering, business expenses and computer intrusion, among others. This webinar will cover the easiest methods available for statistical fraud detection, but does assume a good working knowledge of statistics.

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

### FREE 60-MINUTE MORNING WEBINARS

#### BUSINESS TAX UPDATE

27 September 10:00

Changes to the UK tax system since 2010 have seen 4,000 pages added to Tolley's already voluminous tax guide. Sarah Ghaffari, of the ICAEW Tax Faculty, runs through the tax changes introduced in the past year of most importance to you and your business.

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

#### TIME MANAGEMENT

9 October 10:00

Conflicting demands of work, leisure and CPD study make time a precious commodity, but extra work commitments

and a reluctance to say "no" result in many FDs feeling that they are rushing from one task to another and unable to properly complete them. David Parmenter will offer practical steps to assist you in better managing your time.

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

#### ECONOMIC UPDATE

22 November 10:00

Dr Stephen Davies, head of education at the Institute of Economic Affairs, discusses the state of the UK economy six months after the UK general election. Stephen will cover current growth, the state of UK public finances, growth prospects, Brexit negotiations and trade deals.

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

### E-LEARNING LECTURE

#### TRANSFORM YOUR ENTERPRISE WITH WINNING KPIS

19-20 September 09:30

£85 for Business & Management Faculty members

David Parmenter, KPI guru, is back with his very popular KPI online workshop. This three hour e-learning lecture, split over two 90-minute sections each day, will assist your business to focus on issues that matter. It will show how winning KPIs lead to happier customers and a better-managed organisation.

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



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\*Finance subject to status. Retail sales only. Subject to availability at participating dealers only on vehicles registered by 30th September 2017. At the end of the agreement there are 3 options: (i) Part exchange the vehicle, (ii) Pay the Optional Final Payment to own the vehicle or (iii) Return the vehicle. Further charges may be made subject to the condition or mileage of the vehicle. Terms and conditions apply. Applicants must be 18 or over. Guarantee/Indemnity may be required. Volvo Car Credit, RH1 1SR. The complementary servicing offer is only available when purchasing on Volvo Advantage Personal Contract Purchase at participating dealers, on vehicles ordered between 01/07/2017 and 30/09/2017. Services must be carried out at a Volvo Authorised Repairer. Retail offer only. Excludes fleet operators and business users. See [volvocars.co.uk](http://volvocars.co.uk) for full terms and conditions.

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# EARN YOUR GROW FASTER STRIPES

In an ideal world, any business can expect a period of rapid growth if it's founded on solid principles and is supplying its customer base with what they need. But how do the founders of a company turn a great idea into sustainable expansion? Penelope Rance finds out

---

## 01

### HAVE A PLAN

As well as creating a business plan for starting a company, map out a blueprint for how it will grow in the future. Peter Quintana, director of the High Growth Knowledge Company, says: "Have a plan, and make sure it is regularly reviewed: it may sound like an often repeated piece of advice, but if planning is done properly, it will make scaling a business so much easier to manage. Plans don't have to be annually refreshed. If a business is growing rapidly, a 90-day plan is preferable, and even this needs to be reviewed frequently - weekly, or even daily."

Also, be aware that the expansion of your company won't necessarily fit neatly into a spreadsheet. "Businesses tend to grow. It's not a steady path. It's about sitting down as a management team and deciding how you are going to put in place an organisation to support it," says Matthew Rideout, head of business at ICAEW. "Ask, what's the business capable of? Where are we going to struggle? Invest in advance of your needs, if you can. Put in place the people, process and

systems to support growth or you'll always be running to catch up."

## 02

### BE PREPARED TO LET GO

Planning for expansion is difficult, however, when you're getting distracted by having to manage the business at a day-to-day level. So step away.

"Directors get dragged into the everyday running of the business and neglect to work on the business - the best laid plans get forgotten, and there is no time given to reviewing the progress and direction of the company," warns Quintana. "Owners and directors can lose focus and motivation if they are constantly being pulled from one problem to the next. Even if results are good, being embedded in day-to-day issues is not typically what entrepreneurs started their businesses to do, and this misalignment with their vision can be very debilitating."

## 03

### MANAGE THE MONEY

Managing the cash gap - invoice settlement, settling debts, supply chain

management - is a major challenge for companies experiencing rapid growth.

"Focus not only on turnover and profit but also cash reserves; successful companies have been shown to always have adequate cash reserves and frequent reporting of the cash to the leadership, plus holding more cash assets than others in that particular industry," says Gary Keating, business growth coach at Action Coach. "Be aware of your cash cycle. Expanding companies need to be fully aware of the requirement for cash and to retain high cash assets." Also see the cash flow article on page 14.

## 04

### PUT THE RIGHT PROCESSES IN PLACE

You many have founded your business on a strong set of principles, but will these stand up as it expands? As you grow, convert personal practices into business processes.

"The strong cultures that grow around the core people involved in the early stages of a start-up will get diluted very rapidly if there is not a robust performance support system in place that supports and embeds the values of the business in existing employees, and which can be used to induct new employees into the culture of the business quickly," says Quintana.

As a company grows, systems and processes that used to work well can't cope with the additional workload. Technology is a classic case. "Very few SMEs have a plan for their ICT - it tends to evolve as the business grows - and this can lead to significant expenditure on replacement infrastructure when the business outgrows its systems."

## 05

### HIRE THE RIGHT PEOPLE

From the outset, build your business on the people within it. "Invest in the best quality people you can possibly afford," advises Rideout. And employ those who can grow and expand with the company. "Hire people with the right frame of mind, who will thrive in that environment, finding a way to get things done."

A flexible company structure will allow growth to happen freely. "Keep the teams small. Segment the units, so



**“Focus not only on turnover and profit but also cash reserves; successful companies have been shown to always have adequate cash reserves”**

they still correlate with each other but are small enough to act quickly. Remember to not create infrastructure in a maverick fashion otherwise it will be more costly in the long run,” says Keating.

And make sure your managers are up to the task. “People promoted to positions of responsibility based on length of service or expertise, and who were able to ‘manage’ when they had low volumes of work and only a few members of staff to look after, need to be properly trained in management and operations,” says Quintana.

## 06

### CREATE THE RIGHT ROLES

When you have the right people, put them in the right places. “Most important is a strong natural CEO who can communicate the company’s vision and also how to implement it,” says Keating.

A head of marketing is also key: a company that is rapidly expanding will need new customers, and to move into new markets. “Great sales today do not equate to great sales tomorrow if there is no marketing,” says Quintana.

“As the business grows, you need to get dedicated people to handle the human resources side,” adds Rideout. “It becomes essential for recruitment and disciplinary action.”

Quintana also recommends putting in place “an external adviser, NED, consultant or coach, with the experience and knowledge to advise, guide, challenge and hold the directors accountable”.

## 07

### FOCUS ON THE FINANCE FUNCTION

The finance function, while vital to growth, doesn’t have to be extensive to be effective.

“A good financial controller, supported by a good bookkeeper, a good system and automated processes, can support considerable growth on their own,” says Quintana. “It should only be volume of transactions that prompts the recruitment of new resources into finance, and a well-trained apprentice would be the ideal recruit to start taking up the increase in processing work.

“A financial controller who can provide proper management accounts is essential – too many businesses run with P&L reports only on a monthly basis, and far too many with nothing but compliance reports after the financial year has ended. This is like driving with a rear-view mirror – it’s dangerous when you cannot see what is ahead.”

## 08

### BE IN CONTROL OF CONTRACTS

During a period of rapid expansion, it’s easy to lose sight of the details. Having a clear understanding of the contracts you’ve entered into is vital, however. “This is particularly an issue with sub-contractors: are all parties within the contract identified? This is connected closely to the company’s insurance contracts on many levels,” says Keating.

Quintana advises: “When dealing with larger corporates, keep an eye on payment terms – as suppliers they will want payment quickly, as customers they will want as generous a set of terms as possible – some still insist on 90 or even 120 days. SMEs are not banks, and corporates that use them as such should be avoided if possible.” ●

**Q: How do you find yourself working at ICAEW?**

**A:** I have worked in industry since 1998 in varied roles from private equity and global outsourcing, to raising money myself and building a support services group from an idea to a £45m turnover business. From those experiences, I understand how isolated and demanding the role of CFO can feel at times, and how important it is to have a support network around you. ICAEW and BAM should be an important part of that support network, helping members on a day-to-day basis, to grow and develop in their roles and adapt to the challenges of business.

Three years ago I accepted a voluntary role in ICAEW Beds, Bucks and Herts District Society (ICAEW BBH) to establish a networking group for senior members working in businesses with £20m-£100m turnover, something I would have relished as a CFO. This ultimately led me to becoming President of BBH, and at the end of the tenure in May I was offered the opportunity to join ICAEW as director of business to look at and shape how ICAEW supports its members into the future.

**Q: What changes do you hope to make?**

**A:** Until three years ago I was one of ICAEW's disengaged business members. My perception was that ICAEW was focused on practice. It didn't even cross my mind to turn to ICAEW when I was looking for a network to support me - but in fact both BAM and ICAEW do offer a range of support; the problem is most business members aren't aware of it.

The challenge for me is twofold - first, to get BAM out to business members and establish wider engagement with our members, allowing ICAEW to better understand business member needs and how we can assist you and, second, to build on what is available to both BAM and non-BAM members, providing a wider spread of resources.

I am keen to expand the offering that we make to all business members and to ensure that the faculty continues to offer practical and relevant support to our business members and to increase our contact with them. We expect to be attending more meetings across the

# A NEW VISION

**Matthew Rideout** outlines his objectives as the new director of business and head of the Business & Management Faculty

country in the coming months and years.

**Q: What concerns do you have within the business and management sector?**

**A:** We live in a world where change is the new norm. My concern is that we are agile enough to foresee issues and respond to them, preparing our members for both the threats and opportunities. Areas that immediately come to mind are supporting finance to set company strategy, enabling better forecasting; the pressures of finding faster and better ways of presenting financial data to businesses; implications of developments in IT - cyber security, disruptive technologies, artificial intelligence; and Brexit!

**Q: How should the faculty be engaging its members?**

**A:** I am talking to my ICAEW colleagues to see if we can move towards a culture of "pull" rather than "push", enticing members to ICAEW as their first point of reference. We are looking at the value proposition of the wider ICAEW membership, engaging with all levels of ICAEW's structure, to deliver what our members need in a timely fashion.

That is not throwing out the old, but more a question of looking at what is good and building on it. To that end, we need our BAM members to tell us what works for them and what doesn't work, and what we should be doing that we don't do today. We are also looking for members that want to get involved, be that with a particular expertise or specialism, leading networking groups and assisting us in shaping our policy. My email is at the bottom of this article, so please get in touch if you are interested.

**Q: What has been your career path to date?**

**A:** I really didn't enjoy my training contract; long days of audit and then study in what was left of my evening. The opportunities post qualification, however, have been amazing and I have been blessed to have a variety of challenging and engaging roles. After qualifying, I had a short stint at the Audit Commission, leading a project to allocate funding in the reorganisation of a regional health authority, before moving to Coopers & Lybrand to work



in the corporate finance practice specialising in private equity. This was an incredible learning experience, working with industry-leading management teams to develop the strategy and financial forecasts in advance of private equity fundraisings.

From there I moved from presenting deals for finance to assessing and investing in transactions at 3i Private Equity. I enjoyed my time there enormously with a great team and extraordinary deal flow. The most rewarding part of the role for me was the opportunity to manage investments post transaction. 3i moved, however, to focus on larger transactions and the ability to manage transactions changed. I went back to PwC, setting up and leading a corporate development team for one of their five service lines. Again a complete change and another dream job, reporting to the global board in this \$0.5bn business, focusing on developing new technology products and establishing strategic partnerships.

After a short stint in Spain, I achieved my goal of running my own business. Together with an old client from my corporate finance days we raised both equity and debt and built a business

**“We need our members to tell us what works for them and what doesn’t work, and what we should be doing that we don’t today”**

from an idea to a £45m turnover group in three years. What a phenomenal learning experience!

Four acquisitions and an internal start-up later, we hit the recession in 2008. However intense the growth phase of the business was, it was nothing compared to managing business and cash flow during the recession. Our biggest client declared bankruptcy owing £750,000, and our bankers, HBOS, were disintegrating around us. That was a real learning experience - loyalty and strength of character were tested to the extreme.

Immediately before joining ICAEW, I managed my own projects, was President of ICAEW BBH, and mentoring start-up businesses to grow and develop.

While there is an established value proposition for BAM, this is less obvious for our other members working in industry and commerce. That provides me with the challenge element I need in any role I undertake. ●

To get in touch send your emails to [Matthew.Rideout@icaew.com](mailto:Matthew.Rideout@icaew.com)



PHOTOGRAPHY: MATTHEW ANDREWS

10<sup>TH</sup>

ANNUAL CFO CONFERENCE

## POSITION OF STRENGTH

Next month's CFO conference explores ICAEW's 'world of strong economies' vision by examining the role finance can play in achieving this

Since ICAEW rebranded in April, the organisation's key themes have grown out of the notion of a world of strong economies. In achieving this vision, ICAEW says that "strong leadership and robust institutions will be critical".

These are areas where CFOs and FDs can exert influence and make a real impact and difference.

To this end, this year's CFO conference guides Business & Management Faculty members on the road to being a part of that change. This year's all-day event takes place on 12 October.

### MORNING SESSIONS

Travel and expenses software firm Expensify will lead an optional extra breakfast session from 8:15am on the benefits of streamlining your organisation's entire expense management process, before ICAEW president Nick Parker opens the conference.

Highlights of the programme include:

- Baroness Ruby McGregor-Smith CBE, who delivers this year's opening keynote speech, talking about her time as CFO and CEO at Mitie.
- A panel session on how CFOs can lead on culture and change.
- The impact of finance transformations on the CFO.

**This year's CFO conference guides faculty members on the road to being a part of the ICAEW's new vision of strong economies**

- An examination of the role of the NED and the considerations for CFOs thinking about taking that step, including boardroom trends and developments, transitioning to an NED role, and how to decide when to take the plunge.
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### CONFERENCE SPEAKERS

**Paul Benjamin**, FD, Microsoft UK

**Niamh Corbett**, marketing director, Board Intelligence

**Simon Jack**, BBC business editor

**Sally Jones**, director of international trade policy, Deloitte

**Emma Knowler**, head of talent and development, easyJet

**Baroness Ruby McGregor-Smith**, CBE

**Rick Payne**, Business and Management Faculty, ICAEW

**Nick Parker**, ICAEW president

**Tom Rhys Jones**, head of EMEA development, Expensify

**Andy Shambrook**, trainer and coach, former FD for Dulux

**Tom Ilube**, CEO of Crossword Cybersecurity

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# CONTROL THE FLOW

There is perhaps nothing more debilitating to a business's vitality than restricted cash flow. Michelle Perry explores what management can do to ensure optimum efficiency



GETTY

A quick internet search throws up a multitude of words of wisdom on the importance of cash flow management from the world's top business leaders. For instance, Jeff Bezos, founder and CEO of Amazon, whose recorded personal wealth surpassed that of Bill Gates earlier this year, making him the world's richest individual, says: "If you look at academic studies, you can see that stock prices are most closely correlated with cash flow. It's such a straightforward number. Cash flow is what will drive shareholder returns."

Robust cash flow management is not the preserve of publicly listed companies. A disciplined approach to managing cash is the foundation of any business from the smallest to the largest. Some business analysts assess value solely by looking at cash flow.

Weak cash management is one of the biggest killers of a quarter of all new businesses - during the last recession hundreds of companies went bust due to lack of liquidity. Knowing what your cash balances are and the short-, mid- and long-term variations is a basic business principle. "A business can have fantastic revenue and reasonable income, but if their cash flow isn't up to scratch, it can fail," says Alessandro Martinez, FD for global tools and storage, Stanley Black & Decker. "That's what happened with a lot of businesses because they weren't running efficiently in order to pay their debts and ended up in bankruptcy."

### LEADING THE BUSINESS

The ultimate responsibility of managing cash normally sits within Treasury, but falls on the shoulders of the CFO or FD, irrespective of the size of the business. For example, it is down to the FD to keep an eye on loans and overdrafts, which are typically fixed term, so they may be renegotiated when they are due to expire. But in order for cash to be well managed, the whole business - sales, operations, senior management team - must understand the impact of cash flow.

"The most striking thing is often the difference in cultures between public companies and private equity-backed businesses. If cash isn't an issue or if there's no strong FD or treasury individual there's often no appreciation of the importance of cash or proper understanding of cash

## "If there's no strong FD or treasury individual, there's often no appreciation of the importance of cash or proper understanding of cash management"

management," says Mark Logan, an experienced FD at a PE-backed company. Logan recommends first understanding the working cash cycle and then ensuring that everyone in the business appreciates the importance of cash.

To highlight how tough this issue can often be for companies of any size, Paul Johns, director of treasury and tax at ISG - a global construction services company with a £1.8bn turnover - says that one of the challenges his CFO faces is in ensuring cash management is a priority throughout the business. Some companies incentivise sales teams to highlight the discipline.

When a business faces cash flow difficulties, the knee-jerk reaction will be to stretch payment times. But this can often have the reverse effect to that which was intended. Businesses lose supplier loyalty and trust, while finance teams can be distracted from managing cash because they are dealing with supplier calls.

"For businesses in turnaround it is vital to maintain credit by paying on time or as agreed. If there are difficulties, communicate them to key suppliers because preserving the available credit is vital for the future," Logan says.

Some simple methods for ensuring customers pay on time involve

anticipating trigger points and calling customers ahead of payment to check they are expecting to pay the right amount on time. This can also be a good tool for involving sales teams. Reporting the cycle of days sales outstanding (DSO), the average number of days it takes to collect revenue after a sale, and days payable outstanding (DPO), the average time it takes a company to pay its invoices, is at the core of good cash management.

"That's the most crucial area. You get to the point where you deliver on goods and services, then you have to wait for payment. SMEs are often preoccupied with running their business that they don't look so far ahead," says Clive Lewis, ICAEW's head of enterprise.

Last year a key supplier to General Motors, one of the largest car manufacturers in the world, almost forced the company to close all its North American assembly plants amid a contract dispute, causing millions of dollars in losses a day.

This should be a warning for any sized business. When taking on a new supplier, enlist a lawyer to draft a contract that considers the worst-case scenario for your supplier and then build in safeguards to protect yourself against supplier bankruptcy.

Make sure you have a back-up supplier, especially if it concerns a product or service core to your business. It might seem prudent to reduce the number of suppliers, but when the supplier is critical to your business it is worthwhile securing two key suppliers and sharing the wealth - and any potential future headaches.

Develop an open and honest relationship with all your suppliers, especially those that are vital to your business. That way, when and if they face financial difficulties, they will feel comfortable to inform you early on. For example, you might be able to help if it is a matter of short-term cash flow problems by paying invoices early. If it is something more long term then at least you will be forewarned and able to trigger your contingency plan and protect your business.

### BUILDING CASH RESERVES

"My inclination is always to say build up cash reserves to deal with volatility and you can do that better when you're not worrying about

imminent changes. So if you want to make investments like setting up a French subsidiary then you have the cash to do that. It gives you the flexibility to respond to situations.”

A good indication of how companies deal with external shocks can be seen by the amount of cash built up in corporate cash reserves since the 2007/08 global crash.

Many corporates have focused heavily on cash flow and have actively built cash reserves as a safeguard against future economic shocks. This is even though the cash is not working hard for them given historically low interest rates.

**TAKING STOCK EFFECTIVELY**

Categorising stock into different types is good practice that can help sales and operations teams understand the effect of cash on the business. Categories should include ‘never be out of stock’, ‘good to have’ and ‘not vital’. A fourth category could be ‘developmental stock or new lines’. To get to this point however organisations need to carry out deep analysis to understand sales.

“What you don’t want is people stocking up but not knowing why,” explains Logan. “If sales and operations teams don’t understand the importance of cash, they will

**“It amazes me how inefficient many companies are at being able to forecast their cash flow for a few weeks’ time”**

work in isolation towards their own targets without understanding the impact on business cash.”

The 13-week cash flow projection is commonly used in companies in turnaround or where cash is tight. The model is a useful tool to create a snapshot of how much cash is required on a rolling basis. Companies will feed this into a longer-term plan, which typically involves a 12-month plan running into a three-year strategy to meet future investment and growth plans.

“It amazes me how inefficient many companies are at being able to forecast their cash flow for a few weeks’ time,” says Johns. “We do a weekly cash flow forecast, and what we find is that people tend towards conservative estimates, but we tell people we want accurate forecasts.”

**A USEFUL TOOL**

If a business is facing difficulties the use of a funds flow is another good management tool, FDs say. Usually measured on a monthly basis, a funds flow is the net of all cash inflows and outflows of various financial assets. Some companies won’t have a short-term cash flow but they will have a funds flow - which is driven from the profit and loss account and the balance sheet forecasts. A further step to ensure the validity of the short-term cash forecast is to compare it to the monthly funds flow forecast.

Getting the right bank and functionality is also critical. “Small businesses have had problems in the past when dealing with one bank when the bank changes its view of a sector. Sometimes a business may not be the right size to have a back-up bank, but it is worth exploring and keeping on top of,” Johns says.

Total cash on hand among UK companies rose 14% from 2010 to 2016 as a focus on cash became paramount after the 2008 financial squeeze. The challenge with this is that most of the cash is held by a small proportion of large corporates. The point of cash management is to use cash to reinvest and grow but when global economic uncertainty prevails it is difficult to persuade FDs to loosen the purse strings. It is hoped that one benefit of strong cash reserves is that fewer businesses will fail any future recession. ●

**CASE STUDY:  
STANLEY BLACK & DECKER**

“Our ability to generate cash efficiently in the organic business is my focus,” says Alessandro Martinez, FD, global tools and storage. “The faster we grow cash, the faster we can grow the business and pay dividends.”

Martinez says his goal is to keep inventory and accounts receivable as low as possible and receive payments as quickly as possible, which is why he says it’s crucial to set key performance indicators for working capital and measure them regularly: “We measure our business performance from a working capital perspective.”

The ability to predict customer product purchases as well as proximity to manufacturers for distribution purposes are core to managing inventory to prevent excess in warehouses, he explains.

“Working capital management for Black & Decker is a major pillar of our business and strategy. We have all these KPIs in place to make sure we can generate cash to invest and fund our acquisitions,” he adds.

Innovation and new launches are a core part of Black & Decker, which is why Martinez also sets up KPIs on investment projects. The FD says that he needs to understand the cost of capital of the investment in order to measure how quickly payback will come.



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# BUILDING RESILIENCE



Work can be difficult enough when everything is going to plan. But when a major business interruption strikes the consequences can be extremely serious. To minimise the impact of such problems, says David Adams, you need to cost up an effective business continuity strategy

The term business continuity (BC) should not be confused with disaster recovery (DR). The latter is now used to refer only to recovery plans for IT capabilities. That is hugely important, of course, but an excellent DR plan won't help an organisation when its offices have been damaged by fire or flooding; or if, for example, deep snow and/or severe transport disruption means staff are unable to get to work; or if a key supplier has suffered a major continuity problem of its own, or has unexpectedly stopped trading.

As might be expected, larger organisations, particularly in highly regulated sectors, or those that form parts of the UK's critical national infrastructure (such as public sector, utilities and some financial sector companies), tend to have more advanced BC than most. But over the past decade there has been a steady growth in the number of organisations of all sizes and in all sectors investing more resources in BC. Some have been compelled to do this by changes in regulation. Others have been encouraged by larger organisations to which they provide, or seek to provide, services. Some have been proactive because someone within the organisation has realised the need to address specific risks, from flooding to cyber security. But it is generally the case that many smaller organisations have invested only minimum time and resources in this area.

"You don't generally see SMEs taking a holistic approach," says John DiMaria, global product manager for information

security and business continuity at BSI Group. "Typically that's because they lack time and money. Most aren't doing anything about business continuity unless they have to."

A complete BC strategy must be holistic, covering a broad range of operations. It must protect and improve the resilience of an organisation's operations by identifying and managing - or planning to mitigate the impact of - the risks that could cause the most disruption. This may entail creating a business continuity management system (BCMS), which could incorporate use of off-the-shelf or bespoke software to help identify and manage those risks, and to create, review, test and refine continuity plans. The BCMS could be based on the industry standard for Business Continuity Management, ISO 22301. Ideally, the strategy and BCMS should also

incorporate measures designed to enhance operational resilience: the ability to alter operations in changing conditions.

### RISKS AND IMPACTS

In some organisations it may be that the CFO or FD plays an important role in driving the BC agenda, in part because they may have a clearer understanding of the impact that a prolonged business interruption could have on the operational and financial sustainability of the business. A CFO may also see some financial opportunities associated with improved BC. For example, insurers may respond positively to demonstrable improvements in continuity planning and risk mitigation.

Whoever is leading the process, how does one make the organisation more resilient?

The first step is to identify processes and interdependencies within the business and with other organisations that enable normal operations. The organisation then needs to examine how these could be affected by risks that could affect it. This can be achieved by undertaking business impact analysis (BIA); and by considering the likelihood of specific risks actually becoming reality.

Steve Mellish runs the consultancy Mellish Risk & Resilience and is a former head of business continuity at Sainsbury's and a former chair of the Business Continuity Institute (BCI) Board of Directors. At Sainsbury's he led the development of the retailer's BC function from the late 1990s onwards, eventually embedding BC within all aspects of business planning and operations. He underlines the importance of identifying interdependencies and considering how they might be disrupted by risks.

### CHOOSING THE RIGHT SOFTWARE TOOL

If an organisation creates a bespoke BCMS it should meet all requirements, including, for example, the ability to make automatic changes to records based on a central HR data repository, as individuals leave or join the business.

Off the shelf tools are cheaper, but may lack the flexibility an organisation needs. "The vendor will say that the software is very flexible, but the system is dictating what needs to go in," says Mellish. "However, for small organisations, with no experience and

limited resources, then possibly it is worthwhile to investigate whether a ready-made system provides what they need."

He also warns organisations to remember why they are using the software, recalling working with a company that put significant resources into creating a BCMS that would enable the company to attain ISO 22301 certification - but left its actual business continuity capabilities relatively weak. "Having a good BCMS is not the same as having a really good BC capability," Mellish warns.

He recommends considering the risks that feature in the findings of the BCI's annual Horizon Scanning survey.

"Risks usually in the top five include IT and telecoms failure, cyber attack, data breaches; and fire or flood causing denial of access," he says.

#### A SMART APPROACH

The results of the BIA process should inform the organisation's next actions. "The art of doing this cleverly is prioritisation and making decisions about how to recover," says Martin Caddick, director of business resilience at PwC. "To do this, you need the rest of senior management involved. A smart approach balances investment in business continuity against investment in insurance and risk management - and the CFO should be well placed to do that."

James McAlister, current chair of the BCI, and director at the consultancy Crisis Prepared, suggests senior management, including the CFO or FD, should try to determine which processes, or product or service offerings, are of primary importance to the organisation. "There needs to be some steering from the top as to what to focus on," he says. "That's where working with the financial side of the business can help."

But how might a BC strategy be costed? A relatively crude starting point is to divide annual turnover by working days to discover the headline cost of a lost day of work, but other elements should also feature in the calculation. What would be the cost to a business of its products or services being unavailable for a certain period of time - if its website is out of operation, or products can't reach retailers' shelves, for example? "Look at the cost of recovery for your customers, as

## "Look at the cost of recovery for your customers, as well as for the business. The impact on your brand reputation is very important"

well as for the business," says Alan Prescott-Brann, head of sales for business continuity and resiliency services at service provider Daisy Group. "The impact on your brand reputation is very important."

On the other hand, as Caddick acknowledges, this could be an expensive exercise and smaller organisations will not have endless resources to devote to it. "The danger is that you start doing it by the book and end up spending more time and money on it than it's worth," he says. "My advice would be, do it in phases. Have a first phase that takes stock, with a strategic BIA and a current status assessment, looking at how well the business could cope with an incident. See what that tells you, then make decisions about what the cost of this process should be."



#### SHAPING THE STRATEGY

Organisations may want to bring in additional assistance to help shape the BC strategy. A business could hire a qualified BC manager, and/or engage an external consultant, who could also support an individual within the organisation who is taking charge of the strategy.

In some smaller organisations a CFO or FD might be that person, perhaps because the business can't afford to appoint anyone new. In other organisations individuals may be brought out of another role - in IT, security, procurement or finance, say - to become the BC manager. "Part of the thinking behind training someone up internally is that it's easier to learn business continuity than it is to learn your organisation," says McAlister.

#### CAB STUDIOS



CAB Studios, a creative agency based in the West Midlands, has been operating for 14

years and employs about 30 people. The need to make the business more resilient became clear when it was based in a building that was prone to power supply and internet connectivity problems. "When you're predominantly in the cloud and selling services that rely on the internet and electricity you worry a little bit about that," says CFO Matt Wood. Matters came to a head seven years ago, when a power cut lasted for almost two days.

The business also faced risks related to the fact that many staff lived in rural locations, so might be prevented from reaching the office in severe weather conditions.

Led by Wood, CAB developed what it called the Shackleton Plan. If the Met Office issued specific weather warnings, all relevant files for individuals working on specific projects would then be downloaded to high capacity computer disks and taken home by employees, so they could work on them remotely, on laptops supplied by the company.

Since then the company has increased its mobile working capabilities: all staff

can now work remotely. CAB has also purchased a new office, where the company paid £60,000 to install a 1GB backbone pipe guaranteeing internet access and has back-up generators for use in the now relatively unlikely event of power failure. Clients' websites are hosted in the cloud under an arrangement with a service provider that means these IT resources are protected from extreme weather and other natural risks; and safeguarded against the service provider going out of business. "If their company went down we'd have 12 months to move away from their cloud services," says Wood.



Even if a CFO does drive a BC project, it is important that the process of gathering information about risks and interdependencies within and external to the business involves collaboration from risk owners throughout the organisation. Mellish stresses the value of speaking to risk owners face to face, rather than just submitting questionnaires, as this will help to ensure they provide the necessary information and will also reveal more about the way the organisation works. "You get a clear picture of the potential impact of an interruption, and of time sensitivity to recovery in different parts of the organisation," he says.

Many organisations will find the ISO 22301 standard useful. Even if the organisation does not pursue formal certification, the standard can help to prioritise potential threats and inform the specification of a BCMS. It also provides a framework for the business to assess the effectiveness of the BC strategy. Organisations can also work towards standards for organisational resilience: ISO 22316 and BS 65000.

For some businesses, regulatory or supply chain pressure may mean the cost of certification is a worthwhile investment. "Having the standard can be a good selling point for organisations trying to get new business, or to maintain business with big customers," says Mellish. "In other organisations the time and cost required would be better spent on developing resilience capabilities." He also highlights the value of using the BCI guidelines on BC, which are reviewed regularly in the light of changes in

technology, standards and regulation.

Full certification will also usually require use of a BCMS and perhaps of software tools, the choice and configuration of which can also present additional challenges.

Whatever form the BC strategy eventually takes, it should be seen as a long term exercise. "It's not something you just do once," says Caddick. "You need to make provision for having it as part of someone's role in the future. Otherwise it quickly withers away and your investment is wasted."

He also stresses the importance of considering business continuity when making other business decisions. For example, if the business is consolidating its use of buildings, how will this affect the BC strategy? "You need to factor these considerations into a cost/benefit analysis," says Caddick.

That may be another good argument for the CFO to play an active role within the BC strategy. Whether or not they do, Mellish believes the active involvement of senior management is vital. "It's about ownership of the programme at the top of the organisation," he says. "If that's from FDs or CFOs, fantastic, but ideally the CEO would be involved. In the end, this is all about protecting your brand." ●

#### Further information

**BCI Good Practice Guidelines:**  
[tinyurl.com/BCI-GdPr](http://tinyurl.com/BCI-GdPr)

**BCI Horizon Scan research findings:**  
[tinyurl.com/BCI-HorScan](http://tinyurl.com/BCI-HorScan)

**ISO 22301:**  
[tinyurl.com/ISO-BusCon](http://tinyurl.com/ISO-BusCon)

**ICAEW BC resources and further useful links:**  
[tinyurl.com/ICAEW-BusSConRes](http://tinyurl.com/ICAEW-BusSConRes)

## WHEN DISASTER STRIKES

### BA



In May 2017 a power outage that disabled much of British Airways' global IT infrastructure led to the cancellation of more than 700 flights, leaving about 75,000 people stranded in airports across the globe over the course of three days.

The following month, the airline announced that the incident had cost the company about £80m in lost revenue, rebooking, accommodation and compensation payments. The outage was the result of a power surge damaging IT equipment at a datacentre near Heathrow Airport - thought to have been caused by a member of staff disconnecting and then reconnecting a power cable.

### Talk Talk



In October 2015 telecoms provider Talk Talk's website was hit by a sustained cyber attack that exposed customers' financial and personal data. Having been criticised for its handling of initial public announcements and temporarily shutting down its online sales operation, Talk Talk did eventually steady the ship, but estimated that the fallout from the incident had cost the company at least £42m and led directly to the loss of more than 100,000 customers.

Within weeks of the incident it was announced that a 17 year old had discovered a vulnerability on the website, then shared this information online. The vulnerability was then targeted over 14,000 times by hackers.

### Toyota



Like many other Japanese businesses, Toyota's operations were severely disrupted by the earthquake and tsunami that struck Japan in March 2011, which killed almost 20,000 people, and is thought to have cost the Japanese economy about \$360bn. The disaster put dozens of businesses in Toyota's supply chain, which built components like microchips and vehicle body parts, out of action for many months.

Since 2011 Toyota and its business partners have made significant changes in continuity planning, enabling faster switching to alternative sources of components when necessary; and in the reconstruction of facilities to make them more earthquake-proof. When another major earthquake struck Japan in April 2016, Toyota suspended all production at facilities in Japan - but almost all affected premises were able to resume operations within two weeks and some were back online within a few days.

# THE GREEN SOLUTION

Can your business benefit from going green? Lauren Razavi explores the return on sustainability investments

The press is awash with stories about the impacts of packaging waste and climate change. In the face of this gloomy assessment, conscientious businesses might wonder if they can take action to help – though some may be put off by the cost of investing in green technologies. A 2015 study by Lloyds Bank revealed that 71% of UK SMEs don't understand the commercial benefits of green activities (see [tinyurl.com/BM-LB-SMEs](http://tinyurl.com/BM-LB-SMEs)), while ScottishPower and YouGov found that just one in 10 UK small businesses believe they'd decreased energy consumption in 2016.

But eco credentials aren't just something to show off in marketing materials. Investing time and money to reduce waste and energy use will inevitably cut costs for a business, and in some cases even create an uptick in profits. Although not all SMEs have fully

embraced the green revolution, others have found cost-effective ways to reduce their environmental footprint. From installing solar panels to streamlining supply chains, the following SMEs prove that going green isn't just important for the planet: it's also good for business.

For Rowan Crozier, CEO of Birmingham-based metal component manufacturer Brandauer, choosing to invest in energy efficiency was a matter of staying competitive in his industry. Five years ago, the 154-year-old firm pursued an ISO 14001 certification, which is an internationally recognised accreditation in environmental management. As part of the certification process, Crozier and his team made improvements to the factory's electricity usage.

Manufacturing tiny components requires excellent visibility, which means that no expense could be spared on lighting for the Brandauer factory. Crozier



decided to refit the facility with energy-efficient LED lightbulbs and saw the company's energy consumption fall by 20% as a result. He also plans to invest in a power-optimisation unit, which balances the factory's electricity supply to reduce energy use. Standard voltage is often too high for both machinery and lights, and a power-optimisation unit regulates the electricity supply so that equipment gets the precise voltage it needs. This saves energy, money, and means that equipment will burn out less quickly.

At a cost of £30,000 Crozier expects the unit to pay itself off in under two years, though he admits it's difficult to measure the precise timeline for return on sustainability investments. But in the end, it's client satisfaction that matters above all else.

"I have a number of customers who said we couldn't trade with them in the future if we didn't take on the 14001 accreditation," Crozier says. "Having it has enhanced our reputation and even helped us trade with new customers."

### GOVERNMENT INCENTIVES

When Dave Goodfellow and his wife Tracy purchased the Low Costa Mill holiday cottages in North Yorkshire, they found they had a business but no customers. The seven cottages on the edge of the moors had fallen into disrepair and needed serious renovation to draw holidaymakers back in. But Goodfellow, an energy management consultant by trade, knew he could upgrade the buildings while also ensuring low gas and electricity bills.

Double glazing and improved insulation were a first step, though the entrepreneurial couple were keen to take advantage of government incentive schemes that make onsite renewable generation affordable. They sourced solar panels for Low Costa Mill under the government's feed-in tariff programme (FiT), which pays users for the renewable energy they create. Today, the panels provide about 14% of the site's electricity, and any unused energy gets sold back to the grid.

The FiT scheme ([tinyurl.com/BM-FIT-App](http://tinyurl.com/BM-FIT-App)) is available to businesses of all sizes that install onsite renewable technologies, including solar panels and wind turbines. Businesses hoping to generate 50kW of energy or less must apply to an energy supplier for approval, while firms with commercial-scale operations must seek permission from energy regulator Ofgem directly. With the average home solar

### BIG BUSINESS LEADS BY EXAMPLE

Two government incentives have been crucial in getting big business to clean up its act. The Climate Change Levy taxes commercial energy use for businesses in the industrial, commercial, agricultural and public services sectors and the CRC Energy Efficiency Scheme requires large energy users, like supermarkets and water companies, to report their emissions.

Some of the country's major corporations have gone a step further and implemented carbon reduction targets of their own. Tesco is in the process of reducing its emissions by 40% by using more efficient refrigeration in 1,200 of its stores, while Barclays has made reductions through energy-efficient lighting and turning off equipment when not in use.

### ICAEW ON SUSTAINABILITY

"We depend on nature for everything," says ICAEW head of sustainability Richard Spencer. "Without it there can be no business. Like any resource, nature needs to be maintained and nurtured. More particularly it just makes good business sense to go green cutting out waste and improving efficiencies. Green energy is rapidly becoming more economic than fossil fuels. As *The Independent* noted, 'solar and wind is now either the same price or cheaper than new fossil fuel capacity in more than 30 countries.'" Richard recommends looking at the reports available at [tinyurl.com/BAM-carbontrust](http://tinyurl.com/BAM-carbontrust) and [tinyurl.com/BAM-GreenBiz](http://tinyurl.com/BAM-GreenBiz)

installation totalling 4kW, most SMEs will fall under the 'small installation' category ([tinyurl.com/BM-MCS](http://tinyurl.com/BM-MCS)). SMEs must also ensure that their equipment is certified under the microgeneration certification scheme and that it is installed by an accredited firm.

The Goodfellows also installed water and air source heat pumps to keep the cottages warm and make them more environmentally friendly. These technologies boast reduced carbon emissions compared to gas-fired heating systems and allow the Goodfellows to take advantage of the government's renewable heat incentive scheme, which offers quarterly payments to owners of energy-efficient heating systems over the course of 20 years.

The combination of reduced utility bills and government payments helped the Goodfellows strengthen their bottom line. "From a total annual utility bill of £14,000 before, we now spend only £10,000 per year – and we've actually doubled occupancy," Goodfellow says.

### UPCYCLING AND RECYCLING

Heidy Rehman, founder and managing director of women's offewear brand Rose & Willard, started her company to combat the wasteful 'fast fashion' supply chain used by high street stores. According to Rehman, between 15-20% of all fabric is wasted when garments are cut out of rolls of fabric. Leftover textiles end up in landfill, meaning that designers are wasting money as well as perfectly

useable resources. Rose & Willard, on the other hand, is a brand that prefers to get creative with its scraps.

"One of our dresses has blue or pink piping, and it's just made from leftover fabric," Rehman says. "We thought, 'let's not waste it when we can create a different style'. We've been able to create entirely new products [from leftovers]."

Herefordshire-based Swan Brewery aims to reduce waste in every step of the brewing process. The company gives used hops to local farmers and gardeners as a compost, donates excess malt to pubs and restaurants for use in cooking, and skims yeast from the brewing process to be reused in future beers. "Smaller brewers often buy freeze-dried yeast from France, which involves packaging waste and transport, whereas we use yeast again and again," explains brewery co-founder Gill Bullock.

Bullock says that investing in onsite renewable energy technologies hasn't been financially practical for the business so far. However, she believes that making sure the brewery doesn't waste resources generates a return of its own: "We reap the rewards in terms of feeling good and reducing the business's carbon footprint."

For SMEs, investing in green solutions doesn't necessarily mean outfitting an office with solar panels, or even switching to a renewable energy supplier. Ultimately, going green is about reducing waste and realising efficiencies – and that's just good business. ●

One of the jobs of non-executive directors (NEDs) in listed companies - determining executive pay - can be fraught with tension. The decision is both political and personal, and the stakes are high. And although NEDs might have plenty of business experience, they often lack the skills and experience needed on the remuneration committee (RemCo). To this end, the RemCo will usually be assisted by at least one firm of remuneration consultants, even though this is not legally required. But while this external input helps to legitimise the decisions of RemCos, how do they evaluate this advice?

Partly funded by ICAEW's charitable trusts, we investigated the factors that influence the advice executive remuneration consultants provide. We conducted face-to-face interviews with 20 consultants operating in the FTSE 350 space, covering global through to small practices. Out of that research came the report *Fair pay? Executive Remuneration: factors influencing consultants' advice* ([tinyurl.com/BM-FairPay](http://tinyurl.com/BM-FairPay)). Here we distil our key findings.

## NOT JUST ABOUT THE MONEY

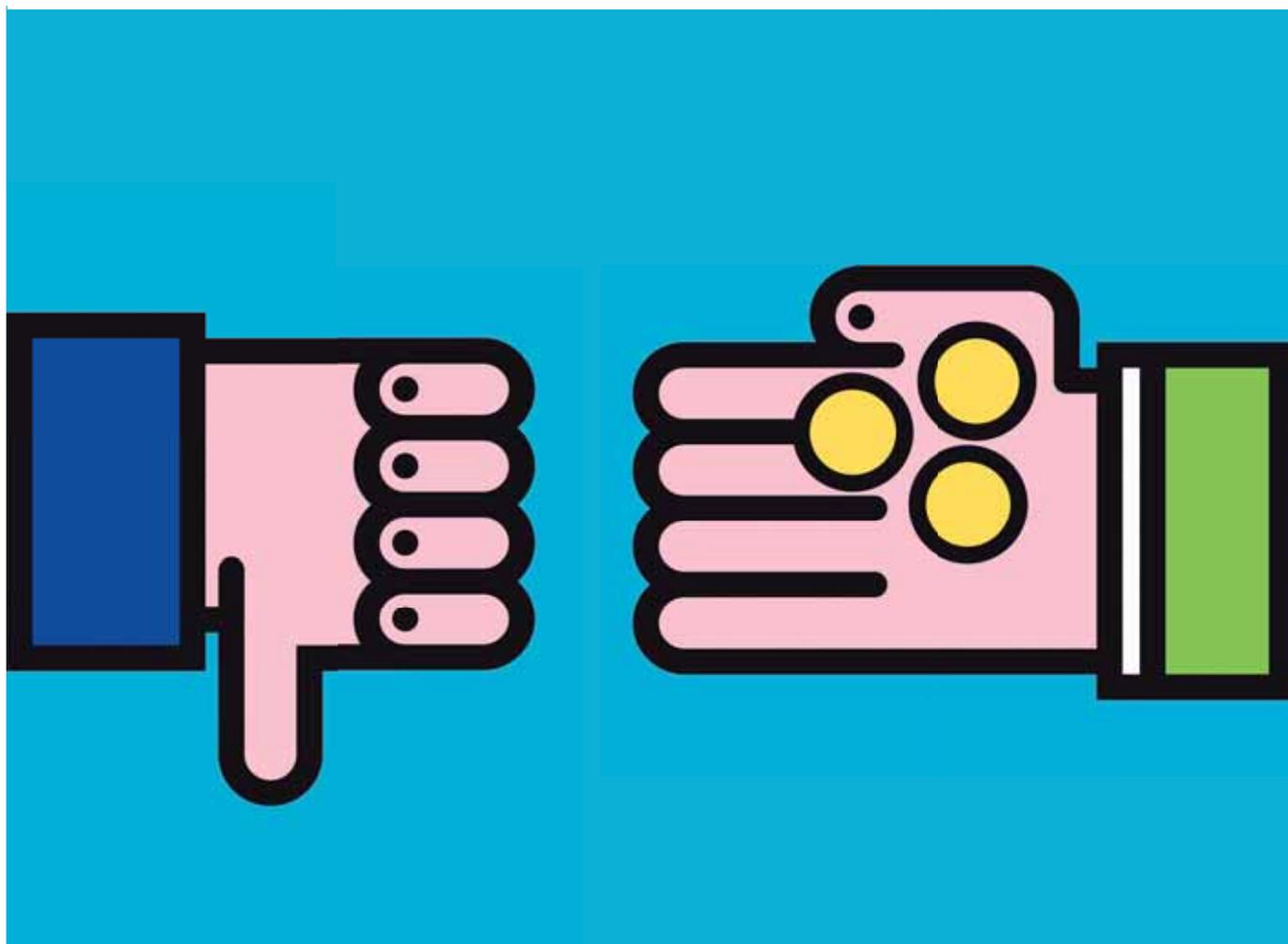
Research by Cranfield's **Ruth Bender** and **Monica Franco-Santos** explores the factors influencing those helping the NEDs - remuneration consultants

One reason for seeking the input of a consultant was that there had been a change to the company's leadership team or the business strategy. Such change could herald the perceived requirement to alter remuneration plans. As one interviewee put it: "Every time a chief executive comes in, he or she feels obliged to change things and achieve things. They may have something they really like and bring with them or may bide their time and wait."

Various client company factors had an effect on consultants' approaches. Volatile performance, for example, often requires pay plans that can accommodate change over an economic cycle. These would be designed quite differently from remuneration schemes for more stable environments.

The size of the organisation also had an effect, as benchmarking is a norm in determining pay. If the company had an international presence, then international pay norms would be influential.

The type of ownership affected consultants' decision-making too. Listed companies were seen as constrained by



best practice more than those in private hands. However, where the country of origin of key shareholders and managers was not the UK, UK pay norms were not always followed.

Also of interest to consultants was the public profile of their client, where reputational risk could be the upshot of adopting schemes that didn't follow accepted pay norms.

Another influence was company culture. Interviewees referenced some firms where people were interested only in what they would be paid, but other companies that considered all aspects of a package including long-term prospects, training and conditions. This indicates how two organisations of the same size in the same industry could end up with quite different remuneration schemes.

The budget available for consultancy work had a practical effect on outcomes: with most consultants on an hourly rate, complex remuneration schemes tended to cost more.

Another important factor weighing on consultants was regulation, in particular with pay policies and practices in banking and financial institutions. Some consultants discussed actively working with regulators to interpret EU regulations on bankers' pay.

### GOOD OR BAD?

We asked consultants what they thought made a good or bad RemCo. Quality of the chairman ranked highly. This included their personality, competence in dealing with personal relationships, and the political capital they held within the company. Even so, the calibre of the whole committee was relevant. Consultants said NEDs needed to be competent and committed, getting involved in decision-making and debate. Their need to understand the parameters and complexities of pay structures was seen as vital, as well as maintaining an independence of thought in the face of a strong-willed management.

A large number of RemCo meetings might suggest organisational flux, or could reflect a committee struggling to make decisions.

Consultants didn't believe a good RemCo was necessarily one that delivered a pay scheme in line with UK corporate governance norms - they thought RemCos should act appropriately for the business, adopting and defending novel or rich pay structures if they were warranted.

The type of relationship between a consultant and RemCo varied. Whether a

## We conducted face-to-face interviews with 20 consultants operating in the FTSE 350 space, covering global through to small practices

consultant attended all or only some RemCo meetings was not indicative of the quality of the relationship one way or another. Some relationships were inclusive in nature, while others were more transactional. Several consultants had advised the same business for many years.

### CEO AND EXECUTIVES

The degree to which a chief executive officer (CEO) was involved in setting remuneration was also flagged up as an influence. While no CEO ought to have any direct input to their own pay discussions, both they and the chief financial officer (CFO) are likely to be involved in pay setting generally because it is linked so closely to business strategy and performance. It is impossible for consultants to design effective remuneration plans without the relevant data on strategy and challenges that can only come from management. This means CEOs tend to be present at RemCo meetings at least some of the time. Boundaries needed to be set around CEO involvement in order that RemCos retain a voice independent of management.

### THE ROLE OF THE CONSULTANT

Some of the key tasks an executive pay consultant might carry out include:

- designing pay policies, generic or bespoke;
- suggesting appropriate comparable companies for benchmarking quantum and structure of pay;
- advising on the impact of regulatory change, current pay trends and attitudes of investors and advisory bodies;
- modelling the implication of proposed remuneration schemes;
- calculating the level of variable pay based on the plan;
- advising on pensions or the tax implications of schemes;
- advising on liaison with institutional shareholders;
- advising on the director's remuneration report; and
- providing input for the agenda and attending remuneration committee meetings.

### THE POWER OF HR

One of the most striking findings was the extent to which internal HR influences RemCos. While most RemCos had the support of an internal HR adviser, the quality of these advisers had an impact on the remuneration process and outcome. This partly related to their organisational skills and the timely production of relevant data for the RemCo and consultants.

However, the HR adviser's position on the management team, ultimately reporting to the CEO, was seen by some to be a negative in the pay-setting process because it could lead to bias in the advice and information that they provided.

The internal adviser also had influence when it came to selection of a remuneration consultant, with some having favourites with whom they had previously worked. Consultants reported that HR advisers were often critical in influencing which firms were asked to participate in a so-called beauty parade.

Our research uncovered a related point rarely raised in academic research, namely the influence on pay schemes of the CEO's personality. Aggressive or greedy behaviour by CEOs, noted by some consultants, created tensions in setting pay. This tendency could be exacerbated by rival consulting firms using peer pay statistics in their marketing materials, to suggest to executives that they might be underpaid. The consultants suggested that this behaviour, over time, yielded those CEOs results.

It must be noted that aggressive management was not a universal observation among consultants. Some also commented on "more reasonable" CEOs that didn't argue over pay. They also discussed the decisions by some RemCos to award less generous remuneration packages to managements they saw as average.

Our research also considered what makes a good consultant. Most interviewees agreed that ending up with a plan that was right for the company and its strategy, whatever that might be, was a

mark of success. This could be a traditional/orthodox approach as much as it could be creative, resulting in conservative or rich pay rewards, depending on the circumstances in each case.

While the consultants said that satisfying the management, RemCo and investors was important, several mentioned that there should still exist a healthy tension, with no party being too satisfied. The consultant must be able to form and maintain strong relationships with all stakeholders to allow smooth facilitation of process and a confident environment in which to share ideas.

#### BEING INDEPENDENT

Inextricably linked to what a good consultant looks like is the idea of a consultant's independence. Among our interviewees' personal integrity, the importance of independence to their consultancy's brand and their code of conduct were cited as influential.

Most of our research was conducted with consultants that had been hired by RemCos, but management might also be

the driver behind hiring consultants. One interviewee made a distinction between the two types of assignment - working direct for a RemCo was reactive, and involved providing the members with pay propositions/options and improving them in review. Working for management involved more detailed work, first putting together all the options to be tabled for the RemCo.

Consultants reported incidences of being fired in the past because the advice they gave to RemCos was not aligned to management's wishes. This pressure could nudge consultants towards recommending higher executive pay, though none of our interviewees believed they were doing this, rather their rivals were. Indeed, many had come to the personal conclusion that executive pay packages were too rich.

Interviewees discussed a continuum of approaches to designing pay schemes from "extreme tailoring" to a company's situation through to "plain vanilla" schemes used the same way for many clients. There was said to be no right or wrong answer to what a good pay structure should look like, but by default businesses were opting for schemes that were similar to others on the basis of their being simple, cheap and legitimate. That said, all our consultant interviewees had experience of tailoring schemes around non-traditional performance measures.

In summary, some of the research points raised by this study serve to remind RemCos of their need to become more sensitised to the drivers of behaviour of those around them. Corporate governance, yet again, was demonstrated to be more about board culture and attitudes than about structures of independence that are the focus of many commentators and regulators.

Our research has shed light on the ways in which executive pay consultants approach their work, giving pointers for how RemCos could better understand the characteristics and preferences of the individuals and firms advising them. ●



**Ruth Bender**, professor of corporate financial strategy, Cranfield School of Management  
**Monica Franco-Santos**, associate professor, Cranfield School of Management



## Our research uncovered a related point rarely raised in academic research, namely the influence on pay schemes of the CEO's personality

ICAEW's charitable trusts support independent academic research of interest to the accountancy profession and wider business community. See the report in full at [tinyurl.com/BM-ExecRem](http://tinyurl.com/BM-ExecRem)



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# SENSIBLE CYBER SECURITY

Everyone is talking about cyber security, but what is the key to implementing it effectively in your organisation? **Matthew Leitch** explains it all

In our hugely networked modern world, cyber security often hits the headlines. Organisations around the world are under increasing pressure to become more cyber secure and prove they have done so. How should this effort be organised, and to what extent can it be left to specialists to sort out?

Before tackling those questions, you might be wondering ‘what is cyber security anyway?’ This is one of those buzz phrases without an agreed meaning, even among experts. However, the best analysis I have seen is that cyber security considers not only information but also other assets that can be controlled from or accessed by computers. Examples include a hacker controlling a building through its computer, spying on a victim using their own private CCTV cameras, or starting a fire by delivering bogus firmware to a networked printer.

In contrast, information security focuses on private information only, and encompasses information on paper as well as on computers.

Managing cyber security is interesting because, although we usually think that risk should be managed as an integral part of management, it seems obvious that computer security is a complicated, technical area and so only an expert could do it. In reality, the best approach is a mix of centralised, specialist work combined with managing cyber risk as a normal part of management and working life.

This becomes clear when you think in practical terms about what needs to be done.



## A zealot's passion for tight cyber security is not as useful as a focus on convenient, efficient cyber security

### WHAT NEEDS TO BE DONE

Some cyber security controls can be implemented and operated solely by a cyber security expert. For example, without the help of anyone else in the organisation a cyber security specialist can arrange periodic “penetration testing” where an honest hacker tries to break your security in order to test it.

Other controls need cooperation from someone in the IT department. For example, software companies often issue updates to counter security weaknesses or fix bugs. Using only software that is currently supported by the developer is important to security, as is implementing new versions promptly, but in a controlled way in case there are problems with the new version. Since security is not the only factor involved this usually falls under computer operations, not cyber security.

The cyber security person cannot just do it. The computer operations people have to be persuaded or directed to do it.

Then there are controls that require work by people outside IT altogether. When an employee leaves the organisation their computer access needs to be taken away promptly. It's easy to remember this when you fire someone for dishonesty or after a huge row. It is harder in the more common cases of people you trust, people on parental leave who decide not to return, user accounts set up for training purposes, and for contractors and temporary staff. Doing this reliably and promptly requires action by the employee's line manager, HR, and computer operations or a helpdesk. The cyber security expert can design, implement, and carry out very little of this process directly.

A person or team that designs cyber security for an organisation can be valuable. This is not just setting objectives for cyber security, and not just performing cyber security reviews and making recommendations. In effect, these other roles are just articulating the problem in more detail. We need to know what the solutions should look like, and quickly - not after months of requirements analysis.

The architect of cyber security is someone who works out the main elements of the design for cyber security, putting together tools, good practices, policies, and so on to design an intelligent, appropriate approach to cyber security for an organisation. This is a creative role requiring fluent, skilled synthesis of design ideas.

The value of this role comes from the expertise of the architect and their ability to think in a way that transcends organisational boundaries. It is particularly useful for controls that are technically complicated and for controls that require cooperation between people to be effective.

### CONFLICT AND COOPERATION

However, even the best cyber security designer will lack the power to gain the cooperation needed to implement the full design. In addition, there will be hundreds or thousands of details to work out that have to be delegated to people more closely involved, eg, detailed design of HR procedures.

Cyber security controls are sometimes time consuming and obstructive, and compete with other priorities. It's worse if the cyber security architect ignores the costs to other departments. A zealot's passion for tight cyber security is not as useful as a focus on convenient, efficient cyber security. A ban on removable media such as memory sticks may be sensible but how about a mandatory daily virus scan 20 minutes' long during which no other work can be done?

Cyber security experts need to care about efficiency and convenience, but to be seen as skilled helpers rather than obstructive nags they also need others to be trying to deal with cyber security. Non-specialists in cyber security given a task by their boss that involves cyber security will usually welcome expert help. Both sides must be properly motivated.

The biggest push for cooperation on cyber security should come from the board and senior line management (including IT management). Just as the cyber security architect has an overview of cyber security across the organisation, senior line

managers have an overview of the many issues and objectives that managers and other employees need to pay attention to. They have, if they make the effort, an overview of all the ways that employees can do harm through carelessness or malice. That includes the ways a disgruntled or dishonest ex-employee can damage or take advantage of the organisation, and the ways employees can be victims of deception. Many of these do not involve computers.

From this point of view, the cyber security expert is an adviser to be called on for suggestions and technical expertise in a very specific subset of management issues, not an annoying obstruction.

You might be able to tell who is taking responsibility in an organisation from the way blame is allocated and accepted. For example, suppose an employee receives an email at work and, forgetting the advice given in a security training session three months ago, clicks on an attachment. The attachment contains malware that encrypts as much data across the company as it can then issues a demand for money to unencrypt the data. This is a ransomware attack and is a big threat today.

Who is at fault? The security architect and the person who designed and gave the security training need to take some blame and look again at their designs. However, the employee has slipped up and is at fault - though perhaps slightly less culpable if the deception is very well done. The employee's boss is also at fault - and so on up the line. Reminding people that security is another part of their job is important. Tackling every kind of fraud is also important and, again, a senior line management responsibility. All those should accept some responsibility for what has happened and learn from the incident.

As we have seen, many important cyber security controls require cooperation across organisational boundaries to implement and then operate and monitor. That is more likely to happen if the individuals who need to make that effort are asked to, specifically, by their bosses. For example, if you are in computer operations and your boss asks you to set up a Windows server, that's different to your boss asking you to set up a Windows server "and don't forget to make sure you do the security settings according to the new security policy". Those extra words are likely to make a big difference.

### PROVING CYBER SECURITY

Proving to a regulator (or the board) that your cyber security is strong is a different



## Proving to a regulator (or the board) that your cyber security is strong is a different challenge to getting it there in the first place

challenge to getting it there in the first place. Regulators and auditors today have particular phrases they like to hear. They prefer the work of internal reviewers who are independent and don't get creatively involved. Regulators care little for efficiency and may even be reassured by high spending on cyber security programmes and over-engineered software solutions to cyber security problems. They like detailed lists of risks and voluminous, mind-numbing matrices that often can't see the wood for the trees.

Imagine a building designed by an architect who worked by filling in boxes in a huge matrix instead of drawing the building. It might have an entrance door that opens directly into a bathroom, an air conditioning motor next to the bedrooms, or gutters that don't join up.

In contrast, designing cyber security schemes and all the component procedures, policies, tools, and so on, requires an overall scheme built from appropriate, interlocking patterns that are, themselves, built from appropriate, interlocking patterns at a more detailed level. Appropriate designs are driven by efficiency as well as effectiveness.

So, it helps to draw a clear distinction between creative input (designing a control system) and assurance reviews (checking its coverage, operation, and effectiveness) - with separate people if you can. The techniques, skills and relationships are so different.

Putting creative cyber security experts into "second line" review roles can reduce their value because it forces them to focus on nagging and reporting the failings of others instead of solving problems elegantly. Having said that, second line reviewers can provide extra push to get a good cyber security design implemented and operated.

In summary, cyber security can be approached with three properly motivated roles, if possible:

1. A creative cyber security architect who has the expertise and cross-departmental view to design an integrated, efficient approach to cyber security.
2. Line management and their teams who have the expertise and the broader, cross-issue view to design and operate an integrated, efficient approach to management and doing work.
3. A review function to keep the others honest and provide assurance that is understood by auditors and regulators. Each should work in the way that is natural for them, using tools suitable to their role - not matrices for everything. ●

# TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

## 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)**

### REDUCED DISCLOSURE FRAMEWORK

The Financial Reporting Council (FRC) has issued *Amendments to FRS 101 Reduced Disclosure Framework - 2016/17 cycle* which provide some limited exemptions from some of the disclosure requirements of IFRS 16 *Leases*, in particular the form such disclosures might take. The amendments will be effective from the date the entity applies IFRS 16 in its accounts.

The amendments also clarify that recognition in other comprehensive income of fair value gains and losses attributable to changes in own credit risk, as required by IFRS 9 *Financial Instruments*, will usually be a departure from Companies Act 2006, requiring true and fair view override disclosures to be given. For the amendments, see [tinyurl.com/BM-Am-FRS101](http://tinyurl.com/BM-Am-FRS101)

### FRS 102 AND IFRS

As a result of feedback on its consultation *Triennial review of UK and Ireland accounting standards - approach to changes in IFRS*, the FRC has deferred its decision on incorporating recent major changes to IFRS into UK GAAP. The FRC has agreed that more implementation experience is needed before an assessment of whether and, if so, how and when requirements based on recent changes to IFRS should be considered for incorporation into FRS 102. See [tinyurl.com/BM-IAS12](http://tinyurl.com/BM-IAS12)

### NON-FINANCIAL REPORTING

The FRC has published a factsheet on non-financial reporting that provides an overview of the new regulations implementing the EU Directive on non-financial and diversity information. These regulations apply to companies and qualifying partnerships with financial years beginning on or after 1 January 2017.

You can find the factsheet at [tinyurl.com/BM-NFRD](http://tinyurl.com/BM-NFRD)

The FRC is also consulting on amendments to its *Guidance on the Strategic Report*, which would encourage businesses to consider the interests of stakeholders. The proposals reflect the enhanced disclosures that certain large companies have to make in respect of the environment, employees, social matters, respect for human rights and anti-corruption and anti-bribery matters. The guidance also encourages all companies to disclose information on how boards have considered broader stakeholders when taking decisions to promote the long term success of the company.

Comments on the exposure draft are due by 24 October 2017.

Read the press release and consultation at [tinyurl.com/BM-NonFinRep](http://tinyurl.com/BM-NonFinRep)

### FRS 102 FINANCIAL INSTRUMENTS DISCLOSURE

FRS 102 requires entities to disclose the carrying amounts of certain types of financial instruments analysed into different categories as prescribed by paragraph 11.41. This new note has proved to be a source of confusion for many with differing views as to what might be included or excluded. Should all financial instruments be included? Should the note include cash and/or bank overdrafts? Accruals and prepayments?

Should the note reconcile to the amounts included in the balance sheet?

In the Financial Reporting Faculty's FRS 102 Update, *Disclosure of categories of financial assets and financial liabilities*, faculty staff answer some of the frequently asked questions on the disclosures required by paragraph 11.41 and provides practical guidance as to how the requirements might be applied in practice.

Download the update at [tinyurl.com/BM-FRS-Update](http://tinyurl.com/BM-FRS-Update)

### LOANS FROM DIRECTORS

In May 2017 the FRC issued an amendment to FRS 102 that permits a small entity to measure a loan from a director who is a shareholder in the small entity at the transaction price, ie the face value of the loan (see June 2017's Technical updates). The Financial Reporting Faculty's FRS 102 Update *Loans from director-shareholders under the new UK GAAP* has been updated to reflect this interim relief available to small entities.

Read the document at [tinyurl.com/BM-FRS-Update2](http://tinyurl.com/BM-FRS-Update2)

### IFRS 16 LEASES - VIRTUAL CONFERENCE

In a recent webinar, entitled *IFRS 16 Leases - Making sense of the new standard*, we asked the audience a number of questions with some interesting results.

In response to the question: "How would you describe your state of IFRS 16 readiness?" over 70% replied they had either not started preparing for first-time application of IFRS 16, or had started but with a lot still to do. Yet over 60% felt that IFRS 16 would have a significant or material impact on their accounts.

When asked: "So far, what has been the biggest challenge in preparing for IFRS 16?" the responses were more varied: 27% felt that gathering the necessary data was the biggest challenge, and 58% thought that determining the discount rate was the biggest headache.

For more practical help about IFRS 16, register for the virtual conference on IFRS 16 being held jointly by ICAEW and the IFRS Foundation on 10 October 2017. Details can be found at [icaew.com/ifrsvirtualconference](http://icaew.com/ifrsvirtualconference)

Delegates will benefit from insights from IASB and other IFRS experts, on-demand webinars, live interactive panel discussions and Q&A sessions.

## TAX



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### REFORM OF CORPORATION TAX LOSS RELIEF - HMRC DRAFT GUIDANCE

New carried-forward corporation tax loss relief rules will be included in the Finance Bill to be published this autumn and will apply from 1 April 2017.

HMRC has now published an initial tranche of draft guidance to explain the application of these rules, focusing on core areas and other aspects where guidance has been specifically requested. Amended and further draft guidance will be issued in due course.

HMRC is seeking comments on the draft guidance by 25 September 2017.

Current rules allow corporation tax losses to be carried forward and set against the first available trading profits of the same company, from the same trade, but without other restriction to the amount (except for banks, where restrictions already apply).

The new rules, which will apply to all companies and unincorporated associations that pay corporation tax and have carried-forward losses, aim to restrict the amount of loss relief available to businesses with substantial profits; and allow most carried-forward losses arising from 1 April 2017 to be used more flexibly against the total taxable profits of a company and its group members.

Some trading losses carried forward are still only available for set-off against profits of the same trade. This applies for all trading losses incurred in periods prior to 1 April 2017 and to losses of later periods in particular circumstances, for example, if the trade has become small or negligible.

The relaxation of the rules on the use of carried-forward losses is welcome, as the requirement to stream tax losses has long been a frustration for companies, but the practical application of the rules could be complicated. The Tax Faculty responded to the original consultation on these rules in ICAEW REP 125/16.

The effect of the loss restriction will be felt by companies with profits in excess of £5m, which will no longer be able to reduce profits to nil by using relief for carried-forward losses.

Broadly, a company's profits after deduction of any in-year reliefs (such as group relief) and the deductions allowance (£5m) can only be reduced by up to 50% by carried-forward losses.

Where a company is a member of a group, the deductions allowance is shared among the group members as they see fit. The allowance is allocated to companies that are members of the group by a nominated company. There is no restriction if a company's profits are below the amount of the £5m deductions allowance and as such, most small companies or groups are unlikely to be affected.

The restriction has effect for profits arising from 1 April 2017 but applies to all losses carried forward, including those carried forward at that date.

### HMRC SHINES SPOTLIGHT ON DISGUISED REMUNERATION AVOIDANCE SCHEMES

HMRC's *Spotlight* publications highlight and summarise avoidance schemes that HMRC considers do not work and explain what users of the schemes should do to regularise their tax position.

These schemes are arrangements used by employers, agencies and other employment intermediaries to avoid income tax and national insurance contributions (NICs) when they hire workers and individuals. Although there are various types, the arrangements normally involve the employee or contractor being paid a small amount of earnings so there is little or no income tax or NIC liability but the earnings are sufficient to comply with national minimum wage requirements and provide an NIC record. It is claimed that the balance paid to the worker is subject to no, or to less, tax and NIC than if the balance were remuneration.

*Spotlight 39 - Disguised remuneration: re-describing loans* was released in August 2017.

*Spotlight 37 - Disguised remuneration: job board avoidance scheme* was released in March 2017.

*Spotlight 35 - Disguised remuneration: tax avoidance using annuities* was released in February 2017.

The entire set of Spotlights is available at [tinyurl.com/GOV-Spotlights](http://tinyurl.com/GOV-Spotlights)

## CONSULTATION ON A NEW SMALL BUSINESS RATES RELIEF SCHEME FOR WALES

On 21 July 2017 the Welsh Government published a small business rates relief (SBRR) consultation document. The new scheme will replace the temporary arrangements, which have been in place since 2010, and will take effect from 1 April 2018.

In 2017/18 the Welsh government intends to provide £110m of support to small businesses via SBRR and has forecast that the new regime will offer a similar level of funding. It is expected that legislation will be laid in December 2017 alongside a summary of consultation responses. The consultation ends on 13 October 2017.

### Proposals

One area that the government wishes to reform is where larger businesses occupy multiple small properties. Unlike other administrations, in Wales there is no restriction to SBRR where a national chain owns a number of small properties. While this makes the current scheme easy to understand and administer, it can result in the relief not being properly targeted. The Welsh government intends to restrict relief either to a set number of properties per business or to a set number of properties per local authority.

To open up the relief to more businesses the government is considering raising the lower threshold for 100% relief from £6,000 to £8,000. This would see an additional 18,000 businesses benefiting from SBRR. Alternatively the upper threshold for relief could be increased by £1,000 to £13,000 to extend the scheme to a further 16,000 businesses.

The consultation also considers the introduction of time-limited relief, which would support eligible businesses in their formative years with relief being gradually withdrawn once they became self-sustaining.

## HMRC'S AGENT UPDATE - EMPLOYMENT TAXES ROUNDUP

This month's *HMRC Agent Update* contains a wide range of pointers concerning employment tax. Highlights include the following:

### PAYE settlement agreement (PSA) process

HMRC proposes to introduce a digital

PAYE settlement agreement process from April 2018, which it intends will simplify the process for agreeing PSAs for employers. Details will follow.

### Employers' ongoing auto-enrolment duties

The update includes a reminder about employers' ongoing auto-enrolment duties. Employers need to pay regular contributions into their chosen pension, monitor the age and earnings of their staff and enrol eligible staff, process any requests to join or leave the scheme, and keep and maintain accurate records. They will also need to re-enrol eligible staff into an automatic enrolment pension scheme every three years. Further information about the continuing duties can be found on the website of The Pensions Regulator. For further information, see [tinyurl.com/BM-Duties](http://tinyurl.com/BM-Duties) and [tinyurl.com/BM-OnDuties](http://tinyurl.com/BM-OnDuties)

### PAYE code notifications online

As HMRC moves down the digital road, the days of paper mailings are numbered. Businesses are encouraged to register to receive email alerts so they are aware of the latest coding changes and important information that is published on the government web pages.

### Paying HMRC

The Transcash service at the Post Office to pay HMRC is being withdrawn from December 2017 and affected employers will need to find a different way of submitting payments to HMRC.

For security reasons HMRC encourages payment electronically by: direct debit; online or telephone banking, which includes faster payments, BACS and CHAPS; debit card online; or by telephone.

## 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**

### WATCHDOG CLAIMS FLEXIBLE WORKING WILL HELP REDUCE PAY GAPS

Flexible jobs and ringfenced leave for new fathers would help employers to reduce various pay gaps, according to the Equality and Human Rights Commission.

They believe that flexible hours, including part time working, would help parents and disabled people feel able to participate in the workplace.

One idea would be to give new fathers a "use it or lose it" paternity package to encourage greater uptake of the benefit.

Further recommendations from the commission included broadening access to apprenticeship schemes and investing more in training.

The right to request flexible working has been enshrined in law for three years.

### WARNING OF SLOW WAGE GROWTH

The outlook for employers over the next year around pay increases could be as little as 1%, according to a key HR and recruitment survey.

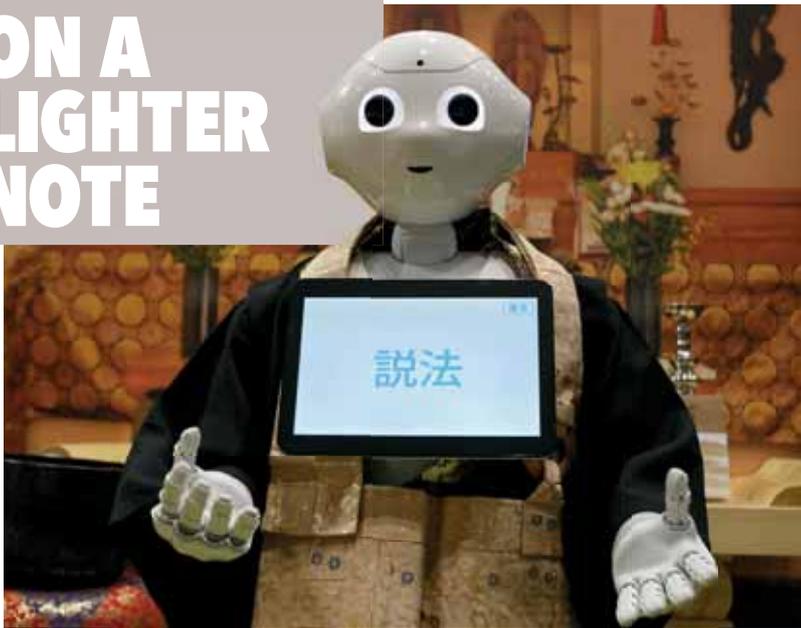
The Labour Market Outlook from Chartered Institute of Personnel Development (CIPD) and Adecco said it was the lowest projection for three and a half years. The Bank of England's inflation target is 2%.

Many organisations taking part in the survey cited being unable to afford bigger pay rises, and only being able to deal with the rise in the national living wage. Pressure on pay also came from an increased supply of labour to the market, with about 50% of applicants to jobs being perceived as suitable for the vacancy in question.

Charles Cotton, performance and reward adviser at the CIPD, said: "HR needs to look at organisational, work and job design to see how performance can be increased in a sustainable way so employee pay and benefits can be improved."

He also warned that inactivity on the issues might lead to a "low wage, low productivity swamp". ●

# ON A LIGHTER NOTE



## ROBOT BUDDHIST PRIEST

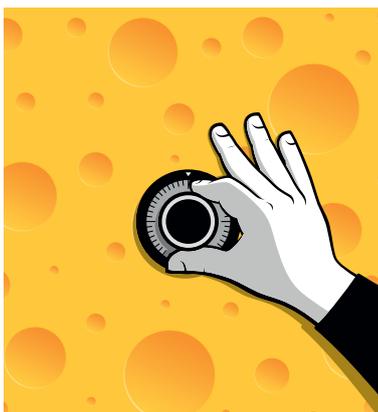
Buddhist priests charge upward of 240,000 yen (£1,700) in Japan for conducting a funeral. Plastic moulding company Nissei Eco Co saw a gap in the market for a cheaper, humanoid option. By writing software to adapt SoftBank's existing Pepper robot, they created Buddhist Pepper, unveiled at the Tokyo International Funeral & Cemetery Show 2017. It chants sutras while tapping a drum, can perform the essential requirements of a proper Buddhist funeral, and all for just 50,000 yen a funeral.

## OYSTERS 24/7

French oyster producers are following in the footsteps of other French farmers who have moved their fresh produce into vending machines. Offering a radical alternative to sweets and canned drinks, the refrigerated dispensers give 24/7 access to fresh oysters. One such dispenser is found on Ile de Re off France's western coast. "We can come at midnight if we want, if



we have a craving for oysters," enthused Christel Petinon, a 45-year-old oyster-lover holidaying on the island. "It's excellent; they're really fresh." The oyster farmers involved commented that the vending machine appealed more to a younger generation accustomed to buying on the internet and unperturbed by the absence of a shopkeeper.



## STOLEN CHEDDAR

A £500 reward has been offered to recover 100lbs of prize-winning Wyke Farms cheddar stolen from an agricultural show in Yeovil. The two cheese blocks made by the Somerset cheesemaker, which exports to 160 countries, vanished along with their prize-winning certificates. "Such a quantity of prize-winning cheese would retail at £500-£600," said Richard Clothier, Wyke Farms' MD. "But with their certificates, they could be worth thousands."



**¥50k**

THE PRICE OF HIRING A ROBOT BUDDHIST PRIEST FOR A FUNERAL



**18**

PIGS SAVED FROM A FIRE... ONLY TO BE TURNED INTO SAUSAGES

## SAUSAGE SURPRISE

Rachel Rivers, a farmer from Wiltshire, was moved to offer firefighters a belated gift to say thank you after they saved her 18 pigs from an electrical fire. Six months after the blaze, Rivers made the crew sausages from the same pigs after they had been slaughtered. A spokesman for the fire service said the sausages were "fantastic" and thanked Rivers for her generosity.

"I'm sure vegetarians will hate this," Rivers told the BBC.



## SHOWERS OF THOUGHT

"OK, so I'm punching a puppy here, but this company needs blue-sky thinking and if you don't like it, get off the bus..." Office jargon - it's the worst, isn't it? And a survey of 2,000 UK workers by job site Glassdoor has identified the phrases that really get people's goat. So let's get our ducks in a row and reveal the 12 most hated phrases:

1. Touch base
2. Blue-sky thinking
3. We're on a journey
4. Game changer
5. No-brainer
6. Thought shower
7. Run it up the flagpole
8. If you don't like it, get off the bus
9. Mission statement
10. Pick it up and run with it
11. Punch a puppy
12. Let's get our ducks in a row

"No one wants to be the office jargon junkie but who isn't guilty of using some of these buzzwords from time to time?" commented David Whitby of Glassdoor, before dashing away for a thought shower with colleagues.



**100lbs**

WEIGHT OF TWO STOLEN CHEESE BLOCKS



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