Finance & Management

FINANCE & MANAGEMENT FACULTY
ICAEW

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A LAST CHANCE
USING A COMPANY VOLUNTARY ARRANGEMENT

SUPER SAVINGS
HOW MUCH CAN R&D TAX CREDITS SAVE A BUSINESS?

A SMART PROFESSION
Building finance careers for staff of all ages

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January 2017

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Build it and they will come

Recruiting and keeping good staff is no longer a matter of offering people more money. From ambitious millennials to those winding down to retirement, this month we look at training and motivating the whole team

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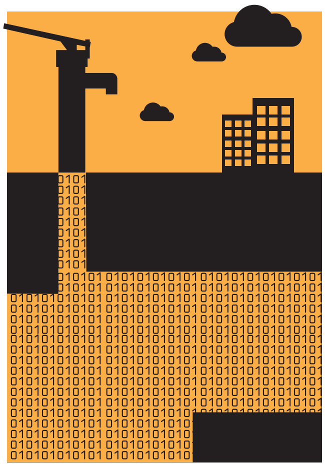

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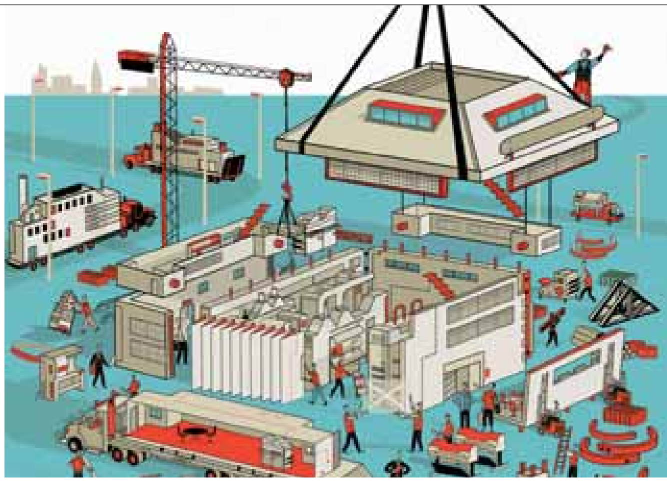
Data deals

While not traditionally thought of as an asset, data is becoming more and more valuable to business



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The value of innovation

Innovation is at the heart of UK business success. But, asks David Craik, how can UK business use research and development tax credits to enable them to continue to innovate during tumultuous times?

"The global goals for sustainable developement speak to ICAEW's public interest role... They are a clear articulation of what the world wants to achieve by 2030"

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Richard Spencer,
ICAEW head of sustainability

Home and away

FINANCE & MANAGEMENT FACULTY

We welcome in a new year – 2017 – hopeful that it might be happier than the previous one. It was, as Jacob Rees-Mogg put it, "a decade of politics in a few months". The political establishment faced the

first real competition that it has had for some time. The incorrect assumption that people will carry on the way that they have done has thrown many a business model out of kilter over the last 10 years. Agile, pop-up businesses (often referred to as "disruptive") can severely dent profits of larger more established ones. Politicians have encouraged this as good for the market, encouraging smaller business to take on the larger establishment. Strange then that the main parties in the West, the "liberal elite" as some call them, should be so thrown by exactly the same thing happening to them. These small, clever organisations which find a niche by challenging the status quo end up becoming bigger and being part of the establishment themselves after a while (Apple and Google), and small political groups are eventually absorbed and become mainstream (the SDP).

An organisation known as the GEM Consortium produces the *Global Entrepreneurship Monitor*, an annual report measuring the level of entrepreneur activity across the OECD. It looks at perceived opportunities, perceived capabilities and fear of failure. Looking at the UK and the US, both have the same SME contribution to GDP of 54%, they are placed sixth and seventh respectively in the World Bank global business ratings and yet are considerably apart in terms of entrepreneurship. The US has more than twice the motivation levels and significantly higher innovation than the UK and it shows in the report results. Total early stage entrepreneurial activity in the UK is at half the levels seen in the US as a percentage of GDP. Perhaps we are too comfortable.

We ourselves are adjusting the offer of the Finance and Management Faculty and not resting on our laurels. We have launched a series of short lunchtime webinars starting at 12:30, which will vary from twenty to thirty minutes each and we would welcome you to give them a try. We will increase their frequency if they prove popular. We welcome your ideas for topics; please email me if you have any ideas.

Please drop Stephen.ibbotson@icaew.com or Robert.russell@icaew.com a line if you have any thoughts about the Faculty.

Happy New Year.

Robert Russell
Technical Manager

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Annual membership of the Finance & Management Faculty costs from £94 a year. For more information and to join see icaew.com/fmjoin

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Events and webinars are listed in theis publication; details can be found at icaew.com/fmfevents and icaew.com/fmfwebinars

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News

£2.5bn
THE AMOUNT GALILEO WAS PREDICTED TO COST IN 1999

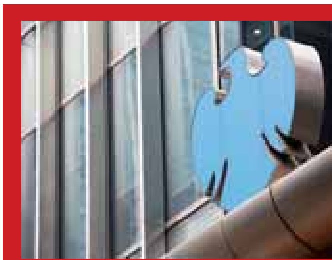
THE FINAL FRONTIER

The EU Commission and European Space Agency announced that their satellite system, Galileo, was turned on last month and is now live, although it relies on gaps to be filled by US GPS systems. Galileo currently has 18 satellites, and plans to increase this to 30 satellites and to be fully operational by 2020, in medium Earth orbit (15,000 miles). The system claims to position data with unprecedented accuracy.

The project dates back to 1999 and was predicted to cost £2.5bn over 10-years. However, like many building works, it is more than three times over budget (latest costs are reportedly around £8bn) and has taken twice as long as planned.

A VIRTUAL REALITY CHECK

The Consumer Technology Association of the US forecast the winners and losers of technology sales for Christmas 2016 with sales of virtual assistants and wearables easily beating drones and virtual reality headsets. Sales of Amazon Echo and Google Home are expected to be 12 million for December 2016, with wearables at 12.6 million, 42% from Apple, against no more than half a million VR sets (only seven million home computers globally can cope with VR) and just over one million drones.



HIT OR SPLIT

Barclays last month announced its plans to ask 7,000 investment business clients to do more trading with the firm or find another bank. Flight Deck, its new software system, is able to rank every customer of its trading unit by the return they generate on the firm's capital, allowing the bank to prioritise its most lucrative clients. Barclays has set a minimum return of 10% of capital for all customers. "We're not in the old-school business of doing big revenue with poor returns. That's a failing strategy," said Kashif Zafar, London-based managing director of Barclays' global distribution.

NEW ENERGY AVENUES

A group of engineers sees the abandoned mine shafts in New York State as a way to provide energy at peak times. They are attempting to obtain permission to install gravity-fed hydroelectric turbines to circulate some of the millions of gallons of ground water that has flooded the mine shafts to power hydroelectric turbines half a mile underground. Engineers would drain roughly half of the water and pump the remainder into an upper chamber at off peak times and release it into a lower chamber, powering turbines, at peak supply times.


KICK OFF 2017
IN TOP FORM
A Club Wembley membership is the ultimate way for your business to invest in the New Year
Whether it's to entertain clients or reward staff, a Club Wembley membership provides excellent hospitality options and gives you the flexibility you need to get the most for your business – all from the best seat in the house
To guarantee your place at the greatest sporting events at Wembley Stadium, Connected by EE, contact us now on 0800 743 1440 or email Shauna.Mennis@wembleystadium.com
CLUB WEMBLEY

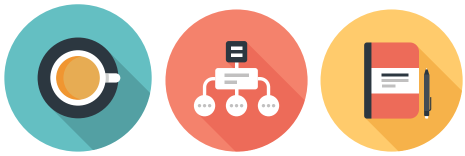
Events

In partnership with Prophix

WEBINARS

icaew.com/fmfwebinars

Unless otherwise stated, all webinars and events are free to existing faculty members, and take place at Chartered Accountants' Hall



FREE

INTANGIBLE ASSETS – IDENTIFYING AND DEALING WITH BUSINESS IP

17 January 12:30 – 12:50

Intellectual property (IP) can and does account for a significant part of the value of most businesses. This seminar will cover the four main areas of IP (trade marks, patents, designs and copyright) and how to protect their rights. It's a great opportunity to receive the latest information and advice on IP. David Hopkins of The Intellectual Property Office will quickly run through a practical FD's guide to business IP, including how to identify it, and steps to protect it.

To book a place, please visit icaew.com/lll jan

ONLINE LEARNING – LEAN PRACTICES TO TRANSFORM YOUR FINANCE TEAM

21 February 09:30 – 11:00
22 February 09:30 – 11:00
£85 + VAT

David Parmenter's three-hour interactive lecture over two days on making your team leaner will enhance the finance team's contribution, improve talent retention and deliver quick wins that will save time. David will cover closing the gap between best practice and your existing processes, the lean concepts and how to apply them to your accounting function and how to transform your finance team from good to great.

To book your place, visit icaew.com/lean17

FREE

FUTURE PROOF YOUR FINANCE FUNCTION

21 March 10am

A transition is happening –the finance function will be shaping the future more than it looks at the past. Finance leaders are becoming valued collaborators with business leaders across an organisation such as sales, marketing, and operations, equipping teams with enhanced information and tools. They are engaging with automation and technology to lower risk and empower their teams to be able to react at a moment's notice.

Join us for this webinar presented by Phophix's managing director Daniel Cobb.

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

FREE

COMPANIES HOUSE OBLIGATIONS – ANNUAL FILING AND DISCLOSURE

8 February 12:30 – 12:50

Ryan Gordon of Companies House will explain recent changes to annual filing requirements. This webinar will help FDs and directors in smaller UK incorporated entities understand the changes over the last year, including filing a confirmation statement (including People with Significant Control information). It will address confusion and concerns about the new requirements.

To book, please visit icaew.com/lllfeb

FREE

BOARDROOM CONVERSATIONS – FD'S CORNER

14 March 12:30 – 12:50

We cover the ICAEW's confidence monitor and Nigel Hastilow provides commentary from finance directors from around the country about issues that are bothering them. This short and interactive webinar will keep you updated with the economic outlook and concerns of your fellow ICAEW members.

To book a place, please visit icaew.com/lunchmar2

FREE

STATISTICS FOR BUSINESS – HOW DO I KNOW IF MY TREND IS A MIRAGE?

29 March 12:30 – 12:50

We often see trends in our numbers and make decisions accordingly. Very rarely do we ask whether or not the trend is real or a mirage. Nigel Marriot of the Royal Statistical Society explains the basic principles of hypothesis testing using a Monte Carlo simulator that allows you make a decision and quantify the risks of incorrect decisions.

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

EVENTS

icaew.com/fmfevents

FREE

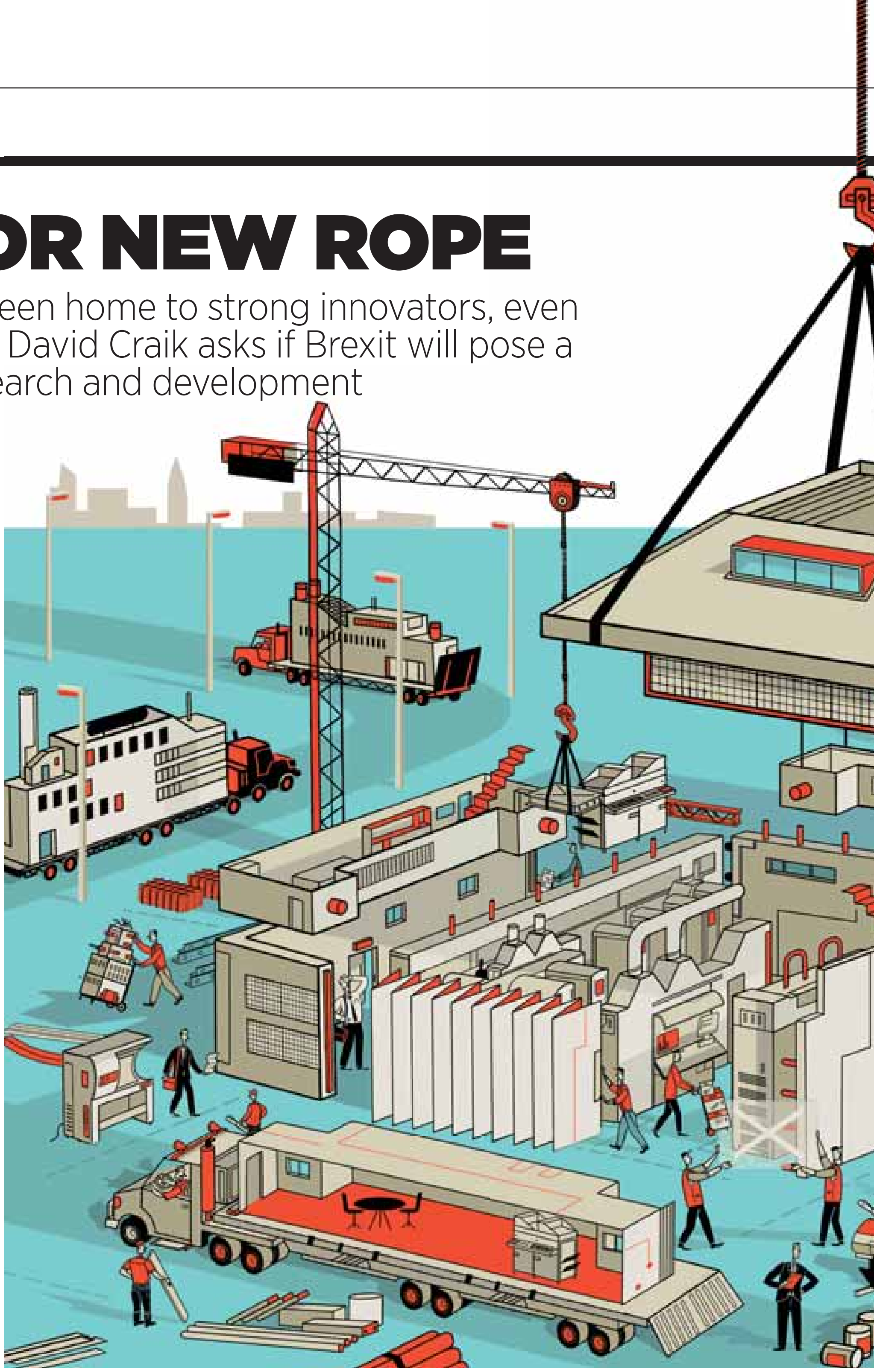
7½ STEPS THAT EVERY FD MUST TAKE TO SUCCEED

22 March 18:00

We all recognise that our 'technical' knowledge is increasingly a given in today's workplace and that 'soft skills' determine success as a finance professional. In this practical workshop Angus Farr will identify the key non-technical skills that he thinks will determine how to improve your career. For each one, he'll identify a practical takeaway to help us better manage ourselves, our teams and key stakeholders. To book a place, please visit icaew.com/fmfmarevent

MONEY FOR NEW ROPE

The UK has historically been home to strong innovators, even during testing times, but David Craik asks if Brexit will pose a challenge too far for research and development



The UK has a rich heritage of industrial and technical innovation. This briefly slipped – as the nation's manufacturing base declined in the 1990s and the early part of the 21st century – but the commitment to revive research and development (R&D) innovation through public and private funding has been restored in recent years. But, in a post-referendum Britain, is this progress going to be unravelled? R&D tax credits are being seen as a way to calm Brexit Britain nerves, so what do CFOs looking to innovate need to know about them?

THEN AND NOW

The Labour government under Tony Blair looked to gradually increase overall R&D expenditure in the UK to 2.5% of GDP by 2014 to fix a growing skills shortage and to capitalise on the rise of new technologies. The coalition government under its 'march of the makers' slogan aimed to re-balance the economy by boosting manufacturing. Businesses large and small have previously been encouraged to take advantage of R&D tax credits – introduced in 2000 – government grants, private funding and by collaborating in new ventures such as Catapult centres where corporates, scientists and engineers could develop ideas.

It is, however, still a work in progress. According to the Office for National Statistics, although UK gross domestic expenditure on R&D in the UK rose 5% to an all-time high of £30.6bn (the most recent figures) in 2014, this represented 1.67% of GDP. That's well below that Labour target and the EU rate of 2.03%. The fading growth rates seen recently give more impetus to the need for increased R&D spending and a funding boost, as the UK looks to make its own way in an increasingly globalised and competitive world.

Prime minister Theresa May recently informed the CBI Annual Conference about her new "modern, ambitious industrial strategy". She called for annual £2bn increases in R&D by 2020; a new Industrial Challenge Fund to back priority technologies such as robotics; and a review of current R&D tax incentives. These plans were built on during the Autumn Statement: "To ensure the UK tax system is 'strongly pro-innovation', the government will review the tax environment for R&D to look at ways to build on the introduction of the 'above the line' R&D tax credit to make the UK an even more competitive place to do R&D."

With R&D tax credits, UK companies investing in innovation can claim back up to 33p for every pound spent on R&D, even if their business is unprofitable. Tax credit consultancy ForrestBrown says the average claim made by SMEs in the UK is £54,214. The average claim made by large firms (with more than 500 staff and either more than €100 million turnover or €86 million gross assets) is £349,540. If a company is taking a risk by attempting to "resolve scientific or technological uncertainties" it can qualify, the R&D doesn't even have to be successful.

Costs a business can claim for include staff salaries, subcontractor costs, materials and consumables including light, heat and some software costs. The credits arrive as a cash payment or a corporate tax reduction and can come just four weeks after submitting a claim to HMRC. Simon Brown, founder and managing director of ForrestBrown, argues

IAN WHADCOCK/IKON

that much of the credit system is misunderstood or, even worse, companies are oblivious to it. In its recent study of 247 businesses, called *A Nation of Innovators*, the group found that three-quarters said innovation was either essential or a high priority. Of those that used R&D credits 80% said it had helped their overall financial position and had used the benefit to hire new staff.

"However whilst 20% had actually made a claim, another 20% did not know how to make a claim and a further 20% said that they had never even heard of R&D credits. There is a lack of understanding among business about what these credits are and what can qualify," Brown says. "To be honest I wasn't really surprised by the findings. There is a real R&D knowledge barrier out there."

Brown says businesses are badly missing out. "Credits can fuel your next level of investment, fast track development of your product and help your business grow quicker. A lot of firms assume they are not a tech business so it doesn't apply to them. But the government guidelines are very broad and can apply to any business in any sector from manufacturing to e-commerce developments in retail."

Lesley Stalker, partner at accountants RJP, adds: "SMEs can really benefit from these credits. Software firms developing new products are an obvious one, but when you dig down into looking at innovation it can benefit a wide spread of firms."

She says businesses should ask themselves some of the following questions when they are deciding to claim. These include:

- are they working on an innovative project?
- does it have a defined start and end date?
- is it improving what is currently available in the marketplace?
- is there a degree of scientific or technological uncertainty involved?
- are they spending time investigating and testing results?

Indeed, when assessing an application, HMRC aims to understand what the overall aims of the company's project were, and what "systematic work was carried out in arriving at the outcome".

This means that getting the claim exactly right is vital. "There can be a lot of quirks in the claims process," says Stalker. "First, you have to understand what relief you qualify for, such as is it your work or a project you have been subcontracted to do for another larger company, which might mean lower relief? Or it could be working out how much a particular resource was used on a project. I've seen some cases where companies just put an amount in without a back-up report stating why the project qualifies."

ROLE OF THE CFO

Stalker says the CFO plays an important role in making and setting out the claim but needs assistance from technical directors and managers as well. "You need to show the big picture and have information and data from people working on the developments," she says.

Brown agrees that technical staff need to be involved but ultimately it is the CFO who deals with the compliance. "CFOs need to be aware that both overclaiming and underclaiming can have an impact on cash flow management," he says. "An underclaim can affect your budgets and an overclaim could lead to an HMRC enquiry. You need to make robust claims."

One key area that helps here is accurate and timely record keeping. "You need to keep a note on what is being done R&D-wise in the business," advises Brown. "This includes keeping a list of all the projects, staff timesheets, subcontractor costs and materials costs."

Brown says CFOs may not be expected to be the ones who collate this detailed information, but they should certainly play a part in engaging their other executive colleagues on the importance of claiming for R&D credits. "It can be time consuming to get the information, but these credits can help your cash flow," he states.

WAYS OF SEEING

One CFO with plenty of experience claiming for R&D credits is Rex Vevers of green automotive technology group Torotrak. "We claim every year even though we are a loss-making business," he says. "We use the credits to generate cashback to part-fund our continuing R&D. We find it a helpful addition to our funding, about £500,000 a year, but it is not a game-changer. It is not going to make firms re-locate to the UK."

Vevers says making the claims can be time consuming as the business has to calculate the exact expenditure on R&D: "What problems have been solved and what you can add on such as light, heat and salaries." He explains that most of its innovation funding comes from government grants, customers wanting to use its technology or via equity as, although it is early stage, it is stock market listed.

"Innovation funding in the UK and globally has been an enduring problem," Vevers explains. "If you are a technology developer you need to see the funding pots and programmes, which will be available from idea to development. You need a seamless escalator of visible funding, but certainly with capital expenditure you can't see that. There is very little funding and R&D credits don't allow you to claim for it."

He believes the UK needs to devote a bigger pool of money to firms to drive innovation. "The more visibility you have as a CFO the better, because you can decline the risk in financing innovation," he states. "There needs to be another way looking at the whole lifecycle of researching, developing and testing."

It has been just over a year since the UN launched its sustainable development goals for the planet, and right from the start ICAEW has championed their relevance to business and the profession. Finance & Management finds out how the goals are shaping change

Richard Spencer, ICAEW head of sustainability, reiterates the global goals and how the institute is getting involved

On 25 September 2015, 193 members of the United Nations General Assembly formally adopted the 2030 Agenda for Sustainable Development. This includes the 17 global goals for sustainable development, with 169 associated targets. For ICAEW they illuminate our new vision for "a world of strong economies".

The goals speak to ICAEW's public interest role. We understand our Royal Charter of incorporation places on us a duty to act in the public interest. It can be challenging to explain what that is, but the goals provide us with a definition. They were the result of the largest consultation the UN has ever undertaken, and collectively they are a clear articulation of what the world wants to achieve by 2030.

The vision is hugely ambitious. The challenges must be addressed collectively and success will be measured by meeting the principles of all the goals. While the goals are agreed by national governments principally responsible for achieving them, leaders including the UN's Ban Ki-Moon have made it clear that success will depend on the active participation of business.

The world the goals paint is not one that can be achieved by just improving what we do now. Instead we will have to change the way we do things personally, economically and organisationally. This distinction is critical. Instead of placing the way we do things - the business, economic or even our personal model of operation - in the centre and asking ourselves how we achieve the goals, we must put this new reality in the middle and ask how we adapt to make it happen.

There is a huge role for the profession, because central to success in business, our economies and in achieving the goals, is having timely, trusted and decision-useful information. Accountants measure things, creating information that is useful and timely so that decisions can be made by the right people. They provide a picture of how we are doing so that informed business decisions can be made and governments, organisations and individuals can be held to account.

Richard Cartwright, senior teaching fellow in accountancy at Southampton University and ICAEW Council member, on holding events to inspire people around sustainability

In December last year we asked representatives from academia, local business and students to an inaugural business school seminar on sustainability. The attendance of more than 50 people showed us that the global goals are not just a humanitarian cause alone, but something business needs to address.

After our first speaker, Francesca Sharp from ICAEW's sustainability team, we held a breakout session where small groups had to think of a business and identify which of the global goals was most critical to it and how the others might be mapped around it. They also thought about what the most disruptive goal might be and how to address that.

Our other speaker was Kresse Wesling of Elvis & Kresse, an ethical fashion house that repurposes old materials including old fire hose reels and leather (see page 12).

Elvis & Kresse has an incredible business model, and Kresse herself was a very inspirational speaker. One of my students told me a few days later she had found a new personal heroine in Kresse. It's a cliché, but young people are the future, and events like ours, we hope, will stick with them. We may need to do more to integrate sustainability into the curriculum so that it becomes a more powerful message than can be shared at a stand-alone event.

It would be good to embed this sort of event into a course lecture. It would be great to identify areas where it doesn't seem naturally relevant and challenge those who are in attendance to think about the issues. There is also a role for academia and the profession to come together to make sustainability more relevant to businesses, and get them to talk about the bottom line. It's time to work together to tie things up a bit.

The global goals have great resonance for most businesses, especially as they are about business models too. Larger companies are thinking about sustainability, even if not the goals specifically. Soft drink companies, for example, are addressing climate change as they need access to clean water. Sugar and grain crops have a huge impact on cereal companies.

Investors are asking for companies to address sustainability, as they want to know about raw material pipelines, not just around food. Investors are getting wary if businesses don't address sustainability.

For many smaller companies sustainability is just not on the agenda. There are of course smaller, ethical businesses doing great work, but there is a significant middle just trying to survive.

GRUNDINI/IKON

Paul Adderley, MD of Sustainable Opportunity Solutions, on practical steps he helps businesses take

My business works predominantly with SMEs and senior management that recognise sustainable business practice is something they want or need to embrace.

We are using the new Environmental Management Standard (ISO14001:2015) as the entry point for sustainability. There is a captive audience; ISO14001 is becoming a license to operate and SMEs will need to up their game to comply. Compliance is driven by how effective the business is at managing the environmental risks and stakeholder needs, which affect its strategic outcomes.

This opens the door for sustainability professionals to engage with senior managers of SMEs and demonstrate the business value sustainability can deliver. I plan to allow senior managers to explore how they connect their business objectives and the extent they create societal value.

A sustainability professional's role is also to help boards, managers and other staff connect with sustainability issues on an emotional level and to become aware that their businesses are interdependent on the themes outlined in the goals.

We now ask staff what topics they wish to explore. The art is in allowing a range of areas to be discussed. We have asked staff to take photos around factories to demonstrate good practice and areas for improvement; on a construction site we created an activity for staff to find waste materials and discuss the impacts of different waste treatment. The last activity in each session is generally focused on what can be achieved in the workplace. Our training is engagement-led rather than knowledge-driven.

It would help businesses to be more engaged if the language around sustainability was different. It is part of our role to translate sustainability into the language of the business. This is achieved by listening, and by mapping to sustainability terms, rather than imposing the sustainability language. So, when you hear "How does climate change affect your business?", for a construction company that could mean looking at the risks that temperature changes, flooding etc can have on your projects and site operations.

Until recently it has been inconsistency of the message across many policy areas that is a problem. This relates to language about sustainability and what it means at the coalface. When George Osborne spoke of environmental protection/carbon reduction but not at any cost, it put us back years and framed sustainability as a cost to business not an opportunity for new ideas to build vibrant/resilient businesses. Many big businesses (M&S, P&G, Google etc) view reducing resource intensity as central to good business. Over the border in Scotland, however, the devolved parliament decided to cut carbon emissions by 42% by 2020 and generally there is more consistency in its policy and funding. SMEs also have access to free technical advice to help them with sustainability measures and access to low-interest-rate loans.

Kresse Wesling, co-founder of ethical luxury goods company Elvis & Kresse

I'm from Canada and my co-founder Elvis is from London. We met working in Hong Kong, but neither of us has a background in luxury or accessories; our learning curve began when we decided to rescue fire hose material from landfill. Our waste providers are key stakeholders for us; we do open book accounting with the London Fire Brigade and the Fire Fighters Charity. They are fantastic sources of support. We don't really use the term supply chain, we think of partners and stakeholders.

An Elvis & Kresse bag

As well as the bottom line, our business has two measures of success: how much waste we divert from landfill and how much money we give back to our charities. It is definitely not a balancing act, as all our measures of success are inextricably linked. The waste and charity measures are why we do what we do. Most business models are about growth, and we are no different, but the growth we are interested in is our reclaimed kilos and donation dollars. It is based on observing problems in the world and working out the best way to solve them.

More people want to support products and businesses that embrace the sustainable development goals. We have learned that customers have the same expectations of our recycled products in terms of quality and design as with other retail. Once your quality, design and service are in place, then it's the story that shines through. We know that many of them love to tell the history of the products.

Setting goals in the way the UN has is important, particularly as no business or state could single-handedly achieve one of these goals. They are a lens through which to examine where your business is – an inspiration for where and how to innovate, grow and improve.

My main tip would be to think about what your business does like this: you're either in, or you're out. If your business is on the wrong side of this line, it needs to adjust. It may sound stark, but this isn't a time to prop up unsustainable businesses or celebrate mediocrity. The stakes are too high.

Case study: Castle Group

Specialising in concrete bridge repairs in environmentally sensitive areas, Castle has worked with Sustainable Opportunity Solutions (SOS) for a number of years to develop a sustainable business strategy. As well as reducing operating costs by £52,000, it has won larger contracts and awards. Stonebyers Bridge's repair for Scottish Power valued at £445,000 was awarded to Castle based on the way the company managed its environmental management system requirements. SOS's interactive training sessions have helped improve skills and wellbeing and Castle has minimised waste (diverting 90% from landfill) and reduced carbon emissions by 30%.

ICAEW RESOURCES

Global goals, shared ambition: Supporting the UN Global Goals for Sustainable Development **tinyurl.com/ICAEW-GG**

ICAEW's global goals page – find the goals in full, a video and find out how to get involved **tinyurl.com/ICAEW-Goals**

GETTY

LAST CHANCE SALOON

David Adams considers whether a Company Voluntary Arrangement really is the best course of action for companies on the brink of collapse

It is probably true to say that only the most desperate of business owners is overjoyed by the prospect of creating a Company Voluntary Arrangement (CVA). Using a CVA can save a business when it might otherwise be forced into administration or liquidation. It may be used within a successful restructuring process. But it is often a gamble, a penultimate throw of the dice; and it should not be entered into lightly. One in 10 companies that entered into a CVA between 2013 and 2016 later went into administration, according to research published by Moore Stephens. High-profile examples of CVAs ultimately failing to save a business have included the retailers JJB Sports and BHS in recent years. So what does anyone considering this course of action need to know or do to improve the chance of a positive outcome?

A CVA allows a business facing immediate serious financial problems to avoid administration or liquidation by negotiating a new arrangement with creditors. It can only be put in place with the approval of the creditors owning 75% of the company's debt.

In the third quarter of 2016 the number of companies entering any insolvency procedure in England and Wales rose slightly, to 3,633. Only 75 companies entered a CVA during the quarter, down 30.6% on the previous quarter and down 31.8% year on year. Business owners see it as an attractive option because it enables them to retain control. "It's a lighter touch process than administration: it's not as intrusive and it also tends to be cheaper," says Mike Jervis, partner in restructuring and insolvency at PwC.

THE INS AND OUTS OF CVAs

A company seeking to create a CVA would enlist the services of an insolvency practitioner (the nominee) and engage with at least some of its creditors and put together a figures-based proposal that will explain how, over what timescale and to what extent the company proposes paying off its debts. The proposal is issued by the nominee, who includes an assessment of the proposal and outlines the returns it will give creditors compared to what they would receive if the company went into administration or liquidation.

There is then a 14-day period for the creditors to digest and assess the proposal, during which a meeting is called and creditors decide whether or not to approve it. Even if the plan is approved, a 28-day cooling-off period follows, during which creditors can withdraw their support and take alternative action, such as taking the company to court or putting together a winding up petition.

In the summer of 2016 the government's Insolvency Service issued a consultation on introducing a moratorium during which creditors would not be able to assert their rights against the company. The company would also be able to designate some contracts with suppliers as "essential", meaning they could not be terminated or altered during the

> "Situations where CVAs are a good option are those where you have a profitable business that can generate cash and can afford to make the necessary payments"

moratorium. It would probably last no longer than three months and would need to be overseen by a supervisor - although exactly who this would be and who would have the power to appoint them remains to be seen.

Another unanswered question is how and when notice of the start of the moratorium would be given to creditors - who would then have 28 days to apply to court to challenge it before it came into force. In any case, the political upheavals of 2016 have delayed the necessary legislation indefinitely.

START MAKING SENSE

Under the current legislative regime, in what circumstances does a CVA make sense? "If your difficulties are because you have illiquid assets, you're facing some sort of litigation, or you need time to dispose of a loss-making part of the business, for example," Jervis suggests.

"I think situations where CVAs are a good option are those where you have a profitable business that can generate cash and can afford to make the necessary payments," says Matt Ingram, a managing director at Duff & Phelps.

"An example might be where a previously profitable business has been badly affected by a single event, which has put the business into a financial position that is challenging but is unlikely to occur again."

It can be tricky persuading those who have been through this process to speak about it on the record, it's not really something you want to shout about, but also, as someone who knows just how it feels puts it: "You just want to put it behind you."

But there are plenty of healthy businesses operating successfully today that have been through the process. One slightly disguised example is a small to medium-sized services company that agreed a CVA to repay debts of over £160,000 in 36 monthly instalments of almost £4,500. Following an increase in repayments during the final months of the agreement, the debt was paid in full during the three years.

In another example, in December 2016 the solicitor Just Costs, based in Manchester and London, entered into a CVA with the aim of repaying £829,000 to creditors including landlords and HMRC. In this case, Just Costs has challenged HMRC's treatment of work in progress as income before invoices have been issued. It has been able to negotiate terms with the taxman that will hopefully enable it to keep trading while it pays off the debt in full.

A company considering a CVA must be realistic about what can be achieved, says

75%
of a company's debt must be owned by creditors triggering a CVA

31.8%
Fall in the number of companies entering a CVA in 2016, year on year

28 days
Cooling off period following approval of CVA, during which support can be withdrawn

APPROVING A CVA

If you are a creditor of a company whose approval is sought for a CVA, here is some advice…

"Engage with the company as quickly as possible, if possible even before a proposal is sent out to the creditors," PwC's Mike Jervis advises. "But if you're not in that group of creditors who might be consulted beforehand, probably the best thing to do is speak to your accountant and your auditor."

It may also be worth consulting your credit insurer to check that your actions will have no adverse consequences for your credit insurance.

The first step any creditor takes should be to examine the sections of the CVA proposal that show likely outcomes compared to an alternative course of action. Often the alternative used for comparison is liquidation, although the potential consequences of administration may also be illustrated.

Creditors should also be asking some fundamental questions before approving a CVA, says Jeremy Willmont of Moore Stephens. "What's changing about this business?" he asks. "How is the business going to get back on an even keel?"

The creditor shouldn't just ask if the outcome for them will be better if the CVA goes ahead than if the company goes into administration, says Willmont.

If you take the view that the company may be putting a gloss on its current position the question should be, is it better to encourage the company to go into administration now, or to look on as the CVA fails and it goes into administration in one or two years' time?

Martin Kirby is head of order to cash at construction company Kier Group, which has often been a creditor in these situations. He says the company's default position is to treat CVAs with caution. His advice to any creditor presented with a CVA proposal would be to apply three tests to the company in question: look at the company's likely cash-flow situation in future; look at its balance sheet; and also check there have not already been legal judgements filed against the company. "We're happy to support CVAs as long as those validity tests can be passed," he says.

There are other factors that make the CVA look less attractive to Kier: a longer term agreement, stretching out beyond a couple of years; and agreements that will be setting different repayment terms with a number of different creditors. "Even if it is feasible for the company to do that, they may find they cannot control it," he suggests.

Jeremy Willmont, head of restructuring and insolvency at Moore Stephens. "You've got to ask yourself, is it really a business that can be rescued?" he says.

The business must then engage carefully with its creditors. "You have to be confident that you are going to get their support," says Ingram. "Transparency is always important. The more that suppliers understand why they've been asked to enter into a CVA, the better."

"It's a negotiation based on full disclosure of the company's true position," agrees Stuart Frith, partner at Stephenson Harwood and deputy vice president of R3 (the Association of Business Recovery Professionals). "The agreement is likely to fail if directors assume this is a way of allowing the business to carry on as before. A genuine desire to make serious changes to the business is crucial to success."

ON FLEXIBILITY

One major advantage that a CVA offers is flexibility. "There are some things you can't change, like the fact that you can't compromise the rights of a secured or preferential creditor without their consent, but otherwise it can be as creative as you want," says Jervis. This can be useful in terms of time: providing enough time for an agricultural business to sell some land and so acquire some additional liquidity, for example.

In addition, companies can apply the CVA to as many or as few of their suppliers or creditors as they wish, provided they are supported by the owners of 75% of the debt. This is a situation where some creditors – such as suppliers without whom the business simply cannot function – are more equal than others. The problem may be in persuading the other creditors to accept this.

Even if they do, anyone considering using a CVA must bear in mind how going through this process could affect any of its supplier relationships. "Often we find that creditors may not still offer the same credit terms they offered pre-CVA," says Ingram. "You must have realistic assumptions about the terms your creditors will agree to."

Companies also need to consider the quality of the relationships they already have with those creditors.

"If there's a track record of taking advantage of creditors the CVA proposal is going to be treated with scepticism," Willmont warns. And perhaps the biggest sceptics of all work for the one organisation included in almost every CVA: HMRC. "If they're owed a lot of money, try to get a dialogue going," advises Willmont.

But above all, the CVA functions as a framework for deal-making. "Be flexible," says Willmont. "If you are prepared to change things then suppliers may be more willing to support the business."

Alternatively, you may have to bite the bullet and admit that you need to look for other options. "You've got to get rid of the rose-tinted spectacles and have a cold, hard look at everything," says Willmont. "Sometimes you have to think about staffing or whether a particular market is still profitable. You may find there isn't any chance of survival, in which case, ask yourself if the company would be better off going through a sale to someone else."

"CVAs are quite appealing to management because they retain control and the business doesn't go into administration or liquidation," says Ingram. "But they will change your relationship with your suppliers. You need to think very carefully before you decide a CVA is the right course of action. Once you put proposals out there you have changed your relationship with your suppliers, regardless of whether the agreement is approved or not. Have a plan and be aware of the pitfalls." You must listen to and take on board advice before you make any final decisions.

BUILDING CAREERS

GETTY

Recognising what staff want from work is becoming increasingly complex, and companies wanting to attract and retain the best need to be smarter when recruiting and developing people. Paul Golden looks deeper, while industry players cast an informed eye on some key areas

Smart companies are re-evaluating their talent acquisition strategy. Top talents are no longer basing their decisions simply on salaries and company financials, and with websites such as Glassdoor giving job seekers a window into what it's actually like to work in a company employers have to adjust their strategy.

Researchers regularly report that staff want to understand the link between the work they do and the business outcomes. Management can help by engaging in proper conversations about the goals of the business.

Employers should research what benefits appeal most to their staff and ensure that they are involved in the decision-making process. Engagement surveys, staff forums and one-to-one meetings are just some of the channels that can be used to ensure employees have the opportunity to give feedback.

"Employees that feel empowered and valued will perform better, which has a positive impact on overall staff morale," according to Nives Feely, finance director at Sellick Partnership. "They are more likely to be fully engaged with a benefits scheme that they understand, can easily access and have more control over, which in turn can increase employee satisfaction and retention in the long term." (See box 'Getting future ready' p23).

Indeed, one of the notable observations of the 2016 XpertHR benefits and allowances survey was that giving employees a choice on the make-up of their benefits package can serve as a helpful recruitment and retention tool and boost employee engagement.

Badenoch & Clark associate director Jodie Bowles agrees that the voluntary benefits offered go some way to show how well the employer ▶

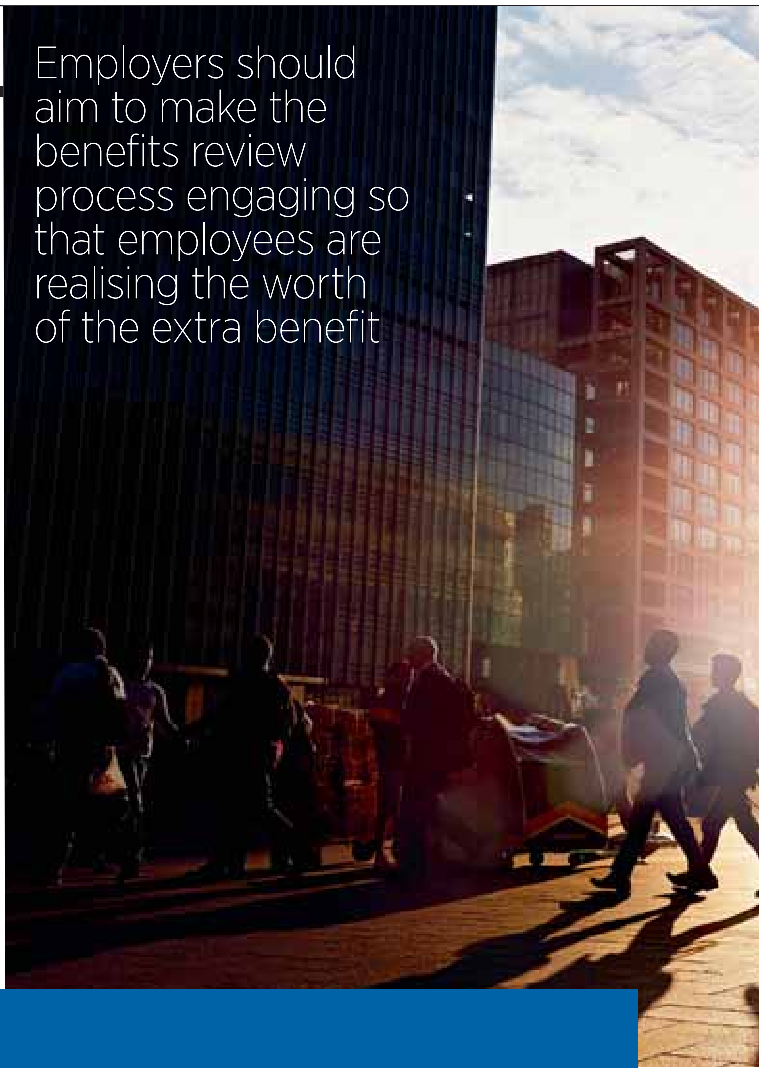
understands the demands of its workforce. "Employers should aim to make the benefits review process engaging so that employees are realising the worth of the extra benefits," she adds.

Morgan McKinley public practice manager Josh Rufus reckons finance professionals have been looking more closely at the availability of holiday allowances (particularly the option of buying extra time off) and corporate social responsibility programmes that give employees the chance to work for a charity without losing any holiday allowance.

While deadline-oriented finance roles offer limited scope for leeway over start and finish times and long-term flexible working agreements are rarely a priority for small businesses, Hallworth says employers are increasingly willing to offer what she calls non-official personal flexibility. "We are seeing a growing trend of more comprehensive flexibility in commercial finance roles where deliverables are measured over the longer term."

One of the most interesting initiatives in the finance sector is KMPG's Jumpstart Fridays programme, where audit staff are allowed to leave at 3pm on Friday from June to September because senior management recognise that there are other times of the year when these staff will be very busy.

Improvements in technology have enabled finance professionals to produce a higher standard of work when away from the office, although such arrangements will be of less value to a finance assistant who benefits from being in a team environment where ▶



Employers should aim to make the benefits review process engaging so that employees are realising the worth of the extra benefit

What millennials want

Employers may be surprised to find that it's not always about the money for the youngest employees, says Andrea Hak of Impraise

Research into workplace dynamics often focuses on the aspirations of millennials (the demographic born between the early 1980s and 2000). For instance, Deloitte's 2016 millennial survey found that more than 70% of UK employees born after 1982 expected to change employer in the next five years.

To millennials, a job is not just a source of income, but a reflection of their interests and values. Accenture's 2015 College Graduate Employment Study found that 59% of recent graduates would prefer to work in a company with a positive social atmosphere over a place with a higher salary. Another 52% would forgo some compensation to work at a company with an impressive commitment to the environment or the social impact of its products and services. To attract the right talent for your company, make sure your value and mission statements strongly reflect your company's culture. For example: Outdoor clothing company Patagonia sets out its ethos as: "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."

But remember, creating a strong employer brand is not just about hiring for culture fit, it's also about reinforcing your values on a daily basis.

Helping people learn and develop continuously is the number one thing a company needs to attract new talent. More responsibilities, stretch assignments and a chance to test out new ideas are a few ways to attract ambitious and motivated recruits. The Accenture study stated that 77% of respondents expect their first employer to provide formal training, but only 53% received any.

Recruitment specialists Hays invests more in potential candidates than any other recruitment company, and continues to offer training courses in consulting, management and leadership at each stage of an employee's career. As a result, 80% of their new recruits are promoted within the first nine months. At the same time, 83% have a strong aversion to steep hierarchies and micromanagement. Creating an open workplace in which managers and peers are accessible for feedback when millennials need it is a great way to keep this balance.

Camaraderie and positive working atmospheres are important to millennials. In a study reported by OfficeVibe, it was found 58% of men and 74% of women would refuse a higher paying job if it meant not getting along with their colleagues.

Voted by Glassdoor as 2016's best place to work in the UK, Expedia encourages a friendly and open work culture in its office design and regular social events. While this may not seem to be an important part of your company's bottom line, having an open and supportive workforce increases knowledge sharing and engagement. One anonymous employee summed it up well:

"I find the most important aspects of most jobs are (a) whom I work with (b) what I work on and (c) whom I work for – in that order."

Across the generations

"Millennials tend to operate in the here and now, but immediate or short-term benefits can be valuable to staff nearing retirement as they may not be there long enough to reap longer term rewards," says Nicola Hallworth, regional director of Michael Page Finance.

Morgan McKinley director Stephen Tarrant also refers to similar aspirations across the generations. "Where the older generation value stability and good benefits, the new generation desire constant engagement and opportunities to progress quickly," he observes. "The trick is to change the conversation from 'how long will you stay in this role?' to 'what can we achieve together?'"

A recent BT report identified flexible working as one of the most important benefits for employees. Interest was highest among millennials (40% of whom said was their top benefit), but almost one-third (31%) of 55-64 year olds also valued flexible working above all other rewards.

A working environment that enables people to do their best work regardless of their career stage can be achieved by ensuring they understand what is expected of them, working with them to agree on priorities and goals and providing the right framework and tools for them to be successful, suggests Nick Bray, chief financial officer of security software company Sophos.

"Creating a culture where constant change is normal and the business is able to continue its daily operations is also helpful," says Practical Car and Van Rental group finance director Len Jones. "With millennials it is more a question of a different approach and style. Inevitably, the closer to retirement employees get the more risk averse they become."

21st century development

Lucinda Carney, founder of performance management software specialist Actus, on making the most of staff development

As finance professionals, meeting our responsibilities around CPD can sometimes detract from learning for learning's sake. The risk is that we stagnate and just focus on the must-do qualifications as opposed to looking more broadly at the skills we need to deliver our best. To be successful in the 21st century workplace, we need to develop a learning mindset which means much more focus on learning on the job; from others and in teams (social learning).

Some may have heard of the 70/20/10 approach to learning. The idea is that only 10% of learning should take place through formal training or courses; 20% should be through team interaction and learning through others and 70% through on the job learning, like challenging assignments. Many of us would argue that this 70% on-the-job learning is simply shorthand for experience and that could be right, however, how many of us have made the same mistake more than once before we learned from it?

The subtle difference here is that we need to take the time to reflect on workplace experiences, make connections and theories as to what worked or didn't and decide to repeat successful behaviours or try new ones. However, many of us find reflection hard, particularly when bombarded with emails and urgent 'To do' lists and this is where line managers should come in.

Line managers need to see that they have the responsibility to develop people, not just manage performance. They need to make regular time within one to one's and/or appraisals to explore work experiences with their people and help them to recognise themes for development. A simple example would be talking to someone about why they always miss deadlines.

The key here is understanding 'why', as different causes can result in the same problem and very often it comes down to personality traits. For example someone who places a strong value on helping others may miss deadlines because they can't say no. Others could lack the confidence in their work, which makes it late because they are checking it or they have stalled through fear. They may need support strategies and confidence building.

By using careful coaching questions, a manager can understand the cause of a behavioural issue and bring it to the individual's awareness and together they can develop lasting strategies for development.

Development in the 21st century is about seeing everything as a learning opportunity and culturally both managers and individuals need to take ownership of this.

knowledge can be shared and questions answered quickly.

"In contrast, a senior finance professional may find working from home extremely useful if there are specific projects or deadlines to meet that require a significant amount of concentration," says Feely.

According to Dr Martin Quinn, who lectures in accounting at Dublin City University Business School, management accountants should have a sound understanding of the value of technology just as a company's chief information officer needs to understand how the finance department functions.

"Technology has to deliver clear business benefits and if a management accountant has not been involved in the process of identifying those benefits, there is something wrong within the organisation," he concludes.

Stephen Pugh, finance director at brewer, hotelier and wine merchant Adnams, refers to the importance of training and an engaged attitude where employees are keen to help each other.

"The best training is often that provided by a colleague at the moment when it is most needed, rather than the up-front education by the experts," he suggests (see box '21st century development' on previous page).

Change, though, often creates fear. Michael Higgins, managing director of debt recovery and commercial litigation firm Lovetts, reckons that fear can be removed if it can be shown to benefit the employee.

"Pension and retirement workshops are an option companies should consider, although personalised advice will result in higher employee engagement"

Case study: Xtrac

Established in 1984, Xtrac designs and manufactures transmission systems for a client base covering top-level motorsport, transportation, defence and marine. The company's commitment to continuous improvement is supported by personal development plans for key staff members.

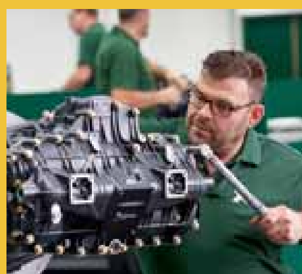
Finance director Stephen Lane observes that employees just embarking on their career want to understand their career pathway and how best to succeed in their chosen employment, while employees at the other end of the age spectrum are more focused on ensuring that they are sufficiently well provided for when they retire.

Although there is an individual responsibility regarding each employee's pension, the complexity of pension arrangements means that there is likely to be a much higher level of understanding and engagement with their pension if employers offer support, he says.

Xtrac has addressed this issue for many years by providing group pension workshops as well as giving all employees access to an independent financial advisor during the working day. "Undoubtedly, this investment in our people has helped to generate a workforce that has always had a good level of engagement with their pensions," adds Lane.

The nature of the business means that its finance team rarely work off-site. "While many tasks could be performed remotely, the relatively small size of the team and the fact that we prefer to interact with other parts of the business in person throughout the day means that home working is not undertaken particularly often," he says.

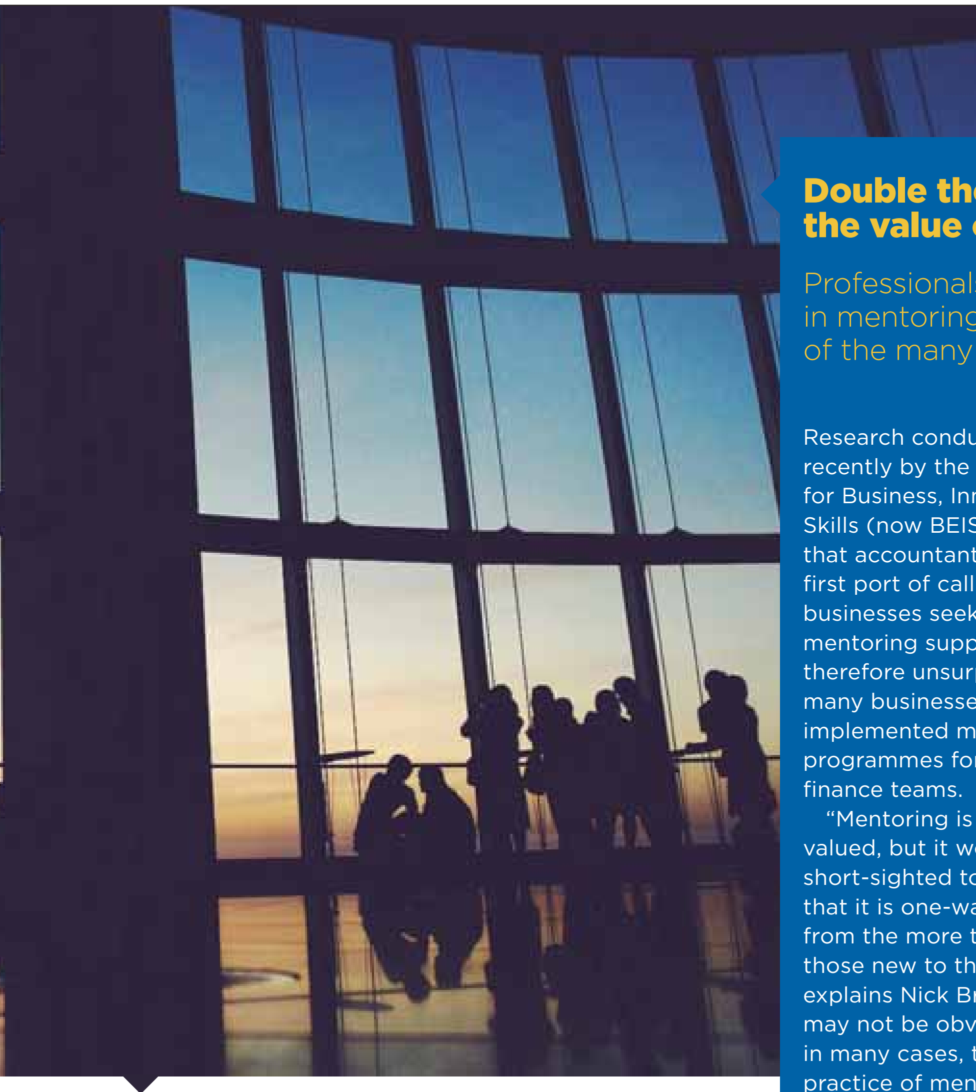
"The digitally native are able to identify areas where the use of systems could be improved"



The Xtrac board (top), Nigel Thorne working on a P1007 gearbox (middle), Mark Rossier using a gimbal (bottom)

Technology is used extensively to improve productivity though, and younger staff play a key role in this process, explains Lane. "One of the issues we experience is not peoples' ability to embrace technology to do their job; rather it is an understanding of what more could be done through a greater use of technology. The digitally native generation are often able to identify areas where the use of systems could be improved."

This is augmented by a working group that includes employees from different parts of the business (including finance) and at different stages of their career, which looks at areas where the use of technology can be improved to the benefit of the business.



Double the benefit: the value of mentoring

Professionals extol the virtues of engaging in mentoring support programmes as one of the many strands of staff development

Research conducted recently by the Department for Business, Innovation & Skills (now BEIS) has found that accountants are the first port of call for small businesses seeking mentoring support. It is therefore unsurprising that many businesses have implemented mentoring programmes for their finance teams.

"Mentoring is highly valued, but it would be short-sighted to assume that it is one-way traffic from the more tenured to those new to the team," explains Nick Bray. "What may not be obvious is that in many cases, the very practice of mentoring others provides additional development for the mentor. They will often take the time to learn more deeply about the subjects they are guiding others on and – just as importantly – the different perspective of new members of the team can help the mentor consider alternative approaches."

While many mentoring programmes are strictly internal, Simon Alsop, head of business at ICAEW, says finance staff can benefit considerably from having a mentor outside their team or even outside their business.

Younger finance professionals who enter firms at a relatively senior level because of their qualifications don't have the innate understanding of how business works and can feel self-conscious about asking questions if they feel they should be expected to know the answers, he explains. Experienced finance staff will understand the value of commercial acumen and can pass this knowledge on.

For the mentor, there is value in being able to have an upfront and honest relationship with someone who is of a similar age to some of the people they are managing, adds Alsop. "What the senior professional learns about the motivations of these individuals can help them manage their teams better."

According to business mentor Jeremy Nottingham, it is vital to encourage mutual respect between experienced and less experienced staff and recognition that everyone has something to contribute and something to learn, which requires some humility and a teachable spirit from the more experienced, and confidence and patience from the less experienced.

Firms also need to ensure that the mentee doesn't come to rely on the mentor to solve problems, concludes Len Jones. "The inexperienced mentee may not follow the correct advice (or indeed misinterpret the advice) so it is probably more a question of mentoring the mentee's approach and problem solving ability."

For information on the ICAEW mentor scheme, visit tinyurl.com/FM-ICAEWmentor

Getting future ready

Employees of all ages believe that their employer has a responsibility to help them plan for the future – respondents to Deloitte's 2016 millennial survey express a strong desire to have enough money for a comfortable retirement. So how should employers go about increasing pension engagement among staff?

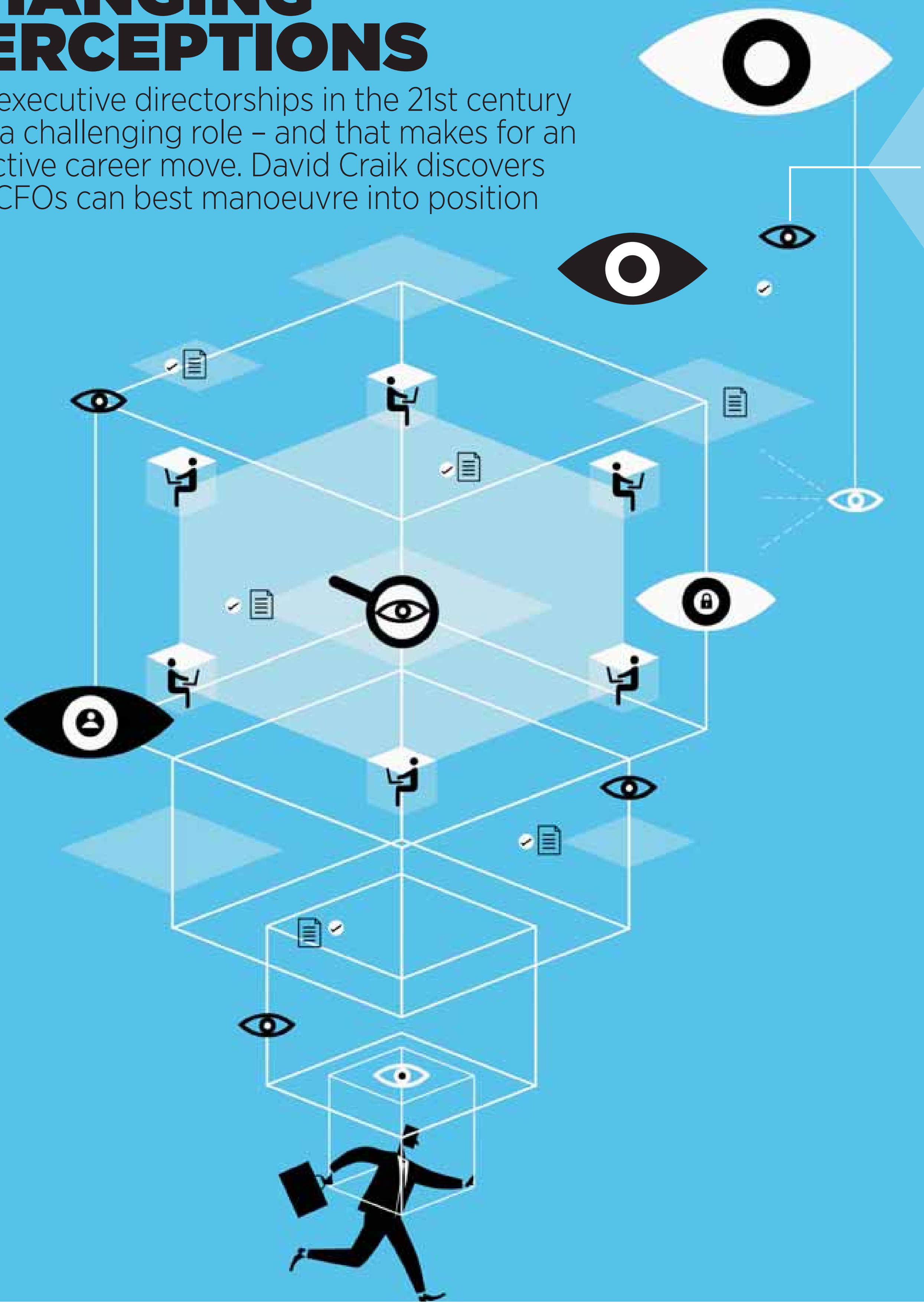
The first step should be the development of a financial wellbeing strategy that includes a comprehensive internal communications plan to raise awareness of the importance of financial planning among staff of all ages and levels says Page Group HR director, Linda Fox.

"The tool we use helps our staff create personal retirement illustrations and provides a financial education programme to explain the importance of pension planning," she explains. "Pension and retirement workshops are another option companies should consider, although personalised advice and guidance will result in higher employee engagement."

Jodie Bowles agrees that employers should look to make the process as accessible as possible. "Specific actions include providing employees with access to a financial adviser who could arrange in-house days where employees can book short sessions to review their personal plans."

CHANGING PERCEPTIONS

Non-executive directorships in the 21st century offer a challenging role – and that makes for an attractive career move. David Craik discovers how CFOs can best manoeuvre into position



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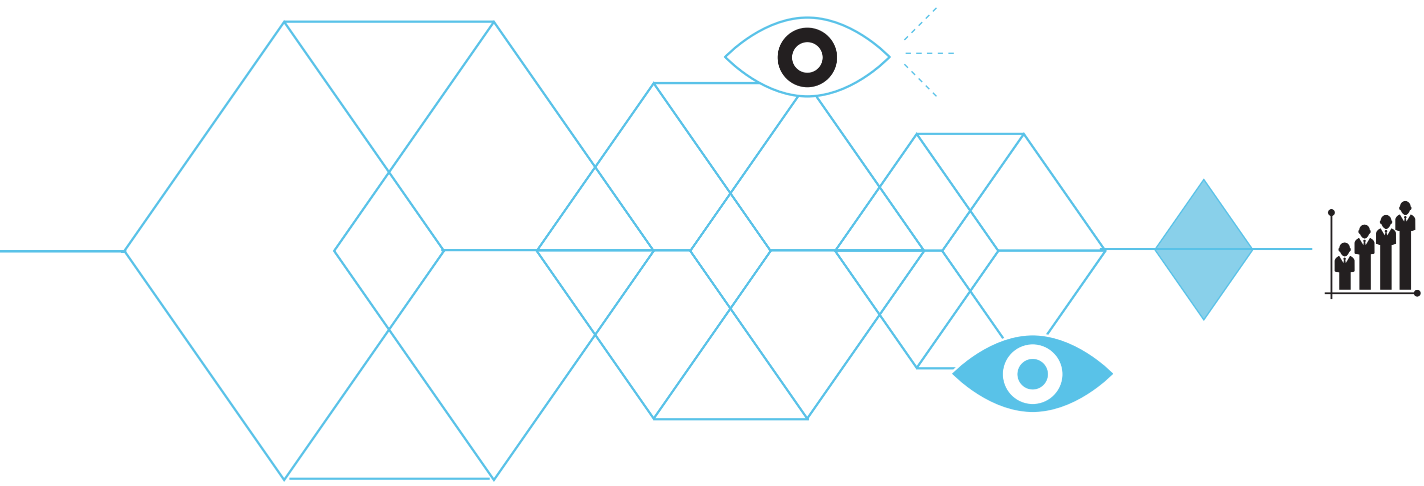

Non-executives are expected to play a greater role in business performance, although this was not the case even 10 years ago. The change has been driven by increased levels of boardroom regulation, seen since the 1990's Combined Code (which embraced both Cadbury and Greenbury's reports) and more recently with the 2014 UK Corporate Governance Code's focus on risk management and high-profile governance failures, including Co-op Bank and Volkswagen. Investors and other stakeholders are demanding more oversight and control and NEDs are expected to play their part. In that atmosphere does the position still attract interest from CFOs either looking to end their career as a NED or take a position during it?

The supply is certainly there. CFOs still see a non-executive role as a boost to salary, a boost to prestige and increasingly a professional challenge. Mark Freebairn, of the CFO Practice at recruiters Odgers Berndtson, says the demand for financial expertise on boards is also there, and has been for some time. He looks back to Sir Derek Higgs's review into NEDs back in 2003.

"Higgs declared that the chair of the audit committee needed 'recent and relevant' financial experience. That means a previous or current financial director, investment banker or audit partner," he states. "If you think that there are 1,000 quoted firms needing audit chairs and 1,000 current CFOs and around 3,000 retired CFOs who could do the job then it is quite a competitive market. If you want a NED position, then become a main board finance director of a Plc. Being an executive director will give you credibility for these roles."

He says it will also allow you to watch and learn from your own NEDs and see how they interpret and perform their role. "The more exposure the better," Freebairn says.

HONING YOUR SKILLS

It raises the question as to whether there are specific skills you need to be a successful NED and whether they can be developed. Freebairn says chairmen looking for NEDs have a similar recruitment strategy to executive roles.

"If they are an acquisitive company they will generally want someone who has had experience of M&A. Similarly, if they are hoping to move into emerging markets they want to gain from the experience of someone who has done that," he states. "So, more experience of a broad range of countries or activities such as M&A will help but I believe you will naturally build the skills you need to be a NED during your executive career. If you don't already have soft skills for example it is unlikely you will have got as far as CFO."

Matthew Roberts, chief executive of NonExecutiveDirectors.com and FinanceDirectorNetwork.com, says being a company man can also be attractive. "It depends on the role you are in and the type of role you are looking to move to in the future. Many years of specialist experience can be just as impressive to companies looking for a NED as a more varied CV," he states. "If you want to be a specialist in a larger company or a particular sector then staying in one role may be beneficial. On the other hand, we find many SMEs would benefit from a diverse portfolio of experience."

He also believes NED-specific skills can be worked on. "The best way to make sure you are ready to take on your first NED role is to highlight and develop advisory skills in your executive roles. Taking on roles on advisory committees and subcommittees and providing external guidance in a consultation capacity can be really great ways to develop this, and so can taking on charitable trustee commitments. Start developing your portfolio of skills at any point in your career. Specialist training can vary depending on your level of experience, whether you are an established NED, ready to take on your first role or looking for a new one."

Organised, professional training is also available for CFOs. Deloitte's Academy offers a development and networking programme mainly from the FTSE 350. Topical issues such as Brexit are discussed along with regular updates on the economy and corporate governance development.

ICAEW: HOW WE CAN HELP

ICAEW offers a range of professional development courses aimed at helping members understand more about the boardroom and the skills needed to become a NED.

These include the Network of Finance Leaders programme, which develops the leadership capability of participants through a "blend of one-to-one expert mentoring, peer learning groups and experiential workshops".

The Financial Talent Executive Network is a mentoring and peer-to-peer network programme aimed at senior finance professionals who are one or two stages away from a group CFO or equivalent role. Through this programme and networking events delegates can better understand the roles, responsibilities and dynamics of the boardroom by obtaining guidance from FTSE 350 CEOs, CFOs and NEDs.

Women in Leadership is another programme, which supports women working across practice, industry and the public sector aiming for senior management, partner or board roles. It includes one-to-one mentoring sessions with NEDs.

Stephen Ibbotson, ICAEW's director of commercial and business, says: "More of our members are wanting to become NEDs in a range of sectors from public and private businesses, to local authorities, charities and hospitals. The desire to use their skills to give something back is becoming increasingly popular."

He says members should look at developing a diverse range of skills and experience but their core financial talent will "always be in demand".

Ibbotson adds that there are plans in place for 2017 to expand ICAEW's training offering to members by forging closer links between its non-executive directors special interest group, corporate governance special interest group, the ICAEW Academy and a third party from the NED sector.

WHAT DO YOU NEED TO BE?

Helen Gale, partner at Deloitte, says: "CFOs will have already developed deep specific sector and finance skills, but they should add to that by getting up to speed on corporate governance and the latest accounting and legal regulations. A NED needs these skills and attributes, such as speaking with conviction and articulating their point clearly. They need to be able to listen to others' viewpoints and be self-aware. They may have learned these skills during their career already but they need to show them straight away as a NED. They must make a leadership impact at every board meeting. So, training on soft skills is very important."

She says boards are also looking for greater diversity, seeking a broader range of genders, ethnicities and ages. "They are looking for a wider pool of people, but a lot of recruitment is done through personal friendships. That can lead to less diversity and overfamiliarity in the boardroom," she says. "It needs to be professionalised because there are more demands on a NED. But people still want to become NEDs. They want to use their years of experience to add value to a business."

Peter Williams, chairman of Boohoo.com, has plenty of that experience. Former CFO of Selfridges, he has developed a string of NED positions at places such as Cineworld and Silverstone during his career. "When I was a CFO I was reporting to the board, so I knew what sort of role the NEDs had," he says. "A NED is a good role for a CFO as the audit committee needs financial expertise on it and you can help a business by mentoring their CFO. During your career a non-exec role gives you broader sector experience. That is useful for your day role, which is the one that you get your day-to-day salary for."

He recommends being in a CFO role for at least three years before taking on a NED position. "You can do it at any age but if you are new to a role it is too early, because being a NED means time commitments and some CEOs don't appreciate it," he adds. "In order to secure a role, networking or being headhunted are the main routes. But you need to show you can add something to that firm rather than just being a numbers guy. Look at how you can apply your executive knowledge - be it digital or brand marketing - to the business. You also need to be a good communicator and debate with people. You need to have an inquiring mind. It's not for geeks or the inert - you need to be outgoing and have enthusiasm."

> "You need to show you can add something to the firm rather than just being a numbers guy. It's not for geeks or the inert – you need to be outgoing and have enthusiasm"

EXERCISE SOME CAUTION

But don't get too eager. Before you make the move, particularly during your career, it's best to be cautious. "A non-executive role lasts for around six years so it is likely that you will move in your executive role before then," Freebairn states. "So, don't take a non-executive role in a sector you want to work in as an executive. Also, some chief executives don't like or get frustrated by the time commitments a non-executive position takes up. As a NED, you have guaranteed you can make every board meeting so always join a board with a different year end than yours to lessen the chance of any clashes."

Freebairn also encourages CFOs to carefully assess the ability of the board they are joining. "Is the CFO someone with the talent that you would employ?" he asks. "Remember that your day job is your excitement. Your NED role should be as safe and boring as possible because reputationally it can be damaging to you if something goes wrong, but you have less oversight and control. Find a solid and safe business with a good board and a chairman you can learn from. Long-term, perhaps, that non-exec chairman role could be your next step."

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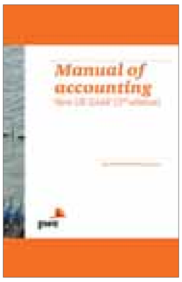
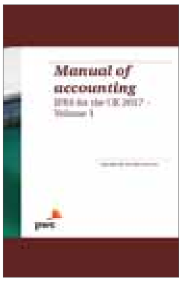


Manual of accounting – New UK GAAP (3rd edition)

A practical guide to the new UK accounting regime which is mandatory for accounting periods beginning on or after 1 January 2015. This edition has been updated for changes in company law and amended standards (FRS 101 and FRS 102) as a result of the EU Accounting Directive (effective 1 January 2016).

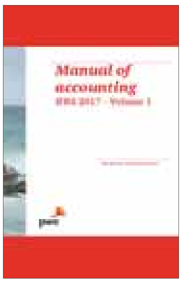
Price: **£68**
Pub date: **Jan 2017**



Manual of accounting – IFRS for the UK 2017

Comprehensive practical guidance on the IFRS issued by the IASB and the accounting requirements of UK law applicable to UK users of IFRS, as well as the other elements that make up IFRS for the UK.

Price: **£147**
Pub date: **Dec 2016**



Manual of accounting – IFRS 2017

This is the definitive guide to IFRS for those reporting outside of the UK. It provides practical guidance on the interpretation and application of all IFRSs issued by the IASB, and contains hundreds of worked examples.

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Pub date: **Dec 2016**

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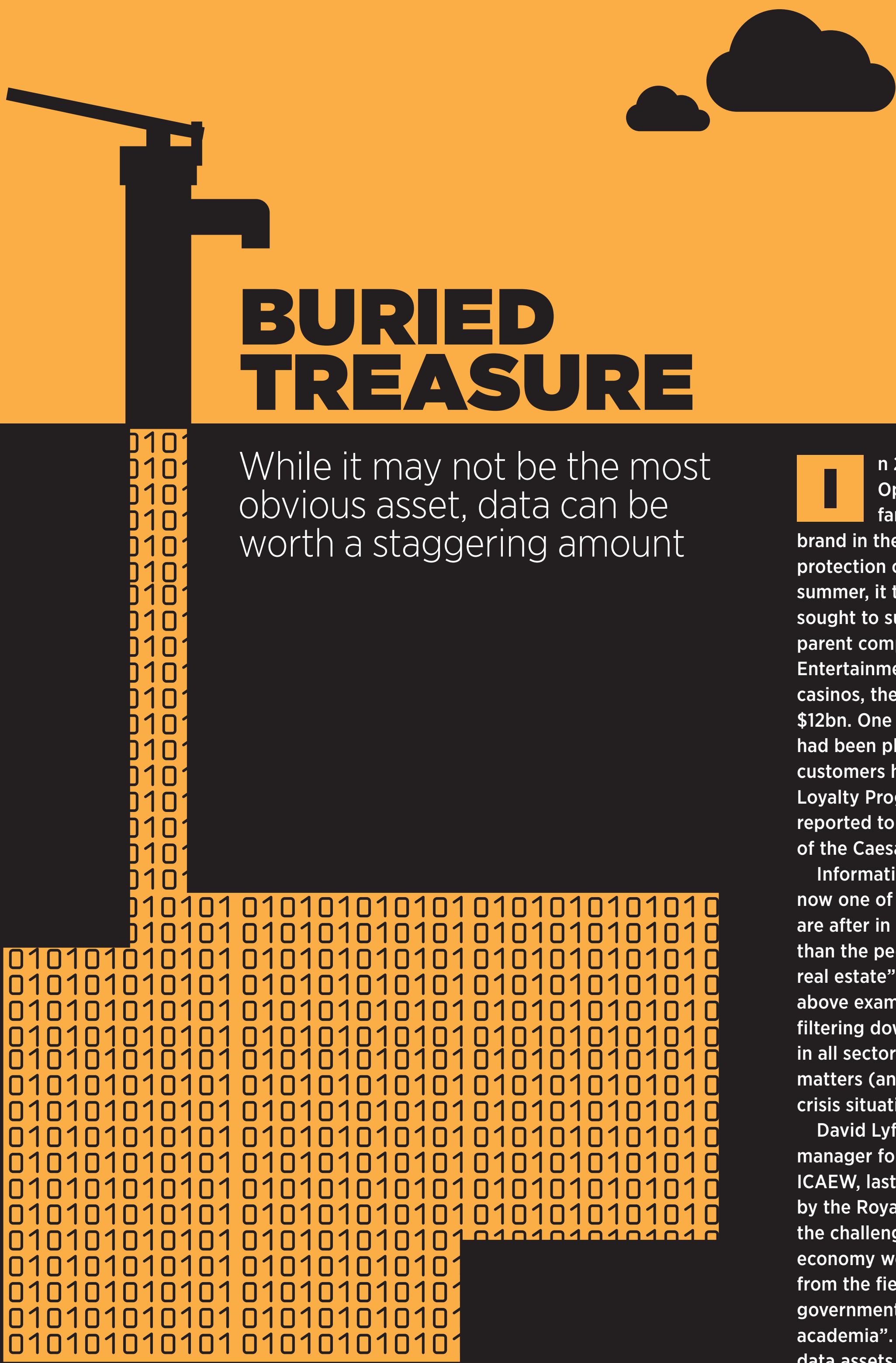


BURIED TREASURE

While it may not be the most obvious asset, data can be worth a staggering amount

In 2015, Caesars Entertainment Operating Co, which owns the famous Caesars Palace casino brand in the US, filed for bankruptcy protection over $18bn of debt. Last summer, it tried to block creditors who had sought to sue its private-equity backed parent company. While Caesars Entertainment offered $4bn to save the casinos, the creditors argued its worth was $12bn. One of the areas where high value had been placed? The data of 45 million customers held in the Total Rewards Loyalty Program, which Information Age reported to be worth $1bn – more than any of the Caesars' Las Vegas real estate.

Information Age's assertion that "data is now one of the primary assets companies are after in an M&A, in some cases more so than the people, intellectual property or real estate" is amply demonstrated in the above example. It's a message that is filtering down to businesses of all sizes and in all sectors – the value of your data matters (and not just during a potential crisis situation).

David Lyford-Smith, the technical manager for IT and the profession at ICAEW, last year attended an event hosted by the Royal Academy of Engineers, where the challenges of valuing the UK's data economy were discussed by "key thinkers from the fields of engineering, technology, government, accounting practice, and academia". The Academy concluded that data assets are an essential element of the value of UK companies, and only likely to become more so. Lyford-Smith noted in a *Chartech* article: "Currently these assets are not readily recognisable in corporate

reporting, nor are they considered in government statistics around GDP. Valuation of these assets in internal management accounting is also rare."

This view is one that is also shared by Douglas Laney of analysts Gartner, who said: "We are in the midst of the information age yet information is still considered a non-entity by antiquated accounting standards."

Gartner stated that its research along with studies by KPMG and others had "shown how significantly investors and financial analysts favour information-savvy and info-centric companies", but despite this, information was not recognisable as a balance sheet asset even though it would likely meet the criteria.

Lyford-Smith said the Academy believed this state of affairs "undersells UK productivity, doesn't appropriately encourage the use of open and structured datasets, and under-promotes the need for security around data". By bringing data valuation techniques to the fore, the Academy argued, the economy and society could benefit.

MEASURE FOR MEASURE

Lyford-Smith reported that the engineering event participants felt "raw data had low value (especially if it was unstructured)", but that if analysed into understandable information, the value would become clearer. "The value was greatest once that information was then applied to reality, and knowledge about the business, its customers or its suppliers was gained as a result."

Naturally, analysts have been thinking about how to approach this problem, and

> "Raw data had low value. The value was greatest once that information was then applied to reality, and knowledge about the business, its customers or its suppliers was gained as a result"

have come up with a variety of methods. Gartner, for example, has developed its own information valuation method, which begins by "inventorying and measuring information assets". This can be done by "using well-honed and established methods for valuing other kinds of assets" or – if the business is not ready to financially value its information – "consider metrics that assess the information's quality characteristics, business relevance or impact on non-financial performance indicators".

It developed six formal valuation models in conjunction with valuation experts, accountants and economists, which can be seen in the diagram (page 30), but in essence cover the following areas:

Foundational measures:

- Intrinsic value of information: how correct, complete and exclusive is this data?
- Business value of information: how good and relevant is this data for specific purposes?
- Performance value of information: how does this data affect key business drivers?

Financial measures:

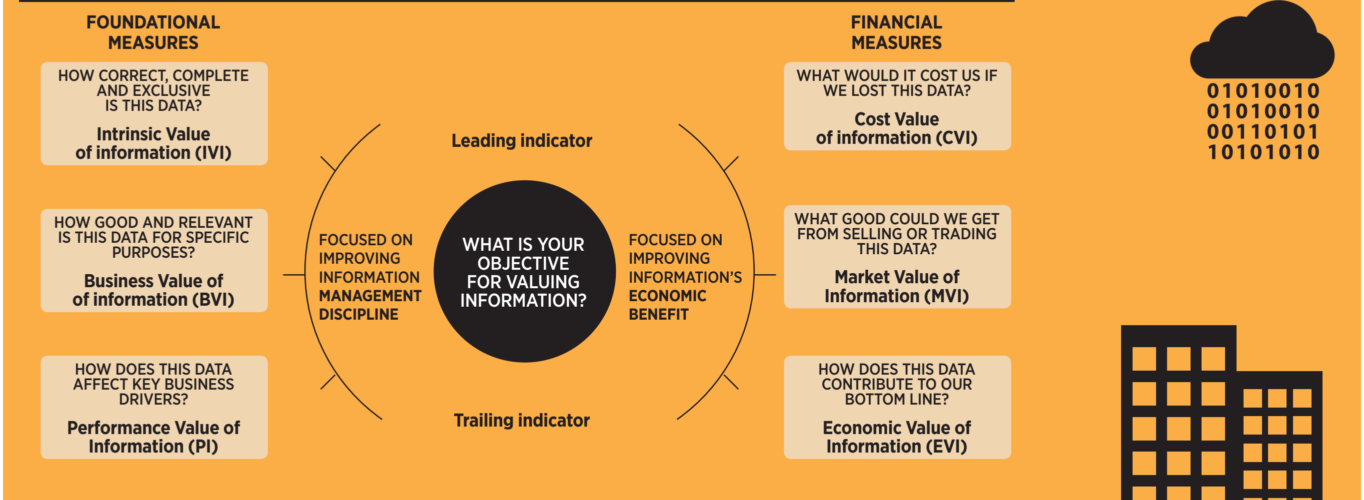
- Cost value of information: what would it cost us if we lost this data?
- Market value of information: what good could we get from selling or trading this data?
- Economic value of information: how does this data contribute to our bottom line?

Gartner suggested that these measures could be used to change business culture, "make information-related decisions, and apply well-established asset management principles and practices to managing their newly anointed information assets", and that this should be done under the leadership of a chief data officer (CDO), as well as other executives.

FURTHER READING:

- For the full *Chartech* report on the value of data, see the January/February edition of the magazine, out on 26 January icaew.com/itfac
- The Royal Academy of Engineering and Institution of Engineering and Technology report *Connecting data: driving productivity and innovation* tinyurl.com/CH-RAE-IET
- Gartner Information Valuation Method tinyurl.com/FM-Gartner
- Data Clairvoyance methodology tinyurl.com/FM-ClairVoy

SELECTING AN INFORMATION VALUATION METHOD



SOURCE: WHY AND HOW TO MEASURE THE VALUE OF YOUR INFORMATION ASSETS, AUGUST 2015 – GARTNER

KEEPING SCORES

Another analyst recommending involvement of a CDO is Data Clairvoyance. Its valuation method begins with setting up an office of data, adopting responsibility for "data governance, metadata management, data quality and data architecture". The CDO would "serve the strategic role as the 'broker' of data between creators and users", according to Data Clairvoyance CEO and founder Reuben Vandeventer. He advocates businesses creating a comprehensive inventory of business data elements, acquiring metadata about how the information is made and used. After arranging for 'data stewards' to monitor quality of set chunks of data, the critical next step, says Vandeventer, "is to develop a standard method for quantifying how the data elements exist" within the organisation.

He adds: "This metric must include the 'tribal knowledge' (people-based metadata), the frequency of use/demand on the data element, and the overall quality of the data element.

"We call this metric the data certification score, which is a holistic indicator that measures how the data is used based on both quantitative and qualitative inputs."

These scores can be monitored and recalculated over time, perhaps even on a weekly basis. "Once data certification scores are calculated, you can use statistical methods to correlate them with the key operational or financial KPIs/metrics of the organisation," Vandeventer adds.

Data Clairvoyance also recommends using quantitative measurements derived from metadata to instigate a process of multivariate regression, allowing businesses to "analyse independent variables about specific data elements".

This method, the analyst believes, "means that for the first time, an organisation can bring a level of accounting rigor to its data valuation processes that operates at the level of GAAP accounting".

UNANSWERED QUESTIONS

However, there are questions to be answered around rigour and processes as Lyford-Smith's article raises: "Part of the difficulty in valuing data is that the costs of performing this refinement process – and the value of the knowledge ultimately attained – was largely unknown until the work had been undertaken."

Discussion at the Academy event around valuation methods found that "current accounting practice around intangibles is quite limited", with existing rules "allowing for recognition on a transactional basis – ie, if the data could be valued against an external market, or as an element of goodwill on a business combination".

Lyford-Smith recognised that accounting rules have to lead to results that external stakeholders can rely on to make their financial decisions, "and the value of data and similar internally generated intangible assets can be overstated if rules aren't clear and conservative". He concluded, though, that ignoring the value of data assets wasn't tenable in the long term.

This is a position shared elsewhere, and that has given rise to thoughts of what may come next. A Capgemini and EMC survey – reported in *Big & Fast Data: The Rise of Insight-Driven Business* – found 63% of respondents believed the monetisation of data could become as valuable to businesses as existing products and services. It varied across sectors, from 55% in healthcare to 83% in telecommunications, but all sectors saw it as relevant.

As data valuation methods continue to be refined and applied, there is no telling how quickly businesses will be able to not only give themselves a boost in terms of the total value of their organisation, but also identify ways in which that data could be sold on to further increase its value. It might just be worth keeping an eye on where the customer data ends up in the Caesars Entertainment case.

"Part of the difficulty in valuing data is that the costs of performing this refinement process – and the value of the knowledge ultimately attained – was largely unknown until the work had been undertaken"

Technical updates

Our regular roundup of legal and regulatory change

TAX

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

PAC PERFORMANCE REPORTS

At the end of November 2016 the Public Accounts Committee (PAC) published its report *HMRC performance in 2015-16* covering the most recent annual accounts of HMRC. We reported in July on the publication of the HMRC 2015-16 Annual Accounts, which contained the National Audit Office (NAO) report on those accounts.

THE TAXPAYER (CUSTOMER)

HMRC has now dropped the "Purpose, Vision and Way" mission statement and in its latest annual report there are 30 mentions of *Your Charter* and the Charter Committee. *Your Charter* sets out the rights and obligations of the taxpayer, which HMRC has pledged to safeguard.

THE AREAS COVERED

There are six recommendations in the PAC report, covering three main areas:

- HMRC reporting on its performance;
- services provided by HMRC and plans to enhance them; and
- tax reliefs.

The first area is concerned with HMRC efforts to boost its compliance yield and drive down the tax gap. The PAC recommends that HMRC should report each year on the effect of its work to generate compliance yield, and on its efforts to reduce the tax gap.

Transformation of the tax system is to be based on digitalisation. Responses have been submitted by ICAEW and thousands of other respondents to the HMRC consultations on Making Tax Digital. Because of the enormous number of responses HMRC will not be indicating its own reaction to those responses before January 2017.

The practical recommendation of the PAC is that: "By March 2017, HMRC should demonstrate that it has a credible plan to make savings without damaging customer service, and that it has agreed a contingency plan with HM Treasury should its projections prove to be inaccurate in practice."

The PAC has been concerned that HMRC does not keep a sufficiently close eye on tax reliefs and now recommends that: "HMRC should include an analysis of tax reliefs and their costs in its annual report to improve accountability about the areas where government has chosen not to collect tax. HMRC should make clear why it has decided to collect data only for a small minority of tax reliefs."

OTHER ISSUES RAISED

The problem with the outsourced Concentrix contract in relation to tax credits is covered in this report. The National Audit Office is also currently carrying out a detailed investigation and will report in January 2017: see *Parliamentary Written Answer*.

The PAC recommends: "HMRC must ensure it has clear customer service standards, whether a service is delivered by HMRC or one of its contractors. HMRC should identify quickly the lessons to be learned from this episode and act upon them.

"[The PAC] raised concerns about the contract and the treatment of claimants in June 2016 and were given assurances by HMRC in July that things were improving. However, in August 2016 customer service levels for tax credit claimants collapsed. HMRC told us that Concentrix had failed to cope with an increase in call numbers following a letter it had sent to claimants about their claims. Subsequently HMRC announced that it had cancelled the contract."

Finally, PAC made recommendations in relation to the tax affairs of large multinational companies and recommended that HMRC and HM Treasury should lead the global debate for public country-by-country reporting and push for international agreement on its introduction.

TAXTALK DECEMBER 2016 – FINANCE BILL 2017 DRAFT CLAUSES

In December 2016, Jane Moore, editor of *TAXline*; Ian Young, international tax manager; and the faculty's Anita Monteith hosted the last TAXtalk of 2016, where they discussed the detail of the draft Finance Bill 2017 clauses which were published on Monday 5 December. To watch the session, visit tinyurl.com/ICAEW-Taxtalk2016

FINANCIAL REPORTING

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

NEW WEBINAR

In October 2016 the Financial Reporting Faculty hosted a webinar *The UK's new small companies regime: choices & challenges*. This webinar considers recent changes to company law applicable to small and micro-entities, the new financial reporting regime for such entities and key factors to bear in mind when reviewing options under the new regime.

This webinar is available to all ICAEW members free of charge at tinyurl.com/FRF-WebSCR

AMENDMENTS TO FRS

In December 2016, the FRC issued Amendments to FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The amendments, which were consulted on in Financial Reporting Exposure Draft 65, remove the requirement for a qualifying entity to notify its shareholders in writing that it intends to take advantage of the disclosure exemptions in FRS 101 and FRS 102. The amendments are effective for accounting periods beginning on or after 1 January 2016. They can be accessed at tinyurl.com/FRS-Amends

BETTER COMMUNICATION

The Primary Financial Statements project is a research project concerning changes to the structure and content of the primary financial statements. It is an important part of the IASB's better communication theme.

The theme focuses on the structure and content of the statements of financial performance, including assessing whether to require a defined subtotal for operating profit and examining the use of alternative performance measures, financial measures that are not defined or specified in the standards.

The IASB will also assess potential demand for changes to the statement of cash flows, the statement of financial position, and the implications of digital reporting for the structure and content of the primary financial statements.

In October 2016 the FRC launched a consultation into improvements to the cash flow statement. Feedback received on that consultation document is expected to foster debate in the IASB primary financial statements project.

For more see tinyurl.com/IASBPlan17-21

FRC THEMATIC REVIEW

The FRC has issued a thematic review on the reporting of alternative performance measures (APMs). Thematic reviews supplement the FRC's monitoring of company reports and accounts, enabling a focus on topical areas of corporate reporting.

This thematic review was conducted following concerns expressed by a number of stakeholders, as well as the FRC in its recently published *Annual Review of Corporate Reporting*, and the coming into force on 3 July 2016 of the European Securities and Markets Authority's *Guidelines on Alternative Performance Measures*.

The review found that there was only limited commonality in the definition of such measures, while some of the definitions used gave rise to concerns about why certain items, notably recurring restructuring costs, had been excluded from the measure.

APMs are used by many companies. However, the FRC's thematic review concludes that many companies need to make further enhancements to their reporting in this area.

Access the review at tinyurl.com/FRC-APM

GOVERNMENT REFORM

The UK government has published a green paper on corporate governance reform, designed to stimulate debate on a range of options for strengthening the corporate governance framework, including options for increasing shareholder influence over executive pay and strengthening the employee, customer and supplier voice at boardroom level.

View the paper at tinyurl.com/GOV-CorpReform

PAYMENT PRACTICES

The Department for Business, Energy and Industrial Strategy (BEIS) has set out measures to increase the transparency of payment practices to support small firms by introducing a 'duty to report' for large businesses and limited liability partnerships. From April 2017, eligible businesses will have to publish details twice yearly about their payment practices and performance on a government website.

Some of the requirements include a narrative description of the organisation's payment terms and the organisation's process for dispute resolution related to payment. The website includes a menu that confirms, for example, whether an organisation offers e-invoicing, supply chain finance or other measures.

Read the report at tinyurl.com/GOV-BizPayCons

GAAP RESOURCES

The Financial Reporting Faculty has seen a number of enquiries about UK GAAP resources, including model accounts and disclosure checklists, from small companies and preparers of small company accounts.

Checklists and model accounts for FRS 101, FRS 102, FRS 102 Section 1A and FRS 105 are freely available to ICAEW members and a selection are available to be downloaded, with further checklists or model accounts available electronically or by post, on request.

For more information see tinyurl.com/ICAEW-GAAPcheck

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.

GENDER PAY GAP LEGISLATION

The government has now published the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, which are due to commence in April 2017.

Not to be confused with equal pay or discrimination legislation, the amendments to the Act relate to companies' new obligations to report figures on the pay gap, which Acas describes as the "average difference between men's and women's aggregate hourly pay".

Regulation will apply for all businesses employing more than 250 staff. They must publish the figures on their websites, along with information about the gender bonus gap, the proportion of each gender receiving a bonus, and the proportion of each gender working at "each quartile of the organisation's pay distribution".

For the full legislation visit tinyurl.com/GOV-Paygap

LOW UPTAKE OF SHARED PARENTAL LEAVE

Just one in five employers has received a request for shared parental leave since the benefit was introduced in April 2015.

According to a study by the Chartered Institute of Personnel Development (CIPD), only 5% of dads and 8% of mums have taken advantage of the legislation, which allows parents to divide leave between them when a child is born.

The law allows parents to take 50 weeks' leave and 37 weeks' statutory pay between them in the first year. However the CIPD survey of 1,050 senior HR professionals found only 21% of requests came from fathers.

The low uptake has been blamed on the policy still being relatively new.

THE NATIONAL LIVING WAGE

A report from the Low Pay Commission (LPC) has revealed that further wage rises above the new National Living Wage could be suppressed if the economy doesn't improve.

The LPC's autumn report suggested that since the wage of £7.20 per hour for over 25s was introduced in April 2016, redundancies and job cuts had been made across a number of sectors.

The report stated: "In more exposed sectors, employer representatives reported cases of reduced hours, employment growth and (less frequently) redundancies, warning that these were set to grow as the rate increased over time, with the biggest reported effects in convenience and traded sectors such as horticulture."

The LPC said more job cuts were likely to follow and that, in order to reduce this threat affecting even more businesses, the government could soften future rises. At present, the wage is due to go up to £7.50 in April 2017, reaching £8.60 by 2020.

On a lighter note

A LOSS TO EXPLAIN

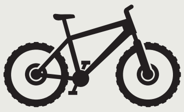
A survey from Protect Your Bubble revealed late in 2016 that more than a quarter of current cyclists have had a bike stolen, with some 12% losing their previous bike in the last two years. However, the most common place is not from the workplace but the user's own home (56%). They found there are favourite spots for bicycle theft - the top two hot spots in the country being Elder Gate near Milton Keynes Central station and Westfield Stratford in London. They offer advice on minimising the chances of losing your bike at tinyurl.com/FM-Bubble

I REMEMBER WHATSHISNAME...

Cardiff University conducted a quick survey asking voters to identify any one of the four EU MEPs in Wales in a series of multiple choice questions with a 50% chance of success. Unfortunately for our stalwart representatives in Brussels, the second most chosen individual, Elwyn Davies, was a fictitious character with a Welsh-sounding name made up for the survey. He managed to be chosen despite not even having a photo and came ahead of the lesser-known but better-paid colleagues Jill Evans, Derek Vaughan and Kay Swinburne. Professor Roger Scully, principal investigator, said: "We will, of course, be losing our MEPs when the UK leaves the EU, but on these results, it seems fair to say that most of the Welsh public are unlikely to notice."



From the top: Jill Evans, Kay Swinburne, Derek Vaughan

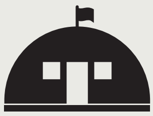


56%

OF BIKES STOLEN ARE FROM THE CYCLIST'S OWN HOME

50%

CHANCE OF SUCCESS FOR VOTERS IDENTIFYING FOUR EU MEPs IN WALES



$1.5m

FOR 920 SQ FT OF A LUXURY SURVIVAL CONDO UNIT

HEAD FOR THE BUNKER

The latest US trend? Bunkers for those who love their money more than daylight. These converted missile silos accommodate 13 subterranean floors of residential space and include a minor surgery unit, shooting range, gym and a hydroponic food source. Making use of abandoned defence sites, Luxury Survival Condo (LSC) sells these units from $1.5m for 920 sq ft.

The advertising brochure explains: "We believe that given the present worldwide economic condition, historical disaster evidence, and obvious signs of global climate change, it is prudent to have a disaster plan and shelter in place should a need for it occur."

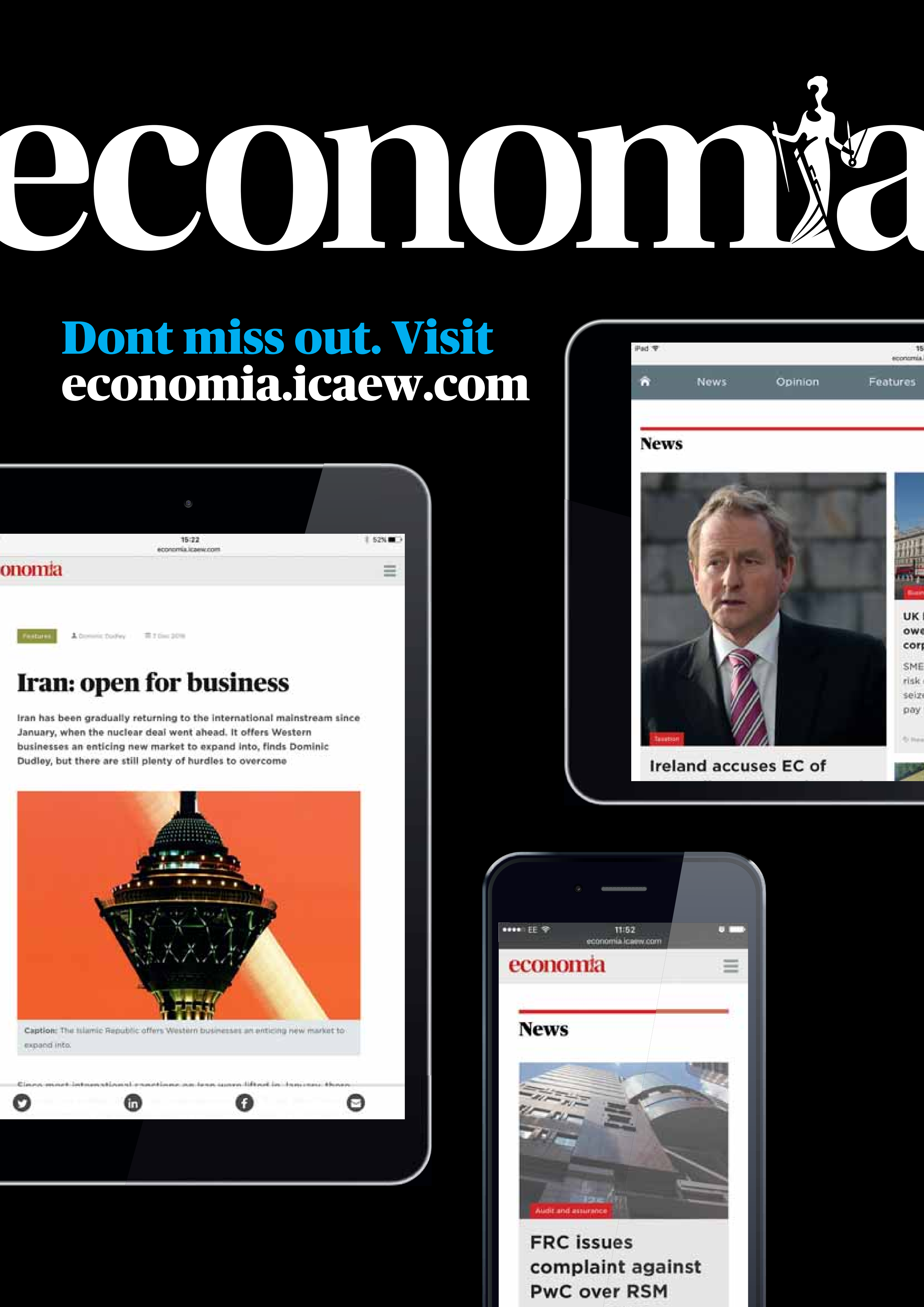
Don't write them off though – LSCs first converted silo (approximately 20,000ft) is already sold out. Other companies like The Oppidum and Rising Bunkers have seen a six-fold increase in sales.

HAVE A WORD

Outsource-Philipines, a shared services specialist, issued its guide of words to try to avoid when emailing in case of misinterpretation, although many might think that the production of a list at all is itself patronising:

'Fine' as it may be considered a put down
'Thanks' as it's too casual
'Important' as it's patronising
'Me' sounds selfish
'You' appears to be a criticism
'Need' is too demanding
'Actually' can be insulting
'Sorry' as you should not apologise by email
'No' as it's too emphatic.

GETTY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Iran: open for business
Iran has been gradually returning to the international mainstream since January, when the nuclear deal went ahead. It offers Western businesses an enticing new market to expand into, finds Dominic Dudley, but there are still plenty of hurdles to overcome
Caption: The Islamic Republic offers Western businesses an enticing new market to expand into.
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