INTELLIGENCE AND INSIGHT

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Fight for your right

Multimillionaire barrow boy Barry Hearn on fortune, family and making his own way

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Around the world, the worst of the recession is over and the global economy is starting to recover. But trust in business has been wounded and shows little sign of recovery.

While it is easy to find commentators and experts able to suggest reasons for this dramatic loss of trust, or to highlight the many problems it brings, finding people able to suggest meaningful or effective solutions is not so easy.

As last month's Audit Quality Forum 10th anniversary debate highlighted, this lack of trust in business is not an entirely new phenomenon. But it is one that has been exacerbated by events in the lead-up to, and aftermath of, the financial crisis.

Much of the discussion at the debate was on the familiar theme of short-termism, something regularly cited as one of the main causes of the breakdown in trust. Consumers, employees and society in general often claim that businesses are so focused on meeting the short-term demands from one group of stakeholders (namely investors), and on the requirement to report quarterly and offer immediate returns to shareholders, that they fail to deliver benefits for the interests of all stakeholders over the longer term.

Speaking at the event, Simon Dingemans, chief financial officer of GSK and chairman of the 100 Group of FTSE 100 CFOs, put it more bluntly, saying it was simply a matter of ABC: "Businesses lose trust through the ABC of arrogance, bureaucracy and complacency," he said.

It is easy to find evidence for this lack of trust. Whether it is perceived failures in financial reporting and audit (Tesco) or the matter of companies like Google, Amazon and Starbucks not paying their fair share of tax, the problems are myriad and manifest, while potential solutions remain elusive.

There is no single "silver bullet" that can magically restore trust between business and the rest of society (as the Financial Reporting Council's Sir Win Bischoff pointed out at the AQF debate, it is even wrong to think of business and society as separate).

Whatever is needed to help germinate and nurture trust, it is highly unlikely it will be driven to any great degree by politicians. In fact, if recent developments are anything to go by, the general trend will be for politicians to use business as just another political football.

With both main political parties pursuing core-vote strategies, they have for the past 18-months had one eye on their natural supporter base and the other on swing voters in a few key marginals. While Ed Miliband's Labour Party is perceived as most "anti-business", all politicians today have to appear tough on tax avoidance (with few bothering to distinguish between evasion and avoidance), as well as talking tough on the big energy firms, not to mention hedge funds or tax advisers.

There is no evidence that people think poorly of individual local businesses they work for and buy from, but this continual drip of tough, anti-business rhetoric serves to undermine the standing of the business community and erodes what little trust it might enjoy. Political action can't rebuild trust, but the stream of negative discourse continues to undermine it.

The death of the annual tax return

There were cries of "Hallelujah" from many households and small businesses when UK chancellor George Osborne used his pre-election Budget to signal the end of the annual tax return. Paper will be scrapped in favour of a real-time online system, allegedly easing the admin burden of 12 million people and small businesses that fill in "costly and time consuming" self-assessment tax returns.

Small businesses will be able to link their digital account to their accounting software, giving them the sort of information they'd usually have to wait ages for. But should advisers be worried? Is this another nail in the high street practitioner's coffin? Or should accountants view the change as an opportunity? It will be a massive technological challenge for HMRC and individuals and businesses will no doubt be concerned about data security.

Education and training may be required for this fundamental change to be effective. And businesses with complex tax affairs will still want to continue filing their annual tax return the traditional way.

In short, there is no need for practitioners to panic just yet.

ICAEW in this issue

"Unless people have confidence that they can trust the government, the Treasury and the industry to deliver something that's in their best interests you're never going to close the savings gap"
p44 **John Gaskell, ICAEW financial planning and advice manager**

"An ideal business for a private equity investor has a strong market position, which cannot be destroyed overnight by infringement of its intellectual property or legislative change"
p37 **David Petrie, ICAEW head of corporate finance**

68
ICAEW MEMBER
Ian Davies

"Unlike other regulatory structures, ICAEW does not deal with public interest cases. Given that these are dealt with by the FRC, and that the FRC reviews our disciplinary processes from time to time, the working group thought there were sufficient safeguards in our system so that we could maintain a unitary professional organisation"
P74 **Vernon Soare, ICAEW executive director of professional standards**

"I saw the potential for using the knowledge I would gain in a thousand different ways, across a hundred different industries around the world. I really can't think of another profession that equips you with such a wide range of transferable skills"
P68 **Ian Davies, chairman, ICAEW remuneration committee**

MORE ICAEW COMMENT

32

Contents
April 2015

HIGHLIGHTS

THE AUDIT

OPINION

FEATURES

PHOTOGRAPHY: DAN BURN-FORTI

There is more technical insight online, with daily news and weekly updates. Digital exclusives on the website this month include:

AUDIT
Audit quality and the consistency of audit execution in public companies has been found wanting again by the International Forum of Independent Audit Regulators (IFIAR). Most issues were found in the areas of fair value measurement, internal control and revenue.

TAX AVOIDANCE
New rules announced by financial secretary to the Treasury David Gauke this month, will mean any organisation judged by HMRC to be a "high risk" promoter of tax avoidance must publicise the fact they are being monitored

Digital highlights
icaew.com/economia

ECONOMICS
Koichi Hamada, special economic adviser to Shinzo Abe, says there is an inadequate understanding of the transformative potential of unconventional monetary policy

DIVERSITY
Female "millennials" - or those born between 1980-1997 - are the most confident and ambitious of any generation, yet still face inequality of opportunity, a new PwC report has argued

ELSEWHERE ONLINE
Medium didn't see prison sentence coming
Budget coverage
SFO launches BoE investigation
PwC loses audit of British American Tobacco over potential legal action

ECONOMIA A.M.
Look out for *economia a.m*, our daily early morning news round-up
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Contributors

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CONTRIBUTORS

David Adams
Peter Bartram
Caroline Biebuyck
Dan Burn-Forti
Tom Campbell
Neil Davey
Rebecca Duff-Smith
Indira Flack
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Martin Hyntner
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CONTACT US

Advertising
020 3096 2662
advertising@
progressivecp.com
Recruitment advertising
020 7920 8535
icaewjobs@icaew.com
Editorial
020 3096 2680
economia@icaew.com

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Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA
T: +44 (0)20 7920 8100
F: +44 (0)20 7920 0547
E: economia@icaew.com
icaew.com/economia

In review

THE INTERNATIONAL PICTURE

£200m

How much Greece hopes to save by cutting public spending, streamlining bureaucracy and cracking down on tax evasion

THE GREECE SAGA ROLLED ON for another month, with prime minister Alexis Tsipras accusing Europe of "holding a noose around Greek necks". Speaking in an interview about the European Central Bank's (ECB) reluctance to resume ordinary lending to Greece's banks, the prime minister appealed for the ECB to alleviate pressure on his country.

Flamboyant finance minister Yanis Varoufakis also spoke out on the subject, suggesting that a referendum or new election could be possible if deadlock on fiscal policy continues.

Speaking to Italian newspaper, *Corriere della Sera*, the finance minister said it is possible that a referendum could be held if the eurozone rejects Greece's debt renegotiation plans.

He said: "If needed, if we encounter implacability, we will resort to the Greek people either through elections or a referendum."

ELSEWHERE IN THE WORLD

Head of Argentina's tax authority Ricardo Echegaray demanded that HSBC repatriate \$3.5bn (£2.3bn) in funds that he says HSBC helped its clients move offshore. Echegaray claims HSBC's alleged actions threatened the stability of the Argentine government. Last year Argentina accused the bank of helping more than 4,000 clients evade taxes. HSBC denied the claims.

Budget 2015

We were told not to expect any short-term giveaways from the final Budget before the general election in May (a glut of handouts would risk undermining George Osborne's long-term economic plan). But there were a few leaks prior to the big event: the right to cash annuities for five million pensioners; a corporation tax rate cut to 20%; Inheritance Tax changes for parents to pass a main property worth up to £1m to their children tax-free.

From the despatch box itself, highlights included: a rise in the national minimum wage to £6.70 this autumn; help for farmers with taxable profits averaged over five years; new penalties for tax evaders, and facilitators of evasion to raise £4.5bn; the bank levy will rise to 0.21%, raising an extra £900m a year; the "Google" diverted profits tax will be in place on 1 April; further devolution moves, with Greater Manchester to keep 100% of any increase in business rates and the same deal for Cambridge; eight new Enterprise Zones to encourage business across the UK; more generous TV and film tax credits; tax free allowance to be increased to £10,800 next year and £11,000 the year after; abolish paper annual tax return for the self-employed and replace with a digital system. And a crowd-pleasing penny off a pint.

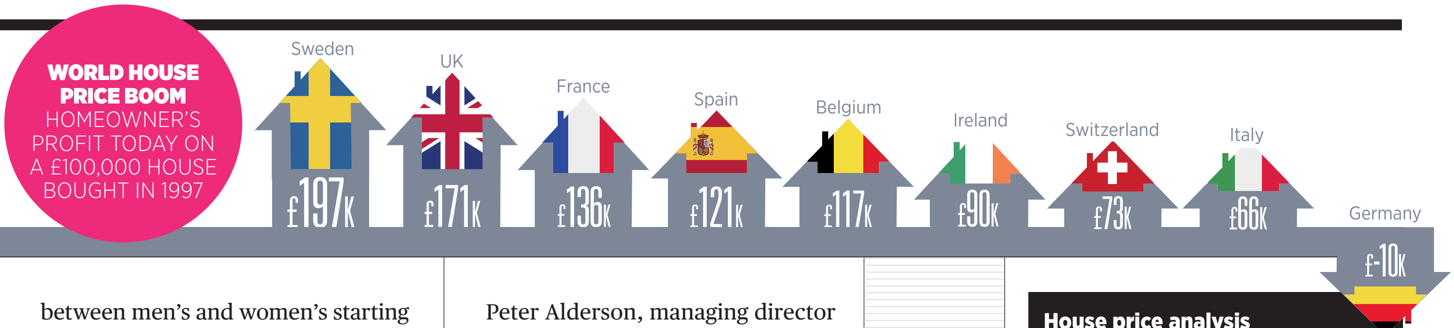
For more accountancy news visit economia.icaew.com

0.21%
increase to the bank levy to raise £4.5bn

Gender pay differences

The gender pay gap for chartered accountants working in business has widened, with women over 45 seeing the biggest drop in salaries from last year, according to the latest salary survey from ICAEW and Stott & May.

As mandatory reporting on gender pay inequality inside large companies is introduced in England and Wales, the institute is urging company directors to review how they measure diversity and inclusion to help correct the gap. An amendment will be introduced in the Small Business bill, which requires companies to publish the difference



between men's and women's starting salaries and between average basic pay and total average earnings.

While the gender pay gap is at a historic low (ONS: 9.4%), male chartered accountants still earn an average salary of £100.9k compared to females who earn an average of £63.9k, a gap that has increased by 5.4% since 2014.

Although the pay disparity is partly due to regional demographics and working situations (part-time; public sector, for example), women over 45 saw their salaries drop by £6.5k from last year, despite men in the same age category increasing by £4.2k.

Bank loan write-offs hit lowest level since crisis

The number of loans to accountancy practices and other professional services firms that have been written off by UK banks has fallen to its lowest number since 2008.

Banks wrote off £227m of lending to professional services firms in 2014, compared to £252m in 2013, according to financial services provider LDF. Write-offs peaked in 2009 with £320m of bank debt being scrapped.

Peter Alderson, managing director of LDF said: "The UK can be justifiably proud of its world-class legal and accountancy sectors, and these figures illustrate just how robust their recovery has been."

Big Four consulting boom

The consultancy divisions of the UK's Big Four firms are growing at a faster pace than traditional management consultants, market research firm Source Information Services has found. Pharmaceutical and retail consultancy saw the highest growth last year, with the sectors increasing 10.7% and 9.7% respectively.

Lloyds shares net £500m

The latest round of sales of Lloyds Banking Group shares netted the UK government £500m. Lloyds received £20bn of government support during the financial crisis, with the taxpayer taking a 40% stake. Since the latest round of sales, the publicly-owned stake stands at 22.98%. The sale is part of a six-month plan announced by George Osborne last year to return Lloyds to private hands.

22.98% the public stake in Lloyds Banking Group

GETTY IMAGES

House price analysis

Average UK house price 2014:

£244,192

Projected average 2019:

£317,967

INCREASE OF 30.2%

How the UK regions measure up:
(Region 2014, **% change**, growth 2019)

LONDON
£539,903 **32.5%** £715,267

EAST
£252,111 **35.6%** £341,791

EAST MIDLANDS
£138,787 **25%** £173,503

SOUTH WEST
£198,050 **31.8%** £260,938

NORTH WEST
£140,163 **24.3%** £174,289

SOUTH EAST
£275,842 **37.3%** £378,636

WEST MIDLANDS
£152,256 **26.5%** £192,644

WALES
£140,294 **25.9%** £176,695

YORKSHIRE AND THE HUMBER
£146,440 **27.9%** £187,247

NORTH EAST
£121,852 **25%** £152,363

SOURCE: RIGHTMOVE/OXFORD ECONOMICS

England's priciest villages

East Horsley in **Surrey** is England's most **expensive village** with **42 houses** selling for over **£1m** in the last two years.

Chorleywood in **Hertforshire** takes second place, with **34 houses** selling for over **£1m** in the same time frame, according to a report by Savills.

Tales from the frontline

Kit Malthouse, accountant turned deputy mayor of London, on the challenge of chairing the Metropolitan Police Authority

My biggest career challenge was undoubtedly sorting out the Metropolitan Police Authority. It was a real rollercoaster ride. These days I work flat out – I juggle my role as deputy mayor of London for business and enterprise with heading the city's promotional organisation, London & Partners, as well as running my own business and standing as parliamentary candidate for North West Hampshire, plus raising my three children. But all of that pales next to how busy I was when I was appointed chairman of the Met in 2008.

I was on call 24 hours a day, seven days a week, and I'd often get phone calls on a Saturday night when I was at the movies with my wife, or on Sunday mornings at 6am. I did it for four years and by the end I was exhausted. I asked the mayor, Boris Johnson, if I could shift roles because eight years would have been too much.

When I started, crime levels weren't going in the right direction; there were very serious problems in the city, not least with youth violence, and we had massive budgetary issues – something my ACA qualification helped me tackle. The number of teenagers being killed was also mounting each month. And then there were the London riots.

Politically, the Met was incredibly dysfunctional, particularly at the top. We had a senior management team that was fighting – amazingly this was often done in public. Trying to sort that out as one person against this massive organisation, which had never really been managed closely, caused all sorts of issues.

It quickly became clear to me, and perhaps being an outsider helped with this, that the cops had lost sight of their core product: Fighting crime. The focus on that had got lost in the weeds and they were distracted by what was happening in the media and various interpersonal problems.

The voices that the police were hearing were many and various. Some people were saying 'we want you to do this' and others were saying 'no, we want you to do that'. There was no clear focus. The strength that Boris and the mandate brought, when he created my role, was that they only had to listen to one voice; City Hall. When Ian Blair went in late 2008, we were able to embed that significantly.

In my four years as chairman, we managed to get teenage killings down very significantly but it wasn't without enormous difficulty. When I arrived people looked at me and said: 'Who's this pipsqueak? Kit who?' There was a lot of patting me on the head. I was perceived as an outsider, wading in, with no background in the force.

Some people might find it difficult to get around that, but I'm not afraid of confrontation. It helps that physically I'm not a small person. I'm not a shouter or a screamer, but if I disagree or if I want something, I can turn myself into an immoveable force.

I also made my targets clear in other ways, such as making unusual use of the wall in my office at the Met headquarters. Every time a teenager was killed in London, I'd print out their photograph and stick it on my wall. Over the months, the number of photos increased and when senior officers came in for meetings they would glance at the wall.

Clearly it made them uncomfortable, but I was determined to bring down the number of teenage killings and that wall was a symbol that said: 'These people are important to me and what had happened to them was appalling.'

The Met was also the place where I really honed my leadership and managerial style – a style I still use today. I like to think it's a relaxed style and that I'm not a micromanager. Nor do I operate a blame culture; if a mistake is made I prefer we talk about it and move on. Above all, I hire good people and rely on them. If you hire conscientious people, it doesn't take much more than the raising of an eyebrow to get things done.

PHOTOGRAPHY: INDIRA FLACK

As I see it

Aliki Whitworth has worked as finance director at Yahoo in Switzerland and Warner Bros in London

I caught the media bug at Shipleys while auditing the Monty Python accounts and Bob Hoskins' ventures.

Yahoo was a great place to work. It was lively, fast-paced and hard, with relentless volumes of work and change, and it is at the edge of technological advancement.

The best way to get things done as FD is to be agile, know your company and finance team inside out, and be a good listener.

PHOTOGRAPHY: DARRIN VANSELOW

CHILDHOOD AMBITION I grew up in Athens in the 1970s and 1980s, and was one of the first generations of Greek women to go to university and have a career as opposed to staying at home as a wife and mother. From 13, I spent most summers working in small entrepreneurial businesses of family friends and learning how a business is run from the bottom up.

ACCOUNTANCY TRAINING I have a lot of respect for the foundations I obtained while training as an ACA in London, first at Shipleys and later at BDO. I acquired solid finance and audit skills. The less obvious skills were of most value: the professionalism that was expected by my peers and audit colleagues; dealing face to face with the clients; and the abundance of problem solving. All that served me well when I entered the media.

FIRST SENIOR ROLE I was interim finance director at Warner Bros on a maternity cover contract during a period of great change. The *Harry Potter* films were being produced, which made it even more exciting. I was involved in the film funding, as well as the actor's compensation. I had a large team to manage and many changes to implement.

CAREER AT YAHOO One career highlight was Marissa Mayer's appointment as president and CEO of Yahoo in 2012. She was a very different type of CEO. She opened up weekly video communication with all employees, keeping everyone well informed of the company's engineering and tech milestones. It was very interesting to observe and relate to a young mother taking on one of the biggest CEO jobs.

FUTURE PLANS I left Yahoo last year after it closed its Geneva headquarters and decided to not be tempted by career prospects back in London. It was a testing decision but family life comes first and I am confident that great career opportunities will follow.

ICAEW news and events

New initiative aims to equip accountants for major changes, building trust in business, and MPs outline ambitions on SMEs

A CHANGING LANDSCAPE

Chartered accountants are facing major challenges as new technologies, competition, regulation and client expectations all impact on their working environment, according to Tomorrow's Practice. This is an initiative launched by ICAEW last month to raise awareness of changes affecting the profession, particularly at the smaller end of the market.

"The accountancy landscape is changing," said ICAEW president Arthur Bailey, "and smaller practices need to embrace the opportunity. Our members should consider how they will react to changes in the marketplace and provide the added value clients are demanding. This could mean firms specialising in a particular area or providing additional services that make them indispensable to the businesses they serve.

"Whichever path our members choose to take, we'll be there to support them, using our learnings from Tomorrow's Practice to develop new guidance."

STILL HOPE FOR BUSINESS

The Audit Quality Forum celebrated its 10th anniversary last month with a lively debate at the Mansion House in London on whether business can ever get it right.

The event was introduced by business secretary Vince Cable and Lord Mayor Alan Yarrow and attended by 350 delegates from business, finance and civil society. Delegates heard from two panel sessions, first on the role of business in society, and second, on innovation as a driver of sustainable wealth.

One recurring theme was that of short termism. There was broad agreement that this has created distrust of business and that viewing a single quarter as long term is a problem. Cable said that during his time at Shell, it had been hard to reconcile 20-year planning with 24-hour news and constantly moving markets.

Another issue that cropped up regularly was diversity. Harriet Green, who is credited with turning around the fortunes of Thomas Cook Group when she was chief executive there, said we should be inspiring young people to get involved. She also suggested reverse mentoring where younger employees help senior management to engage with innovations like social media.

Businesses will need to be open and honest about how they operate and make sure that what they do is socially acceptable, added ICAEW executive director Robert Hodgkinson. "Unless businesses can demonstrate that they are an integral part of society, they will suffer even worse loss of confidence."

MPS SETTING OUT THEIR STALL

The Conservative Party is playing a "very dangerous game" by "flirting" with an EU exit, according to Lib Dem MP Lorely Burt. Its promise of an in/out vote on Europe is creating uncertainty among the UK's small businesses, she told business minister Matthew Hancock at the Enterprise Nation small business debate held at Chartered Accountants' Hall.

ICAEW members heard a panel of business representatives from four political parties who also included shadow small business minister Toby Perkins and the Green Party's Cllr Howard Allen, setting out their stalls in the run-up to the general election.

The four were keen to differentiate their policies on small businesses although there were a number of issues on which they agreed. The negative impact business rates were having on business growth was one. Hancock said the system "needs a complete review", while Perkins said business rates were the "biggest disincentive for firms to grow their businesses, and that's why we have empty shops". Allen thought local authorities should have the ability to differentiate their business rates, while the Lib Dems said they would scrap business rates and introduce a new land value tax.

7,326

Record numbers of students are training to become chartered accountants

EVENTS

13 APRIL
ACCOUNTANCY CONFERENCE 2015
Taking as its theme, "FRS 102 now and beyond", this all-day event will consider FRS 102 in the first year of implementation, FRSSE 2015, and micro entities and small company threshold implications, plus an anti-money laundering update. Derby

22 APRIL
INHERITANCE TAX – AM I BOTHERED?
In the light of the current outrage about tax avoidance, this event asks whether tax planning is always in a client's best long-term interest. It will explore schemes that worked and those that didn't. It will also look at trusts, reliefs, IHT and pensions' reform and impact of the general election. Wigton

27 APRIL
A NEW ACCOUNTING REGIME FOR SMALL AND MICRO-ENTITIES
An ICAEW half-day discussion forum to encourage debate on the FRC's proposed amendments to UK accounting standards, the withdrawal of the FRSSE and the proposed new standard for micro-entities. It will comprise three short presentations followed by a Q&A session. London

13 MAY
OPPORTUNITIES AND BARRIERS FOR GROWING YOUR FIRM
Breakfast panel for managing and senior partners. London
Contact katy.holman@icaew.com

From the top

ICAEW president Arthur Bailey on preparing for the future in a rapidly changing world

For more than 40 years I have been a member of this great institute and during that time the business environment has changed beyond recognition. Technology has played a huge role in this transformation and not just in the office.

What will the next 40 years bring? There's a buzz at the moment about robotics. Later this year a hotel entirely staffed by robots is opening in Japan. If this is happening now, then by 2050 I am sure robots will be as commonplace in our working lives as mobile phones are today. Yet when I started my career, robots - and mobile phones for that matter - were the stuff of science fiction.

The shape of things to come is something that has been on our mind at ICAEW for a while. We have two projects under way which are both trying to work out how the world will have changed in the future. Our Business Futures initiative, which is looking 30 to 40 years ahead, says that some factors are a given - such as the growing world population and the increasing demand for water, and some aren't - such as how individuals, businesses, and governments will respond to these issues. If we then apply the skills, experience and judgement we have gained as chartered accountants, we can develop informed speculation.

We intend to investigate up to 14 different issues that we have identified as having a major impact on business in the future. The first four panels were set up a couple of years ago to look at changing tax regimes, demand for water, ageing populations and changing education needs. They have reported back their preliminary thoughts and three more panels have been set up to look at public spending, energy and urbanisation.

On a slightly shorter timescale, we have just launched Tomorrow's Practice, an initiative aimed at members working in practice. It looks at how the accountancy landscape is changing, identifies the challenges for firms, and gives advice on how to take advantage of the opportunities that present themselves.

But above all, it is designed to help firms choose a way forward that is appropriate for them. This could mean firms specialising in a particular area or providing additional services that make them indispensable to the businesses they serve.

These are both hugely important projects and the suggestions arising from them will be part of our legacy to our younger members and young people considering joining our profession. We have consulted many of you already but are open to further suggestions. You can get involved or follow the conversation further on Twitter or LinkedIn.

Have your say email *president@icaew.com*

PHOTOGRAPHY: DAVID HARRISON

Good month Bad month

Our round-up of the winners and losers of the last month includes England's cricketers, HMRC and a major UK travel agency

HMRC

The Revenue took £1.1bn in 2013/14 as a result of challenging the pricing of multinational companies' internal deals, almost double that of the previous year. Jim Harra, HMRC's director general of corporate tax, said: "We have actively pursued a number of those large cases, both by ourselves and with international partners."

THOMAS COOK

Shares in travel agency Thomas Cook jumped 21% last month following news that Chinese conglomerate Fosun has bought a 5% stake in the company. It was a much-needed change of fortune for the company, which reported a loss of £53m for the last three months of 2014. Fosun also bought a stake in French travel company, Club Med, in February.

AD MEN

The world's largest advertising agency, WPP, reported record annual pre-tax profits for 2014 despite what it called "strong currency headwinds". It reported a 12% rise in profit to £1.45bn, on revenues that rose 4.6% to £11.5bn. The group owns 3,000 ad agencies.

ENGLAND CRICKETERS

A number of English cricketers, including members of the winning Ashes 2005 team, are facing accelerated payment notices for disputed tax breaks, as a result of investments in film company Ingenious Film Partners. Michael Vaughan, Alec Stewart and David Gower are among those who invested, says *The Guardian*. Ingenious argues that the partnerships were approved by HMRC at the time.

BANK OF ENGLAND

The Serious Fraud Office launched an investigation into the central bank over the potential rigging of its money-market auctions at the onset of the financial crisis. It is the first time the Bank of England has been involved in a criminal inquiry in the SFO's history.

EUROZONE

The eurozone is not viable in its current form, according to top fund manager Neil Woodford. He warned that uncertainty over EU membership could damage the UK economy and the eurozone is "fundamentally flawed".

GETTY IMAGES, REUTERS

Career clinic

Non executive directorships should be an attractive prospect. But, says Mark Freebairn, there are good reasons why they're not

The recruitment of NEDs onto financial services boards is a significant challenge for a variety of reasons, but the simple fact is this: At a time when interested parties should be trying to ensure that moving onto the board of a bank is the most attractive career option out there, many are conspiring to make sure that it's the least. As a result, the majority of the very best candidates pass on the opportunity and shareholders and regulators do not get the best people they can.

Let me explain the reasons for this. Firstly - the regulator. In response to what has happened recently in banks, the regulators have developed a new series of rules - which all directors need to work to - and a new series of punishments if you or your company break them. The Financial Conduct Authority says: "Senior executives will be expected to take accountability for the conduct of the business for which they are responsible."

The most Draconian result is time in prison. You could argue that if you are the director of a business that breaks those rules, you should be penalised. But equally, you can argue that treating NEDs and EDs the same is unreasonable.

Secondly, the regulator has created an application process ensuring that they have the right to interview any director appointed to the board of a financial services organisation. So there is also a scenario where a NED who has been met by several peers and passed as fit for appointment gets rejected by the regulator. That's not a positive.

As a result of all of this, the time commitment has increased hugely. And there's not enough pay to make it worthwhile. So people aren't queuing up.

It also explains why working executives can't take the roles. No one is going to authorise so much time out of 220 working days to focus on someone else's business.

When we recruit NEDs for most businesses, we expect to get an 85% hit rate in terms of approaches leading to interest. With financial services it is far lower. You might think that's a problem businesses, investors, executives, NEDs and regulators are talking about. Well, they are not.

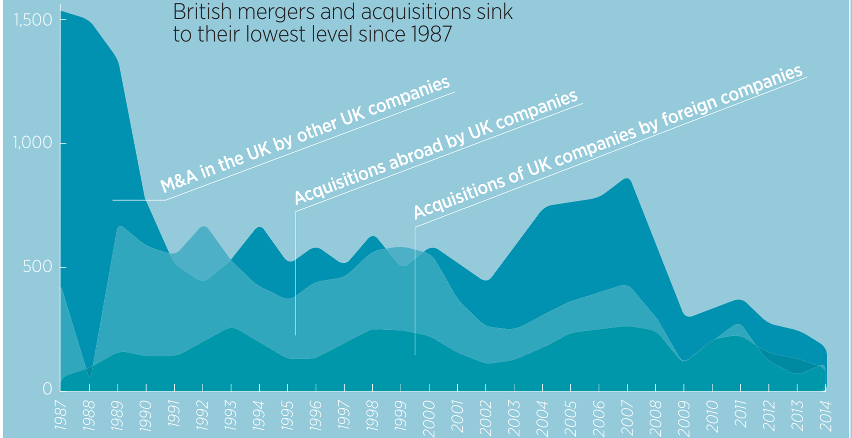
Because which ED, NED or investor will complain to a regulator that it's approach is unhelpful when that same regulator could potentially interview or regulate them?

The graph

To mark next month's UK general election, we dedicate this page to the finances of the sceptred isle – from pensions and housing to football and banking

M&A

British mergers and acquisitions sink to their lowest level since 1987



UK pensions survey

5% Average contribution of salary

9% Average amount respondents would like to set aside

10% How much of their salary a **20-year-old** starting to save for a pension should set aside

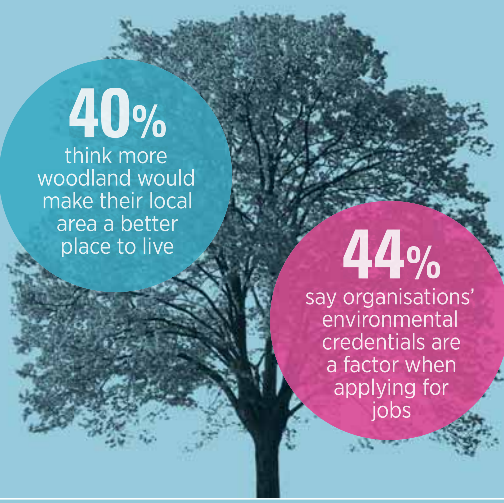
15% How much of their salary a **30-year-old** starting to save for their pension should set aside

£24,400,000,000

Bill given to the five biggest UK banks for mis-selling PPI

Green matters

One in three Brits consider themselves to be "very environmentally friendly"



40% think more woodland would make their local area a better place to live

44% say organisations' environmental credentials are a factor when applying for jobs

Football

Liverpool FC's revenue goes from red to black

£49.8m losses in the previous year

£0.9m pre-tax profit in year to 31 May 2014

Revenues **19%** higher than previous year

How the clubs size up

€ Revenue 2013/14 (Revenue 2012/13)

Manchester United
518m (423.8m)

Manchester City
414.4m (316.2m)

Chelsea
387.9m (303.4m)

Arsenal
359.3m (284.3m)

Liverpool
305.9m (240.6m)

Tottenham Hotspur
215.8m (172m)

Eurostar

UK government sold its Eurostar stake for...

£757.1m

...to an Anglo-Canadian consortium

French and Belgian national railways own the rest

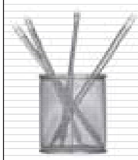
Housing market

£188,446
JAN 2015

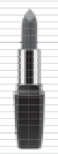
House prices fell in February for the first time in five months

FEB 2015
£187,964

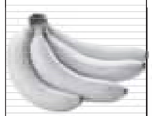
How prices have changed between Feb 2014 and Feb 2015



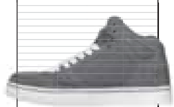
+0.6% Books and stationary



+1% Health and beauty



-1.2% Fresh food



-7.8% Clothing and footwear

SOURCES: ONS, CIPD, NATIONWIDE, WHICH, DELOITTE, BRITISH RETAIL CONSORTIUM

Michael Izza

"Using the public interest alone as the basis for charges is not tenable"

At the back end of January, the appeal tribunal announced its decision following an appeal by Deloitte and a former corporate finance partner against a number of adverse findings by a Financial Reporting Council tribunal relating to their role as advisers to MG Rover. As you will be aware, there was much comment in the press about ICAEW's ethical guidance afterwards. The Financial Reporting Council (FRC) had pointed out in a press release that the appeal tribunal had "comprehensively reviewed" the need for accountants to act in the public interest and agreed accountants should take this into consideration in deciding whether to accept an engagement. The tribunal, it added, felt there was a lack of clarity in ICAEW's ethical guidance on how members should do that.

At the time, we said we wanted time to look at the judgement and consider what our response would be. We have now had the opportunity to go through the transcript that appeal tribunal chairman Sir Stanley Burnton produced and we are not convinced that the requirement for ICAEW to look hard at its ethical guidance is as pressing as we originally thought.

Why? Because in bringing charges against Deloitte, the FRC sought to rely on the preamble to the Ethical Guide to professional ethics, as it was then known, which talks about acting in the public interest. But we don't think that using the public interest alone as the basis for charges is tenable – we have certainly never used it as such in bringing charges against our members. Rather, our charges are based on a breach of one of the five fundamental principles, since we regard any chartered accountant meeting all of them in spirit as well as letter, to be acting in the public interest.

This is something Sir Stanley seemed to confirm when he discussed a hypothetical case involving a takeover and compared the difference between how lawyers and accountants would approach a proffered engagement if the accountant were expected to consider the public interest. "We regard the suggestion… that accountants are not free to accept the engagement without considering the vague question whether the takeover is in the public interest as absurd," he said

If there is a wider problem with our guidance on the public interest, the consequences go much further than just ICAEW. Our guidance is based on that of the International Ethics Standards Board for Accountants, which underpins the ethical guidance of every major professional accountancy body in the world. We continue through ICAEW committees to look at our positioning on this issue and due process needs to be completed, but the reading of the appeal tribunal transcript points to evolution not revolution.

Michael Izza
ICAEW chief executive

TOP 5 MOST READ STORIES ONLINE

1. PwC second most powerful global brand
2. Public company audits problem persists
3. PwC faces possible US legal action
4. Ingenious confidentiality appeal dismissed
5. Talent shortage hurting accountancy profession

Your feedback

TO VAT, OR NOT TO VAT

I take issue with the suggestion in your February editorial that an increase in VAT should be considered to try to reduce the government's deficit.

As you imply, VAT is a regressive tax, hitting the poor proportionately more than the rich. Wilkinson and Pickett's *The Spirit Level* shows clearly that greater inequality is bad for all of us, including the rich. There is also evidence that it leads to lower growth in the economy. Picketty's *Capital in the Twenty-First Century* shows how and why inequality is increasing, going back to levels last seen before the First World War.

More preferable would be an increase in tax on higher earners or, even better, an effective wealth tax, both to deal with the deficit and to reduce inequality.

Martin Wright

DEFINING SMEs

The problem with the *Fit for Lending* series of articles in *economia* is that the definition of SMEs is too wide, so inevitably the comments tend towards the larger businesses. Larger businesses have considerably less problem accessing finance and more resources to seek professional help.

Smaller businesses have real problems in accessing finance at an acceptable price as they are now almost always forced down the invoice financing route, due to the Brumark decision of several years ago.

This is not to criticise the lending banks as we should not expect banks to lend unsecured. Smaller businesses then fall foul of concentration limits when they have a particularly large invoice (which is a common scenario) so when funding is most needed it is not available.

The total cost of borrowing for a company with, say, a £2m turnover wanting a facility of £200K can be anywhere between 15% and 20% per annum. It is no wonder that they find this "offer" unacceptable. Husband and wife companies cannot use the

Enterprise Guarantee Scheme without their homes being at risk.

It is therefore no wonder that the better businesses find peer-to-peer lending at, say, 8% per annum attractive or choose not to expand.

Richard Bonnello FCA

BRAVE NEW WORLD

I have read the 36th edition of *economia* with interest. What on earth is a "specialist in inclusion and diversity" (page 28), and how can there be any such thing as a "part-time partner" in a Big Four firm (page 69)? I am clearly completely out of touch, having retired from paid work in 1995.

Alistair Jones FCA

Online comment on the women in business discussion, March issue

This discussion is laughable – no mention of family or children. It's a big factor for many men and women in shaping their careers.

In most professions extreme dedication and long hours are needed to reach the very top. If you have children this means needing a very supportive partner and even then possibly missing out to some extent.

It is very difficult to have everything and many of us compromise because we want a better balance in our lives. Does that make us unsuccessful? Will having more women board members affect the majority of working women's lives – I doubt it would significantly.

Anonymous

I thought this was a fascinating article, particularly the emphasis on real models not role models and the discussion about how we can get women confident in their competence, rather than the self-doubt that holds us back. In terms of quotas, Debora Spar in her book *Wonder Women: Sex, Power and the Quest for Perfection*, talks about the challenge to increase representation above 15% to 20% because at that point there are enough women on the boards or committees for men to feel that there is sufficient representation.

Susan Ralphs

Laudable though it is to ask successful women their thoughts on these matters, we also need to hear from the unsuccessful ones.

I understand that this is much more difficult in practice, I just wanted to point out that again we are missing the voices of those that we really need to be listening to. Perhaps ask women who are just a few years past qualification how they are getting on and what problems they are encountering as they look to move forward in their careers.

Anonymous

Online comment on the danger of uncertainty over EU membership poses for SMEs

The danger of exit does not remove the burden (the out perception) or need to comply with EU regulation. If you trade into Europe you will still be subject to EU regulations and standards in respect of your products and service. Outside the EU you will have to lump it. Inside you (the State) will at least have influence (now what was it Jack Straw had to say).

The historical failure in the 1950s to commit to the concept of a united Europe and participate has dogged relationships with the EEC/EU ever since. The Common Agricultural Policy was a Franco/German affair in conflict with UK policies and a significant obstacle in later negotiations. Conclusion? Stay in – have influence.

Paul Harding

"If you trade into Europe you will still be subject to EU regulations and standards in respect of your products and service…" – that is true, just as UK businesses have to comply with, for example, US regulations when trading there. Yet we seem to manage that without making the UK part of the US. The point is that the vast majority of UK businesses do NOT trade outside our borders, yet are subject to EU regulation of their every activity. Freeing these businesses would be a huge advantage.

And as for the multinationals, the only issue is whether the regulations they have to bear are better, as a result of "influence" or not. There is a strong body of opinion that the influence of the UK, by nature a more free market country than the dirigiste Continent, has little influence in practice, being a lone voice in a foreign club.

Paul Cassidy

Online comment on new rules on upfront estimates for insolvency cases

This is a reaction to how the system could be exploited by unscrupulous practitioners. Doesn't that imply that the current regulatory system isn't up to the job and has had to be reinforced by legislation?

There may be, but shouldn't be, a few bad apples. They need to be removed from the system. Surely that would be better than a simplistic and inflexible regime applied in all cases, however well intentioned?

Chris Laughton

The *economia* website is regularly updated with news and technical stories. To join the debate, visit economia.icaew.com

Either email us at editorial@icaew.com, comment online, or write to us at *economia*, Progressive Customer Publishing, 20 Farringdon Road, London EC1M 3HE.

Letters and comments may be edited for clarity and space.

Views expressed by letter writers are not necessarily shared by ICAEW or *economia.*

Jason Cowley

“The country is divided, the British state is fractured, the United Kingdom remains imperilled”

Could the surge of support for the SNP yet create a route to Downing Street for Ed Miliband? Perhaps if not in full coalition then as the leader of a minority administration dependent on the whims and demands of the nationalists?

As we prepare to enter the short campaign in the most unpredictable election since the end of the Second World War, anything seems possible. Neither main party expects to win a majority. Parliament will remain hung. And this much we know: there are deals to be done if we are to avoid a second election and all the uncertainty that would bring before the end of the year.

In the election of 1951, in which a 77-year-old Winston Churchill was returned to power, 97% of those who voted did so for either Labour or the Conservatives. In this May’s election less than 60% of the electorate is expected to endorse one of the two main parties.

The country is divided, the British state is fractured, the United Kingdom remains imperilled (last September’s Scottish independence referendum has settled nothing), and we are entering a new era of multi-party politics and hung parliaments. Our first-past-the-post voting system, which was supposed to deliver strong and decisive government, seems not fit for purpose when, for instance, UKIP could win 15% of the vote but only a handful of seats at best.

THE INCUMBENCY EFFECT

By contrast, the Liberal Democrats, longstanding supporters of proportional representation, could be saved by an iniquitous voting system: the party’s poll ratings are at a 25-year low – and yet, because of good local campaigning networks and the incumbency effect, private polling suggests it could hold on to as many as 30 of its 57 seats.

As things stand, Labour is set to make gains against the Conservatives in key marginal seats in England, but these will be offset by the expected losses it will suffer to the SNP in its former Scottish heartlands (the party holds 41 of the 59 seats north of the border). Yet this is an election that, because of divisions on the right and the emergence of UKIP, Labour ought to have won. But the party is hindered by the wretched personal ratings of its leader. Ed Miliband is a resilient and principled fellow but one whom the electorate simply refuses to embrace or take seriously as a prospective prime minister. Perhaps the short campaign will alter perceptions about him. I wouldn’t bet on it.

Under the leadership of Nicola Sturgeon, the SNP has positioned itself as Scotland’s authentic left-wing party. It offers a potent mix of nationalism and social democracy, and claims to be the only party opposed to George Osborne’s austerity economics. Its activists and campaigners are zealous and unrelenting.

However, in Jim Murphy Labour finally has a commanding leader of its Scottish party. He is a first-rate communicator as well as a vigorous campaigner, as he demonstrated in his “100 city” referendum tour, during which he addressed crowds standing on a soapbox and received a lot of abuse in return.

TOO LITTLE TIME

But Labour’s decline in Scotland is deep, and Murphy has had too little time to win back those voters who feel betrayed and abandoned by a party that became complacent and chose to send its brightest talents to London.

As for the Conservatives, they can scarcely claim any longer to be a national party at all – at least, a party of the British nation. So far, David Cameron has led a determinedly narrow campaign. The Tories, bolstered by the return of growth and falling unemployment, have one simple message: “The recovery is safe in our hands, don’t let Labour mess it up.” Is it enough to get Lucky Dave back into Downing Street, even if incomes are still no higher than they were before the crisis in 2007?

If it is, Britain will be set for even greater turbulence. The SNP will grow ever stronger because Cameron will have no mandate in Scotland, and the Tories’ promised in/out referendum on Britain’s membership of the European Union could well split the party just as the repeal of the Corn Laws did in 1846. Interesting times.

Jason Cowley is editor of the *New Statesman*

Cathy Newman

"The economic feel-good factor is what the Tories' election campaign is all about. But has Mr Cameron got a cheek?"

You've never had it so good! Harold Macmillan's battle cry propelled him to victory in 1959, and David Cameron hopes to repeat the trick. "SuperMac" was returned to power on the crest of a wave of working-class affluence: average real pay for industrial workers had risen by more than 20% in eight years.

Of course, the current Conservative in number 10 wouldn't dream of quoting his predecessor word for word, but the economic feel-good factor is what the Tories' election campaign is all about. But has Mr Cameron got a bit of a cheek? Labour claims that "under David Cameron working people are £1,600 a year worse off". Is it true?

The Institute for Fiscal Studies (IFS) has done a bit of number crunching, and at first glance it doesn't look good for the opposition. It found that living standards have returned to levels not seen since before the financial crisis. So where does that leave Labour's numbers? Well the party is basing its stats on real wages, adjusted for inflation, taken from the Annual Survey of Hours and Earnings. That shows that average annual gross pay fell by £1,668 in real terms between 2010 and 2014.

But the problem for Ed Miliband comes when you consider earnings began to stall under the last Labour government, well before the financial crisis. What's more, the IFS quoted figures on "household income", which includes not just your wage packet, but income from self-employment, pensions, benefits and tax credits. Total average incomes haven't fallen as steeply as wages, so using these numbers, people are only £2 a week worse off in real terms than they were at the last election.

Labour's "cost of living" campaign is looking increasingly threadbare.

TOUGH ON TAX EVASION

If you're one of the thousand account holders at the HSBC Swiss subsidiary who escaped prosecution over alleged tax avoidance and evasion, you probably have never had it so good. But when we asked the work and pensions secretary Iain Duncan Smith if the government was as tough on tax evaders and avoiders as it was on benefits cheats, he issued a pretty tough defence. Was he right to?

He claimed some 2,600 people had been "prosecuted and gone to jail for tax evasion". But that's something of an over-statement. In fact, there have been 2,600 prosecutions, but not all have been convicted, or indeed gone to jail. In total, there have been 2,005 successful convictions.

By contrast, a heck of a lot more welfare cheats have been prosecuted - 9,800 in 2012/13. But more money is lost to tax evasion and avoidance - the "tax gap", as HMRC puts it - than to benefits fraud: £34bn compared with £1.2bn.

The prime minister too has been making some pretty eye-watering claims about tax crackdowns, boasting that "no government has done more than this one to crack down on tax evasion and aggressive tax avoidance".

It's certainly true that ministers have been busy. We've totted up 56 changes brought in by the coalition in an attempt to tackle tax avoidance and evasion. Is it working, though?

HMRC MEASURES

In the last Autumn Statement, the Treasury said that measures taken "to tackle aggressive tax planning, avoidance and evasion add up to £7.6bn in additional revenues in 2015-16". But under a deal the taxman struck with the Treasury in 2012, HMRC was supposed to be bringing in £9bn extra. HMRC told *FactCheck* these two figures were "two entirely different things". The £9bn "is a measure of HMRC's performance on compliance", while the £7.6bn "refers to policy measures that this government has announced this parliament to tackle avoidance, evasion and aggressive tax planning".

While that may be less than crystal clear, what we do know is that the £7.6bn figure is, according to the Office for Budget Responsibility, "significantly less… than originally expected". You've only got to look at the 2012 UK-Swiss tax agreement to get an insight into the scale of the problem. Brits with a Swiss bank account were hit with a one-off tax, which was supposed to raise £5.3bn for the Treasury, but in the end only delivered £1.9bn.

SuperMac eat your heart out.

Cathy Newman presents *Channel 4 News* and runs the *FactCheck* blog which can be found on channel4.com/factcheck

Anas Alhajji

"Saudi Arabia seems to be hoping low oil prices will drive down investment in US shale energy"

Saudi Arabia wants it all: to salvage OPEC, achieve income diversification and industrialisation, and preserve its market share in crude oil, petroleum products, petrochemicals, and natural gas liquids (NGLs). Whether the Saudis succeed will be determined largely by the shale energy industry in the United States.

The US shale revolution divided OPEC. Exporters of light sweet crude - such as Algeria, Angola, and Nigeria - lost nearly all of their market share in the US, while exporters of sour or heavier crude, including Saudi Arabia and Kuwait, have lost little.

Because almost all crude oil produced by the Gulf States is sour, and most of the global surplus is sweet, any production cut by Saudi Arabia and its neighbours would not drive prices back up and rebalance the oil market. The only way to do that and prevent an OPEC breakup would be to reduce the production of light sweet crude, including by US producers, which would thus lose market share. If this occurred, oil prices could be expected to rise.

STRATEGIC OBJECTIVES

If, however, Saudi Arabia remains more committed to its strategic development objectives, low oil prices could persist. The key to the competitiveness of Saudi Arabia's petrochemical industry was its use of natural gas and ethane, which was far less expensive than the oil product naphtha on which its global competitors depended. Now that the US is producing massive amounts of low-price natural gas and ethane, Saudi Arabia's competitive advantage - and market share - is beginning to deteriorate.

The same goes for refining. Since the US does not allow exports of crude oil, the shale revolution pushed down the US benchmark price relative to international crude prices. US refiners took advantage of lower prices to increase their exports of petroleum products - threatening the market share of Saudi refineries in Asia and elsewhere.

Likewise, US companies have increased NGL production considerably, enabling the country to slash its liquefied petroleum gas (LPG) imports and expand its NGL exports significantly. As a result, Saudi Arabia has lost market share to US producers in Central and South America.

In refusing to cut its own production, Saudi Arabia seems to be hoping that low oil prices will drive down investment in US shale energy, undermining production growth there. Low prices may already have contributed to delays in America's decision to begin exporting crude oil, and it seems they could amount to a net gain for the Kingdom.

Though Saudi Arabia's motivation in not cutting production was probably almost entirely economic, low oil prices could also offer political advantages. The decline in prices is creating serious challenges for Iran, the Kingdom's main rival in the region, as well as for the unstable, oil-dependent economies of Russia and Venezuela. None of these countries has adequate savings to cushion the blow of reduced revenues.

MARKET FORCES

It seems likely that Saudi Arabia will continue to refuse to cut oil production, leaving prices low until market forces trigger a rebound. And even then, the price increase could be limited. After all, game theory dictates that, once the surplus is eliminated, the dominant producer must prevent oil prices from rising high enough to cause it to lose market share again. That means Saudi Arabia will try to compel non-OPEC countries to keep oil-production increases commensurate with growth in global demand.

It is in Saudi Arabia's interest for oil prices to rise high enough to sustain its own economy, but not so high that they can sustain significant increases in non-OPEC supply. To keep prices in this ideal range, Saudi Arabia may even increase production again.

In the short run, excessively low prices could trigger political instability in some oil-producing countries, driving up prices. Delays in upstream investment could push prices above the ideal level in the medium and long term. But perhaps the biggest risk lies with the US shale-oil industry. US producers are likely to retrench, focus on sweet spots, improve technology, reduce costs, and increase production. At that point, Saudi Arabia's current strategy may no longer be adequate to sustain its market dominance.

Anas Alhajji is chief economist at NGP Energy Capital Management

Gerry Brown

"Public understanding of the role of independent directors remains woefully inadequate"

RBS, Tesco, Enron, Lehman Brothers, Polly Peck, Northern Rock, Arthur Andersen and SwissAir are all companies that have been the subject of major losses in shareholder value and affected the value of the pension funds of millions of people. Their governance and actions have led to major job losses and, in some cases, the government has spent billions of taxpayers' money to rescue them. As a result, over the years, various UK special investigations have been conducted, reports issued and a number of codes of conduct developed.

In the US, two pieces of legislation have been passed – Sarbanes Oxley and Dodd Frank. Yet, no matter how many codes are developed or laws passed, it is the behaviour of company leaders that counts. Public understanding and perception of the role and importance of independent directors as the real custodians of our companies remains woefully inadequate.

REAL CUSTODIANS

I try to rectify this lack of understanding and knowledge in my new book *The Independent Director*. So why do I claim that independent directors (IDs, or non-executive directors in old money) are the real custodians of our companies?

Increasingly they have the majority of seats on the boards of public companies. In the final analysis it is the boards that have the responsibility for the strategy and performance of businesses. They also represent all interested parties, not just the shareholders. This is important since, increasingly via their executive representatives, shareholders have become focused upon short term results and it falls to IDs to have concern about the longer term health and strategic direction of the business.

And the increasing mobility of executive directors (and their understandable natural interest in career progression) requires IDs to retain focus upon high calibre management recruitment and/or the associated management succession.

So the role and function of the ID safeguards and helps responsible management. This isn't just so in the corporate sector but increasingly on the councils of universities, NHS trusts, charities and NGO boards along with numerous other public bodies. Responsibility for company strategy is foremost for most IDs since this, together with ensuring the strength of the senior team, are the key factors that impact the health of companies.

There are also critical roles to play in helping companies deal with issues of globalisation and risk management as well as overseeing merger and acquisition due diligence (along with hostile approaches from predators). Finally, IDs should be the eyes and ears of companies in addition to bringing best practice, experience and contacts from other sectors and geographies.

CHALLENGING AND DIFFICULT

The job of the ID has become more challenging and difficult. This reflects the growing complexity of the nature of the decisions that boards regularly face.

The impacts of different types of ownership and globalisation require IDs to cultivate legal, political, economic, social and cultural understanding. Emerging countries bring their own challenges. And nowadays most IDs and chairmen are members of the main committee. It is essential that knowledge base is founded upon legislative vigilance while also being contemporary and up to date with those specialist areas. Finally it is necessary to visit the business and meet the employees.

The ID should be truly independent in thought, action and spirit. Often executive directors may be too close to situations. The ID is not there to do the executive director's job but to challenge and open minds to alternative solutions to business problems. This is particularly necessary in times of adversity. In such times of stress, it may be necessary to bring in specialist advisers – strategy consultants, lawyers, accountancy firms, investment bankers, tax specialists, remuneration consultants, head hunters – to help. The ID needs to have a network of contacts to assist or enhance these needs.

Finally, and of great importance, the ID must spend enough time to really understand the business and the sector and to know and understand board colleagues and the executive team, especially the CEO.

Gerry Brown is author of *The Independent Director: The Non-Executive Director's Guide to Effective Board Presence*

King of the working class

How did the son of a cleaner and a bus driver come to be worth £45m? **Barry Hearn** tells Amy Duff that it was a combination of luck, resilience and a love of numbers

Photography: Dan Burn-Forti
Grooming: Sarah Bullett

Rags to riches business stories are not uncommon, yet many of us enjoy them. We root for the underdog, admire their resilience, marvel at their wealth and applaud how it was won. When people from poor backgrounds reveal how they were invariably told "no", we bristle at the injustice and celebrate their bank balance even more.

There's a reason Hollywood likes a true story – if the Jo Malones, the Jan Koums and the Oprah Winfreys of this world can build wealth and success from nothing, maybe Joe Public can too. Perhaps we can learn from these entrepreneurs, who overcame challenges and prejudice by taking a risk, having a vision, seizing an opportunity, sticking two fingers up at the naysayers and rolling with their luck.

British millionaire Barry Hearn, the son of a cleaner and a bus driver, knows what it's like to be told "no". People from his walk of life, brought up on a council estate, didn't go in to accountancy, he explains. In those days people still wore bowler hats and didn't use Christian names. "But when I was 12 my mother had come home from cleaning this man's house and said to me: 'When you grow up you're going to be a chartered accountant'. She had no idea what he did, but he had told her: 'You never see a poor one'."

Motivated by this stranger's wealth, Hearn studied articles for four years on £6 a week after his uncle asked the small practice he employed to do him a favour and take on his nephew. Hearn qualified aged 21 on £12 a week. It was when he moved to Thomson McLintock (now KPMG) to work on its secretarial investment and personal services team that his progress halted.

"When they made me a manager they said to me: 'Congratulations, you're the youngest manager we've ever employed'. I was 25, I think. I wouldn't let anyone get in my way; I could talk anyone into anything. But they said: 'You realise this is as far as you can go?' I hadn't gone to university; there was no family money. Those were the standards in those days; that's how it was. But to tell someone at the age of 25 this is as far as you go – that's not acceptable."

Hearn qualified aged **21** on **£12** a week

And accept it he did not. He had built up an evening practice by then of around 80 clients and had been playing the Stock Exchange "with little bits of money". When one of his audit clients, textile company Deryck Healy International, offered him £7,500 a year to become its finance director, Hearn leapt at the chance.

"That's where it all started. It was a life-changing moment," he says. "Life deals you many strange hands doesn't it? You can be the smartest kid on the block, but you need that bit of luck. And the essence is timing. My job was to diversify the group and within a year I had bought a UK-wide chain of snooker halls [Lucania Snooker Clubs]." Having made "a few million", he realised he had no wish to stop there.

Hearn had met and was managing up-and-coming snooker professional Steve Davis ("still my best friend") in the late 1970s and later managed world champions Dennis Taylor and Terry Griffiths. In 1982 he started Matchroom, a company that has since diversified from management to events and televised entertainment (it is currently the biggest independent supplier of programming for Sky, which will transmit 2,000 hours of Matchroom content this year).

Its portfolio includes snooker, boxing, darts, fishing, pool, tenpin bowling, and poker – all sports that Hearn either played or had a passion for. Cricket, triathlons and netball are also on his radar.

Matchroom and its associated companies turned over **£100m** last year

Hearn knows that he's had the last laugh. The *economia* Rich List puts his personal wealth at £45m. He is chairman of the Professional Darts Corporation (PDC) and the World Snooker Association, and formerly of the World Professional Billiards and Snooker Association. And KPMG now audits Matchroom and its associated companies, which remain privately owned. The business turned over, by Hearn's reckoning, £100m last year.

"I always thought it shouldn't be about that [background]," continues Hearn. "It should be about ability. It's funny, because I could buy most of them 100 times over now. I am who I am, I'm happy to be king of the working class."

Nobody can accuse Hearn of hiding his light under a bushel. These are a few of his reflections: "I don't want to sound too big-headed but I was quite smart"; "I always have a lot of confidence in my own ability. Otherwise you'd be lost in this type of job"; "I don't ever have a bad day, a bad hour. I take adversity as if it's nothing. I have skin like a rhinoceros and I believe in myself"; "that's what I am, working class with huge amounts of common sense and an unbeatable work ethic."

Nor does he make any bones about his wealth: "The problem is that I am old and I'm rich, which means I tell the truth because I don't really care, and it's an independence that you can't value"; "When I was young I only wanted to live on the house on the top of the hill. I was focused entirely on money, I wanted to be rich"; "I'm a money man - I know my strengths and weaknesses"; "I don't have private jets, I have no need for them. I could certainly afford it but that's not how I live my life".

Although he admits to not seeing much of his children when they were growing up - he had a business to run, money to make - his family takes priority now. His son Eddie and daughter Katie both work for the business, as group managing director and director of programming respectively. His spoils are for them, and for future generations. "We're a family business, we make reasonable profits, and we enjoy our life, which is important," explains Hearn. "I don't want to float. An extra hundred million in the bank wouldn't change my life. What's the point of taking a quick buck? Spending it on a desert island?"

He applies this no-nonsense perspective to most aspects of his life. His business is simply selling wares, says Hearn. "This is not complicated. I do events that give people value for money; whether they're a sponsor, a broadcaster or a paying customer. If I give them value for money, I stay in business for a long time."

He learned from the American way, recalls Hearn. "I saw satellite and cable television coming. I knew how difficult it was to get things on TV (if you got 15 minutes on *Grandstand* on a Saturday afternoon you'd done well). In America there were sports channels starting and you could see this was going to come over the pond. So I started building sports events, because I knew they would need product."

There were a few "rocky" years in the early 1990s, when Hearn says he probably over-stretched himself before the market had fully matured. But he's sure he wouldn't be in such a confident position if it weren't for his training.

"I can honestly say that, without accountancy, I would not be sitting here. I don't know what I'd be doing - I might have been very successful doing something else, I might have got time doing something else. But there isn't a day when I don't sit in my den and look at my pictures [there are framed photos everywhere of Hearn with some of the world's best-known snooker players and boxers], or my marathon times, and in the middle there is my certificate for the associate and my certificate for the fellowship. They're the two most important things in there."

This is not said to curry favour. Hearn feels passionately that his professional qualification combined with his personal savvy have been fundamental to his rise to the top. He says he relies on his training "every day of my life. I'm a numbers freak. I love the idea of balancing books. I make copious notes on everything..."

He opens the top drawer of his desk and reveals an A4 sheet of paper covered with lists of dates: the number of times he went to the gym each day. Since 2008. "Everywhere you go you will see figures, and figures, and figures," he reveals. "Accountancy is so exciting. That's my strength. I like to give the impression of flamboyant barrow boy, East End multimillionaire whizz-kid, but the truth is, you've only got to scrape the surface to find a normal accountant."

This man should be cloned and put into schools. Does he have much involvement at grass roots level? When he was chairman of Leyton Orient Football Club, it won countless FA Community Club awards. "We reached out to 200,000 kids in this part of the world," he says. "A footballer could walk into a school whereas a policeman couldn't and

"My sportsmen have to be paid and my TV broadcasters have to be satisfied or I'm out of business"

Top: Hearn with boxers Chris Eubank and Nigel Benn. Middle: Steve Davis. Bottom: Matchroom snooker players, from left to right; Tony Meo, Terry Griffiths, Willie Thorne, Cliff Thorburn, Steve Davis, Neal Foulds, Jimmy White and Dennis Taylor

GETTY IMAGES, REX FEATURES

The *economia* Rich List 2014 puts his personal wealth at **£45m**

that was fundamental. We used our community plan to educate about knife crime, sexually transmitted diseases, drugs... Football was a conduit." Hearn was chairman for 19 years and retains honorary presidency as well as owning the ground, which he says he bought from the council for £350,000 on a 999-year lease.

But as a businessman, Hearn prefers to create opportunity rather than try to solve society's problems. He's critical of the 2012 Olympic legacy, feeling it's a chance missed. "It's all very well creating something as fantastic as the Olympics, probably the greatest sporting event ever to have taken place in this country in my lifetime, but you have to consider sustainability. The legacy of the Olympics is about encouraging young people to play sport and the numbers have dropped.

"Politicians pay lip service, I'm in the real world," he continues. "My sportsmen have to be paid [and] my TV broadcasters have to be satisfied or I'm out of business.

"There wasn't a government minister who didn't want his picture taken with a gold medal winner. But what about the kid who lives in a tower block in east London. What chance have they got? As a salesman, I'm supposed to be good at bullshit. Trust me when I tell you that politicians leave me dead in their wake."

Since he's raised the subject of payment, does he think, I wonder, if his line of business is contributing to the perceived moral decline of sport, placing money and lucrative rights deals above traditional values? "I'd use the word 'evolution'," he says, "because in any sport, things change.

"It's getting back to that simplicity, the common sense approach: the more ability in a sport, the more profile it has. The more energy it seems to have, the more likelihood of building a solid support base, both in TV ratings and live attendances. Sponsors lead us but most important is the man who gets off his backside, buys a ticket, leaves the comfort of his house and travels to a venue to watch his chosen sport. If you can pack out venues, you've got something right."

And Hearn knows a thing or two about that. He's turned the relatively niche sport of darts into a major attraction with his Premier League concept, which even he describes as "unbelievable".

He says 100,000 people will go and watch Premier League darts this year, while the World Darts Championship peaked at 1.8 million viewers at Christmas. "That was huge for Sky. In translatable terms, double the Ryder Cup peak, bigger than F1 and bigger than the Capital One Cup final live."

Hearn has been described as "the man responsible for masterminding the PDC's incredible rise over the past two decades." Does he know what the public wants before they do? "I produce every event at a level that would entertain me," agrees Hearn. "As a working class man, I'm a pretty good yardstick. I reckon, and so far it hasn't been wrong, that if I can entertain myself it follows that I will entertain normal people."

And that makes lots of people happy: sponsors, broadcasters, sportsmen, customers and, yes, Barry Hearn. He will always be a fan of Leyton Orient. But now that he's free of the demands of the chairman role, he says he's the happiest person you'll ever see.

"I wake up and I feel like Barbara Streisand – I feel like singing *Free Again*. I sleep like a baby and I work every day with my kids. It doesn't get any better than that."

FIT FOR LENDING

Issue four

In an age where bank finance is hard to come by, private equity investors are increasingly offering smaller firms the finance they need to grow. But, says Nick Martindale, business owners should understand what they're signing up for

The private equity market has endured a difficult few years since the financial crisis with deal volumes falling sharply. Funds, meanwhile, found themselves left managing assets for which they had, in hindsight, paid far too much and which were highly unlikely to make the level of returns in the time frame they had initially anticipated, if indeed at all.

Now, though, the market is returning. According to research by Preqin, 2014 was the strongest year since the crisis for private equity investments, and 55% of firms polled said they expected to invest more in 2015 than they did last year.

This has been accompanied by a growing trend for private equity funds to invest in smaller organisations. ECI Partners, for example, says it is seeing increasing competition in the £10m-£150m area it has traditionally targeted.

"Five years ago we predicted that it would be successful growth companies that would lead the UK out of recession and rebalance the UK economy from state-created jobs to private sector-created jobs," says Charlie Johnstone, a partner at the firm.

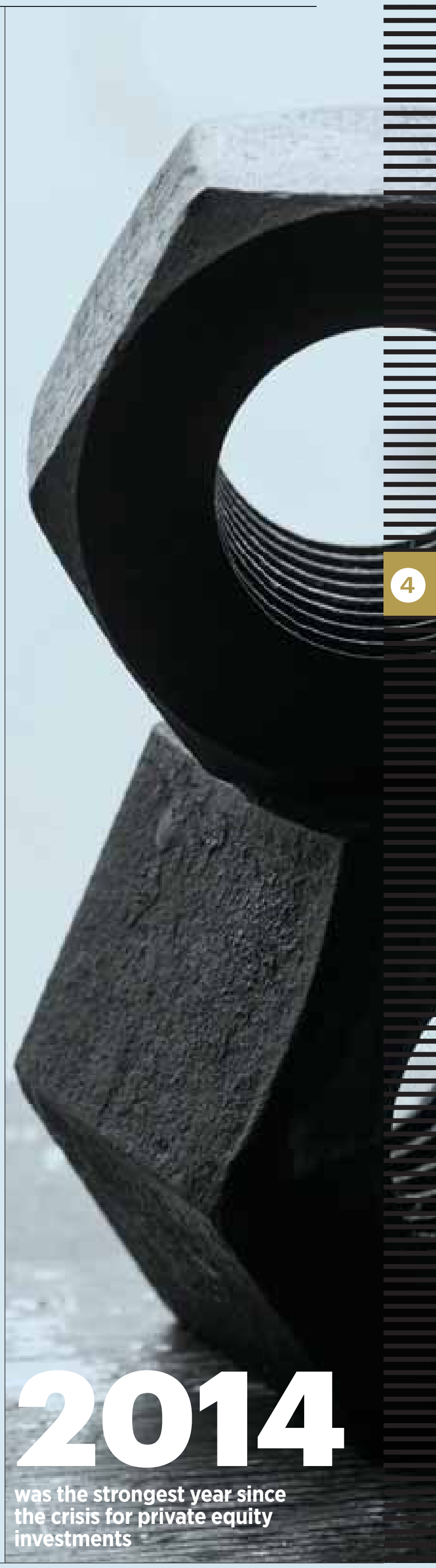
"Over the past few years many more people have noticed this trend, especially as the larger generalists raise specialised funds targeting smaller companies. There are around 3,000 growth companies in the UK, which we would classify as mid-market companies in the sectors that ECI and our peers typically target."

There are essentially two reasons why this is the case, suggests Mo Merali, head of private equity at Grant Thornton UK. One is the potential for growth, as private equity firms move away from financial re-engineering as a means of making returns. "The reality is that it's small, privately-owned businesses that offer the best rates of return for capital," he says.

Another reason is the fact that firms tend not to have the size of funds they once did – 37% of respondents to the Preqin survey said fundraising was the biggest challenge they faced – making it more attractive to target smaller firms requiring lower levels of investment as part of a diversified portfolio.

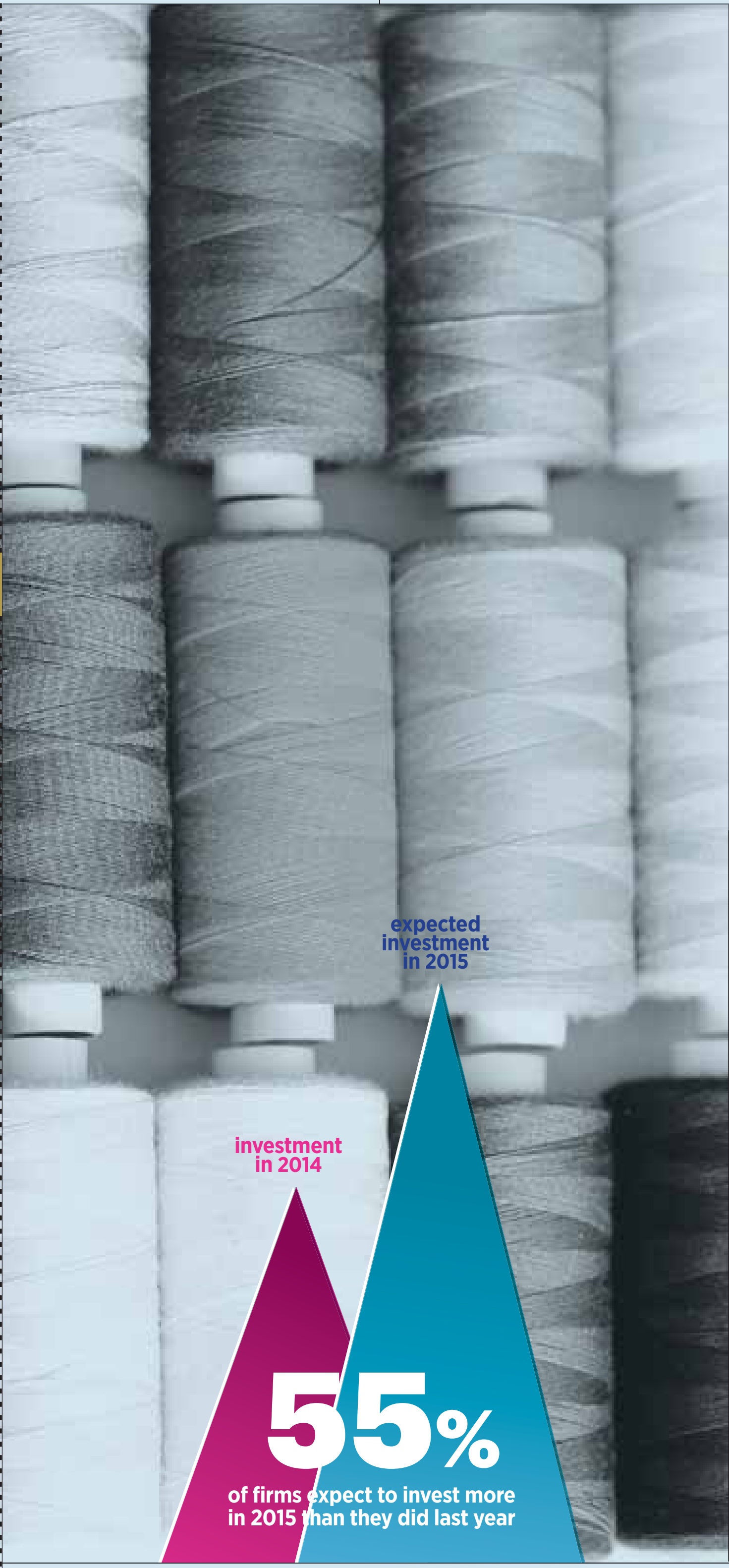
For owners and management teams of small- and medium-sized businesses, there are some obvious attractions of private equity, particularly as bank finance remains hard to come by. Aside from the injection of cash and the prospect of growth, a private equity firm's contacts book can prove hugely beneficial.

"If your business case is to grow outside of the UK then you will get access to networks you probably wouldn't get without some shoe leather being worn out travelling the world," says John Gilligan, corporate finance partner at BDO, and co-author of *Private Equity Demystified*, published by ICAEW's Corporate Finance Faculty. "But it's often lonely



2014

was the strongest year since the crisis for private equity investments



being the owner-manager of a business, particularly if you own all of it, and one of the problems is that everyone tells you you're great. Having somebody alongside you as a peer and an equal who has your respect is valuable. Good decisions come out of debate, argument, consideration and challenge."

Investors, though, have certain things they expect when they look for businesses to back. The most important is a clearly-defined proposition which cannot be easily replicated, suggests David Petrie, head of corporate finance at ICAEW. "An ideal business for a private equity investor has a strong market position, which cannot be destroyed overnight by infringement of its intellectual property or legislative change," he says.

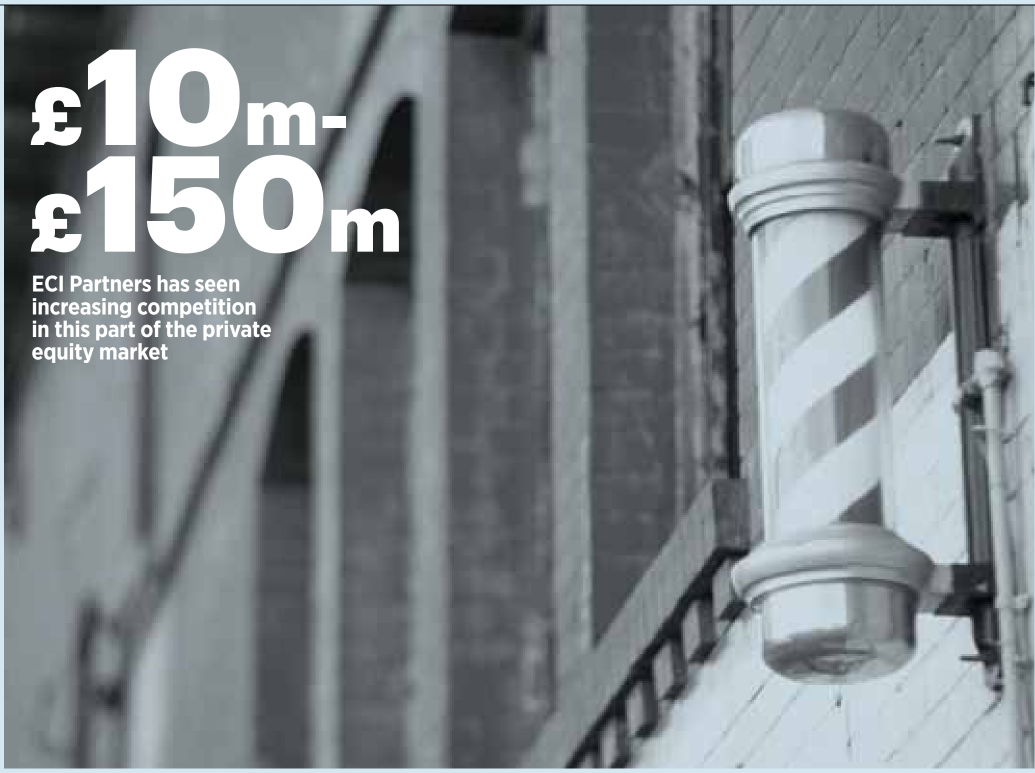
"They will seek out businesses that have robust business models and that are defensible." This could be through offering customers a particular experience, he says, giving the example of a restaurant chain with potential for geographic expansion.

The ability to add value is vital, and there are various ways in which this could be derived, suggests Mike Wright, a professor at Imperial College Business School, who is also director of the Centre for Management Buyout Research and Gilligan's co-author on *Private Equity Demystified*. "It could be a company that is underperforming on its potential, perhaps because it is not taking advantage of growth opportunities or it's underfunded," he points out. "Or it may be that the business doesn't have an effective management control system, so by merely tightening up the management system you can improve profitability and performance."

An experienced management team is likely to be a prerequisite for private equity investment. "It could be the owner or the existing management team an owner has gathered around them," says Katerina Joannou, manager, capital markets policy, at ICAEW. "They need knowledge of the business so they can develop a well-informed and authoritative business plan. What private equity investors expect is going to come through rapid growth, so they will be looking at entrepreneurial businesses where the owners are looking to grow quickly and where they can demonstrate the prospect of significant turnover growth."

But any individuals thinking of seeking or accepting private equity investment need to ensure they understand what it involves and are comfortable with the concept.

For smaller operations, this is likely to mean at least some degree of involvement in the day-to-day running of the business; something which may not sit comfortably with every founding entrepreneur. "While some private equity houses will manage their investments at arm's length, a large part of the market will require a close involvement in



leading the business," says Ian Sale, a managing director within the acquisition finance team at Lloyds Bank Commercial Banking. "With the buy-out firm also likely to place one of its own on the board, a good relationship and cultural fit is essential for a good working relationship, which can last a number of years."

Getting the right fit between new and existing management is essential, agrees Merali. "When somebody invests in your business, you have a partner and therefore as an entrepreneur it's no longer 100% your business," he says. "You have to have respect and be more accommodating with people who want to put money behind you. One of the biggest journeys that businesses have to travel is balancing that entrepreneurialism and the ability to innovate with making sure that you are respectful and mindful of people who are stakeholders in your business."

Business owners also need to be aware of the potential for things not to work out, which could result in their own exit if they have sold a majority stake to a private equity business. "The best description of that is one that was given to me by someone who runs a venture capital fund who said 'my philosophy is that I completely back management 100%, right up to the point when I sack them'," says Gilligan. "If something goes wrong then they have to change something. But is that any different to what a public company does?"

It's a point Neal Judd, director of Judd Corporate Finance, also makes, although he stresses this is not the norm. "Business owners are giving up a degree of control to private equity investors," he says. "If they fail to deliver, they could lose their shareholdings. But this is not common in the smaller business arena, where backing management is critically important to private equity investors. Also, they sit on the board, so they are aware of the issues arising and are part of the ongoing strategic decision-making process."

Owners or management teams also need to ensure they understand the long-term vision, which is likely in

David Petrie

"An ideal business for a private equity investor has a strong market position, which cannot be destroyed overnight"

Katerina Joannou

"Private equity investors will be looking at entrepreneurial businesses where the owners are planning to grow quickly"

Private Equity Demystified

icaew.com/privateequity

FIT FOR LENDING

Issue four

Case study: Captify

Digital advertising agency Captify was set up by Dominic Joseph (above left) and Adam Lutwin in 2011 after the two spotted the potential for search retargeting – providing online adverts to people based on their previous search histories – which was just taking off in the US. The business experienced rapid growth but its founders realised it would need to expand further in both headcount and geographic reach if it was to achieve its potential, and set about attracting investment from a venture capitalist firm. "We realised we had to start looking for funding in order to grow the team, improve the technology and start the overseas expansion," recalls Lutwin.

Working with a broker, the first step was to add to its own management team, which it did by hiring Vincent Potier as chief operating officer and Sean King as chairman, before it began actively seeking investment in 2013. The result was several offers from venture capitalists, and the two eventually decided to go with Panoramic Growth Equity.

"They had a small portfolio so we felt that they could pay us the attention that we needed and they had strong experience in overseas expansion and technology," says Lutwin. "But more than anything we really felt we trusted them."

Two years down the line, the business has tripled the number of clients it has and quadrupled its headcount, as well as embarking on a programme of international expansion. "We've set up an office in Germany and one in Kiev, and Panoramic added a lot of value on that side," says Lutwin. "It's also been very good to share experiences with other companies in their portfolio; twice a year they have a 'CEO and founders day' where all their portfolio of companies get together and discuss the challenges they've all faced."

The founders did look at other funding options, including crowdfunding, angel investment and bank loans, but feel the breadth of expertise they have gained from working with a venture capital business means they made the right choice. "It's been a phenomenal growth period for us," says Lutwin. "If we were to ever need to raise any more funds in the future we'd have no hesitation in doing it again."

the case of most private equity investments to involve an exit in a three to five-year time frame. "They need to find out what the investor is ultimately going to want to do; what kind of exit are they interested in and what kind of time frame," says Joannou.

"What return does that investor want? All that information will be available when the business looks at the investor. But a lot of homework is needed up front; as well as the business making the case for the investor's external funding, the investor also needs to demonstrate why they are the best outfit to work with that business to achieve its growth potential."

For some organisations, venture capital investment may be a better option than private equity (see case study, left). The two terms are often used in the same context, but venture capital investments will tend to be for smaller businesses, which are earlier on in their journey.

This can affect both the structure of the investment - venture capitalists tend to only take minority stakes - and the type of company. "Venture capitalists invest in start-up and early-stage companies, which have little or no track record of sales and profitability and have high cash demands," says Nick Brainsby, partner at Pemberton Capital.

"Venture capitalist funds generally make a number of investments, betting that one or two will become "home runs" - the next Facebook - and generate spectacular returns." Businesses in the technology space are particularly attractive to venture capitalist investors, he adds.

The challenge for owners, founders and management teams of organisations looking for investment is to assess whether they are truly comfortable with the concept of private equity - and all that this entails - and then to identify both the right time to look for investment and the provider that offers the best fit with their own beliefs and objectives.

But in an age where bank financing is less readily available, private equity is certainly more of an option for small and medium-sized businesses than it was just a few years ago, and could provide a good fit for those looking for both funds and expertise in helping to grow.

"If a business is cash-generative and enabling you to grow that is fine, but a good private equity house will always argue that they will bring more than cash to the business," points out ICAEW's Petrie.

"It can certainly broaden the horizons of the management team in the systems and approaches to doing business, and sometimes those changes can be transformational.

If a business is at the stage where it needs to diversify its range of products or services or move into new markets or technologies, which requires both capital and expertise, that is the time to consider private equity investment."

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SOURCES:
1. Britain's Healthiest Company, 2014
2. Psychology Today, 2013

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Is re-introducing the 50p rate of tax a good idea?

YES *Daisy-Rose Srblin*
Amendments to the top rate of income tax generate emotive opposition but it's clear that much of this scaremongering (around a tax only paid by 1.1% of all taxpayers) is unreflective of reality. Contrary to the claim that reintroducing the 50p rate would be a 'disaster for enterprise and economic growth' (Institute of Economic Affairs), there are several reasons why it is a good idea.

The first concerns the context of deficit reduction. The top 1% of taxpayers pay 25% of all income tax paid: however, as the poorest are hit hardest by the unprecedented decline in real wages, it is hard to claim that burdens are being shared evenly. While the top 10% of taxpayers pay 35% of their income in tax (including VAT, council tax etc), the bottom 10% pay 43%. The reinstatement of the 50p top rate of income tax is just one redistributive option that could redress this balance.

Secondly, fears around the vulnerability of UK competitiveness are contestable, especially given how short-lived the last 50p top rate was. In fact, reintroducing the 50p rate would still mean UK top tax rates would be lower than several extremely productive, high performing OECD countries, including Belgium, Sweden, Japan and France.

Finally, opponents cite 'behavioural' changes that can apparently be generated through higher tax rates, which, they claim, might drive down tax receipts. However, this is essentially a question about tax avoidance. If politicians are as committed to avoidance as they say they are, this cannot be used to justify (in)action on the top rate of income tax for the sake of more equitable tax responsibilities.

NO *Stephen Herring*
The additional rate of income tax for taxable income over £150,000 was reduced from 50% to 45% by the Budget 2012. The independent Office for Budget Responsibility (OBR) endorsed the government's estimate that the underlying fiscal cost would be around £100m in comparison to the total projected income tax receipts for 2014/15 of £179.4bn. The OBR also concluded that the behavioural response by the approximately 300,000 taxpayers affected was more powerful than had been assumed when the 50% rate was introduced by the previous Labour government. That demonstrates that the argument about whether a 50% income tax rate ought to be re-introduced is not based upon its fiscal impact but upon assertions of its rights and wrongs.

Taxes should be simple, certain and, most importantly from this perspective, set at competitive rates in comparison to our key European and global competitors; confiscation of income or wealth ought never to be an objective. Since the 1980s, the major political parties accepted that the higher rate of income tax at 40% was appropriate to the twin objectives of fairness and competitiveness. It was only the credit quake that broke this consensus.

The reintroduction of a 50% additional rate of income tax would send the wrong signals about UK tax policy to both entrepreneurs and foreign direct investors. The focus of any incoming government ought to be ensuring that income tax is paid upon an individual's income without tax evasion or abusive tax avoidance occurring, not on raising tax rates.

Daisy-Rose Srblin
How much the reform would raise is contestable – we have never seen the 50p rate in a steady state. Some suggest the tax yielded up to £10bn over its three years. Regardless, behavioural responses – the movement of income to avoid this tax – which could deplete the income generated cannot be asserted in defence against this reform. This 'taxable income elasticity' is a question of tax avoidance and the government's responsibility is to close the loopholes that allow it.

There's no reason why increasing the top rate would undermine competitiveness – it would bring the UK in line with other high-performing countries; the link between low taxes and high economic productivity is ambiguous and contested.

While we want to safeguard a high-performing economy, we also need to promote a more equal society in difficult times. Increasing the top rate of income tax is not a 'confiscation' of wealth. In the context of deficit reduction, it is a means of redistributing unfair tax burdens. In redistributing

YES *Daisy-Rose Srblin*
Tax reform research fellow, Fabian Society

NO *Stephen Herring*
Head of taxation, IoD Policy Unit

tax burdens we can create a fairer and less damaging route to deficit reduction.

Stephen Herring
I agree that deficit reduction and preventing abusive tax avoidance should be central foundations for any incoming government's fiscal agendas post GE2015. Neither of these is, however, supportive of the reintroduction of a 50% additional income tax rate.

There is no doubt that the reduction in the additional rate to 45% has collected approximately the same as the 50% rate. The explanation is due to behavioural factors, which would only be regarded as tax avoidance by the most anti-business, politically-motivated zealots. If an owner-managed company takes account of the income tax that will arise upon its shareholders before setting its bonuses and dividend payments, this represents appropriate financial management for the business owners, not abusive tax avoidance. Dividend payments and bonuses fell while there was a 50% rate and have risen since its reduction.

No one should face an income tax liability of 40% before they earn twice median earning (around £55,000) but this is no justification for a confiscatory, fiscally-ineffective additional rate of 50%.

The UK needs to be looking at the tax rates in countries such as the US, Hong Kong and Singapore if we are to attract global entrepreneurs and foreign direct investment; all of these countries have income tax rates well below 50%.

Daisy-Rose Srblin
To say the rate will raise no money is flawed. Past experience is a poor guide, as artificial alterations of dividend and bonus payments resulted from the introduction and then repeal of the tax. Given how short-lived it was, we simply do not know how it would work in a steady state.

Higher tax rates on the greatest income and wealth promote a fairer economy; state inaction entrenches inequality. This is not simply about redistribution, as high tax rates have behavioural effects too: however, these aren't, as you claim, negative. Saez and Piketty have found that when countries reduce top rates of tax, their economies do no better than nations that do not; however, the share of pre-tax economic output obtained by the rich increases.

Hong Kong's levels of societal equality and welfare provision seem lower than its taxes, comprising a catalyst for its political upheaval. Consider the world's most economically innovative economy: combining federal and state taxes means the wealthiest Californians pay a marginal rate of 52.9%. And this doesn't seem to harm their entrepreneurialism.

The balance between richest and poorest has huge economic, social and environmental consequences. Contemporary British public policy is actively driving inequality.

Stephen Herring
Most behavioural responses to an increase in the additional rate of income tax to 50% have nothing to do with tax avoidance in any broadly-accepted usage of the term but concern either authentic and accepted tax planning approaches or, indeed, tax savings promoted by the government.

In France, the attempt to introduce a confiscatory 75% income tax rate is considered by most French commentators to have damaged their economy.

Almost all of our more successful competitors for global inbound investment have income tax rates well below 50%. These include the USA (39.6%), Australia (45%), Germany (42%), Singapore (20%), Hong Kong (17%) and Ireland (41%).

There is no sustainable counter-intuitive argument. Like it or not, the top rate of income tax is relevant to both entrepreneurs and foreign direct investors. It would be extremely foolish to place a significant bet that increasing the additional tax rate to 50% would not cause damage to the UK economy.

"Confiscation of income or wealth should never be an objective of tax policy"

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BRIDGING THE GAP

Will the guidance on pensions announced in the 2014 Budget be fit for purpose? And should accountants be given official license to provide guidance to retirees? David Adams investigates

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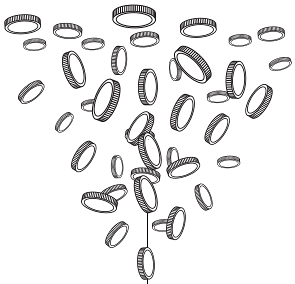
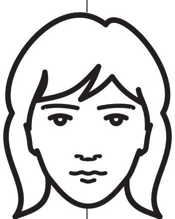
DESIRED RETIREMENT AGE **65**
ANNUAL PENSION TARGET **£46,000**
MONTHLY SAVINGS REQUIRED **£3,080***



Why did George Osborne decide to announce new pension freedoms, which allow members of a money purchase Defined Contribution (DC) pension scheme aged 55 or over to access their whole pension pot, in the 2014 Budget? And why, in March, did the chancellor put an end to restrictions on the sale of annuities, allowing people to cash them in without incurring the current punitive tax penalties? Hopefully the changes will encourage more people to save more for their retirement and will stimulate innovation and the development of new pension products. But one wonders whether there is an ulterior motive.

"There's a pretty transparent political agenda to unlock billions of pounds of pension money just a month before the general election," Tom McPhail, head of research at pensions and investment specialist Hargreaves Lansdown, told *The Observer* in January. "The policy may be a good idea, but the timing is unashamedly intended to buy votes." One of McPhail's chief concerns, shared by a number of other well-informed industry insiders, was that pension providers simply have not had enough time to prepare for the new system.

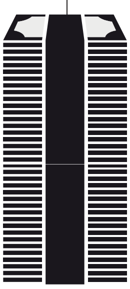
But that might not be the biggest problem related to the new freedoms. Osborne initially pledged that those affected by the changes would be offered "free, impartial, face-to-face advice". He quickly backtracked, explaining that he actually meant "guidance": an interaction with someone not regulated to provide financial advice, but simply to clarify the available options. The changes have the potential to affect millions of individuals and their families yet there are fewer than 30,000 FCA-authorised advisers - not a lot to go around. In some cases, the size of the pot or the specific financial circumstances of the individual may make it easy to determine the right course. For others the decision will be very complicated and there are some concerns that some people will be vulnerable to fraudsters selling bogus investments.



"These flexibilities and freedoms are good, but make things even more complicated," says Malcolm McLean, senior consultant at actuary Barnett Waddingham. "People could get this horribly wrong, then have to live with the consequences for the rest of their lives. They need help."

There will be two sources of guidance available from the government's new Pension Wise service: face-to-face appointments, hosted at Citizens Advice Bureaux (CAB) across the country (at the time of writing only the first 44 in England and Wales had been announced); and telephone sessions offered by The Pensions Advisory Service (TPAS).

But these resources may not fulfil Osborne's pledge to provide universal face-to-face guidance, because many people will be unwilling or unable to travel to the nearest venue. "I know from my own experience that trying to get information over the phone to anybody who doesn't understand pensions is going to be very difficult," says Claire Trott, head of technical support at pensions services provider Talbot & Muir.



In late January, in a move that may or may not have been inspired by government agitation, the Financial Conduct Authority (FCA) wrote to CEOs of pension providers proposing they form a "second line of defence" to help prevent individuals making self-defeating decisions. Providers will now be required to ask scheme members a series of lifestyle questions relating to their proposed course of action, then issue "risk warnings" if plans appear unwise. "This is a complete U-turn, because at one point the government was saying it didn't want providers involved," says McLean. "It indicates that the government doesn't think that the independent guidance is going to be good enough."

10

YEARS, AVERAGE UK PENSION SHORTFALL

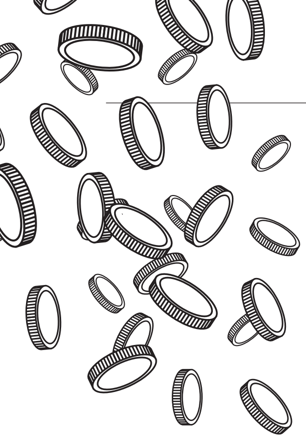
54%

OF UK WORKFORCE CONSIDER THEY WILL HAVE TO WORK PAST STATE PENSION AGE

Nonetheless, demand for guidance could be very high and this is bound to have an impact on ICAEW's members in practice. Martin Tilley, director of pensions technical services at SIPP specialist Dentons, points out that the numbers of retirees seeking guidance - expected to be about 300,000 per year - will be boosted by those who could have retired since the Budget but deferred a decision to take advantage of the new freedoms. "I think there's going to be a huge problem getting appointments during the first few weeks," he says.

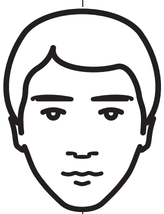
A spokesperson for the Treasury disputes this: "The government is committed to ensuring that a sufficient number of trained guidance specialists will be in place for April. We are working closely with stakeholders to predict and continually monitor demand... The government has plans in place to deal with any initial surge of demand."

Naturally, once someone has secured an appointment, they will want guidance by someone armed with the necessary expertise. The guidance delivery jobs advertised by TPAS were for individuals with "experience of working in or with pensions" and knowledge of relevant legislation, who would earn around £30,000 for permanent and fixed-term positions. But the CAB service job description simply states that some knowledge of pensions issues would be an advantage, while salaries range from £18,000 to £24,000, for fixed-term contracts, to be extended if funding permits. These differences



SAVE

HALF YOUR AGE AS A PERCENTAGE OF YOUR ANNUAL INCOME. SO IF YOU ARE 24, SAVE 12% OF YOUR INCOME

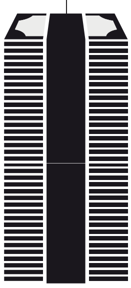


can be explained in part by the fact that CAB is a charity and is recruiting nationwide, while TPAS is recruiting in London. But McLean recalls Osborne promising that people would have access to "expert" guidance. "I don't think CAB, with the best will in the world, is going to deliver that service."

John Gaskell, financial planning and advice manager at ICAEW's Financial Services Faculty, believes the UK could learn a great deal from other countries' experience of pensions freedoms. In Australia, government-backed superannuation pensions have allowed individuals to access retirement savings from the age of 55 for more than 20 years. A recent Financial System Inquiry, led by banker David Murray, revealed that about 50% of Australian retirees withdraw pension savings as a lump sum. Of this group, 25% had spent the lot by the age of 70. The report also revealed that many retirees who do not do this are instead spending their money in an overly frugal way, lowering their living standards and thus, to some extent, damaging the Australian economy.

The report concluded that Australians' standards of living in retirement would be increased by more risk pooling, offered through the development of guaranteed lifetime income solutions that manage longevity and investment risk through a pooling element. In other words, as Michael Davidson, senior policy adviser, superannuation, at accountancy firm CPA Australia, puts it: "You're coming from where we want to be - and vice versa."

CPA advocates greater use of products like deferred annuities, to which individuals can move at 75 or 80. "Our biggest issue is addressing longevity risk," says Davidson. "People need to understand that while accessing your lump sum may provide immediate benefit you still have to have income to live on in retirement." This is a message that should resonate in the UK too.



Would it not have been more sensible to introduce the new UK regime more slowly? "We have consulted extensively with industry on the reforms," says a Treasury spokesperson (a statement sceptics might describe as chutzpah: consulting people after a policy has been announced being rather different from doing so beforehand). "Some firms have already announced new products for April 2015 and others are planning to do so in the near future," the spokesperson continues. "If a particular pensions scheme fails to offer suitable products... customers have the right to transfer savings to a different provider." Such action would be supported by guidance "delivered to rigorous FCA standards" that "empowers and educates people so they can make their own, informed choices and confidently engage with the pensions industry". Well, the sceptics might respond, let's hope so.

We put the same question to Mark Hoban, a chartered accountant and Conservative MP for Fareham in Hampshire, who has served as a minister in both the DWP and Osborne's Treasury during the current parliament. He is stepping down as an MP in May, but is still reluctant to shed any light on how long ago the pensions freedoms were first contemplated at the Treasury.

"If you look at some of the measures we took at the start of this parliament, such as ending compulsory annuitisation and introducing new drawdown products, you can see that we were always moving towards these types of changes in the pensions system," he says.

Nor does he accept that it would have been preferable to give the pensions industry more time to implement the changes needed. "You would have had slow progress," he says. "The fact that insurers are struggling to keep up is a reflection on them not investing enough in their systems."

Hoban thinks Pension Wise represents "a good start" for the provision of guidance, but would like to see the introduction of services based on a concept he has devised: the Retirement Saver Service, a digital service that would support consumers through pension planning and retirement by providing a single platform through which they could review all pension savings from state and private sources. Tilley has an alternative suggestion: a voucher scheme enabling individuals to draw, say, £150 out of their pension pot to buy an hour with an IFA for a preliminary discussion, up to three years before retirement.

In the shorter term, Margaret Snowdon, chairman of the Pensions Administration Standards Association (PASA), and a director at JLT Group, suggests the government expands the range of organisations given official licence to provide guidance to retirees, to include accountants. They would be particularly well-placed to advise clients on how the new pensions rules impact tax planning, around inheritance of pensions savings, for example.

When asked whether in future accountants might be given some responsibility for providing guidance, the Treasury spokesperson responds that "providers of the Pension Wise service must always meet the government's requirements that they must be free from any actual or potential conflict of interest in order to safeguard the impartiality of guidance provided" - which seems to suggest accountants will not be providing officially-sanctioned guidance any time soon, but does not alter the fact that they could provide clients approaching retirement with valuable support. Accountants could do this by building a strategic relationship with a trusted IFA, and seeking a Designated Professional Body licence (see box, right).

RIGHT OF TRANSFER

As for those still some distance from retirement, what principles should determine their retirement saving strategies? Simply getting into a basic auto-enrolment pension scheme is a useful first step, but it's important to bear in mind that contribution rates in these schemes are currently very much lower than would be needed for most members to enjoy a comfortable retirement. Higher contributions or private pension provision will supplement income coming from an occupational DC scheme and the state pension. McLean says an old rule of thumb is a good starting point: save half your age as a percentage of your annual income. So if you are 24, save 12% of your income (including the employer's contribution) - or as close to that as you can afford.

Whatever your age, if you are in a Defined Benefit (DB) occupational scheme you may want to consider exercising your statutory right to transfer to a DC scheme, from where you can access your pension pot. Transfer values are based on what might have been in the fund at retirement, with this figure then reduced at an assumed rate of investment return as it is rolled back to the present day. Because gilt yields are currently very low, that reduction is minimal, meaning transfer values are unusually high, making this a tempting option in the right circumstances.

As things stand, it will not be an option that is available to those in "unfunded" public sector pension schemes. This may cause some disquiet, says McLean, even though it is likely to be in the best interests of public sector employees to stay inside their relatively generous schemes. There is, he stresses, still much to be said for a good DB scheme: "A final salary scheme really is a good deal - you need to think very carefully about moving out of that."

This just underlines the importance of expert guidance or advice. Ultimately, ICAEW's Gaskell would like to see the provision of guidance to retirees forming part of a broader long-term programme to improve financial literacy within society. "It's all about confidence and empowering individuals," he says. "Unless people have confidence that they can trust the government, the Treasury and the industry to deliver something that's in their best interests you're never going to close the savings gap."

* The monthly saving required to achieve a target pension depends on a number of assumptions: the individual is a male; they intend to use their savings to purchase an annuity product that is inflation-proofed income payable for life, and their spouse's pension (at half the rate) is payable on death; the future price inflation is expected to be around 2% per annum on average; he can invest his pension savings to achieve a return of 4% per annum before he retires; he will also receive a state pension equivalent to £155 per week (£8,060) in today's terms, and annuity rates in the future will be broadly similar to those available in the market today.

IF YOU ARE PART OF A BRITISH COUPLE THAT IS **65** YEARS OLD TODAY, THERE IS A **94%** CHANCE ONE OF YOU WILL LIVE TO BE **80**

DPB LICENCE

One way accountants can help clients to make the best use of the new pension freedoms would be through creating a strategic alliance with an IFA and seeking a Designated Professional Body (DPB) licence. Such an alliance and a DPB licence will help accountants prepare a financial plan for clients to explain how pensions can be used as an appropriate tax mitigation medium. The IFA can then give specific product advice and arrange the necessary transactions. As Alan Hind, senior manager, quality assurance, professional standards at ICAEW points out, there are over 10,000 member firms that haven't got a DPB licence that may be missing out. "The compelling reason for getting a DPB licence is to provide a better financial planning service to clients," he says. "The government's pension reforms are an opportunity for chartered accountants as trusted advisers to demonstrate how they can add value. Forming a strategic alliance and taking a DPB licence should help chartered accountants to make the most of business opportunities."

A DPB licence enables accountants to:
- explain and evaluate advice the client receives from a financial adviser;
- identify unsuitable advice from the financial adviser; and
- endorse suitable advice.

They can't discuss merits of specific investments; that is a regulated activity still requiring FCA authorisation.

icaew.com/dpb

Removing the pain of your pension plan

Sion Cole, a partner in Aon Hewitt's investment solutions team, looks at how you can go about removing the pain of your pension plan

Defined benefit pension plans are increasingly becoming a "legacy issue" for companies. On the one hand they no longer truly support the recruitment and retention of talent in the business, while on the other, they can have an unexpected and often negative financial impact, making business planning more difficult.

For example, companies whose three-yearly cycle for agreeing the cash payments to their pension plan occurs this March are likely to see a demand for an increase in these payments. This potential reduction in free cashflow may mean reduced investment in the business or lower dividends. It is not surprising that the long term objective of many finance directors is simply to get their pension plan off the balance sheet.

Higher risks than needed

A key reason for all this uncertainty is the investment of the pension plan's capital. Pension plans need to take investment risk to generate the required returns to meet the cost of their liabilities. However, many take more risk than is necessary and did not take advantage of opportunities to reduce risk when the plan's funding position was ahead of schedule. The sponsoring company is effectively underwriting the cost of this extra risk, which, while varying from organisation to organisation could result in the need to make cash payments into the pension plan which are significantly higher than might have been necessary.

The key reasons in the past have been:

1. For plans with assets of less than £1 billion, the additional running costs of more efficient investments were prohibitive;
2. The appropriate infrastructure to capture risk reducing opportunities was not available.

Removing the pain

The pensions investment industry has developed a solution to these challenges that allows the day-to-day implementation of the plan's investment strategy to be delegated to investment professionals. They can monitor the investment strategy, ensuring that it is optimised to achieve the plan's objectives.

Within parameters agreed with the trustees, the benefits to the company are:

- Reduced risk of higher cash payments because the correct amount of investment risk is taken;
- Opportunities to reduce risk further are taken when they are affordable;
- Opportunities to transfer liabilities in affordable tranches to an insurer are captured;
- Significantly lower costs making it affordable for nearly all pension plans.

There is now a way for companies to get control of the investment risk in their pension plan and to manage the impact that it has on its business in a controlled and cost effective way; fiduciary management.

Delivering added value to pension plans

Anecdotal evidence from Aon Hewitt's 2014 Fiduciary Management Survey shows a resounding vote of confidence in fiduciary management solutions. Of pension plans with fiduciary management in place, 99% said their overall experience is excellent, good or satisfactory; 97% say the same about the impact on their funding level (performance); and 98% say the same about client service.

Fiduciary management is now an established investment and governance solution with a track record of adding value for many schemes. Ultimately, it is one way that finance directors can be assured that the pension plan has a strong governance and implementation framework, capturing opportunities as they arise and allowing de-risking when it is affordable. They can feel some comfort in knowing that the investments are being overseen by experts who are taking control of investment risk.

To find out more contact your usual Aon Hewitt Corporate Adviser or Sion Cole (sion.cole.2@aonhewitt.com or on 0207 086 9432)

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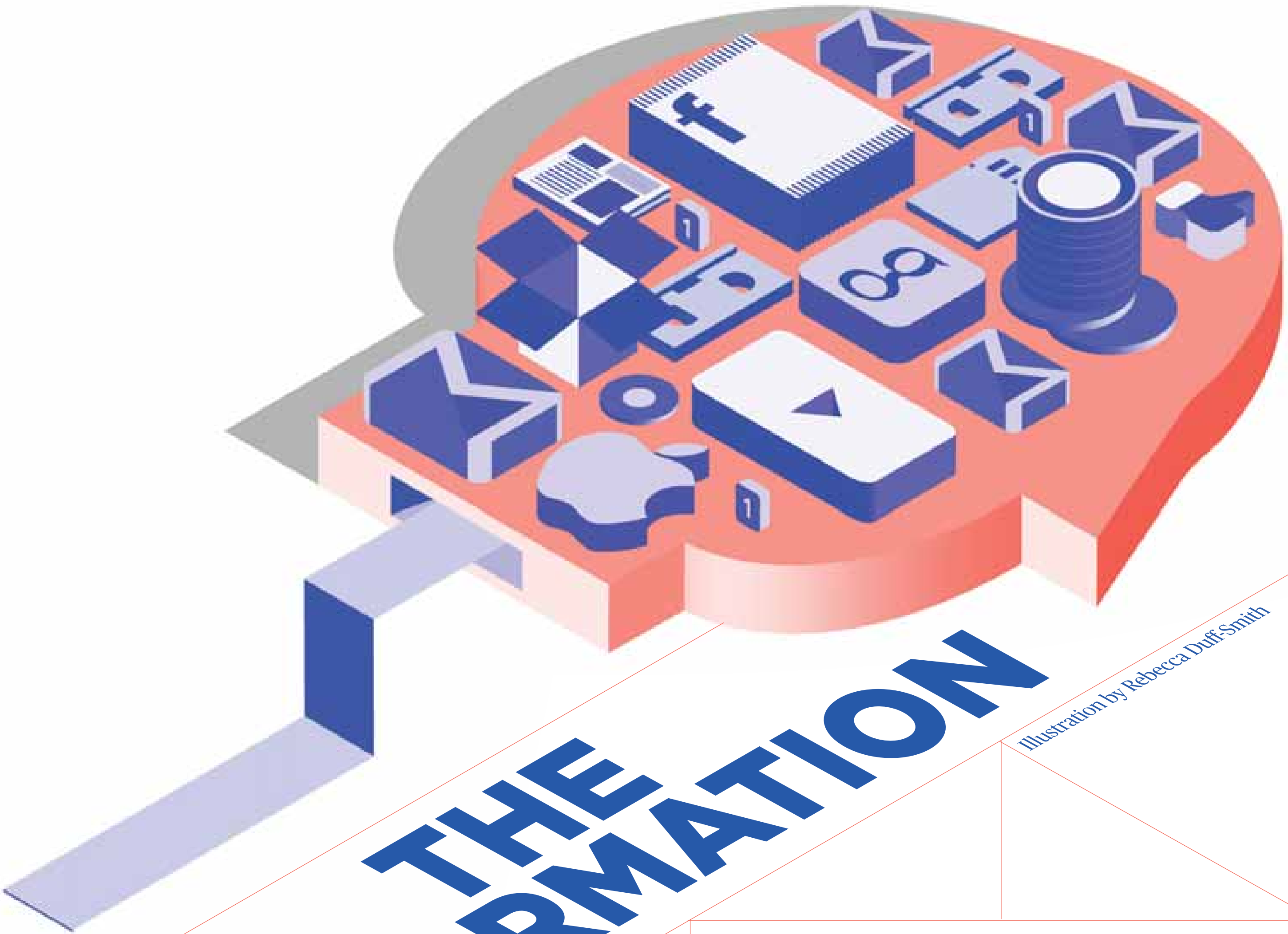


THE INFORMATION

Illustration by Rebecca Duff-Smith

Personal online data trails have become an increasingly valuable currency to business. But as consumers begin to voice concerns about the implications of sharing data, how should companies respond? By Nick Martindale

At the centre of our new digital economy lies a small number of powerful, influential and often contradictory brands. As the organisation that facilitates the sharing of information with over 3.3 billion searches a day, Google, for instance, can be notoriously secretive when it chooses, particularly around what data it collates and why. Consumers, too, have an ambiguous relationship with these giants of the internet age; Facebook had 1.35 billion monthly active users in the third quarter of 2014 yet it faces increasing hostility to its attempts to own personal information.

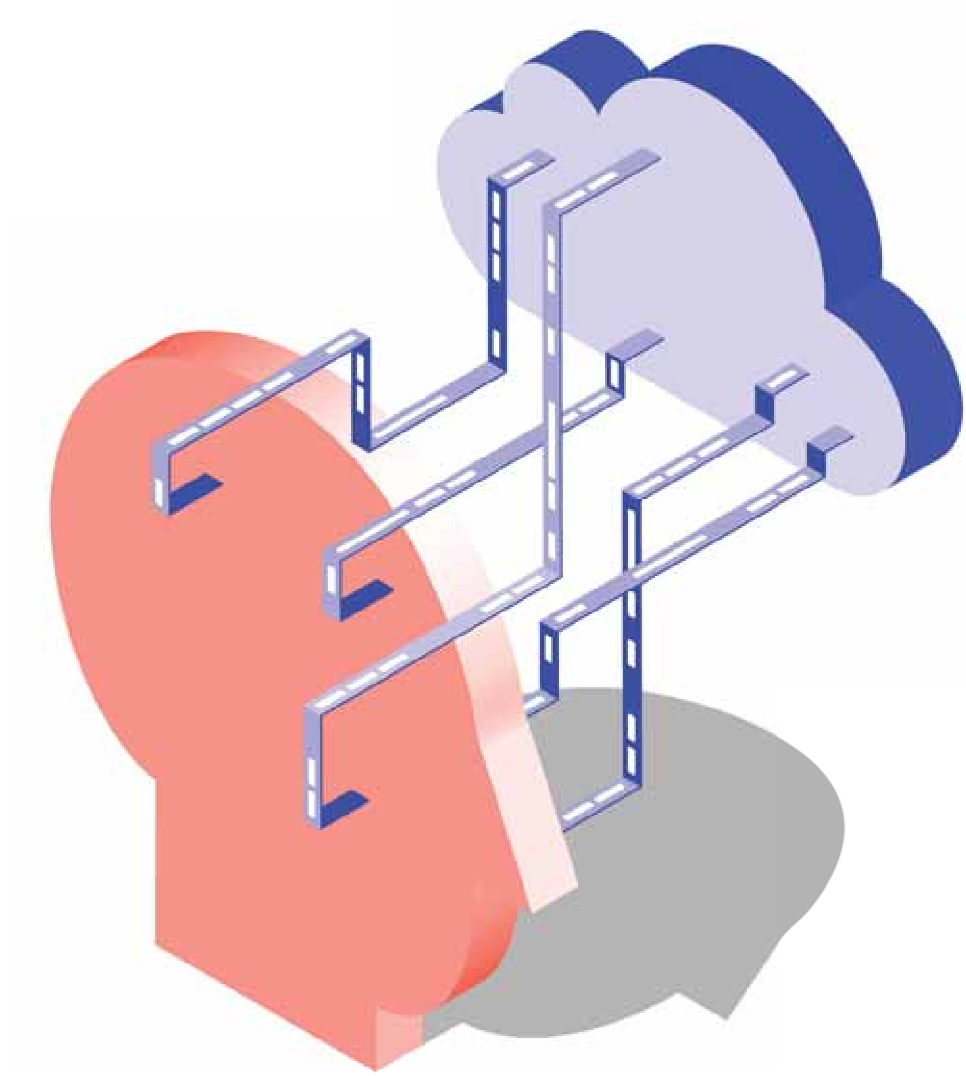
While much of the concern over the power and influence these brands wield has been confined thus far to civil liberties groups, academics and the media, there is a growing move to reject the apparent free-for-all that surrounds data. In 2014 US intelligence whistleblower Edward Snowden warned users against services such as Google, Facebook and Dropbox, while German media organisation Axel Springer sought to prevent Google from running snippets from its news stories without receiving licensing fees; something it had to later rescind when traffic to its sites fell sharply.

For many, the real concern is the lack of any apparent control over what organisations can – in theory – collect and use, coupled with suspicion and concern over what is actually happening. “Consumers are completely unaware of what data they have given companies permission to access or how it is used,” says Bernard Marr, chief executive of the Advanced Performance Institute and author of *Big Data: Using Smart Big Data Analytics and Metrics To Make Better Decisions and Improve Performance*.

“The example I give is that if you have a Gmail account, Google can read every single email,” he adds. “A lot of people are also not aware that Facebook can use their pictures to create a 3D image of their face, use this to find other images of them on the internet, and then make friends suggestions. All these things are pretty innocent but they still freak people out when you make them aware of it.”

Alongside the unknown, there is also a growing feeling that the deal between customers and organisations providing services is too one-sided. According to Deloitte’s Data Nation 2014 survey, 72% of people in the UK feel companies are not telling them how they use their personal information, but nearly two-thirds would be willing to trade this in return for benefits, such as financial rewards, improved products and services, or helping them achieve personal goals.

“People are broadly aware of the kind of general trade-offs where they give data away and get free services in return,” says Kirstin Gillon, technical manager, IT Faculty ICAEW. “The issue is more whether they’re really aware of how much data companies are capturing and the way that some of that data can then be combined with other sources, and the real richness of profiling that companies are building up on that basis.” There are potentially uncomfortable issues that could result, she adds, giving the example of insurance companies tailoring prices based on information they have gleaned about an individual’s health.



Andy Wood is managing director of GI Insight, which runs a number of loyalty schemes for retailers including Pets At Home and Toys R Us. Such schemes, he argues, work because customers understand the deal they are getting, where they share data in return for personalised offers and even location-based marketing.

Where he does see a problem, though, is in the trend towards hiding information about just what data is used for in the terms and conditions, and an inability for individuals to opt out of these. “None of our clients sell their data because they view it as their crown jewels and they don’t want to alienate a relationship for a quick buck,” he says. “But others do sell data and don’t tell consumers up front in big red letters that that is what they’re intending to do.”

His hope is that the proposed EU Data Protection Regulation, which is still being debated but could come into force by the end of this year (see box), will go some way to addressing this. “One of the key principles is that it has to be clear, informed consent,” he says. “So you can’t do it by assumption and you can’t do it – particularly electronically – by pre-ticking a box. The consumer has to be able to read, not in small print, whatever it is they’re signing up to and make a conscious acceptance of whatever it is.”

Concern over privacy policies is shared more widely; only one-third of adult internet users in the UK agree these are clear about how any data will be used, according to the Deloitte study. “I would say 99% of data is currently used without transparency," contends Marr. "Companies such as Google and Apple are happy to say it is all in the small print, but no one ever reads the terms and conditions. A lot of people don't really understand what they're trading; that they're agreeing companies can use their data in exchange for using an app. That's all well and good if they really understand it. But I advise the government, big banks and insurance companies, and even I don't understand it."

Yet there could be ways, other than legislation, in which consumers and society in general can challenge this. "I'm a big believer in your data being an asset and having an economic value," says Julie Meyer, CEO of Ariadne Capital and founder of Entrepreneur Country. "The judo move to out-Google Google is if we assign a value to that data. So, with all the services that stem from the use of that data there is a percentage of that value that is assigned back to the individual." This could be in the form of discounts or licensing fees, she suggests.

For Meyer, this would be a way of finding a middle-ground solution that works for individuals and organisations, without the polarising and contradictory attitudes currently found towards organisations such as Google. "To suggest that there is a chance that we could break Google up is ridiculous, but it's not ridiculous to suggest that they're getting away with something that they may not be able to get away with in the future," she says. "They're getting away with it because no one is really challenging them economically and coming up with a more inclusive and better business model. Nobody really thinks about these things or takes it all the way through to the natural conclusion."

Already there are signs of a fightback, particularly among younger consumers. Dr Gordon

PROPOSED EU DATA PROTECTION REGULATION

Alongside moves by consumers and forward-thinking businesses to become more transparent and discerning over their use of data, a new EU Data Protection Regulation is also on the horizon.

"The regulation was originally published by the European Commission in January 2012 and has been described as the most lobbied piece of European legislation in history," says William Long, partner at law firm Sidley Austin.

"Once passed into legislation, the regulation will have a significant impact on governments, businesses and individuals for the rest of this decade and beyond."

Long identifies some of the main elements based on the Commission's draft as:

1) Increased rights of individuals: Businesses must have transparent and easily accessible data protection policies and provide information using clear and plain language. An individual also has a right to correct his or her personal data and, importantly for social media, will have a right to be forgotten.

2) Greater enforcement: Fines of up to 5% of the annual worldwide turnover of a business can be imposed for failure to comply with data protection requirements.

3) Class actions: Any organisation that aims to protect the data protection rights of individuals, such as consumer groups, can make complaints to supervisory authorities and bring class actions on behalf of individuals for non-compliance.

4) Consent: The regulation places the legal burden on the data controller (i.e. the business) to prove that the individual has given consent and gives an individual a right to withdraw their consent at any time.

5) Data protection officers: Businesses with over 250 employees are required to appoint a data protection officer who must have expert knowledge of data protection law and practices.

Source: Sidley Austin

Fletcher, co-director of Salford Business School's Centre for Digital Business, gives the example of a university that asked staff and students for complete access to data on their mobile phones before they could access the corporate email system. "Many students were concerned about agreeing to this and simply did not access their university email accounts," he says. "But many staff agreed automatically without recognising the extent to which they were sharing information. The trading-off of personal data for app functionality is a significant aspect of the digital economy. We exchange data for app functionality without always recognising the value of the data we are trading."

The government also has an important role to play in shaping the parameters of the digital economy, both through legislation and seeking to create a more open environment in which there is less potential for suspicion and concern about *Big Brother* tendencies to flourish. "There is more the government can do around awareness and encouraging debate around how we balance the opportunities and the risks, so it's not just interest group against interest group," suggests Gillon. "You'll always get differing views but at least you can get a framework for thinking it through, because legislation is always going to have its limits."

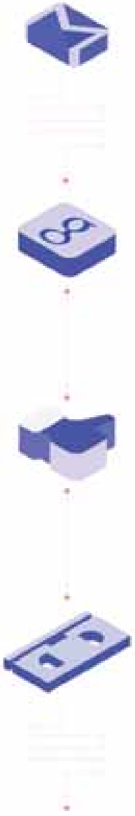
It's a view shared by Professor Zahir Irani, head of the College of Business, Arts and Social Sciences at Brunel University, London. "The government should consider sharing and publicising more widely the Information Commission's data sharing code of conduct," he suggests. "We need to take away the sense of uncertainty, the threat of the new and unknown, and [work out] what should be expected and what's a problem if the public are to increase their levels of confidence around the collection, use, security and storage of their personal data." The rise of cloud computing and big data applications has only made this debate more important, he adds.

Yet the government itself has not been immune to accusations over its own use of data, particularly around proposals by the Cabinet Office that would allow the sharing of confidential information around people's finances, health and criminal records across different providers of public services, potentially including private sector businesses. The government is currently undertaking an "open policy process" to examine the issue, seeking input from various groups to try and develop a policy which would then be subject to wider public consultation.

It is, says Mark Hoban, who was MP for Fareham until the end of March and served as minister for employment from 2012 to 2013, a lively issue, particularly with the rollout of Universal Credit, under which HMRC shares salary data with the Department for Work and Pensions.

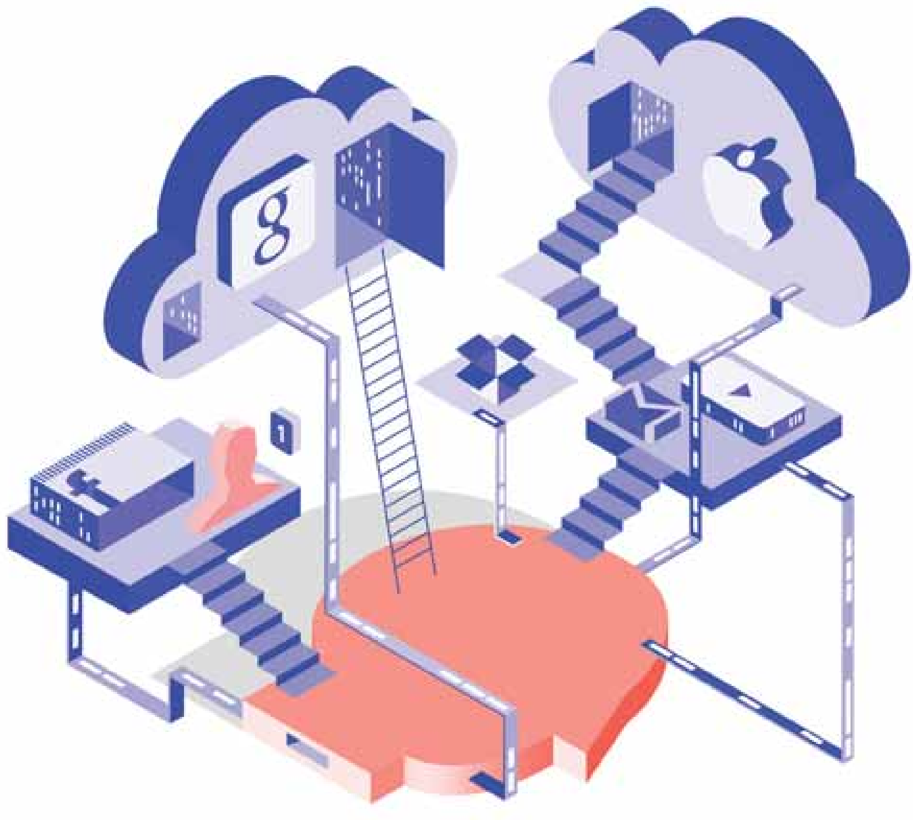
"In my experiences as a minister there are strict controls over how government departments can use data, and that can be quite a significant constraint on some of the things you want to do," he says. "We have to be very clear about what the benefits are of data being shared across government departments."

In fact, it is this kind of openness that saw public healthcare providers and other public sector bodies come top of the list of organisations the public most trust with their



personal data in the Deloitte study, suggests Harvey Lewis, research director, data analytics, at Deloitte and a member of the Public Sector Transparency Board. "As a citizen you understand what you get back," he says. "Sharing that data is hugely beneficial, because it means that I don't have to provide my data several times over. Whether that's in welfare, healthcare or any other department, that's a benefit, and that's why we see the public sector being the most trusted with data."

It is, perhaps, this kind of model that needs to be replicated in the private sector too, before individuals become more comfortable with sharing information. "In the private sector, market forces will drive much more in this direction," suggests Lewis. "Data sharing and transparency will become a fundamental part of driving efficiency, and citizens will become more discriminating and will look to use companies that are more transparent, provide them with more control and offer better benefits. That presents an opportunity because the market is moving towards a situation where the consumer is far more discriminating about their data."




SECURING A
BETTER FUTURE


IN EUROPE

Paying for it

With tax avoidance, the deficit and the funding of the NHS all headline news in the run-up to the general election, Jo Owen asks who will foot the bill for the economic policies of the leading parties

At exam time, students are taught to answer specific questions. At election time, when it comes to the economy, it pays to know what questions the politicians need to answer. That means understanding where we are. To simplify matters, we will look at three challenges and how each of the main parties (the Conservatives, Labour and the Liberal Democrats) will deal with them. In the absence of published manifestos, we will rely on what their leaders have said and what their policy documents say. The parties' final positions may, of course, change by the time they publish their manifestos.

The challenger parties also need to account for their economic policies. In practice the economy often plays second fiddle for them, compared to a bigger goal: achieving independence (from the UK or EU) or building a low carbon country. The economic policies of these challengers are summarised overleaf.

THE DEFICIT

Total government spending (total managed expenditure) is projected at £732bn in 2014-15 or 43.1% of UK GDP of £1,698bn. The government is forecast to borrow £91.3bn this year (5.3% of GDP, or 12.5% of government spending). This matters, given interest payments already cost the government over £48bn annually. In the currency of politicians on the campaign trail, that would pay for a lot of doctors, teachers and nurses.

When politicians promise to eliminate the deficit, they are promising to find over £90bn from taxes, spending, the eternal and often mythical "efficiency savings" or from economic growth. This puts into context the myriad claims and counter claims we will hear about how £1bn here or there will make or break the nation, although to misquote US Senator Dirksen: "a billion here, a billion there: pretty soon you're talking serious money".

David Cameron stated his intention "to run an overall budget surplus" in the next parliament. In contrast, the Lib Dems also promise to "get the current structural deficit in balance by 2017/18", which is in line with the Treasury Fiscal Charter. The difference between these two positions is up to £50bn annually. The Lib Dems exclude investment from their balanced budget proposal, as does Labour, which promises to get "the current budget into surplus and national debt falling as soon as possible in the next Parliament".

Ed Miliband famously forgot the deficit section of his speech to conference last autumn, which critics claim points to his real priorities. None of the parties have committed to ending PFI (private finance initiative), which gives them more wriggle room to invest off balance sheet and mortgage the future.

Verdict: St Augustine's prayer "make me chaste but not just yet" applies to politicians and the deficit: they would like to eliminate it, but not just yet if it means hard decisions. The Conservatives are going significantly further than the other parties with their deficit reduction commitments.

TAX AND SPEND CHALLENGE

In an ideal world, growth would raise incomes, end the cost of living crisis and remove the deficit. We do not live in an ideal world. That means the next government faces tough decisions on tax and spend. Politicians like to talk about tough decisions: they rarely like making them. A tough decision here is defined as one that might lose votes.

The three main parties seem to agree that the NHS, the aid budget and possibly schools should be ring-fenced from any spending cuts. This will put huge pressure on other "unprotected" departments to cut costs, or to raise taxes. Not surprisingly, the main parties are not too keen to spell out these measures, unless they affect people who would not vote for them anyway. That means Labour has been happy to talk about taxing the wealthy more: mansion tax; 50p top tax rate; bank bonus tax; means test winter fuel allowance and restrict pension tax relief. Meanwhile, the Conservatives are happy to talk about reducing the welfare cap from £26,000 to £23,000. So far, so predictable.

The Institute for Fiscal Studies estimates that policies announced so far by the Tories and Lib Dems amount to a net giveaway, and Labour's plans are more or less in balance. So much for tough decisions and reducing the deficit. They are grabbing headlines, not dealing with the reality of the tax and spend challenge.

Beyond the headlines, serious differences emerge. Based on the Autumn Statement, the Conservatives will focus mainly on reducing government spending, to a projected 35.2% of GDP in 2019-20, which would be the lowest share of GDP for 80 years according to the Office for Budget Responsibility. Labour and the Lib Dems will seek to balance the books more through raising taxes than spending cuts.

Verdict: Each party is living up (or down) to its stereotype.

REAL WAGES CHALLENGE, OR THE COST OF LIVING CRISIS

From 2008-2014 real wages for the median worker have fallen by 8 to 10%, with a pick up in the last 12 months (wages up 1.6% versus 1% inflation in 2014). The "cost of living crisis" is not just about prices: it is equally about wages. This has also affected government receipts. Income tax receipts have risen less than 3% in four years from £153bn to £157bn (2010-11 to 2013-14). Low wage

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“Politicians use statistics the same way that drunks use lamp posts: for support, not illumination”

growth means the Treasury is missing out on increased income tax receipts. For the future, that means GDP per capita growth is at least as important as total GDP growth: raising GDP per capita should lead to higher wages (reduced cost of living crisis) and higher income taxes (easier deficit reduction).

Labour has made the running on the “cost of living crisis” by promising to freeze gas and electricity prices until 2017; giving free childcare for three- and four-year-olds, cutting income tax by reintroducing the 10p rate and promising to raise the minimum wage from £6.50 to £8. The Tories and Lib Dems would take minimum wage earners out of tax by raising the tax threshold to £12,500. They do not promise to intervene to fix utility prices.

But these fiscal interventions successfully attack the symptoms, not the causes, of stagnating real wages. Ultimately, productivity has to rise. This is where all the parties start to wax lyrical about investment, education, apprenticeships and supporting small business. But even here, the parties tend to resort to type.

Labour is fairly interventionist: break up the big banks; abolish zero-hour contracts; increase employee protection. The Conservatives head in the opposite direction: they will make it harder for core public services to go on strike; they want to “have the most competitive corporate tax rates in the G20”. The Lib Dems focus on education and training as the key to long-term productivity: they claim responsibility for creating 2m apprenticeships in the last four years and would continue to support them with a £1 an hour increase in their minimum wage.
Verdict: Real growth of GDP per capita is like the philosopher’s stone of the political economy: it is doubtful whether any of the parties have the stone.

GREEN PARTY

The Green Party is not focused on GDP growth as a measure of success. In Natalie Bennett’s words, GDP “is a lousy tool for progress. The age of significant growth is over. We need… a better quality life.”

The Greens want to create a low carbon and more equal society. Headline economic policies include a citizen’s income

for all adults of £72 per week (at a cost of £240bn annually); creating local not-for-profit banks and more local currencies like the "Brixton pound"; nationalising all the main utilities; raising taxes on wealth, income and big business. The party also wants to balance the budget. Famously, party leader Natalie Bennett announced a plan to build 500,000 social homes, with no idea of their cost or where the money would come from. But at least the Greens offer something different and original.

UKIP

Nigel Farage disowned UKIP's 2010 manifesto as drivel and fired the manifesto chief in January. So UKIP is light on detail, but the broad thrust of policy was laid out at its Doncaster conference.

UKIP would leave the EU, EFTA and the EEA. It would then negotiate a deal with the EU and resume the UK's seat at the World Trade Organisation (these two goals may not be compatible). It would save money by leaving the EU, reducing foreign aid by £9bn, and scrapping the department of Energy and Climate change, green subsidies, the Department for Culture, Media and Sport and HS2. It would look at a turnover tax for multinationals, introduce a 35% tax rate and raise the personal allowance to £13,500. The party is having a vigorous debate about how to fund the NHS.

UKIP's economic policy is built around its main platform of leaving the EU.

SNP

The SNP's economic ambitions were to be funded by oil at $110 (£72) per barrel. It is now around $60 (£39) per barrel, leaving a potential funding gap of £5.5bn per year if Scotland was independent. John Swinney, deputy first minister of Scotland, predicts that oil prices will rebound to $110 (£72) this year.

The SNP's declared economic policies are necessarily constrained by lack of full fiscal autonomy: they focus on spending, not on tax. Priorities include: £450m for small business; £200m for renewables; 125,000 more apprenticeships; expanding high speed broadband and improving the Glasgow to Edinburgh rail link. The party will also freeze council tax, keep free prescriptions and will not introduce tuition fees, which may cause envy south of the border. The SNP still wants full fiscal autonomy ("devo-max"). Economically, that is a bet that oil is worth more than the Barnett formula which currently underwrites public spending of £1,600 per head more in Scotland than in England. Some will be driven by the economic argument, others by the political argument for autonomy.

First minister Nicola Sturgeon has announced her price for a coalition with Labour: "£180bn to invest in infrastructure, innovation and growth in the economy." This, she assures us, will fund itself.

CONCLUSIONS

Politicians uses statistics the same way that drunks use lamp posts: for support, not illumination. The statistical forecast until the election predicts large amounts of fog, very little illumination. Expect to hear many stunning facts and barbs being exchanged.

Given this, it is easy to dismiss all the parties as being the same. And there is a surprising degree of consensus on some areas: protecting the NHS, aid and perhaps school budgets; no one is ditching PFI; no one is challenging the independence of the Bank of England, its targets or monetary policy; no one dares mention QE; all want to stay outside the eurozone. But if you can peer through the fog, there are big choices to be made. The challenger parties are offering profoundly non-consensual views of the future which will delight some and horrify others. Even between the main parties, there are some big differences.

The Conservatives will cut spending, especially on welfare, to eliminate the deficit. Labour uses a more forgiving definition of the deficit, which gives it up to £50bn annual leeway; and will close the gap mainly through taxation, especially of the better off. The Lib Dems tilt closer to Labour on their tax, spend and deficit plans.

If democracy is an auction between vested interest groups, then the parties are laying out their stalls in predictable and traditional ways. Whether voters like their promises, or even believe they can deliver them, is up to them.

Inner strength

Corporate entrepreneurship is on the rise but companies need to do more to fully benefit from internal innovation, writes Iwona Tokc-Wilde

Intrapreneurship – where company employees are encouraged to develop new business ventures or special projects in-house – is not a new idea, especially not in the US. Google set up its Innovation Time Off programme more than a decade ago to foster internal entrepreneurship and out-of-the-box thinking, resulting in Gmail, Google News and AdSense.

Some 30 years before Google, 3M (formerly known as the Minnesota Mining and Manufacturing Company) allowed its staff to research and undertake projects that went beyond their core responsibilities. The results were Post-it Notes, Scotch Tapes and Scotchgard fabric protector. Another famous intrapreneurial invention dates back to 1995, when Sony executive Ken Kutaragi introduced the PlayStation games console to the US.

But today some companies are embracing intrapreneurship as never before, and for good reason. Research from the Economist Intelligence Unit (*The innovative company: How multinationals unleash their creative potential*) shows that, "in a world of fast-changing technologies, markets and consumer preferences, innovation is a strategic priority for all companies, regardless of their size, location and industry". Creating new products and services has become a priority for 54% of companies worldwide, more important than cutting costs or investing in talent.

The most cost-effective way of harnessing new ideas capable of generating new revenue is from within, by encouraging collaborative innovation across organisational lines. UKFast is an internet hosting company. Its eCloud platform was designed and built in-house, by the company's tech team, following feedback from client account managers. "It brought in more than £1m in recurring revenue in the first two months after its launch and now generates over 18% of overall revenue," says Lawrence Jones, UKFast's chief executive.

Creative agency Albion works with Skype, eBay and Zoopla. Two years ago, its PR director Bryce Keane spotted a gap in the market for start-up focused PR across London's tech community, and sub-agency Albion Drive was born. It now has over 20 clients and has generated close to £825,000 in revenue.

Jason Goodman, chief executive of Albion, says: "Under Bryce's leadership and the endorsement of the senior management team, Drive has become one of the fastest-growing parts of the business. It boasted 300% growth last year alone and contributes over 10% of the group's total revenue." Goodman adds that the success of Drive was one of the contributing factors that led to KBS+, a New York-based creative agency, acquiring a majority stake in Albion last August. "Their business model of nurturing intrapreneurship is similar to ours so they recognised the strength of Drive's growth," he says. The deal was reported to be worth between £20m and £30m.

Another benefit of intrapreneurship is the potential for cost-savings, if intrapreneurs direct their efforts at their company's systems and processes. "When one of our R&D team heard about the cost of an off-the-shelf phone system, he

decided to build one himself," says Jones. Orpheus, UKFast's internal management system, is a product of intrapreneurial innovation. It quickened the service their clients receive and saved the company "thousands" by simplifying processes.

Companies are also introducing intrapreneurship initiatives to attract and retain talent. "I lost a few really talented people in the early days of UKFast because I didn't give them more responsibility, more ownership, more opportunities to be creative," says Jones.

Younger employees in particular want a diverse and challenging career, and possibly a business of their own. Research from EY shows that millennials, or Generation Y, are entrepreneurial, with 68% of 25-34 year olds aspiring to run their own business. "Entrepreneurs are generally made not born, and many have often spent time in a corporate setting before setting out on their own," says Steve Wilkinson, UK and Ireland markets managing partner for EY.

When Deloitte announced its £25m Innovation Investments scheme in November 2014 to help its employees create and run in-house start-ups, it knew the initiative would appeal to younger staff. "It's no longer the case that all of our promising talent want to

follow the traditional route to partner - many want variety and flexibility in their career to enable them to express themselves, experiment and develop a broad set of skills," says Simon Owen, Deloitte's managing partner for innovation and solutions.

But it has also received a lot of interest from older staff. "Many of them have financial and family commitments that can make it difficult to go it alone, whereas this way they can maintain their salary and grow their business without having to personally invest in it," says Owen. As of January, there were more than 100 business ideas submitted. "We anticipate launching the first of these in the coming weeks," Owen confirms.

Miguel Meuleman, entrepreneurship professor at Vlerick Business School in Belgium, believes intrapreneurship appeals to all generations, saying: "Most people can contribute to the process if they are triggered by the right organisational culture." Meuleman adds that the culture must be "open", allowing people to share ideas across departments and to work in cross-functional teams, not in silos. The culture should also be outwardly open and the organisation should be willing to share ideas with customers, suppliers, even competitors. "Opening up is key to becoming more innovative but it's a big weakness of many traditional companies," he says.

Installing an entrepreneurial culture is something many businesses aspire to, but often fail to follow through. Research from the Economist Intelligence Unit shows they believe such culture should "encourage new ideas from everyone" and "have a high tolerance of failure". However, 30% of companies globally still "do not take steps to ensure those conditions are present".

These companies fail to capitalise on the potentially massive pool of innovative ideas their employees often have. Research from EY shows that, although 82% of professionals working in some of the UK's largest businesses have had ideas that could lead to new revenues, only just over half of them have been able to implement them in their workplace. Large businesses based in London are embracing intrapreneurship faster than those in other regions though - 50% of employees working in London feel their company has an entrepreneurial culture as compared to 29% nationally.

Also, both internationally and in the UK, high-tech companies tend to be ahead of the game when it comes to intrapreneurial initiatives. "It's the industry where the pace of change is the greatest and innovation is key not only to grow but also to survive. Tech companies have to innovate their innovation management model itself and intrapreneurship is one new dimension they investigate and test," says Olivier Leclerc, former director of entrepreneurial initiatives at Alcatel-Lucent, global provider of network solutions.

But on the whole UK businesses are still largely reluctant to foster intrapreneurship. ICAEW's head of enterprise Clive Lewis thinks most companies would probably struggle to persuade the right people to take part in such initiatives because the

STRENGTH TO STRENGTH

Intrapreneurship has been identified as a key strength of organisations classified as innovative, creating a culture of free thought and experimentation.

The 20 most innovative companies of 2014 were:

1. APPLE
2. GOOGLE
3. SAMSUNG
4. MICROSOFT
5. IBM
6. AMAZON
7. TESLA MOTORS
8. TOYOTA MOTOR CORPORATION
9. FACEBOOK
10. SONY
11. HEWLETT-PACKARD
12. GENERAL ELECTRIC
13. INTEL
14. CISCO SYSTEMS
15. SIEMENS
16. COCA-COLA
17. LG ELECTRONICS
18. BMW
19. FORD MOTOR
20. DELL

Source: 2014 BCG Global Innovators Survey

UK has one of the most welcoming environments in the world for starting a business. "People prefer to have a go themselves. The money for start-ups is easier to find now than it was five or 10 years ago. Many use crowdfunding to find the money to develop the product to the point when it's scaleable and then go on and do it," he says.

It is a different story in Denmark, Norway and Luxembourg, the top three European countries for intrapreneurship according to the Global Entrepreneurship Monitor's 2014 Global Report. In Denmark for example, over 11% of employees are classified as intrapreneurs.

Giving staff time away from their day jobs to work on creative projects is paramount if internal innovation is to flourish. "Intrapreneurs are also encouraged by having more time for developing their skills, and by having more space for experimentation," says Alan Brown, professor of entrepreneurship and innovation at Surrey Business School.

3M's employees get to spend 15% of their time working on their innovations, whereas Googlers get 20%. "UKFast's R&D team also spend 20% of their time working on their pet projects," says Jones. Deloitte's intrapreneurs, if they can demonstrate the feasibility of their business idea, will enter a funded "incubation" period when they will stop working on their day-to-day responsibilities to focus full-time on developing their start-ups.

Research from the Economist Intelligence Unit also shows that "strong leadership" is a major factor for encouraging innovation. "It has to start with top management support, financial as well as through special programmes or bootcamps being set up," says Meuleman. But Brown warns against a too structured approach: "Any form of innovation requires elements of experimentation, but this must be managed within a structured approach. It's this blend of anarchy and control that must be established," says Brown.

"Innovation must be managed within a structured approach. A blend of anarchy and control must be established"

Olivier Leclerc ran Alcatel-Lucent's four-stage annual intrapreneurship initiative for France and the EMEA region between 2008 and 2012. Employees were first given three months to submit their ideas. In round one selection, an innovation board headed by the chief executive for France invited authors of the 15 most promising ideas to make their pitch and to form project teams to develop their ideas over the following three weeks.

Progress was evaluated in round two selection, which chose seven teams to take part in an eight-day bootcamp and to be mentored by members of the innovation board for three months. The teams then presented their business plans to the innovation board and to outside investors. Of the 30 projects that reached this final selection stage over four years, three led to new product lines or service offerings. "That's a 10% success rate, similar to that of start-ups," says Leclerc.

But all of this will only bear fruit if a business employs intrapreneurs in the first place. It therefore makes sense to recruit for entrepreneurial characteristics. According to Steve Wilkinson of EY, such people "see opportunity where others see disruption; are tenacious and visionary; and have the ability to work in and motivate a team". But finding them could be easier than keeping hold of them.

Unless they are properly rewarded for their intrapreneurial efforts, employees may decide that a start-up of their own is the way to go. Meuleman says that, on top of financial incentives and innovation awards, intrapreneurs should be rewarded with promotions, even if their venture fails.

While Deloitte's start-ups scheme will initially remain owned by Deloitte, the firm will ensure the originator is rewarded appropriately. "In addition to being paid their full salary, they'll also receive a bonus based upon the performance of their business and a share in the profit from any sale of the company," says Owen.

On this last point, American academic Steve Blank advises corporates to proceed with caution, pointing to Xerox's intrapreneur fund Xerox Technology Ventures (XTV) as an example.

XTV start-ups were so successful and its fund managers rewarded so handsomely that the parent company wrapped it up prematurely because of internal dissatisfaction. "The success came largely from Xerox technology and customers, yet the start-up companies XTV funded got all the credit," writes Blank. "XTV won in the market, but lost inside the corporation". For intrapreneurship to work, the organisation must be prepared to sustain internal support for ventures over time, advises Blank. "Ventures that launch without this preparation are at great risk as soon as the initial enthusiasm for innovation begins to wane."

ILLUSTRATION: PARKO POLLO

10 ways to make your practice fit for the future

To survive in the future, chartered accountants will have to offer real value to entrepreneurs with small and medium-sized companies by becoming true business advisers.

We will have to become their mentors, their advocates and their professional friends. Simply doing the book-keeping and the tax returns was never enough – and it certainly won't be in a few years' time. That means a new approach is needed from chartered accountants – and offers new opportunities to firms. Here are my top ten tips:

1 CHANGE YOUR CULTURE

Spend more time with your clients and less time doing the numbers.

2 OFFER INSPIRATION

I was inspired by a chartered accountant in Coventry who took pride in adding value to the people and businesses he worked with. Firms need to have that as their raison d'être.

3 UNDERSTAND YOUR CLIENTS

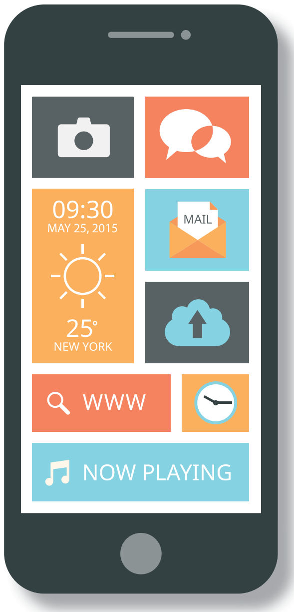
Clients need to see a professional accountant offers more than just accounts preparation, tax returns and bookkeeping. Accountants do understand their clients' businesses. Often they don't get an opportunity to demonstrate it. Clients require regular, proactive support with valid information, particularly where banks, for example, want regular management information. Technology such as cloud accounting has made the financial information accessible. But clients still need a way of interpreting that information. This is where professionals can add recognisable value which is therefore easier to charge for.

4 EMBRACE CHANGE

Change is inevitable and is likely to accelerate in the accounting profession as technology drives that change. Exploit it to your advantage.

5 DEVELOP YOUR TEAM

Using the strengths of the individuals in your business is key to helping all members of the team deliver great service to your clients. Age is not the determining factor in whether a firm of chartered accountants is fit for the future. Young people can sometimes be more reluctant to move with the times than older ones.



6 BE A ROLE MODEL

I had mentors who helped me develop into a professional. Your trainees will need nurturing to become leaders in their own right. The ability to take responsibility comes naturally for some people, but many others need a role model and someone they genuinely aspire to be like. Think of your own career or your own personal life. Someone along that journey will have changed the way you moulded your career.

7 ATTRACT TALENT

There is a challenge to get the best talent into the industry. It is the job of the profession to demonstrate we can offer a good career for them to develop as individuals and have high earning potential for a long period.

8 ACQUIRE PEOPLE-SKILLS

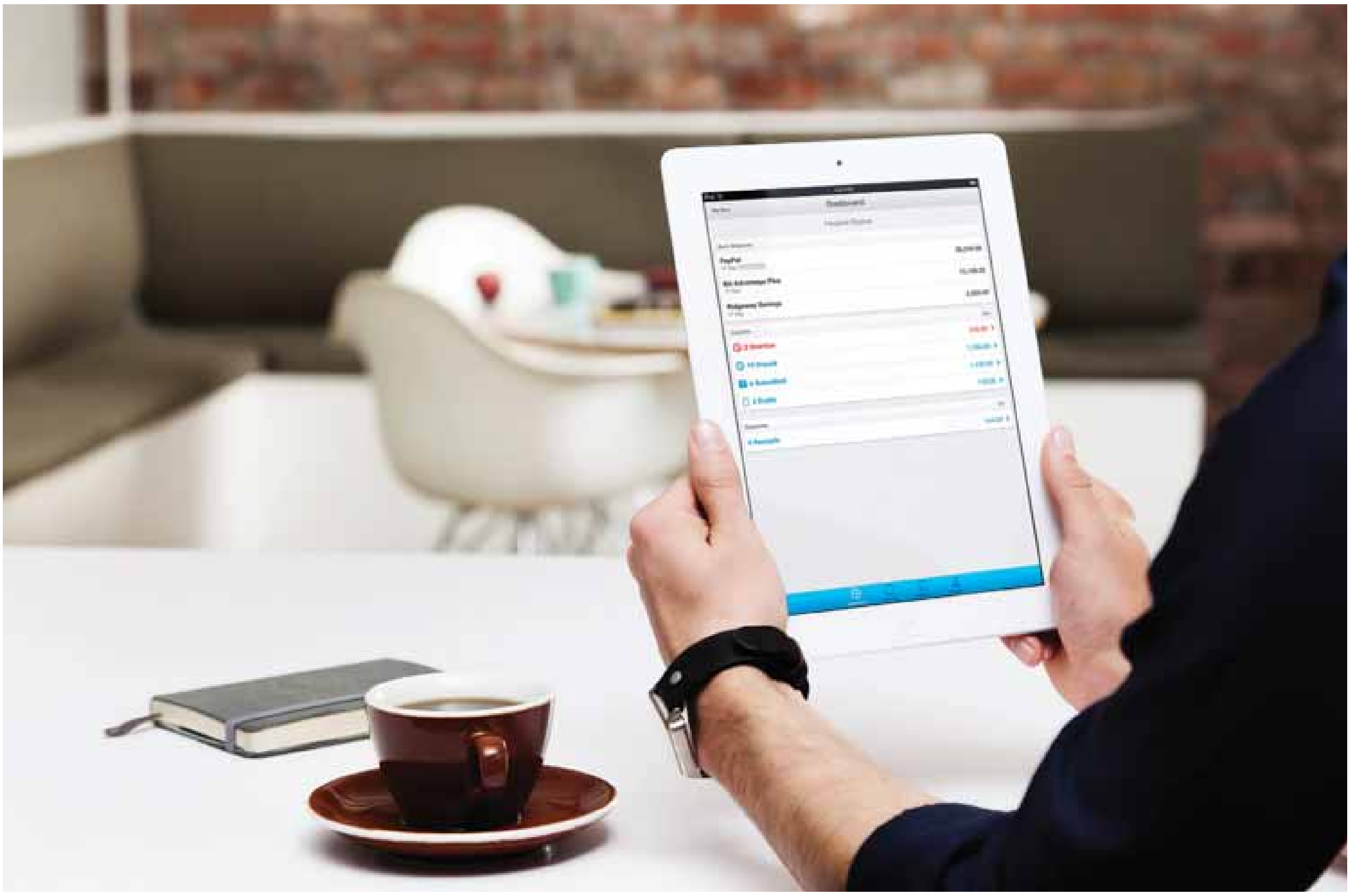
The key driver for many in the profession is finding the partners of the future. This brings the challenge of finding people to buy the firms. Most forward-thinking firms have changed the type of person they recruit. They need people who are comfortable in front of a client. They want people with the soft skills and ability to articulate what might be complex financial matters in a way that a client can understand and act upon. My view is that it was always this way. The best partners always had this skillset.

9 LOOK TO THE CLOUD

Cloud-based accounting products are at the forefront of delivering a more rounded service. Cloud, however, has been around for a while; it just wasn't called "cloud". SMEs now have the capability of operating in a way that multinationals have operated for some time.

10 OUTSOURCE

Good use of outsourcing by quality and efficient providers helps firms deliver greater value to their clients. Compliance has low value in the client's eyes, but is an essential reporting tool and maintains the client relationship over a long period of time.



TAX WHERE TAX IS DUE

29 **DIARMID O'SULLIVAN** expresses his views on the hot topic of tax and how large-scale corporate tax avoidance impoverishes us all

It's a truth generally, if not universally acknowledged, that the taxation of multinational companies is in a mess at the moment. The visible sign of this mess is the spectacle of Apple, Google and the like, curled atop their massive piles of offshore cash like Smaug, the avaricious dragon from *The Hobbit*.

The connection between the places where multinationals pay tax and the places where their substantive activities take place has evidently been strained to breaking in many places by the growth of the offshore economy and the digitisation of business. As the Lux leaks scandal has made clear – where documents were leaked showing how the Luxembourg government made agreements with some of the world's largest multinational companies enabling them to make massive tax savings – much of this strain is caused by certain countries deliberately hacking loopholes into their own tax regimes in the hope that global capital will gush through and leave a little bit of value behind, even if the result is to undermine corporate taxation in other countries.

The problem requires fundamental reform of tax rules, which ActionAid and other NGOs are calling for in our campaign for a Tax Dodging Bill. But there also needs to be a profound rethinking of some common attitudes in the accountancy profession (and the legal profession, for that matter), whose specialised knowledge gives them a privileged position in influencing government policy.

As a relative newcomer to debates about corporate tax, I find it strange to walk down streets paid for by taxation, enter buildings whose staff were educated by the state and nursed in its hospitals, then enter seminars of tax experts who talk about tax purely as a cost to the corporate bottom line and seem to regard its payment, in any jurisdiction, as "leakage" to be minimised by any means that the law allows.

This attitude still seems widespread among tax professionals, if less publicly expressed than in the past. It is increasingly at odds with the way that the British public sees the tax system. Recent public polling conducted by ActionAid, in partnership with Christian Aid, found very large majorities expressing a belief that corporations do not pay enough tax, and that politicians are not doing nearly enough to ensure that they do.

I can already hear tax professionals gritting their teeth. They lament that the public does not understand the complexities of deferred taxation and group loss relief, or the workings of the UK's tax treaty network and European law, or even the distinction between sales and profits. This gritting of teeth is especially loud around the UK's new Diverted Profits Tax, aimed at the avoidance of permanent establishment status and other artificial arrangements. Some have depicted this new tax as an egregious example of ad-hoc, politically-driven policymaking that can only add further uncertainty to the 17,000-page monster that is the UK tax code.

As a non-professional my natural response is: "Well, what did you expect?" It is one thing for experts to raise reasonable concerns about short-termism and incoherence in the design of tax policy. But what outsiders often hear sounds more like a chorus of medieval theologians insisting that the peasants shouldn't question the authority of the Church because they don't understand the subtleties of religious doctrine. The point, which politicians have evidently grasped in the case of the Diverted Profits Tax, is that the public doesn't care about doctrine. What it sees through the windows of the monasteries is priests in sumptuous robes, stuffing themselves with cake.

This tension is not confined to developed countries like Britain. A colleague visiting our programme in Zambia recently was offered a lucid critique of mining companies' tax practices by the man driving his taxi. ActionAid works to curb poverty in developing countries and our particular concern with Britain's tax system is the extent to which it ends up encouraging British-based companies to avoid tax in these countries, where the money is badly needed to pay for public services for the poor.

Governments in the developed world need revenue to provide services for their ageing populations. In the developing world, many governments see prosperity on the horizon and worry that big outflows of capital are slipping, un- or barely-taxed, through their fingers. So the economic and political incentives to collect more tax from corporations have grown.

Of course the desire of governments to shore up their corporate tax bases is doing battle with an equally powerful fear of losing out on foreign investment, resulting in tax policy that can fairly be described as messy: on the one hand, policies intended to collect more tax; on the other, large and expensive giveaways. ActionAid has long raised concerns about the practice in poorer countries of offering generous tax breaks to investors, on the assumption that these are needed to attract foreign capital, without rigorously assessing whether the benefits of investment outweigh the cost in foregone tax. It has been disturbing to learn, from the recent hearings of Parliament's Public Accounts Committee on the management of tax expenditures, that the UK doesn't seem to do a great deal better.

So what is to be done to restore a sense of balance to the taxation of multinationals? A common argument is that the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit-Shifting (BEPS) project should enable countries to hammer out a new consensus on the taxation of multinationals. BEPS is a highly-ambitious project, seeking to win consensus for 14 sets of recommendations and a multilateral agreement to bed them in place.

But BEPS will struggle to achieve global legitimacy as the answer to general disquiet about the workings of the tax system, for at least three reasons. Firstly, the project effectively excluded dozens of developing countries from its discussions and the OECD has only belatedly invited a few to join after months of criticism, including from NGOs like ActionAid. Secondly, the OECD seems unwilling to look "tax competition" directly in the face, even though the willingness of some countries to undercut others is arguably one of the biggest drivers of corporate tax avoidance.

Thirdly, the outcomes of BEPS seem likely to be messy as governments go about adopting its many recommendations, or not adopting them, in their own ways. With so many billions of dollars in potentially taxable income at stake, the ultimate outcomes of BEPS will be determined as much by perceptions of national interest, and by lobbying from vested interests of one kind or another, as by the patient and fair-minded consideration of alternatives.

One example of a strong concept being watered down is country-by-country reporting, championed by tax campaigner Richard Murphy as a means to provide the stakeholders of multinational companies with a clearer public picture of their global activities. The OECD has removed the "public" part, despite evidence more or less daily in the newspapers that the tax system needs greater scrutiny from third parties, and recommended instead that the reports be available only privately to national tax authorities. Even this would be a big step in the right direction, but now the OECD is recommending that the reports be made only by the largest companies and under conditions of confidentiality which, we fear, could make it far harder for tax officials from poorer countries to access them.

Despite its profound limitations, we shouldn't preclude that some useful changes will come out of BEPS. The project should at least reinforce pressure for taxation to be more closely aligned with economic substance. Recently I asked a tax lawyer at a multinational how her company might respond to BEPS and she replied: "We might have to put some more substance in our holding companies."

How much substance is enough? No doubt that argument will be played out in many negotiations between multinationals and tax authorities around the world in years to come.

In the meantime, we don't think it's necessary or wise to wait passively for the outcome of BEPS and our polling made clear that the British public doesn't think any of the political parties is doing enough on the subject. More is needed to restore public trust, which is why my organisation and more than 16 others are calling on the UK to adopt a Tax Dodging Bill within the first 100 days of the next parliament.

Our proposals run with the grain of the BEPS discussions, or current reforms to UK tax policy, or (in the case of tax incentives) common sense. Bullet points are not a pretty sight in a long text but if readers will forgive them for the sake of brevity, our proposals are to:

- Ensure that British tax rules do not incentivise tax avoidance by British companies in developing countries, chiefly by reforming the Controlled Foreign Companies rules so that they apply to all profits shifted into tax havens, not just those shifted from the UK.

- Require multinational companies to publish reports of their turnover, profits, taxes paid and other data on a country-by-country basis.

- Curb the avoidance of tax on profits earned in substance in the UK by multinationals based elsewhere; our proposal is similar to the Diverted Profits Tax, but without the loophole included in the latter for "loan arrangements".

- Review all corporate tax incentives to check whether they provide tangible benefits to the economy, society and the environment which justify their costs in foregone tax.

- Ring-fence HMRC's budget, tighten rules for tax advisers and increase the penalties for tax avoidance schemes which are successfully challenged by HMRC.

Questions as complex as those facing the tax system are not going to be solved in one round of legislation but we think that our proposals, if adopted into law and rigorously enforced, would go some way towards addressing public concern. They would also raise the bar for international discussions (including at the OECD) and ultimately assist the tax authorities of developing countries to raise more revenues to invest in curbing poverty. There is a long game to be played in the international arena and we are convinced that the best approach is to start at home.

Clever minds can usually find ways around rules, however carefully crafted. So what is ultimately needed to restore public confidence, above and beyond reform of tax rules, is a profound rethinking of attitudes. Tax is far more than just a cost to the bottom line: it is the means by which we build and maintain a decent society. The public will sense that things are moving in the right direction when we start to see that message expressed in the day-to-day actions of the tax planning industry as well as in its words.

Diarmid O'Sullivan is a Tax Justice Policy Adviser at ActionAid UK

Thrill seeker

Adrenaline junkie **Ian Davies** possibly has one of the most diverse portfolio careers in the country. He tells Xenia Taliotis why he's never bored on a board

Ian Davies is remarkably good at many things, but relaxing, as in sitting and doing nothing, isn't one of them. For him, relaxation is leading members of the Ski Club of Great Britain on an exhilarating off-piste adventure, or flying head first down the Cresta Run at 130km an hour on a metal tray; racing across the Bay of Biscay in a yacht; or chopping through the clouds in a Bell 47 (*M*A*S*H*) helicopter. "I like diversity and excitement," he says, which is an indication that he also likes understatements.

Davies clearly thrives on diversity: right now some of the positions he holds include deputy chairman (and chairman, Audit Committee and Employee Benefit Trust) of engineering, science and technology consultant BMT; senior independent director (and chairman, Audit Committee and Remuneration Committee) at global recruitment specialist Harvey Nash; chairman of the Kite Foundation, which provides funds for educational facilities in the developing world; and various positions at ICAEW, including senior independent director, and board member (and chairman, Remuneration Committee).

He is also ICAEW's board cyber lead, which puts him at the forefront of ICAEW's strategy to help finance directors combat cyber crime: he will soon be helping to create a film to raise awareness of what they can do to safeguard their companies.

"Every business is at risk of being hacked," he says, "but luckily board members are beginning to realise they can play a significant part in tackling the problem. For too long they shied away from it, delegating it to their IT departments. The film I'm helping to create with ICAEW should push home the point that finance directors, non-executive directors, chairmen – they can all take steps to protect their companies and their shareholders."

His involvement with ICAEW goes back 35 years as national president for the chartered accountancy students, and he is deeply committed both to the Institute and to the profession as a whole. "Though I've not been in practice for some years now, I still love accountancy," he says.

"The reason I went into it in the first place was because I saw the potential for using the knowledge I would gain in a thousand different ways, across a hundred different industries around the world. I really can't think of another profession that equips you with such a wide range of transferable skills, and yes, I believe I've put them to excellent use, not only to give myself an absorbing career, but also, I hope, to benefit those I've worked for."

Davies qualified with Ernst & Young (now EY) and was with the firm for seven years, including four in the Middle East. He then did an MBA at Cranfield before joining Coopers & Lybrand (now PwC) as senior manager. A quick promotion to partner followed and he was sent to Kuwait to open the first office in the country.

He was there immediately after the first Gulf War and witnessed Iraq's scorched earth policy when more than 600 oil fields were set alight as the Iraqi military withdrew. Perhaps not surprisingly, Davies achieved the five-year targets in one year, and returned to the UK.

Deciding that a portfolio career might suit him best, he moved away from accountancy, taught at Cranfield and took on several chairmanships, including that of Coutts & Co (South) and Michelmersh, a brick and tile company.

Since 2006, he has worked with BMT, appointing the CEO and other senior staff, and instigating numerous acquisitions and divestment of the UK surveying business, overseeing the closure of the defined benefit pension scheme and reviewing the employee benefits scheme globally.

"BMT does everything from naval ship and private yacht design, to metocean forecasting and wind tunnel testing," says Davies. "It is wholly owned by its 1,500 employees, who are based all over the world, through the Employee Benefits Trust, which I chair.

"BMT operates a huge diversity – [there's that word again] – of businesses and specialises in nine markets, including marine surveys, defence, vessel design, construction, infrastructure and rail. It has offices across Europe, the Americas, the Middle East, Africa, Asia and Australasia, which means that when we reviewed the employee benefits schemes, we were dealing with many different currencies and cultures across different jurisdictions.

"Now it's more unified we look at the business as a whole when distributing the profits. All employees have an equal share basis, even if they work in a sector that, due to cyclical economics, may not have done so well that year."

Davies is contracted to work just 20 days a year for BMT but he averages closer to 35: when we meet, he had just done seven days on the trot. He

CAREER IN A NUTSHELL

2010-present
Harvey Nash

2009-present
ICAEW

2006-present
BMT

2005-2010
Dawson Holdings

2002-2009
Coutts & Co

1993-2008
Salisbury NHS Trust

1992-1994
Michelmersh Brick & Tile Company

1988-1992
Coopers & Lybrand

1979-1986
Ernst & Young

1979-80
ACASS

PHOTOGRAPHY: TOM CAMPBELL

has a similar contractual arrangement with Harvey Nash, where his notional days per year often morph into double that number. He's been with Harvey Nash since 2010, again playing a part in recruiting senior staff, including the chairman and new board members, and leading the audit retendering to continue the drive for quality.

He is very matter of fact about his achievements, though there is obvious – and justifiable – pride in the work he has done, particularly for charities and other causes that ignite his passion. He describes his years with the Salisbury NHS Foundation Trust and the work he did for Salisbury Hospital as "immensely rewarding". As audit chairman he helped the trust achieve financial balance for every year of his tenure and maintain reference costs at 88% of national rates.

"It's easy to look at our financial performance and to ask whether the savings we made were at the cost of care, but nothing could be further from the truth," he says. "It was always quality first and cost second – and we had the highest quality scores to prove it."

"Every business is at risk of being hacked, but board members are realising they can play a part in tackling the problem"

Davies took a personal interest in the work at the hospital's spinal injury unit, and after his involvement with the hospital ended, he became founding chairman of the Disabled Powerboating Trust. The charity, set up by former patient and quadriplegic yachtsman Geoff Holt, has enabled more than 1,200 disabled people to enjoy the sport.

As a passionate sportsman Davies is glad to have helped give others the opportunity to experience some of the exhilaration he feels when he is sailing, skiing or flying. His home in the New Forest – which he designed himself because he couldn't find an architect with the skills to do the detailed drawing he required – has a helicopter pad in anticipation for when he's able to buy a chopper.

"Perhaps when I retire," he says. That day is not likely to come any time soon.

Technical
The top five

ICAEW revises UK growth forecast down, new requirements for bank audits, and consultation on GAAP and capital markets union

ECONOMIC SLOWDOWN

1 Increased global uncertainty has led ICAEW to revise its quarterly economic forecast for UK growth in 2015 down from 2.5% to 2.4%. It also believes that business investment growth will slow from 6.8% in 2014 to 5.2% in 2015, as large companies worry about their exposure to international risks and the attitude of the incoming government to the sector after the election in May.

"The extent to which the recovery is consumer-led is an ongoing concern," ICAEW says. "With businesses cautious and exporters struggling with a gloomy economic outlook in key European markets, a trade and investment-led recovery is going to be difficult to achieve any time soon. In the short term this is not an issue, and a strong rise in consumer spending this year could be the shot in the arm that the UK economy needs. But beyond 2015, the imbalanced nature of the economy could become a problem."

icaew.com

BANK AUDITS TO REPORT TO PRA

2 Auditors of the UK's largest financial institutions will have to write reports to the Prudential Regulatory Authority under new Bank of England proposals. The move is intended to strengthen the quality of the dialogue between the supervisor and the auditor.

The written reports should give supervisors a better understanding of the risks in banks' financial reporting, by providing them with "a more consistent and holistic set of information on which to base their dialogue with auditors".

The requirement will initially apply to the UK's largest headquartered deposit-takers because of the risk they pose to financial stability. It will affect audits of financial reporting periods ending on or after 1 November 2016.

bankofengland.co.uk

GREEN PAPER SETS OUT CAPITAL MARKETS UNION PLANS

3 The recently-published green paper on capital markets union sets out how the EU intends to improve access to financing across Europe.

The paper also seeks to increase and diversify the sources of funding from investors in the EU and globally, and to improve market efficiency so that links between investors and businesses seeking to raise funds work more effectively.

No single measure will deliver a capital markets union, it says. "Instead there will be a range of steps, some individually modest, but whose impact will cumulatively be significant."

Proposals will: encourage high quality securitisation and free up bank balance sheets to lend; review the Prospectus Directive to make fund-raising easier across borders; improve the availability of credit information on SMEs for investment purposes; establish a pan-European private placement regime to encourage direct investment into smaller businesses; and back the take-up of new European long-term funds to channel investment in infrastructure and other major projects.

FRC CONSULTS ON GAAP

4 The Financial Reporting Council has launched a consultation on amendments to UK and Irish GAAP. It focuses on simplification of SME reporting requirements after the Accounting Directive's implementation.

It has published FREDs 58, 59 and 60, all based on an earlier consultation document, *Accounting Standards for Small Entities - Implementation of the EU Accounting Directive*. Key proposals include: withdrawal of the FRSSE for accounting periods beginning on or after 1 January 2016; a new accounting standard for micro-entities offering some simplifications in accounting; new recognition and measurement requirements for other small companies aligned with new UK GAAP and disclosure requirements based on the new legal framework; and greater flexibility in relation to the format of the p&l account and balance sheet in FRS 101, allowing the use of IFRS-based presentation requirements similar to those used for group accounts.

The deadline for comments is 30 April and the proposals will apply to accounting periods beginning on or after 1 January 2016. Earlier application is allowed.

frc.org.uk

GUIDE FOR PREPARERS

5 The ICAEW Corporate Finance Faculty has published guidance for preparers of pro forma financial information. TECH 01/15CFF provides practical help for preparing pro forma financial information that complies with the requirements in the Prospectus Directive regulation and relevant ESMA recommendations. It is underpinned by the principle that pro forma financial information should not be misleading, in the context of the investment circular in which it is presented. The guidance was developed after consultation and reflects current UK market practice. It may also be useful where there are no regulatory requirements governing preparation of pro forma financial information.

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ILLUSTRATION: ARON VELLEKOOP LEON

Key developments

AUDITING

Audit and assurance standards compendium published

The Financial Reporting Council has published its compendium of *Audit and Assurance Standards and Guidance 2015*.

This contains all the FRC's audit and assurance standards in issue at 1 February 2015, including International Standards on Auditing (UK and Ireland), International Standard on Quality Control (UK and Ireland), International Standard on Review Engagements (UK and Ireland), Standards for Investment Reporting, Ethical Standards for Auditors and Ethical Standards for Reporting Accountants.

As well as Practice Notes and Bulletins of current interest, the compendium also contains revised ISAs (UK and Ireland) 260, *Communication with Those Charged with Governance*, 570, *Going Concern*, and 700, *The Independent Auditor's Report on Financial Statements*, all of which are effective for audit of financial statements for periods commencing on or after 1 October 2014.

The compendium costs £65 and can be ordered from frcpublications.com

BUSINESS

Insolvency fee transparency

New rules will bring an end to the uncertainty of unlimited hourly charges in insolvency cases by requiring insolvency practitioners to provide upfront estimates of the potential costs.

The move follows the 2013 Kempson review and consultation on setting fees in the light of public concern about how the current system could be exploited by unscrupulous insolvency practitioners to charge excessive fees to the detriment of creditors.

The new rules will require practitioners to provide a summary of estimated costs, the work to be undertaken and, where an hourly rate is proposed, an estimate of the expected time. The estimates will act as a cap on fees as practitioners will have to negotiate with creditors to vary the agreement.

Business minister Jo Swinson said: "Increased transparency is a sensible and practical way to strengthen the hands of those owed money in an insolvency and will give insolvency practitioners the opportunity to demonstrate how their services provide value for money."

Insolvency trade body R3 has joined the Chartered Institute of Credit Management and the British Property Federation to launch creditorinsolvencyguide.co.uk, a website aimed at creditors. It explains the different insolvency processes and shows how creditors can get involved and increase the chances of seeing money returned to them.

Support for COMPETE

Support is growing for a UK initiative to cut the amount of red tape in the European Union, according to a recent overview from the Business Taskforce.

The report, *Cut EU Red Tape*, reveals that the EU Competitiveness Council of Ministers endorsed a range of key COMPETE principles at the end of last year, a decision which then received the backing of the EU heads of government at the European Council.

This set of principles or "common sense filter" - Competitiveness test; One in, One out; Measure impacts; Proportionate rules; Exemptions and lighter regimes; Target for burden reduction; Evaluate and enforce - was launched by the taskforce in October 2013 and embraced by the UK and European business community.

According to the review, the ministers gave their support in particular to regulatory offsetting - a form of "One in, One Out" - and the introduction of a target to reduce the overall EU regulatory burden. They also gave their backing to the idea of systematic application of the SME test as a way to identify opportunities for micro exemptions and lighter regimes for SMEs.

Another idea which gained strong backing was a single Independent Impact Assessment Board to scrutinise all EU impact assessments.

EMPLOYMENT

Disability discrimination appeal dismissed

The Employment Appeal Tribunal (EAT) has dismissed an appeal against an Employment Tribunal (ET) decision rejecting a claim of disability discrimination on the grounds that the claimant's employer could not have been expected to know she was disabled.

In *Donelien v Liberata UK Ltd*, Miss Donelien had been employed for nearly 11 years as a court officer before being dismissed without notice in October 2009. She was dismissed for three separate matters, including unsatisfactory attendance, failure to comply with the notification procedures required on any occasion when she was going to be absent, and failure to work her contractual hours. Her sickness record was poor.

Liberata had referred her case to Occupational Health for assessment. The advice received back "chimed with their own experience and impression and the two letters that they had received from the GP, [which] were all consistent in saying [that], although the claimant had a number of health difficulties, and stress and anxiety, it fell short of coming under the definition of disability".

In September 2012, Miss Donelien was found by an employment judge to have been disabled. Despite this, her claim was dismissed by the Employment Tribunal because Liberata had not known at the relevant time that she was disabled and was therefore under no duty to make adjustments at that time. She appealed the decision on the grounds that Liberata had failed to follow the approach set out in *Gallop v Newport City Council* by questioning the medical reports, and that it had made insufficient enquiry for it to be able to satisfy the tribunal that it had no constructive knowledge of her disability.

The EAT disagreed. It said that the ET's decision was one of fact and judgment. It could not be shown that it took an approach to the facts that was erroneous in law. Nor was its decision perverse.

PRACTICE

Engagement letters – helpsheet revised

Accountancy firms should be reviewing their engagement letters in the light of a revised helpsheet from ICAEW on the matter.

This is particularly important because of the requirements of *The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013*, SI 2013/3134, and changes that are likely to apply from October 2015 if the Consumer Rights Bill is enacted.

The helpsheet explains the importance of engagement letters and provides a series of sample wordings, which firms can use to draft engagement letters for a variety of engagements for both corporate and non-corporate clients.

It has also been revised to meet the requirements of the clarity ISAs effective for accounting periods ending on or after 15 December 2012.

icaew.com

TAX

Employment status to be simplified

The Office of Tax Simplification (OTS) has published proposals to simplify the tax complexities of employment status. It says that there is no definition of self-employment in law, which leaves businesses, individuals and HMRC to wade through case law to establish employment status, and that the different tests for employment used for tax, employment law and pensions auto-enrolment make for added difficulties.

The consequences of an incorrect decision can be significant tax and national insurance contribution bills, it adds, so employers often hire contractors through intermediaries.

Suggested short term improvements include: better employment status guidance, in one place with more real life examples; help for individuals and small businesses on what action a business should take and the documentation it should have when engaging a self-employed person to reduce the burden of HMRC enquiries; setting up an HMRC employment status helpline with greater resources; expanding HMRC's Employment Status Indicator tool and developing its protocols to make it more reliable.

Longer term, the OTS wants to see a "safe harbour" approach where an employer relied on HMRC advice and was open about its arrangements; a possible *de minimis* period of time or level of payment before employment status needs to be considered; and a government study into aligning tax and NIC rates as well as the benefits available to the employed and self-employed.

gov.uk

Marriage tax break from HMRC

From 6 April 2015, married couples and people in civil partnerships will be able to apply for the new marriage allowance, worth up to £212 per year.

This means that, where one person doesn't pay tax or earns less than the basic rate threshold, they can transfer up to £1,060 of their tax-free allowance to their partner. However, it will only apply if the recipient of the allowance transfer doesn't pay more than basic rate of income tax.

Softer line on late PAYE filing

HMRC has decided to give companies three days' grace before imposing penalties on them for late filing of PAYE information. It will continue to review the penalties on a risk-assessed basis rather than be issued automatically.

Any employer in receipt of an in-year late filing penalty for the period 6 October 2014 to 5 January 2015 and who was three days late or less, should therefore appeal online by completing the "Other" box and add "Return filed within three days".

To prevent any further unnecessary penalties being sent out, HMRC has also decided to close the 15,000 or so PAYE schemes that have not made a PAYE report since April 2013. It is sending a letter out to the relevant schemes warning them about the planned closure and advising them what steps to take if they are or should be operating PAYE.

Late filing penalties have applied to employers with fewer than 50 employees since 6 March.

EU sets up special tax avoidance committee

The European Parliament has set up a temporary special committee to look into member states' tax rulings, after a series of investigations launched by the European Commission into tax rulings for multinational companies in member states and the major "LuxLeaks" scandal that threatened to derail Commission President Jean-Claude Juncker's leadership.

It will look into tax ruling practices as far back as 1991, but will also review the way the EC treats state aid in member states and the extent to which they are transparent about their tax rulings.

It will also seek to ascertain the negative impact of aggressive tax planning on public finances and will come up with recommendations for the future.

Revisiting regulation

As ICAEW's regulatory governance is revised, Caroline Biebuyck investigates what changes are in store and what they mean for members

Getting the appropriate regulatory governance in place is a never-ending task. Regulations change, times change, and perceptions change.

For these reasons, ICAEW decided in 2013 that it needed an independent review of its regulatory governance process. "As with any professional institution, for our regulatory regime to be credible it has to be in line with expectations," says ICAEW deputy president Andrew Ratcliffe. "These expectations change and so we need to be prepared to review and adapt our processes - not to fiddle around with them every year but to look at them every 10 to 15 years, as we have now."

With the aim of keeping the whole process as independent as possible, ICAEW approached a number of people to find a suitable chair for a working group to review the current regulatory governance process. After several interviews with different candidates, Sir Christopher Kelly, former chairman of the Committee on Standards in Public Life, was appointed to lead the working group of three lay people and two chartered accountants. "We were keen to find someone who wasn't a chartered accountant and who had no links with the Institute but who could understand accounting and finance. Sir Christopher, with his background in the Treasury, but no connections with ICAEW, fitted the bill," says ICAEW executive director of professional standards, Vernon Soare. "He accepted the appointment on the basis he could choose the other two lay members of the working group, which Council was happy with."

The working group undertook its task in 2013, reporting to Council in December the same year. While the group did not find any significant flaws or weaknesses in the regulatory governance regime, it did suggest several ways of making the process more transparent and independent.

However, these suggestions did not include splitting regulation into a separate organisation as, for example, solicitors have done. "Unlike other regulatory structures, ICAEW does not deal with public interest cases," says Soare.

"Given that these are dealt with by the FRC, and that the FRC reviews our disciplinary processes from time to time, the working group thought there were sufficient safeguards in our system so that we could maintain a unitary professional organisation."

The working group recommended the current Professional Standards Board (PSB), which has a majority of chartered accountants (including the chair), be replaced by the ICAEW Regulatory Board (IRB). This new board will have the same number of lay and ICAEW members, with its chair appointed by an independent panel set up specifically for that one purpose.

Interestingly, the panel will select the chair on a best-person-for-the-job basis, rather than insisting the chair should not be a chartered accountant. "The working group thought that if the appointment of that person was done independently of Council and the ICAEW Board, then that was insulation to make sure that the chair

ILLUSTRATION: ARON VELLEKOOP LEON

would be sufficiently independent of ICAEW, even if the final decision was to appoint an ICAEW member," Soare explains.

The appointment procedure for the IRB will be similar to that of the working group, which proposed these changes. The first step is to set up an ad hoc selection panel with an independent chair. Names of proposed chairs are put to a nominating committee and presented to Council, which approved Dame Janet Gaymer, former senior partner at Simmons & Simmons and now an independent consultant.

Dame Janet will appoint one other lay member and one ICAEW member. The panel, with its majority of lay members, then selects the IRB chair.

"Once the panel has been chosen, whoever they decide to select to chair the IRB will be the final decision," says Soare. "This person could be a chartered accountant but they cannot be a Council member. This is a change from the previous regime. Also the panel's decision will not need to be ratified by the nominating committee, the ICAEW Board or Council."

Council spent 12 months ensuring it was happy with the new system before approving these changes in December last year. Selection of the first ad hoc appointment panel is currently underway and the first IRB is due to be convened this summer.

The issues that come before the IRB will broadly be the same as those currently discussed by the PSB, with the main change being the balance of voices on the new board.

"The IRB will be charged with ensuring the professional standards department run the processes that underpin the licensing and disciplinary work effectively and efficiently," says Soare.

"It will sometimes be asked to take a view on policy issues that affect the regulation of members, asking questions such as: is the Institute discharging its regulatory responsibilities fairly and getting the balance right between the member interest and the public interest?

"That's an important issue for us, and can only really be done under the new set-up with this balance of lay and non-lay people on the board."

Sentencing guidelines will in future be approved by the IRB following consultation with the chairs of the investigation committee, disciplinary committee and appeal committee. Soare points out that some of these chairs are lay people and others ICAEW members.

"We already have some balance there but now we are taking that up a level. The IRB will be able to take a view over these three committees – not challenging individual decisions but providing an overview on decisions taken.

"Sometimes we are criticised that sentences handed down have been too lenient or too harsh. This tier of governance will be able to give an informed view on whether our disciplinary tribunals or our licensing committees are actually doing their job appropriately."

The other main recommendation of Sir Christopher's working group was to change the composition of the disciplinary tribunals. Currently these have two ICAEW members and one lay member; the working group recommended reversing this ratio so that lay members are in the majority. "While Sir Christopher's group did not think the current set-up was necessarily going to produce a biased result, he felt that having an open hearing with a majority of lay persons gave no reason for doubt on the transparency and objectivity of the process," says Soare.

Some members might prefer to think that they would be judged by a majority of their peers. However Ratcliffe, who sponsored the changes at Council, believes this change should make members more proud to be part of the profession.

> "We want to ensure our regulatory and professional standards arrangements have credibility"

"This isn't chaps regulating chaps – we have had the confidence to say we are going to involve, and in part surrender control to, lay decision over this," he explains. "It means that we can be less inhibited in talking about the regulation. If this were member controlled you might be reluctant to ask, is this still right? But if your governance is through a system where lay/ICAEW members have parity on the new IRB, you can put it to them and then you can move forward with more confidence as you have gone through the test of what an outside opinion would be. This isn't just for show: I genuinely think you end up with better thinking and better decisions and more credibility."

These proposals will be put to members at the general meeting in June, and Ratcliffe encourages them to endorse it. "We want to ensure our regulatory and professional standards arrangements have credibility. If we lose this we lose everything. Equally, we have gone through a very delicate balance of increasing lay involvement, but not separating the regulatory function entirely.

Yes, we have increased lay involvement, but there is no point in this process where the voice of a member is not represented at the table. It will not be in the majority or necessarily control the decision, but an ICAEW member's voice will be heard every time. It's important to have someone on the tribunal who has worked in the profession and who understands how things work in practice.

"Now and again Council is put in the position to shape this professional body for almost a generation. This is one of these times. It's time to be a bit bold and think about the people who come after us as much as to think about how our profession works today. One of the hallmarks of a mature profession is saying this is how we're going to steer it into the future. Council very much endorsed this and I hope the membership does as well."

Need to know

Liz Loxton outlines the regulatory changes affecting pensions, taxation and small business measures this month

This is set to be a year of plenty for practitioners when it comes to keeping up with the regulatory load. There is a legion of changes in 2015 across pension issues in particular, as well as the usual raft of taxation and employment issues.

Pensions will offer fruitful ground for accountants with high-net-worth individuals to advise, for instance. The juggernaut that is the freedom of access to pension savings reform rolls in on 6 April this year (see page 44), bringing with it plenty of opportunity for accountants to talk to clients about retirement income planning.

In probably the biggest change to the pensions landscape we have seen since the simplification brought in on A-Day in 2006, purchasing an annuity will no longer be mandatory.

It is probably worth remembering, says Andrew Shaw, head of personal tax at Kingston Smith, that for many people with modest pension pots, purchasing an annuity will still be the response that makes the most sense. But for individuals whose pension savings don't represent the bulk of their resources, the new freedoms represent a great deal of potential.

"It gives people the freedom to withdraw perhaps £50,000 one year and £150,000 the next, as fits their needs," he says. "Yes these decisions will have tax consequences, but for people with sizeable wealth, we have the pension pot brought into the armoury of their financial planning."

For many, access to the funds they have accrued will simply mean a chance to review what part the pension will play in their retirement. Accountants should not overlook the potential for pension funds in inheritance planning. "The pension pot is just a part of financial wellbeing," says Shaw. "There are a lot of advantages to leaving it untouched and passing it on within a trust effectively tax free, whereas if you take it out, it will fall into your estate and be subject to inheritance tax."

There will be challenges around how well pension providers will be able to make this work in practice, for instance. Withdrawing cash from a pension pot is notionally possible via a transfer to another provider. But such transactions are rarely straightforward and they can often be long-winded. New transfer or withdrawal mechanisms may take time to evolve.

However, overall freedom of access widens the possibilities for retirees - an open goal in terms of opportunity to talk to clients about their finances more broadly. "The crucial point is that we are going to be in a much more open regime.

"Most of it is all well and good for financial planning, but we mustn't lose sight of the fact that for most the pension is there for income. It's simply that there is now more flexibility on how you plan your retirement," explains Shaw.

AUTO-ENROLMENT

This year will be significant for smaller businesses and their preparations for auto-enrolment. Businesses with fewer than 30 workers will have staging dates beginning in June and carrying on through to April 2017.

For accountancy firms that offer payroll services this is an area where smaller businesses are likely to need considerable help, says Clive Lewis, head of enterprise at ICAEW.

The challenges are far-reaching and begin with awareness of the task ahead. Employer obligations include: notifying employees of their eligibility and right to opt out; collecting employee data in a useable format for a pension provider; ensuring payroll and other systems are in synch with those of intermediaries and pension providers.

More fundamental, though, will be the search for a provider. "One of the worries is that lots of pension providers simply won't want to serve this market," says Lewis.

Starting the search in good time and/or investigating the government fallback fund, NEST, must be a priority or even overdue. "Additionally, if a business already offers a pension, how does it compare to the minimum standards expected? All of this kind of assessment takes time - and small businesses are notoriously last minute."

SMALL BUSINESS ISSUES

For accountants with owner-managers on their client roster, there is also potentially good news ahead in the shape of the Small Business Enterprise and Employment Act, which is due to receive Royal Assent before the general election in May.

The Act brings in provisions aimed at making the UK business climate more user-friendly for the smaller enterprise. Amid the array of employment and procurement measures, policymakers have homed in on two key areas for small businesses - getting paid more promptly and securing growth capital.

ACCESS TO FINANCE

Provisions within the Bill aimed squarely at improving access to finance for smaller enterprises include a new obligation for banks to refer anyone they reject for finance towards alternative providers such as peer-to-peer lending or online invoice finance platforms.

"If you are rejected for finance by a bank, as it stands you can already appeal and have a completely separate group of people within the bank look at your application," says Lewis, "and quite often this results in businesses succeeding in their applications." The new proposals mean banks must do more than this, however. "Now they must refer people to alternative providers as well," he continues.

The mechanics of this have yet to be resolved, says Lewis. But it seems likely that a single private sector website will act as an intermediary platform and direct applicants towards providers suited to their requirements and likely to be able to come up with funding, he says.

For accountants, this does open up the possibility of revisiting discussions on sourcing finance, and these should go beyond the obvious, says Bobby Lane, partner at Shelley Stock Hutter.

Alternative providers are a welcome addition to the funding landscape he says, but advisers should not overlook existing resources such as Seed Enterprise Investment Schemes and even the maligned Enterprise Finance Guarantee. "There are some fantastic schemes and we've seen SMEs and clients have some successes even with much-criticised resources such as the EFG," he says.

ILLUSTRATION: ARON VELLEKOOP LEON

LATE PAYMENT

According to the Federation of Small Businesses, SMEs in the UK are owed a collective £40bn. So it's welcome news indeed that the Department of Business Innovation and Skills is consulting on more rigorous approaches to get larger companies paying out to their supply chain businesses. The new proposals would give businesses the right to challenge grossly unfair contract terms, for instance.

In the meantime, the Small Business Enterprise and Employment Act brings a firm duty on large companies to report payment practices and procedures quarterly, using a standard set of metrics, and posting the information regularly on a corporate website, rather than citing this information in annual reports.

The problem in the past, says Lewis, has been that no one knew where to find this information. "Advisers will be able to direct clients to it and help them interpret the information, giving a lot more specific insight on payment terms," he says.

TAXATION

In other moves, the reduction in corporation tax to 20% brings to completion George Osborne's staged programme to make the UK's corporate tax regime the most competitive in the G20.

This year's cut will only reduce corporation tax liabilities by a further 1%, but it nevertheless offers a prompt to advisers to talk to sole traders about the issue of incorporation. With a general election in the offing and with tax competitiveness and fairness centre stage in public debate, accountants and clients will do well to remember, however, that the current rate may not hold steady for as long as they would like.

On the VAT front, the registration threshold increases this year from £79,000 to £81,000 in a well-publicised and welcome move for small business, who will be able to turn over an extra £2,000 before having to register and account for VAT. And personal allowances become partially transferable between spouses and civil partners in 2015.

There are also changes to employee share schemes of some complexity that will affect companies with internationally mobile employees that they reward with securities. Businesses operating employee share schemes will need to be mindful of the changes to rules on employment-related securities held by these kinds of employees that were deferred from last year as they bring an undoubted added administrative burden.

The changes align the UK regime with international practice, but will bring some challenges. Companies will need to keep accurate records on the movements of their mobile members of staff, because income from employment-related securities and securities options will become taxable when employees are non-resident as well as when UK-resident.

Armstrongs Accountancy: in it together

Xenia Taliotis discovers how the award-winning Coventry practice has built itself up within the heart of its community

Armstrongs Accountancy has had its busiest and most exciting six months to date. As well as being named Midlands Independent Firm of the Year at the British Accountancy Awards in November, and seeing its director Paul Farmer come close to scooping the award for UK practitioner of the year, the Coventry-based practice has also recently opened a new office in Nuneaton and won lots of new business.

Farmer is still buzzing from it all and recalls the awards ceremony with relish. "We had such a great night. Most of the office was there, and we let out this tremendous roar when we won. The funny thing is, that was the first time we'd ever entered anything. It was a spur of the moment thing, really. We'd had such a good year, and I thought 'why not have a go?' And after I'd done that, I decided to enter the Practitioner of the Year category too. I'm very, very proud to have been among just nine finalists."

Farmer says entering the awards was a good exercise, because it helped him focus on his firm's achievements and his own. "It really showed me how far Armstrongs has come," he says, "as well as helping me think a little bit about myself. I have four daughters, including twins who were born at 32 weeks in December 2012, I'm one of four directors of a dynamic, fast-growing practice and I'm very active in the community.

"I support many local charities, raising £16,000 for the UHCW Trust's neonatal unit, which took such amazing care of my girls, and I do the books for my children's school. It was good to acknowledge these strengths, and to see them acknowledged by those who judge our profession."

He feels the award recognised not only Armstrongs' professional excellence but also the factors that make it stand out from its competitors. "I think our personality was one of the reasons we won. We're keen, we're modern and we're very energetic and I think those qualities all shone through."

Armstrongs was established in 1979 but didn't take its present form until 2003 when it became a limited company. It currently has 15 employees, including the four long-standing directors, and well over 1,000 nationwide and international clients, ranging from micro-businesses to global enterprises.

For a firm of its size, Armstrongs certainly packs a punch. Last year, it completed its biggest ever piece of business, helping to set up the sale of nutrition brand Grenade to Grovepoint Capital - a deal that valued the company at £35m. "That was a significant contract, truly massive," says Farmer.

"Alan and Juliet Barratt, who own Grenade, have been my clients for about a decade and I'd already taken them through one sale.

"I was there from the launch of Grenade and saw the business grow and grow until it was attracting so much interest from potential investors that the only sensible thing to do was to talk to the serious players and then start a formalised marketing process.

"At that stage, Aspire, our corporate finance division, took over to complete the deal. It was really exciting to see everyone's hard work reach such a satisfactory outcome last March."

Armstrongs is a general practice and so offers the usual range of accountancy services, including payroll, bookkeeping, personal and corporate tax, audit and compliance, and business acquisition and disposal.

It also provides more specialist services, such as corporate finance, patent box and capital allowance claims, specifically in relation to commercial property.

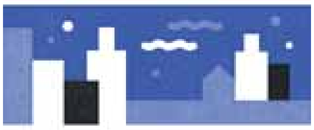
"You get many different taxes interacting when you're dealing with commercial property," says Farmer, "so devising a tax structure that is efficient

"Now that we're entering a new growth phase, it may be time to promote ourselves a bit harder"

ALAN BARRATT, CHIEF EXECUTIVE, GRENADE UK
"We've worked with Armstrongs for more than 10 years and our experience has been 100% positive. I trust them implicitly and I can honestly say that my business wouldn't be where it is today without their expert advice, accessibility and personal service. Paul Farmer has been with us from the start. He helped us sell an earlier business and I was very glad to have him on my side when the sale to Grovepoint Capital was going through. I can thoroughly recommend Paul and everyone else at Armstrongs. They're always there for their clients."

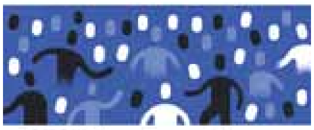
Established in 1979 and incorporated into a limited company in 2003

Fifteen staff, including four directors



Two offices – head office in Coventry, and a smaller office in Nuneaton, which opened in 2014

Turnover £1m. Turnover has doubled since 2009



1,000 clients from all sectors

Specialisms include the medical and legal professions, charities and land and property

ILLUSTRATION: ARON VELLEKOOP LEON

for your clients can be extremely complicated."

Though the spectrum of Armstrongs' work is clearly very broad - from filing annual tax returns for individuals to the Grenade deal - its sweet spot is businesses with a turnover of between £1m and £5m. Its clients come from all professions, including medical, legal, the charity sector and construction and property development.

At least half of the firm's work is annual compliance, but audits, payroll, virtual office and tax are also good earners. Business has boomed recently, taking Armstrongs' turnover to more than £1m for the first time, with more new clients and also more work from existing ones. Turnover has doubled since 2009.

Most new customers come from referrals from other clients, but Farmer is now considering ramping up their marketing activities and may well do some modest advertising over the next few months.

"We've been very fortunate in not needing to market ourselves until now," he says. "Our clients have always been our biggest ambassadors and their recommendation was all the advertising we needed, but now that we're entering a new growth phase, it may be time to promote ourselves a bit harder."

Last year the firm acquired a small practice in Nuneaton, where its second office is based, as a way of consolidating its foothold in the town. This could be the way forward in other areas, too, including central Birmingham and Solihull where it already has contacts and where it wants to establish a presence.

"Acquiring other firms is a good way of strengthening our business so we'd consider doing it again. Ultimately, we want to become known as one of the key firms throughout the Midlands, so are always on the lookout for opportunities."

Farmer is young, just 35, so it's not surprising he has big plans for his firm. He is also part of the social media generation, using it to good effect by blogging and tweeting regularly. The firm has recently upgraded its technology, spending £50,000 in the process on a new server, software and paperless and Cloud-based systems.

As ICAEW's Tomorrow's Practice research project identifies, it's not enough for practices just to keep pace with their clients - they have to be at least a couple of steps ahead. That's something Farmer lives by:

"Our customers look to us for advice and guidance - we're their trusted advisers - so we have to be ahead of the game. We have to be able to tell them, for instance, if the technology they've chosen is a sound investment. And we can't do that with any conviction or authority if our own systems aren't completely up to date."

The other thing they have changed to keep up with the times is their billing structure. "Working on the clock is definitely a thing of the past for most accountancy practices, and we're no different.

"There are a couple of services that are charged by the hour - namely special assignments and initial enquiry work - but that's about it. Everything else is fixed-fee, because our clients expect total transparency."

Asked what he feels most proud of, he says it's the relationships the firm builds both with its clients and with its staff. "Long-term relationships are vital to our business so we work hard to keep our clients and our staff happy.

"Loads of our clients have been with us for years and years - Grenade is just one example - and I think they appreciate our hands-on personal service and our accessibility.

"And our success is down to the wonderful people who work for Armstrongs. It's a great place to work and we're all in it together."

TTIP of the iceberg

The Transatlantic Trade and Investment Partnership won't just bring the US and EU closer together, says Peter Bartram. It could create a lucrative new market for SMEs in the UK

The story of the stainless steel grab ring explains better than any economist's analysis or politician's speech why British business – especially SMEs – can benefit from the Transatlantic Trade and Investment Partnership (TTIP), currently the subject of tortuous negotiations between the EU and the US.

Rowan Crozier, CEO of Brandauer, an £8m-turnover engineering company in Birmingham, was delighted to win an export order to supply the grab rings, a new piece of plumbing equipment, to a US company. But to meet the order, his company had to leap through technical hoops because standards for stainless steel are different on each side of the Atlantic.

The big promise of TTIP is that it will make trade between the EU and the US easier. That is not just because the aim is to reduce most tariffs to zero. In fact, average transatlantic tariffs negotiated under World Trade Organisation treaties are already low – 5.2% in the EU and 3.5% in the US. Instead, TTIP's big promise is that it can remove many non-tariff barriers (NTBs), such as rules and technical standards that constrain trade across the Atlantic.

When the London-based Centre for Economic Policy Research looked at the benefits of TTIP, it found reducing NTBs represented as much as 80% of the €119bn (£87.5bn) annual gain for the EU. "The total potential gains come from cutting costs imposed by bureaucracy and regulations, as well as from liberalising trade in services and public procurement," it said.

"The real prize is around regulatory coherence and co-operation," confirms Sean McGuire, Brussels director of the Confederation of British Industry. ICAEW also has a Brussels office, which is keeping a close watch on developments as the latest round of talks – the eighth since 2013 – gets under way this spring.

Crozier would welcome any moves that made it easier for his company to sell to the US. "It was a complicated job manufacturing the grab rings to meet US standards," he says. That was because the data sheets which specify US standards for stainless steel are different from those used in Europe and Britain.

One solution would have been to buy stainless steel in the US, ship it to Birmingham, make the grab rings, then send them to the US. But, as Crozier points out, that made no sense logistically. Instead, his technical team had to work long hours interpreting the different data sheets so that the European stainless steel used for the grab rings matched the performance characteristics of US steel.

"We had to work closely with the customer up-front to identify the differences while we were developing the product," Crozier says. Then the product had to be tested carefully to ensure that the use of European steel would meet US requirements and that Brandauer could use it to make the grab rings at a competitive price.

As Crozier explains, reaching a point where grab rings for the European and US markets can be made from the same material in the same way delivers a cost-benefit. But the upfront development and technical costs were higher.

Crozier's experience is just one example from hundreds of thousands as British companies struggle to comply with US standards, rules and regulations in order to sell their products and services. In some industries, the NTBs represent a crippling burden, cutting the chances of selling successfully in the US. In the food and beverage industry, for example, the CEPR calculated that US regulations impose the equivalent of a 73.3% tariff on EU exports.

NTBs affect other industries in different ways. For example, in the automotive industry, safety regulations for lights, door locks, brakes, steering, seat belts and electric windows are different in the EU and US. In chemicals, all products being sold must be registered with the European Chemicals Agency, but regulation in the US is not so strict.

The industry with potentially the most to gain is financial services – where EU and US regulation and compliance diverge in many areas. Gary Campkin, director of international strategy at TheCityUK, a membership body that promotes UK financial services, says TTIP is a once in a generation opportunity. "We can address some very long-standing issues to create a proper transatlantic marketplace for financial services," he says.

David Bartlett, economic adviser to RSM International, a network of independent accounting firms, points out that "behind the border" blocks on transatlantic trade pose a greater problem for SMEs than corporates. "They typically lack the internal resources to navigate the dual regulatory systems of the EU and the US," he says.

The CBI's McGuire agrees: "The real UK winners from

ILLUSTRATION: ARON VELLEKOOP LEON

TTIP would be medium-sized businesses that haven't the resources or legal expertise to get around the complexities of trading in the US."

In some areas, transatlantic industries are already co-operating. For example, EU and US authorities are working together to develop safety and performance standards for electric cars and batteries. They are also trying to standardise the plugs, sockets and other equipment needed to charge electric cars. But transatlantic co-operation is still rare in other industries.

Like other SMEs, Brandauer expects to gain from TTIP. Currently, the company sells to its customers on an "ex-works" basis – which means the grab ring customer is responsible for managing the logistics of transporting the product back to the States and handling tariff payments and customs paperwork. For Crozier, this is a neat solution to time-consuming red tape.

"Having to complete two sets of complex customs procedures on both sides of the Atlantic deters many businesses that lack the time or resources," notes Allie Renison, head of Europe and trade policy at the Institute of Directors.

But Crozier's ex-works solution will not be the right choice for thousands of companies selling other products. Many US customers will expect their UK suppliers to deliver the goods with all documentation completed. And simply working through the complexity of US tariff rates can be a nightmare.

The cosmetics business is one of the industries that has most to gain from TTIP – from removal of NTBs as well as tariffs. Joy Parkinson is managing director at Faith Products, a £3.5m-turnover natural beauty products supplier that already exports to 25 countries. She hopes to start exporting to the US but will need to negotiate a Byzantine tariff structure to get her products into the market. For example, deodorants carry a 4.9% tariff, shower gel 5.8%, but most skin and hair care products are duty free. She hopes TTIP will simplify or abolish the duty structure.

TTIP could also make it easier to expand business in the US. "Initially, we will look to supply smaller chains of health food stores which successfully exploit the consumer demand for natural products right across the US," she says. "Once established in the health food sector, we will look to expand into more mainstream multiple grocery chains that are now beginning to sell natural and organic products."

Crozier is also looking at ways to expand his business in the US, where he would like to set up a distribution centre. "If tariff barriers were swept away, it would certainly put a different light on Brandauer taking a decision to set up in the US," he says. "It would take away one of the barriers to making the decision by removing one element of the risk of doing it."

Fiona Pool, chief executive of £2m-turnover Hunton Powerboats, is opening an office in Miami this spring. At the moment, her manufacturing team has to deal with two sets of regulations when building the boats – the European Commission's recreational craft directive and US Coast Guard regulations for small boats – depending on where the customer is. "If the build specification for a European and US boat is the same it won't necessarily make a cost difference but it will make the production line a lot simpler," she says.

Investis, a £20m-turnover digital corporate communications company, has already established a US office with 20 employees in New York. Rene Milner, Investis's CFO, has registered differences between the US and UK markets. "The US corporate communications market is very prescriptive – very rules-based as opposed to principles-based in the UK," he says. Even so, Investis has had to comply with what Milner calls "relatively minor changes" to ensure that its services meet the disclosure requirements of the Securities and Exchange Commission and US law.

Although there are British success stories, there are thousands of SMEs who have eyed the US market enviously for years but held back from tackling it because of the barriers to entry. TTIP could open that door – but, as things stand, it is not yet clear how far.

It is highly unlikely that TTIP won't happen, says Christopher Bovis, professor of international and European business law at Hull University and academic adviser to the EU on the single market. The question is how far TTIP will go. Bovis expects there will be a "messy compromise" partly because the US is very protective of its domestic markets and partly because Europe wants to attract US investment at a time when future growth prospects are looking pretty dismal.

Bovis reckons there is a "huge appetite" from US companies to invest in services such as health, transport and energy which could be released by TTIP. "They have a good track record of extracting extra competitive profit from these industries and such businesses are also cash generative," he says.

By the same token, TTIP could provide just the fillip UK companies, especially SMEs, need to start exporting to the US. "They could escape the bleak outlook of the eurozone – as long as TTIP can deliver what has been promised," says Philippe Gelis, chief executive of Kantox, a peer-to-peer foreign exchange platform.

> Accountants need to make a judgement about how far their industry will be affected by TTIP before spending time reviewing the changes and how to react to them

Whatever the shape of the final agreement, TTIP is an issue accountants should be engaging with now, says Stephen Ibbotson, director of business at ICAEW. He advises accountants to make a judgement about how far their industry will be affected by TTIP before deciding how much time to spend reviewing the likely changes and how to react to them.

Aline Doussin, a senior associate in the regulated industries department at law firm Squire Patton Boggs, says that companies should not wait for the final TTIP settlement before deciding what to do about it. "That's when standards are agreed," she says. "If you're not part of the negotiations now, you may get the rules you don't want."

The main objection to TTIP is that it could open the door to corporations suing governments if they make public policy decisions that could harm their future profits. Regulation that currently protects people, public services and the environment could be removed.

Cecilia Malmström, EU trade commissioner, says she plans to rework key areas of the TTIP agreement in response to fears the deal could be used by corporations in the US to win health service contracts and undermine the NHS.

Malmström warned that limiting the scope of the investor-state dispute settlement (ISDS) service would be difficult, but she gave a commitment to specifically exclude publicly-funded health services from a TTIP agreement.

However, according to legal advice given to the Unite union it would not be possible for Malmström to devise a form of words excluding public services from trade disputes.

Although opponents have won a few headlines, support for TTIP remains solid among the business community. An Institute of Directors' poll of 1,000 of its members showed 90% of them backing TTIP.

It appears the business community has already made up its minds about the benefits. Crozier says: "For us, the US has been a major expansion opportunity for the past five years. Opening up these two markets would absolutely make my plan easier."

It's starting to look as though the grab ring story could have a happy ending.

Report listings

These reports are summaries. Further information is available from icaew.com/publichearings or from the Professional Conduct Department, ICAEW, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ

DISCIPLINARY COMMITTEE TRIBUNAL ORDERS

- Michael Watson, 15 High Street, Lydney, Gloucestershire GL15 5DP
Complaint He failed to cooperate with ICAEW in carrying out its functions under the practice assurance scheme, contrary to practice assurance regulation 4, when he failed to allow a quality assurance department visit to proceed on 19 February 2014.
Order Severe reprimand, £1,000 fine, £3,550 costs.

INVESTIGATION COMMITTEE CONSENT ORDERS

- Peter Angel, Finance House, 77 Queens Road, Buckhurst Hill IG9 5BW
Complaint He prepared his client's tax returns incorrectly for the years ended 2007/2008 and 2009/2010 by disclosing the wrong amount of dividends from UK companies. He also failed to inform the client about the basis of his fees and his firm's complaints procedure in breach of para 2.0 of Statement 1.210 of the Guide to Professional Ethics (and subsequently of para 240.2B of the code of ethics, Part B) and disciplinary byelaw 11.1.
Order Reprimand, £2,500 fine, £1,787 costs.

- Muhammad Hafeez, 3 Craigmillar Park, Edinburgh EH16 5PG
Complaint From 17 December 2013 to July 2014, he engaged in public practice through his firm without professional indemnity insurance (PII), in breach of regulation 3.1 of the PII regulations.
Order Reprimand, £500 fine, £1,055 costs.

- Adam Brosnan, Birkby House, Bailiff Bridge, Brighouse, West Yorkshire HD6 4JJ
Complaint On behalf of his firm, he prepared a client's financial statements for the years ended 31 December 2008 to 2012 and issued an accountants report on each of them when the accounts were misleading and did not comply with ss6.50 and 6.51 of the Financial Reporting Standard for Smaller Entities (FRSSE). Investment properties had not been included in the balance sheet at their market value and annual depreciation had been charged. Furthermore, he failed to correctly account for the client's dividends for 2011 and 2012, as these had not been allocated in accordance with the directors' individual shareholdings.
Order Reprimand, £3,250 fine, £2,718 costs.

- Bruce McNaught, La Vallée, Rue de l'Eglise, St Martin, Guernsey GY4 6RN
Complaint From 1 January 2010 to 13 November 2013, he engaged in public practice through his firm without holding a practising certificate, contrary to principal byelaw 51(a), and without PII, in breach of regulation 3.1 of the PII regulations.
Order Reprimand, £1,500 fine, £1,018 costs.

- Anthony House, 43 St Stephens Road, London W13 8HJ
Complaint From 27 December 1995 to 16 February 2014, he engaged in public practice without holding a practising certificate, contrary to principal byelaw 51(a), and without PII, in breach of regulation 3.1 of the PII regulations. He also prepared accounts for a client for the years 1994 to 2013 in which the directors claimed exemption from audit when the company's articles of association required a statutory auditor to be appointed and a copy of the auditor's report to be laid before the company in a general meeting.
Order Reprimand, £500 fine, £1,355 costs.

- David Knight, Piper House, 4 Dukes Court, Bognor Road, Chichester, West Sussex PO19 8FX
Complaint From 1 July 2012 to 6 June 2014, he engaged in public practice without holding a practising certificate, contrary to principal byelaw 51(a).
Order Reprimand, £1,000 fine, £955 costs.

- Hill Osborne, Tower House, Parkstone Road, Poole, Dorset BH15 2JH
Complaint The firm submitted to Companies House dormant accounts for the period ended 31 March 2012 on behalf of Hill Osborne's directors, which they should have known were incorrect as the company had undertaken significant accounting transactions during the period. The firm then submitted amended abbreviated accounts for the same period which were incorrect. First, the directors had not amortised goodwill arising from the transfer of their own practice in accordance with the company's stated policy or explained why that was not appropriate, and second, they did not comply with the requirements of paragraph 4, The Companies (Revision of Defective Accounts and Reports) Regulations 2008.
Order Severe reprimand, £6,600 fine, £3,780 costs.

- Nash Harvey, The Granary, Hermitage Court, Hermitage Lane, Maidstone, Kent ME16 9NT
Complaint The firm prepared 2007 to 2011 accounts for a client that were misleading because other debtors and distributable reserves were both overstated by £27,722 for dividends paid to its parent company.
Order Reprimand, £3,250 fine, £1,743 costs.

- John Paylor (Insolvency Affiliate), 6 Snow Hill, London EC1A 2AY
Complaint In his capacity as administrator of a company, he issued his first notification to creditors on 22 May 2013 advising of his appointment and of the pre-packaged sale of the assets. This notification failed to comply with SIP 16 and/or the guidance to compliance with SIP 16 as set out in IP 42 issued in October 2009, in that: the extent of the administrator's involvement prior to his appointment was not sufficiently explained; insufficient information was given as to the source of the administrator's initial introduction; details of any marketing activity conducted by the administrator and the company were not sufficiently disclosed; the breakdown of overall asset valuation across individual asset categories was not provided; the apportionment of the sales consideration across individual asset categories was not disclosed, preventing creditors comparing realisations to the valuations obtained; no or insufficient information was provided on the alternative courses of action considered by the administrator along with an explanation of possible financial outcomes; failed to, or sufficiently clarify, whether there was any connection between the purchaser and the directors, shareholders or secured creditors of the company or whether any of the company directors, or former directors are involved in the management or ownership of the purchaser.
Order Reprimand, £500 fine, £4,111 costs.

AUDIT REGISTRATION COMMITTEE APPEAL

On 3 December 2014, a panel of ICAEW's Review Committee met to hear an application by MG Associates Ltd, 36 Victoria Road, Dartmouth, Devon TQ6 9SB, for a review of an Audit Registration Committee decision dated 10 September 2014. The panel decided to withdraw the firm's audit registration under regulation 7.03 (h) of the Audit Regulations and Guidance 2008. It also decided to withdraw Michael Ghersie's responsible individual status under audit regulation 4.08(e).

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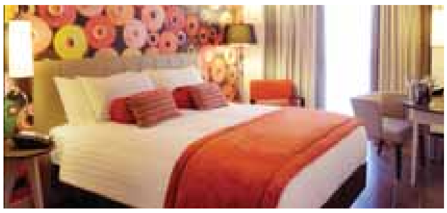

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Life

reviews/food/skills/people

this month:

travel

Road trips Exploring beautiful Europe by car **What to wear** Chic and cheerful accessories **In review** Including open air theatre, the Apple watch and wild flowers **Restaurants** The best new openings in America **Life skills** How to fillet a fish **Life after work** Roger Miles

Roman holiday

Elizabeth Walters puts on her 1950s sunglasses, fires up her convertible and sets off on two classic road trips finishing in Rome

Route one: Pilgrim's progress
Following in Napoleon's footsteps (or hoof prints - he travelled by mule) over the historic Great St Bernard Pass, this journey connects Martigny in Switzerland with Aosta, in Italy. Start in leisurely style by the shores of Lake Geneva, then over the Alps and on to Turin, followed by fashionable Milan, Parma, Bologna, Florence, Siena, Orvieto then Rome.
Journey length: Approx 559 miles

Geneva's serene location betwixt lake and mountainside inspires clean-living among its inhabitants who are keen skiers, hikers and climbers. You can raise your heart rate by pacing the attractive, cobbled Old Town overlooked by St Peter's Cathedral. Once there, climb the North Tower (a 157-step slog) for a panoramic view of the smart city and of Geneva Lake, with its fountain gushing up to 140 metres - a potent symbol of the city's strength. Precision is a very Swiss art and, to see what makes Geneva tick, pop into the Patek Philippe Museum, which tells the story of five centuries of watch making.

Timing was once essential for the next stretch of this journey - which used to be rendered impossible by the heavy winter's snowfall. (The summer road still closes over winter). Pilgrims undertaking the Via Francigena route between Canterbury and Rome have toiled over the pass for centuries. Daunting drops and sweeping vistas come with the territory.

Your pilgrimage continues to the Italian city of Turin. Here, one of the most famous Christian relics, the Turin Shroud, is on display from 19 April to 24 June in the 15th century Cathedral. The Guarini Chapel, where the shroud is kept, is a Baroque masterpiece in its own right. Guarini, the architect behind the Chapel, is also responsible for the Royal Church of San Lorenzo with its elaborate dome.

Those who prefer clean lines and industrial heritage can eat lunch overlooking the rooftop racetrack (where a race scene from *The Italian Job* was filmed) at the old Fiat factory in the Lingotto District.

Motor on from here to Milan, sip on Campari and soda and see one of the world's great masterpieces, Leonardo da Vinci's *The Last Supper*. It was painted on the wall of the Dominican Convent next to the church of Sante Marie delle Grazie between 1494 and 1498 and is still a wonder to behold.

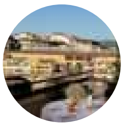
When you've had your fill, move on to Parma, which, with its famed prosciutto, porcini mushrooms and parmesan, is more relaxed. Gourmands can walk off the calories in the Ducal Park, along Parma River, admiring the marble statues and Neoclassical vases by Jean Baptiste Boudard or when delving into the Ducal Palace to see its 18th century staircase and frescoes depicting everything from cupids to myriad varieties of birds.

If Parma is the *primi piatti*, Bologna, your next stop, is the main course. Off impressive Piazza Maggiore is the Quadrilatero - or old city food market where noisy sellers and enticing food stalls enliven and perfume the narrow streets. Inner glutton satisfied, you can pay homage to Bologna's patron saint in the 11th century Chiesa del Crocifisso off Piazza Santo Stefano, which houses his bones.

A 90-minute drive from Bologna is beautiful Florence. Grom, on Via del Campanile, is a very good place for gelato. Art lovers will be sated by the magnificent Uffizi, home to truly inspiring works of Renaissance art - Botticelli's *Birth of Venus* and *Spring* among them. Michelangelo, Titian and Caravaggio are all on the walls.

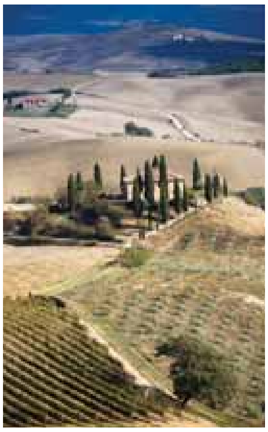
Beware 'Florence syndrome' though: the art is so sublime it can cause fainting and dizziness. Buy

Where to stay...



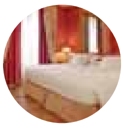
Florence
Swish ***Hotel Lungarno*** provides one of the best vantage points from which to view the Ponte Vecchio ***lungarnocollection.com***

Siena
Campo Regio Relais is a 16th century B&B in the heart of Siena, which has its own frescoes ***camporegio.com***

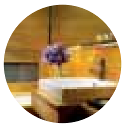


Main picture: Florence. Top, from left: what you'll see on the way from Geneva to Siena, and Great St Bernard Pass. Overleaf: Venice and the Marmore Falls

Where to stay...



Turin
Grand Hotel Sitea is in Turin's historic centre and has its own courtyard garden
grandhotelsitea.it



Rome
Babuino 181 is a 19th century palazzo with modern amenities
romeluxurysuites.com

your ticket online (uffizi.org) and avoid the lengthy queues.

A little over an hour south will bring you to the attractive walled city of Siena. Ditch your car and cycle the perimeter of this UNESCO World Heritage Site. Those with a sporting bent will know that Siena's Piazza del Campo, the enormous medieval square, is where the annual Palio horse race takes place (in July and August). The rest of the year, it is a joy to wander. Don't miss the strikingly monochrome cathedral, which has an even more arresting interior, with an alter-piece by Nicholas Pisano and sculptures by a young Michelangelo.

By now, Rome is in your sights - a two-hour drive away. But pause halfway at Orvieto, perched handsomely on a rocky plateau. Walking the path around the tufa rock will reveal Orvieto's Etruscan tombs, a church built into a cave, a medieval aqueduct, 13th century convent and communal gardens as well as untangling car weary legs. Catch the funicular from Piazza Cahen back to the bottom and onward to your Grand Roman finale.

Route two: Lure of the lakes

This route begins in Venice before following the east coast to lakeside Comacchio and Ravenna. From here you will cross the Apennines before dropping into Perugia and Terni.

Journey length: Approx 328 miles

So well-illustrated is this lovely Lagoon city, first-time visitors will find it familiar. But even Canaletto cannot rival the real thing. Its charm - and crowds - are overwhelming. Rise above it all by climbing the Bell Tower of St Giorgio Maggiore, which offers views across St Mark's Square. Or take to the Grand Canal, on a vaporetto (water taxi) to admire the elegant waterside palazzos. Stop at the Guggenheim for 20th century art and imagine what it must have been like to live here - as Peggy Guggenheim and the Marchesa Casati once did. If Renaissance art is more to your taste, the atmospheric Scuola di San Rocco filled with paintings by Tintoretto, is close by.

Glorious as Venice is, it is tricky to get a sense of real Italian life here. Rev up then to Comacchio (less than a two hour's drive away). Its canal-side streets and attractive bridges, particularly Treppontini built in 1638, are much less busy. Comacchio lagoon (where fisheries once thrived) is home to bird-life including over 10,000 flamingoes and the local delicacy, eels and boat trips run from the lagoon's visitor centre from March to October.

Alternatively, you could simply drive alongside Comacchio Lagoon, en route to Ravenna, roughly 22 miles south along the lido-lined coast. The capital city three times between the 5th and 6th centuries AD, Ravenna had clout. Now it is home to some truly fine Byzantine art and Christian monuments. The Church of San Vitale is filled with Byzantine mosaics and decoration and you can learn about the history of Ravenna's mosaics at the Tamo museum in the city centre. If you resisted the siren call of the sea on the way then Ravenna is also within easy distance of the Adriatic coast and several resorts, lidos and lovely stretches of beach.

Leaving the coast behind, cast off into Italy's middle and Perugia, a little over two hour's drive. The historic centre of Umbria's capital will lure you in with its pale pink Palazzo dei Priori and one of Italy's oldest churches - circular Sant'Angelo, which dates from the 5th and 6th centuries. Those with a sweet tooth should linger at the city's periphery to find Italy's answer to Willy Wonka - the Museo Storico Perugina and chocolate factory responsible for Italy's iconic Baci (meaning kisses) chocolates.

The Italian's do romance with unabashed gusto and your next stop, Terni, gets to the heart of it all. The town's patron saint is St Valentine - and he is celebrated with spirit every February. The lover's hero was buried in the early 17th century Basilica of St Valentine, so this is the place to make any heartfelt appeals.

Those seeking a romantic spot - or just somewhere scenic to stretch the legs - should steer 15 minutes south east from Terni to the manmade Marmore Falls, in a lush forested park. This should be tonic enough to fuel you for the final leg of the journey to Rome.

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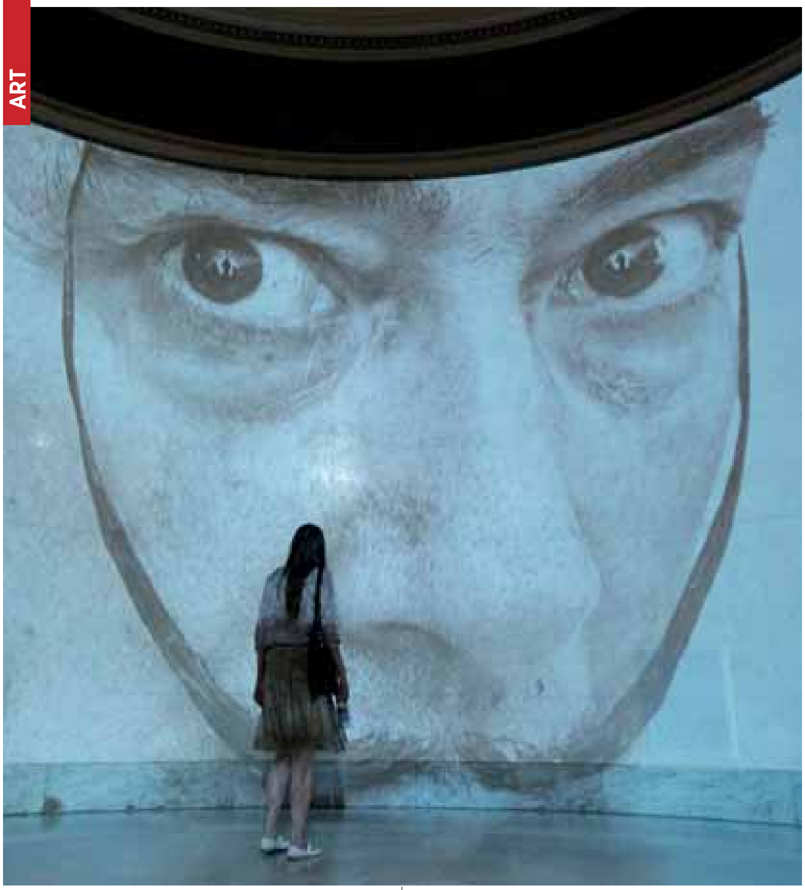
Everything you need for the ultimate (and impeccably stylish) roadtrip

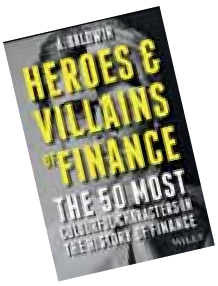
01. The car Jaguar XKSS. This was Steve McQueen's car of choice (one of many) but only 16 were ever made so good luck finding an original. For a replica: Alumimium XKSS, from £95,000, Classic Jaguar Replicas, *jaguarreplicas.com* **02. The Audrey Hepburn sunglasses** Tortoise shell angular sunglasses, Marni, £260, *selfridges.com* **03. The Steve McQueen jacket** New Circuitmaster jacket in hand-waxed calf leather, £1,225, Belstaff, *belstaff.co.uk* **04. The headscarf** Taupe and bright yellow two-tone calf leather scarf, £620, Gucci, *net-a-porter.com* **05. The driving shoes** Gommino suede driving shoes in yellow, £270, Tod's, *mrporter.com* **06. The motoring gloves** Winchester men's deerskin leather driving gloves in chamois, £81, Dents, *dents.co.uk*

ART



Spanish art gem Two of Spain's most acclaimed modern artists are being honoured at the Museu Picasso in Barcelona, with 80 rarely-loaned works being reclaimed from around the world for the Picasso/Dalí, Dalí/Picasso exhibition. Until 28 June, the paintings, drawings, prints and sculptures, from 20 international museums and private collections, will be on display in a single location. Alongside tickets to the exhibition, the Hotel Arts Barcelona is offering cocktails and tapas inspired by the artists, including pomegranate Salty Dog, based on Dalí's well-known love of the fruit. Expect lots of fish on the menu, but possibly not Picasso's famous pigeons. One night stay, two exhibition tickets, and two themed cocktails and tapas from €350. ***bcn.cat/museupicasso/en ritzcarlton.com/en/Properties/Barcelona***

BOOKS



Heroes and Villains of Finance: The 50 Most Colourful Characters in The History of Finance, by A. Baldwin (Wiley, £12.99, April 2015) A rundown of the 50 larger-than-life characters who built, shaped, and continue to populate the finance industry, with passages on how Knights Templar became the first banking institution, how the Rothschild family safeguarded their wealth from European monarchs and, perhaps most interesting of all, the evolution of the Ponzi scheme.

SPLURGE OF THE MONTH

£895, Cotton jacquard William Morris jumper, Pringle

To mark the 200th anniversary of iconic knitwear brand, Pringle of Scotland.

£17.50 per ticket, Alexander McQueen exhibition, V&A Museum, London

Book a weekday ticket online or turn up early on the day for the best chance to get in.

STEAL OF THE MONTH

Wildflowers in a tin you say? Scatter Project Maya's Seed Balls in Butterfly, Urban Meadow or Poppy on to your soil and let nature do the rest. (£4.99, seedball.co.uk)

THEATRE

Minack Theatre, an open air amphitheatre cut into a cliff in Penzance, starts this month with a musical revue that pays homage to the music of Richard Rodgers and Oscar Hammerstein. Other performances this season include *Much Ado About Nothing*, *The Seagull* by Chekhov and *Legally Blonde the Musical*. ***minack.com***

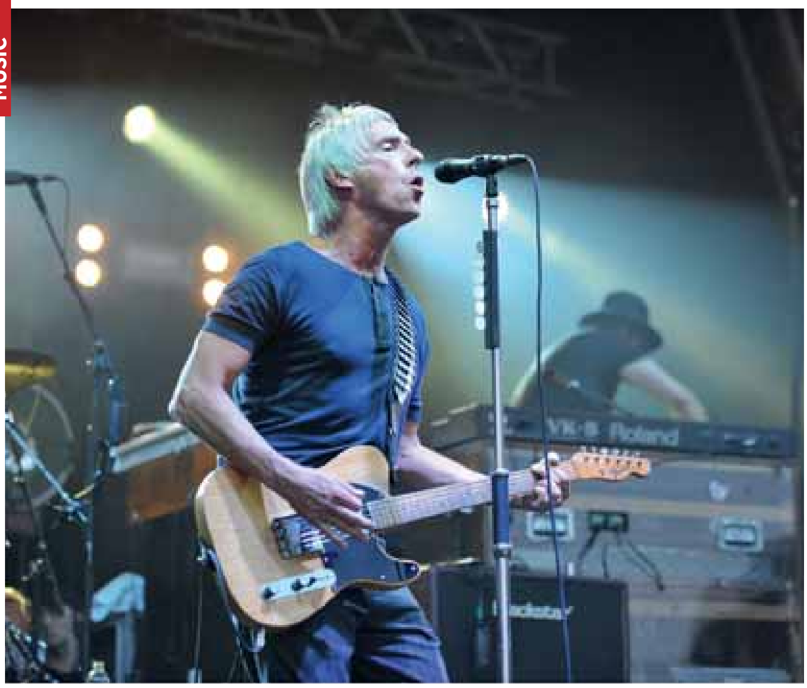
GADGET

Apple retail employees have allegedly been trained at secret workshops and safes are being installed in its stores as the brand catapults itself into the wearables market on 24 April with the Apple Watch. A top-of-the-line Apple Watch Edition will cost an eye-watering $17,000 (well it is 18 carat gold, what do you expect?) But there are $10,000 and $349 versions of the smartwatch available for those on a, ahem, budget. Depending on use, the Apple Watch is said to last for around 18 hours during which time you can email, monitor your heart rate, pay for something, learn how many calories you've burned, generally show off - and, of course, check the time. ***apple.com***

MOTORS

What: Aston Martin Vulcan Hypercar
How much? £1.8m (£1.5m plus taxes)
Where: Launched at the Geneva Motor Show to much fanfair last month
Specification: 7.0L V12, 800hp, speed TBC, made from carbon fibre like a racing car
What's so special about it? "A sports car for true sports car lovers." Dr Andy Palmer, CEO, Aston Martin.

MUSIC



Paul Weller New funk and soul album *Saturn's Pattern* out 11 May.

Best cocktail bars in...
NEW YORK

1.

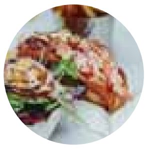
Pouring Ribbons
What to drink: Gasoline Fight (Old Grand-dad Bourbon, orange, Smith 7 Cross and Plantation Rums, almonds, Galliano Ristretto, and chipotle)
pouringribbons.com

2.

Employees Only
What to drink: Fraise Sauvage (Fords Gin, wild strawberries, Tahitian vanilla, and EO Prosecco di Conegliano Brut)
employeesonlynyc.com

3.

The Dead Rabbit Grocery and Grog
What to drink: John The Baptist (Green Spot Irish Whiskey, green tea, apricot, pistachio, coconut, Absinthe, and lime)
deadrabbitnyc.com



Dish of the Day
"The lobster roll is simply phenomenal. The brioche is rich and buttery, the lobster is sweet, ludicrously fresh"
Burger & Lobster

Restaurants

American openings

Neil Davey reviews the best new openings in America for breakfast, lunch and dinner

Burger & Lobster, Manhattan, New York burgerandlobster.com

Burger & Lobster is a Russian-owned, British-based interpretation of an American restaurant that's now been exported back to the US. However you look at it, that's quite an achievement. It's a simple concept, slickly executed, with terrific food at remarkable prices. The downside? The queuing. Even that has been tweaked into a bearable waiting system: the restaurant will take your mobile number and call you when your table is available. This is a very efficient numbers game, with tables turned rapidly. (Saying that, there's little pressure to move on, plus a drinks list that is worth lingering over.) As for the menu, it's over the door. You can have a burger, or you can have lobster, either the whole crustacean in the shell, or in a buttery brioche roll. That's it. Each choice comes with fries and salad and will set you back $20. That makes it even better value than London or Cardiff, where the same options will set you back £20. The options typically generate two criticisms: £20/$20 seems steep for a burger and what about vegetarians? The answers are: "Yes, but good heavens, have you tried the burger?" and "Oh well, sorry, but the clue's in the name." The burger is, frankly, epic, a good half pound of steak: ground, cooked precisely as requested and served, topped with cheese and bacon, on a bun that holds up until the last bite. Even so, it still plays second fiddle to the real star. The lobster roll is phenomenal. The brioche is rich and buttery, the lobster is sweet, ludicrously fresh (it's killed and cooked to order) and is up there with the best that Maine has to offer. It's a bargain in London at £20. At $20, it's a steal. The New York restaurant, while cavernous, feels far more intimate than a 350-cover restaurant should. There might be irony to Burger & Lobster's success on that side of the Pond, but there's no mystery.

BREAKFAST

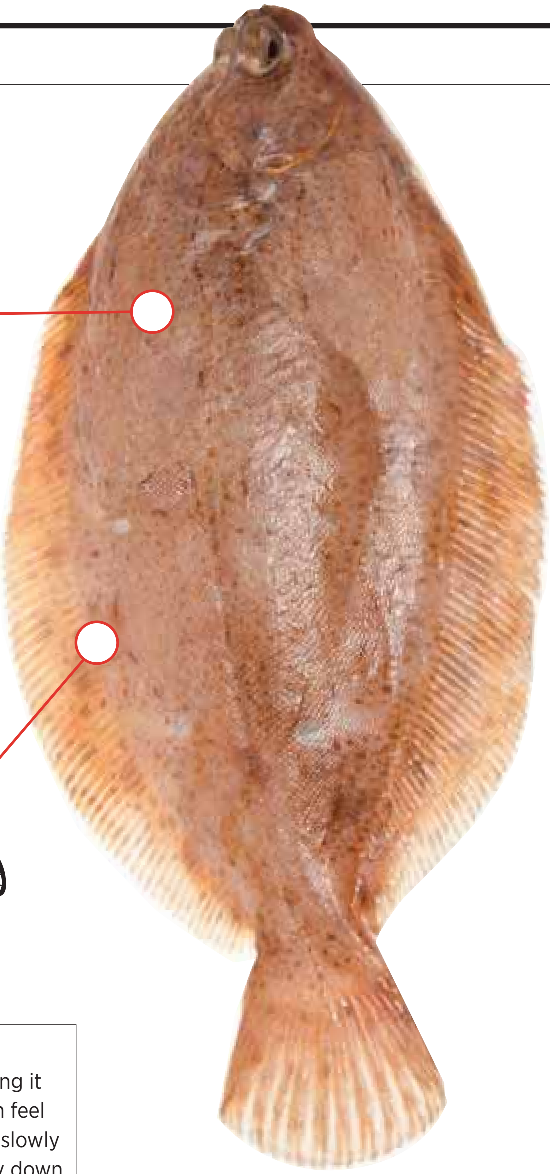
Brennan's, New Orleans, Louisiana brennansneworleans.com

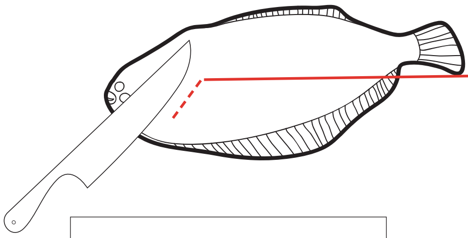
It is possibly a slight cheat to feature somewhere established in 1956 as a "new opening" but, due to assorted problems – financial, structural, familial – New Orleans' stalwart Brennan's closed in May 2013. However, it's now back. They may have a new chef, and a $20m renovation, but they still have Bananas Foster for breakfast, the signature flambéed banana dish that they created back in the day.

LUNCH

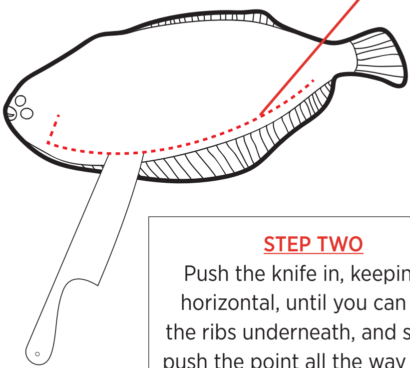
Leon's, Charleston, South Carolina leonsoystershop.com

Charleston's impressive restaurant scene shows no sign of slowing down. One of the best additions from 2014 is Leon's, which shares Burger & Lobster's "keep it simple" philosophy with a menu of, basically, oysters and (excellent) fried chicken. Plus some 14 beers on draft. Look out for the shrimp roll, served with horseradish mayo, celery, and crisps or, for the more adventurous, fried oysters with spinach and Pernod.

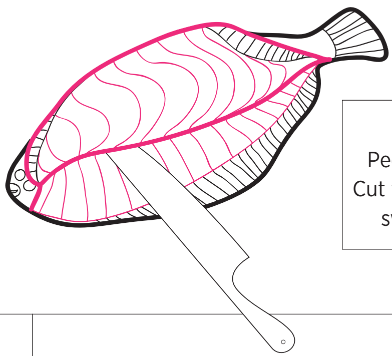




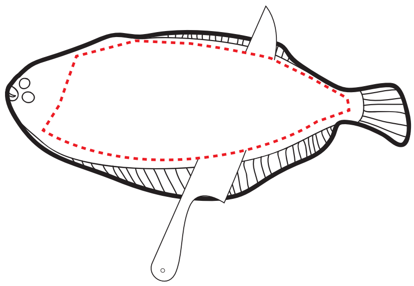
STEP ONE
Snip off fins with scissors. Lay the fish on a chopping board and make a nick or incision behind the head



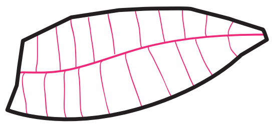
STEP TWO
Push the knife in, keeping it horizontal, until you can feel the ribs underneath, and slowly push the point all the way down towards the tail



STEP THREE
Peel back and hold fillet at the head end. Cut the flesh up to the backbone using slow sweeping movements towards the tail



STEP FOUR
Roll the knife over the backbone of the fish, the "bridge", cutting the flesh away as you go. Return knife to head of fish and push through to other side, keeping knife flat to ribs. Sweep down to tail



STEP FIVE
There you have a lemon sole with the top side fillet removed. Repeat on the reverse

How to...

Steven Marslin, manager at north London fishmonger Steve Hatt, explains how to fillet a whole flat fish such as lemon sole

ESSENTIAL KIT
A 16-inch filleting knife with a flexible blade, sharpened;
Scissors to snip off the fins

TIPS
Ask your fishmonger to scale the fish for you. Don't rush: let the knife do the work

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A new groove

After three decades in accountancy, **Roger Miles** relinquished it all to become an artist. He tells Ellie Clayton why art, and music, move him

When he was 18, and studying for his first degree, Roger Miles worked in the bedding department at Selfridges. Back then, he says, his "head was lost in music and girls and a bit of accountancy".

Forty years later, he has returned to the Oxford Street store, this time as one of 14 artists invited to create an installation in its iconic window display. With a 32-year career at Deloitte behind him – including 20 years as partner and 10 as a senior partner – Miles retired in 2009, aged 52, and went back to university.

He says: "I always thought I would try to find a second career at around 50, so I chose to go to art school." Miles was at Chelsea College of Art for five years in total, two as a foundation student followed by a three-year BA.

"It's been a major revelation how much fun doing education again is. The first time you're distracted, coping with different things such as growing up and relationships, or finding your way in life and having fun. The second time around you know what you want to get out of it. I have a lovely wife, three children and a lovely home. I didn't have to worry about that bit. I could focus on making art."

For his final project at Chelsea, Miles bought an old mobile library and filled it with records, which he parked in the college's parade ground for 10 days. He would open at 10am, close at 9pm and in the meantime people would wander in, play their records and tell their stories. The installation, he says, caught the attention of art collector Charles Saatchi. "He came in and chatted about it for about 10 minutes. I used to audit his art collection when I was a junior manager at Deloitte, so we had something to talk about. He said he loved it, that it was a very special piece – but he didn't buy it."

Music and history come together in much of Miles' work. "There's something about the 1970s, about vinyl records and record players," he says. "It's nostalgia, but it has always been there. I've always gone to gigs, listened to records. I'd just prefer to sit down and listen to folk rather than stand up and pogo."

There are aspects of his career at Deloitte that have prepared him for his work as an artist. He works fast, he says, and always to deadline. Otherwise, day-to-day life in the studio is almost incomparable to the pressure of office life. "The only thing I found really stressful about the whole Selfridges process was deciding what to wear for photoshoots. You don't have to consider that when you work at Deloitte – it's just what colour shirt and what colour tie."

Next up for Miles is a residency at an old mannequin factory in Walthamstow. He recently interviewed for another residency in North Carolina in the US, and is beginning to establish himself in his second career. "When I was at college I found it difficult to call myself an artist," he admits. "Now I think I'm there."

In fact, he takes issue with the title of this feature. "This isn't life after work," he insists. "I'm still working." Instead, he turns – aptly – to the words of singer/songwriter Neil Young, saying: "I won't retire, but I might retread."

PHOTOGRAPHY: ANDY LO PÓ