BUSINESS & MANAGEMENT FACULTY PUBLICATION

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ICAEW

Business & Management

A LITTLE HELP
HOWEVER GDPR-READY YOU FEEL, ICAEW IS HERE TO HELP

TRUE WISDOM
ARE FINANCE LEADERS PREPARED FOR THE NEW AGE?

SURVIVAL GUIDE
FIVE TIPS FOR GETTING THROUGH A NETWORKING EVENT

NEW HORIZONS

What do changes to the business banking sector mean for FDs and CFOs?

June 2018 Issue 265

Is it academical?

The Construction Purchasing Manager's Index for April was released at the beginning of this month, showing modest growth of 52.5. This was slightly above expectations, which is good news for the economy, although construction only contributes some 7% of UK GDP. The growth comes on the back of figures issued by the National Federation of Builders showing continued shortages in all contracting trades, especially bricklayers, carpenters and plasterers. At the same time, figures from the Construction Industry Training Board (CITB) showed that apprenticeships starts fell, albeit marginally, in the last four months of 2017 to 10,750 when they should have been rising sharply.

The Federation of Master Builders (FMB), meanwhile, issued its research showing the average salary for construction workers across the UK (£32,000 to £51,000) was higher than that for graduates (£32,000 to £42,000), with the highest non-management wages being earned by plumbers (£49,000), electricians (£47,000) and roofers/bricklayers (£42,000).

This disconnect between supply and demand has been met with the wholesale importation of qualified employees from the EU, enabling businesses to instantly fill gaps in their skill base, but it does not explain why money is not incentive enough to persuade young people to go to college and learn a trade rather than going to university to study for a degree.

A study by Zietz and Joshi, *Academic choice behaviour of high school students: economic rationale and empirical evidence*, concluded that the choice of university over college is driven by peer pressure and family background as much as academic performance and life goals. Kersh and Juul, in their 2015 paper *Vocational Education and training as a career path*, made a very pertinent point when they concluded the problem was essentially down to politicians: "Major government education policies and reforms have been driven primarily by economic purposes and less by the need to address the problem of enhancing the status of vocational education within society, which has been perceived as a 'second choice' option".

Successive governments' encouragement of students to only consider academic qualifications and their continued failure to adequately fund further education colleges means that the UK will have to carry on relying on imported skilled labour for the next decade. The poor take-up of apprenticeships and rising average age of skilled workers will lead to greater wage inflation in this sector than the graduate one and hopefully the market will adjust itself and divert more young people into training.

We hope that you enjoy this copy of the magazine; please contact matthew.rideout@icaew.com or robert.russell@icaew.com if you have any comments or suggestions for *Business & Management*.

Robert Russell
Technical Manager

To comment on your magazine, please email publishing@icaew.com

ICAEW

Business & Management Faculty

THE TEAM
Matthew Rideout
Head of faculty
matthew.rideout@icaew.com

Robert Russell
Technical manager and editor
+44 (0)20 7920 8417
robert.russell@icaew.com

Rick Payne
Finance direction programme
+44 (0)20 7920 8451
rick.payne@icaew.com

Caroline Wigham
Services manager
+44 (0)20 7920 8508
caroline.wigham@icaew.com

THE COMMITTEE
David Carr
Chairman

Steve Bastian, Emily Brooks, Laura de Poitiers, Chris Ford, Emily Mackinson, Rashad Shamim, Helen Stevens, Nick Wildgoose, Martin Wheatcroft

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FACULTY EVENTS AND WEBINARS
Events and webinars are listed in this publication; details can be found on page 7

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BUSINESS & MANAGEMENT FACULTY
Chartered Accountants' Hall
Moorgate Place, London, EC2R 6EA
+44 (0)20 7920 8508
@icaew_finman
bam@icaew.com
icaew.com/bam

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NEWS

HANDHELD 3D PRINTER CAN PRINT SKIN FOR PEOPLE

Researchers from the University of Toronto have announced the invention of a handheld 3D skin printer that can cover and heal deep wounds using layers of collagen and fibrin. Weighing less than 1kg (2.2lbs), the device requires minimal training and can position replacement skin on a wound in less than two minutes. The team hope that they can eventually begin clinical trials on humans, and change the way burn care is carried out.

MOVE AWAY FROM LIBOR, SAYS BOE AND FED

Last month, the Bank of England and the US Federal Reserve urged the financial services industry to shift away from referencing the London Interbank Offered Rate, or Libor, to alternative interest rate benchmarks. The Fed is promoting its own version, the Secured Overnight Financing Rate (SOFR), while the BoE is promoting the Sterling Overnight Index Average (SONIA), which it wants to completely replace Libor by the end of 2021.

EU TO BAN COMMON SINGLE-USE PLASTICS

The UK government's hesitation on dealing with the scourge of plastic may be overtaken by proposed EU legislation to ban the 10 most common single-use plastics by 2021. Plastic straws, forks, plates, drink stirrers, cotton buds and balloon sticks, along with fishing gear, make up 70% of all marine litter. The directive requires approval by all national parliaments before it can come into force. In the meantime, ICAEW is looking at an alternative, more environmentally friendly cover for its magazines.

500k

Predicted number of devices to be affected by Sofacy Group's VPNFilter malware

2.1%

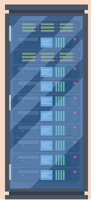
Pay rise planned by employers for Q2 2018

70%

Amount of marine litter made up of common single-use plastics such as straws and plates, and fishing gear

RUSSIAN MALWARE COULD BRICK ROUTERS

The FBI and US Department of Justice have urged computer users to reboot their routers due to widespread infiltration by VPNFilter, a multi-stage malware package developed by the Russian-backed 'Sofacy Group'. The call followed research from Cisco Talos, which found an an estimated 500,000 devices in 54 countries were infected. In addition to collecting personal information, the malware can also 'brick' routers. Though there is no easy way to tell if your device has been compromised, a reboot may remove elements of the malware. Security experts have advised using a factory reset. You can read the Cisco Talos research at tinyurl.com/BAM-Mal1

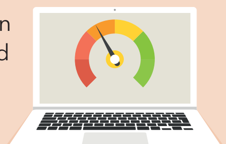


SLIGHT PAY RISE IN Q2

According to the Chartered Institute of Personnel Development (CIPD), employers are planning pay rises of 2.1% for Q2 2018 – a marginal increase from 1.8% in Q1. Demand for labour continued to grow in Q2 2018, and was not matched by supply, according to Gerwyn Davies, senior labour market analyst for the CIPD.

GETTING UP TO SPEED

If you are frustrated with your broadband not reaching its advertised speed, you may take comfort in a new rule from the Advertising Standards Agency (ASA). The new standard, which was implemented in late May, requires the speeds touted in broadband ads to be based on the download speed available to at least half of customers at peak times, up from the current 10% threshold before it can be classified as 'typical speed'.



EVENTS & WEBINARS

ALL WEBINARS AND EVENTS ARE FREE FOR FACULTY MEMBERS

EVENTS
ICAEW.COM/BAMEVENTS

NEGOTIATING AND PERSUADING
19 September 2018 6pm
"To jaw-jaw is always better than to war-war," as Winston Churchill is reputed to have said at a closed meeting with the US President, but poor negotiating skills have landed many in trouble over the years. The inability to influence and persuade others is frustrating and can be counter-productive. In this lecture, David Gillespie will teach the approach to take when wishing to influence others and provide you with some practical tips to give you an edge in all your business communications.
icaew.com/bamsepevent

WEBINARS
ICAEW.COM/BAMWEBINARS

FREE LUNCHTIME LEARNING WEBINARS – 20 MINUTE UPDATES

BREXIT UPDATE
20 June 12:30pm
All the salient facts as part of our regular programme on Brexit. Dr Stephen Davies of the IEA updates us with any real news on Brexit and its likely impact on the UK economy.
icaew.com/lunchjun

FRAUD RESPONSE – LEGAL REDRESS
28 June 12:30pm
Those who have been subject to fraud should not assume that the financial loss is irrecoverable. Recovery of the money lost may be undertaken through the civil courts by suing the fraudster for breach of contract or the tort of deceit. This kind of legal action, which offers speed and control to businesses, is one of the steps for mitigating the financial loss from fraud. This webinar, presented in conjunction with the Fraud Advisory Panel, will run through the process.
icaew.com/lunchjun2

FIVE STEPS TO COMPLY WITH GENERAL DATA PROTECTION REGULATIONS (GDPR)
2 July 12:30pm
Louise Marshall, partner at Spring Law, explains the rules surrounding GDPR and takes us through five practical and easy steps that businesses need to take to ensure compliance. This 20-minute webinar will strip down GDPR to its basic essentials in a clear presentation without any legal jargon.
icaew.com/lunchjul2

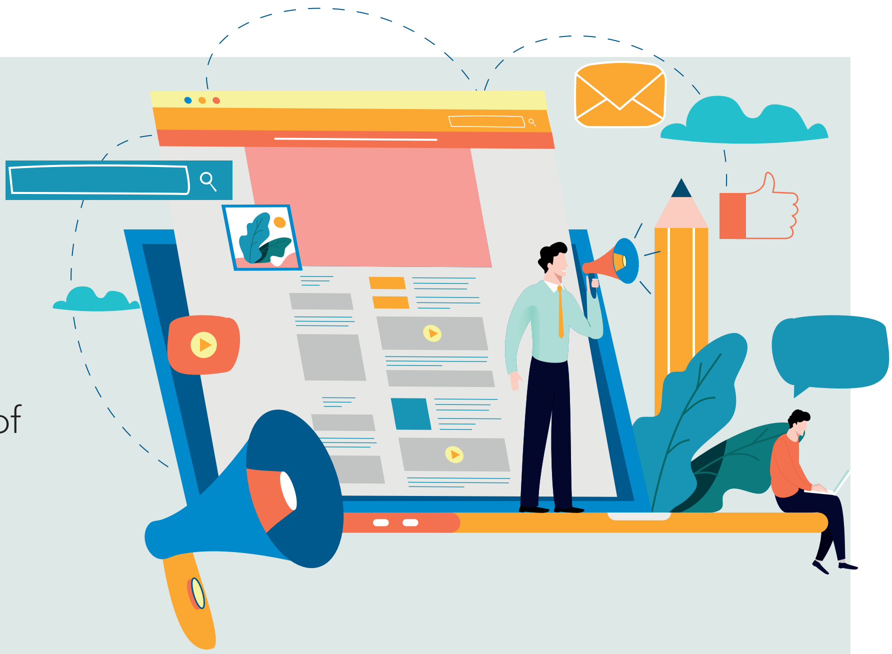
STATISTICS SKILLS IN EXCEL – BASS DIFFUSION CURVES AND MARKET SHARE
18 July 12:30 pm
We go back to basics for this series of Excel statistics webinars, offering you very practical steps on how to make the most of Excel functions and incorporate basic stats tools to improve your reporting efficiency. Our Excel expert, John Tennent, talks us through the Excel tools to use with Bass diffusion curves for market development, addressable market and market share. This webinar is set at a basic level – no previous knowledge of statistics is required.
icaew.com/lunchjul

STATISTICS SKILLS IN EXCEL – DISTRIBUTION CURVES AND FORECAST PROBABILITIES
25 September 12:30 pm
Another one of our back to basics Excel statistics webinars. This time, our Excel expert, John Tennent, talks us through the use of Normal distribution curves and Monte Carlo simulation to measure the impact of uncertainty in financial modelling. This webinar is set at a basic level – no previous knowledge of statistics is required.
icaew.com/lunchsep

FREE 60-MINUTE MORNING WEBINARS

DIFFICULT CONVERSATIONS AT WORK
11 July 10am
Most of us will have to have a difficult or embarrassing conversation at some point either at work or with our friends and family. These chats can be terribly difficult to navigate or even start. Although the participants might feel awkward, the meeting needs to be managed properly. Richard Jenkins will offer practical tips on how to initiate them and how best to cover the subject without stumbling.
icaew.com/bamjulwebinar

FIVE WAYS TO SURVIVE A NETWORKING EVENT



Many people dread the idea of having to attend a networking session, but **Rupert Wesson** from Debrett's has five simple ways to make the most of it

1. PREPARE WITH A PURPOSE

'By failing to prepare, you are preparing to fail.' It seems unlikely that Benjamin Franklin was thinking specifically of networking events when he observed this, but that doesn't make it any less applicable.

People often attend networking events without really stopping to think why they are there. Without a plan, all you will be doing is hoovering up the canapés and passing the time of day.

Instead, arm yourself with a plan to build your brand and that of the company you work for. Think about how you are going to describe what you do in a quick, simple and interesting way. Speaking with confidence and clarity will draw people to you and make any conversation more meaningful.

2. HAVE FUN

Just as important as preparing your professional objectives in advance of a networking event is to go with the expectation of having a good time – that way you probably will.

While it's generally in your best interest to attend in a professional mindset, this doesn't mean that 100% of conversations should be centred on work. An easy trick for building rapport is to find common ground. If this comes in the form of being in the same industry or having a shared client, that's great, but if it comes from a shared interest outside of work – whether tennis or Yorkshire terriers – that's fine too.

People will relax and engage with you more if you ask great questions and give them time to speak

3. LISTEN MORE

It is a truism to say that when you are interested you become more interesting. Try to avoid asking a question and then allowing your mind to drift to when the next tray of canapés will be coming around. Instead, actively listen to what the person has said, and respond. People will relax and engage with you more if you ask great questions and give them time to speak.

If you have a good understanding about what people do, you will be able to adopt 'pro-networker' status and help connect people in the room.

4. HELP OTHERS

On which subject, think about every conversation as a chance to see how you can help others (after all, no one wants to listen to your lengthy sales pitch). You can be really helpful by connecting people already in the room whom you have just met, or by connecting them to your wider network.

5. KEEP MOVING

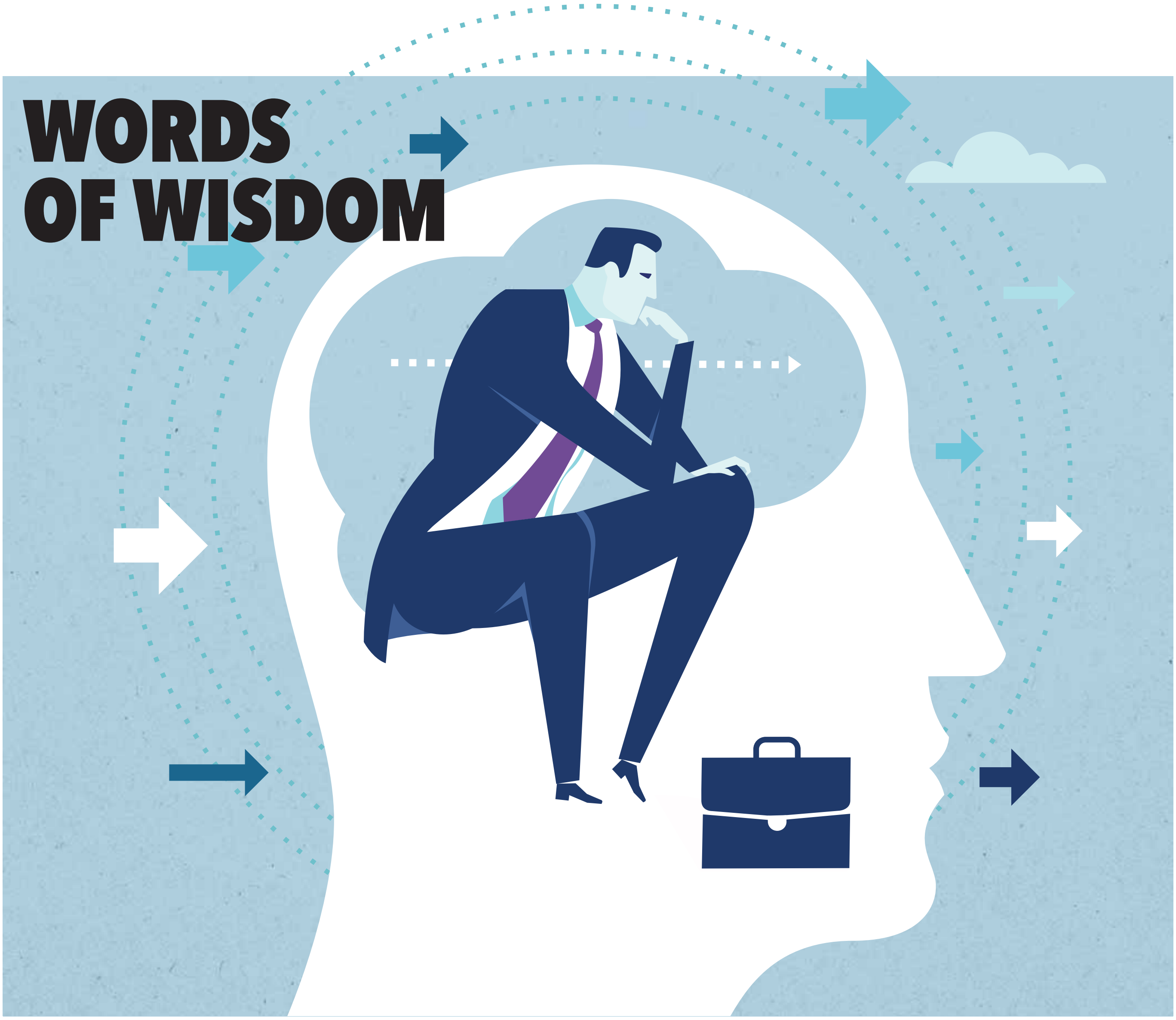
There is a fine line between quantity and quality, and it will be more beneficial to have a small number of meaningful conversations with potential contacts than to leave the event with a pocket full of business cards you have no intention of following up on.

At the same time, you will usually get more from an event if you are able to keep moving and speak to different people, so once you have got to know someone don't cling to them like a new best friend forever – just swap details and politely move on. ●

This article first appeared on the Debrett's *website in May 2018 and is reproduced with their kind permission.* Debrett's *offers courses on networking and public speaking tailored for business. Please see tinyurl.com/BAM-Debretts for details.*

Rupert Wesson,
academy director, Debrett's

WORDS OF WISDOM



With the Fourth Industrial Revolution bringing significant changes, leaders may struggle to cope. **Nick Seneca Jankel** provides advice on dealing with the new age

Many leaders and managers are dealing with complex and intense change in their businesses. The result can feel a bit overwhelming, with leaders struggling to do business as usual, let alone spearhead external innovations and internal transformation to ensure they are fit to thrive in the digital age.

Few leaders and managers have been taught or trained how to lead projects, teams, enterprises and system in volatile, uncertain, complex and ambitious (VUCA) situations. VUCA – a term that comes from the US military's take on leading conflict in the world today – demands a different set of skills and qualities than those needed to manage and lead in times of stability and stasis.

Management theory emerged in the 20th century as a way to apply such rational measurement, prediction and control techniques to organisations. This was all about the rational pursuit of efficiencies to drive maximum profit with minimal costs and variations in manufacturing (employee creativity was seen as inefficient).

Although we have always known that we were more than cogs in the machine, the techniques of management make more sense to performance management when consumer needs, employee expectations, planetary resources and technologies remained relatively stable and consistent. But this world is on the way out. The fast and furious changes are driving a triple threat – and so triple opportunity – for every leader.

CHANGING WORLD

First, we are fully grappling with the implications of a networked reality in which people, places and products are being connected in ways that have not been seen before and are hard to grasp. The rise of IT and the dotcom boom ushered in the first wave of digital businesses like Amazon and

To seize challenges, we need to step out of the paradigm that sees human beings as machines that can be managed to increase productivity

Google and disrupted some industries from hotels to photography. Most industrial age companies have been able to soldier on relatively undisturbed. In fact, most organisations have learnt how to leverage IT systems and social technologies like Facebook to reduce costs with more efficient supply chains and marketing efforts.

But all of that change cannot compare to what the Fourth Industrial Revolution is bringing. And it's happening right now. A wave of technologies such as artificial intelligence (AI), blockchain, the Internet of Things and 3D printing that will affect everything we do in unprecedented and unpredictable ways.

US-based housing company ICON can print a 650 sq ft house in 24 hours. LawGeex AI proved to be 9% more accurate than trained lawyers at analytical non-responsive tasks. Proteins can be programmed, and information and power is being liberated by cryptocurrencies and open data. Every leader needs to stop ignoring or repressing this reality and see how they are going to change themselves and their organisation to cope.

Second, seismic cultural changes are under way as younger people enter the workforce and consumer marketplace. Born after the fall of the Berlin Wall, they have a generational demand for equality, empowerment and ethics, whether as customers or employees. Industrial age motivational levers like power, promotion and profit often fall flat on their ears and fail. Many senior leaders and managers I work with struggle to cope with managing and leading in this environment.

Finally, we are in an increasingly stressed world, dealing with major global risks like climate change, pollution, inequality and clinical depression. My dentist told me that even just 15 years ago, only one in 15 people needed a mouthguard to stop their stress-driven teeth grinding. Now it is either half or a third. Every business, manager or leader must reckon with their own stress, sense of purpose and value while ensuring their teams and employees find a way to stay healthy, creative and, ultimately, become part of the solution instead of the problem.

MASTERING MODES

This emerging reality demands a new kind of leadership and management. I call it liquid leadership. Agile, adaptable, creative and compassionate, liquid leaders flow through their day, and their workplaces, effortlessly and elegantly, focusing attention and activating effort towards the most important projects, processes and products to transform.

Every human being was born with the two brain networks needed to master liquid leadership. The first, the cognitive control network, puts us in what I call control and protect mode. Linear and logical, we follow best-practice using existing rules to improve things but don't have the creativity we need to adapt as times change.

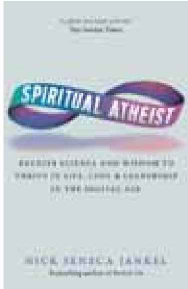
But we all have another brain network, the default mode network, which allows us to enter create and connect mode. Insightful and imaginative, we forge next practice by solving new problems with fresh thinking and ideas and more relevant new processes and behaviours. But most leaders have been discouraged from entering create and connect mode for years – it is disruptive in classrooms and creates inefficiencies in big business. But every leader needs to reclaim their birthright to be able to positively disrupt the status quo with wisdom and purpose. Most of us need to urgently recalibrate.

Armed with both modes we can metabolise the constant changes in our external world into exponential value within our organisations – as well as get stuff done faster and with less. With both modes in creative harmony within us, we can choose which to use at any moment and we can then forge the future we want to see, not just be whipped around by the tides and cyclones of change.

OVERCOMING THE CHALLENGE

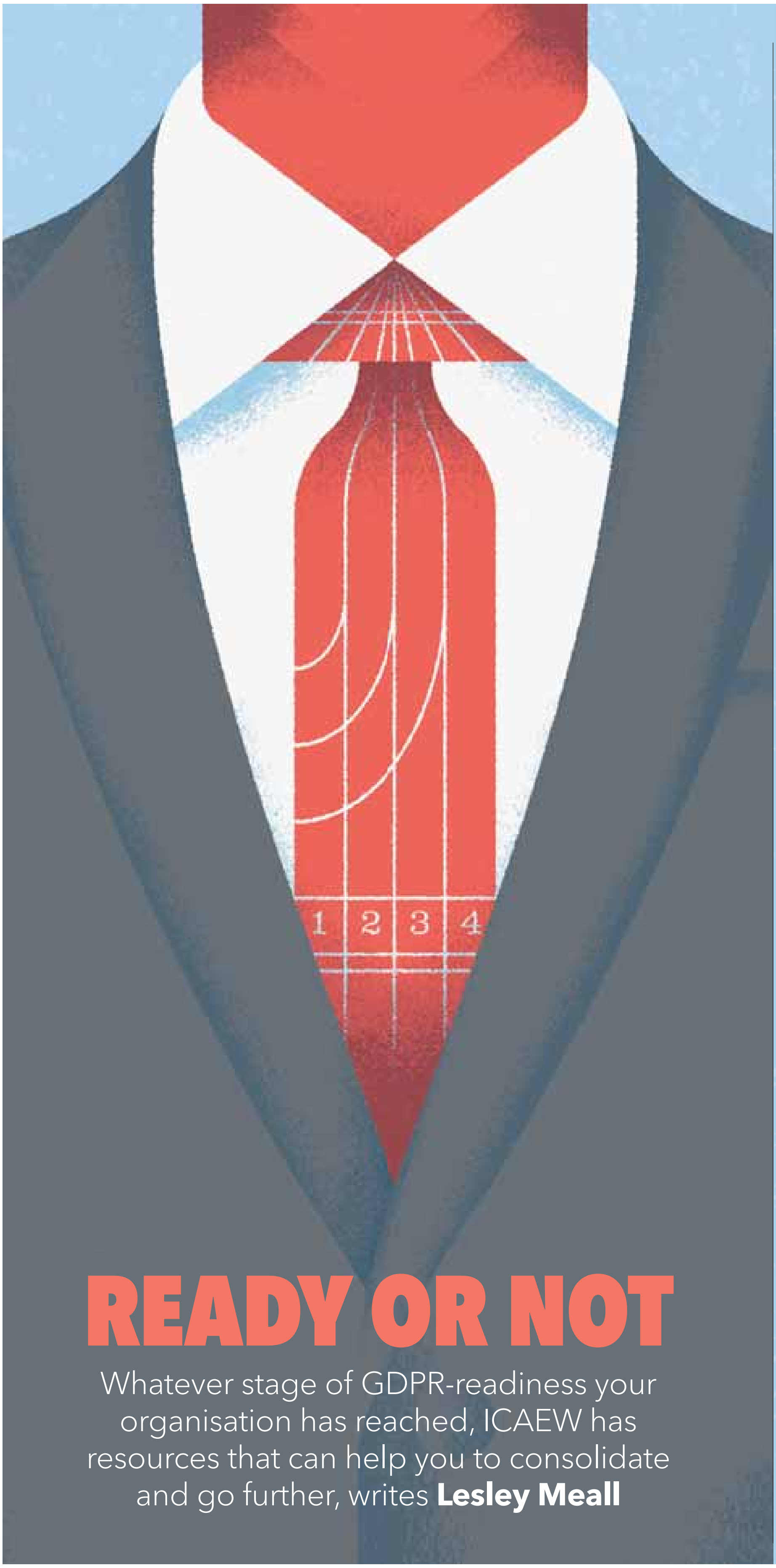
To seize the challenges, we need to step out of the paradigm that sees human beings as machines that can be managed to increase productivity – which, at best, was a partial perspective and not one many people feel fit them – and reclaim the other aspect of us: that we are conscious organisms and not algorithms who have feelings, ideas and meaning. These facets of leadership are seen as delusions to the materialists and mechanists who have overstepped disciplinary boundaries to apply the rules and methodologies of physics to us wise, creative and compassionate human beings.

Without accessing our innate human wisdom, which is powerful when we are in create and connect mode, we simply cannot thrive as leaders and managers in the world that is rushing towards us so fast. The tech will never replace wise, awake and aware, switched-on leaders and managers. Liquid leaders and managers fearlessly leverage the brilliance of data, lean management and AI to reduce costs and improve results free from human foibles like bias and fatigue – while fully embracing our innate and unique human wisdom, creativity and intuition. Remember: there ain't no such thing as artificial wisdom. And, with my understanding of human versus computer cognition, I don't believe there ever will be. ●



Nick Seneca Jankel's book, *Spiritual Atheist: Reunite science and wisdom to thrive in life, love & leadership in the Digital Age*, was published earlier this year

Nick Seneca Jankel, award-winning thought leader, author, professional speaker and educator



READY OR NOT

Whatever stage of GDPR-readiness your organisation has reached, ICAEW has resources that can help you to consolidate and go further, writes **Lesley Meall**

The big day passed on 25 May 2018, the world didn't end and the General Data Protection Regulation (GDPR) is now enforceable across the European Union (EU). However, many organisations still have some I's to dot and T's to cross on the road to compliance.

Statutory bodies, such as the Information Commissioner's Office (ICO) in the UK, did not expect every affected organisation to have the all of the necessary policies and procedures in place on the big day. But the ICO does expect them to have made a start and to have a plan demonstrating how they will become GDPR-ready and when.

It does not help that information has been slow to emerge from the ICO since the EU adopted the GDPR in 2016, and there are still aspects where definitive guidance is lacking and where accepted practice will emerge over time and as legal precedents are set. Meanwhile, businesses are doing their best to comply.

GDPR-related calls to ICAEW's Technical Advisory Service helpline (around the 25 May deadline) came from organisations in various stages of readiness, but some were still grappling with the basics. So this article will point faculty members at resources (from the ICO and ICAEW) that cover GDPR fundamentals; offer answers to accounting-specific GDPR questions; and focus on issues that may be apposite to those in and around finance departments.

BUILD ON THE BASICS

Whatever stage of GDPR-readiness your organisation has reached, there is ICAEW guidance you will find helpful at tinyurl.com/BM-GDPRfaq

It offers a good grounding on GDPR and its impact on accountants, with links to ICAEW and ICO resources.

The Business & Management Faculty has launched a webinar, Five steps to compliance with GDPR, which will be on 2 July 2018 at 12:30 and can be found at icaew.com/lunchjul2

All faculty webinars and recordings of past webinars can be found at icaew.com/bamevents

The brief checklist opposite covers the high-level basics and ICAEW offers additional guidance for each stage. However, the details on moving forward will depend on many factors, not least which stage your organisation and its finance department have reached, how GDPR preparations and implementation have been structured and how involved finance has been.

One way or another, many finance departments will have already asked and answered questions in order to clarify: which personal information it is using; its source and location; how it is received, treated and transferred; how long it is held; and who is responsible for securing and managing it at various stages and locations. The answers may have raised more questions.

They will all feed into the department's responsibilities related to matters such as: data access; data management; record keeping; removing records; archiving; and contracts. Some responsibilities, such as not keeping personal data any longer than needed, will be an ongoing concern, but they can be systematised. The responsibilities that are taking longest to address may be those that require collaboration with third parties: such as ensuring that agreements are GDPR-compliant.

PERSEVERE ON AGREEMENTS

The GDPR requires written contracts between data processors and data controllers and sets out in detail what they should include. However, the ICO did not finalise its guidance on this area as early as some others and it can be complex, whether you are a data processor, data controller, or joint controller.

Ensuring compliance around the external provision of services such as credit scores may be relatively straightforward. Issues created by the growing interdependence and complexity of information systems (and business models) are not, and some organisations are still grappling with uncertainty about who is a data processor or controller or joint controller in certain scenarios.

Users of some cloud-based resources and services that process personal data outside the EU face particular challenges. Some members have experienced difficulty obtaining the information and written assurances they need from suppliers of some of the specialist software and services that are core to the finance function.

Even if your organisation has drafted appropriate written policies and procedures, these will need to be regularly updated to ensure their ongoing compliance

GDPR CHECKLIST

Louise Marshall, solicitor and data expert, has the following top tips for GDPR compliance.

1. Register with the ICO, if you have not already, and pay the fee.
2. Communicate with data subjects to inform them of the data you hold.
3. Appoint someone to be a Data Protection Officer (recommended but not compulsory).
4. Create a protocol to identify and respond to data subject requests.
5. Create a protocol to identify and respond to data breaches.

Louise Marshall will hold a webinar, Five Steps to compliance with GDPR, on 2 July 2018 at 12:30.

You can book your place at this free webinar by visiting icaew.com/lunchjul2

ICAEW AND THE ICO

ICAEW has created a hub for all of the resources and support it makes available at icaew.com/GDPR

The homepage of the Information Commissioner's Office has links to information on the GDPR and UK-specific data protection legislation including the Data Protection Bill and its predecessor the Data Protection Act at ico.org.uk

DOCUMENT EFFORTS TO COMPLY

As attempts at compliance progress, it's important to document this. Then, even if your organisation has not managed to tick all of its compliance boxes, it can demonstrate the efforts it has made. The GDPR principle of accountability means that all organisations must not only ensure that they are compliant with the GDPR but be able to prove this.

Details of the GDPR accountability principle and technical and organisational measures to meet the requirements, and demonstrate this, are listed on the ICO website (see tinyurl.com/BM-ICOgdpr). These accountability obligations are ongoing, so meeting them is not a one-off exercise.

Even if your organisation has drafted appropriate written policies and procedures, these will need to be regularly updated to ensure their ongoing compliance. So will staff training.

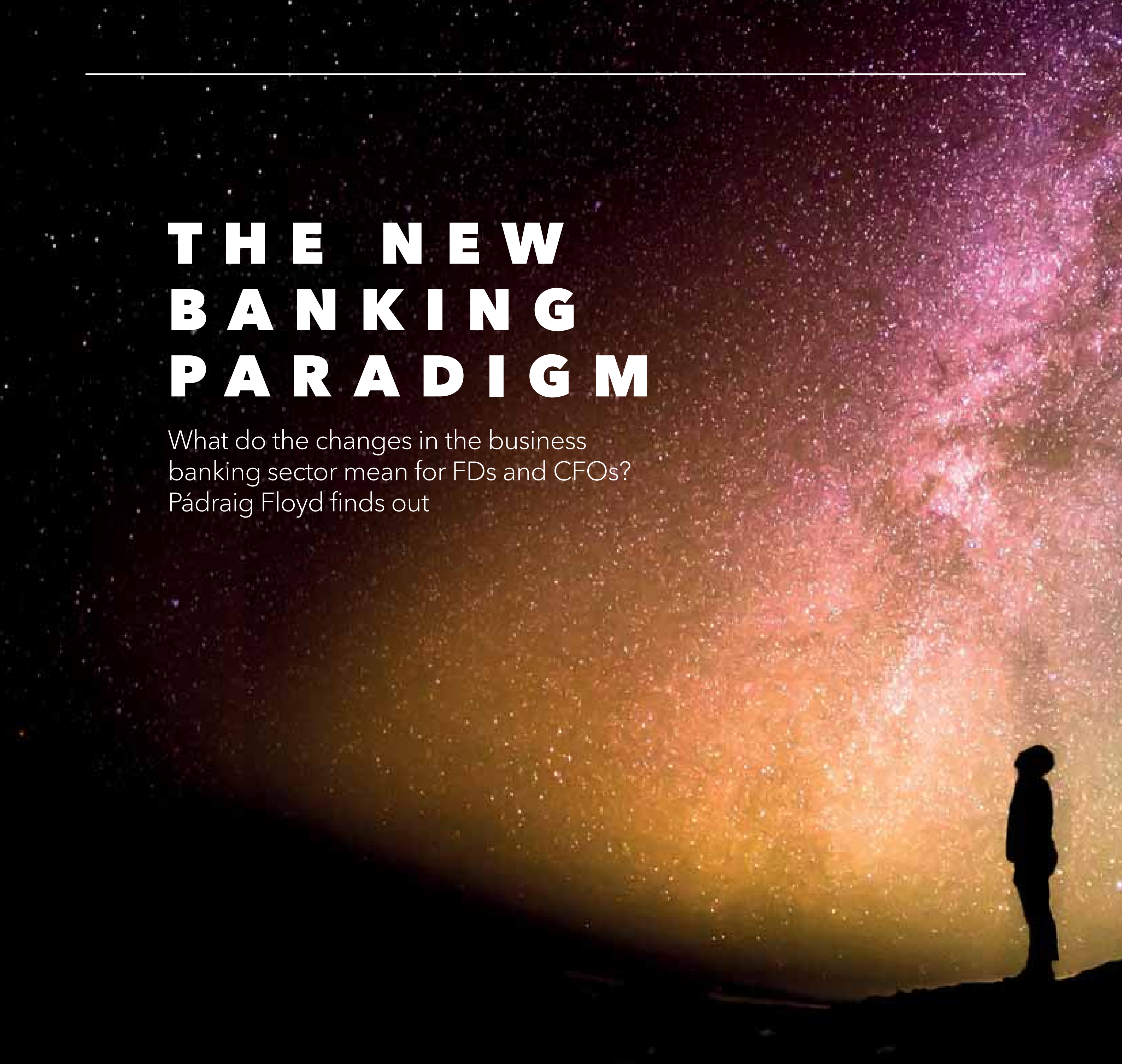
Not all finance staff need to understand GDPR in its entirety, but they should be aware that it is an issue for everyone. Training will need to be tailored to meet the needs of staff who deal with personal data and those staff who do not. The ICO has indicated that training should be repeated at least every two years, so documenting past training and future plans will be important.

MAINTAIN VIGILANCE

Becoming GDPR-ready does not just affect the finance department; even GDPR projects in small organisations may have involved cross-functional teams. But finance departments will need to be especially vigilant in their approaches to information security and GDPR compliance. Finance typically handles large volumes of sensitive personal and financial data that could make it susceptible to proportionally large fines and sanctions. ●

Lesley Meall,
freelance writer and editor

ARON VELLEKOOP LEON/IKON



THE NEW BANKING PARADIGM

What do the changes in the business banking sector mean for FDs and CFOs? Pádraig Floyd finds out

Since the financial crisis a decade ago banks have been slowly rebuilding their reputations. Alongside that there has also been a massive project to update the sector's creaking IT infrastructure, following years of neglect that resulted in the RBS computer failure in 2012 and contributed to the meltdown at TSB in April of this year.

After banks adopt new technologies, they have reassessed how they wish to interact with customers. On the personal banking side most punters have chosen to go online with mobile-based apps. In 2017 alone 38 million adults chose to use online banking, according to *The Way We Bank Now 2018*, a report compiled annually by UK Finance, the banking industry trade body.

In response to this, banks are closing hundreds of local branches as their business goes digital, with momentum provided by regulatory reform in the shape of open banking and the European Payments Services Directive 2 (PSD2), which will force greater digital interaction and control to the customer. But what do these changes mean for chief financial officers, finance directors and their businesses?

Digitising the banking world is no different from the projects many businesses have undertaken themselves in recent years. Adoption of cloud computing, application programming interface (APIs), mobile technology and security using biometrics and voice are transforming the way we bank. This clearly has an impact upon the business community.

"The increase in choice and the better information to support comparison and ease of accessing alternatives is good news for CFOs and FDs looking to get the best service and value for their companies," says Stephen Pegge, managing director of commercial finance at UK Finance. "Enhancements are not limited to the new entrants, but are also being developed by traditional players, sometimes in collaboration with fintechs."

Open banking is largely being aimed at the small business end of the market, says Pegge, but larger companies may also benefit in the long run. As technology replaces some of the back-office drudge work, they will be free to spend more time delivering value to customers.

Mark Mullen, chief executive at mobile-based challenger Atom Bank, who sits on the open banking steering committee, says the biggest factor is the need for change.

Even challengers only have a modest impact on large traditional banks. After all, 95% of all business banking is held among the five big UK banks.

Open banking is an agenda being driven by the regulator, not the customer. Until such time as there is something interesting to show customers to prove exactly how it may change the way they do business, it is unlikely to make a significant impression.

However, Mullen agrees that the environment has changed to such an extent that the old strategies banks used to deploy are no longer relevant. He says this lack of certainty about the future "presents a clear and present danger to their business".

CHALLENGERS ARE SHOWING THE WAY

"Business customers generally want support with working capital," says Mullen. "There are now many options, but there is a stress on working capital – that it should be available fast, fairly priced and transparently. That's why there is so much opportunity for new competitors in securing business customers."

Where the challengers are making inroads on the stranglehold of the big banks is around debt and transactional banking, says Paul Riseborough, chief commercial officer at Metro Bank.

It is harder to access – or at least more expensive to provide – face-to-face advice, and this is driving the move towards digital business. That may be all well and good, but closing branches and pulling out of communities comes with a cost.

"It is changing, but not always for the better," says Riseborough. "When branches close, lending drops materially in local areas. Banks need a more joined-up framework."

This lack of a relationship with customers precedes the advent of fintech and has been a long time coming, says Russell Snowdon, managing director of independent banking consultants IBC. "Since the advent of Barclaycard, banks have invested in products and tools that make the customer more self-sufficient, pushing the customer away from them," he explains.

His firm helps businesses access debt finance and he says that CFOs should disabuse themselves of any notion that they have a personal relationship with their bank. Gone are the days when a bank manager was heavily involved in the finances of the businesses they serviced, and businesses should be wary of that. Just because you have a long-standing arrangement with a bank, don't confuse that with a relationship or it could cost your business a lot of money.

"Nature abhors a vacuum," says Snowdon, "and after the credit crunch, banks withdrew to a large extent from the lending markets. A void was created and was filled by alternative finance lenders."

Although these alternative lenders and IBC, which has a database of more than 350, comprise a relatively small part of the market, it is growing. In some areas, such as residential property development, it may be the only source of funding for many borrowers.

Snowdon gives the example of a London company that was in special measures with one bank where, by switching its borrowing to another, the business saved more than £1m over 10 years on a borrowing of £9m.

"The challenge, though, is not just whether you can get access to finance that is cheaper, but is on terms that are more beneficial to the business," he says.

But cost is not the only benefit, as you may find a lender that is prepared to accept less security or less restrictive covenants and terms and conditions. Many lenders offer 'unsecured' commercial loans, but in fact demand personal guarantees from directors to back them. In some cases it may be preferable to pay a little more and have more palatable terms.

However, CFOs shouldn't assume they must move banks to get better terms. IBC worked with a care home operator a couple of years ago who wanted to borrow £2m, but did not like the terms offered. It was taken to market by IBC and the net saving was £250,000 – with the current lender. Snowdon observes that such situations are very common.

Digital banking may be removing the personal relationships in business banking, but businesses are receiving far better connectivity between their bank accounts and other systems.

MAKING TAX DIGITAL

Open banking may not be playing a role just yet, but there is another piece of game-changing reform that is driving this – the introduction of making tax digital (MTD), which is "the biggest corporate tax shakeup in a generation", according to Nadya Hijazi, global head

DIGITAL BANKING MAY BE REMOVING THE PERSONAL RELATIONSHIPS IN BUSINESS BANKING, BUT BUSINESSES ARE RECEIVING BETTER CONNECTIVITY BETWEEN THEIR BANK ACCOUNTS AND OTHER SYSTEMS

of digital, global liquidity and cash management and business banking at HSBC.

MTD requires business to make tax payments more regularly throughout the year. For this to happen, banks must provide both their business customers and the tax authorities with accurate, compatible and standardised data.

That's all very well, says Hijazi, but that will prove difficult when only 15% of businesses use accounting software packages, while only 20% even use accountants. "Many large companies manage cash flow forecasting on spreadsheets," she says. "This is a major change from the banking perspective. A direct account API feeds through to the system every day, automatically updating their systems. It's much easier to deal with third parties and there will be a greater range of products."

Hijazi says greater digital connectivity is as much of an opportunity for traditional banks as it is for challengers or other third-party providers. It will turn banking into a one-stop integration process, offering providers the opportunity to differentiate themselves through their offering in the way they used to through personal service.

Allowing access to third parties under open banking will mean banks can no longer control that aspect of a customer's banking, but it also allows banks to restructure their whole offering and focus on optimising customer experience.

By partnering with best-in-class fintech applications, traditional banks can offer a comprehensive and seamless process for their CFO clients. Hijazi believes banks may choose to focus on core competencies and, where there are clear market leaders, associate those APIs on their system, rather like many accounting systems do today with credit control or invoice factoring.

She compares that process to going to a specialist instead of a GP, because they have spent a very long time working out how to complete a particular process really well.

A SEAMLESS EXPERIENCE

A banking process that links seamlessly with corporate systems will give CFOs far greater control over their finances and, says Pegge, better value from working capital. This is because real-time automated management of surpluses and borrowing requirements, combined with an increasing use of invoice finance and asset-based lending, can help businesses unlock the cash from their working capital cycle and manage receivables – and other short-term assets – more effectively.

"Some great benchmarking tools are offered by banks and finance providers to ensure you are operating at best-in-class standards," says Pegge. "The cons may be that there is less time to spot and recover losses from financial crime. Bank technology and control systems are getting better, but the company and its whole financial team are a key part of the fight against fraud."

"FDs and CFOs will also need to develop new skills and understanding," notes Riseborough. Standardisation reduces costs and can improve security. Business needs to focus not only on cyber risk and protection of data, but where data is located and how secure it is.

TECHNOLOGICAL RISKS

"As we move more into technology and the digital world, you need to be confident you have the right controls, even that your teams can't be easily socially engineered within the bank," says Hijazi. "We see this every day and can advise clients."

Technology presents new risks and CFOs need to balance flexibility with security. As artificial intelligence and machine learning become more commonplace, transactions will become more highly automated. That's a boon for efficiency, transparency and potentially, pricing, but you shouldn't become too dependent on it.

"You still need to know what the machine is doing, because technology is not perfect," says Hijazi. "Leverage it, aggregate accounts, but always know what is going on. There is absolutely no substitute for due diligence or sense checking the numbers." ▸

THE RISE OF THE CHALLENGER BANK

Challenger banks – and non-bank financial institutions – are trying to steal customers from many traditional providers. They are doing this through innovative product offerings and a different approach to service, but it is always underpinned by new financial technology – fintech.

The £425m settlement reached by the UK government with the EU for the state support of RBS during the financial crisis has been placed into a fund. It will be used to develop businesses that will increase competition in the UK banking sector. Here are a few examples of challengers that are making a name for themselves:

£425m

UK government's settlement for the state support of RBS during the crisis

INTERNATIONAL PAYMENT REVOLUTION

Revolut launched as a money transfer service in July 2017 and has added loans and insurance to its portfolio since then. It was fully functional by December of the same year with 50,000 companies on the system, making use of a groundbreaking model for making international payments.

For a single monthly membership fee – priced according to size – members can make instant money transfers across most of Europe that are free of fees and offering intra bank rates.

Membership fees can be quickly recouped for those regularly sending money abroad and within three months, the platform will have gone global with the launch into Australia, New Zealand, Hong Kong, Canada and the US.

Within six months, Revolut intends to launch competitive business finance, says Chad West, head of global brand and communications at Revolut.

"Our members want to be in control," says West. "Knowing where every transaction was spent helps them to budget, whether they are companies, students or travellers. By ending the fees, we've ended the exploitation."

SMALL, BUT PERFECTLY FORMED

When Atom Bank launched as an app-powered bank exclusively for tablets and phones in 2016, it was something of a novelty. It launched a series of fixed saver accounts and mortgage offers that have proved extremely popular. Being online only, it rejected a presence in one of the main cities of the UK in favour of taking an office in Durham.

Institutional investors like the cut of its jib, with asset managers and Spanish lender BBVA continuing to invest for continued growth.

NEW BANK, OLD ATTITUDES

Metro launched in the UK in 2010, but has become established very quickly. Rather than withdrawing from the high street, Metro Bank has been opening branches across the south of England.

"New players need to demonstrate trust, reputation and brand," says Paul Riseborough, chief commercial officer at Metro Bank. "We think the way to do that is by having a physical presence."

The bank scooped most trusted financial provider category in the Moneywise awards in 2016 and 2017. ●

IT'S ONLY A MATTER OF TIME

Richard Peers assesses the speed at which tech giants are changing banking

New technology is giving banks and other financial institutions the unique opportunity to redefine their role as trusted brokers.

There has been ample speculation among experts when tech giants Google, Amazon, Facebook and Apple – so-called GAFA – might enter banking, as well as a great deal of interest from a broader audience for many years now (see graph). Last year the actions of GAFA spoke a lot louder than any words or expert analyses could.

Amazon is betting big on lending as its main target for disrupting finance. Last year, it revealed that its business lending arm, quietly launched in 2011, had surpassed the $3bn mark and was accelerating its pace significantly, having added $1bn of new loans in the preceding 12 months alone. Amazon's second line of attack is payments. Amazon Pay, which has recently been added to Amazon Echo and the Amazon Alexa app, is set to receive a major boost by tapping into the market of voice payments – by 2022 this market is projected to have 78 million US users alone.

The assertion that the GAFA challengers do not offer the full spectrum of services that today's banks do is correct. It is, however, also beside the point. GAFA do want to enter banking, but they don't want to become banks. They target the revenue rich parts of the banking value chain while leaving the regulatory heavy parts with incumbent banks. Why take the whole pie if you can cherry pick?

As McKinsey recently pointed out, non-banking challengers (like GAFA) can use this strategy to put up to 65% of banks' revenues at risk as well as earn 20% of return on equity. In the same way Uber has become the world's largest personal transportation company without owning a single car, GAFA are set to become the largest banking providers without needing a cent's worth of balance sheet set aside.

ECOSYSTEMS FOR LIFE

GAFA are building ecosystems for our entire life. This convenience factor is why they are attracting so many people. It is also why over the past 10 years the tables have turned in the market. What we see today is a complete inversion of the past, each of GAFA are already worth more than the largest bank.

Working with fintechs, banks can respond and some are, bringing marketplaces of curated offerings that empower the full lifestyle, growth and transformation of their personal and business customers.

The digital transformation will enable many new markets beyond just transportation and hospitality. While not all businesses can move to a market-based operation, those that can will create a much more substantial barrier to disruption and can profit from the activities of others in the market.

A powerful example is the Apple App Store. By creating a market for apps, Apple could take 30% of the revenue at a very modest cost, while still creating value for the buyers through policing the App Store to prevent malware. Some banks are exploring these models by creating aggregation brands, connected via open banking application programming interfaces to their own and other banks' curated marketplace offerings.

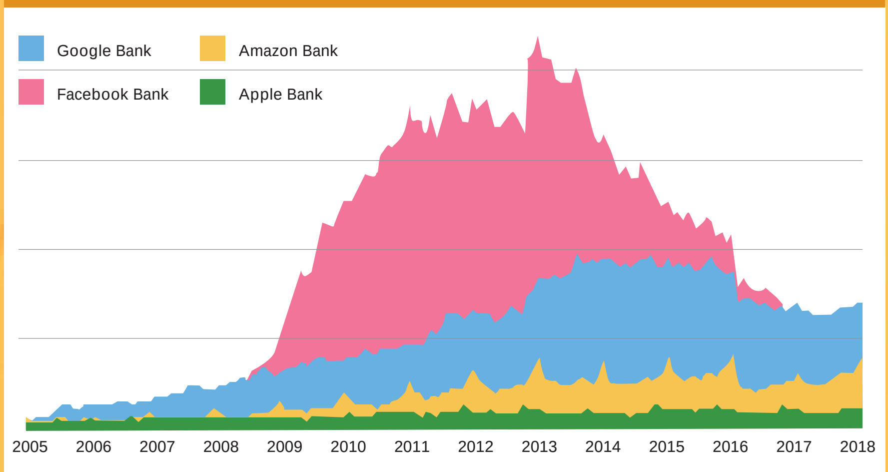
If there has ever been a time for banks to have a great strategy, it is now. ●

78m

Projected number of US users in the voice payments market by 2022

Richard Peers, banking industry lead, Microsoft EMEA

WEB SEARCHES FOR GOOGLE, AMAZON, FACEBOOK AND APPLE ENTRY INTO BANKING (BASED ON RELATIVE WEB INTEREST)



SOURCE: WEB SEARCH DATA BY GOOGLE TRENDS

EMBRACING DISRUPTION

ICAEW's conference to investigate the impact of digital technology on finance professionals took place in the most appropriate venue: cyberspace

On 15 May 2018, ICAEW's 'From digital disruption to digital readiness' conference had an unusual location: the internet. A combination of webinars, downloads and live Q&A chats, the conference had the ambition to help members learn about and take advantage of the promise of digital technologies, while avoiding the threats they pose.

In the near future, much of the finance function will be turned on its head. As Tim Leung, a management consultant at Deloitte, explained in his presentation 'Visualising finance transformation in a digital world', soon the majority of transactions will be automated, as will the finance function. Therefore, it has two paths: it can either become a small centre of excellence in reporting, or an essential business partner, helping create real-time information, self-service reporting and new services. "Finance will have to have much more commercial and business acumen," he says.

The promise of AI, blockchain, analytics and the cloud will change the roles of everyone who works in finance. "People say that accountants now need to be data scientists," adds Bernard Marr, an expert in how technology is augmenting the accountancy function, and the presenter of the keynote 'Digital transformation: mega trends in the accountancy profession'. "You do not need to be a coder, but you need to focus on... asking the right questions."

The most fundamental of those questions is: where can finance add value to a business? Some innovative accountants are finding that the core of their business a decade ago is not its future.

THE VIRTUAL FD

Peter Taaffe, managing partner of Liverpool-based BWM Chartered Accountants, a firm with 55 staff, explained in his presentation how acting as a "virtual finance director" is a way for accountancy firms to future-proof their business by taking over a wider range of financial planning and advisory functions for clients. "We had to do this to survive and thrive," he says. "We are in a competitive market where we are all looking at the commoditisation of what we do."

The threat is that the basic tasks that the firm provided in 1991, when Taaffe joined, are now quite simple for untrained staff on the client side to do. Instead, the firm offers to work with the client to help plan and optimise its business, sometimes speaking to third parties, or giving advice on topics well outside the traditional remit of an accountant, such as stock management or software choice.

Taaffe gave examples of how client relationships have changed: for example, a "financial guru" who generates his own invoices, but outsourced everything else to BWM. "We introduced apps for forecasting, cashflow and capital requirements. We could demonstrate that he was living beyond his means, helped him to identify what he could spend each month, and talked to his bank about working capital," Taaffe says. This generated fees of £14,000 a year, "four times as much as we would historically have charged".

The firm works in a similar way for a nursery with £3m turnover. "We would have been doing annual accounts 10 years ago, and if we were lucky, VAT returns," he explains. Instead, BWM works with the owners to prepare monthly management accounts, forecasting, and wide-ranging advice and KPIs. The higher fee that the firm earns is also for acting as intermediary with banks and solicitors on the nursery's behalf. "Once you become a virtual financial director, you find the services you are asked to offer will expand," adds Taaffe.

How does a firm structure a relationship like this? Taaffe has practical advice: Personalities are crucial. You will find yourself working more with your client, so find who is suited to their profile or their industry. Pricing the service is difficult. "Pretty much everything we do is bespoke, clients all have different needs". So develop a menu of services, and review fees after six months.

Remember you are not a director or a decision-maker for the client. You can give advice or an opinion, but always make sure that clients know that they make the decisions - and that their virtual FD is not on duty 24 hours a day.

DIGITAL ACCOUNTING SYSTEMS

Matt Flanagan, the managing director of cloud integrator Bluehub, praised the potential of the apps that can connect to cloud accounting systems, but warned firms against what he calls "app overwhelm".

Flanagan counts around 650 business apps that firms can employ to help their clients, and so it's impossible to know, or use, all of them, especially if the firm is still working to migrate clients to cloud software. Also, he sees that firms will go through a process of adoption:

Firm efficiency apps. These can be used within the firm or with clients to automate or improve repetitive processes. Apps such as Autoentry or Receipt Bank for data entry, or Chaser for overdue accounts, or Futrli for cashflow forecasting increase efficiency and are easy to integrate with Xero or QBO, adding to the range of services that firms can offer.

Basic apps. "Most businesses that sell services need to quote for them," Flanagan says. A dedicated app such as PandaDoc or Quotient can provide customisable templates, and can track whether the quotations have been accessed, or whether clients need to follow up. Similarly, CRM and project management apps such as Insightly can integrate with accounting software and quotation software.

Advanced apps. These, Flanagan explains, can make a firm into much more of a consultancy partner. Examples would be Harvest or Acello for job costings, TradeGecko for inventory management, or iZettle for EPOS. These can quickly create e-commerce businesses, but this comes with a warning: "Unless these are areas you are going to major in, start by partnering with the app providers or an integrator to deliver them," Flanagan says.

But how do you avoid app overwhelm? Concentrate on six apps that match the profile of your clients, and become proficient in those; be proactive in recommending them where they are appropriate; and keep optimising the way you work with them, as cloud software capabilities change week by week.

END-TO-END AUTOMATION USING ROBOTICS AND COGNITIVE TECHNOLOGIES

Can you free your firm from the need to perform repetitive rules-based tasks? And how far can you take this process? David

But how do you avoid app overwhelm? Concentrate on six apps that match the profile of your clients and become proficient in those

THE RISE OF THE ROBOTS

Although we have been warning that robots are about to take our jobs since the 1920s, when John Maynard Keynes warned of an era of "technological unemployment", so far they have replaced humans only in a limited number of manufacturing and calculating jobs.

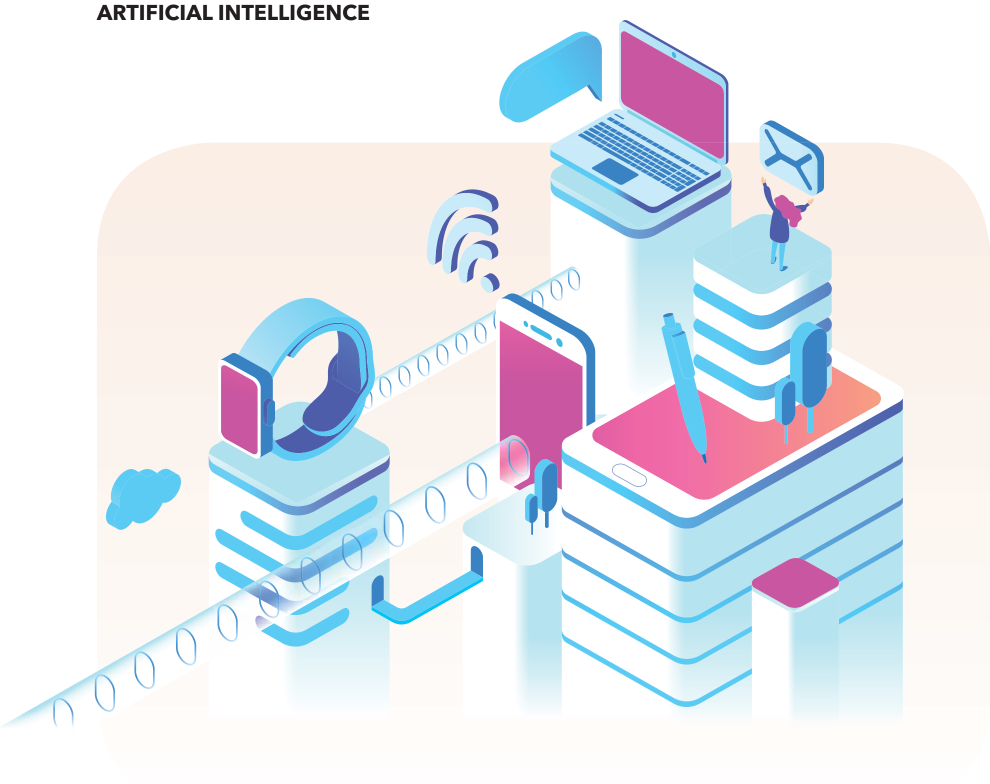
But Carl Benedikt Frey, co-director of the Oxford Martin Programme on Technology and Employment, Oxford University, has investigated exactly how vulnerable more than 700 professions are to automation in the era of AI, and, he warned in his keynote 'The future of work and the accounting profession' that accountants, auditors and bookkeepers are among the most vulnerable jobs (accountants and auditors were only 589th-most-safe in his list).

"Experts underestimate the scope of automation," he warns, "When something can be digitised, now algorithms can teach themselves those tasks." The method used in this research was to take each job and break it into its constituent tasks and then, ironically, train an AI to recognise how much of the job can be automated by using real-world data (see tinyurl.com/BM-OxfordFutureJob).

The headline result was that 47% of today's jobs were vulnerable. This doesn't mean they will vanish overnight: technology might make the jobs disappear completely (lift operators, lamplighters), or change it out of all recognition (farmhand) or, for many low-skilled jobs, just exert downward pressure on wages.

This in turn creates a "hollowing out" of the labour market, where high-skilled jobs are still safe, but where semi-skilled workers tend to downgrade to low-wage jobs as they are replaced by computers.

What can't we automate yet? Frey argued that creativity, social intelligence (for example, negotiation and management) and delicate manipulation are hardest to automate. This means that while the basic technical skills of accountancy might be assigned to the robots, an FD's problem-solving and management skills will retain their value, and become a larger part of the job in future.



Wright, consulting director at Deloitte, compared the VAT process that it automated using robotic process automation (RPA) for the European Commission. The process of entering data in spreadsheets and updating ERP systems took a human three minutes and 40 seconds. But automating it, while using the same applications, cut the processing time to 40 seconds each time the process was run.

RPA, Wright explains, is similar to creating "cross-functional, cross-application macros". Although it's more than that, this captures the spirit of the application. If there's something that your firm does time after time, RPA mimics it automatically. "RPA is a bit like taking the robot out of the human," he adds.

Many RPA providers, such as Blue Prism and UIPath, have sprung up over the last few years, but who can use their services in the finance environment? Anyone with low-value-add rules-based activities, or a lack of integration between the systems they use. And while the functions they perform can be rigid and repetitive, using RPA can be creative, Wright argues.

Standard processes tend to degenerate over time when people are doing them. "People may get lazy, they may get creative. With robotics you can be 100% consistent," he says.

You can release people to other tasks, and you can now offer a 24-hour service. Management information improves: robots can easily tag what they do, and so reporting can be quicker and more accurate.

"Our expectation is that we will see near universal adoption in the next five years. The robots are ready, are you?"

You can start small, and then apply RPA to other processes, or scale its use across the organisation. It can also be a catalyst for standardising processes.

Deloitte's research shows that RPA's current users consider it a success: 92% said it met or exceeded their expectations for compliance, 90% for quality and accuracy, 86% said it met or exceeded expectations for improved productivity, and 59% for cost reduction. "Payback was reported consistently at just less than 12 months. Our expectation is that we will see near universal adoption in the next five years," says Wright. "The robots are ready, are you?"

CYBER SECURITY, DATA GOVERNANCE AND RISK

"Most of our organisation and company data is now held on systems that are connected to the internet," said Jamie Randall, chief technology officer, IASME Consortium. "And there are a number of highly motivated people out there who want to steal or damage your data."

IASME is one of five companies appointed as accreditation bodies for assessing and certifying against the government's Cyber Essentials. Different from the challenges of protecting against malware or social engineering, 2018 is a year when firms cannot afford to put cyber security in the 'too hard' basket, Randall warns. This is due to the challenges of GDPR and the Network and Information Security Directive, which means anyone holding data needs to not only put adequate protection in place, but manage and report incidents quickly or face heavy fines.

His advice: first, understand what data you hold, where it sits, and the data flows between systems. Then analyse which groups and methods are you most likely to be a victim of. Finally, adopt a standard such as Cyber Essentials, learn how to respond and spot attacks, and think about insurance for the cost of an attack. But if you want to do something today, Randall has five tips:

1. Make sure your software is up to date, and turn on the auto update function.
2. Don't use admin accounts for web browsing or email. If you click on a malicious link, the software can do anything on the system.
3. Turn on two-factor authentication on all your cloud services. It's simple and free.
4. Empower your staff to delete suspicious emails. Tell them there will be no negative consequences if they accidentally delete a real email.
5. Back up your data. Offsite. ●

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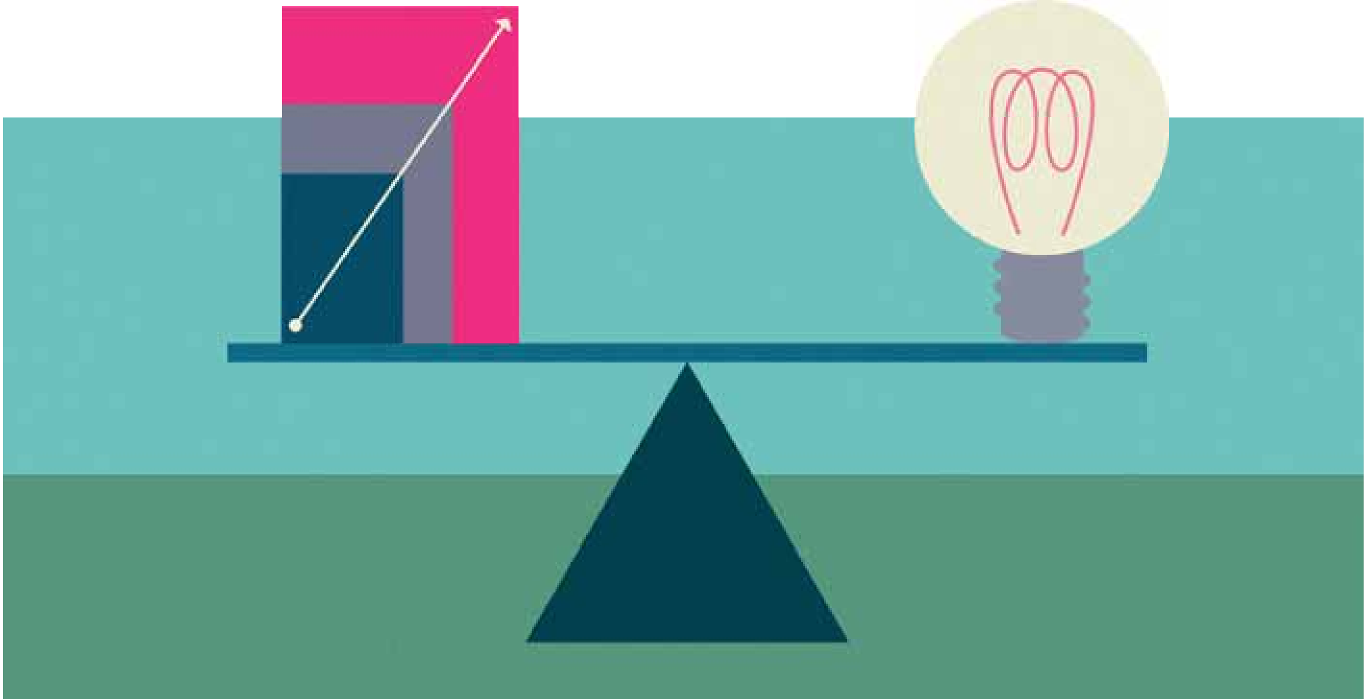
1. L200 Series 5 Titan rental shown is for manual transmission. Business users only, subject to status provided by **Shogun Vehicle Leasing (a trading style of Lex Autolease Ltd, SK3 0RB)**. Excess mileage charges of 10.79p plus VAT per mile. Vehicle must be returned in good condition to avoid further charges. The offer is valid for new vehicles registered between 1st April and 30th June 2018, whilst stocks last. Other terms and mileages are available on request. Available in the UK (EXCLUDES Channel Island and I.O.M) subject to availability. Offer cannot be used in conjunction with any other offer and is correct at time of going to print. 2. 3.5 tonne towing capacity is possible with 3 axle braked trailer; 3.1 tonne towing capacity is possible with 1 or 2 axle braked trailer; 0.75 tonne towing capacity is possible regardless of the number of trailer axles or trailer brakes. 3. Super Select 4WD is not available on L200 Series 5 4Life models. The air conditioning system contains fluorinated greenhouse gases. Chemical name: HFC-134a. Pre-chased weight: 0.52kg. Global-warming potential ratio: 1430. Converted CO_2 weight: 0.74t.



ACCESS ALL AREAS

How is the rise of alternative finance platforms affecting the perceived shortage of SME lending and how might it affect finance directors? Richard Cree explores the latest market trends

It's not that long ago that raising finance for a business venture, while not an easy task, didn't involve overly complicated decision-making. It usually involved picking one of a limited range of suitable products or services from a small pool of providers. For the vast majority this meant going to a high street bank and asking for a loan. A few might resort to personal credit cards, while other, more sophisticated FDs or owners might seek out some kind of investor, such as an angel or venture capitalist. If none were successful, business owners could always invest their own money or rely on that of friends and family (the so-called "friends and fools" option).

ACCESS TO FINANCE NOT A CHALLENGE

But the market has changed and now the range and variety of finance options for SMEs looking for finance is vast and reaching potentially bewildering levels. Perhaps this is why ICAEW's Business Confidence Monitor (BCM) shows that for smaller, privately owned businesses only 10% view access to capital as a challenge to their growth. This compares with over 50% who cite new government regulation and red tape.

Over recent years a raft of challenger banks has entered the UK market with many specifically targeting business customers. Most of this new generation of providers are able to rely on fresh and fast technology platforms - as opposed to legacy systems of the more established banks (anyone looking for the advantages this brings need only type the letters TSB into Google).

10%

of SMEs claim access to funds is a growth challenge

These new entrants often launch with a specific technological focus or niche in mind. Or, as with last year's Starling Bank, they place better customer service or instant decision-making at the heart of their offering. Many such "platform banks" use highly complex algorithms to very quickly assess lots of data on would-be loan customers to effectively predict the likelihood of any potential business loan going bad or not.

A MARKET TRANSFORMED

This rise of alternatives to the high street banks, along with the rise of alternative finance platforms, including peer-to-peer networks, crowd sourcing, equity-based crowd funding and various other new approaches to linking businesses in need of funds with a variety of new sources of funding has transformed the landscape for small business finance.

In 2015, a Competition and Markets Authority report into UK SME banking put the big four's share at 90%, and although this has since dropped, the large banks are still responsible for the vast majority of SME lending in the UK. But the balance of power is shifting. Thanks to initiatives such as the *Business Finance Guide* co-published by ICAEW and the British Business Bank, business owners are beginning to better understand the range of finance options open to them and - crucially - are beginning to understand the most suitable type of finance to seek at different stages of a business.

A new start-up with inexperienced management and little in the way of meaningful assets will have different finance needs - and have different options open to them – to an established business, led by an experienced team with a proven track record and a full order book.

AND YET STILL CHANGING

The British Business Bank conducts annual research into attitudes to the different types and sources of finance available to SMEs. The latest findings, published in February this year, revealed that while banks remain the single most likely place business owners turn when they need finance, more small business owners and FDs than ever are considering a wider range of more innovative options.

While net bank lending remained relatively flat, the value of equity investment leapt a whopping 79% in 2017, albeit from a smaller base. There were similar, if less spectacular bumps for peer-to-peer business lending (up 51%) and asset finance (up 12%). And evidence suggests there is room for more growth, with the majority of small business owners not familiar with either the types or the providers of alternative business finance.

Beyond mainstream bank lending, including credit cards, bank loans or overdrafts, even well established alternatives are seemingly not that widely understood. Half of respondents to the survey claimed to have never heard of invoice finance and even fewer claimed to know what trade finance was, let alone who provides it. Furthermore, when they first thought about accessing external finance, it is clear the first port of call for most remains their bank.

BUT DO THEY WANT THE MONEY OR NOT?

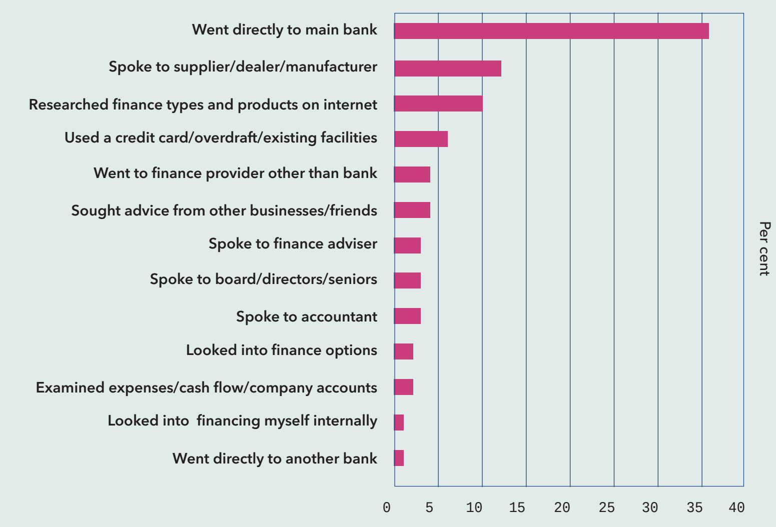
As ICAEW's BCM clearly shows, access to external finance is not perceived as an obstacle to growth by many small businesses. It's perhaps not a surprise that while the range of options and shape of the overall market for SME finance continues to gradually shift, if getting hold of that external finance in the first place isn't a major business concern for most SME owners, then they are unlikely to take the time to familiarise themselves with available options. Whether this shows a lack of growth ambition among UK SMEs or a quiet confidence in their ability to self-finance growth is unclear. What is clear is that many business owners and FDs, regardless of where they are on their growth journey, are more content to grow more slowly without recourse to borrowing rather than borrowing to expand quickly.

The range of options and providers offered by the relentless fintech boom continues to expand, with more challengers and new entrants coming on stream all the time, seemingly fuelled in part by the government's desire to help to encourage such market diversity and competition.

As such competition increases, there will be more deals and better financing options open to more SMEs. But the decisions for FDs and owners in such businesses over where and when to seek external finance will continue to get harder. ●

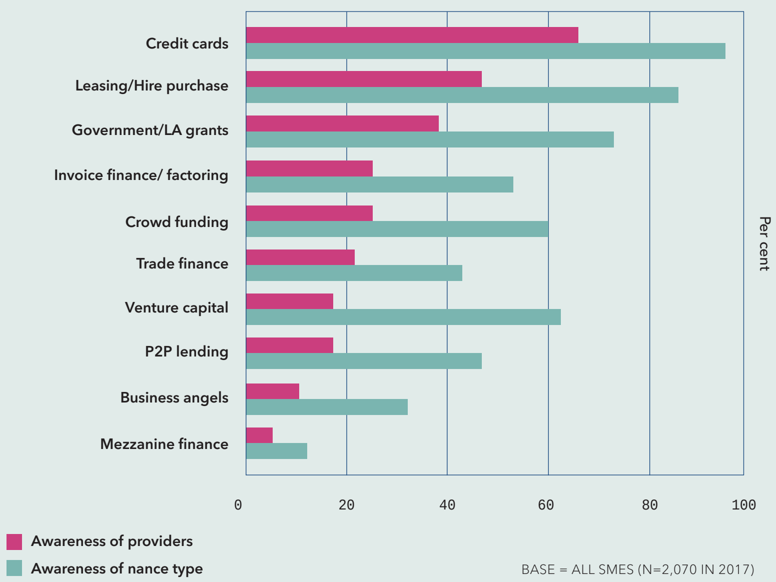
ANDREW BAKER/IKON

FIGURE 1: FIRST ACTION WHEN YOU REALISED YOU HAD A FINANCING NEED?



BASE = ALL SMES THAT SOUGHT FINANCE IN THE LAST 3 YEARS (N=932)

FIGURE 2: AWARENESS OF PRODUCTS AND SPECIFIC PROVIDERS



BASE = ALL SMES (N=2,070 IN 2017)

SOURCE: BRITISH BUSINESS BANK 2017 BUSINESS FINANCE SURVEY - IPSOS MORI

MORE START-UPS THAN EVER BEFORE

There were interesting findings from the British Business Bank's *Small Business Finance Markets Report 2018* in the continuing start-up boom in the UK economy.

Indeed, the report claims that the latest available international comparisons show the UK is leading all other G7 economies in terms of start-up numbers. And while the number of failures has also climbed a little, the latest figures available (for early 2017) put the estimated number of UK SMEs at 5.7 million. One slight fly in the data ointment was an excessive concentration of start-ups in London and the South East, compared to the regions.

In better news for those more keen to see scale-ups (high growth businesses) than start-ups, the UK here also outperformed economies such as Germany, Denmark and Sweden.

SOURCE: BRITISH BUSINESS BANK

SUNNY DAYS

With summer on the horizon, the sun is shining on the economy. But as **Dr Stephen Davies** of the Institute of Economic Affairs says: don't get the deckchairs out yet

NEIL WEBB/IKON

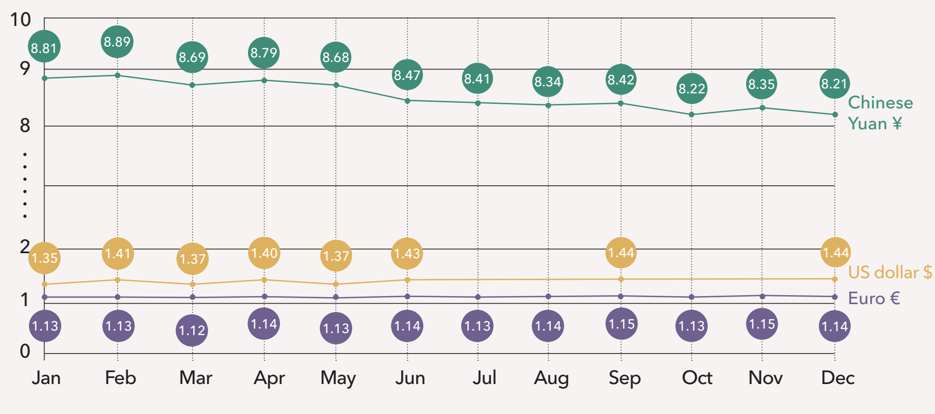
As the chancellor, Philip Hammond, pointed out earlier this year, the situation for both the world and the UK economy looks as good as it has for quite some time. Since autumn 2017, concerns and worries in political and financial circles started to shift away from wondering why the pace of recovery was so slow to fretting about the return to normal levels of interest rates and the unwinding of quantitative easing (QE). There are good reasons for this shift in sentiment, but also reasons for not being quite ready to put out the bunting yet.

Where the UK economy is concerned, it makes sense to look at the past two years as a whole to get an idea of where things stand rather than looking simply at the previous year. If we look at the figures for GDP growth in 2016 from the Office for National Statistics, the four quarters showed growth of 0.2%, 0.5%, 0.5%, and 0.7%, generating annual growth of 1.9%. In 2017, we had 0.3%, 0.3%, 0.4%, and 0.5%, generating annual growth of 1.8%. The full year figures suggest a falling rate of growth, but the quarterly breakdown gives a rosier picture. The wide expectation was that Brexit would lead to a sharp decline in growth. Clearly, the latter did not happen, and the immediate aftermath of the Brexit vote actually saw an improved performance.

A TURN FOR THE BETTER

What is also striking is the very strong performance in the area of productivity growth. Productivity in the UK rose by 0.8% and 0.9% in the last two quarters of 2017, the best figures in this area since the financial crisis in 2008. Shortly before the last budget, the Office for Budget

WHERE WE'RE AT: MAJOR CURRENCY MOVEMENTS IN 2018 AND PROJECTIONS



SOURCE: HISTORIC VALUES AT POUND STERLING LIVE SPOT INTER-BANK MARKET AVERAGE; PROJECTIONS FROM POUND STERLING LIVE, JP MORGAN AND POUND FORECAST

Responsibility effectively threw in the towel on productivity growth and said that we should expect stagnation in this area for quite some time, with significant adverse impact on growth in the medium term.

It is early days, but it may be that they came to that gloomy conclusion just as things were about to finally take a turn for the better. At the same time, while employment has reached an all-time record level, unemployment has started to rise. This may well be associated with the rebound in productivity growth. The large increase in low-paid, semi-skilled workers may have been weighing down on productivity (the obvious contrast would be France, which has high levels of productivity per hour, but high levels of structural unemployment).

At the same time, UK inflation has risen to around 3%. This might lead you to suppose that the labour market was tightening and the economy starting to reach capacity limits given the relatively strong growth performance. However, the failure of pay to rise until the first quarter of 2018, and the rise in unemployment mentioned above, muddies that picture and suggests we are still some way off that point. It is much more likely that inflation at this level is a temporary phenomenon, caused mainly by the fall in the exchange rate in the aftermath of the Brexit vote, which should start to unwind in the remainder of this year.

There are other signs that the UK economy is close to full capacity (such as company surveys), so it may be that we only have a few quarters of growth at current rates before we do start to see significant tightening. As ever, it is almost impossible to estimate output gaps other than in retrospect. One striking feature of the stronger performance of the UK economy in Q2 2017 was manufacturing, which grew twice as fast as services and products (1.3% as compared to 0.6%). Meanwhile, construction actually declined for three consecutive quarters in 2017, and this was associated with a clear slowdown in the property market, particularly in London and the South East.

The world economy as a whole grew beyond most observers' expectations in 2017, and this looks likely to continue in 2018. The World Bank expects growth of 3.1% in 2018 (OECD says 3.75%), up from last year, and a further rise in 2019, which is good news for exporters and those seeking to export. Additionally, the World Bank also forecasts a clear distinction between the developed world's growth of 2.2% and growth of 4.5% in developing countries.

All of this good news has created a growing feeling that we are finally out of the woods and that the world economy is finally returning to normal conditions, if not quite the levels of growth that were recorded before the financial crisis of 2008. Concern is now coming to focus on how a recovery might affect short-term emergency policies that many people have now become accustomed to. The obvious one is ultra-low interest rates and the associated policy of QE. The general expectation now is that bond yields will rise and interest rates go up, as QE is unwound. The fear is that this will reveal a lot of debtors who are still fundamentally distressed and overborrowed, both individual and corporate. Expect to see cash calls from companies and asset fire sales.

These kinds of problems, however, are in a sense good ones to have, as they are problems of a return to growth rather than its absence. As such, they are (or should be) easier to deal with, not least because sustained growth will make a lot of choices easier. However, we should be very cautious about celebrating: it is not yet time to think that good economic weather has definitely returned.

STABLE AND SECURE

For one thing, there are always black and grey swan risks, like geopolitical upheaval or major policy errors. In addition, there are structural factors that should make us less sanguine than we might be. As the OECD and World Bank point out, growth is low by comparison to the period before 2008. Predictions are that most of the growth will be happening in emerging and developing economies. The reason, as the OECD sets out, is that the bulk of this is expected to be "catch-up growth" rather than that due to innovation or growth in trade.

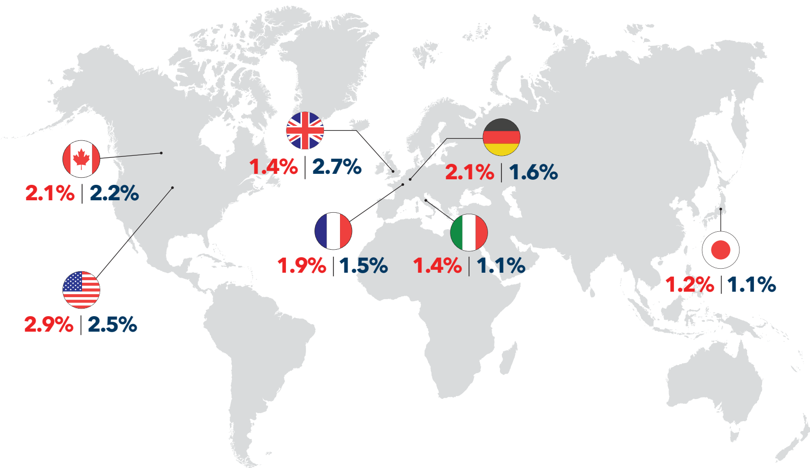
The concerns around the unwinding of QE show another likely challenge, which is that the problems of excessive debt and leverage revealed by the crisis, are still there and still have to be dealt with.

The most fundamental challenge is that of technology and energy supply. The main reason for the rebound of the world economy over the last year and a half has been the fall in the price of oil and it remaining at a low level. Right now, the price level appears to be stable at $70 to $80-a-barrel range. However, most of the new production is in high cost fields with a low energy return over energy invested ratio, so it is not clear how long this price level will continue. So right now, things are looking up in both the UK and the wider world. However, we should not put out the flags just yet. The problems that led to 2008 have yet to be fully addressed, and there are longer-term challenges facing the world in general and developed economies in particular. ●

For a full-length version of this article see the special report *The UK Economy* with this issue of *Business & Management*

WHERE WE'RE AT: FORECASTED GROWTH

KEY: REAL GDP FORECAST | INFLATION FORECAST

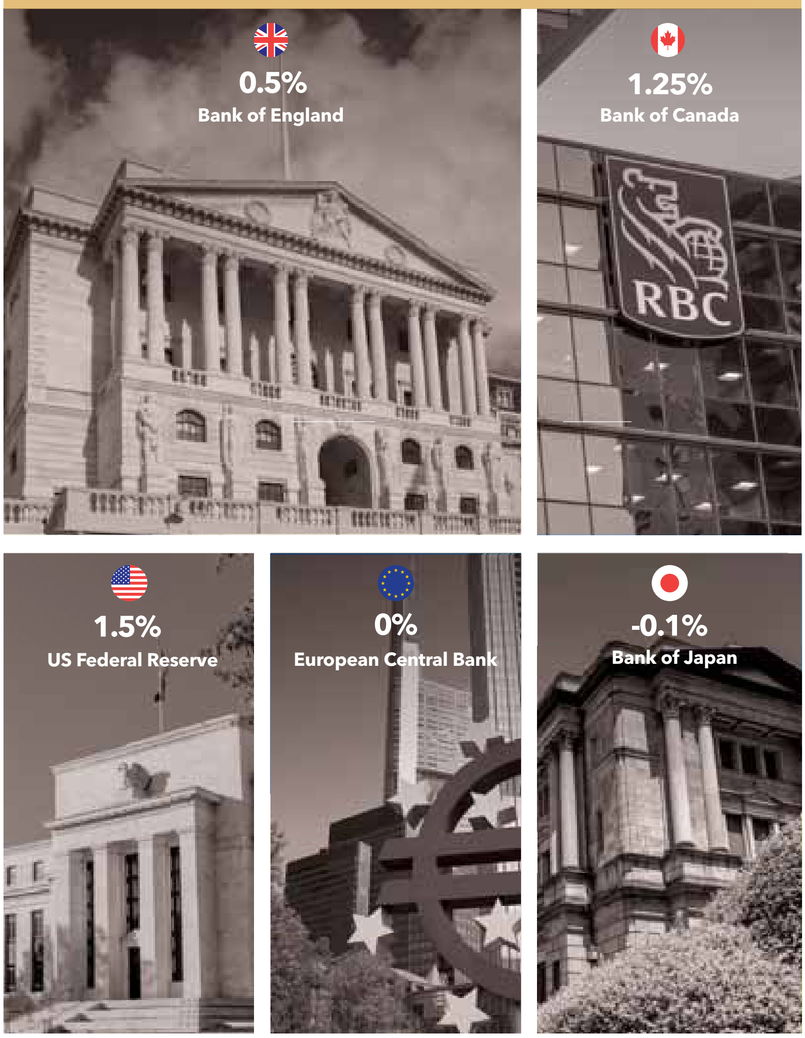


SOURCE: OECD (GDP FORECAST FOR 2018); IMF (INFLATION FORECAST FOR 2018)

Emerging market and developing economies: **4.6%**

Advanced economies: **2%**

WHERE WE'RE AT: INTEREST RATES



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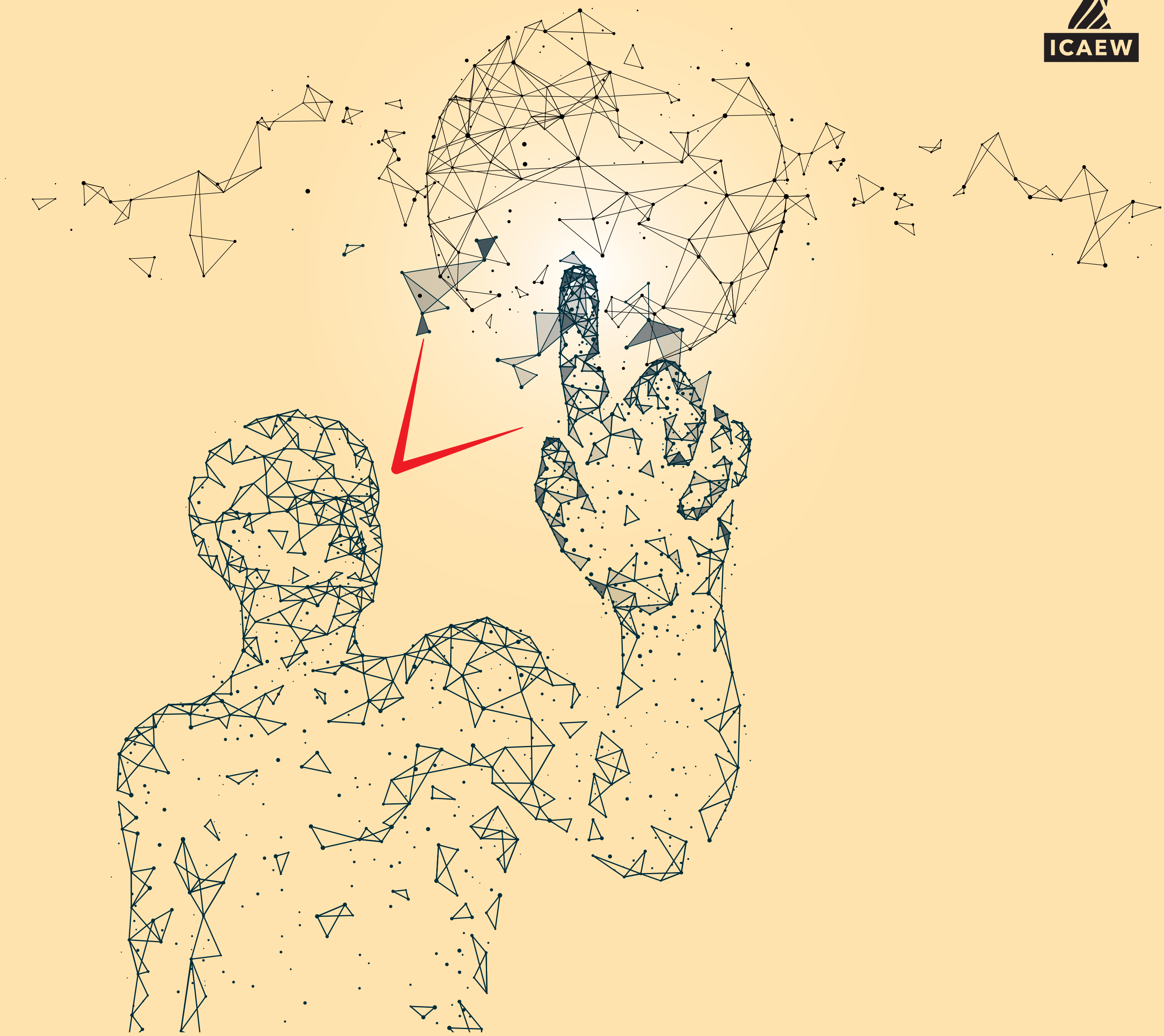

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TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

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

BREXIT HITTING RECRUITERS HARD

With just under a year to go until Britain leaves the European Union, HR professionals and recruiters are feeling the squeeze.

LinkedIn's *Workforce Report* for April showed that the UK is now losing talent to the 27 other EU member states (EU27). This was made evident by Britain seeing a net outflow of professionals to the EU27 during the first quarter of 2018.

According to the Recruitment Survey supplied with the report, 96% of recruiters believed Brexit was affecting hiring strategies, with 44% saying that the UK was less attractive to EU27 candidates as a result of Brexit. A further 28% of recruiters believed that the UK had become less attractive to candidates from the rest of the world.

There were noticeable decreases in hiring from major EU markets, with 37% saying they had seen a decline in hires from Italy, and 35% seeing decreases in hires from France and Germany. There were also decreases in key markets outside the EU, including South Africa (27%), Canada (27%) and Australia (26%).

For small and medium-sized businesses, finding the right talent may become harder due to potential talent abstaining from opportunities provided to come to the UK.

The report can be found at tinyurl.com/BAM-WrkReport

THIRD OF LGBT EMPLOYEES HIDE SEXUAL ORIENTATION AT WORK

Britain's leading charity for lesbian, gay, bi and trans (LGBT) equality, Stonewall, has called for zero-tolerance policies on homophobic, biphobic and transphobic discrimination in the workplace, following a report into discrimination in Britain's workplaces.

According to the *LGBT in Britain – Work Report*, more than a third of LGBT workers (35%) said they have hidden their sexual orientation at work for fear of discrimination. The figure rises to 42%

for black, Asian and minority ethnic LGBT staff, and just over half for trans staff (51%).

Bullying remains an issue for LGBT employees, with nearly one in five (18%) saying they have been the targets of negative comments or conduct from work colleagues in the past year due to their identity. Meanwhile, 18% have said they had been discriminated against due to their identity.

The number worsens for LGBT staff from a minority ethnic background who are trans or disabled. They are more likely to experience harassment and abuse in the workplace. One in 10 minority ethnic employees have said customers had physically attacked them.

The report can be found at tinyurl.com/BAM-LGBTReport

PRESENTEEISM HITS RECORD HIGH IN UK

Presenteeism has more than tripled since 2010, according to the latest *Health and well-being at work* report from the Chartered Institute of Personnel and Development (CIPD) and Simplyhealth. The CIPD defines presenteeism as "working when unwell".

The survey found that 86% had observed presenteeism in their organisation over the past 12 months – an increase from 72% in 2016 and just 26% in 2010.

However, the report also found that 'leaveism', which includes people using annual leave to work, is also a growing problem as 69% of respondents reported that it had occurred in their organisation over the past year.

Despite the alarming figures, few organisations are trying to tackle these unhealthy workplace practices, with just 25% saying they have taken steps to discourage it in the last year – a figure that has halved since 2016. Additionally, only 27% have committed to tackling leaveism.

The report highlights that increased presenteeism can be linked to increases in reported common mental health conditions and stress-related absences, which the survey shows is among the top causes of long-term sickness absence.

But only one in 10 of those taking action against both issues said it was viewed as a priority for the board, while 58% said their organisation is meeting the basic legal requirements for reducing stress in the workplace.

See tinyurl.com/BAM-HWBWork

TAX

NEWS AND UPDATES FROM THE TAX FACULTY WEEKLY NEWSWIRE. VISIT ION.ICAEW.COM/TAXFACULTY AND CLICK THE SIGN-UP LINK TO SUBSCRIBE FOR FREE

REVIEW OF THE CORPORATE INTANGIBLE FIXED ASSETS REGIME

ICAEW submitted *ICAEW Rep 53/18 Review of the corporate Intangible Fixed Assets regime* on 11 May 2018 in response to the consultation launched by HM Treasury and HM Revenue & Customs on 19 February 2018.

The Executive Summary in the ICAEW response reads: "Intellectual property/ Intangible assets are driving the growth of individual countries and of the global economy. A recent report from the World Intellectual Property Organisation, a specialised agency of the UN, states that 'Intellectual Property and other intangibles add twice as much value to products as tangible capital'. (See the report at tinyurl.com/BAM-WIPO)

"This is a topic that is incredibly important to the potential success of the UK economy and it is going to be equally important to ensure that the tax regime successfully matches the need to incentivise successful UK activity in this vital area while at the same time ensuring that any new regime is proportionate and cost effective.

"The current Intangible Fixed Assets regime (IFA) was introduced in 2002 and has been amended on a couple of occasions since then, mainly to deal with perceived avoidance and to ensure fairness, but it has not been subject to any detailed review or amendment.

"The new, 2002, regime did not apply to intangible assets in existence as at 1 April 2002 which remained in the 'old' capital gains tax regime.

"This has created, in effect, two parallel tax regimes for intangible assets: those existing pre April 2002 and those intangible assets brought into existence after that or intangible assets which have been transferred between third parties after 1 April 2002. In the latter case the acquiring party is treated as acquiring an intangible asset to be treated under the new regime.

"A further difference between the two parallel regimes was created in 2011 in respect of the de-grouping charges which applies to both regimes but after 2011 any de-grouping charge applicable to pre-April 2002 intangible assets would now, post 2011, be incorporated into the gain or loss on the share disposal. This means that if such a 'share' gain is exempt because the substantial shareholding exemption applies then the de-grouping charge is also exempt from any charge to tax.

"A further change to the IFA regime is explained in chapter 3 of the consultation document under which there is a restriction to the tax relief for a number of elements of business goodwill so that there is no relief under the tax regime until purchased goodwill is actually disposed of.

"The financial reporting system does not recognise the value of internally generated intangible fixed assets unless they are sold to a third party, in which case the cost is recognised by that third party. Any overview of the contribution that the tax system can make to enhancing the impact intangible fixed assets can have on the UK economy needs to consider what, if anything, could ensure that the tax system makes an appropriate contribution to the influence of intangible fixed assets."

MPs SAY UNIVERSAL CREDIT DOES NOT WORK WELL FOR THE SELF-EMPLOYED

The Work and Pensions Committee of the House of Commons has published a report on universal credit (UC) for the self-employed. It says that UC is "designed with little regard for the reality of self-employed work" and that this poses "a very real risk" to entrepreneurship.

UC is being phased in to replace tax credits (working tax credit and child tax credit). From when the new system was first proposed, there have been concerns that UC will not cater adequately for small self-employed businesses and business start-ups, and indeed will discriminate unfairly against this group compared to employed claimants. UC has significant differences from tax credits:

- awards are based on monthly cash income rather than on annual profit; and
- after the first year, a business's maximum UC entitlement is based on an assumed monthly income known as the 'minimum income floor' (MIF) (linked to the national minimum

wage), even if actual income is less. The idea of these rules is that UC should not be paid to people running businesses which are really hobbies or which are totally unviable, and to encourage them to either make the business work or seek employment.

The Tax Faculty is one of many bodies to have highlighted the problems that these measures, to tackle a minority of claimants, can cause for many genuine self-employed businesses, particularly the following:

- The monthly basis of the claim and the MIF rules mean that seasonal fluctuations and income volatility are not taken into account – even if the trader's income on an annual basis would be at least equal to the MIF.
- The MIF rules mean that no relief is given for losses, and that self-employed traders may not get full relief for pension contributions.
- The one-year start-up period before the MIF rules apply is too short, as many businesses take longer to get established and become profitable.

The Tax Faculty is pleased that the Work and Pensions Committee's findings endorse these concerns. Indeed, chairman Frank Field said: "Universal credit was not designed with self-employment in mind and it shows. Its current set-up for people starting and running their own business risks crushing potentially viable, productive enterprises."

The Work and Pensions Committee's recommendations include:

- extend the current one-year start-up period to up to three years, at the discretion of work coaches in Jobcentres;
- allow reporting periods of up to one year for self-employed claimants who receive irregular monthly pay, similarly at the discretion of work coaches;
- ensure front-line Jobcentre Plus staff have sufficient expertise in self-employment; and
- produce ongoing evaluations of the effect of the new self-employment rules on UC claimants.

The hope is that the government will look closely at the Work and Pensions Committee's findings and recommendations. It cannot be right that a self-employed claimant with the same annual earned income as an employed claimant should receive less in UC support. Genuine entrepreneurial self-employment is vital to the UK economy. Without some changes – as the report highlights – people may be discouraged from starting self-employment and those running existing businesses may be forced to give up.

HMRC'S CAMPAIGNS AND MAKING A DISCLOSURE

HMRC has recently updated its guidance on current disclosure opportunities. The main change is to insert a section about how to make a disclosure for someone who has died.

For some years HMRC has run a series of campaigns providing opportunities for taxpayers to come forward and bring their tax affairs up to date. Each is targeted at a specific taxpayer group or type of taxable activity. Most campaigns have closed now, but two are still open.

- Let Property Campaign: aimed at individual landlords letting out residential property in the UK or abroad who have not declared their letting income.
- Card Transaction Programme: aimed at those in business who accept credit or debit card payments but have not declared that income to HMRC.

In addition, HMRC offers The Worldwide Disclosure Facility, aimed at anyone who has an undisclosed UK tax liability that relates wholly or in part to an offshore issue. It is particularly important to disclose any such liabilities by 30 September 2018, after which tough new penalties for offshore non-compliance come into force.

The main route for making a disclosure under any of the above is HMRC's Digital Disclosure Service (DDS). It can also be used in any other situation where voluntary disclosure of undeclared liabilities is required.

Agents can use the online route to makes disclosures on behalf of clients.

It is worth noting that if tax fraud is in point, it may be better to ask HMRC to deal with the case under the Contractual Disclosure Facility (Code of Practice 9) rather than use the online disclosure routes.

Making a disclosure for someone who has died

The paragraph that HMRC has added into its guidance on all the above disclosure opportunities is: "If you want to make a disclosure for someone who's died and you're the personal representative or executor of the deceased, or their interests, you can do this using the DDS. Make sure it's clear that you're notifying on someone else's behalf. We may ask for additional evidence that you're authorised to act for them."

In making a disclosure, the taxpayer, agent or representative is required to assess the back tax, interest and penalties. It is important to note that penalties for offences committed by a deceased person before their death cannot be imposed on the personal representatives. However, we cannot see that HMRC has updated its penalty guidance to make the position clear to anyone making a disclosure in the capacity of personal representative or executor.

FINANCIAL REPORTING

FINANCIAL CLIMATE-RELATED DISCLOSURES

As of April 2018, some 250 organisations from around the world have expressed support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) published in 2017. Given the current momentum behind the TCFD recommendations, ICAEW, in association with The Carbon Trust, has published this practical guidance for organisations wanting to learn more about the recommendations and steps to implementation.

See tinyurl.com/BAM-TFCRF1

REDUCED DISCLOSURES

The FRC has confirmed that there will be no amendments to FRS 101 *Reduced Disclosure Framework* as a result of the 2017/18 review.

Read the FRC press release at tinyurl.com/BAM-FRS101RD ●

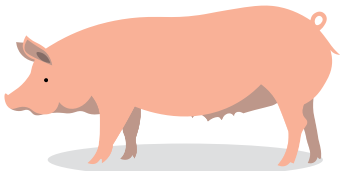
ON A LIGHTER NOTE

KANGAROOS HOPPING MAD FOR CARROTS

Despite warnings from rangers, tourists in Lake Macquarie, Australia have continued to feed carrots to kangaroos. Michelle Shaw, a nutritionist at Syndey's Taronga Zoo, said the kangaroos had become addicted to the vegetable, which is a high-sugar food that is bad for marsupials. On top of making them anxious, carrots also made kangaroos aggressive to the point of attacking tourists. Speaking to *Reuters*, Shaw said: "When they see people, they become anxious that sugar is on its way and they are going to be very aggressive to feed that addiction."

CHECK IN AT THE HOG HOTEL

Two or three-storey pig-breeding farms have been tried in Europe, with most failing, suffering from public resistance and farm issues. But this has not stopped agricultural company Guangxi Yangxiang Co Ltd from planning to construct a 13-storey pig-breeding farm – the worlds tallest and largest. Currently, the company has two seven-storey breeding operations, and wants to add another three alongside its plans for a 13-storey farm. Yangxiang will house 30,000 sows at its 11-hectare site by year-end, producing as many as 840,000 piglets per annum.



KNOCK ON WOOD

Researchers from Japan's Forest Products and Research Institute have found a way to produce drinkable alcohol from wood. After nearly a decade, the researchers say they are close to making it a marketable product. One of the researchers, Kengo Magara, told *AFP* that they had been able to let the alcohol retain the flavour of the trees: "Our method can make it drinkable, and with a wood flavour, because it does not require high heat or sulphuric acid to decompose the wood."

30K

NUMBER OF SOWS THAT WILL BE HOUSED AT YANGXIANG'S 11-HECTARE SITE

13

NUMBER OF STOREYS FOR YANGXIANG'S PLANNED FARM

2021

THE YEAR MINISTERS HOPE TO SEE SELF-DRIVING CARS

APP-Y, YOU CAN PARK MY CAR

Drivers in the UK will now be able to legally park their cars from up to six metres away using an app or remote device due to updated legislation from the Department for Transport. It is hoped the new legislation will help drivers with parking in tight spaces and 'transform' car travel for those with restricted mobility. "We will continue to review our driving laws, in order to ensure drivers can enjoy the potential of these new tools safely," said junior transport minister Jesse Norman. Ministers hope to see self-driving cars on Britain's roads by 2021.

READY, AIM, FIRE!

A restaurant in Perth, Australia, has begun arming customers with large water guns to fight off hungry seagulls. Toby Evans, owner of the 3Sheets restaurant, said the seagulls did not normally behave in this manner and put their brazen attitude down to the time of the year. "Before, they'd wait until customers had finished and got up but now they're getting cheekier and cheekier," he told *9 News*. The gulls gather near the waterfront restaurants in Hillarys Boat Harbour and scavenge for leftovers or hope for scraps from diners. Evans decided to equip each table with a water gun to blast the birds away. Customers have said the strategy is working. "We didn't have to throw anything at them or run for cover," said one diner.