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NAVIGATING THE POLITICAL LANDSCAPE

HOW TO GET YOUR OFFICE POLITICS RIGHT

TAXATION

THE SHIFTING SANDS OF BUSINESS TAXES

PEOPLE PROGRAMMES

THE REAL VALUE OF HR AND TRAINING

CREDIT CRUNCH

THE TREASURY CHALLENGE FOR THE FD

ANTI-FRAUD

IMPLEMENTING EFFECTIVE POLICIES

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FROM THE FACULTY

EXTRAORDINARY TIMES

Faculty members, like the rest of the country, will have followed the unfolding dramas in the financial markets in mid-September with a sense of shock and amazement. Well-known financial names have been merging (Merrill Lynch/Bank of America, HBOS/LLoyds TSB), going bankrupt (Lehman Brothers) or simply watching their share prices slide. Meanwhile, central banks around the world have been propping up their banking systems with unprecedented levels of financial support.

All these problems stem from the ongoing crisis of confidence in the international credit markets – or the 'credit crunch', as it has come to be known – as a result of spiralling bad debts among banks, either real or imagined. This dramatic period is likely to have implications for the global and domestic economy, as well as for regulation and best practice around the world, including for accountants in business, who work at the heart of our commercial system.

At this stage, it is difficult to predict when these fierce and unusual storms may subside; at the time of going to press, markets were calmer, but still nervous. In this issue we have a timely article, 'The treasury challenge for the FD', on page 10, which looks at the broad issues for finance professionals in dealing with credit crunch-related problems. In subsequent issues we will follow up with other articles on these events and the issues they raise. For the moment, members should continue to exercise their best judgment and ethical practice in handling the challenges they face.

EMMA RIDDELL and CHRIS JACKSON

THE POLITICS OF FINANCE

How often is it that you hear a piece of advice that makes you think 'I wish someone had explained it like that years ago'? Well that is how I felt when I read this month's lead feature by Siobhan Soraghan, which looks at politics within organisations and how to manage them.

The one thing that struck me was the simple diagram that allows you to visualise your key contacts in terms of importance to the project in question, quality of interaction, and relationships with others.
My take-away message from the article was to make sure that I considered what was motivating the person whose cooperation I was relying on, and to manage the situation with their needs in mind.

Siobhan will be speaking to the faculty's Women in Finance network on 16 December; more details will be available shortly. As always, we would be delighted to hear your views on this issue and your suggestions.

EMMA RIDDELL

LOUISE THORNTON JOINS THE TEAM

We are very pleased to announce that Louise Thornton joined the faculty team during August. Louise has joined us from the Audit and Assurance Faculty. She takes on the role of administrator, and we hope that some of you will get to meet her at upcoming events.

CHRIS JACKSON

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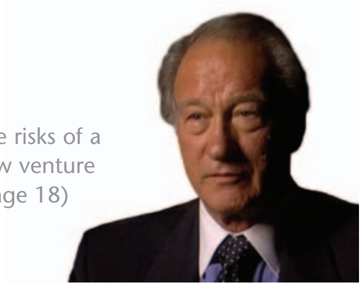
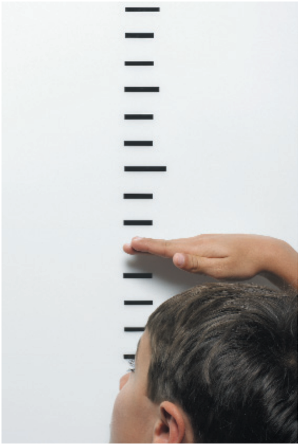


The risks of a new venture (page 18)



Measuring people (page 24)

A treasury challenge (page 10)

THE GURUS
'An organisation's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage.'
Jack Welch, former CEO of General Electric

CBI REPORTS MAJOR SHIFT TOWARDS TELEWORKING

The number of people 'teleworking' from home has risen sharply over the past few years as employers offer more work flexibility than ever, a survey by the Confederation of British Industry (CBI) disclosed.

In the latest CBI/Pertemps Employment Trends Survey, almost half of all employers (46%) said they now offered teleworking to staff, compared with 14% two years ago and 11% in 2004.

Executives believe that staff may be trying to cut their carbon footprint, or are avoiding a troublesome commute and poor transport infrastructure. Employers also understand that productivity need not suffer if staff are not in the office. Other strands of flexible working have also shot up, particularly term-time working, and job sharing. Over the past five years employers have also become increasingly supportive of staff looking to take career breaks or sabbaticals.

Another trend is the growth of flexible retirement, perhaps as worries about the credit crunch and pension provision hit home. In the last year three in 10 employees reaching retirement age asked if they could postpone their retirement.

The survey, which drew 513 respondents employing over 1m staff, showed that although flexible working has been a success, with nearly all employers (93%) offering at least one form of flexible working, and 57% offering at least three, there is deep concern among employers about other areas of employment law. Two thirds (64%) said that cumbersome employment regulation was endangering labour market flexibility. For more, see www.cbi.org.uk.

REGULATOR LAUNCHES NEW TRUSTEE MODULES

The Pensions Regulator's trustee toolkit team has launched three new e-learning modules:

- 'Dealing with a DB scheme (solvent employer)' (including all the implications for any type of buy out);
- 'Dealing with a DB scheme (insolvent employer)' (jointly produced with the PPF); and
- 'Winding up a DC scheme (solvent or insolvent employer)'.

These can be found at www.trustee-toolkit.com by going to the home page and clicking on the tab labelled 'wind up'. These modules are different from the original toolkit and are designed as 'just in time' learning for trustees interested in the above situations.

NEW ASIA PACIFIC DATABASE

The Library & Information Service has recently launched a new database - Asia Pacific Focus - which Institute members (and staff) can access free of charge from the website. The database provides information on tax developments, legislative updates, tax planning issues and tax data in Asia-Pacific countries (China, Hong Kong, India, Indonesia, Japan, Korea, New Zealand, Pakistan, Philippines, Singapore and Thailand).
Access this database from www.icaew.com/asiapacific. For more information, contact the Library & Information Service on 020 7920 8620 or email library@icaew.com.

FEEDBACK

Back in April we asked you what you thought about our quarterly publication Executive Summary. We are pleased to reveal that 83% of you find it very useful or fairly useful. 74% of you want us to keep producing it.
Thank you for all your suggestions; we will be acting on some of these over the next few editions to make sure that we keep making our services even more valuable.

ECONOMIC NEWS

CREDIT CRUNCH FALLOUT

The fallout from the credit crunch in the international financial markets was dramatic during September. In a series of developments which produced frantic trading in stock markets:

- the two major US mortgage companies Fannie Mae and Freddie Mac were taken under the control of the US Treasury after serious credit problems;
- the well-known US investment bank Lehman Brothers declared bankruptcy after making significant losses;
- another US investment bank, Merrill Lynch, was acquired by Bank of America after reporting losses;
- after concerns about its Halifax mortgage operation, HBOS agreed a takeover by Lloyds TSB; and
- the vast insurance company American International Group (AIG) was provided with a special $85 billion loan facility by the US Federal Reserve, while the US government will take a 79.9% stake in the company. The Federal Reserve said it intervened because "a disorderly failure of AIG could add to already significant levels of financial market fragility and lead to substantially higher borrowing costs, reduced household wealth, and materially weaker economic performance."

In addition, many central banks injected unprecedented levels of funds into markets to aid liquidity.

OECD SEES UK RECESSION

The UK is heading for a recession this year, according to a recent report on the global economic outlook by the Organisation for Economic Cooperation and Development (OECD). The OECD' said the UK economy did not grow at all in the second quarter of 2008, and is expected to shrink at an annual rate of 0.3% in the third quarter, and by 0.4% in the fourth. See www.oecd.org. ■

THOUGHT LEADERSHIP AT AAA CONFERENCE

Report by the Finance and Management Faculty's Rick Payne

The ICAEW was represented at the recent American Accounting Association's annual conference in Anaheim, California. This conference brings together 3,000 accounting academics and provides an excellent opportunity for the ICAEW to showcase its products and thought leadership work and also to build international contacts.

Robert Hodgkinson, the ICAEW's executive director technical, chaired a number of panel sessions including one designed to support the faculty's thought leadership work on the role of the finance function. A full write-up will be included in a future edition of *F&M*.

Other ICAEW panels covered stakeholder expectations of audit, the role of the accounting profession in promoting integrity in business, the relationship between IT and an organisation's value and how to report on intangibles.

It was clear that the introduction of IFRS into the US was high on attendees' agendas. The value of moving to IFRS was hotly debated but there was also a very practical concern. In the US the universities provide the technical training for Certified Public Accountants through four year degrees. A major part of the syllabus is US GAAP and therefore IFRS presents a major challenge in learning new approaches and rewriting study materials.

Flyers for the recently-updated ICAEW IFRS training programmes were in high demand at the ICAEW's exhibition stand. ■

The ICAEW was honoured to be invited to a breakfast which recognised the achievements of Anthony Hopwood (above), one of the world's leading management and accounting academics. Hopwood, of the Saïd Business School of the University of Oxford, has written widely on accounting from a broad organisational and managerial perspective. He has also emphasised the need for academic research to be more relevant to practice, which he reiterated in accepting his award.

MONEY AND GOLD IN THE FINANCIAL SYSTEM

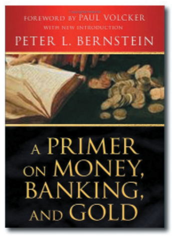
NEW BUSINESS BOOKS

A Primer on Money, Banking and Gold
by Peter L Bernstein
(foreword by Paul A Volcker)
Paperback, 272 pp, *John Wiley & Sons*
ISBN: 978-0470287583 £10.99
This book reveals and discusses the link that still exists between money and gold. It also explores both the history and business of banking, particularly the role the Federal Reserve plays in regulating the US supply of money. The author includes two classic case studies, one detailing the financial playing-field between 1938 and 1945 and the other detailing the economy after World War II.

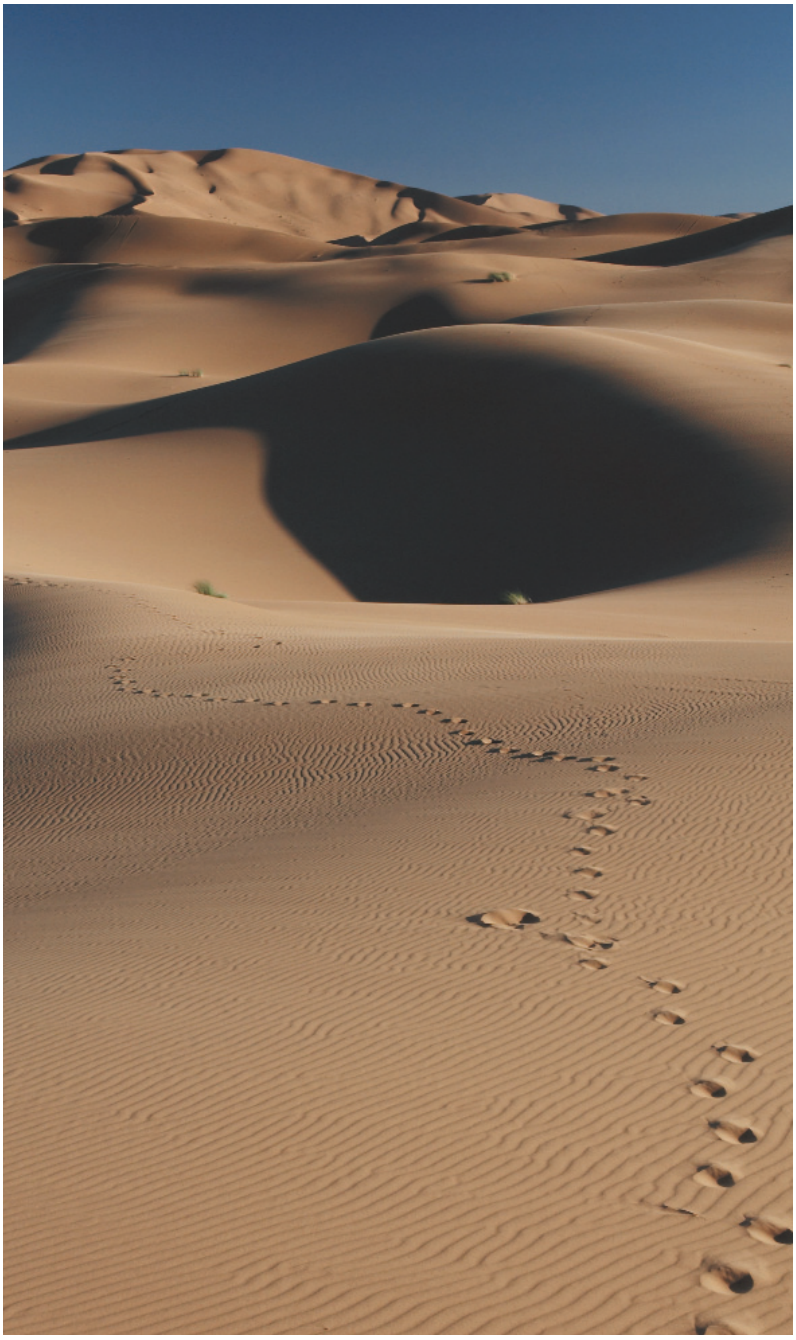
Business Stripped Bare: Adventures of a Global Entrepreneur
by Sir Richard Branson
Hardback, 352pp, *Virgin Books*
ISBN: 978-1905264438 £20.00
From its creation as a mail-order record company to the literal launch of Virgin Galactic, Virgin has become a worldwide brand. Here its founder Sir Richard Branson describes his life in business. Among his achievements, he claims that Virgin Mobile USA holds the record as the fastest company in history to generate revenues of over one billion dollars and that he is the only person in the world to have built eight billion-dollar companies from scratch in eight different sectors. This is the well-known entrepreneur's business life written and published by himself.

A Coach's Guide to Emotional Intelligence: Strategies for Developing Successful Leaders
by James Bradford Terrell and Marcia Hughes
Hardback, 224pp, *Jossey Bass*
ISBN: 978-0787997359 £23.99
This book combines the topics of coaching and emotional intelligence (EI) in one resource for coaches, facilitators, and consultants. The authors offer a number of solutions that help coaches and their clients develop the emotional skills needed to meet the challenges of today's increasingly complex world. The book shows how EI coaching can be applied within organisations and provides a solid coaching method for use with leaders in business settings. The authors also outline five strategies for developing influential leaders.

Engine, Not a Camera: How Financial Models Shape Markets
by Donald Mackenzie
Paperback, 392pp, *The MIT Press*
ISBN: 978-0262633673 £14.95
This book argues that the emergence of modern economic theories of finance has affected financial markets in fundamental ways. These new theories, based on elegant mathematical models, were not simply external analyses but intrinsic parts of economic processes. The author argues that economic models are an engine of inquiry rather than a camera to reproduce empirical facts. ■



NAVIGATING THE POLITICAL LANDSCAPE



Getting good business results is not purely about learning your trade. Below, **Siobhan Soraghan** explains how best to find your way through the hidden 'political' issues in your office, to achieve optimum outcomes.

A consultant colleague called me recently to cry on my shoulder. He had upset one of his major clients and was asked to leave the assignment early. As someone strongly influenced by the results of his most recent project, he was feeling completely deflated.

Piecing the story together it emerged that, despite the quality of his work, my friend had failed to spot the signals preceding his demise. The managing director (MD) for whom he had been conducting the project had felt threatened by its conclusions and resentful of the direct manner in which they were delivered. My friend, not realising the prevailing 'command and control' culture in which people deferred to their MD, had diminished him in front of his senior team.

Gradually realising that he had been exclusively absorbed in the technical aspects of the task, my friend began to accept that he had another duty to himself and to his business – that of developing an intelligent, proactive approach to what he would, in the past, have referred to disparagingly as 'politics'.

Meeting your own and others' needs

So what is 'politics'? Definitions include 'the use (or misuse) of power to achieve goals', and 'the study of influence and the influential'. I like to define it as the interactive process through which people seek to meet their own and others' needs.

A useful metaphor for the political complexity in any working environment is that of a fabric composed of a rich network of threads between the various key figures

These needs can be professional and/or personal in nature, and they can change over time. People are not always consciously aware of their needs; and even when they are, they might not choose to articulate them.

The tool I offer below provides a method for gaining valuable insights into the unique cocktail of needs of each key figure in your political landscape, to optimise your ability to influence and collaborate. This is particularly useful today, when professionals have to integrate quickly and effectively within a series of organisations over the course of their career. Furthermore, with progressing seniority one's network of colleagues and stakeholders becomes more complex, so being adept at navigating through diverse organisational landscapes pays valuable dividends for all.

The approach I describe will help you decide with whom it is important to be connected, and how. In other words it can help you develop a high degree of political intelligence.

A rich network of threads
A useful metaphor for the political complexity in any working environment is that of a fabric composed of a rich network of threads between the various key figures. Each of these 'actors' (those active in your landscape) has a power position relative to that of others that is not necessarily obvious. In entering an organisation (eg as a new recruit or a partner/stakeholder), or embarking on a new project that spans parts of the organisation unfamiliar to you, you will need to grasp this and weave yourself into the existing fabric, choosing wisely which new threads to create such that your professional and personal objectives are best met.

Your own priorities
To begin with you need to be very clear about your own priorities, and your needs in relation to these. For each project or contract, you need to keep in mind your key objectives, the resources required to address them and the key obstacles likely to get in the way. This will make it easier for you to highlight the key players relevant to your objectives.

Win-win outcomes
However, this is far from being enough. The people whose support and input are critical to your goals may have completely different agendas from yours, even if they are working in the same organisation and towards the same goals. To maximise your influence and gain effective collaboration you need also to pay exquisite attention to their objectives and needs, and seek win-win outcomes together.

A pragmatic and powerful approach
The 'political insight mapping tool'* provides a pragmatic and powerful approach to making sense of your political landscapes (see Figure 1 on page 8). Here is an outline of how to use it.

1. Think of a key project in which you are currently involved. List the main relevant 'actors'. For each of them, consider carefully their 'power' in the project from your perspective, and make the size of the circle to represent them on your map reflect this. Then consider how easy it is for you to access them. They may be at a distant location yet your paths may cross regularly. They may be in the office next door yet rarely free to meet you. The distance you put between them and you on the map should

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You need to think of the quality of the relationship through the other person's eyes

reflect their ease of access for you in real life. Similarly if any actor deals frequently with another and/or they have a strong connection for other reasons, show this by placing them close together on your map. The key players are plotted around you at the centre, and you could colour code the specific stakeholders (or the team/department) to which they belong.

2. With each player, draw a line between you and them, its thickness denoting the volume of communication traffic between you. Show the quality of the communication by the colour of the line, eg green for good, amber for vulnerable or shaky, red for poor or damaged. Your map starts to look something like Figure 1 (below).

3. Look carefully at your map. It should now be possible to see whether all the 'threads' are optimised for the successful achievement of your goals. Straight away you can begin to see the areas of criticality. In the fictitious example below, you can guess that the poor connection with Pete poses a problem and that the relationship with the client (Chris) is less healthy than the ideal because the communication is sparse. In my friend's example, he had underestimated the size of the MD's power in relation to his own, and had assumed a good connection by virtue of his own sense of integrity and his quality work. You need to think of the quality of the relationship through the other person's eyes.

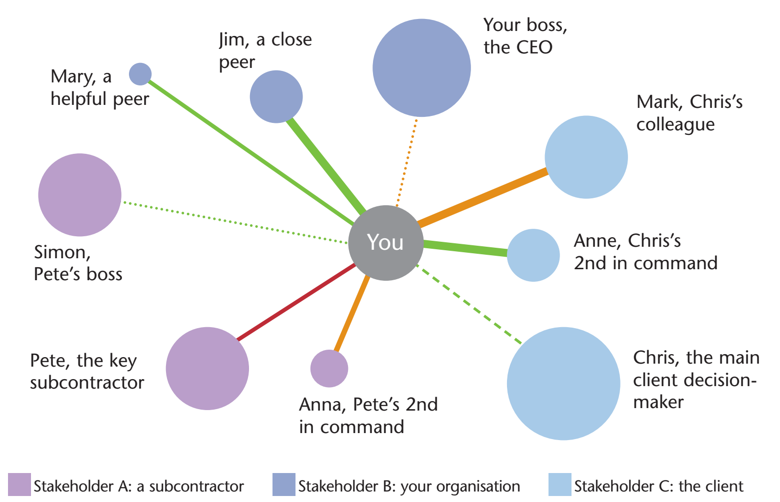
Looking at the map again, you may spot that a key person has possibly been neglected. You may also spot positive opportunities, eg someone you know well may be close to a difficult-to-access key player and might offer an alternative route to them. On the other hand, you might realise that someone close to you who is not that vital to your goals may be taking an inordinate proportion of your valuable time and effort, highlighting that you need to manage your boundaries. Any relationship is a joint creation and it is possible to influence it yourself by what you choose to do from this moment on.

4. Now let us add a level of sophistication to your map. Take in turn each of the relationships or 'threads' that require your attention, write down the name and job title of the person and try to answer the following questions for that relationship:

- why is this person important to your goals (eg his or her possible access to resources; his or her relevance to the key obstacles)?
- what are the top three outcomes that the organisation expects the role this person occupies to deliver?
- what are the top three priorities and/or concerns for the person inhabiting this role at the moment:
  – professionally?
  – personally?
- how might your goals be relevant to theirs?
- in their relationship with you, what might be their current needs and their hoped for desired outcomes?
- what are yours?

(If, in the above exercise, you find that you have insufficient information then you need to undertake some further exploration.)

Figure 1 THE POLITICAL INSIGHT MAPPING TOOL



An appearance of bonhomie does not mean that all are satisfied with the exchange

By now you should be getting a sense of how attractive it is for each of these individuals to engage with you in achieving your goals. Often their attitudes and behaviours towards you will have little to do with you as a person and more to do with the wider span of what is going on in their world. If the attraction for engaging with you is low, you need to work hard to make it important and appealing enough by communicating its significance in terms of what matters to them.

5. Now do a reality check. In the relationships on your map, how well are each party's needs and expectations actually being met? In light of this, do any of the lines' colours need to be amended? An appearance of bonhomie does not mean that all are satisfied with the exchange. Likewise, a tough exchange does not necessarily mean failure to deliver what was required.

6. Now prepare to act, first identifying the critical relationships. Management guru Stephen Covey talks about the 'emotional bank balance' of each party in a relationship. He explains how trust is built when each person makes deposits into the other's account. A deposit is all the more valuable if it is chosen carefully to be of particular worth to the recipient. It is easy to make unintentional withdrawals – which, ironically, can occur through offering something that is not valued by the recipient, or behaving in a way that does not meet the expectations of the other party (easily done, if they are from another culture). So if you are finding a particular relationship challenging, consider whether there has been an unwitting withdrawal. If that is the case, it is critical that you put it right – even if it was not of your own doing, eg your predecessor having broken a confidence – or it may remain an ongoing barrier.

   Another useful tack is to find common ground with the other person (eg shared goals of the organisation or project) and remind them that you ultimately want the same things. Given your understanding of their key needs, what can you offer them that they value? Also, look for latent opportunities. Has any 'credit' been building – and if so, what requests might you wish to make? It is important that you do ask for what will help you, so long as it is realistic, appropriate to what others have to offer, and not a demand. Be prepared to negotiate.

7. Finally, after all your quality thinking, what do you conclude are the most important things that need to happen? And what are you going to do next?

Conclusion

Using the above approach you can gain vital intelligence about critical relationships in your political landscape. The resulting insights should then enable you to build more respectful, collaborative business relationships for the mutual achievement of desired outcomes. ■

FACULTY WEB LINKS

- 'The art of dealing with difficult people' – *F&M146*
  www.icaew.com/index.cfm/route/149289
- 'Negotiation skills for managers' – *Webcast and resources*
  www.icaew.com/index.cfm/route/143694
- 'Communication and influencing skills for finance professionals ' – *Webcast and resources*
  www.icaew.com/index.cfm/route/129356

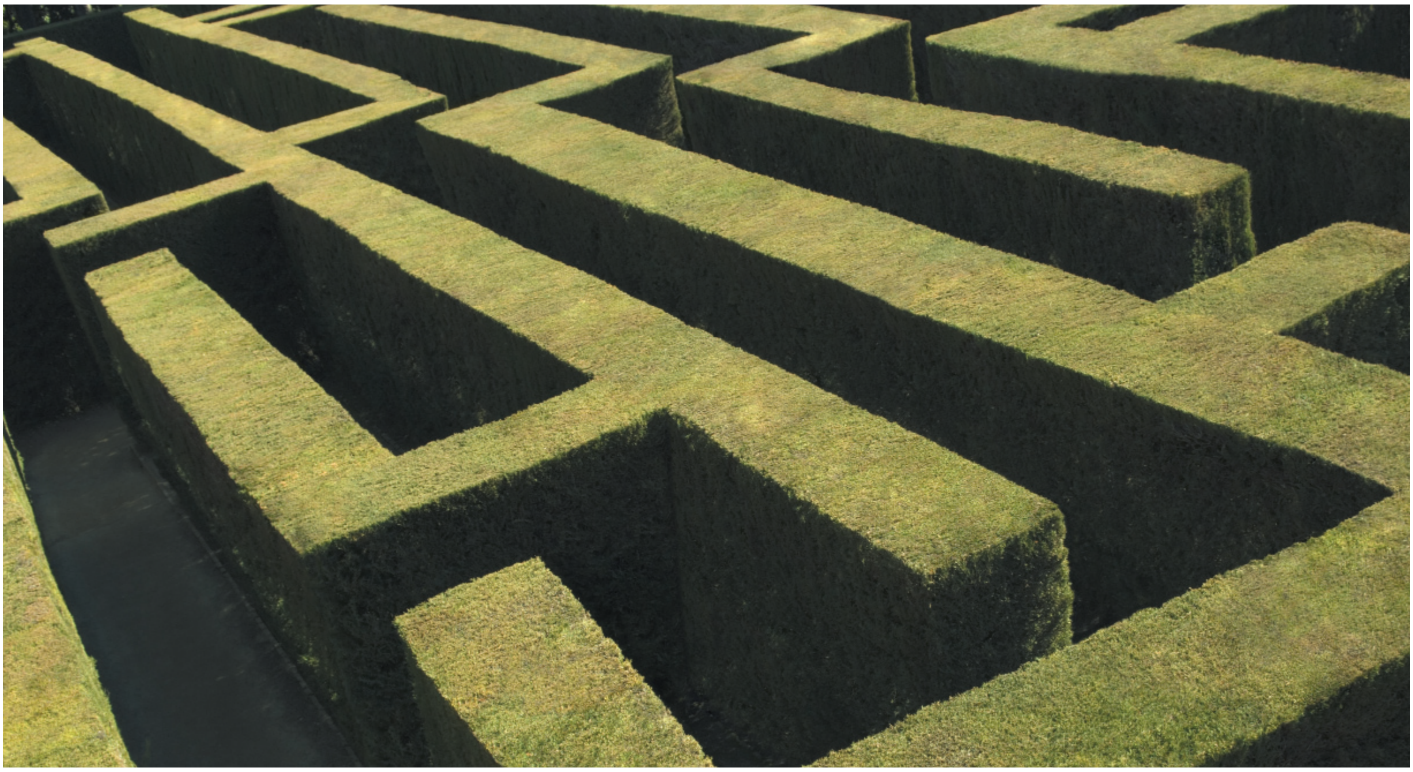
THE TREASURY CHALLENGE FOR THE FD

The continuing credit crunch means that banks are increasingly selective about lending money. **Michelle Price** and **Keith Strachan**, both of Deloitte, discuss how the crunch is affecting the role of the corporate treasurer and outline alternatives to bank borrowing.

For many corporates, 2008 is shaping up to be a tough year. Not a day goes by without the financial press mentioning the now infamous term 'credit crunch' and its depressing repercussions. From more expensive funding to increased market volatility, the ramifications for the role of the corporate treasurer are considerable.

What was once seen as desirable to leverage up the balance sheet for shareholder value, is now seen (with hindsight) as risky and is placing some companies in difficult positions as their bankers are taking a very different view to holding these assets.

If the treasurer was ever worried that his (or her) job's importance was reducing, the latest swings in the markets and the renewed challenge of raising finance must have refocused minds on the basics again. The treasurer, in tandem with the finance director (FD), must strive to ensure funding is not the limiting factor



in a company's growth, or indeed the factor that threatens the company's survival. Further, making sure that the company is appropriately protected from financial risk in a way that is consistent with other risks managed by the board requires a new focus.

In this article, we set out some of the more important areas in funding, cash management and investing cash, for the FD and treasurer to include in their considerations at this time.

Funding

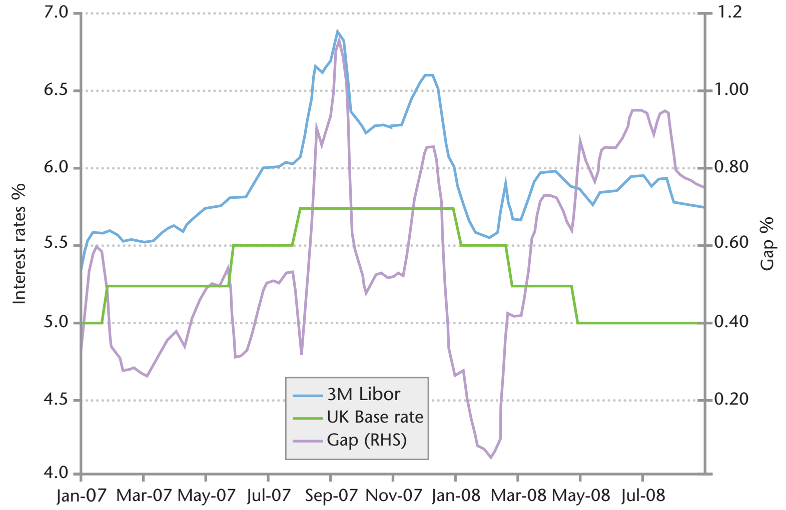
If you think raising new debt or refinancing is already proving difficult, things are only going to get worse. We have seen banks announce big provisions for bad debts and write off billions of pounds in losses; however there is still more to come and banks do not yet trust each other enough to lend money. This is shown by the continuing gap between base rate and the London inter-bank offered rate (LIBOR). The graph above (Figure 1) illustrates that the gap between base and three month LIBOR remains around twice that of pre-August 2007.

The worldwide shortfall between banks' acknowledged write-offs and capital raised is currently $150bn, with $75bn attributable to European banks. With banks' balance sheets so stretched from this effect and the stress of providing support for entities that had been funded by securitisation vehicles and held off balance sheet, the resultant reluctance to extend their balance sheet for corporate lending is showing in corporate credit spreads (ie the difference between the yield on corporate bonds and government bonds). They are wide now and likely to get wider (see Figure 2 on page 12).

All the above factors, and especially the poor functioning of the funding markets for banks, are causing UK banks to greatly reduce their gearing. As their funding is unwound, so will their lending to other institutions and companies. This de-leveraging effect will continue for some time and will also be important for the UK economy.

We are moving into a significantly different economy where liquidity for companies will be hard to come by as banks will be very choosy which loan assets they want to invest in. This is very much a return to the position of some years ago where obtaining a loan was

Figure 1 UK INTEREST RATES



Source: BBA Libor

hard work and by no means assured.

The latest Deloitte CFO Survey (2008 Q2) notes that there has been a sharp deterioration in credit conditions for corporates, measured in terms of the cost and availability of credit. The survey also notes that there has been a major shift in corporate attitude to debt. Compared with previous surveys carried out in 2007, corporates are now less enthusiastic about raising borrowings, believing the UK corporate sector to be over-leveraged.

The big question with most uncertainty is how long this situation will last and what will the credit landscape look like a year from now? It would be imprudent to make plans based on the credit markets softening and banks being more willing to lend in the short to medium term.

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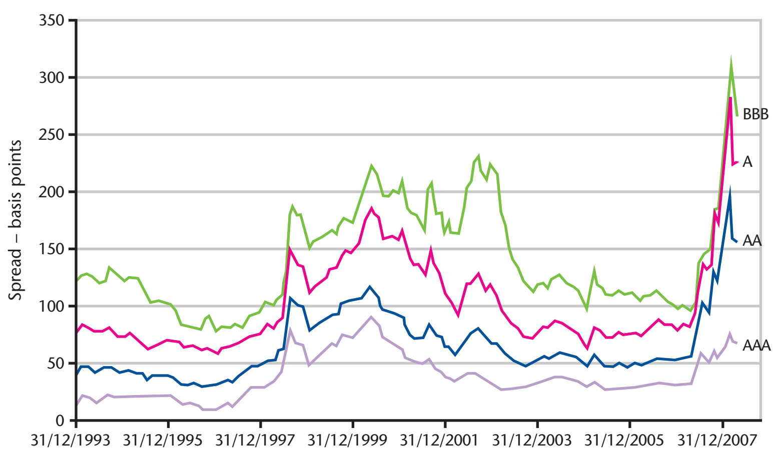
Treasurers will need to manage their bank relationships carefully, paying close attention to signs of a bank being less willing to continue a lending facility

The implications for the treasurer are that alternatives to bank borrowing must be found. In theory this would include sourcing money from the capital markets, however this option is not available to smaller companies. In practice we have seen many mid-size companies focus their attention on cash optimisation, utilising what cash they currently have in the business better. As and when the economy deteriorates further, (not an unreasonable statement given the widespread economic outlook) treasurers are going to have to become more creative in sourcing funds and controlling those funds already in the business. An injection of equity into the business is one option. We may also see increased merger and acquisition activity.

Treasurers are used to being courted by their banks, with banks falling over themselves to offer products and services. This relationship will change when treasurers are in a position where their bank or banks may be reluctant to lend them funds. The banking relationship model may be tested in the short term. Treasurers will need to manage their bank relationships carefully, paying close attention to signs of a bank being less willing to continue a lending facility.

Figure 2 CREDIT SPREADS 1994 TO 2008



Note: data end December 1993 to end June 2008, Source Barclays Capital

Liquidity management

Treasurers are often referred to as 'stewards of the company's cash', with the responsibility for liquidity management falling on their shoulders. The latest results from the British Chamber of Commerce (Q2 2008) disclose that cashflow balances for both the manufacturing and service sectors have dropped to record lows and are in negative territory. As funding cost increases and availability dries up, cash becomes a more precious commodity to the business.

As mentioned above we have begun to see a greater focus on cash optimisation and expect this to be the beginning of a trend. Cash optimisation is making better use of cash already in the business by:

- reducing working capital balances;
- better forecasting of cash requirements;
- recycling cash balances better between different entities – especially across borders; and
- reviewing and resolving trapped cash around the group.

In the above list we have mentioned cash balances held by businesses in the group. Note that the consolidated accounts may tell you that there is cash in the group, but is it in a place where it can be used to fund the rest of the group? Could it be some of your cash is more like stock in that it will take some time and effort to convert it into a useful commodity for recycling across the group?

The first step to cash optimisation is having full visibility of cash resources in the group. The ability to see cash balances and understand cash requirements going forward will allow the treasurer to challenge cash levels and remit funds back to the centre for use elsewhere in the group.

Cash investments

All the above discussion is focused on companies with cash and funding potentially in short supply. But what of those companies with surplus cash to invest? Treasurers of these companies need to be vigilant also in their steward's role.

We have explained above that the banks' balance sheets are stretched and are looking for funding. As a

The mere fact that banks are unwilling to lend to each other for more than a few days should give all pause for thought

cash investor the returns are currently looking healthy, but now may not be the time to be chasing the best returns. Protection of the principal amount invested may be your most important concern currently.

We frequently encounter directors of companies who do not believe that a large bank could default on money placed with them. Large banks employ a number of specialists whose job it is to analyse and quantify risks in lending to other institutions. The mere fact that banks are unwilling to lend to each other for more than a few days should give all pause for thought.

At this time some old principles make sense. Putting your eggs in a number of baskets is a sensible policy. It would also be advisable to make sure these baskets are highly credit-worthy too.

Finally, be very clear about what you are actually investing in. You should ask yourself whose ongoing trading are you reliant on to repay your cash investment? Just because a big bank is handling your money, it is not necessarily the case that your investment is in the bank's balance sheet – you may be exposed to general money market risks. ■

FACULTY WEB LINKS

- 'Strategic working capital management ' – *GPG21*
  www.icaew.com/index.cfm/route/121402
- 'Raising finance for owner-managed SMEs' – *FM154*
  www.icaew.com/index.cfm/route/155743
- 'Working capital optimisation' – *F&M134*
  www.icaew.com/index.cfm/route/136179

CREDIT CRUNCH TREASURY CHECKLIST

Funding

- Regularly monitor funding headroom using simple scenario analysis. Do not rely on uncommitted facilities or overdrafts
- Develop plans for alternative sources of funding now, not when the pressure is on.
- If you think you will need additional bank funding, have the discussions well in advance of the requirement so you are not over a barrel later.
- Proactively manage bank relationships being sensitive to the potential for the bank to withdraw uncommitted funding lines, or to not renew committed facilities.
- Understand where the bank makes money in the relationship with your company. Be open about asking them which business they value – you may be surprised about the answer! With this information you will be in a better position to understand whether the bank values the business with your company and is hence likely to pull out.

Cash management

- Take stock of cash balances – develop the processes to collect this information for all bank accounts across the group.
- Make a plan to pull cash balances back to the centre from businesses across the group. Options could include dividends, loans or capital reduction. All of which take time and effort to set up.
- Measure the accuracy of cash forecasts and take action to improve this.
- Push for a working capital initiative to release excess working capital tied up in supporting the company's production cycle. Many companies have made great strides in this area by working with suppliers and customers in the end to end process to take out excess working capital across the whole chain.

Cash investments

- Consider expanding the number of banks on your investment list.
- Research the credit-worthiness of the banks you place funds with. Look at credit ratings provided from rating agencies (Standard & Poors, Moody's Investor Services and Fitch Ratings are three typical names) and compare the ratings of different banks.
- If you are investing in instruments other than deposits with banks, consider looking further into the nature of the investment to make sure you (1) fully understand the assets invested in; and (2) are happy that your investment can be repaid in full when you need them.

IN FOCUS: TAXATION

THE SHIFTING SANDS OF TAXATION

At the faculty's recent tax update event, the latest developments in business taxes were outlined by the ICAEW's **Anita Monteith** and **Ian Young**. Below they summarise the main areas of interest.

Large companies' corporation tax
The good news, for large businesses, is that the headline rate of corporation tax has come down two percentage points from April 2008, and there has also been very considerable progress in creating a more positive environment between business and the revenue authority. The latter is a result of HM Revenue & Customs's (HMRC's) Varney Review into its links with large business.

Taxation of overseas profits
Despite these welcome developments there is, at the same time, considerable unhappiness about current government plans to change the basis on which overseas company profits may be taxed in the future. As a result of business pressure the government is changing from taxing a business on its worldwide profits and giving relief for the overseas tax it has paid, to taxing only the UK profits but with some safeguards to ensure that UK profits are not exported abroad and that the UK is not 'loaded' with an excessive amount of interest.

The informal consultation on the change began a couple of years ago and was put on a more formal basis 12 months ago. However, there have been huge differences in opinion as to what HMRC thinks needs to be put in place to safeguard the UK tax base, and what business considers to be appropriate for a regime which is trying to present an attractive tax framework. It now looks as if the long awaited full consultation document will not be published much before the end of the year.

Multinationals in Europe
Meanwhile there are potentially huge developments in Europe with a common tax base being designed for multinational companies operating in Europe. The tax base would be computed in the main European country of operation and that tax base would then be spread amongst all the European countries in which that particular group of companies operates.

This would allow cross-border loss relief and eliminate the need for complex transfer pricing debates with revenue authorities. However the project is unlikely to be adopted in all the EU member states as that would require unanimous approval from those states so the more likely outcome is that the project will go ahead with a limited number of those member states who support it. The UK is unlikely to be among them.

SMEs in the UK
Much is also changing for small and medium-sized UK businesses. The government announced a wide-ranging package of business tax reforms at the time of the 2007 Budget. A main stated objective of the package was to promote investment and growth, by lowering the full rate of corporation tax and 'refocusing the tax system for smaller businesses', through 'generous and better targeted incentives for investment'. However, small companies will have noticed that there was nothing mentioned about tax cuts for them. Instead we have seen a gradual rise in the small companies' rate of corporation tax, to 22% from 1 April 2009.

Capital allowances
Furthermore, there was shock and disappointment at the announcement that industrial buildings allowances were being phased out, with balancing adjustments abolished with immediate effect. There then followed a period of some months' silence before any further details were released.

The government subsequently announced, and has now introduced, a major package of capital allowances reforms. These include:

- the abolition of 50% and 40% first year allowances for small and medium-sized UK businesses respectively;
- a new 100% annual investment allowance for the first £50,000 of expenditure incurred each year on most types of plant;

NEW BASIS FOR TAX ON CARS

Since March 2006, the government has been consulting on tax relief for business expenditure on cars. The most recent documents seem to indicate that we shall see a new system from perhaps next year, which will be based on CO2 emissions rather than cost. We expect that it will:

- retain the existing 100% first-year allowance for cars with CO2 emissions up to 110g/km;
- utilise the general plant and machinery capital allowances pool for cars with CO2 emissions between 111g/km and 165g/km; and
- introduce a new pool, with a lower writing-down allowance than that of the general plant and machinery pool, for cars with CO2 emissions above 165g/km.

The move to a flat-rate capital gains tax is a potentially welcome simplification but will create winners and losers

- a reduction in the main rate of writing down allowance for plant and machinery from 25% to 20%;
- the introduction of a special rate of writing down allowance of 10% for certain 'integral features' within buildings;
- an increase in the rate of writing down allowance for long-life assets from 6% to 10%;
- a repayable first year tax credit for expenditure on energy-saving and environmentally beneficial (ie water conserving) plant and machinery qualifying under the enhanced capital allowances scheme;
- the ability to write off in full small plant and machinery pools (ie those with a value of less than £1,000, other than single asset pools);
- the extension of plant allowances for adding thermal insulation to all commercial buildings (not just industrial buildings, as was previously the case);
- the repeal of the rules that treat certain fire safety works as plant and machinery; and
- the abolition of industrial and agricultural buildings allowances, including enterprise zone allowances.

The Tax Faculty responded to each stage of the consultation process, and is pleased that its suggestion for writing off small pool balances has been adopted.

Capital gains tax
The Finance Bill 2008 will enact the government's proposal relating to capital gains tax (CGT). On 8 October 2007 in the Pre Budget Report, plans to reform the CGT rules and introduce a new 18% flat-rate of CGT were announced. All previous entitlement to taper relief was to be withdrawn. In response to considerable pressure from the Tax Faculty and from business more widely, plans for a new 'entrepreneurs' relief', were later tabled.

This relief, which is based upon the CGT retirement relief rules which were phased out beginning in 1999, provides that gains of up to £1m on the disposal of all or part of business are taxed at an effective rate of 10% rather than 18%. Note that gains made by companies are unaffected.
The move to a flat-rate CGT is a potentially welcome simplification but will create winners and losers. In particular, many employee shareholders who previously would have qualified for the 10% CGT rate after business assets taper relief will not qualify for entrepreneurs' relief and will therefore be faced with an 18% CGT rate. In the light of these changes we are unclear as to the direction of tax policy in relation to encouraging employee shareholders and the interaction of the new rules with existing reliefs to encourage employee share ownership, such as the enterprise management incentives scheme.

Conclusion
Unfortunately, in this current climate of change, the tax regime is fast becoming one of ever-shifting sands rather than being a rock upon which a business can confidently be run. ■

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IN FOCUS: FRAUD

THE IMPORTANCE OF ANTI-FRAUD POLICIES

Fraud costs UK companies around £3bn a year and, with the current economic recession, the likelihood is that its cost and incidence will increase. Here, **Jonathan Fisher** advises on what companies need to do to implement an effective 'anti-fraud' policy.

In the UK fraud costs around £20bn each year. It undermines prosperity, distorts markets, damages the economy and represents the most pervasive manifestation of criminal activity in the corporate arena. FTSE100 companies alone lose an estimated £500m a year, while the total lost by all listed companies is around £3bn.

Fraud in a downturn

Worse, as the slowdown continues to bite, there are reports that the scale of fraud is rising. Earlier this year the Financial Services Authority (FSA) warned that a downturn in economic conditions could lead to an increase in the amount of fraud being committed. The FSA also expressed concern that a recession could lead to companies diverting resources away from tackling financial crime as they seek to shore up other areas of their business.

On a similar tack, KPMG Forensic has suggested that the current economic slowdown could lead to a repetition of the sort of high value corporate frauds which scarred the business landscape 20 years ago. KPMG's 'fraud barometer' shows that the last major recession in the early 1990s was followed by the emergence of substantial frauds such as those featuring Polly Peck and BCCI. The barometer showed over £1bn of fraud in 1993, second only to the record £1.2bn it recorded for 1995 after a second wave of BCCI-related fraud.

Importance of anti-fraud culture

'Anti-fraud' activity is the implementation of a culture, strategies and policies to combat all types of fraud, treating internal fraud and external fraud with equal importance. In order to satisfy shareholders' expectations, companies need to have comprehensive anti-fraud policies in place – including a whistle-blowing policy endorsed and supported at the most senior level.

A company director has a duty to act with reasonable care and skill. This includes a duty to preserve and maintain a company's assets. Section 174 of the Companies Act 2006 requires a director to exercise the degree of care, skill and diligence that would be exercised by a reasonably diligent director in the same position. The obligation applies to both executive and non-executive directors. What is more, whilst the performance of the obligation may be passed to senior management, the duty resting on directors to ensure the implementation of adequate anti-fraud policies is non-delegable.

Businesses operating in the financial services sector are obliged by law to implement policies to combat the incidence of fraud and other forms of financial crime. The FSA has always required both senior managements to take responsibility for managing fraud risk, and businesses to have effective systems and controls in place that are proportionate to the particular risks they face. Recently, the FSA has been paying more attention to businesses' arrangements for managing their fraud risks as part of its general supervisory and regulatory activities.

Any failure to institute adequate anti-fraud policies and monitor their efficacy exposes directors to shareholder action for negligence and breach of fiduciary duty. In addition, where directors or company employees are involved as witnesses in legal proceedings and it emerges that the business anti-fraud policies were inadequate, significant reputational damage is inevitably suffered.

Identifying the fraudster

Procurement fraud, extraction fraud, payroll fraud and false expenses claims are typical examples of the types of fraud which may be encountered. Identifying the fraudster is often more difficult. Certainly, employers should watch carefully employees who display the following:

- unusual work patterns (early morning, late evening);
- lack of inclination to take their holidays;
- excessive secrecy – eg the unnecessary locking of cabinets; and
- continual use of portable equipment.

As the slowdown continues to bite, there are reports that the scale of fraud is rising

A successful investigation roots out fraudulent misconduct and leaves the business better able to prevent such activity in the future

These are classic indicators that fraudulent activity might be taking place. It is also important to monitor email traffic. Concerns should be raised when:

- emails are sent at unusual times, with unnecessary attachments; and
- emails are sent to unusual destinations such as the employee's home or some other personal address.

On other occasions, it will be necessary for a business to conduct an internal investigation. A successful investigation roots out fraudulent misconduct and leaves the business better able to prevent such activity in future.

However, it is vital that the investigation is carried out properly. The consequences of a badly conducted investigation can be severe; a botched investigation may allow the perpetrators of misconduct to get away with or even continue their activity without recrimination. It may mean that lost funds cannot be traced or recovered, or that further money is lost. In the worst case scenario, failures can trigger a number of criminal offences as well as expose a business's officers to civil liability. For these reasons, any business conducting an internal investigation must know and comply with the relevant legislation and guidelines.

Anti-fraud policies

To combat fraud effectively, businesses must implement adequate anti-fraud policies and monitor their efficacy on a regular basis. Anti-fraud policies must include measures such as:

- a formal anti-fraud policy statement which is simple and easy to understand to ensure that all employees are aware of a zero-tolerance attitude to criminal breaches of business practices;
- an overt anti-fraud culture in which each employee has a responsibility for fraud prevention and detection and understands both the standards of conduct required and their own personal responsibilities in preventing fraud;
- identification and assessment of the fraud risks to the company;
- properly implemented fraud controls such as internal audit, to provide assurance on operation of internal controls and effectiveness in preventing fraud losses;
- an established 'whistle-blowing' policy;
- the monitoring, addressing and reviewing of identified fraud risks;
- specially devised fraud-proof programmes and systems; and
- training programmes to raise employees' awareness of risks of external fraud. For example, a company should present regular fraud awareness workshops, personal monitoring of staff working in fraud vulnerable areas, and closer managerial supervision with feedback to staff on compliance with security procedures.

Whistle-blowing

Establishing a whistle-blowing policy is an integral part of an effective anti-fraud policy. The Public Interest Disclosure Act 1998 is commonly known as the Whistle-blowing Act.* The Act encourages people to raise concerns about malpractice in the workplace such as crime, civil offences, miscarriage of justice, danger to health and safety or the environment. A disclosure in good faith to a manager or employer will be protected if a whistle-blower has a reasonable suspicion that malpractice has occurred, is occurring or is likely to occur. Wider disclosures to third parties are protected if they are reasonable in the circumstances and they meet certain preconditions.

The Fraud Advisory Panel (FAP)

The FAP can assist businesses in developing appropriate anti-fraud polices, and there is a wealth of useful material on its website at www.fraudadvisorypanel.org. Particular reference should be made to the excellent array of documents available on the 'advice and information' page, accessed through the 'publications' icon on the tombstone menu. ■

* See also the ICAEW's whistle-blowing guidance at www.icaew.com/index.cfm/route/149379.

Jonathan Fisher QC is a practising barrister and trustee director of the Institute's Fraud Advisory Panel. www.jonathan-fisher.co.uk

IN FOCUS: ENTREPRENEURIAL ISSUES

THE PITFALLS OF STARTING A NEW BUSINESS

In this continuing *F&M* series of interviews with business leaders, **Sir Mark Weinberg**, president of St James's Place Capital, examines the pitfalls involved in starting a new business.*

Probably the most important business belief, from my experience, is the need for focus. I believe it because when I've ignored it I've always regretted it and the clearest example of this took place in the early 1980s when I was chief executive of Allied Dunbar Insurance Investment Group, which was very successful at the time.

I felt I had a bit of time and money to spare and someone came along to me with what became the Personal Digital Assistant (PDA). This was about the time that the Psion organiser was being developed – a product which went on to become a great success. The PDA came just before the Psion – it was a better product and it remained so for a number of years. So I fell in love with our product, the PDA, which is one thing you should not do. Furthermore, it was a pioneering product, which is another problem (I'll come back to that in a moment). A third thing is that it was something I did on the side.

My job was full-time, running a life assurance company, but I found the time on evenings, weekends and the odd morning on the way to work to go off to a factory and get involved in running a new, start-up, high-tech business. The business was not successful and actually it cost me, personally, quite a lot of money. Probably the only way I'll get that money back will be writing a book, listing all the lessons I learnt from that.

Lesson number one is: be very careful about pioneering. The exciting thing was that this was a totally new concept – a battery-driven computer that you could carry in your pocket to organise your life and write your diary (in those days; there wasn't email). At the outset it was very exciting but it was a pioneering idea and it took many, many years for it to catch on. You look now at the Palm Pilot and so on, which is really a derivative of that product of 20 years ago and there are millions of them around.

In those days, we were battling to sell the first few although in theory we couldn't understand why people shouldn't buy them: and 20 years later, they do. So, that's the first thing – be careful about being a pioneer.

Hard slog

The second thing is, never fall in love with technology or a product at all, because here was an example where, after six months or a year, it became clear that it was a very hard slog and I started being aware of the pioneering problem. I actually spoke to somebody at Olivetti who was in charge of their technology development. He used a phrase which stuck: I'd got the 'missionary problem', because when I was marketing I was not just marketing my own product against other products, I was marketing the concept.

Three-quarters of my marketing spend was on educating the public to a new product, whereas nowadays when you're selling a Psion or a Palm, or whatever, it's: "My product is better than another product", but people already know about it. So it wasn't working, but I persevered with it because I'd fallen in love with the product and this is something that I should have cut much earlier.

I fell in love with the product, which is one thing you should not do, and it was a pioneering product – which is another problem

* This article is transcribed from 50Lessons' library of over 500 video lessons given by 100 business leaders. To view and hear the full interview online, visit www.50lessons.com

CAREER MILESTONES

- Sir Mark Weinberg is president, St James's Place Capital and has over 40 years' experience in the financial services market.
- In 1961 he founded Abbey Life Assurance Company, where he formed one of the UK's first property funds.
- 10 years later he started Hambro Life Assurance (now part of Zurich Financial Services), which grew to become the largest unit-linked life assurance company in the UK. There he formed the first retail managed fund.
- He was deputy chairman of the principal UK regulatory body, the Securities and Investment Board (SIB), from its inception in 1985 until 1990.
- In 1991 he co-founded St James's Place Capital plc, a wealth management group of which he remains president.
- Sir Mark is also the chairman of the Pension Corporation and insurance group Synergy MicroCaptive. He became a director of GuestInvest in November 2007.

LEADER'S VIEWPOINT – SIR MARK WEINBERG

Another problem I made here was trying to run it on the side myself. If you want to finance something and you get involved in something outside your own field, go out and find a really good person to run that company. Take some of the money that would otherwise just be sunk into unsuccessfully building this business and use it to employ somebody really good who can build up that business, who can live it, who can take it home, who can work on it during the day as well as the weekends.
I tried to do it on the side, thinking 'if I'm running a successful life company why can't I do this as well?' I couldn't - maybe if I'd given up the life company I would have succeeded but even then it wasn't the field in which I was experienced.

Contingency
Finally, on the financial side, the important lesson to learn is that it always costs more than you think it will. You do your business plan, you put in your contingency and people usually put in – to be really safe – 10 or 20% for contingency.

The reality is that you should put in 100% or 200% because it always costs more than you think it's going to - something always goes wrong, something unexpected needs to be paid for and you need a lot more money. The other thing you need money for is marketing. Never make the mistake of thinking that if you've invented something or brought something to the market, which is new and clever, that it's going to sell itself.

I remember reading once that the American philosopher Ruskin famously said: "Invent a better mousetrap and the world will beat a path to your door." Yet they don't; you've got to invent a better mousetrap and then spend a lot of money marketing it.

So, always set aside a big budget, a bigger budget probably than your manufacturing budget, for marketing your product. ■

LESSON SUMMARY

- Focus is vital at the start of a new company so don't try to do too many things at once. Taking your focus away from your main business will jeopardise your position and ultimately may lose you time and money.
- Realise when you need to give up on an idea or change direction and make the move – don't delay.
- Be careful about being a pioneer – you will not only have to market/sell that new product but the overall concept as well.
- Don't get involved on a personal level, so never fall in love with the technology or the final product, as it will skew your focus.
- Launching a new product or business will always cost more than you think. When you do your business plan, factor in significantly more than 10% to 20% for contingency – and make sure that you set aside an even larger budget for marketing

IDEAS FOR ACTION

- If you are starting a new business, hold regular meetings with your partner or any staff, to ensure everyone is focused and not getting too emotionally attached to the project. Ensure an objective view is maintained as often as possible.
- At the start of a new business/product, discuss the contingency figure for your business plan with your colleagues and debate worst-case scenarios, so that you are aware of potential cost increases.
- Realise when you need to pull the plug on a decision or project by keeping on top of all communications and costs. Regular meetings can assist with this; however, transparency about the aims, objectives and budget constraints is the priority so you must lead by example.
- Review the projected annual spending for your marketing department – do you think this is realistic? Does it take into account any planned new product launches?

BRIEFING: HUMAN RESOURCES

THE PROS AND CONS OF EMPLOYEE SHARE SCHEMES

When seeking ways of motivating employees in a growing private company, are share option schemes – as a part of the overall pay package – a good idea? **Rupert Merson** explores the issues.

The argument in favour of having employee shareholders is simple, from the existing shareholders' point of view. The best employees are those who think like shareholders, so what better way of achieving this than giving employees shares? Besides, in a small start-up, where cash is tight, giving employees shares might be a way of persuading them to accept less salary.

There is evidence to support this general view. According to research commissioned by HM Revenue & Customs (HMRC) from Ipsos Mori, 79% of employers offering employee share options under the enterprise management incentive (EMI)* felt that the scheme helped them retain key employees and improve motivation. A healthy tax benefit no doubt sweetened their opinion, but undoubtedly employee share ownership helps generate a sense of ownership and esprit de corps.

How do your employees think?
If your employees think like shareholders then shares will be for them. True share owners in private businesses accept that their shares will be difficult to convert into cash unless there is company sale or float to aim at. Until then their ability to convert paper to cash will usually be limited. An entrepreneur will be excited by and focused on such a 'liquidity event'.

The truth is, however, that many employees think like employees rather than entrepreneurs. If they wanted the risks and potential rewards that go with entrepreneurship they would have signed up for it from the start. Many employees would rather a guaranteed cash salary than the promise of future riches. Too many have seen the dangers of picking all their eggs – source of salary, pension, savings – from the same basket: if the company goes down they have much more to lose than if their savings are diversified.

To take a jaundiced view, fancy share schemes (and performance related bonus schemes) are often designed by those who are excited by them for the benefit of those who are not, and should not be.

And does the company really need more entrepreneurs?
Entrepreneurs should also be wise enough to know that they do not really want their workforce to be full of entrepreneurs either. 'What this company needs is someone like me,' is a line often spouted by entrepreneurs. However, in truth, the last thing 'people like them' would want to do is to work for people like them.

What is more, a growing private company needs new skills, rather than more of the old ones, if it wants to develop management capability. New management should complement the entrepreneurs, rather than compliment them. Such a growing company will often also want to shed some of its old management – and will not want to find its ability to do so hampered by some fancy share plan.

Do not be driven by tax
Companies should also be careful if they are driven into taking decisions, especially remuneration decisions, merely because of tax. Employee share ownership is a maze of tax effective schemes out to tempt businesses to put the tax cart before the horses of motivation and reward.

Conclusion
Do not get me wrong. Share ownership for employees in private companies can work, particularly for those involved right at the beginning who think like the entrepreneurs they are (which is what the likes of EMI are designed to support). However, many employees just want an honest day's money for an honest day's effort. ■

*The EMI is a share scheme which, following the Finance Act 2000, enables companies to attract and retain key staff by rewarding them with equity shares in the business.

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SEC PROPOSES ROADMAP TO GLOBAL STANDARDS

The US Securities and Exchange Commission (SEC) decided to publish for public comment a proposed 'Roadmap' that could lead to the use of International Financial Reporting Standards (IFRS) by US issuers beginning in 2014. Currently, US issuers use US Generally Accepted Accounting Principles (GAAP). The SEC said it would make a decision in 2011 on whether adoption of IFRS is in the public interest and would benefit investors. The proposed multi-year plan sets out several milestones that, if achieved, could lead to the use of IFRS by US issuers in their filings with the commission.

The increasing integration of the world's capital markets, which has resulted in two-thirds of US investors owning securities issued by foreign companies that report their financial information using IFRS, has made the establishment of a single set of high quality accounting standards a matter of growing importance. A common accounting language around the world could give investors greater comparability and greater confidence in the transparency of financial reporting worldwide. "An international language of disclosure and transparency is a goal worth pursuing on behalf of investors who seek comparable financial information to make well-informed investment decisions," said SEC chairman Christopher Cox.

Cox noted that since March 2007, the SEC and staff have held three roundtables to examine IFRS, including one regarding the performance of IFRS and US GAAP during the subprime crisis. Today, more than 100 countries, including all of Europe, currently require or permit IFRS reporting (for consolidated accounts of listed companies). Some 85 of those countries require IFRS for all domestic listed companies. For more, see www.sec.gov/news/press/2008/2008-184.htm.

IFRIC ON HEDGES AND REAL ESTATE

The International Financial Interpretations Committee (IFRIC) has issued IFRIC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* which provides guidance on the accounting in an entity's consolidated financial statements. IFRIC 16 is effective from 1 October 2008. For more information please see www.icaew.com/index.cfm/route/159170

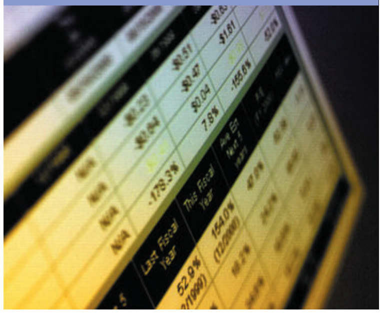
IFRIC has also issued IFRIC Interpretation 15 *Agreements for the Construction of Real Estate*. The guidance will help companies determine whether an agreement is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue should be recognised. It is effective from 1 January 2009. For more information, see www.icaew.com/index.cfm/route/159029.

IASB PROPOSALS ON IFRS, EARNINGS PER SHARE

As part of its annual improvements project the International Accounting Standards Board (IASB) has published an exposure draft of suggested improvements to eight IFRSs. The proposed effective date, unless otherwise specified, will be 1 January 2010. Comments are due by 7 November 2008. See www.icaew.com/index.cfm/route/160249.

In addition, the IASB has proposed amendments to IAS 33 *Earnings per Share* in order to simplify the calculation of EPS and to eliminate differences between the methods required by IFRSs and US accounting standards. Comments are due by 5 December 2008. See www.icaew.com/index.cfm/route/160119.

UPDATE



By **Marianne Mau**, financial reporting manager at the ICAEW (marianne.mau@icaew.com) and other sources.

ASB ON INSTRUMENTS

The UK Accounting Standards Board (ASB) has issued an amendment to FRS 25 *Financial Instruments: Presentation* which will change the classification of certain financial instruments from liabilities to equity. The amendment follows on from the equivalent amendment to the international standard, IAS 32, in February 2008. The amendment will be effective from 1 January 2010. See www.icaew.com/index.cfm/route/160120.

FRRP – NEW PROCEDURES

The Financial Reporting Review Panel (FRRP) has revised its operating procedures to improve the transparency of the processes through which the Panel conducts its enquiries. See www.icaew.com/index.cfm/route/154500.

FRC ON GOING CONCERN

The Financial Reporting Council (FRC) has published an exposure draft setting out its proposals to revise the guidance for *Directors of Listed Companies on Going Concern and Financial Reporting*. For more, see www.icaew.com/index.cfm/route/158425.

UPDATES

For details of all recent standards, interpretations and current projects, please visit our financial reporting pages at www.icaew.com/index.cfm/route/14548. ■

TAXATION

DON'T FORGET THE 31 OCTOBER DEADLINE

If you plan to file a self assessment tax return on paper, then do not forget that 31 October is the new deadline.

In previous years, both paper and online self assessment returns had to be filed by 31 January. But from this year paper returns for the tax year 2007/08 must be with HM Revenue & Customs by 31 October 2008. If you send your paper return in after that date, you risk a penalty of £100. The deadline for filing online returns remains 31 January 2009.

The date for paying outstanding tax for 2007/08 is still 31 January 2009, whether you file online or on paper.

If you get your paper return to HMRC by 31 October, they guarantee to calculate your tax for you, in time for you to know what to pay by 31 January 2009. If you file online, your tax is calculated automatically. ICAEW members will find answers to questions about deadlines in TAXline Tax Practice No 20 at www.icaew.com/index.cfm/route/159689.

QUESTION ON SERVICE COMPANIES

The 2007/08 income tax self assessment returns for clients have a new question on page four of the standard return regarding service companies.

Many members have expressed concern about the question and following meetings with HMRC joint guidance from the ICAEW Tax Faculty and the Chartered Institute of Taxation (CIOT) has now been published in the format of 'frequently asked questions' (FAQs).

HMRC has also revised its guidance which explains and amplifies what is meant by 'service company' and when you can ignore the box. It confirms that you need only enter the total of dividends including the tax credit plus gross salary, but not other benefits, in the box. It further confirms that no additional record keeping is required.

TAXGUIDE 7/08 is available at www.icaew.com/index.cfm/route/160074.

VAT UNIT RELOCATION

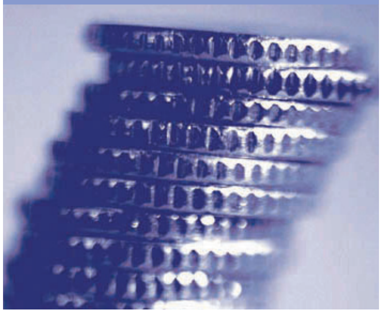
Since the introduction of VAT in the UK on 1 April 1973, the government VAT Central Unit has been located in Southend. However, this has now changed. All VAT returns should now be submitted to a new address in Shipley – HMRC, VAT Controller, VAT Central Unit, BX5 5AT.

In Phase 1 of this change, business reply envelopes bearing the new address are being issued with the relevant returns. Phase 2, scheduled for delivery before the end of December 2008, will cover other VAT accounting documents. An update on the actual date will be given nearer the time, but again, business reply envelopes issued with the relevant documents will bear the new address.
However, the processing of EC Sales Lists and Intrastat Declarations will remain at Southend. It is important, therefore, that the correct business reply envelope is used when submitting returns or other declarations and payments to prevent delays and avoid any inappropriate default surcharges or additional interest charges.

TAX APPEALS

On 20 August, the Ministry of Justice published for consultation the procedural rules which will apply once the tax appeals tribunals become part of the new unified tribunals structure. Under the new structure, which is due to apply from April 2009, the existing tax appeal tribunals will be replaced by a single two-tier tribunal.
The new structure will require a new, unified set of procedural rules for tax appeals. The rules for the First-tier Tribunal reflect the style and structure which has been developed for use across all the chambers of the new tribunals. The deadline for comments on the proposed rules is 12 November 2008. Full details are at www.tribunals.gov.uk/latestnews.htm.

UPDATE



By **Frank Haskew**, head of the ICAEW Tax Faculty, based on the faculty's weekly newswire. To subscribe (free) to the newswire, visit www.icaew.com/taxfac and click on 'email newsletter'.

MONEY LAUNDERING

Last month, HMRC published guidance on how it will supervise businesses that are registered with it under the Money Laundering Regulations 2007. The guidance is in Code of Practice 28 (COP28).
It gives information on such matters as to why HMRC needs to undertake reviews, how often businesses can expect to be reviewed, and what will happen during the review. HMRC has also updated the FAQs which are part of the material available on its money laundering pages, which can be found at www.hmrc.gov.uk/mlr.
Comprehensive ICAEW guidance on anti-money laundering is available at www.icaew.com/moneylaundering.

BENEFITS IN KIND

HMRC has been consulting on how benefits-in-kind and expenses might be dealt with by putting them through the payroll. If employer-provided benefits-in-kind and expenses have to be put through the payrolls by employers on a real-time basis, rather than declared on end-of-year return forms P11D (as at present), then all the laws governing how benefits-in-kind and expenses are charged to tax and NIC will need to be reviewed and most will need to be changed.The Tax Faculty has said that compulsory payrolling is not the right way forward – see TAXREP 69/08 at www.icaew.com/index.cfm/route/160152. ■

EMPLOYMENT LAW

TUPE TRANSFEREES FACE ONGOING CLAIMS

A transferee may face substantial equal pay claims from employees whom the transferor should have paid at the same rate as a pre-transfer comparator. TUPE applies to transfer the salary level the employee ought to have received pre-transfer, even if the comparator hasn't transferred to the transferee and the transferee has no knowledge of the inequality.

Claims in relation to the period pre-transfer must be brought within six months of the transfer. Claims in relation to the period post-transfer can be made at any time up to six months after employment with the transferee ends.

The decision presents practical problems for transferees who may be unaware of the inequality. There is no obligation on the employee to allege the inequality pre-transfer or within a certain time post-transfer. If the transferee does not take on the comparator, there may be nothing in the information provided to it to indicate a potential claim and it will have no evidence with which to defend the claim. There are likely to be employees in a similar position to the claimant so there could be a knock-on requirement to increase the salaries of a whole group of employees.

Transferees will need to negotiate as comprehensive warranties and indemnities as possible and/or reflect the risk in the price. It would also be prudent to include a clause requiring the transferor to provide information and/or assistance should a claim be brought. (*Sodexo v Gutrdige, EAT*)

'NO SHOW' CLAUSE FOR NEW EMPLOYEES

An employer may be able to enforce a "no show" clause requiring a prospective employee to pay an agreed sum if he fails to start his new employment, provided the purpose of the clause is to compensate loss rather than deter breach.

Employers wishing to use such clauses should genuinely attempt to estimate the likely losses and preferably discuss this with the employee. The employer here had compared the likely revenue of the prospective employee with the cost of employing him and had thought about whether amending the clause would make it an unenforceable penalty. The court thought this was sufficient consideration of the matter given that the loss was difficult to assess. It was also influenced by the fact that the employee had equal bargaining power in negotiating the contract and had received legal advice. The fact that the agreed sum was much smaller than the actual loss did not make it an unenforceable penalty.
(*Tullett Prebon v Ghaleb El-Hajjali*)

DISCLOSING DEFECTION TO THE COMPETITION

Employers can sue a group of employees who conceal their intention to defect to a competitor, even if there are no restrictive covenants prohibiting competition. An employee is under a duty to tell his employer if he and other employees are together proposing to join a competitor.

Three employees breached their implied duty of fidelity by deliberately concealing from their employer the real possibility that all three would join a competitor. This was also a breach of the fiduciary duty binding the two more senior employees.

Twelve month non-compete covenants binding the senior employees as shareholders were also held to be enforceable. The covenants theoretically applied to junior employee/shareholders also, which would not be justified; however, the possibility of junior employees being shareholders was remote and should not prejudice enforceability against senior staff. *(Kynixa v Hynes, HC)*

UPDATE

This section is extracted, with kind permission, from the monthly bulletin produced by the law firm **Herbert Smith LLP** – for further information about these issues, contact anna.henderson@herbertsmith.com or visit www.herbertsmith.com. The content of this section does not represent legal advice and should not be relied on as such.

MISCONDUCT

Employers must send an SDP Step 1 letter before suspending without pay to investigate misconduct. The statutory disciplinary procedure applies to suspensions without pay, even where these are to investigate misconduct rather than as a sanction for it. An employer should issue a Step 1 letter setting out why it is contemplating suspending an employee without pay prior to taking that action, so the employee can argue against the suspension before it starts.
(Wilf Gilbert v Bunn, EAT)

REDUNDANCY

An employer can take into account the fact that an employee is entitled to pension benefits when determining what redundancy rights to give him/her. Tapering provisions may be justified to ensure equity between those close to and those at retirement age.
(Loxley v BAE Systems, EAT)

LEGAL REPRESENTATION

Employees will not be permitted legal representation at internal disciplinary hearings if the employer's rules forbid this. The implied term of trust and confidence could not be used to override the prohibition. *(Kulkarni v Milton Keynes Hospital, HC)* ■

GETTING A RETURN ON PEOPLE PROGRAMMES

Can you truly measure the value of HR and training programmes? **Andrew Mayo** describes the challenges of assessing the return on investment in people-related programmes and considers how this intangible can be measured.

The return on investment (ROI) made in people-related programmes, such as HR projects and training programmes, is notoriously difficult to assess. Whereas investment in IT or quality can normally be targeted as cost savings or measurable customer benefits, the objectives of many HR programmes are more diverse. Some indeed are undertaken more as an 'act of faith', an intuitive belief that the programme will benefit the business either short or long term but with the knowledge that it cannot be directly proved.

The heart of these acts of faith is a belief in a chain of cause and effect that will eventually lead to a bottom line benefit. If there is only one link in the chain, the task is relatively easy. However in the HR area this is rarely the case. The immediate objectives are often not financial. Each link in a chain brings contaminating factors, ie other influences which dilute the effect of the original intervention. To evaluate any return that is at least credible financially, we not only have to establish realistic links but also to be skilled at assessing the financial impact or otherwise of non-financial benefits along the way.

Why this is not done very often

The most prominent writer in this area is an American called Jack J Phillips, who has numerous books in this niche field. He identifies a number of factors that make most HR and training people shy away from doing full ROI assessments. One of these is a lack of both interest

Whereas investment in IT or quality can normally be targeted as cost savings or measurable customer benefits, the objectives of many HR programmes are more diverse

and skill in numeracy and complex assessments of cost and benefit. A second is the availability of time. It is often a complex data collection exercise that is required to evaluate returns over a period, making it a project (and therefore cost) in itself. If the discipline needed was not planned for in advance, it may prove to be very frustrating as well. It is much more akin to human nature to just move on to the next initiative. Besides the results may not be very encouraging, and therefore there is an element of fear perhaps of being hoist with one's own petard.

Apart from the difficulties, perhaps the most common reason for the lack of ROI assessments is the absence of pressure from senior management. Most HR and training professionals will express interest and concern that they should be better at it and do more of it, but few organisations demand it of them in any rigorous way. There are exceptions, particularly some very measurement-orientated American companies, but it seems that most organisations, private and public, are more concerned to agree a budget for support functions and let them spend it in the way they feel is best. In practice, as in IT and marketing, a lot of money can be spent for little gain.

Must we see ROI as purely a financial calculation?
This might seem like a strange question, but value can be both financial or non-financial. As an individual I spend money on, for example, a holiday to receive a number of different non-financial returns – time with my family, experiences, relaxation and so on, and at the end of the holiday I intuitively make an assessment as to whether what I got from it was worth what I spent. Even in business we spend money for non-financial gain – prestige, reputation, building political positions for example. Sure, we believe they are in the long term interest of the bottom line but we would not attempt to prove it pound for pound. It is a matter of judgement whether the gain – expected or realised – is worth the investment, and there will probably be different opinions about that.

In the fields of training, organisational change and HR initiatives we are more likely to be aiming for non-financial benefits, in the first place at least, than for a targeted bottom line gain. Where projects have direct goals such as reducing labour turnover, or absenteeism, or increasing productivity or safety – then the benefits can be translated fairly easily into financial gain. We need to be careful not to claim savings which are not actual cash – the classic error is to accumulate time savings and assume it is real money. (In theory it may release time to be spent on other, more value adding, things but this would be very difficult to estimate). If we are investing in culture change, diversity awareness, strategic understanding, team building or even leadership development financial gain will be much more difficult to assess. One government department spent a million pounds with a prestigious business school and the stated aim was to enable the top 100 managers to manage major change effectively. How could this ever be evaluated in ROI terms? The managers certainly enjoyed it. But...

The importance of clear measurable goals
Donald Kirkpatrick did his PhD thesis in 1959 and little did he know that he and his methodology would be a household name even 50 years later as the classic methodology for 'levels of evaluation' of

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If we have clear measurable objectives, it is but a short step to assessing whether they were achieved

training programmes. He identified four levels – the first was the experience itself, followed by evidence of real learning. The third was application of the learning to the workplace and finally 'level 4' the effect on the bottom line. Jack Phillips added ROI as 'level 5'. It has always seemed to me however that there is a level we might call 'level 0' which is fundamental, and that is the setting of the objectives of the programme.

The specification of what we are trying to achieve – clearly and measurably – will in itself determine the nature of the benefits we will assess. If we are 'investing' in team-building, for example, it may be that our objective is that the team will make better decisions as a result. But we will never know that for sure. We will probably have an objective that team members felt good about the event and it 'increased morale'. That might be much easier to assess, as well as be the real goal anyway. Objectives therefore may be at any of the 'levels' – whichever one it is dictates the level of cost/benefit balancing. Say, we spent £1,000 to increase the Excel skills of 10 people to 'Microsoft master' level. At the end of the day we would ask ourselves – was £100 a person worth it to get that level of skill?

It can be argued that everything can be measured in some way. Morale, understanding, competence, commitment, culture change, reputation – however intangible. We need some carefully designed rulers but they can be created. Culture, for example, can be measured on a template of characteristics that describe what we are trying to be like – and from time to time we then collect perceptions of what people are experiencing. If this holds true, we can express objectives of all 'soft' initiatives in quantifiable ways, often as a percentage change in a chosen measure. If we have clear measurable objectives, it is but a short step to assessing whether they were achieved.

The problem is that, in many HR-related initiatives, we do not have these. They are often vague, generalised, aspirational hopes. This is nearly always true on one of today's major expenditure areas, namely 'leadership development'. What exactly are the visible results we seek from our investment? The perceptions of leaders by their 'followers'? Improved morale and productivity? Better decisions? How do we measure these and what percentage change from the current status do we seek?

When such programmes are evaluated one usually finds that the individual participant feels very positive about the experience. They have gained personal insight and feedback, and many will talk of their intentions to lead/manage in a different way. However the realisation of that in any tangible measure is much more difficult. The fact is that they go back into the culture and organisational system they left and the intention to change is often subject to slow erosion.

Some programmes are justified by 'group projects' – by giving participants a task to solve or an area to innovate in. There is plenty of evidence that groups do come up with ideas that benefit the bottom line during such development programmes. The programme has provided the platform, although one could argue that the provision of time and incentive could have been done without it.

Eliminating 'contamination' factors

The longer and more complex the cause and effect chain, the more we will have 'contamination factors' – or 'additional influences' on the end benefit. Philips goes to some lengths in discussing how these can be isolated. The clearest option is a control group. Thus we could compare two similar groups of leaders, one group going through a development programme and the other not. Ronald Burt and Don Ronchi (2007) reported on such a study carried out in the Chicago Graduate School of Business in relation to their Business Leadership Programme. They concluded that "programme graduates are 36% to 42% more likely to receive top performance evaluations, 43% to 72% more likely to be promoted, and 42% to 74% more likely to be retained by the company." They also said however that statistically the level of significance of these results was low.

Other methods for isolating causes are to use trends and forecasts and to see how they vary from what would have been expected without an intervention; manager and participant perceptions of the effects, or using an external expert study. All of these approaches take time and money and are not to be undertaken lightly.

There are always traps in under-costing, especially not allowing for hidden costs

Learning from investment appraisal
Investing in balance sheet assets follows a well-defined discipline. The costs of a project are assessed. There are always traps in under-costing, especially not allowing for hidden costs. Then the financial returns are evaluated over the life of the project. They are always best estimates and no manager usually gets away with a proposal where his or her assumptions are not challenged. A hurdle of return must be reached for the capital to be authorised. The real work is in the thorough analysis of the costs and potential benefits that will stand up to scrutiny.

Such disciplines are rarely demanded of 'soft' or 'intangible' projects, and yet the rationale for doing so is clear. This arises partly from the questionably rigid distinction between 'capital' and 'revenue' expenditures in today's knowledge-based world, and of course from the often non-financially quantifiable benefits. True, a 'business case' may need to be made for an initiative but it is the rigour of analysis that is often missing. If the effort was made to justify and scrutinise projects before they started we would rarely want to go to the difficult job of trying to assess the return on investment afterwards.

Nevertheless, just as a capital expenditure of more than a certain limit will require a full appraisal, so we can define some criteria which would guide us on whether a full post-project evaluation is likely to be worthwhile. Clearly the amount of expenditure would be one factor – the threshold would vary with the size of the organisation, and might be set at a certain percentage of the department's budget. A second criterion might be that the outcome of the project is strategically important and we really do need to know if it was successful. A third, particularly in the public sector, might be that there is a need to prove to other parties that money was well spent.

In conclusion
Some experts in this field insist that the only valid assessment of any project, HR or not, is in financial terms. Not only does this not apply to the not for profit sector, but it is unrealistic. The pursuit of such an approach leads to assumptions that may stretch credibility. This does not mean we should abandon the inescapable discipline of knowing whether or not we receive value for money. It requires first the development of expertise in measuring intangible benefits, clear measurable aims and objectives for programmes, and sound judgement in balancing costs and benefits. And, as an HR professional, I would make a plea to finance people to be more demanding on the expected returns – and helpful in providing expertise – for those projects which are aimed at 'intangible' benefits. ■

FACULTY WEB LINKS

- 'How training can boost the bottom line' – *F&M119* www.icaew.com/index.cfm/route/116215
- 'Training effectiveness and evaluation' – *MU29* www.icaew.com/index.cfm/route/17687

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AN EXCELLENT VIRTUAL MANAGER

In many organisations, managing from a distance, 'telecommuting' and the virtual office are common phenomena. Managing virtual teams has therefore become a key business issue and an increasingly important skill for the future.

Annette Sinclair and Andy Smith, at the time both of Roffey Park Management Institute, conducted in-depth interviews with virtual managers perceived as excellent by their organisation, together with the views of their peers. Their findings suggested that virtual managers do face different challenges from their non-virtual counterparts.

The article identified six key areas of skills, behaviours and attitudes that are essential for virtual managers:

ONE YOU MAY HAVE MISSED from the faculty archive

This is a brief summary of a recent article in *Finance & Management*, which is available on the faculty website, along with a wide range of other material – please visit **www.icaew.com/fmbest**

- effective communication and use of different media – becoming adept at reading between the lines away from the normal physical prompts of face to face communication;
- interpersonal skills – recognising the involvement of real people;
- inspiring and modelling trust;
- fostering a collaborative climate – managing relationships among team members to create a shared vision and sense of purpose;
- being results orientated – focusing on outcomes and not the actual hours; and
- standing back from the action – linking what people do to the wider organisation.

Effective virtual management does not only require appropriate support and infrastructure within an organisation but also a culture that focuses on the achievement of outcomes over activity, supports worker autonomy and advocates facilitative and participative leadership over those ways of working associated with traditional command and control. ■

F&M, Issue 115, Oct 04, pp 1-3

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