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VALUE JUDGEMENT

How is value defined when it comes to companies being bought for eye-watering prices?

October 2018 Issue 268

COVER ILLUSTRATION: CHARLIE DAVIS

Getting motivated

Many complain about the lack of motivation of their staff, but if we think back to our own nascent careers, many will surely remember the feeling of frustration with poor leadership and management. In his best selling book from 2011, *Drive: The Surprising Truth About What Motivates Us*, Daniel Pink identified three elements of motivation both in and out of work – autonomy, mastery and purpose. He believes that these work stronger than cash incentives to drive motivation and happiness at work (although cash has been consistently proven to be a great motivator for achieving aims and targets).

Autonomy is a crucial element of motivating people. In 2017, David Hopley – leadership, management and business consultant – delivered a lecture to BAM members on courageous leadership, the core of which emphasised the importance of trusting your staff and allowing them the freedom to own their decisions. Although based on a military model, chief financial officers can create a raft of leaders by granting their reports the power to own their own decisions.

Allowing staff to grow in their role and make it their own is the second motivating factor. David Niven, author of *The 100 Simple Secrets of Successful People,* has analysed research from more than 1,000 studies and traced patterns of behaviour. He found that a steady stream of minor achievements produces much more satisfaction than the occasional huge win as people see small steps forward as part of continual progress. Leaders can assist staff along this line by praising success – winning, motivated people tend to focus much more on their successes than their failures and managers can assist them to develop by reminding them of their successes.

The third factor in motivating people is giving them purpose. Pink believes that feelings are key here – leaders can nurture feelings in their staff so that they're motivated to drive the business forward. Comments about staff "not caring" is perhaps the most damning thing that can be levelled against them, but many employees are disengaged and lose their strength of feeling about the business in which they work. Some management experts think that engendering a feeling of belonging helps. Jim Collins, in his book *Built to Last,* found that the longest lasting companies tended to have a culture which could be seen as a cult by outsiders, but that this is what made them stronger. Cults create purpose – perhaps we can learn something from this.

I hope that you enjoy reading this issue. If you have any thoughts about the faculty or this publication, please contact robert.russell@icaew.com or matthew.rideout@icaew.com.

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Annual membership of the faculty costs from £98 for the whole year.

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

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NEWS

ALAMY

BUMPY RIDE FOR OFO

Ofo's distinctive and ubiquitous yellow bikes may not be around for much longer as the company that owns them is being sued by Shanghai Phoenix Bicycles for ¥70m (nearly £8m) in unpaid bills. This followed reports of the cash-strapped bike-sharing firm looking to raise money through a series of fundraisers, with hopes of fintech company Ant Financial and ride-sharing giant Didi Chuxing contributing. In July, the bike-sharing firm made the decision to focus on more profitable markets, such as London, while it has closed operations in several UK cities as well as Sydney and Dehli.

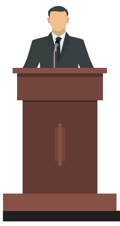
¥70m

AMOUNT SHANGHAI PHOENIX BICYCLES IS SUING OFO FOR

€14bn

BACK TAXES PAID BY APPLE IN IRELAND

LEWIS TO GIVE PD LEAKE LECTURE



This year's PD Leake lecture will be held at Chartered Accountants' Hall, London, on 30 October from 6pm. The lecture – titled 'More than words: the use of textual analysis in corporate reporting' – will be given by Professor Craig Lewis, professor of finance at Vanderbilt Law School. Attendance is free of charge and you can book your place at icaew.com/pdl2018

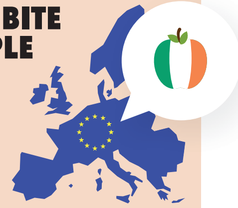
OUT OF YOUR DOMAIN

Around 300,000 ".eu" domain names registered in the UK will be lost after a decision by the EC that all EU domains must be registered to EU citizens living in the EU. EURid, the organisation appointed by the European Commission to manage the .eu domain, is seeking clarification about the repercussions of the UK's exit from the EU. You can read more at tinyurl.com/BAM-BrexitNotice

ALDI EXPANDS

Aldi UK, the nation's fifth largest supermarket chain by sales, announced a 26% rise in profits last month to £266m. It also revealed plans to invest £1bn in expanding its presence on the High Street, creating another 225 supermarkets to reach 1,000 by 2022. In comparison Tesco, the UK's largest supermarket, has 3,400 outlets.

EU TAKES A BITE OUT OF APPLE



The EU has dropped legal action against Ireland over €14.3bn (£12.7bn) in back taxes from Apple after the company paid the debt. In 2016, the European Commission ruled that Dublin was guilty of providing illegal state aid to the iPhone maker. Paschal Donohoe, Ireland's finance minister, confirmed that the country would appeal the ruling. "The government fundamentally disagrees with the Commission's analysis, and is seeking an annulment of that decision. As committed members of the EU, we have always confirmed that we would recover the alleged state aid."

MOBILE USERS OVERCHARGED ALMOST £500M

Citizen's Advice has warned that contracted handset owners may be incurring unnecessary charges. The consumer charity accused EE, Three and Vodafone of overcharging customers by almost £500m, with some four million people paying for their handsets after their contract had finished. "It is unacceptable that mobile providers are knowingly overcharging customers for phones they already own," said Citizens Advice chief executive, Gillian Guy. "Consumers should check their phone bills to see if they can save money with a SIM-only contract." Vodafone said: "We already contact all of our customers when they are approaching the end of their minimum term to let them know their options. These include upgrading their handset or moving to a SIM-only contract so they are not paying anything for a handset."

EVENTS & WEBINARS

ALL WEBINARS AND EVENTS ARE FREE FOR FACULTY MEMBERS

EVENTS
ICAEW.COM/BAMEVENTS

INNOVATION AND BUSINESS DEVELOPMENT
13 November 18:00
A third of UK SMEs have not seen any productivity gains since 2000 according to the Bank of England. While spending on research and development is certain to lead to productivity gains, not all businesses can afford the capital. Improving processes through innovation can also assist growth and productivity gains. At this event, Warren Knight will explain how SMEs can increase their revenue through innovating sales, marketing and operations.

icaew.com/bamnovevent

WEBINARS
ICAEW.COM/BAMWEBINARS

20-MINUTE LUNCH WEBINARS

BREXIT UPDATE
23 October 12:30
Dr Stephen Davies, director of education at the Institute of Economic Affairs, presents an update on the current political and economic situation regarding Brexit and offers a range of probable outcomes of the UK's protracted exit from the EU.

To book a place, please visit icaew.com/lunchoct2

STATISTICS SKILLS IN EXCEL – WATERFALL GRAPHS
28 November 12:30
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 create visually impacting charts that assist in understanding the cumulative effect of sequential results. This webinar is set at a basic level – no previous knowledge of statistics is required.

icaew.com/lunchnov

BYOD POLICIES
6 November 12:30
Many businesses started to allow individuals to bring their own devices into work, but security issues and fear of virus attacks has dissuaded many. The IT Faculty's Mark Taylor explains the pros and cons of adopting Bring Your Own Devices (BYOD) and runs through practical tips for developing an effective BYOD policy.

icaew.com/lunchnov2

FREE 60-MINUTE WEBINARS

TEAM LEADERSHIP AND MANAGEMENT
14 November 10:00-11:00
The most important aspect of being a manager is learning how to be "hands off" and let your team members make their own decisions. Richard Jenkins talks us through the best approach to adopt and how to work to create effective teams.

icaew.com/bamnovwebinar

PRACTICAL EXCEL TIPS
6 December 10:00-11:00
In this webinar, Excel guru John Tennent will cover easy shortcuts to save you time dealing with the most common problems faced by Excel users. John will cover easy identification of incorrect and misused formulae, cell styles, duplicate data and professional formatting of spreadsheets. A good working knowledge of Excel is presumed.

icaew.com/bamdecwebinar

E-LEARNING

MANAGEMENT AND LEADERSHIP IN THE DAWN OF ARTIFICIAL INTELLIGENCE
21-22 November 9:30-11:00
From £85+VAT
Why do so many leaders fail when given the task of managing large teams? They are missing the behaviour traits that need to be in any leader's DNA. The good news is that good leadership behaviour traits can be changed with commitment. This practical, three-hour e-lecture, split over two days and delivered by David Parmenter, will explain what you need to do to adopt these behaviours, as well as covering the eight-people orientated and seven personal skills to become a better leader. See icaew.com/leadership18

WHEN IS A TAX NOT A TAX?

Business rates represent something of a challenge for businesses facing tough times. ICAEW's **John Boulton** assesses the issues

It seems like barely a week passes without news of an embattled retailer facing punishing trading conditions. One accounting item that characterises the sector, at least for those with high street stores, is a large fixed cost base in the form of rent and rates. Fixed costs might enable higher profitability in the good times, but they act as a ratcheting effect in reverse. Businesses in distress may focus on cutting fixed costs, perhaps by renegotiating with landlords. But business rates remain inflexible.

THE SOLUTION

It's not difficult to find businesses disproportionately affected by business rates. The Baum in Rochdale is a popular community pub. Situated next to the museum that marks the site of the world's first co-operative store, it was voted the best pub in Britain in 2012.

But the pub has been in the headlines recently for different reasons; in April 2017, its rateable value increased by 377%. The landlord's plight was widely reported in the media, alongside that of other businesses in a similar position. The huge increase threatened their survival as a business. And there are many similar stories. While in some parts of the UK rates bills fell in 2017, rateable values increased in London (23.6%) and the South East (9.6%).

Rates have grown to represent an increasingly big chunk of what businesses pay to government. For the 100 Group, PwC has calculated that rates represented 19% of taxes paid in 2017, the third biggest tax. Since 2001, the UK has had the highest property taxes in the OECD. As a percentage of GDP, total property taxes exceeded 4.2% in 2016, more than double the OECD average of 1.9%. And those figures have continued to grow. Over the last decade business rates receipts grew by 39% from £21bn to £29bn. Business rates alone amounted to 1.5% of GDP in 2016/17, up from 1.2% of GDP in 2006/7.

Yet despite their scale, rates are not necessarily even treated like a tax by accountants. Typically they are reported with occupation costs rather than being included in the tax line. As both rent and rates are usually related to the same management decisions, it makes sense to report them in one place, but it means businesses might not have visibility over the total taxes they pay.

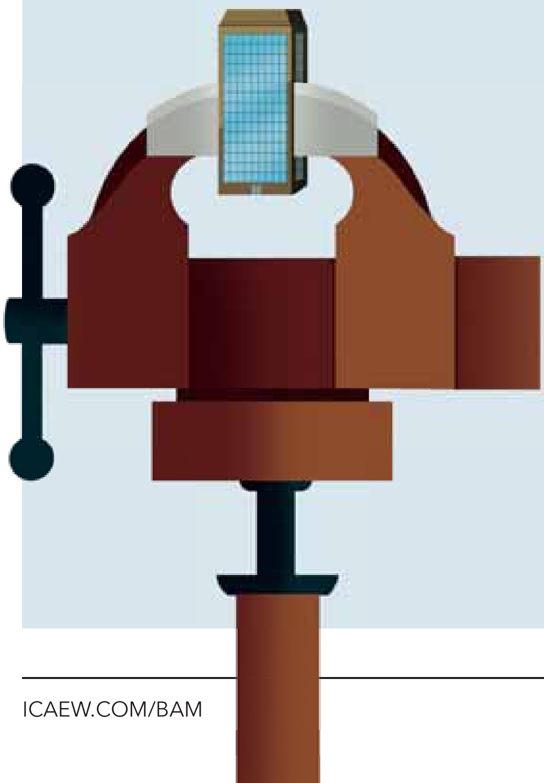
That may be changing. Requirements introduced in the Finance Act [2016] for large listed companies to report on their tax strategy have prompted some entities to innovate with their tax reporting. This is bringing new visibility to the amount of business rates that some entities pay. In some cases it is a very substantial amount and, for some businesses, rates are the largest tax they pay.

So what can be done? It is unrealistic to expect that government can reduce its dependence on property. Property has been a reliable contributor to revenues; it is relatively easy to assess who owes what and correspondingly hard for taxpayers to avoid.

But business rates are unlike other taxes: the burden of challenging an assessment is borne by the taxpayer rather than the authorities, and the liability does not scale with profitability.

A fundamental review of business rates is now overdue, and ICAEW is calling for the government to give attention to this area. For example, it could consider the scope for linking new measures to tax the digital economy with relief for business rates. To help prevent business rates from causing business failure, what could be done to link business rates and profitability? Struggling businesses might be able to renegotiate their rent and other expenses, but apart from very limited hardship relief, rates remain fixed. ●

Read ICAEW's report: *Business rates: maintain, demolish, rebuild, refurbish* at tinyurl.com/BAM-ICAEWBizRates



NICK LOWNDES/IKON

John Boulton
manager, technical strategy, ICAEW

BROUGHT TO BOOK

Lucy McCarraher outlines 10 ways a mentor can help you write a successful business book

If you are a successful business owner, entrepreneur, manager or consultant with a track record of providing valuable services or products to your market, there are five good reasons why you should write a business book.

First, it's one of the best pieces of self-development you can engage in. Planning a well-structured book gives you clarity and forces you to create a logical, compelling story or reader journey. Authors often find that writing their book produces insights that improve their business or methodology.

Second, creating a detailed manuscript of 30,000 to 40,000 words gives you an invaluable archive of content that can be repurposed in many formats from blog posts to keynotes to workshops. The act of writing embeds that content in your brain, so you become more confident and adept at speaking, pitching and selling.

Third, being a published author is the most effective way of demonstrating your authority and expertise in your field. I'm sure you've noticed how many media pundits and experts are introduced as the author of a book on a relevant subject. Your book is your entrée to industry events and invitations to speak and present worldwide.

Fourth, your book is the best business card you will ever have. A small piece of printed card or even a nicely printed brochure can be filed away; an email can be deleted, a letter binned. But few people will ignore a well-designed and produced book. A business book sells you and your business to prospects and creates an endless marketing funnel. The kudos of authorship allows you to raise your fees and meet influencers in your market on an equal footing.

Finally, there is a predictably unpredictable magic to writing and publishing a good book. Every author whose book I've published comes back to me at some point with a story that usually opens with, "you won't believe what's happened" and ends with "and it's all because of the book".

The key phrase, though, is "a good book", and the way to ensure your book presents you to your market and the world in the best and most professional way is to work with a book mentor. If you have a business book that you know you should write – especially if it's your first – do yourself and your readers a favour and work with a mentor to get it planned and written.

Here are my top tips for doing this:

01
TALK TO OTHER AUTHORS

Finding other authors online and talking about mentors they have worked with can be helpful. Get recommendations and check out the ones you like the sound of. Talk to each of them and ask questions about the way they would work with you, how they can deliver the outcomes you expect, and raise any concerns you have – nothing is too unimportant to get clear about. Expect them to be open about what they can't deliver, as well as what they can. Fees vary; to a large extent you pay for experience and outcomes.

02
RESEARCH BOOK MENTORS

Looking into book mentors and what they do can be beneficial. There are also writing coaches, ghostwriters and structural editors who offer different, but sometimes overlapping, services. When you are clear what a mentor offers and that this is what you are looking for…

03
CHOOSE A MENTOR

You should pick a mentor who understands your goals for writing and publishing your book. They don't have to be an expert in your field, but they should understand who your market is and how you want to position yourself in it. You should be confident that they have experience in the current publishing environment and will give you honest, unbiased advice. Work with a mentor you like, respect and trust.

04
MAKE THE PROCESS MANAGEABLE

One of your mentor's jobs is to make the task of planning and writing your book manageable. They should reduce the overwhelm by breaking the process down into discrete steps that need to be taken one at a time and in the right order. An experienced book mentor will have a tried and tested process that they take their authors through. They should be able to clearly outline and demonstrate to you up front how it has worked for others.

05
BE ACCOUNTABLE

Many aspiring authors set themselves goals and timetables that too easily get set aside when life or work gets demanding. Work with your mentor to reverse engineer a schedule where the endpoint is either your final manuscript or the published book. Be realistic about the time you can give to writing, and take note of your mentor's experience of what is achievable. Agree how and when they will hold you accountable too.

06
PLAN ACCORDINGLY

Your mentor will help you create a compelling working title that will attract your market and potential publishers. They will ensure you have a detailed structure for your book in place before you start any writing. If you've developed this yourself, let them review it and interrogate you about any potential weak points, lack of logic or detail. If they are helping you create the book blueprint, take the time to get it right so you're both happy with the reader journey before you start writing.

07
LEAN ON YOUR MENTOR EARLY ON

The first 10,000 words you write will be the hardest. This is the time when you most need your mentor to check in on your writing, give clear and detailed feedback, and be there to reassure you when you (inevitably) have misgivings about the whole project. Once you've got into the writing habit, found your author voice and started ticking off items on your contents list, you will feel more confident and need less input.

08
OBTAIN OBJECTIVE ADVICE

Writing is an emotional business and a piece of valuable self-development. As you get your first draft written, you'll go through ups and downs, crises of confidence, flashes of genius, worries that your book is too long or too short – all typical writing stages that your mentor will recognise. They can offer objectivity that you will sometimes lack. Keep in regular contact with your mentor, sharing your feelings and your progress. Sometimes writing your business book will give you insights into your practices and processes that lead to changes in both the business and to the book. An experienced business book mentor will understand and help you manage such outcomes, and refer you to other specialist business mentors if necessary.

09
REVIEW YOUR WORK

Your mentor is not an editor, but they should review your first draft and give you an overview of your manuscript and specific pointers for the next step – your first self-edit. They can help you identify beta readers for the second draft of your manuscript and ensure you get the most useful feedback. You may get contested and contradictory responses from your readers, and your mentor is the ideal person to help you sift and incorporate this feedback.

10
PUBLICATION AND PROMOTION

Your book mentor should be well placed to advise on the best route to publication for you and your book. They will be able to explain the pros and cons of traditional publishing, DIY self-publishing or hybrid publishing. An experienced mentor will have contacts in all areas of publishing and be able to review offers, options and contracts with you. They can continue to work with you as the book comes out and advise you on how to achieve the goals that you started this process with.

I believe that small business has grown and developed rapidly in the past few years partly because so many entrepreneurs are sharing their knowledge and insights in book form. Your business book could benefit from being written in partnership with a mentor who will bring out the best in you and it. ●

"Your book is the best business card you will ever have… The kudos of authorship allows you to raise your fees and meet influencers in your market on an equal footing"

ALICE MOLLON /IKON

Lucy McCarraher, founder of The Business Book Awards, which are now open for entries at tinyurl.com/BAM-BookAw

Subjecting your business to a financial health check may sound as daunting as undergoing a physical examination by a GP. But Paul Golden explains that it can be transformative if recommendations are acted upon

PREVENTION VERSUS CURE

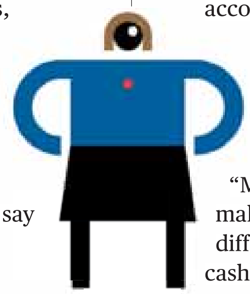
Motivations for undertaking a business financial health check are almost as numerous as the firms offering the service and are not always purely commercial.

While the purpose of the exercise is to identify areas where the business can be more efficient, it is not uncommon for requests to come on the back of a change in personal circumstances.

Health or relationship issues or an application for non-business finance, such as a mortgage, can all be factors, according to Rob Ellis, managing partner of Welch & Ellis.

He says that once the objectives have been determined, the next step is a fact-finding process to establish the current position: "Ideally I would want to be able to look at two years of accounts, but the more information the better.

"It's also important to listen to a client's concerns as only then do you pick up on what is needed and where their priorities lie - I often say that part of this job is being a therapist."



Ellis reckons many businesses fixate on accounting ratios, rather than looking at the big picture and remembering that, in order to facilitate growth, costs will increase in the short term and it may take a while to see a return on this investment.

"Costs often have to jump up significantly, which may cause unnecessary concern," he adds. "On the flip side it's fair to say that many businesses underestimate the significant 'sickness' that may come with growing too rapidly or over-trading. Growth is sometimes wrongly seen as a positive as long as the money is coming in. Don't be a busy fool."

According to business consultant Nigel Moore, the most common reason for a business undertaking a financial health check is a general lack of understanding of what the year-end accounts actually show.

"Many accountants send out the year-end accounts with their invoice and a letter stating how much tax the business needs to pay," he says. "Most businesses - if they do make money - find it extremely difficult to understand where the cash has gone."

He describes the key elements of the process as face-to-face fact-finding and collection of the full set of accounts from the last three years, along with analysis of the numbers and the information gathered at the meeting, a presentation of the financial assessment and an action plan of what the business needs to do to improve its cash generation.

Moore argues that most businesses that turn over less than £50m overlook regular key performance indicator monitoring, especially cash generation post profits, dividends, Capex and loan repayments. "They often forget what cash is needed to run their business and service debt, and simply go ahead and spend on capital items without thinking about retained cash levels," he says.

SCHEDULING A CHECK-UP

Gary Jesson is group managing director and co-founder of EFM, which provides 'pay as you go' financial management services to businesses. He explains that investors often request a financial health check on a business they have just acquired.

"They may already have had a professional firm do some due diligence,

but they are looking for some real under-the-skin commercial due diligence," he says.

Requests from business owners may be prompted by concerns about the efficacy of their finance director, especially entrepreneurs who don't feel able to benchmark financial performance.

"Most of the health checks we get involved with tend to focus on cash, profit and risk," says Jesson. "In one case we found that the client's data measurement was inaccurate – it was mixing up one-off payments with day-to-day payments, which skewed the numbers substantially and meant it did not understand when cash was coming in against when it went out."

He says the results of a business health check can come as a surprise: "We often find that a perceived cash problem is actually a profit problem. I was doing this with a company recently and when we analysed the business they realised they just weren't making enough money."

There are some tried and tested metrics around monthly recurring revenue, average recurring revenue and costs of acquiring clients, but what entrepreneurs sometimes forget is that underneath that there are costs and

CASE STUDY: JOLLY GOOD COMMUNICATIONS

Richard James is a director of Jolly Good Communications, a not-for-profit PR agency with clients throughout England and Wales. "As the business was approaching its fourth anniversary, we decided to carry out a financial health check as we thought it was a good chance to take stock and see if there was anything we could be doing better," he explains. Following a personal recommendation, Rob Ellis from Welch & Ellis was asked to undertake the review.

As a community interest company, making money is not the primary objective. However, its directors were keen to ensure it was operating as efficiently as possible. "Both my business partner and I are parents to young children and Rob was able to help with efficiency through utilising childcare vouchers," says James. "He got us to look more closely at our costs and examine how much of the hourly rate we charge is actually spent on basic running costs and banking expenses."

"He also gave us advice about the best way to structure shares and dividends and talked about business valuation and estate planning. The thing we had never done for ourselves was to think about projections for the business and future turnover."

Jolly Good Communications may not have overheads such as offices (its founders both work from home), company cars or a large marketing budget, but maximising its profit enables it to continue to support small and micro-charities for free, adds James.

"It's an added incentive to keep our business as healthy as possible, something we will continue to do through regular checks," he concludes.

"In my experience, health checks tend to draw out underlying issues about leadership style, quality of workforce and general attitudes towards learning and training"

overheads. Businesses see revenue going up every month but don't increase profits because as they scale they are taking on too high a cost for their relative sales price.

"I have worked with businesses that are achieving a gross profit of 30% and think they're doing OK, but when you break it down they find they've got issues in some parts of the business," says Jesson. "One of the things I like to measure is the liquidity ratio. Anything north of one means you have more cash and debtors than liabilities. It's a very simple metric, and yet I hardly ever see it done."

He suggests that non-financial metrics are also frequently overlooked. "Businesses don't look enough at operational data, and when they do they don't link it to profit, risk and cash," adds Jesson.

MEASURING UP

Which business indicators are measured during the financial health check - and over what timeframe - very much depends on the size of the company and where it is in its lifecycle, observes Ashmax Associates founder Martin Millen.

"The business needs to have positive cash flow and it is important to maintain cash reserves as an emergency fund," he says. "After this it's about financial protection and then ensuring surplus capital is working for the business. There is too much focus on the short term, often with a quarterly view as opposed to balanced planning, which deals with longer term stability and investment."

Stephen Lane, finance director of automotive and motorsport engineering firm Xtrac, reckons the financial health of a business and putting in place appropriate controls and governance is ultimately the responsibility of the chief financial officer (CFO).

"However, in an organisation that doesn't have a full-time CFO but perhaps a financial controller and an assistant, I can see it would be an area in which they would look to seek assistance from an external supplier who might come in and undertake a governance review as to whether some of the key controls are in place and operating effectively," he says.

Lane adds that if a medium- or larger-sized business was in a particularly distressed state, there may be grounds for asking a specialist to perform some diligence over the financial performance and controls.

An organisation where the numbers were continually going backwards might have someone come in and take a look as a standalone exercise or ask its auditors for feedback on certain aspects of the business, he continues.

"Many firms now are trying to differentiate themselves by offering a health check as part of the audit process," says Lane. "While their overriding objective is to give their opinion on the financial statement, auditors frequently offer a service where they come back with recommendations for improvements. That is a useful conversation to have."

Ryedale Printing Works undertakes regular financial health checks as part of its accounting routine in addition to gathering external views and expertise from non-executive director appointments, explains managing director James Buffoni.

"We currently have a non-executive director with a very strong financial

BUSINESS HEALTH CHECK-LIST

Questions from corporate turnaround, recovery and insolvency professionals Tri Group:

- Do you know how much revenue you need to make to break even?
- Do you use cash flow forecasts to manage your business?
- Do you have enough cash reserves or forward orders to survive the next quarter?
- Do you review your debtors monthly to chase late payments?
- Do you monitor your own debts on a monthly basis?
- Are there any financial threats that you have yet to plan for that could/will affect your profitability?
- Are all the products or services that you sell profitable?
- Do you monitor all your business operations for early warning signs?
- Are your sales seeing year-on-year growth that is keeping pace with – or higher than – inflation?
- Do you consult with business advisers when you need to?

background who provides insight and advice," he explains. "In simple terms, if you don't know your numbers you don't know your business and that is clearly a significant risk."

Buffoni lists three key characteristics of a business's financial data:

1. Level – am I happy with this level of performance?
2. Trend – is it improving or worsening?
3. Variance – is it predictable and stable?

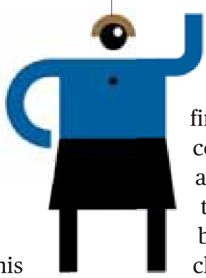
Decent measurement and analysis always involves relativity, he continues: "Is the number important? Is the data good enough? How does it compare? Ratios can help here. Typical measures might include revenue growth versus expectations/market; profitability; solvency; working capital; and cost structure."

If you are looking to sell the business and want to achieve maximum value you will need to be in control of every element of risk, adds Buffoni, who refers to people who have been through this process – and succeeded above the average rate of return – as a useful source of advice.

UNDERLYING ISSUES

WR Davies' finance director, Len Jones, agrees that there can be value in the observations of someone within the business who has broader experience.

These may not be financial insights but rather recommendations about the business model, quality of earnings, the strengths and weaknesses of the management team and – most importantly – the culture of the company, he says: "In my experience, health checks tend to draw out underlying issues about leadership style, quality of workforce and general attitudes towards learning and training."



Jones suggests that consultants will more than likely duplicate recommendations that a good finance director would already have considered, so they may ask why these steps have not been taken and what organisational barriers there are to prevent change or improvement.

"When I see recommendations about measurement and performance indicators then there is usually rationalisation around blips or longer term trends and a bit of defensive posturing about the suitability of the performance measure," adds Jones.

"Outside consultants can break down these arguments, which verge on political infighting when finance functions continually report poor performance. The discussions have broken down into questioning the veracity of the figures rather than the underlying causes."

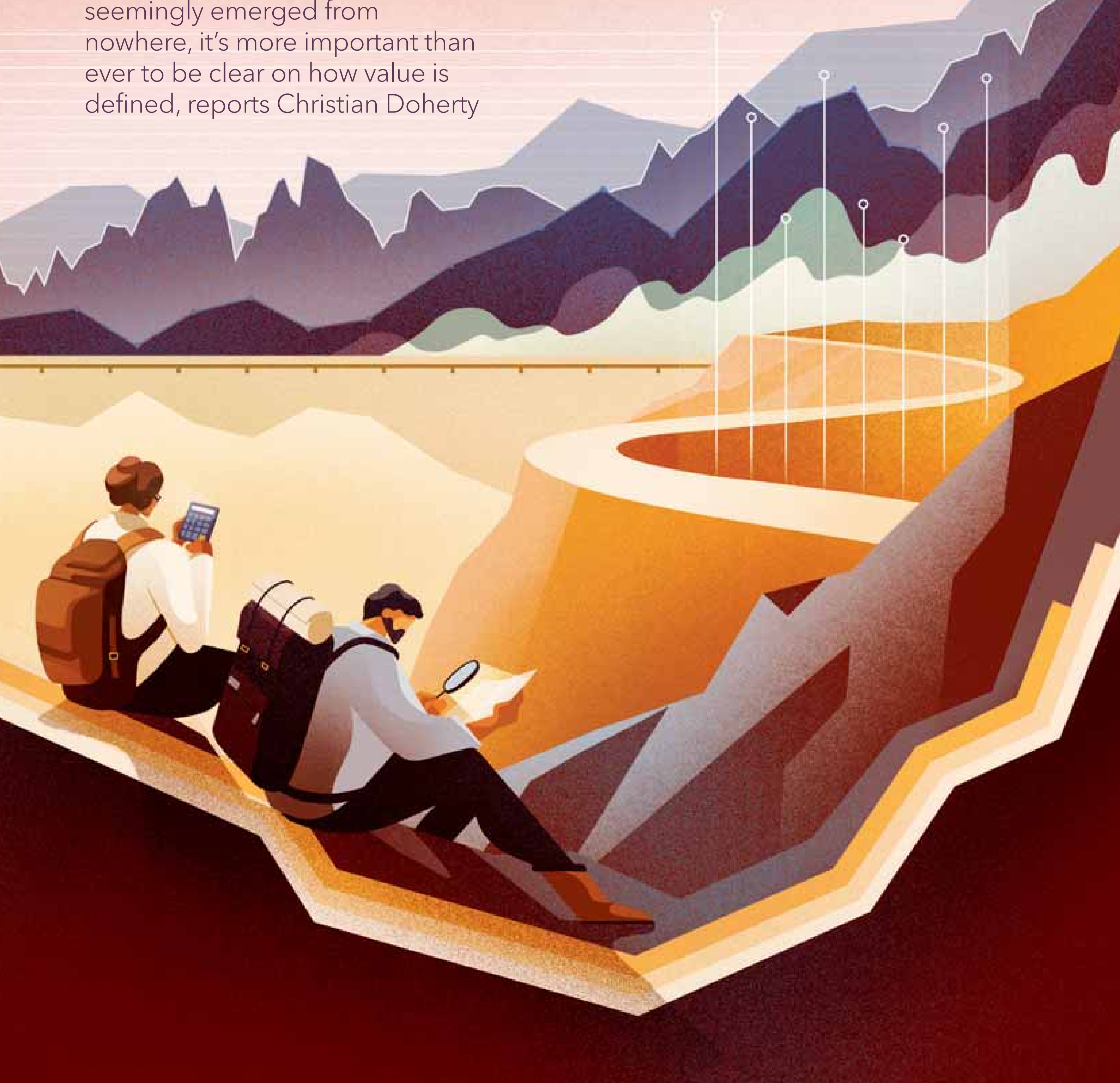
He recommends working with consultants who look at people and processes and the broader culture of the firm as well as the numbers, but also warns that if the organisation is resistant to advice (financial or otherwise), health checks are a waste of money.

"It's a bit like making the first step in getting help and recognising that something has to change," Jones concludes. "It's an initiative that has to come from the top." ●

GRUNDINI/IKON

BECAUSE YOU'RE WORTH IT

In an age when eye-watering prices are demanded, and paid, for companies that have seemingly emerged from nowhere, it's more important than ever to be clear on how value is defined, reports Christian Doherty



Anyone who has ever bought or sold anything – a house, a company, a car – knows there is often a difference between value and price. Companies frequently pay more for goodwill than the target company merits; the gap between the true value and the amount paid can be considerable. The central driver behind arriving at a true valuation is to narrow that gap as much as possible, to map price and value on to each other for both the buyer and the seller.

The fluctuations in the public markets in recent years have seen experts – academic and in the City – scrambling to understand the underlying principles of a listed business's market cap. And it's not easy. Not when you can wipe a third off the value of the company in one interview.

For an example of how management behaviour influences valuation, look no further than Elon Musk. His outbursts, which ranged from a terse tweet musing that he wanted to take Tesla private and had the "funding secured", to apparently smoking marijuana during a podcast with comedian Joe Rogan, did little to shore up Tesla's share price (it ultimately fell by 6%, later recovering a further 11%). The now-infamous tweets about funding led to Musk stepping down as chairman in September following a $20m settlement with the Securities and Exchange Commission, which had launched a federal lawsuit against him.

That's not to mention the sight of all those glistening unicorns – a start-up with a market value of more than $1bn – prancing across the scene, as fintech superstars TransferWise, Credit Karma and Adyen all went public in 2018. This was followed by Farfetch, which finished its first day of trading up 50% on the issue price, reaching a tidy $8.6bn market cap. Add in Apple's ascension to the first trillion dollar market cap, and it's understandable that some believe valuations have become entirely untethered from any sense of real value.

In a crazy situation like that, where does value lie?

There is, of course, an argument that proposes the opposite; that in fact the market cap of a listed business at any point in time is the most accurate valuation of all, given that you could in theory buy up all the shares at that point in time (and that's what the company is worth).

But away from the glare of Wall Street and the City financial pages, accurate valuations are a different matter, and arriving at them can be as much an art as a science. Roger Isaacs, a valuation partner at Milsted Langston, says one of the problems with valuations is arriving at a basic agreed model. What if, he wonders: "You've got a business that's making half a million pounds this year and it's expected to make £1m next year. You sell it for £5m. Has that achieved a multiple of 10 or five?"

That simple example explains why valuations are so subjective. But there are some general rules of thumb that can clarify a business's value and give any potential buyer some confidence that what they're buying is worth what they're paying.

FAIR VALUE

The search for a foolproof valuation model has so far proved fruitless, despite a lot of effort expended by consultants and academics on the subject. And while some claim to have mastered the science of determining underlying valuation, the most accurate and enduring valuations rely on a combination of rigorous scrutiny of financial and the application of market understanding and old-fashioned common sense.

But where to start? "Typically you'll be focusing on really trying to understand the company and the market in which it operates," says Simon Jones, valuations partner at BDO. "So that means what's driving it; what its strategy is; how well thought out that is; how clearly communicated it is; the strength of the management team; and whether or not there are any unique attributes to the company that need to be considered."

"You go through a process of trying to understand whether the earnings that you're presented with in the accounts are maintainable and potentially recurring"

Jones then takes the company earnings and runs them through a series of sense and stress tests to really pinpoint the company's position and prospects. "You go through a process of trying to understand whether the earnings that you're presented with in the accounts are maintainable and potentially recurring – are there any one-off items that have an impact on the positive or the negative side and adjusting to achieve a maintainable or recurring level of earnings? So that's the accounting side."

But then the other side, Jones says, is where the more qualitative aspects come into play. "You usually look at market evidence and other transactions where you might have a range of comparable companies that are trading at six-to-10-times EBITDA. So the question is 'do I fit within that range or do I fit outside of it?'"

TRUE VALUE

Answering that is central to understanding a business's true value. It's something Hilary Heap, EY Valuations partner in the Manchester office, is often faced with. She is clear when she says adopting the persona of an investor is hugely important when aiming for an accurate valuation. By doing that, she explains, the EY team can rigorously test every assumption, from the business potential to the risk profile it presents.

"When we're doing valuations we are stepping in the shoes of an investor and coming up with a figure that we believe someone would pay, whereas for a listed company they know exactly what someone would pay for a share in their company because it's there on the stock exchange," Heap explains.

Arriving at a sensible, defensible valuation of a private company, then, is much like making a personal investment decision. "We start with the assumption that you could put your money in the bank or in government bonds and this is what you could get; or you could put it in a diversified portfolio on the stock market and this is what you will get, and so on. With each level of risk you're carrying, we add another little bit for a return."

While public stocks derive their value from a range of sources, not least market sentiment, Heap's work with private businesses demands a more nuanced approach:"We need to have a layer of understanding that says, 'Yes, you're a private company so there's a bit more risk there.' Your stocks aren't as liquid; you've got greater dependence on management." Heap says these risks – along with the business's discounted cashflows – form the first part of the valuation. "After that, you need to look at the market they are operating in to understand the competitive dynamic."

And despite the perception that if equity values are booming on the markets then that must trickle down to the rest of the economy, Isaacs at Milsted Langton says no such connection exists: "Whatever the markets tell you, I don't think the people who are investing in Amazon always do so because of the financial performance of the company at the time.

"They do so because they think that the shares are going to go up 10% in the next 10 weeks because of something that may or may not happen in the market; it's a much more short-term investment, you often get these and they can affect the share price quite fundamentally."

"When it comes to achieving the best profile for a valuation, you want to be able to show growth for the past couple of years, as well as good reasons to anticipate that going forward, and a clean profit and loss statement"

GOOD VALUE

No matter what the reason for running a valuation, getting it right is important. Not only will an accurate valuation demonstrate management success, it will also show banks, finance providers and other potential purchasers that the business is on the right track, making obtaining finance easier and strengthening the company's hand in other negotiations with potential acquirers.

Steve Lygo leads the practice at business valuation specialists Parmentier Arthur. In many ways, he says, smaller private companies are no different to larger listed companies in that value is driven by growth. "When it comes to achieving the best profile for a valuation, you want to be able to show growth for the past couple of years, as well as good reasons to anticipate that going forward, and a clean profit and loss statement (P&L)," he says.

"If you see a company just going along with static growth and static profits, that is a problem because growth potential is usually what people are buying. A growth trend is always good at the time of valuation – it gives a good sense of the trajectory of the business."

There are, too, a number of common mistakes that can undermine a

valuation, at least from the seller's perspective. Simon Jones at BDO says customer relationships can prove especially problematic. "If you've got a key customer that you've traded with on a goodwill basis, then someone trying to buy your business may fear a change of control may in practice destabilise that customer relationship."

Best solution? "If you can lock that down through a contract then it obviously makes sense, because commercial and legal diligence is going to look at where your revenue is coming from," Jones adds. "If there is concentration in any one key customer, diligence will focus on how solid the relationship with that customer is; so clearly any contractual basis that you can point to will, if not increase value, then certainly ease the sale process."

Jones says if the team is managing expectations correctly they avoid trying to "puff and fluff" their results. "Then that probably stands the company in good stead through the diligence process because the advisers who come in aren't going to find skeletons in the closet. Ultimately, a good degree of honesty goes a long way."

Isaacs concurs, and says: "The last thing that you want is someone that has always fiddled the books to pay as little tax as possible telling you, 'I know it looks like the business has never made any money but it has really.' You're not going to realise very much money for that."

FAMILY VALUES

Steve Lygo does a lot of work in delivering valuations for tax purposes and as an expert witness in various court proceedings. In his experience, management misbehaviour in private businesses can be just as egregious as Musk's outburst. "We see all kinds of things: families on the payroll that are not necessarily disclosed, for instance, where the father-in-law running the warehouse is the best-paid warehouse manager in the UK. Likewise, parents being given pensions through the company tend to be frowned on."

All this means Lygo and his appraisers have to ask the right questions to better understand not only the value of the balance sheet, but the values of those running the company. "So it's better to show a clean P&L with all the loose ends tied up. If you can get a remuneration policy that is justified as commercially competitive, as opposed to being paid by dividends or by taking all the profits they can possibly get out of it."

Isaacs says total transparency records are always helpful to reduce the risk to the buyer. While in a private equity deal, for instance, the acquirers are more likely to put in share schemes to try and tie the management team in so that if the owner leaves, a new buyer doesn't suddenly find that they've got a business with no one to run it. He says if someone is selling their business, the first thing a buyer should consider is asking what they should be worried about, and what could be done to mitigate those risks." says Isaacs.

FACE VALUE

Risk is such a fundamental part of the valuation process that Hilary Heap at EY puts it at the head of her priorities when assessing a business. "We always ask, 'What are the risks around the business's key people and products?' Does it have some kind of proprietary technology or IT that is either better than everyone else's or unique?

"Is it something that means that there's no one else coming to take those revenues in your place? So then it might be a piece of IP, but how risky is that IP? Can it be replicated? Is it patent protected? What makes it special? Can someone do the same thing in a different way?"

"So much of valuation and achieving a good price is about managing expectations," says BDO's Jones. "So we know that where you've got a management team making various representations about how good a business is, in all probability you're going to have a team of advisers crawling over that business, looking under the hood, making sure that everything they are being told is what it should be."

Jones points to the public market where companies guiding their investors as to what they're expecting to achieve and what happens if they don't achieve that. Ultimately, that's taken as a profit warning and there will be a big drop in value just based on that. That's just a function of not managing expectations.

Jones uses the example of Simon Wolfson at Next as a classic example of how a savvy leader can influence public sentiment around business performance and ultimately valuation.

"He would continually guide the market towards a certain level of earnings and consistently would beat that every time. So as a consequence of beating expectations, Next achieved a fairly good value because investors came to trust what they were hearing, and they liked it. The way I see it, managing expectations is key whether you're a public or a private company – whoever you are." ●

ILLUSTRATION: CHARLIE DAVIS

WHAT ARE WE WORTH?

Government figures show where the UK's wealth is tied up. Here's our summary of the key points from the latest statistical bulletin

The UK government's annual statistical bulletin collates the estimated values of the nation's financial and non-financial assets. While overall net worth rose by 5.1%, the apparent buoyancy is down to non-financial assets. Financial net worth actually decreased by £117bn over the period 2016-17, to -£165bn – the largest drop since 2012. This was largely seen in the non-financial corporations sector (down £348bn) and in equity/investment fund shares (£220bn).

Since the statistical bulletin was published, the International Monetary Fund (IMF) published its own analysis of net worth in 31 countries. It found the UK's position to be precarious, and now "vulnerable to recession". Public finances were seen by the IMF to be particularly weak, despite the statistical bulletin's findings (right).

This autumn, chancellor Philip Hammond set out to reassure business that the government would be on its side, as the UK continued to seek favourable trade agreements ahead of Brexit. It will be interesting to see, a year from now, what effect leaving the EU has on the nation's net worth.

UK NET WORTH UP

In 2017, the UK's net worth was estimated at

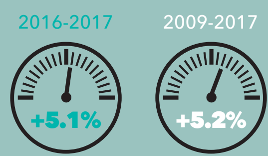
£10.2trn

Since 2016, that's a rise of

£492bn

Per person, that's an average of

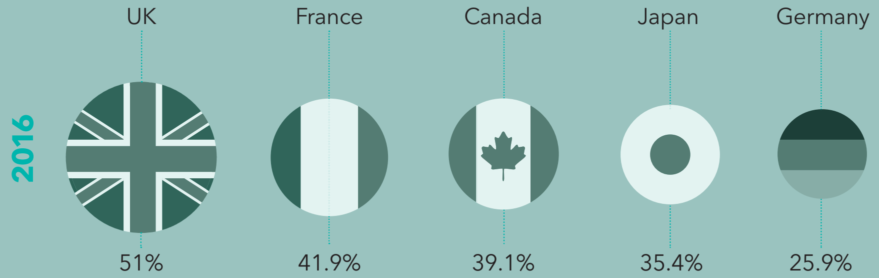
£155,000



Growth in the UK's net worth was estimated at **5.1%** between 2016 and 2017 – in line with average growth of **5.2%** p.a. between 2009 and 2017

Government net worth up **£74bn** from 2016 to 2017, the largest rise on record

LAND AS % OF NET WORTH: UK VS THE WORLD, GLOBAL COMPARISONS



NON-FINANCIAL ASSETS

Growth in non-financial assets

2017 **6.2%** 1995-2017 **8.7%**

Growth breakdown by asset type

DWELLINGS
2017 **2.2%** ↑
1995-2017 **7.9%** ↑

INTELLECTUAL PROPERTY PRODUCTS
2017 **-0.3%** ↓
1995-2017 **3%** ↑

OTHER BUILDINGS
2017 **4%** ↑
1995-2017 **7%** ↑

INVENTORIES
2017 **1.6%** ↑
1995-2017 **3.9%** ↑

LAND
2017 **9.1%** ↑
1995-2017 **12.6%** ↑

CONTRACTS AND LEASES
2017 **7.2%** ↑
1995-2017 **8.8%** ↑

MACHINERY, EQUIPMENT, WEAPONS
2017 **4%** ↑
1995-2017 **2.1%** ↑

CULTIVATED BIOLOGICAL RESOURCES
2017 **16%** ↑
1995-2017 **-0.5%** ↓

THE FAT OF THE LAND

51%

Land accounts for 51% of the UK's net worth in 2016, higher than any other measured G7 country

£450bn

HOW MUCH LAND ADDED TO THE INCREASE IN NET VALUE – BY FAR THE BIGGEST CONTRIBUTOR

GROWTH DOWN TO HOUSEHOLD LAND VALUE

£4.1trn

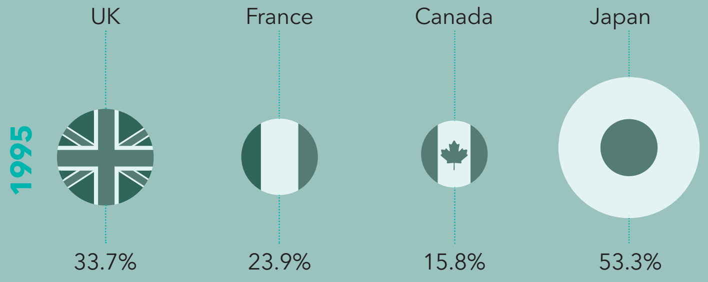
Value of land in the household sector in 2017

+£302bn

Increase from 2016

76%

Total value of UK land represented, up from **61%** in 1995



"Today's figures give a new estimate of the total value of land, housing, machinery and financial assets held in the UK by individuals and companies. The increase in the net worth of the UK was driven by continued increases in the value of housing and land."

Daniel Groves, National Accounts and Economic Statistics, Office for National Statistics

STATISTICAL BULLETIN: THE UK NATIONAL BALANCE SHEET ESTIMATES: 2018

BONUS ROUND

In the third part of our Future of Work series, Alison Coleman looks at benefits, perks and the latest tricks to boost staff retention

Employers are working harder than ever to attract and retain talent. The job-hopping nature of millennials, who are only a year or so away from becoming the largest generation in the workforce, adds to the challenge.

Low unemployment combined with the potential impact of Brexit on the availability of talent from overseas has made this a job seekers' market. Organisations are under further pressure to find innovative ways of securing the talent they need to achieve growth and deliver business objectives, now and in the future.

Competitive salaries have always been a draw, but as countless surveys show, today's employees want something more from their employer. Transactional perks are increasingly giving way to 'softer' benefits around lifestyle, personal development and flexible working as drivers of talent retention.

A study by employee engagement platform Perkbox to identify the UK's favourite employee benefits revealed that the youngest workers prefer simple benefits such as flexible working and free coffees. Other perks currently in vogue include extracurricular clubs, office sports teams and birthdays on holidays – an unwieldy term used to describe annual leave on the day of your birthday.

"With 27% feeling that they would be more loyal to the organisation should these perks be available to them, it's clear that they are becoming increasingly effective in the battle to retain talent," says Perkbox co-founder Chieu Cao.

CULTURE CHANGE

Meanwhile, Deloitte's 2018 Global Human Capital Trends report revealed that employees want employers to expand their benefits offerings to include a wide range of programmes for physical, mental, financial and spiritual health. It found that 36% of UK businesses offer wellbeing programmes that include mindfulness, life balance and financial fitness.

Chris Dyer, author of *The Power of Company Culture*, has spoken to hundreds of organisations to identify what separates the culture of 'good' companies from the 'great' ones. What's interesting, he says, is that pay comes a long way down the list of what makes staff stay happy and engaged in a company.

The second part of our future of work series is available to read in the September issue of *Business & Management*

"It's true that, generationally, workers will be attracted to employers for different reasons," says Dyer. "Research specific to millennials, however, suggests that pay is not the top indicator of engagement. The alignment between how a company works, and how an employee wants to work, provides a great baseline for understanding the demographic."

Dyer refers to Gallup's 2017 international survey, which showed that one of the leading factors in engagement was being heard, and a 2017 study by US market research firm Qualtrics, which found that people will actually take less money to work for companies with values that resonate with them, that have a positive social impact, and that offer flexibility. In fact, 76% of millennials surveyed would take a pay cut if it meant more flexible work hours.

"Having some measure of autonomy, an important need for labour, can include working when and where you want," he adds. "It may translate as full time now, and part time later. With traditional jobs competing with side hustles and technology, the intangibles will be key for the next wave of employees."

However, it is the strengthening link between flexible working and employee engagement that has seen firms across some of the more traditional sectors, such as law and accounting, adapt the way they attract and retain talent, particularly millennials, renowned for being motivated by the idea of controlling their own working hours and location.

Tom Moyes, training partner at Blacks Solicitors, is seeing the changing priorities of new and future trainee recruits first hand. He says: "It used to be that the only thing at issue was salary and basic benefits such as pension and health care. Now I get asked a lot more about what flexibility we offer in terms of working from home and this seems to rank highly on their priority list."

"With traditional jobs competing with side hustles and technology, the intangibles will be key for the next wave of employees"

CASE STUDY:
GRADTOUCH

Graduate hiring platform GradTouch offers some forward-thinking benefits and perks for its own employees – completely flexible working days and hours, unlimited paid holidays, and no job descriptions.

"People work from wherever they want, whenever they want, however they want," says co-founder and director Zac Williams. "We believe in company cultures that are built on trust and give people autonomy; we think it gives employees more in terms of wellbeing at work and job satisfaction than beers on a Friday or a ping-pong table ever could."

The company, which employs 25 people, began to overhaul its approach to company culture and employee benefits at the beginning of 2016, implementing a fully flexible approach to how, where and when employees could choose to work.

The biggest challenges were mostly around communication. Williams says: "If you give people complete autonomy, they need to keep each other in the loop about where they're working from and when, so, we've had to put a big emphasis on diary management."

The company is seeing tangible benefits. In 2017, seven people left the business. Across 2018, only one has left to date. It has also had a positive impact on potential recruits.

Williams says: "I now get approached by people wanting to work for us because of our culture, even when we aren't advertising roles. We've hired eight new people this year, several of whom are experienced hires who have brought a lot to the business."

3,000

people have applied to be part of Pwc's Flexible Talent Network since it was established

Health and work life balance follow closely behind, with the young lawyers of the future also keen to be offered gym membership, yoga classes and even mindfulness classes. "We have to take this mood shift very seriously if we are to recruit excellence and stay competitive," says Moyes. "If we don't offer these less tangible benefits, other employers will."

REAP THE REWARDS

The accounting profession is also seeing a similar swing away from monetary reward to work-life balance in terms of keeping valuable future talent retained and engaged. Last year, PwC introduced its 'everyday flexibility' initiative as a way to encourage more people to work in different ways and to foster a more informal flexible working culture across the business.

"However," says Helen Hopkin, head of UK workforce strategy at PwC, "we recognised that from an external perspective we were missing out on top talent because the perception was that you couldn't work in a flexible way at a big firm."

A survey of 2,000 people by the firm found that over half said flexible working was their number one factor when choosing a job. In recognising the value that people place on flexibility, PwC developed the Flexible Talent Network. The platform allows people to list their skills and preferred working pattern, for example, shorter weekly working hours, or working for a few months a year on a project basis. The firm then matches recruits to relevant projects rather than specific roles. Since its launch, it has generated a massive response, with over 3,000 people applying to the network so far.

The move wasn't without its challenges, initially created by the sheer volume of applicants and the process of matching them to relevant projects. "This will require a different way of thinking for parts of the business and we're hoping that the Flexible Talent Network will help ignite new ways of resourcing projects and thinking amongst the teams," says Hopkin. "The world of work is changing and if organisations want to attract the best people they need to evolve their working practices to the ways in which people want to work."

All of this begs the question: will traditional employee benefits still have a place in the future talent retention strategy, and if so, how can employers get the best out of them?

"Traditional benefits like good pay, good pensions, maternity leave and childcare are the perks that employees expect to find with any job," says Iain Thomson, director of incentives and recognition at Sodexo Engage. "It's hard to get people excited by benefits like these, but if you don't have them, employees will definitely notice. So, the latest trends need to build on these traditional benefits."

ATTRACTIVE BENEFITS

Benefits have the greatest impact when they're relevant, accessible and truly valued. While organisations are focused on millennial and Generation Z talent as more of their older workers are delaying retirement, many now employ multi-generation workforces, and need to adapt their benefits strategy accordingly.

"Businesses with employees across a range of ages should consider using flexible schemes that let each employee choose the reward or benefit that's most relevant to them," says Thomson. "This

THE WORKPLACE BENEFITS AGE DIVIDE

In terms of their workplace attitudes and behaviours, millennials and older workers are not worlds apart according to a new survey from recruitment firm FlexJobs.

Some 70% of millennials have left or considered leaving a job because it lacked flexible work options, while only about half of older workers report the same.

Work-life balance is more important to millennials, with 83% ranking it as the most important factor in evaluating a job prospect, and 62% of older workers considering it a factor.

Millennials value company perks more than older workers, 35% compared with 17%, and are more concerned with company culture, 44% versus 29%.

Millennials prioritise the ability to travel, with 60% saying it's one of the primary reasons they work, while only 44% of older workers say the same.

Less than 10% in both groups say they choose the office as their preferred place to get important work done.

"Staff will remain in a company longer if they feel they can grow with their company and are constantly challenged through new projects"

guarantees that everyone receives something they really value and appreciate and will have a positive impact on retention levels."

However, in some sectors, notably technology, high levels of talent churn aren't necessarily seen as a bad thing, as it ensures that talent is always growing and developing new skills. According to Dominic Harvey, director at tech jobs platform CWJobs, companies with tech functions should be embracing talent turnover.

He says: "Employees in technical roles such as coding, cyber security and programming, are always looking for a new challenge and are therefore prone to moving companies regularly to pursue a new piece of technology or an exciting project. But that doesn't necessarily mean they won't come back to their current employer when they can offer them the next new challenge."

In fact it isn't unusual for tech employees to return to their former employers. In view of this, companies need a strong employer brand in order to retain talent, but equally they need to be a great place to leave.

"Ensuring employees don't leave in acrimonious conditions keeps the door open to them returning in the future," adds Harvey. "One way companies can retain existing talent is through a robust learning and development programme. Staff will remain in a company longer if they feel they can grow with their company and are constantly challenged through new projects and interesting work."

The real key to getting and keeping the best talent lies with knowing and expressing who you are as a business, which fortifies the pool of prospects and helps in the selection of good fits, says Chris Dyer.

"Rewards designed to fulfil employees' needs will make them want to stay on," he adds. "The good news is that companies are getting better at telling their stories so potential employees can opt in or out, analysing their best employees on a soft skills and hard skills basis, and actively searching for more like them, and rewarding good performers with flexibility, training, and career development.

"Pay is pay. Everything else is advancement." ●

CASE STUDY:
INDEED UK

Global job site Indeed introduced its unlimited leave policy in the UK in January 2016. While employees still need their manager's permission before taking off – to ensure the company remains sufficiently staffed – the principle is very simple; staff can take as much holiday as they like, and are paid full-time while on leave.

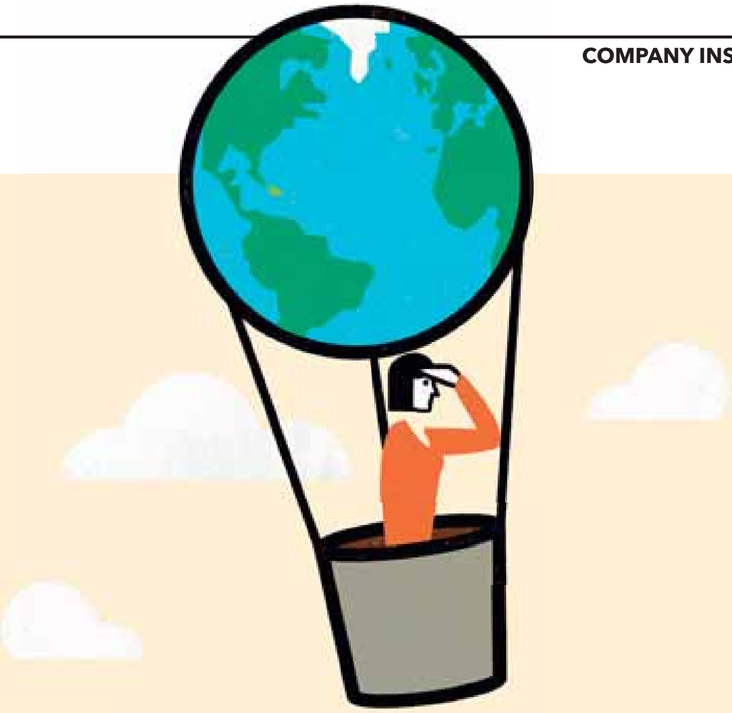
Indeed, which employs more than 6,700 employees across 27 offices globally, has seen a 20% increase in the number of vacation days taken by its employees around the world since the policy's introduction. Its unlimited leave policy has proved a key factor in staff retention and acquisition, and has increased productivity and boosted morale and loyalty among employees.

UK managing director Bill Richards says: "This consciously forward-thinking unlimited leave policy is an expression of Indeed's belief in the importance of work-life balance.

"But it's also a demonstration of the company's trust in its staff not to exploit the scheme."

While unlimited leave policies are becoming increasingly popular in Silicon Valley, they remain rare in the UK, where a culture of 'presenteeism' is often the norm and bosses can be less amenable to such high levels of flexible working.

"Trust in a workforce is essential, and it works both ways," says Richards. "Studies show staff who feel empowered and relaxed, and who enjoy what they do, will generally be more productive. By treating everyone like adults, we believe we will improve morale and encourage long-term employee loyalty."



GOING GLOBAL, THINKING LOCAL

Arup chairman **Gregory Hodkinson** tells us about the company's approach to business

Arup was established in 1946 in London and quickly opened offices in Dublin and Johannesberg, so that we managed to achieve organic expansion. We have 100 offices in 40 countries and we think globally, operating with world divisions. Some of this expansion was organised centrally, but much of it was initiated by staff members and others realising that there was sufficient demand in a country to justify a local office.

Arup delivers infrastructure design projects across the world, from geotechnics, water engineering, bridge design and tunnels, to site development, buildings, rail, mining, waste and highway design. We are broadly in a good economic position across the globe, with population growth requiring new infrastructure in the developed world, where existing infrastructure requires repairing and modernising, and in developing countries, where the infrastructure is weak or may not exist at all.

Each market we work in has to be approached differently. We are a UK-headquartered firm but look outwards, as 65% of our turnover derives from overseas markets.

MARKETS

It is true that we are in the Asian Century and although Africa is also important, our primary focus is on North America and Asia. These are dynamic markets with great needs. We do, however, face difficulties in both continents and are selective, necessarily, in which projects we accept; even within these two continents of focus, we may decide against some states and provinces owing to their relative higher inherent risk.

OUTSOURCING

We do not outsource any work, so we can guarantee our projects with greater certainty and do not have to deal with fallout from any failing sub-contractor. We employ people directly, so all those representing us are actually employees and have a stronger vested interest in the success of projects. We plan our business so that our people are engaged on a consistent basis and do not suffer surges and troughs of work.

SUBSIDIARITY

Local offices matter greatly, so we do not have one global approach. We allow subsidiarity, so each office determines aspects of work tailored specifically for them. In China for example, central government exercises greater control, which is brilliant for rapid decision-making, but challenging for local decision-making. In the UK for example, decisions on airport expansion take a very long time but then hopefully are well thought out.

GROWTH

Our shareholders are trusts and are not pressing for immediate returns. This gives us an advantage, as developing new services takes time. We are not driven by growth per se, but we have seen 6%+ annual organic growth over 70 years. We do not want to grow so quickly as to be unsustainable in the medium term.

We are considering expansion into related professional services now as those are ripe for us to succeed in.

BREXIT

We are largely staffed by European Union nationals in our EU offices, as would be expected, but some 15% of our UK staff are EU nationals and we need them. Having said that, we would like to bring in young people from China and the US to work in the UK, so the problem with visas and free movement is not limited to Brexit.

We welcome the review of Tier 2 visa ceilings as the current system is proving too rigid. The UK government is keen to promote exports, and allowing more movement of people is the easiest way to stimulate this. ●

ARUP IN A NUTSHELL

Arup was founded in London in 1946 by engineer Sir Ove Arup. The business describes itself as "an independent firm of designers, planners, engineers, consultants and technical specialists working across every aspect of today's built environment".

LUCIANO LOZANO/IKON

WHAT ARE THE ODDS?

Probability management has been one of the most interesting developments in forecasting and decision-making. Matthew Leitch highlights just why

For people involved in financial and business forecasting and decisions, one of the most interesting developments in the past decade has been the bundle of ideas known as 'probability management'.

Those core ideas address some familiar challenges: co-ordinating and combining forecasts from different parts of an organisation; reducing the level of skill needed to do forecasts that properly reflect uncertainty; and making methods available across a range of different types of software, starting with the familiar spreadsheet. These contribute to better management, especially management of risk.

CO-ORDINATING FORECASTS

Imagine that an organisation consists of three divisions and each is asked for a forecast of results to the year-end. To help with understanding the uncertainty involved, they are asked for three forecasts: one that is average, one that is optimistic, and one that is pessimistic.

What is the forecast for all three divisions combined? In particular, can we just add up the optimistic forecasts to get an overall optimistic forecast and add up the pessimistic forecasts to get an overall pessimistic forecast? The answer is: not safely. The problem is that each division will have imagined the conditions that would give them a good result and the conditions that would give them a bad result. Those conditions might not be the same for each division so they might not happen at the same time.

Suppose the organisation is a motor dealership and the divisions are new car sales, used car sales, and parts and servicing. In a strong economy the new car sales do well and used car sales slump, while in the weak economy it is the other way around. The divisions will not both achieve their optimistic results under the same circumstances but, happily, they will not achieve their worst results at the same time either.

This forecasting problem is more important for organisations like this hypothetical motor dealership that have activities that thrive at different stages of an economic cycle, either by design or as a result of past responses to changing circumstances.

The key to combining these forecasts safely is to specify the economic conditions for the scenarios for which you want forecasts and ask divisions to provide a forecast for each scenario. In the example, this might lead to the new car sales division making forecasts that rise in line with overall economic conditions, while the used car sales forecasts move in the opposite direction.

When this is done it is safe to add up their forecasts for each scenario. This simple idea of asking all forecasters to provide forecasts for the same, defined set of scenarios is at the heart of probability management.

MORE SCENARIOS?

If producing a forecast for one scenario is a slow and painful process, perhaps involving asking people to fill in forms with their guesstimates, then you might be limited to three scenarios.

However, probability management typically assumes you want to go further and get a clearer picture of the uncertainty in your forecasts. It may be particularly important for you to monitor the chances of an unlikely but crucial event, such as breaching a debt covenant, becoming insolvent, or interrupting a favourable trend.

PATRICK GEORGE, HARRY HAYSOM/IKON

This simple idea of asking all forecasters to provide forecasts for the same, defined set of scenarios is at the heart of probability management

To make this possible, the right kind of automation is needed. That means building forecasting models that take the scenario as input and automatically provide a forecast that is driven by that scenario. It may not be particularly difficult if most of your numbers are clearly driven by overall sales, for example. The tricky relationship is the one linking environmental conditions to the sales figure, but once that is sketched out and put in place the rest is relatively straightforward.

With such a model created, the only thing stopping you from running as many scenarios as you want is the task of generating the scenarios, and this is where another of the big ideas of probability management comes in.

PRE-GENERATED SCENARIOS

Monte Carlo simulation is a technique that runs lots of scenarios to capture input uncertainty. It is easy to do and understand if you are familiar with financial models on spreadsheets. The way this simulation has usually been done is to use random number generation software to select the numbers needed for each scenario at the moment it's needed. This is typically all done by an add-on in Microsoft Excel, and there are some excellent ones available.

You set up your model, specify the uncertainty around input variables, say how many iterations you want, and set the software going. Usually it will provide you with tables and graphs summarising the implied uncertainty around your output forecasts within a few seconds. What you don't often see is exactly which scenarios the system generated or what the results were in each one. If you want to revise your model and re-run the simulation then the scenarios generated will be different every time, giving slight variations in the output that are nothing to do with the changes you made to your model. Also, there is no way to make sure everyone uses the same scenarios so that they can be combined.

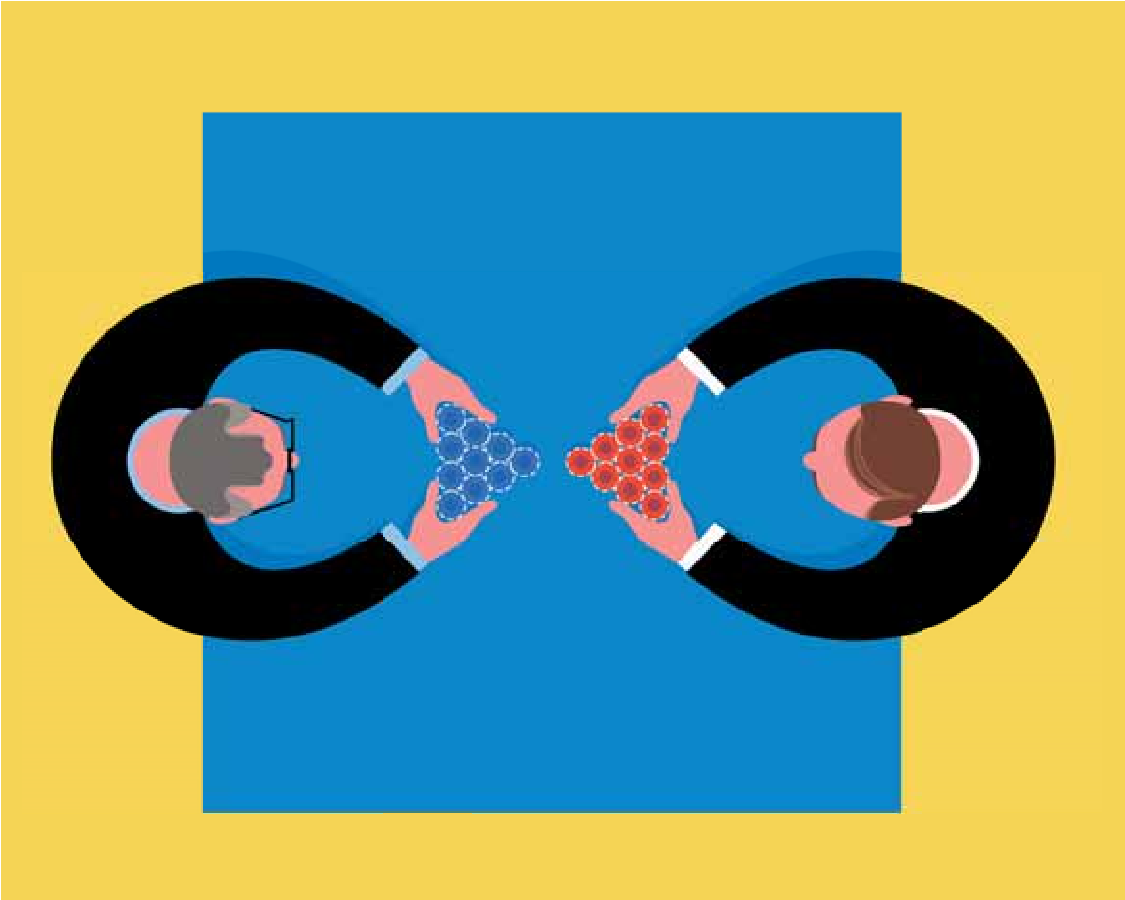
By far the hardest and least familiar part of this process is to specify the uncertainty around input variables, which is what controls how the scenarios are generated. Probability management's next big idea is to separate out this task and have it done by an expert (the chief probability officer) so that others do not have to tackle it.

To summarise, the main advantages of pre-generating scenarios are as follows:

- One expert can do it so others do not have to learn the skill.
- Everyone can use the same scenarios, making it easy to combine forecasts.
- The expert can invest effort and time in doing a better job of creating scenarios.
- Simulations can run faster because there is no need to do the calculations to generate the numbers again.
- You can see exactly what happened in each simulated scenario and so understand better what causes the more extreme or worrying results (this makes the whole process of Monte Carlo simulation more understandable for people).

SIPS AND SLURPS

A table of data where each row represents a scenario called Stochastic Library Unit with Relationships Preserved (SLURP). A single column in one of these is called a Stochastic Information Packet (SIP). If you think these names have been chosen with a sense of humour, you are right. The inspiration behind most of probability management is Professor Sam Savage,



author of the book, *The Flaw of Averages*. Besides being a technical expert, Savage is good fun and dedicated to making technical ideas accessible and easier to use.

The special thing about a SLURP is that the relationships are preserved. For example, imagine you are forecasting the demand for healthcare at a hospital. There is a distribution for the number of new cases of broken bones coming in each day, and another for the number of influenza cases each day. However, these are not independent of each other. Both are more common in winter.

You can create scenarios that capture this in two ways. The first is using software to generate the number of cases for broken bones and influenza in a way that is statistically linked, which means you can simulate situations that have never happened before, but it is hard to be sure your statistical link is realistic. The second is recording actual case numbers for days in the past so that you preserve the exact relationships, though you can only simulate situations that have happened in the past.

SOFTWARE FOR PROBABILITY MANAGEMENT

In 2013, Professor Savage and others founded a non-profit organisation called Probability Management. to promote the ideas. It has published an open standard called The Open SIPmath 2.0 Standard, which has encouraged a number of software companies to enhance their tools to support probability management techniques. Perhaps more important is the fact that probability management can be done with ordinary Excel and the tools are available, at no charge, from probabilitymanagement.org just to make it easier to create the models, SIPs and SLURPs. They are not needed to run the models once created.

You can simulate situations that have never happened before, but it is hard to be sure your statistical link is realistic

The ideas of probability management have emerged as one of the most interesting developments in both financial forecasting and risk management. Special software is not needed and co-ordinated forecasts that reflect uncertainty can be produced across even large organisations without requiring everyone to have an advanced understanding of probability distributions. You can find out more from the website, probabilitymanagement.org, and just by opening a spreadsheet program and having a go. ●

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

PARENTAL BEREAVEMENT (LEAVE AND PAY) ACT 2018

Parents who lose a child now have a legal right to two weeks off work. The Parental Bereavement (Leave and Pay) Act 2018 received Royal Assent on 13 September.

Provided the child is under the age of 18, a parent should be entitled to statutory bereavement pay during the period if they have been with their employer for a continuous period of at least 26 weeks and satisfy other criteria around eligibility to work.

If a parent loses more than one child, statutory bereavement pay would be given in respect of each child.

Details, including the amount of money to be paid, are to be announced in full prior to the Act taking force in 2020.

The legislation can be found at tinyurl.com/BAM-ParentalLeave

LIFTING OF TRIBUNAL FEES SEES SURGE IN SYSTEM

New figures from the Ministry of Justice (MoJ) suggest that the employment tribunal system is struggling under the weight of its caseload since fees were abolished.

There were 165% more single claims in Q2 2018 (10,996) than in Q2 2017 (4,241). Multiple case claims were up 344%, though this was affected by a large multiple case involving an airline.

Employment tribunal fees were declared unlawful and abolished in July 2017. A government refund scheme was opened to anyone who paid a fee to have their case heard between July 2013 and the date of abolition. In the new MoJ figures, fees to the value of £10.6m, totalling 12,400 refund payments, were made to claimants between October 2017 and 30 June this year. £4m and 5,100 claims were made during the period April to June 2018.

MENTAL HEALTH FIRST-AID AND OTHER PODCASTS

Providing first-aiders at work is enshrined in employment law, but what about provision for mental health?

Statistics from wellbeing charity Mind suggest that almost 15% of people experience mental health difficulties at work. With this in mind, providing mental health first-aid in the workplace is a growing area.

XPertHR has released a free podcast explaining what is involved in looking after staff mental health.

Instructor Peter Larkum describes what mental health first-aiders do, and gives information on how to spot signs that someone may need help. Visit tinyurl.com/BAM-MentalHealth

This is one of several new podcasts and webinars XPertHR has added to its growing library of audio resources on personnel management.

Another open access recording, *Brexit – how to prepare for the removal of free movement*, features Fragomen immigration lawyers Louise Haycock and Emma Kendrick. They talk through the process of dealing with staff in a 'no deal' situation.

Those who sign up to alerts can also access *Key HR metrics and what we can learn from them*. This podcast analyses trends gathered by XpertHR over the past decade.

See the full library of recordings at tinyurl.com/BAM-XpertHR

BRING ON LEISURE TIME: THE IMPACT OF AI

Using artificial intelligence in the workplace could mean 12 days' working time is saved per British admin worker by 2030.

Those are the predictions made in research from Henley Business School, which looked at the implementation of smart AI assistants (AIAs) in various spheres of work.

Researchers found that AIAs would allow workers to develop skills away from routine administrative tasks, which would instead be done by computers.

However, the research also found that 74% of business leaders had not been preparing staff for the changes to come.

Director of Henley Careers, Naeema Pasha, said employers would need to think about staff training needs when putting plans in place.

See tinyurl.com/BAM-AI-TimeSaver

WOMEN FEAR REPORTING SEXUAL HARASSMENT AT WORK

The annual Young Women's Trust survey revealed a grim statistic – over 800,000 women have been sexually harassed in the workplace, but did not report the incidents for fear of repercussions.

Additionally, a third of young women said they wouldn't know how to report an incident if it happened. Some 7% believed they had been less well treated at work, or during the job hunting process, having turned down sexual advances.

In the 100th anniversary year of women winning the vote, the survey uncovered persisting levels of gender inequality.

A million younger women reported being paid less than a male counterpart for the same role. There were 770,000 respondents who described their financial circumstances as "struggling". About 1.2 million women said they were depressed, and another 2.3 million identified as "worn down".

The survey of 5.5 million women aged 18-30 found that almost half (48%) still lived with their parents. Some 56% of young people find they are unable to put aside savings every month.

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

AUTUMN BUDGET 2018 – ICAEW REPRESENTATIONS TO THE GOVERNMENT

Further to the government's general invitation for representations on the content of the 2018 Autumn Budget on 7 September, ICAEW Tax Faculty submitted a paper that has also been published on its website as ICAEW REP 115/18 Budget Autumn 2018.

In this paper, ICAEW Tax Faculty recommended that there should be no new policy initiatives on tax at this time. Attention should instead be given to enabling would-be compliant taxpayers to more easily fulfil their obligations and understand their entitlements. Coping with HMRC's digital systems over the past few years has been made even more difficult by the number of policy changes.

ICAEW Tax Faculty also recommended that attention should be given to:

- Resolving the tax implications of Brexit;
- Properly funding HMRC to ensure it collects the correct amount of tax as fairly and efficiently as possible. This would include publishing the right guidance at the right time and designing, building, testing and – when found to be wanting – correcting its processes and IT so people can easily report and pay the right amount of tax;
- HMRC improving the manner in which it interacts with taxpayers and agents and placing greater reliance on the work of trusted agents; and
- Reducing the speed with which new policy measures are introduced, as this would reduce the likelihood of mistakes in the legislation that subsequently need to be repaired, which is undermining trust in the tax authorities.

More specifically, the Tax Faculty suggests that:

- Tax policymaking requires greater transparency to aid understanding and avoid legislative errors. Policies when first announced

- need to be explained in sufficient detail to enable everyone to understand exactly what is the intention of Parliament;
- Tax rates and allowances need to be rationalised to eliminate distortions and cliff edges which discourage economic activity;
- Rolling out making tax digital (MTD) for VAT in April 2019 is likely to prove impractical owing to software and businesses not being ready or, in some cases, unaware. Any penalty regime should be very light touch;
- Practical problems with public sector off-payrolling regimes should be resolved as a priority and certainly before consideration is given to extending to the private sector, which it is not realistic to do until April 2020 and then only when the public sector problems have been addressed; and
- PAYE real time information (RTI) processing by HMRC needs to be made fit for purpose to prevent continuing incorrect and different entries on HMRC's, employees' and employers' records.

The representation can be read in full at tinyurl.com/BAM-BudgetRep

UK TAX RATES – HOW DO THEY COMPARE WITH OTHER COUNTRIES?

The latest comparative study of the tax systems in the OECD countries provides interesting comparatives for the UK in the run up to the Budget in November.

The study covers the 36 members of the OECD as well as Argentina, Indonesia and South Africa.

South Africa is one of the key partners of the OECD, of which the other key, non-OECD, partners are Brazil, India, Indonesia and China.

The UK has the lowest corporate income tax rate with the exception of outliers Ireland and Hungary, which are quite a few percentage points below every other country.

The OECD Press Release reflects on recent changes in corporate income tax rates as follows:

"'Among the countries that introduced significant corporate tax reforms were a number with high corporate tax rates, where tax reform was long overdue,' said Pascal Saint-Amans, director of the OECD Centre for Tax Policy and Administration. 'While these corporate tax cuts have created some concerns of a 'race to the bottom', most of these countries appear to be engaged in a 'race to the average', with their recent corporate tax rate cuts now placing them in the middle of the pack. We will be closely watching how other countries respond to this trend in the future."

The final table shows the relatively limited role of property taxes in all the OECD countries but it does also show that the UK has the highest property taxes as a percentage of GDP.

This echoes the message in the Tax Faculty 2009 Wyman debate and the point made during that debate by Stephen Bill, who was at the time Chef de Cabinet for European Commissioner László Kovács.

The policy recommendations at the end of the presentation are:

- avoid excessively pro-cyclical tax policy in a context of economic recovery;
- critical need to continue cooperating to avoid harmful tax competition;
- continued focus on inclusiveness; and
- significant progress needed on environmentally-related taxation;

We will be able to gauge the extent to which the UK is listening to the OECD message when we hear the chancellor's Budget statement expected in November.

See tinyurl.com/BAM-UKTaxRates

NOTES ON THE GIG ECONOMY

The gig economy has been the subject of much discussion in the tax world recently. What is it, how does it work and how should it be taxed?

A new factsheet from the Low Incomes Tax Reform Group provides practical help for workers caught up – willingly or otherwise – in the gig economy.

The publication of *Tax if you work in the gig economy* was prompted by the fact that many of those earning money in the gig or sharing economies may have little idea of the tax and NIC implications. Research commissioned by HMRC suggests that many people who have income from the sharing economy do not even realise it is taxable.

The guide is aimed at individuals, rather than tax experts, and covers: what is a taxable activity, self-employment and registering with HMRC, employment, and entitlement to tax credits.

The HMRC report, *Research on the Sharing Economy* is at tinyurl.com/BAM-SharingEconomy

Read *Tax if you work in the Gig Economy* at tinyurl.com/BAM-GigEcon

IFS GREEN BUDGET

The IFS Green Budget took place on Tuesday 16 October, two weeks before the Budget itself on 29 October.

IFS covers the outlook and risks facing the UK public finances and options for the upcoming Spending Review. It provides specific analysis of options for raising taxes, the impact of Brexit on the labour market, how the government spends its overseas aid budget and home ownership among young people.

For the fourth year, ICAEW has written chapters for the Green Budget publication on the UK government's assets and on defence spending, and made presentations during the Green Budget event itself at Chartered Accountants' Hall.

Additionally, ICAEW's director of public sector, Ross Campbell, hosts a webinar on 25 October joined by one of the IFS team's experts.

The change in timing of the Budget from Spring to Autumn means that it is 20 months since the previous IFS Green Budget in February 2017.

For more information see tinyurl.com/BAM-IFSGreenBudget

TAXTALK – CLASS 2 NICS

The monthly TaxTalk recording for September included a section on the reprieve of Class 2 NIC and contractor loans. October's episode will touch upon the upcoming Budget and Brexit. See the recording at tinyurl.com/BAM-TaxWebinars

ON A LIGHTER NOTE

CITY NAPPING

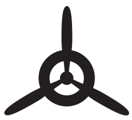
Londoners can now catch a power nap by renting a sleep pod for £15 an hour. The Shoreditch-based venture Pop & Rest was set up by Mauricio Villamizar and Yoann Demont, and is inspired by Japanese capsule hotels. The duo said they came up with the idea after observing the frantic lifestyles and long working hours of people in London. "You could see they were tired all the time, so we thought we should set up something like a private space where they can relax in peace," said Villamizar in an interview with Reuters. Currently, Pop & Rest averages between 30 and 35 customers a week.

£15

COST OF RENTING A SLEEP POD FOR ONE HOUR

108

BOXES OF WEETABIX THE NEW ZEALAND HIGH COURT ORDERED DESTROYED

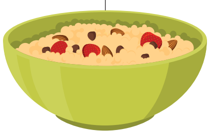


2022

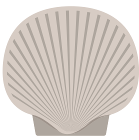
DATE BY WHICH OVO HOPES TO LAUNCH A FLYING TAXI SERVICE

HAVE YOU HAD YOUR WEET-BIX?

Sanitarium, an Australasian company that makes "Weet-Bix", a breakfast cereal sold in New Zealand, has won a court battle restricting importation of the better-known British cereal, Weetabix. Little Bit of Britain, a small shop in Christchurch, sought to import Weetabix, but a high court ruled that it could only be sold if the trademarked label is covered up. The court also ordered the destruction of 108 boxes of Weetabix. Rob Scoines, general manager of Sanitarium, told the *New Zealand Herald* he was "pleased" with the outcome: "The judgement enables us to protect our brand, which supports employment of New Zealanders and contributes to the community." Having to cover the packaging was not enough to discourage the shop owners, who seemed delighted to be able to stock the cereal at all.



SHELL SHOCKED



Biomedical scientists at the University of Salford have found that cockles are just as effective as some chemotherapy drugs when it comes to destroying cancer cells. The small shellfish were found to contain sugars that were "approximately as effective" as cancer drugs. Speaking to Sky News, Dr David Pye, lead researcher and director of child cancer research charity Kidscan, said: "Polysaccharides (sugars) derived from mammals have long been a source of experimentation by cancer scientists but, to date, with inconclusive results. We opted to look at shellfish instead, not least because they are much cheaper and easier to source as well as being rich in sugars."

TAXI TO THE SKIES

Vertical Aerospace, a two-year-old Bristol-based technology start-up, has obtained permission from the Civil Aviation Authority to operate a small, pilotless vertical take-off and landing vehicle. The company, founded by Stephen Fitzpatrick, chief executive of Ovo Energy, aims to launch taxi services by 2022. The model being used is currently capable of a five-minute flight at a top speed of 50mph.

WIGHTLINK SUPER-COMMUTER RETIRES

In 2001, Dr Michael McCabe hit the headlines for his 'unique' route to work. Last month, he completed one last journey to mark his retirement. After coming to his wits end with an "absolutely appalling" train service that would take up to four hours due to delays and cancellations, McCabe devised a route from his home in the New Forest to his workplace at the University of Portsmouth via the Isle of Wight. McCabe would cycle from his home to Lymington, where he would catch a Wightlink ferry to Yarmouth. From there he would cycle across the island to Fishbourne and catch another ferry to Portsmouth, before getting back on his bike and cycling to the university. "After 28 years, I am very happy to be retiring, bringing my days of commuting to an end," said McCabe. Wightlink's chief executive, Keith Greenfield, said: "Naturally we were keen to bid him a fond farewell as a commuter, but we hope to see him in the future as a more orthodox visitor to the island."