

Business & Management

THE DRIVER'S SEAT
HOW IS REGULATION
CHANGING THE USE
OF COMPANY CARS?

UPS AND DOWNS
OPPORTUNITIES
AND OBSTACLES IN
DYNAMIC PRICING

Brushing up nicely

Jim Drew on how his Fuzzy Brush dental
product has helped to create new jobs



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March 2018 Issue 262

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To a certain degree...



Degrees were once a passport to accessing higher paid employment. Employers could determine that a second-class degree was a prerequisite for an applicant, thus cutting back on the screening process and ensuring they did not have to read through rafts of applications. Government policy has been to encourage participation in higher education, often at the expense of further education and training.

This emphasis on academic qualifications, as a result of Tony Blair setting a target of 50% participation in higher education in 2002, has resulted in the numbers of full-time undergraduate students rising from 68,000 in 1980 to 351,000 in 2011. There are now more than 14 million people of working age in the UK with degrees. In the meantime, the UK seems to have great shortages of those with vocational skills.

The AGR, which represents 750 employers, believed the policy has "driven down standards and devalued degrees". This was back in 2010 before the second explosion in the number of students going to university – a result of George Osborne abolishing each university's student recruitment ceiling. The university representative group, Universities United Kingdom (UUK), states that there were 1.76 million full-time students studying for their first degree in 2017 – an increase of 2,500% from 1980.

The number of students is not the only thing increasing – the Higher Education Statistics Agency showed that of the 300,000-plus students who graduated in 2017, 26% earned first-class honours. This compares to less than 5% in 1980. The proliferation of graduates is accompanied with a worrying increase in first-class degrees.

Employers have become increasingly sceptical about the quality of graduates, first-class honours or not. According to a 2017 report issued by the CBI and Pearson, a third of employers were dissatisfied with graduates' attitudes, citing a lack of business etiquette and poor communication skills. "They have been raised on social media and texting," commented one employer wryly.

Some universities have also begun to realise that something is wrong. Cambridge, having awarded 32% of undergraduates with a first-class degree in 2016, announced a review of the binary classification system, replacing it with a grade point average – similar to the one used in the US and Canada. UUK thinks that around a quarter of universities are thinking of implementing a points system to replace single grades, which might make things easier for employers. There is no test for gaucheness however, except for face to face meetings, so interviews will continue to play a vital role in recruitment for the foreseeable future.

We hope that you enjoy reading this month's copy. Please email matthew.rideout@icaew.com or robert.russell@icaew.com if you have any thoughts or ideas about *Business & Management* output.

Robert Russell
Technical Manager

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

FACULTY EVENTS AND WEBINARS

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

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NEWS



MAKE SPACE GREAT AGAIN

As the US announced its intention to cease funding for the International Space Station by 2025, the newly re-activated US National Space Council has also announced streamlined regulations for space launches to enable private companies to capture more of the international space market. The value of the global space economy is now more than \$330bn a year. The new licensing framework is aimed at enabling a rapid "file-and-fly" application-to-approval process. "Our entire administration believes that America's prosperity and security depend on American leadership in space," US vice president Mike Pence said.

**\$330bn**

Value of the global space economy per year

**11%**

Percentage of businesses which qualified as cyber security experts

HAIL AN AUTONOMOUS CAB

Nissan Motor Co announced last month that it is taking the first steps to becoming an autonomous taxi operator. Rather extraordinarily, it is teaming up with Japanese mobile gaming platform operator DeNA Co. They are due to start public field tests of the Easy Ride service in Yokohama this month. The service is planned to launch in Japan in the early 2020s, and is designed to feel like a mobile concierge service - eg, by making restaurant recommendations while the car is on the move. "We realise that it's going to take time to become a service operator, but we want to enter into this segment," Nissan's chief executive Hiroto Saikawa commented.

NO MORE DIRTY DIESEL

Last month, the Federal Administrative Court in Leipzig confirmed that cities in Germany can legally ban diesel cars from its streets, further to a successful campaign by environmental campaigners for cleaner air. The ruling came after an appeal by two regional governments against lower court rulings, which had decided that local bans would not be lawful.



ICAEW's annual SME Conference 2018 will be held on 16 May. It will include business management, economic and technical updates to enable finance professionals, working in and for SMEs, to thrive in a digital world. Tickets are priced from £160 plus VAT for BAM members. Visit tinyurl.com/BAM-Conf18 to book your place.

**9.5%**

How much the number of under 24s on Facebook will drop by in UK

ARE YOU PREPARED FOR AN ATTACK?



Hiscox has released its 2018 survey on cyber security, showing nearly half (45%) of businesses have experienced at least one cyber attack over the past year. Despite this, seven in 10 organisations are shown to have major shortcomings when it comes to their cyber security readiness, and only 11% scored highly enough in both areas to qualify as cyber security experts.

SNAPCHAT'S FIGHT FOR THE FUTURE

Facebook's constant growth may be under threat from Snapchat. Emarketer research forecasts that the number of UK residents aged under 24 regularly using Facebook will fall to 6.7 million, a 9.5% decline, as the company moves to prioritise "more



meaningful social interactions". The over-55s will become the second-biggest demographic for Facebook in 2018.

Snapchat, however, is expected to add 1.9 million users under 25 during this year.

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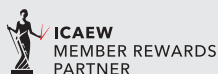
INTUITIVE TECHNOLOGY



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EVENTS & WEBINARS

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EVENTS

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ECONOMIC UPDATE AND AGM

15 May 18:00

**Chartered Accountants' Hall,
Moorgate Place, London**

The US Democrat Party won the 1992 election with the phrase "the economy, stupid" for good reason. Further to his well-received lecture in 2017, the IEA's Dr Stephen Davies returns to turn his attention to the UK's economy and will run through the constraints facing the nation – attempting to forecast how the next year might pan out for UK taxpayers, workers and the economy as a whole. The lecture will be preceded by the faculty's Annual General Meeting, which should not take more than 10 minutes. Book at icaew.com/bammayevent

WEBINARS

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FREE 20-MINUTE LUNCH WEBINARS

BREXIT UPDATE

27 March 12:30

Matt Kilcoyne of the Adam Smith Institute updates us with news on trade arrangements and costs with the EU since 2017 and details any progress on international trade. He will be joined by Nigel Hastilow, who will challenge and cross-examine him.

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

REDUCING THE RISK OF SUPPLY CHAIN FRAUD

10 May 12:30

The Kroll Global Fraud and Risk report found that one in five businesses have been subject to supply chain fraud in the previous year. This type of fraud ranges from false invoices to manipulation of the supplier master file to bid rigging. This webinar, part of a series

presented in conjunction with the Fraud Advisory Panel, will run through practical steps to reduce the likelihood of your business suffering from supply chain fraud.

To book a place, please visit icaew.com/lunchmay2

STATISTICS SKILLS IN EXCEL – SMOOTHING DATA (SEASONALISING)

29 May 12:30

Another of the basics Excel statistics webinars as part of our series, offering you very practical steps on how to make the most of Excel functions and incorporate basic tools to improve your reporting efficiency. Excel expert John Tennent will talk you through the Excel tools to assist with removing externally caused variations in your data to eliminate seasonal fluctuations. This webinar is set at a very basic level – no previous knowledge of statistics is required.

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

FREE 60-MINUTE MORNING WEBINARS

PRESENTATION SKILLS – LEARNING TO ACT YOUR WAY THROUGH

21 March 10:00

We all have to make presentations at some point in our careers – some are bound to present challenges; being able to speak with confidence lends credibility to your presentation.

Paul Ryan, actor and management consultant, will pass on tips he has learned from his acting career to enable you to feel better about your style and deliver with confidence.

To book a place, please visit icaew.com/bammarwebinar. Can't make it to the live event? You can still register to receive a link to the recording of the webinar.

BUSINESS VAT UPDATE

24 April 10:00

Neil Warren guides us through the labyrinth of VAT changes over the past year, since his last webinar in April 2017, focusing on important amendments to the rules for SMEs. He will also cover common misconceptions and mistakes, error reporting and penalty minimisation.

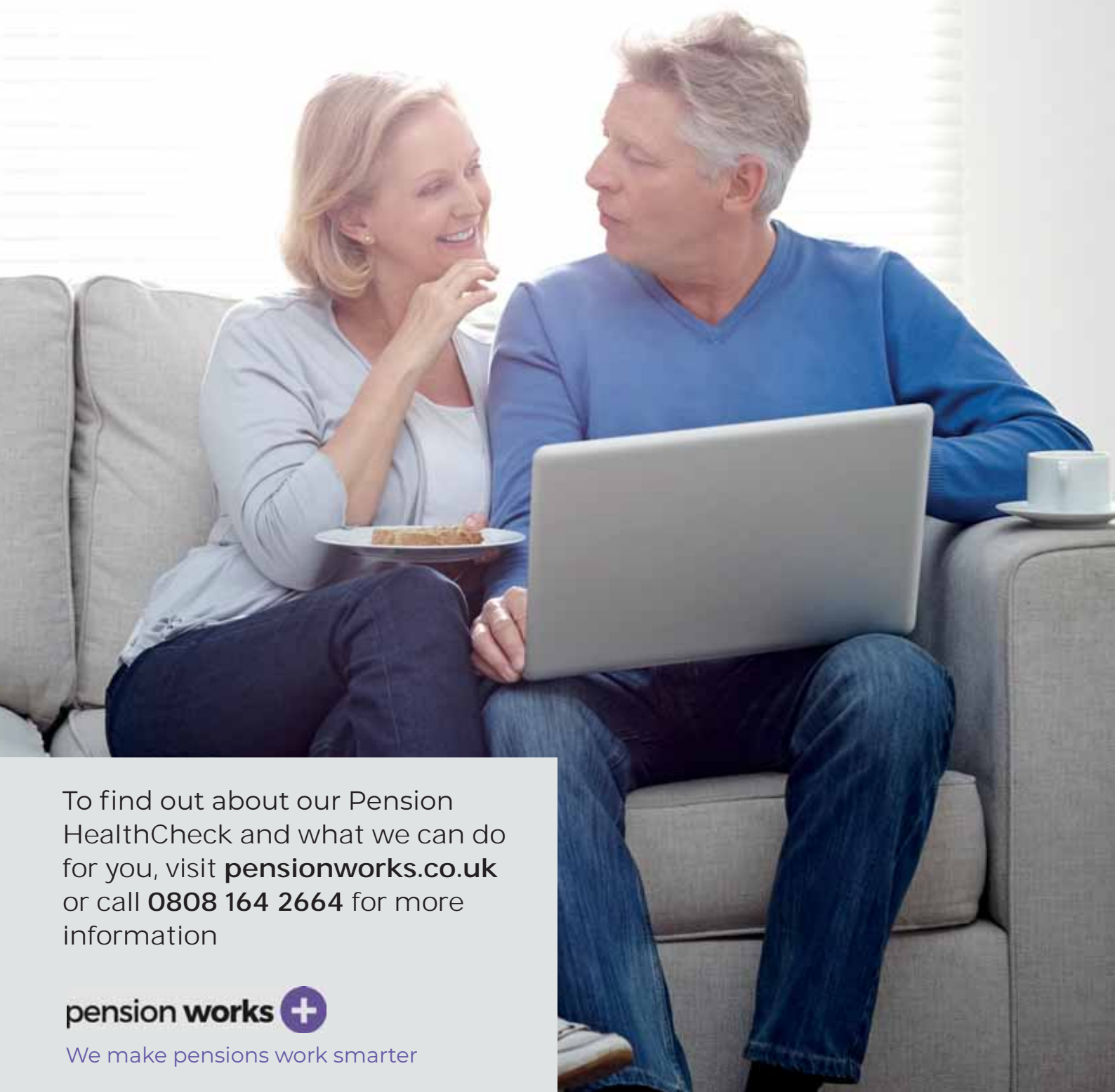
To book a place, please visit icaew.com/bamaprwebinar

21ST CENTURY PLANNING AND FORECASTING

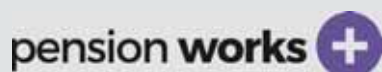
This three-hour e-learning lecture, split over two days and delivered by David Parmenter, will focus on the rapid production of business forecasts and plans. Price from £85. Book at icaew.com/forecasting

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THE SMALL BUSINESS TOOLKIT

Richard Stonier

turns the page on top tips for small business owners to live happily ever after



Richard Stonier,
founder, online
accountancy provider
Tally Accounts

Running your own business can feel like a fairy tale – you never know whether you'll end up walking the plank or if your fairy godmother will make all your dreams come true. But it is possible to prevent the big bad wolf from blowing your house down

Getting your business up and running can be a daunting task, but there are plenty of low cost or even free tools available to ensure your business doesn't end in disaster.

FREEBIE FAVOURITES

There are a lot of free digital tools available at your fingertips to help keep you, your business and your brand in sync. From the search engine optimisation assistant MOZ to social media scheduling tool Tweetdeck, it's easy to ensure your online presence is active and relevant.

Equally, using free website and blogging tools like Blogger or WordPress means you can keep your customers up to date with interesting news or industry comment. This not only gives your audience a constant stream of information on your products and services, but also positions you as a reliable voice in the industry.

You might also find that the media picks up on your stories, but you don't

just want to hear about it through the grapevine. By signing up to free tools like TalkWalker, you can keep track of your media coverage and monitor the effect your brand is having on the people who matter most – your customers.

ADMIN ACTIVITIES

Keeping on top of your admin tasks can often cause a real headache and prevent you from focusing on sales and customer service. Adding in some simple tools to your business admin weaponry can help save time, money and bother further down the line.

Tracking your finances is vital as a business owner, but you may want to supplement your finance team. Using online accountancy software, such as Tally, can help you keep your income and expenditure on plan and automatically issue invoices or statements.

Aside from keeping finances on plan, being productive and working smarter should also be a priority. There is a range of productivity apps that can support you in your business venture to be more efficient – Trello lets you work collaboratively to organise and prioritise projects, while Freedom blocks apps and websites to prevent procrastination temptation. Say goodbye to constant social media refreshing.

TRUTHFUL TALKS

With visions of grandeur and success at your fingertips, it can be tempting to run away with the fairies when getting your business off the ground. Having a couple of people on hand to be an impartial listener and general realist can be really beneficial to keeping your feet on the ground.

Of course, you don't want to have a general naysayer shooting down every idea, but instead someone that provides an outsider's perspective. This could be a business partner, family member or friend – all of whom can avert you from making irrational or ill-considered business decisions.

Achieving success with your business doesn't have to be a tale of fiction. With some simple tools and a rational mind, your new business venture really can end happily ever after. ●

ON GUARD

Is your business taking its cyber security seriously? ICAEW's IT Faculty can help you work out how to do even better at protecting your data and systems

ICAEW's IT Faculty recently updated and reissued its handy guide to protecting systems. *10 steps to cyber security for smaller firms* was first devised in 2015 to give members a steer on how to best approach the keeping of business-critical information. With the General Data Protection Regulation (GDPR) fast approaching (see box, right), we share some key points to bear in mind.

01

ALLOCATE RESPONSIBILITIES

Do you know what needs doing and who should be doing it when it comes to your business and IT security? The first step in improving resilience is to know the answer to this question and to act upon it. A dedicated senior manager should have an overview of the risks, identifying what IT is vital to your operations. Depending on who uses systems and what for, the risk levels may differ.

02

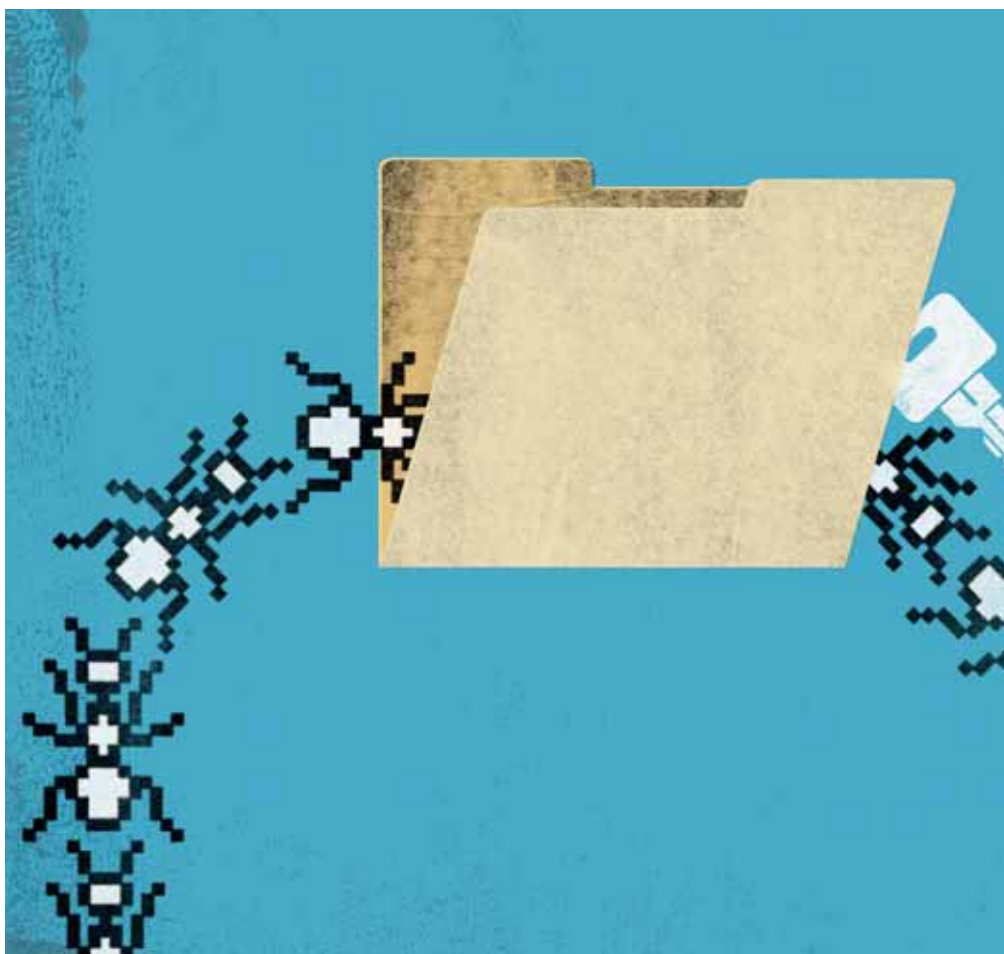
PROTECT YOUR NETWORK

The ransomware attacks WannaCry and GandCrab made the news when they either compromised or found high-profile systems to be vulnerable. Attacks from the outside can be warded off with regularly updated firewalls – there are built-in options or those you can buy for your particular needs. For internal threats, see point 4.

03

KEEP COMPUTERS UP TO DATE

How many times have you ignored a system update on your work terminal



when you're busy doing something seemingly more important? If everyone ignores updates they risk leaving machines – and entire businesses – open to security threats. Updates often contain fixes for bugs and patches that improve upon earlier flaws. A failure to upgrade can also harm your data protection – consider the NHS's exposure to WannaCry as a result of still running the unsupported and outdated Windows XP operating system.

04

CONTROL EMPLOYEE ACCESS

Who can see your business's sensitive data? The answer shouldn't be everyone. Make sure your employees only have access to the data they really need to do their job, which can be achieved by creating login IDs for every individual, and creating password-protected files and accounts. No one wants to believe people might act maliciously inside their business, particularly if it's a small and friendly operation, but guarding against the possibility should be on your list.

Ensure all devices used for work purposes are fit for purpose and fitted with the most appropriate firewalls, virus scanners and password protections

05

PROTECT AGAINST VIRUSES

While malware can be a very serious security issue, it can also simply result in the slowing down of your systems. And, if you manage to pass the virus on to any of your customers, the outcome could damage your reputation if nothing else. So it's well worth your while to invest in anti-malware protection, which is widely available from a number of sources, offering slightly different packages (though you may choose to go with a computer's in-built offering). The anti-malware needs of every business



will be different and distinct, and may depend on both the type of business undertaken and the number of computer terminals requiring cover. Reviews of the thousands of products on offer, which are refreshed and updated regularly, can be found easily online. Among the most comprehensive are those carried out by the likes of Tech Radar and *PC Magazine*.

06

GO BEYOND THE OFFICE

The idea of the mobile office has gained huge popularity in the decade since the birth of the smartphone and the tablet, as well as the evolution of superfast internet connections, wifi and cloud connectivity. But as well as enabling your workforce to become more flexible, remote working opens your business up to fresh external threats. Ensure all devices used for work purposes (whether owned by the company or your employees) are fit for purpose and fitted with the most appropriate firewalls, virus scanners and password protections. Are staff aware of the need to be more careful about using devices in public? See point 9.

MITCH BLUNT/IKON

07

SECURE DISKS AND DRIVES

Another way of enabling remote and flexible working has come from the use of portable drives and USB memory sticks that enable easy file sharing and back up. These devices can be a malware black spot, and due to their small size may be at risk of going missing or being stolen. When it comes to working with sensitive company data, are these the best methods for carrying files? Consider bringing in protocols for dealing with this, eg, several antivirus packages will offer to scan USB devices when inserted.

08

PLAN FOR THE WORST

Most businesses will never know what it is like to experience a data breach until it actually happens to them. Whether a system is bombarded with messages that crash it into a denial of service attack, has important files stolen or experiences a password lockout, a business needs to know how it will come out the other side with its reputation scarred rather than destroyed. Appointing a team to come up with a protocol to be adopted in the event of a breach, and then enforcing it strictly, will help with peace of mind.

09

EDUCATE THE TEAM

If you don't inform your workers how to protect your business systems, or explain why it is so important, then you cannot begin to experience cyber resilience. Once you've established your company's security policies, make sure you build time into the business for everyone to learn them. Let people know how to identify threats to the business. You might consider giving them an outlet for reporting suspicious activity or even test their knowledge from time to time.

10

TEST SECURITY

Finally, don't think that once you've put a new cyber security plan in place that your work is done. This is only the



MAKING SENSE OF THE GDPR

The General Data Protection Regulation (GDPR) is due to come into effect for all businesses and entities processing any kind of customer data from 25 May. The bill currently awaits a second reading in parliament, and will become the new Data Protection Act.

Having strong cyber protection is a significant component of GDPR compliance, as anyone suffering a data breach will find they are subject to more severe penalties. Fines for non-compliance could be as much as of 4% of global turnover or €20m for the most serious offences.

That even the largest businesses might not be able to absorb this kind of cost is a warning to all about the importance of robust systems. Software patching, hardware protection and training to ensure staff can identify a phishing or hacking attack are elements that every business must find the funds to implement.

See tinyurl.com/BAM-ICO1 and tinyurl.com/BAM-12Step for more.

beginning. All of the points outlined above need to be revisited periodically and checked. Are your protocols still in place? Do they work?

There is no guarantee a business will not suffer a data breach even with the best plan in the world. But attempting to survive without a cyber plan is a course of action only for the foolish.

If you need further guidance for your business on taking action on any of the points above, the IT Faculty can help. *Chartech*, its bi-monthly magazine, is mailed out with *Tech Essentials* guides, offering insight and tips on all forms of technology relevant to finance professionals. See tinyurl.com/ICAEW-IT for more information. ●



With the unexpected general election last summer, the government appeared to put its plans for an industrial strategy temporarily on ice, having issued a tantalising green paper outlining ambitious plans for the nation. Finally, at the end of November, a white paper appeared with none of that earlier ambition dimmed. It reiterated the five interconnected foundations of the strategy (ideas, people, infrastructure, business environment and places) against a backdrop of four grand challenges (artificial intelligence and the data economy, clean growth, future of mobility and the ageing society), with a bold aim to “be the most innovative country in the world” by 2030. At the

time of writing, the government had not responded to our questions about specific plans for funding the strategy. But what has been proposed?

FOUNDATION 1: IDEAS

When it comes to research and development (R&D), while there is a rich pipeline of ideas, 17% of total UK R&D is funded with money from abroad. The government has raised concerns about the tendency of universities, research labs and businesses to sell this knowledge rather than seek patient capital to develop it at home.

The government’s first, perhaps protectionist, effort is to pump “an additional £2.3bn over what was previously planned in 2021/22, raising total public investment in R&D to approximately

£12.5bn in that year alone”, as well as raise R&D tax credits to 12% from 11%. £725m is being funnelled into Industrial Strategy Challenge Fund programmes with a view to lifting R&D investment to 2.4% of GDP within nine years, and 3% long term.

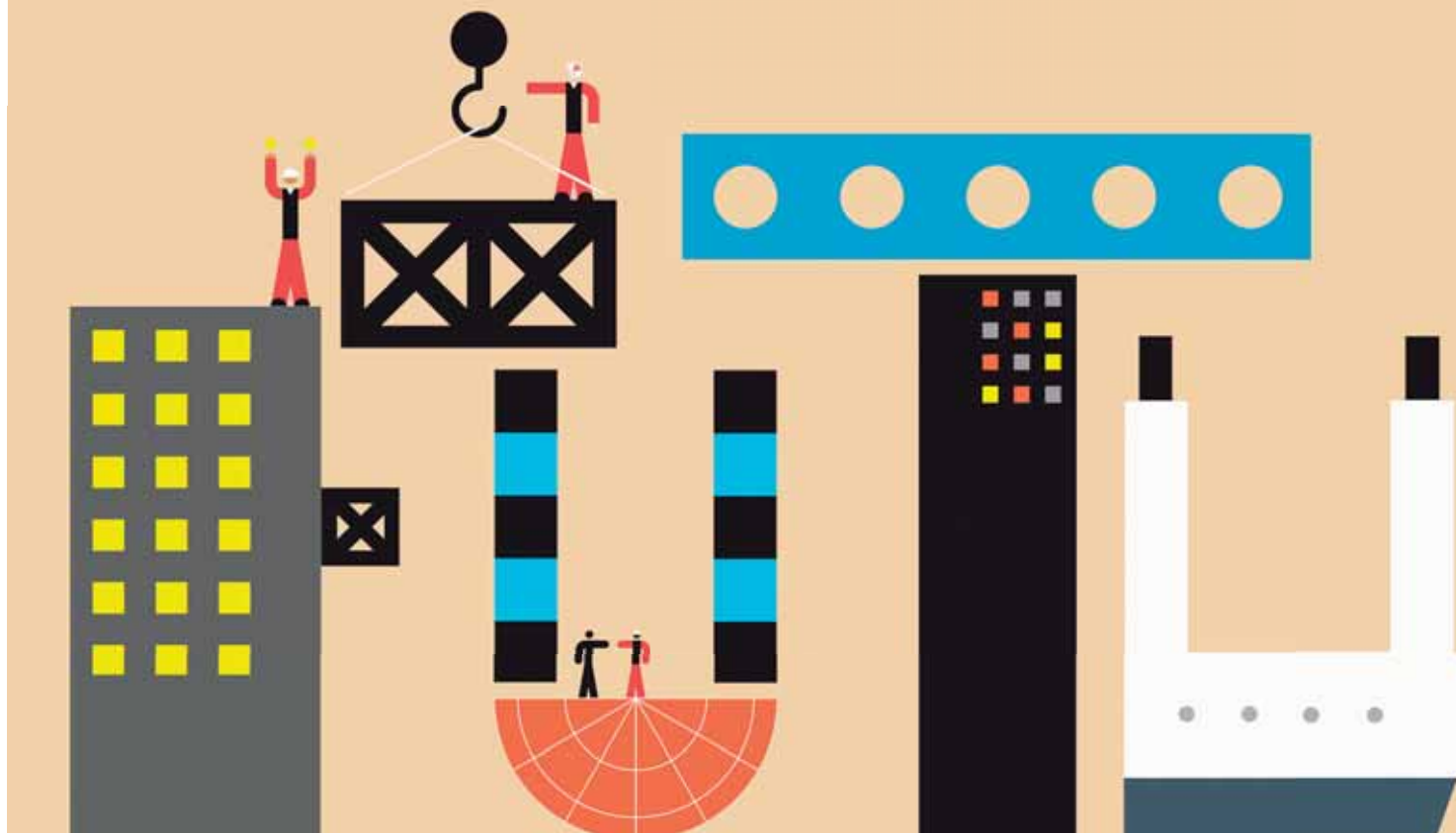
The paper also outlines the ongoing productivity puzzle and Britain’s lag with its European rivals in manufacturing. It highlights that 75% of R&D investment has gone to just 400 companies, but that smaller businesses would need better access to R&D finance if Britain were to overtake rather than fall further behind.

The funds allocated will allow the likes of the overseeing body, UK Research and Innovation (UKRI), to manage projects that bring together academic and manufacturing acumen. Additional monies

READY TO GO

Though Brexit negotiations are ongoing, Britain can’t stand still. So what does the government’s industrial strategy white paper promise to a nation about to go it alone? And what do businesses think it will do for them?

David Adams and Nina Bryant investigate



Additional monies have been earmarked to fund grant competitions for ideas that can change the public and private sector

have been earmarked to fund grant competitions for ideas that can change the public and private sector. Initiatives include a two-year £50m innovation loans pilot that aims to give a boost to promising projects “not yet ready to access loans from commercial lenders”.

Following an independent review, the government also recognised the importance of catapults – not-for-profit, independent technology and innovation centres that connect businesses with the UK’s research and academic communities. Catapults have proved crucial to supporting research into clean energy technologies. The government has injected £178m of interim funding for catapults to continue their current work ahead of an initiative with UKRI to help develop those that may be struggling.

This is in addition to a number of initiatives already under way prior to the strategy, including the £1bn of investment in Wave 1, which includes the Faraday Battery Challenge. The Faraday Battery Challenge (named after electromagnetic scientist Michael Faraday), is the government-led initiative to support funding of innovation, research and scale up businesses in the battery technology sector (currently valued at £5bn in the

UK). Aiming for a full roll-out of electric vehicles by 2040, the first wave of the challenge is focused on improving battery power and storage for the automotive sector. Cornwall’s climate and geology (it has lithium cores) have enabled it to participate, making the most of what Sandra Rothwell, chief executive of the Cornwall and the Isles of Scilly Local Enterprise Partnership (CSLEP), calls “natural capital”.

European funding enabled the island to take part in an initiative to reduce bills and provide 40% of power primarily from solar. Another £3m from government will also establish a research lab and additional solar canopies as a test bed for the rest of the country.

Rothwell said that the industrial strategy would lead a new kind of investment model to replace EU funding, where there is less emphasis on obtaining straightforward grants: “Using the challenge fund will involve going through industry to get money. They’ll invest in your business, while you find ‘partners’ that you want to work with.”

FOUNDATION 2: PEOPLE

The government has already begun signalling how it intends to bind the industrial strategy and the future needs of the workforce through education. The white paper acknowledges a technical skills shortage, which feeds directly into the grand challenge around artificial intelligence (AI) and the data economy. The paper promised a new



INDUSTRIAL STRATEGY REACTION: LORNE VARY, CHIEF FINANCIAL OFFICER, BROMPTON BICYCLES



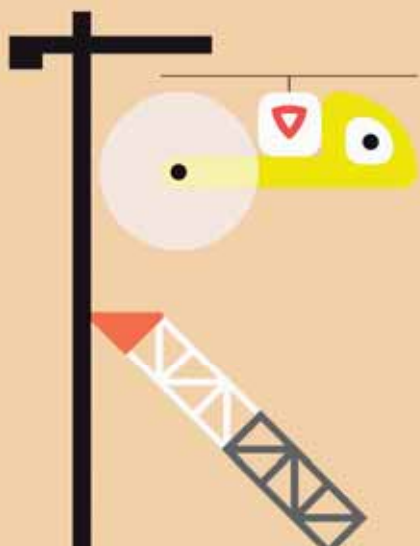
“It’s really positive for a business like ours. Research and development (R&D) is at the heart of

what we do. For us to remain competitive we need to innovate. With government support for R&D tax credits, we’ve made significant savings on our tax bills, which has enabled us to invest in recruitment and innovation. We would like to see even more R&D tax credits.

“The other part of it for us is around the clean growth area and cutting carbon emissions. There is such overcrowding in urban environments that you need infrastructure to be able to cope with an increased population and more and more people using public transport. More focus on carbon emissions is going to push more people towards cycling. That is really good for us as a bicycle manufacturer, of course, but it’s also good for public health. So it’s great that the government is focusing on those areas.

“The only slight negative is that it’s great having that mission statement, but now we need the detail on how that’s going to be achieved. That’s the bit I feel is missing.

“But overall, we really see it as a positive for businesses like ours that really believe in innovation. It’s going to be part of our future. It’s a really positive step.”
brompton.com



emphasis on technical qualifications; a stronger rollout of apprenticeships - up to three million starts by 2020; and a £406m fund dedicated to reversing the trend for pupils to ditch science, technology, engineering and maths (STEM) options early on in their education.

The government is pressing on with the so-called T-levels (a technical alternative to A-levels), which will first be established for digital and construction subjects, with 15 subject areas covered by 2022. This is despite growing concern across the sector that T-levels are being rushed.

In response to the government's consultation, the Confederation of British Industry (CBI) warned that the curriculum must be well planned if it is to work. So far only four universities have indicated they might accept entrants with T-levels, while Imperial College London said the qualification probably wouldn't constitute "suitable preparation" for its degrees.

However, CSLEP and the North East Local Enterprise Partnership (NELEP) are enthusiastic about T-levels. Richard Baker, head of strategy and policy at NELEP, said: "There is a continuing priority to ensure

Improved digital capability is key to how businesses outside the South East see their ability to participate transformed

that people can find jobs they want through better careers education." He added that T-levels would help the area "ensure that technical and vocational education is available and recognised".

Commentators will undoubtedly also look to measure the success of a new university being established in Hereford that promotes the creative side of STEM education. The New Model in Technology and Engineering will take its first official cohort in 2020. It plans to eventually attract 5,000 students.

Perhaps in attempting to reverse scepticism in business towards the apprenticeship levy, the white paper announced the ability from April for levy-paying businesses to transfer up to 10% of their funds to another employer, including businesses within their own supply chain.

Businesses worried about a skills and jobs mismatch in the meantime are likely to benefit from having greater awareness of opportunities open to them by liaising with those on the ground in their area - local enterprise partnerships (LEPs) and mayoral authorities are set to work with new skills advisory panels to assess personnel supply and demand between colleges and businesses. A national retraining scheme in England, with strategic direction set by the CBI and Trades Union Congress, will target those already in work who need to up their skill level.

INDUSTRIAL STRATEGY REACTION: PETER FENTON, GROUP FINANCE DIRECTOR, MARINE & INDUSTRIAL TRANSMISSIONS LTD



"The part of this plan that appeals to me is the infrastructure element, specifically the IT infrastructure. The

internet is not fast enough, available enough or financially cost effective enough for most SMEs. We have engineers working all over the country and would like them to have fast internet access 24/7, but this is not happening. Even some large metropolitan areas struggle to get decent internet speeds. We often have to download/upload large drawing files or manuals. Engineers have to drive to an area with decent WiFi and then download, which can take hours.

"With regard to the other pillars of the strategy, we have an excellent R&D tax credits scheme. I think a scheme that rewards invention then creates an environment to move that invention into a product has to be welcomed.

"There are some good schemes in place for apprenticeships and tax

incentives for having young people on board, but I remember when there was a tax reward scheme on bonus payments. Why not re-introduce a scheme that allows employees to keep more of the money they earn through bonus payments?

"Simplification of tax calculations cannot come soon enough. The current method of working out what tax to pay is very hard for many SME owners to understand.

"More needs to be done to get work into disadvantaged areas. This needs to be driven by government, because local councils have too many other calls on any cash they have."

mitgroup.co.uk

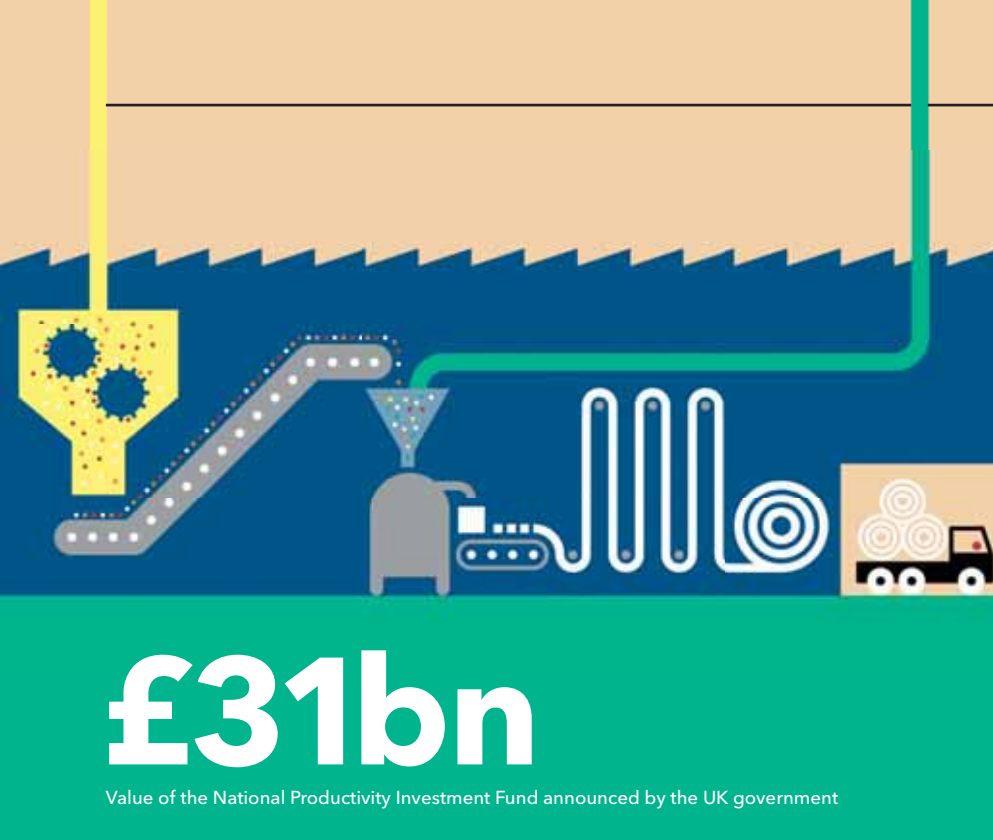


FOUNDATION 3: INFRASTRUCTURE

With a recent political focus on improving transport links to the north of England with the High Speed 2 rail line, it's no surprise that infrastructure looms large in the Industrial Strategy. As well as announcing a National Productivity Investment Fund worth £31bn, an emphasis was placed on the interconnecting themes of housing and digital and the need to spread growth more evenly across the nations and regions.

Improved digital capability is key to how businesses outside the South East see their ability to participate transformed. CSLEP's Rothwell said that digital infrastructure is crucial to the region's plans to focus on creative development in gaming, virtual reality and AI.

NELEP's Baker is also interested in how 5G and extended fibre connectivity will alter business links, noting that the North East's economy is changing quickly, with a rapidly growing software and digital sector as well as advanced manufacturing in automotive and medicines sectors, offshore energy and life sciences.



£31bn

Value of the National Productivity Investment Fund announced by the UK government

FOUNDATION 4: BUSINESS ENVIRONMENT

Sector deals, which fall under this section of the industrial strategy, are proposed initially for life sciences, construction, AI and automotive. The government acknowledges that support cannot be restricted to incumbents, but should be available to new entrants and challengers. A so-called future sectors team will be responsible for conducting quarterly reviews to identify new sectors as they emerge.

Existing sectors are also calling for help. Space sector trade body UKspace is aiming to turn space into a £40bn-a-year sector. For now, Britain remains part of the European Space Agency. Although it is the primary provider of its satellite build and data handling, there is a suggestion Britain may not in future be able to participate in certain key projects paid for with European money.

The new Shared Prosperity Fund (SPF) is set to be a UK alternative to European grant money that will soon no longer be available. A network of British Business Bank (BBB) regional managers would also be rolled out to give advice on accessing investment, with the aim of reversing the problem of underdeveloped supply chains and low level of fixed capital investment (the lowest in the G7). Up to £2.5bn of a total £20bn fund for investment in innovative and high potential businesses will be incubated with BBB.

The government wants its new Business Basics programme to enable Innovate UK, Be the Business (which aims to engage business leaders to help close the UK's productivity gap), businesses and trade associations to work together on productivity "to test and encourage SMEs

to adopt technologies and practices such as new accountancy software or performance management systems".

FOUNDATION 5: PLACES

The government expects active focus to funnel down into a series of local industrial strategies, led by Britain's 38 regional LEPs - which are well aware of the work to be done and the potential that exists in their region. LEP plans are set to be key to any bids made for SPF money, even though there are no concrete details of how regions will be able to tap into the fund or how it will be structured.

CSLEP has already issued an initial 10-point plan that it says will form the backbone of its local industrial strategy. New Anglia LEP has engaged with its business community to highlight its advanced manufacturing and engineering capability, with £5bn of activity activity generated by 6,000 businesses and 80,000 people.

CLIMB TO THE SUMMIT

The government has hinted that achieving its strategy will be difficult. Staying ahead of the competition in AI will be among the greatest challenges, but one the white paper says must be confronted: "As with previous revolutionary technologies, these changes cannot be resisted and it would be irresponsible to fail to prepare."

If the financing of the groundwork laid by this white paper comes to fruition, then it's over to industry. As CSLEP's Rothwell observed: "When it comes to productivity we've got to roll up our sleeves and work together. There's a lot to do."

Download the white paper in full at tinyurl.com/BAM-IndStrat ●

INDUSTRIAL STRATEGY REACTION: DAVID SANDERS, COMMERCIAL DIRECTOR, DEARMAN ENGINE COMPANY



"I like the idea of having four grand challenges and the one's they've picked seem to be quite

good and sensible. But from a Dearman point of view, it does nothing for us.

"One of the challenges is on clean growth, and one is on the future of mobility, both of which fit with us, but what we need is market pull that's going to drive clean growth or mobility solutions and it won't do that at all.

"The idea of coming up with new sources of funding is great. Dearman has had over £6m of government funding and we're very grateful for it, but we don't need that any more. What we need now is a market where there's a strategy to get rid of diesel. I know that here there's a long-term target for getting rid of diesel by 2040, but it's not really credible.

"If you're serious about trying to have clean growth, you have to stop effectively subsidising use of diesel in cities. If you ban diesel in transport refrigeration, that helps clean growth. Yes, it helps us, but it's technology-agnostic, it will also help other entrepreneurs who might come up with solutions that are solar- or battery-powered. The point is, you create a demand for those solutions.

"I don't want to sound too negative. I do think it's great that we have an industrial strategy. But it doesn't help us as much as we'd hoped it might." dearman.co.uk





Entrepreneur Jim Drew returned to his roots to keep his “chewable toothbrush” business, Fuzzy Brush, cleaning up both at home and abroad. Many people will have seen Fuzzy Brushes – disposable, chewable brushes that do not require toothpaste or water – and its toothy logo when making stops at motorway service stations across the UK, not realising this is a British success story. More than 150,000 units a month are made at the group’s factory in Guildford, Surrey.

Jim has personally pushed sales both in the UK and abroad since starting the business in 1998 and has recently opened a new factory in Consett, Durham, with the initial aim of tripling annual production to half a million Fuzzy Brushes and Fuzzy Rock teeth-cleaning mints every month to meet increasing demand.

Jim, who was trained as a chartered accountant but didn’t qualify, acts as both CEO and CFO.

“I didn’t have the patience to complete three years of training. I felt it was more important to work on my ideas than to sit exams. Our finances are not that complex as we are not a huge conglomerate yet! I can still deal with our finances without the need for a



BRUSHED WITH SUCCESS

As **Jim Drew** opens a new factory for Fuzzy Brush, David Craik finds out how a disposable toothbrush is cleaning up at home and abroad

£1million

Annual turnover of London-based Fuzzy Brush group

30-40%↑

Year-on-year growth in turnover

62 countries

Number of territories Fuzzy Brush has sold its 150 million units in

separate CFO," he says. "But this may change in the future."

"I'm from the North East and remember running around the Consett countryside as a child. When we began searching for a factory last year, I looked north. One reason was that a packaging company we used near Durham had just gone under, and I wanted to turn that into a positive for the area.

Also, I know the North East people; they are caring and conscientious. If you look after them they will work hard for you," (see box, *Jim on employees*, page 18).

Back in the late 1990s, Jim was eating in a pancake restaurant in Amsterdam. "I went to the lavatory and found these chewing toothbrushes in a gumball vending machine," he says. "I bought one and kept thinking about it for a year. I knew I needed to do something with this great product."

In 1998, he finally decided to contact the brush's designer. "He was a Dutch dentist and I explained that with my sales, marketing and creative skills, I could really do something with the product. We negotiated the rights to sell it," he explains. "When I got home, the name 'Fuzzy Brush' just sprang into my head! I then drew Mr Fuzzy - the big-eyed, big smiling little guy we have as our logo. So, in just two minutes we had our brand."

Fuzzy Brush is described as a "serious and effective" oral hygiene product. "The brushes contain xylitol crystals, a natural sweetener [that is] tooth-friendly because it kills off the bacteria that makes plaque. We educated dentists on the benefits of the brush and soon we had our vending machines in 200 UK dental waiting rooms," Jim explains.

JIM ON... EXPORTING

"The one thing I've never had to do is actually sell the products. I am so busy fielding calls from eager distributors around the world every day. The Union Jack on the front of the packet also helps. The biggest selling point for our products in Asia is that they are made in the UK.

"I've recently taken on a distributor in Taiwan who saw our products in Seoul and they thought they were great. So, I sent him some samples and he told me: "We've already had a board meeting. We deal with 30,000 outlets and we want to start selling it." I am looking for guys who think like me - 95% of those who write to me are dreamers with no money or network. You need experience of working with retail to truly understand its nature, dealing with buyers and stock control.

"It's only 1% who are spot on, but it is only through speaking to the 100% that you find them. We have success abroad because I personally speak to everyone who is interested.

"In each country I look for one distributor. With two or three you get conflicts of interest.

"We talk about pricing, because every economy of scale is different. We look at the cost of goods and retail spending patterns. Then I gauge that price as low as I can, looking at cost and time production. You must fit with their pricing policy, so they can make a percentage. We look at a net profit margin of 40%.

"We have a trademark for the product that we must license in each country. We also must go through FDA approval, which can take time. In Indonesia, it took a year and a half."



By 2007, the company had 8,000 vending machines in dentists, service stations, hospitals, the military and 50 corporate contracts.

The business then adopted a licensing model, developing a network of global distributors (see box, *Jim on exporting*, page 17). By the end of 2008, the group had sold over 70 million brushes worldwide – all through vending machines – and was growing at an annual rate of 30%.

"Then the recession hit," says Jim. "We lost about 3,000 machines because the companies that had installed them, particularly pubs, went out of business. I also had a problem with my bank and credit line. I was losing vending accounts and suppliers across the world."

ONTO A WINNER

Jim, however, was resilient. "I'm an optimist, so I carried on," he states. "It was a period – over a few years – of repair, healing and determination to pick ourselves up again. I was running two other firms at the time; I didn't give Fuzzy my full attention as it was a small ticket item. We repackaged the product and trialed them at the NEC in 2014. We had such positive feedback, I knew we were onto a winner."

He employed a sales director he met at the show and together they approached UK retailers. "When we got a 'maybe', we had to exercise patience and perseverance before getting to the head buyer. When trying to break into supermarkets, we had to redesign the packaging half a dozen times before getting approval."

This perseverance paid off, with Fuzzy Brush now on sale in Asda, Morrisons, Lloyds pharmacies, The Range, Boots and One Stop. The vending part of the business has also bounced back, with brushes now available in 7,000 vending machines across Britain in airports, Odeon cinemas and motorway service stations.

Jim then turned his attention to international retail growth, once again through a licensing and distribution model. "I sent packs to a South Korean distributor I know. He started selling to retailers there and had success," he explains.

"We then sent packs off to Germany, Spain, China and Japan. I am always happy to take a punt and go with my gut feeling. We were attempting to germinate growth in different markets, and South Korea really took off – we



JIM ON... EMPLOYEES

"A company can have an excellent product, but it's only as good as the people who work there. You must look after them. Paying a good wage is part of it, but it's also appreciation. Even just a few kind words generate loyalty and that's what helps drives business productivity growth."

"We've created a new snack-like vending machine called the Teeth Cleaning Station, selling our brushes and mints aimed at those with autism. There are 200 special needs schools in the UK and I'm going to put a machine in every single one. We can take this global. I get letters from parents saying their child hasn't brushed their teeth in 10 years, but now their teeth are clean."

7,000

Number of UK vending machines the Fuzzy Brush can be bought from

always use local talent. We were greatly helped by a cultural love of mints, particularly lemon flavour, and a Korean government dental health drive based around xylitol."

As the international business developed, Jim continued innovating. "We took the xylitol crystals, melted them down in tanks and created little slabs of rock," he explains. "You manually break up these slabs after they have cooled, and you have mints which are actually good for your teeth. We called them "Fuzzy Rock" – sticking to our brand name – and have now developed flavouring such as Crystal Coolmint, Lemon and Extra Strong Mint."

The use of xylitol, which is sourced from Finland, has its challenges. "It is a great substance, sweet tasting with a lot fewer calories than sugar, but it's about 20 times more expensive," says Jim.

This time last year, 10,000 packs of Fuzzy Rock and Fuzzy Brush a month were sold in South Korea. Now, the figure is up to 140,000, and the packs are stocked in over 20,000 retail stores in the country, including Costco.

"More retailers are ending their trials and taking our products on board. They come to us because we are unique, the sole manufacturer," Jim states. "But our sales are increasing so much throughout Asia that I am struggling to keep up."



"I could run a very comfortable lifestyle on the South Korean business alone. We've got six product lines there now, and retailers are asking us to make different flavours.

"We are getting enquiries from American retailers, but there is no way we could cope with the required production output," says Jim. "The focus is South Korea, Singapore and Taiwan. I am dealing with what I have rather than what I would like to have. If I did have a factory to cope with all the demand, it would have to be the size of a football field!"

Or an aircraft hangar, perhaps. Presently, Fuzzy is talking to Russian airline supplier, Aeromar, about supplying packs. It is also holding talks with UK airlines. "They are substantial. We are talking millions of brushes needed for these," Jim smiles. "The only issue with airlines is that they want a 75% margin. Ridiculous, but it is how they operate."

FINANCES

This demand brings us back to the new factory in Durham. Alongside the emotional reasons outlined earlier, the move also bolstered Fuzzy's balance sheet.

"In Durham, rates and rent are a third cheaper than in London. It made commercial sense to have the packing

"I AM DEALING WITH WHAT I HAVE. IF I DID HAVE A FACTORY TO COPE WITH ALL THE DEMAND, IT WOULD HAVE TO BE THE SIZE OF A FOOTBALL FIELD"

JIM ON... THE ECONOMY



"The Brexit vote did affect my business," says Jim. "But only because of the fall in sterling that resulted from the vote. It meant my distributors could spend more to promote the product. We should look at the great opportunities from this - we don't need pessimists in business."

and production done under one roof as it saves thousands of pounds a month on transporting the product abroad," he says.

The new 2,500 sq ft factory unit, built at a cost of £60,000, has a production area, two package areas, pallet storage and will create up to 50 packaging and production jobs.

The company has invested in equipment to break up the xylitol slabs, which allows for a tenfold increase in production speeds, and is recruiting from the local council and job centres to find workers.

"It's not an easy product to make. We need to transfer our production knowledge to Durham and carry out some training," Jim explains.

EXPANSION

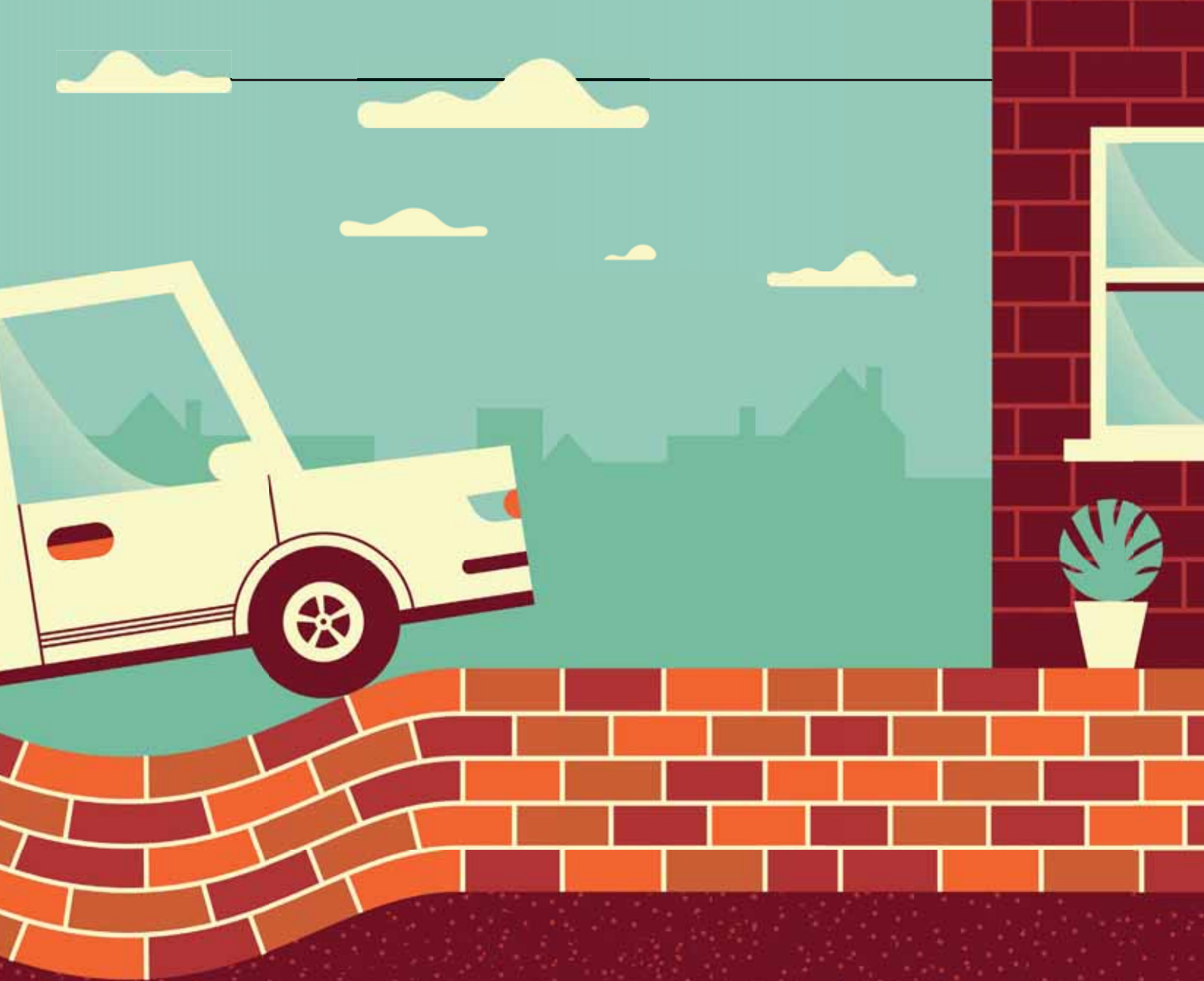
Already, he sees the new factory as being a template for further expansion. "We'll see how much this factory costs, how much we produce and how that fits with demand," Jim says. "But already, I feel that we will need to get another factory, perhaps even before the end of the year." That's because global retail demand appears to have no ceiling.

Part of the financial structure is a new investment programme for retail investors. It raised £500,000 in finance from the sale of 700,000 redeemable shares. "We've had this programme since 2016 and we pay our investors a percentage of our profits," he explains. "The first round of money we used to buy stock and help our manufacturing expansion. We are now looking at the Enterprise Investment Scheme to raise more funding."

On the company's LinkedIn page, there is a declaration that it will look to float on the Alternative Investment Market (AIM) in 2020. But Jim plays this down.

"It is possible, but to get on you are talking about £400,000 spend and taking six months out of your life," he says. "I could spend that time and money on developing the company. I'm not looking at a float at the moment."

"Everybody has a great idea. But there is a world of difference between having that and being successful," Jim says. "It takes years of dedication and most people fall away. You must see it through and push products forward. I have more than enough work to keep me going for the rest of my life, my son's life - and my great grandson's life!" ●



DRIVE CHANGE

Other forces than just HMRC are at work to cause FDs and fleet managers company car pain in the coming months, reports Pádraig Floyd

Company cars are a thorny subject with rules that always leave some people dissatisfied. The rules on car benefits tax are bad enough, but there are new rules that could cause financial directors (FDs) sleepless nights. The new international accounting standard, IFRS 16, governs how companies treat the accounting of leases, including vehicle fleets.

SHIFTING THE GOALPOSTS

Issued in 2016, IFRS 16 comes into force on 1 January 2019 and will touch at least half the world's listed companies with far-reaching effects. IFRS 16 eliminates nearly all off-balance-sheet accounting for leaseholders, estimated to be \$3trn. More importantly, it redefines many common financial metrics, such as gearing ratio and EBITDA. Though done in the name of transparency, it may change the market view of an organisation as it affects covenants

and credit ratings, and consequently borrowing costs. Businesses will have to comply, but FDs will be asking if there is anything to be done about their leasing arrangements.

POLICY PROBLEMS

While cars are a drop in the ocean compared to buildings and aircraft, those have more stable charging structures. The past three decades have seen much made of the death of the company car as HMRC sought to ensure anyone deriving any benefit not strictly for business purposes was taxed (see box, *The rules as they stand*, page 21). These costs will increase further as emissions and benefit-in-kind (BiK) tariffs are ratcheted up. As a result, cost control has become the focus of FDs and fleet managers.

Vans are generally discounted from this equation, as they serve a specific need. However, the degree of change

has led to an increased focus on the cost of fleets and the policies applied to both essential and perk users. Essential users are just that – they need a car to do their job – and often are not offered a cash alternative.

Perk drivers receive a car as a part of their remuneration and will rarely need the car for business, or will do very low business mileage.

Offering cash is not necessarily a useful tool, as it is a more expensive way to offer a benefit than a company car, and there are added concerns about a company's 'grey fleet'. These are cars owned by employees for which they receive an approved mileage payment allowance (AMPA) – which is tax and national insurance free – of up to 45p a mile for the first 10,000 business miles drive in any fiscal year, and 25p a mile thereafter.

GREY FLEET CURE?

Not having the vehicles under the business's control by running a grey fleet may seem easier to administer, but introduces different risks. The company can (and should) insist to see insurance documents showing business use of employees' cars before agreeing to pay mileage, but must take it on trust that a vehicle is maintained in a roadworthy state, and that in the event of a breakdown or accident a substitute vehicle is available to prevent lost business time.

Offering cash is not necessarily a useful tool, as it is a more expensive way to offer a benefit than a company car



960K

Number of individuals who paid a benefit-in-kind charge in 2016/17

"It is important to make sure you have the right mix of mobility for your employee and ensure you provide a vehicle that best suits the individual's needs," says Matthew Walters, head of consultancy and business data services at LeasePlan. "Ensure they have the right tool to do the job. Consider grey fleet provision in terms of things like health and safety and duty of care, as these also pose some risk for both fleet managers and financial directors."

A possible solution is for companies to recommend or compel employees offered cash to enter into a personal contract hire (PCH) or personal contract purchase (PCP). This effectively outsources the lease to a contract between the employee and a leasing company, but offers the business protection from a car being off the road for any length of time. Provided there is no link between the employer and leasing agent offering favourable rates, HMRC will not be concerned that the employee is receiving an additional BiK from using a preferred provider.

CLEANER, GREENER ALTERNATIVES

There are more than one million company cars on the UK's roads – 960,000 employers and individuals suffered BiK taxation in 2016/17 – and the government is also using this system to influence behaviour in other policy areas. In addition to an escalation of diesel supplements to reduce non-CO₂

THE RULES AS THEY STAND

For a summary of company car expenses and benefits, see tinyurl.com/BAM-CCbenefits

Any car ordered after 5 April 2017 is subject to a new tax regime. Those already in use before this date won't see any changes until 2021, unless the car is replaced. Whether the car is a perk or for an essential user matters less than whether there is a cash alternative on offer or salary sacrifice is used.

Cash alternatives

The old rules taxed individuals on the benefit in kind (BiK) value of the car. Now, it must be taxed on the greater value of the BiK or the cash alternative.

Some drivers will see an increase in BiK as they no longer benefit from a

reduced tax bill from having a lower P11D valued car, or choosing a vehicle that has low emissions. Instead, they must pay tax on the full amount of the cash alternative.

Salary sacrifice

The same applies to drivers who use salary sacrifice to secure a car that emits in excess of 75g/km. Now they are liable for tax on the greater of the amount of cash sacrificed or the value of the BiK.

ULEVs are exempt

Drivers selecting ultra low emissions vehicles with CO₂ emissions of 75g/km or less will be exempt from the tax charges. BiK treatment has also changed, as an addition to the list price, tax is paid according to an employee's tax band, see tinyurl.com/BAM-TXL. Any

contributions made by the employee will reduce the BiK level.

Fuel charges

A BiK is also liable on the amount of private fuel an employee may have access to (for a calculator, see tinyurl.com/BAM-fuel-calc).

Although diesels produce less carbon dioxide than petrol driven cars, they produce other pollutants and so the list price has a 3% supplement. The government has announced this will be increased to 4% in April 2018 for all cars that do not meet the Real Driving Emissions 2 (RDE2) test. There are no cars on sale in the UK at the moment that meet these new limits.

You can calculate tax on an employee's company car at tinyurl.com/BAM-carTXcalc

emissions, vehicles that produce little or no emissions receive additional relief.

Ultra low electric vehicles (ULEVs), which includes both fully electric and electric/hybrid vehicles attract 100% first year allowances and have very low BiK charges. However, while ULEVs have a lower tax charge, the electric component has a relatively short range so the petrol engine will be used on longer journeys or where charging has not been possible.

THE TROUBLE WITH ULEVS

ULEVs will return fewer miles to a gallon than diesel, making them more expensive to use for essential high mileage users. Most models are pitched at the perk user and tend to be higher range, higher spec vehicles, which pushes up the already higher initial unit cost. This makes them less attractive to essential users who are likely to be more price sensitive to the P11D component of company car charging.

However keen businesses are on ULEVs, they are struggling to incorporate them into their fleets, particularly for high mileage drivers, says Dan Rees, fleet consultant at Deloitte.

"The employee may want a ULEV, but the employer doesn't want the cost of the fuel to increase," adds Rees. "The slight advantage for the employer of ULEV is undone by the problem of paying more for the fuel over the life of the vehicle."

While an employer could ask an employee for a contribution towards the fuel, they are more likely to offer them in the perk product range because these drivers do lower mileage and will have a better chance of running on electric charge alone. Currently, ULEVs and electric vehicles simply are not right for high mileage drivers.

FOSSIL FUEL IS FINE

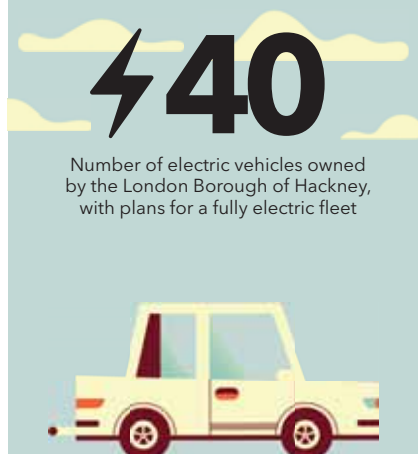
There is good news in that a number of new ULEVs are to launch in the next two years. But that won't help those planning their policies now. They will still be aimed at the perk driver, but manufacturers, such as Volkswagen, are expected to come to market within that time.

There is considerable competition between car manufacturers to make their vehicles more fuel efficient, which is beneficial to both the company, in terms of higher capital allowances, and the car user, in terms of lower annual benefit charges. Until then, petrol and diesel not only remain viable, but essential. The lack of charging stations across the UK for electric cars - there are over 5,000, according to Zap Map - is something that

GO ELECTRIC

The London Borough of Hackney has 40 electric vehicles with plans for a fully electric fleet. So far, 43 dedicated 7kW+ charging points have been installed at council offices. Alternative fuels and low emission technologies are being tested where practical, including a 50-strong pool of bikes.

"Hackney council is committed to minimising the impact its vehicles have on local air quality by introducing more electric vehicles," says councillor Feryal Demirci, cabinet member for neighbourhoods.



GO WEST

Cornwall Partnership NHS Foundation Trust opted for a hybrid fleet of pool cars as 90% of its company car mileage was inside the county. It now runs 42 hybrids and 15 electric cars.

Neil Hudson, transport manager at the trust, says it not only meets environmental targets, but will drastically reduce fuel costs.

"The main saving for us will be on fuel," he says. "It's still very expensive because the cars are expensive and there's a lot of cost involved in installing the infrastructure."

The decision was made easier as the trust received some funding for installing 15 charging stations at five sites.

needs addressing if government really want businesses to embrace electric vehicles for the fleets.

NOT JUST HOT AIR

In April 2018, the CO₂ emission threshold for cars to attract the main rate of capital allowances falls from 130g to 110g.

"Businesses must be very careful," says Paul Lippitt, principal consultant at Lex Autolease. "When it moved from 160g to 130g, many businesses put in a blanket coverage at the lower level. We recommend you baseline at 110g and let people make their own decisions."

This may encourage behavioural change from the user, independently of any policy, trading for a more fuel-efficient vehicle. Alternatively, the business could ask employees to contribute to anything that exceeded that level. This limit is likely to change in the future, but the current scores of cars on the market may also be adjusted once the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) comes in later this year.

The WLTP will replace the old method of determining fuel efficiency and emission levels with new real road tests. This may mean the data for today's vehicles increases once the research begins to come through.

NO EASIER FOR SMES

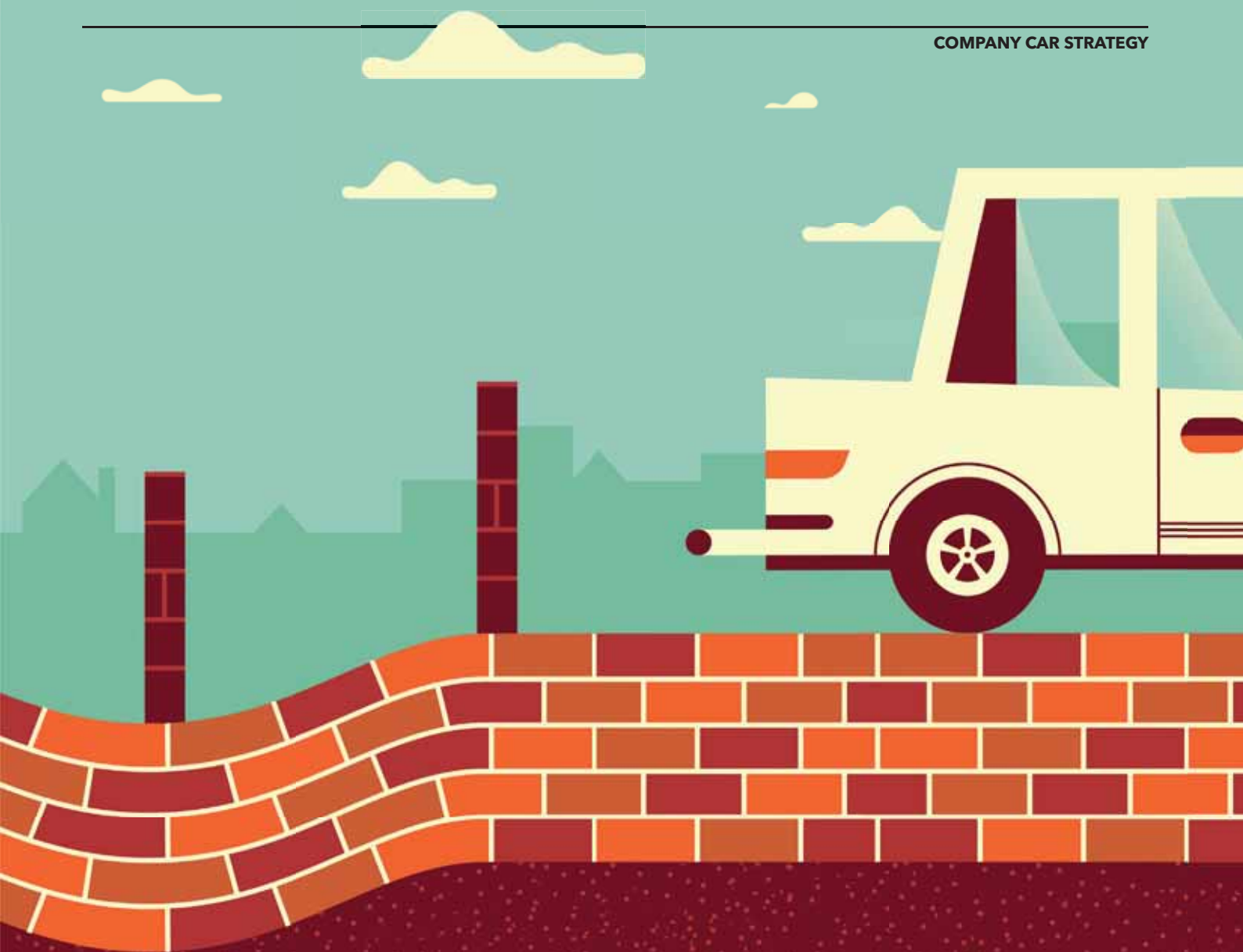
All these incremental increases are making the company car an expensive luxury for small businesses, says Kath Docherty, a director at accountants C&M Services. "We don't have many clients running company cars as the changes to BiK and the diesel supplement has made company cars a costly benefit."

Docherty has even given up her company car and runs her own vehicle to work. She knows of some businesses that justify the expense because they are short of cash.

Others have considered opting for a van over a car to reduce their tax liability. Although it may be more beneficial, care needs to be taken because a van is not always a van in HMRC's eyes.

A white van may not be aesthetically pleasing, says Docherty, but if you go for a souped up version, HMRC may treat it as a car for tax purposes. She is also concerned that some who opt for crew cabs - pickups with double cabs and four seats - may fall foul of HMRC unless the vehicle is used to transport workers to jobs.

Docherty's clients are turning on to the possibilities of ULEVs, but she remains



unconvinced, as the BiK charge will remain high with rates of 5% to 8% in 2020, offsetting some of the benefits. She says: "The key thing influencing financial decisions is the BiK rates are rising and they are calculated according to the list price, despite the fact that cars depreciate from the moment they are purchased. So, it doesn't matter how long you hang on to your car, the benefit is calculated in the same basis, which means extending leases is not particularly cost-effective."

THE FINAL ANALYSIS

If you felt company cars were more trouble than they are worth, none of this may persuade you otherwise. You can work through the benefit charges for vehicles by using HMRC's calculator at tinyurl.com/BAM-CarCalc

Though electric and hybrids are not suitable for high mileage drivers yet, they will change as battery technology

increases the range in between charges, more charge points and more models are introduced to the fleet car range (see boxes, *Go electric*, *Go west*, and *Go whole of life*, pages 22 and 23 respectively).

Whole of life charging is likely to become increasingly important as it can factor in fuel, which is a concern for many FDs contemplating a switch to lower emissions. Walters says this, "levels the playing field between the different drivetrains".

Despite this, he doesn't advocate a 100% switch to ULEVs and advises against writing off diesel and petrol vehicles just now. "Bear in mind that diesel and petrol have a place for the future," he adds. "Take the right steps now and don't be afraid to reorganise your policy."

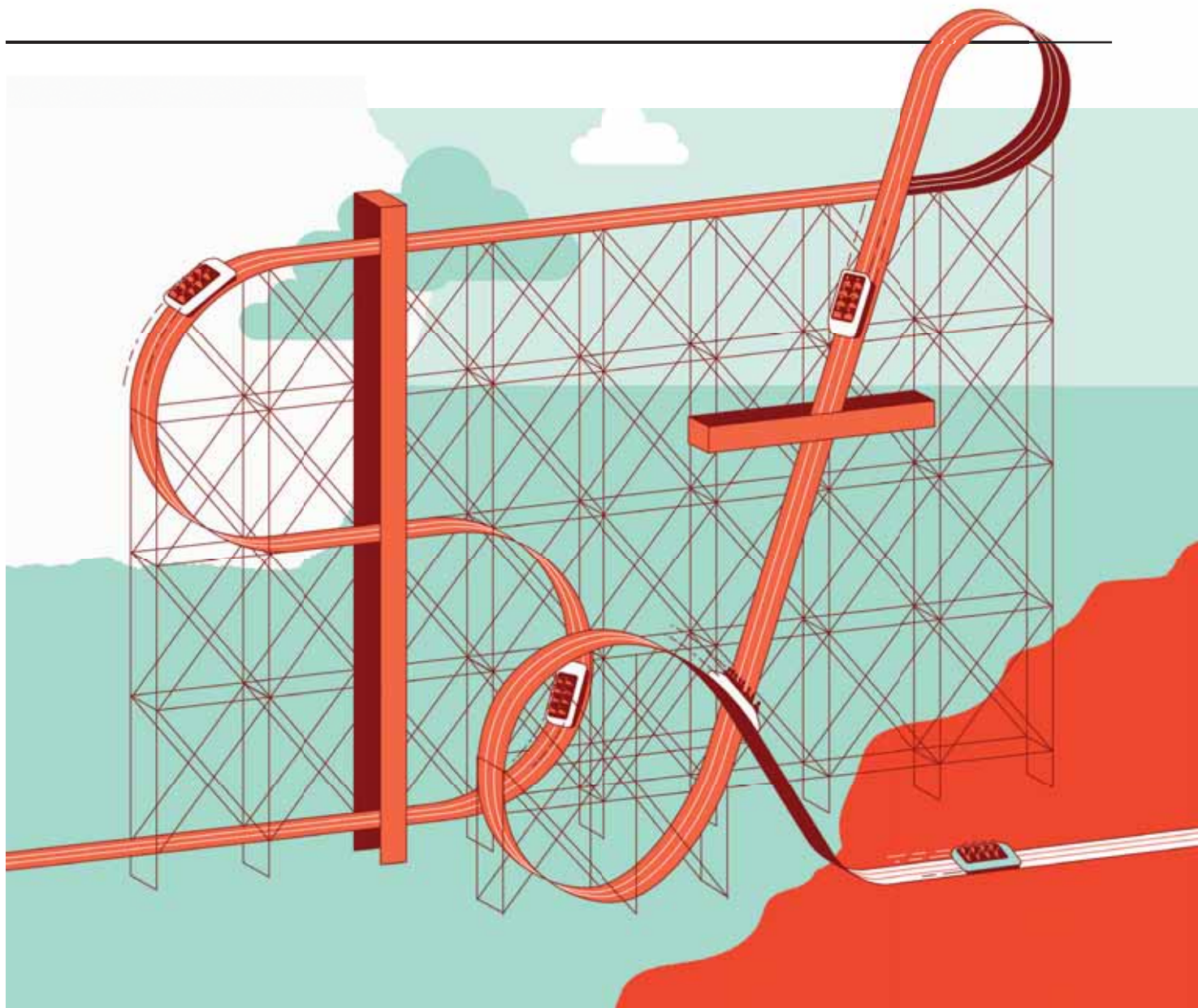
Docherty agrees that these decisions are not easy, but doing nothing is definitely the wrong thing to do: "When there is uncertainty, that is when decision-making and financial planning is essential." ●

GO WHOLE OF LIFE

Taylor Made Computer Solutions, based in Fareham, has been very satisfied with its fleet of 50 Skoda Octavias, but is looking for a replacement with both tax and emissions in mind.

Troubled by the high cost of hybrids and the poor range of electrics, managing director Nigel Taylor opted for a trial of six BMW i3s while he waits to see how the market develops.

The deal was sealed with BMW as it offered the lease on a whole of life basis, increasingly being favoured by businesses. "My FD loves it," says Taylor, "as he knows what we will be paying out for the next five years."



Though people may not know it by name, or even realise they know it, most will have experienced dynamic pricing in one way or another - whether in a pub at happy hour, a florist on Valentine's Day or trying to book a taxi on New Year's Eve.

Welcome to the up, down, turnaround world of fluctuating pricing, a strategy that is becoming more pervasive and accepted. Robert Crandall - former chairman of American Airlines - pioneered dynamic pricing (also called yield management) in the 1980s through the introduction of super-saver fares and ticket prices that changed according to availability, demand and how far in advance the reservation was made. It soon became widespread within the hotel, travel and utilities industries. More recently, though, it has gained ground in many other sectors, including retail, tourist attractions, and even restaurants.

Gary Loewen, chief executive officer (CEO) of US-based Digonex, which

PRICING US OUT?

With more and more companies adopting dynamic pricing, Xenia Taliotis explores the benefits and pitfalls of the strategy, plus the sectors it is affecting

provides sales-optimising dynamic-pricing services to sports teams, attractions and entertainment venues, says we are living in an age where rapid price changes to meet demand have become the norm for customers and suppliers. Internet shopping has brought the strategy to our homes - Expedia, Booking.com, and the giant of them all, Amazon, all adjust their prices countless times a day. Loewen predicts that within a few years theme parks, car parks and cinemas will all have followed suit.

Dynamic pricing has always prevailed in the fuel sector, with suppliers offering cheaper fuel at night, for example, through Economy 7 tariffs to ease the pressure on supply at peak-load intervals.

Last year, Green Energy took the Economy 7 model a step further by offering time-of-use pricing to domestic customers through its fluctuating Tide tariff. Costs per unit of electricity vary from 4.99p at low tide (11pm-6am) and tide weekday (11.99p, 6am-6pm) before

peaking at high tide (24.99p, 4pm-7pm). They tail off again at tide weeknight (11.99p, 7pm-11pm).

The tariff, which is currently only available in England, requires customers to install smart meters for both their gas and electricity supply. The idea behind Tide, says CEO Douglas Stewart, is to encourage people to change their habits so that they charge devices and run washing machines overnight: "Tide is all about being savvy and using smart meters to introduce a different way of buying energy, a different way of managing usage and a different way of controlling our bills."

Dynamic pricing is ideal for energy suppliers owing to the tremendous prices they face to meet unexpected surges in demand. Wholesale spot prices for electricity are normally more than twice the off-peak price and smooth demand by incentivising consumers to divert non-time-sensitive use to off peak. More than 10 different energy suppliers offer retail Economy 7-style tariffs.

VALUE-BASED PRICING

Customer reaction, and what they're prepared to pay for a product according to what it's worth to them, is key. This is known as value-based pricing. There is a limit to how much of a variant people will tolerate and the circumstances under which they will accept it. A US survey by Retail Systems Research showed that 71% of consumers aren't keen on dynamic pricing, not to mention the uproar last year when Uber's prices surged after a terrorist attack near London Bridge when pedestrians sought to get away from the scene. The company responded quickly, suspending dynamic pricing and refunding fares, but remained unapologetic about the strategy.

Andy Fairburn, head of marketing at Solos Holidays, says that customer satisfaction or disgruntlement is certainly a consideration in pricing, but that the travel industry is by and large unaffected - mainly because people are aware that they may have paid more or less than the person sitting next to them. "On the whole, customers are comfortable with it," he says, adding that their habits had been shaped by the no-frill airlines that managed the process ruthlessly.

"Dynamic pricing has brought about the single most important transformation in the travel industry over the past 10 years," says Fairburn. "This completely turns on its head the perception that the best deals come to those who wait. Historically, tour operators and travel

"Dynamic pricing has brought about the single most important transformation in the travel industry over the past 10 years"

ONE SMALL STEP...

US chain Regal Cinema is running a trial this year - a first step, CEO Amy Miles says, to finding a "pricing model that drives incremental revenue in peak periods and incremental attendance in non-peak periods... we're excited to learn how pricing changes impact customer behaviour."

Miles's point about customer behaviour is critical, and is something Paul Rawlinson considered when he introduced variable pricing for a limited period last year at his Harrogate restaurant, Norse. "The model does demand thought beyond the linear cost of raw materials and labour," he said. "It introduces a third variable, one that requires us to think what a plate of food is worth to our guests at any given moment in our working week."

companies only varied their prices at the end - and in one direction - with last minute discounting. But now, with careful management and automation, prices change all the time. I think people have accepted this, certainly where travel is concerned."

Gavin Tollman, CEO of CostSaver Tours agrees: "In our market customer loyalty is first and foremost driven by the holiday experience rather than the cost. And a dynamic pricing model can actually support that allegiance."

"Transparency is essential: we recently launched a ready-to-go rate that guarantees that the best price available is the one customers see on that day so people can book early with confidence, knowing they have secured the best deal. No one likes to think they could have paid less."

Likewise, says Tollman, dynamic pricing doesn't affect the company's key performance indicators (KPIs): "Our KPIs are guest satisfaction and service delivery. This model simply helps us to monitor supply and demand, keeping us on track throughout the year, which results in better value and more choice for customers."

That may be the case, but how would consumers feel if petrol stations and brick and mortar retailers adopted the same model as these airlines and travel companies? We may find out soon enough, as Danish data analytics company a2i is currently selling its PriceCast fuel technology to petrol stations across Europe. Its brochure says it will "map customer and competitor behaviour in order to identify the optimal price throughout the day".

Similarly, most of the UK's major supermarkets are trialling electronic price tags - already common in the US and Europe - that can enable up to 90,000 price changes per day. Last year, Marks & Spencer used dynamic e-pricing in stores to offer pre-lunchtime deals, encouraging people to buy early as a way of regulating its lunch queues.

The benefits to retailers extend beyond levelling out customer flow and include reducing waste and costs and boosting sales and margins. Roadchef - which uses Market Hub's digital pricing system and its data, stock and competitor analysing technology, Pulse - reported a 2.6% rise in profits and a 31% reduction in waste in just seven weeks.

Phil Bulman, director and retail sector expert at Vendigital, a global procurement and supply chain specialist,

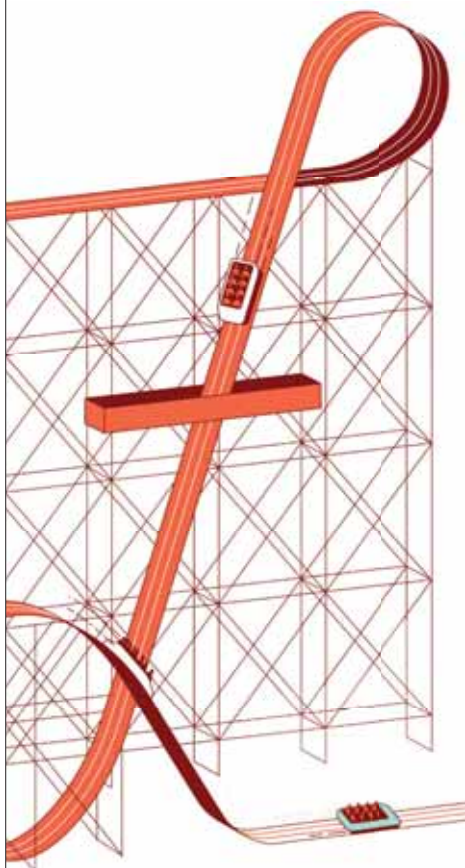
says surge pricing can benefit customers with low prices, and retailers by driving sales - enabling them to compete better with the internet and also to reduce their costs. "Being able to discount digitally as food approaches its sell-by date means retailers can manage waste more efficiently and increase sales," he says. "Beyond that, the technology could also be a long-term cost saving tool, reducing the human input required to update paper tickets and therefore driving down labour requirements."

"Initial adopters - invariably the larger companies - will be first to invest in integrated systems and will have the competitive edge, not only because they can constantly change prices, but also because they'll be able to take advantage of all the data they are collecting."

ON THE DARK SIDE

And therein lies the potential dark side of the strategy. Companies are making even greater use of machine learning and automation, going beyond dynamic models to personalised pricing based on data they've collected. From every click, browse and purchase, they build up a picture of each person's 'demand curve', which is effectively what the person is prepared to pay for a given item. Even the device customers use to shop is a determinant: those with smartphones or Macs are categorised as premium customers and directed to more expensive products.

There is also a suspicion that these customers are actually charged more - an accusation often made where Amazon is concerned. It's a popularly held belief among all those who've watched the price



of a product they've been looking at go up each time they go back to the site that the company's algorithms are 'fixing' the cost. Although Amazon refutes this, companies like camelcamelcamel.com allow consumers to track the price. Research published by Australia's Invigor Group in 2017 found that Amazon offered competitive pricing for no more than 30% of listed products. Gary Liu, head of marketing at Boomerang Commerce, refutes this. Boomerang Commerce was founded by an ex-Amazon manager to ensure that companies can compete against Amazon by trawling the internet to devise pricing strategies and make dynamic pricing recommendations for such clients as Staples, GNC and Groupon.

"Amazon's prices change constantly, but none of those changes are personalised or individual," says Liu. "That's not Amazon's model. Its strategy has always been to reach the position it is in today. When people want to search for information, they go to Google; when they want to look for a product, they go to Amazon - that's where over 50% of product searches now start in the US. Its success is not down to offering the lowest price but to giving its customers the best competitive price when other factors - including convenience, speed of delivery, availability - are considered."

"This is what really generates customer loyalty," Liu concludes. "Many products can be found cheaper elsewhere, but the public's perception that they will get the best deal on Amazon - for the product they want, delivered in the timeframe they want - persists."

Pricing experts, like Dr Andreas Hinterhuber (see previous articles in September 2015, and pricing report in September 2016), have been arguing for some time that organisations should be pursuing consumer value-based pricing. The model adopted by Amazon is exactly the kind of model he argues all businesses should be adopting.

Hinterhuber's own research suggests that management clings to six myths: costs are the basis for price setting; small price changes have little impact on profits; customers are highly price sensitive; products are difficult to differentiate; high market share leads to high profits; and managing price means changing prices. "Pricing, for better or worse, is the most important driver of profitability," says Hinterhuber. "There is a crowd psychology with regard to pricing - everyone is responsible, so ultimately, no one is." ●

PRICE TRACKING

Website camelcamelcamel.com (CCC) tracks the price of items sold on Amazon, notifying users of price drops and showing price history charts for each product. As an example, at the time of writing Amazon was selling a Sony Bravia 43-inch TV for £459, down from £999. CCC confirmed the original price, and that this was the lowest recorded price. Could CCC and others like it undermine the pricing strategies of companies they are tracking? Its chief executive Dan Green says not: "We do not threaten Amazon, nor are we fighting against it."

Our purpose is to help customers shop intelligently and patiently - because they may need to wait until the product they want drops to the price they're prepared to pay. We help the patient types buy for the right price, whatever that may be. If anything, we're a good thing for Amazon as we help keep people shopping on their site - eventually.

"We're also good for consumers. Savvy shoppers benefit from dynamic pricing as they use our charts and email alerts to stay informed of price changes."

STEP YOUR SAVINGS UP A GEAR WITH A STOCKS AND SHARES ISA



Emma-Lou
Montgomery

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COUNT THE COSTS

How did telecoms giant BT turbocharge its profits by cracking down on costs? **Arthur Yu** has the answer

All companies, big or small, should continuously assess their cost structures to ensure they deliver returns for shareholders and create a decent value proposition for customers. However, cost optimisation programmes, if not managed properly, can end up delivering short-term non-repeatable savings, while at the same time damaging a company's customer services and innovation capability in the long term. As one of the founding members of the group cost transformation team, I was personally involved in many of the cost reducing initiatives launched. I would like to share some of my own reflections on the three key success factors of BT's cost transformation (CT).

Based on our experience of cost assessment in BT Group, we believe a successful and sustainable CT programme needs to focus on reducing the cost of failures and not just cutting costs, building a strong internal capability to execute the transformation agenda, and establishing a strong programme governance framework to manage different initiatives, stakeholders and priorities.

£5.5BN SAVED SINCE 2009

BT Group is a world-leading telecommunication company with around 100,000 employees. In 2008, it was

struggling financially due to a growing pension deficit and heavy debt burden. With the group's valuation woefully low at £6bn, the company was vulnerable to be taken over by competitors or venture capital companies. Due to fixed line telecommunication being a mature industry with minimal growth potential, we turned to our cost base in order to increase profits.

Under the leadership of the BT Group chief financial officer we launched a group-wide CT programme that helped us to take out about £5.5bn in costs over a period of seven years. We used these savings to invest in enhanced customer services and break into new businesses, such as TV and mobile, and eventually got the company back on track to grow again, so that in 2016 the valuation of the company had grown to almost £40bn - outperforming the FTSE and European telco index by a factor of three.

REDUCING THE COST OF FAILURES

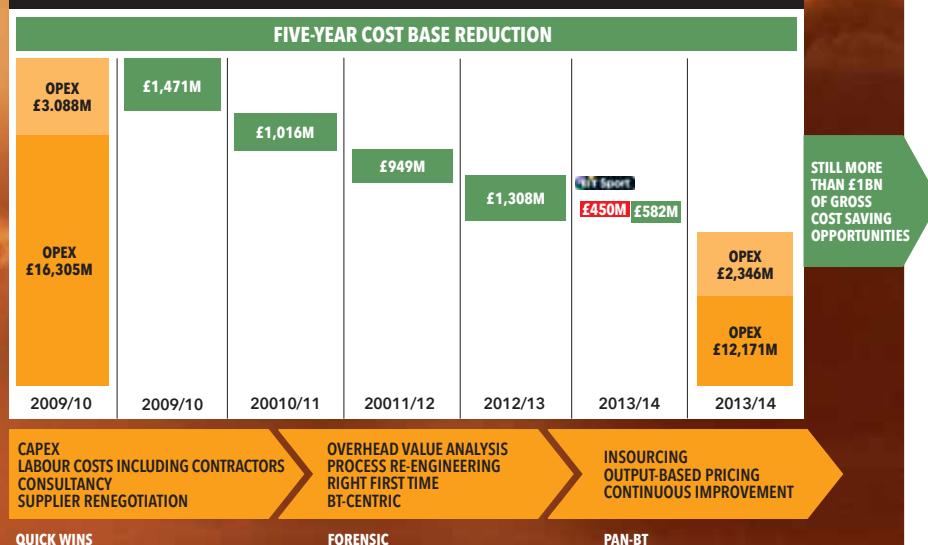
A core principle of BT's CT methodology is that recommendations must always be driven by data and evidence; it must be proven rather than just a gut feeling. Sometimes, our analysis would show an outcome different from the senior stakeholder's gut feeling. When this happened, we would challenge the stakeholder with our factually-based findings and work with them to get to the right answers.

We summarised the findings and applied a lean six-sigma methodology to develop our own in-house toolkit, called overhead value analysis (OVA) and value for money (VFM). Using these toolkits, we followed a programmatic way to identify failure points and clearly estimate how much excessive capacity was in our back-office functions across the entire BT Group. Most importantly, because this approach not only reduced our cost base but improved customer service, it was easy to get buy-in from across the organisation from senior management to frontline employees.

Instead of starting with a cost-cutting target, we focused on eliminating the cost of failure in the process. For example, when looking at BT's contact centres across the UK, we found that there was a team of 200 people who logged calls from our first line customer service agents and then passed them on to the engineers. We now have the first line agents logging issues themselves and speaking directly to field engineers. This



FIGURE 1: COST TRANSFORMATION PROCESS PROGRESS



change improved our response time to customers by an average of six minutes, as well as enabling us to reallocate those 200 people, saving £10m. During the various cost transformation reviews we conducted, we identified many other similar opportunities to improve operational processes and reduce costs.

A STRONG INTERNAL CAPABILITY

CT is about fundamentally changing the way an organisation operates in order to reduce costs, improve operations/customer services, and become more scalable/adaptable to future growth. A typical CT project started with an analytical driven discovery review that normally takes three to four months, followed by six to 18 months of implementation. In terms of the methodology, it's been largely based on a define, measure, analyse, improve, and control (DMAIC) approach, which is something that we have very much followed through in most of the review. In addition, we have combined this overall approach with many other best practices, such as stakeholder management, analysis for call handling times, etc. Our typical lifecycle of a programme can be summarised in the following five steps:

1. Initiate and plan the project to make sure that we have a clear problem statement and manageable scope.
2. Baseline the as-is situation and understand the business problem.
3. Analyse the situation using the data and forensic research to identify the improvement initiatives.
4. Develop recommendations and achieve buy-in and sign-off from the business.
5. Implement the changes with fast pace and track progress to realise the benefits.

In most of the cases, we would focus on identifying improvement opportunities in the following areas:

- strategy and structure of the business units;
- processes used to provide services to customers (either internal or external);
- resourcing level of the unit and facilities that the unit occupies;
- people and organisational efficiency of the unit, including productivity and spans and layers of the organisation;
- system and technologies used by the business; and
- capability of getting change implemented at a fast pace and right first time.

180

Number of countries BT operates in. It is the largest provider of fixed-line, mobile and broadband services in the UK, as well as subscription TV and IT services

£5.5bn

The amount in costs taken out by the group-wide CT programme.

£34bn

How much the valuation of BT has grown



ESTABLISH A STRONG GOVERNANCE

In a large organisation, such as BT, it is essential that change - at all levels of the business - is conducted in a coherent manner and happens for the right reasons. Our approach ensures that change initiatives - from strategic, top-down transformation, to local, bottom-up improvements - are fundamentally aligned with the outcomes they deliver, in order to support the growth and cost transformation journey of BT.

The transformation cycle, which begins with the discovery phase, typically lasts three months and starts with a clearly defined problem statement that is solved using the DMAIC approach and a suite of analytical tools. These recommendations were then implemented over as much time as was required depending on their complexity. This phase is characterised by detailed plans and execution milestones, strong sponsorship, governance and benefits, which are baked into the budgets and forecasts with frequent updates and clear escalation paths.

After this phase, we began the bottom-up continuous improvement, where the local teams focussed on small incremental gains. The key is that we

then revisited the area and started the cycle again, due to technology and product innovations or enhancements in our analytical methodology.

A key feature of BT's CT approach is that most of the programmes are led by internal consultants. We believe no one knows our business better than ourselves, and although we do sometimes engage with external consultancy firms, such as McKinsey, BCG, and Accenture, this is only on a limited scale to fill our capability gap.

In BT, CT is a group strategy, and we have strong support from the group CEO and CFO. In order to establish a governance structure that is suitable for the project, it is important to have the freedom to select the steering committee. For example, when the project reviews a business department, the CEO of that line of business is the sponsor and his team leaders sit on the steering committee, which meets every four or five weeks for review and decision-making. Each week, a progress update is sent to the sponsor and steering group members. This governance structure gives the CT team a unique advantage to bypass a lot of office politics and enables the programme to move more quickly.

"It is essential that change - at all levels of the business - is conducted in a coherent manner and happens for the right reasons"

Once we had established our own capabilities internally, we almost entirely ceased using external consultants. We specifically recruited people to assist with the programme and empowered them to challenge senior staff as well as allocating the project a senior profile, providing them with the kudos required to enable change to take place.

In conclusion, BT's overall strategy is founded on broadening and deepening our customer relationships. The three pillars of our strategy are: delivering superior customer service, transforming our costs, and investing for growth. The better our customer service, the more we'll sell and the less time and money we need to spend correcting them. And the better we manage our costs, the better value for money we can offer our customers and the more we can invest in giving customers what they need today and tomorrow. These principles drive our business model.

From 2008 to 2016, we have been heavily dependent on cost transformation to assist cash flow. This has allowed us to reinvest some of the savings generated and given us the oxygen needed to grow the business over the long term. In the years ahead, we will need to drive revenue growth. Improving customer services, combined with the continued transformation of our costs, will provide the platform for long-term and sustainable cash flow growth, creating a virtuous circle that we'll also use to reward our shareholders and other stakeholders. ●



Arthur Yu, CFO for Asia, Middle East and Africa and chairman, BT China

TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

EMPLOYMENT LAW



THIS SECTION IS SUMMARISED FROM THE BULLETINS OF VARIOUS LAW FIRMS AND ASSOCIATIONS. NONE OF THE INFORMATION IN THIS UPDATE SHOULD BE TREATED AS LEGAL ADVICE

DISABLED WORKER WINS £9,000 FOR UNFAVOURABLE TREATMENT

The outcome of a recent tribunal offers some clarity on the issues that can arise as a result of failing to make reasonable adjustments for disabled employees.

Leeds Employment Tribunal awarded Miss St Hilaire more than £9,000 after it was ruled she had been treated unfavourably by her employer, Home Bargains, because of her disability.

Miss St Hilaire, a former assistant in Huddersfield, was asked to clock out when she went to use a disabled toilet outside of the working premises by her former employer. She was born with hip defects that limited her mobility and prevented her from carrying out certain tasks that required lifting and carrying items. As a result, she was unable to use

the store's upstairs toilet facilities and instead used one in the shopping centre.

In March 2008, Miss St Hilaire was asked to inform the manager when she was leaving to use the toilet. By October 2014, with facilities in the shopping centre no longer in use, Miss St Hilaire had to go even farther afield. From January 2016, she was asked to start clocking out by an assistant manager.

Upon the discovery that deductions had been made to her pay, Miss St Hilaire said she would not be clocking out in future, and later raised a complaint.

In June 2017, Miss St Hilaire attended a meeting with an area manager. She was told a payment of three hours' pay would be made to her.

In August 2017, Miss St Hilaire presented a disability discrimination case at tribunal. Judge Keevash said Miss St Hilaire was considered disabled within the definition of the Equality Act 2010, and found that she was treated differently from other employees.

Judge Keevash rejected Home Bargains' submission that requiring employees to clock out when leaving the store was to ensure fire evacuation procedures were carried out smoothly.

Home Bargains' deduction of her pay

from the clocked-out periods was judged discriminatory.

As a result, Miss St Hilaire was awarded £9,315.07, which was comprised of £8,000 for injury to feelings and £1,315.07 as interest.

MORE WORK NEEDED ON NEURODIVERSITY, SAYS CIPD

A new report from the Chartered Institute of Personnel and Development (CIPD) has encouraged employers to make the workplace more inclusive of neurodiverse employees and remove “friction points” during the hiring process.

The term ‘neurodiversity’ refers to the “infinite range of differences in individual human brain function and behavioural traits”. It covers numerous thinking styles, including Asperger’s syndrome, dyslexia, bipolar disorder and obsessive-compulsive disorder.

Despite about 10% of the working population being considered neurodivergent, the CIPD says that workplaces are “still typically designed for neurotypicals”, meaning employers are not enabling workers to reach their potential or making full use of a “really valuable” talent pool.

The *Neurodiversity at work* report, released in partnership with neurodiversity training platform Uptimize, acts as a guide for HR professionals and business leaders, with the aim of increasing awareness of neurodiversity in the workplace among employers and inspiring more employers to action.

One of the key recommendations from the report urges companies to make their recruitment process more inclusive of neurodiverse talent. This can be done in multiple ways, such as not punishing for lack of eye contact or unconventional body language during interviews.

The report can be read here tinyurl.com/BAM-NEUR

BAD WEATHER GUIDANCE

The unprecedented snowy weather at the end of February, which resulted in widespread travel disruption across Britain, raised the issue of what an employer’s obligations are to its employees, and vice versa, at such a time.

Employees delayed or prevented from attending work due to bad weather are obliged to tell their employers as soon as possible. However, a business is not obliged to pay an employee for work time missed due to travel upheaval. The only situation in which this is not the case

is where the employer is the provider of the transport being cancelled and the employee was “ready, willing and able to work”, says Acas.

Many businesses create policies or protocols for poor weather situations, and these may include arrangements for discretionary pay. Formal and informal arrangements can involve employees working from home, attending the next nearest workplace if applicable or performing different duties to normal.

Acas also states: “Some contracts may allow employers to ‘lay off’ some staff without pay. However, it must be completely clear how the circumstances apply and anyone with employee status will usually have a right to a statutory guarantee payment.”

The body recommends that whatever the situation, employers should “keep in communication with their workers, and be flexible, fair and consistent”. Other options it suggests include allowing staff to change start/finish times; offer shift swaps and overtime to those who can cover; and offer people the chance to use their annual leave allowance.

In addition, the right to take unpaid leave is conferred on anyone in an emergency situation as a result of bad weather when it means children need supervision as the result of school closures, elderly/disabled relatives are left without carers, or a partner is seriously injured.

See more on the Acas guidance at tinyurl.com/BAM-weather

TAX



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BREXIT IMPLICATIONS FOR CUSTOMS AND VAT

The European Commission (EC) has published a paper setting out the detailed customs and VAT implications of the UK leaving the European Union, *Withdrawal of the United Kingdom and EU rules in the field of Customs and Indirect Taxation*.

The EC paper covers much the same ground as the ICAEW Tax Faculty *TAXguide 21/17* but is shorter.

There are a few issues covered in the EC note that are not in the *TAXguide*, particularly the Authorised Economic Operator. The EC document states: “Authorisations granting the status of Authorised Economic Operator and other authorisations for customs simplifications, issued by the customs authorities of the UK will no longer be valid in the customs territory of the Union [after Brexit].”

The EC document also states: “Taxable persons wishing to use one of the special schemes of Chapter 6 of Title XII of the VAT Directive (the so-called Mini One-Stop Shop or MOSS), who supply telecommunications services, broadcasting services or electronic services to non-taxable persons in the EU, will have to be registered for the MOSS in a member state of the EU.”

The published paper appears to represent the stance that will be taken by the EC if no progress is made with the Brexit negotiations. We hope that the end result will be less of a burden on UK businesses.

IR35 BITES BBC TV JOURNALIST

A First Tier Tribunal (FTT) judge has brought the issue of IR35 cases into the spotlight once again.

The FTT held that BBC TV journalist Christa Ackroyd, who hosted the BBC’s regional news programme *Look North* and was paid through a personal services company, should be treated as an employee rather than a self-employed contractor under the

intermediaries (IR35) legislation.

The appeal in *Christa Ackroyd Media Ltd v CRC* [2018] UKFTT 69 (TC) covered tax years 2006/07 to 2012/13. Subject to any appeal and determination of final figures, the tax and NIC that Ms Ackroyd will be liable for amounts to about £420,000, although this is reduced to £207,000 once the offset for corporation tax is taken into account.

IR35 cases are all about whether – if the individual contractor provided the services directly to the client – there would be a contract of employment. The question is whether a hypothetical contract between the end user and the contractor, rather than the intermediary (ie, the contractor's personal service company), would have been one of employment.

The tribunal judge considered numerous factors and the relative weight attaching to those factors. In his view the most significant factors included the fact that the BBC could control what work Ms Ackroyd did pursuant to the hypothetical contract. It was a seven-year contract for what was effectively a full-time job.

The judge acknowledged that this was a value judgement. He also specifically said that he did not criticise Ms Ackroyd for not realising that the IR35 legislation was engaged – she had taken professional advice in relation to the contractual arrangements with the BBC and she was encouraged by the BBC to contract through a personal service company. Ms Ackroyd was also denied relief for Sky subscriptions paid through her personal service company.

This case is not expressed as a leading case and an FTT decision in itself can set no precedents, but the facts may well be replicated for other presenters. This case demonstrates that IR35 is now back on the front burner having been simmering away for many years. Of course, with effect from 6 April 2017 the IR35 rules in respect of payments made by public body clients (such as the BBC) to intermediaries were changed, and it is now the public body that must decide whether the IR35 rules apply and, if so, deduct income tax and national insurance contributions (NICs) rather than the intermediary. The existing pre 6 April 2017 position continues for the present for payments made by private sector clients, but we are expecting a consultation document next month on a proposed extension of

the requirement for a public body to decide whether IR35 applies to include the private sector.

The underlying problem is that tax and NIC rates have long made it much cheaper to hire contractors through an intermediary rather than take them on as employees. Despite the IR35 rules having been law for nearly 20 years it has taken a long time for HMRC to investigate and settle individual cases. The contractors themselves were often unable to control the way in which they were hired and the client insisted on paying the contractor through a personal service company but, as the case above highlights, when the arrangements are held to be ones to which IR35 applies, it is the contractor who is left with the tax and NIC bill, which for an employee would have been accounted for by the employer.

TERMINATION PAYMENTS – GUIDANCE NEEDED

ICAEW Tax Faculty has asked HMRC to issue guidance on the new termination payments tax and NIC regimes as soon as possible, see ICAEW Rep 16/18. Employers are having to consider and advisers are having to advise on terminations that are affected by the new rules and it is not always clear how the rules apply.

Guidance with examples is needed on, *inter alia*:

- the timing of the new rules commencing, including where notice periods straddle 13 September 2017, 6 April 2018 and 6 April 2019;
- the new rules for post-employment notice period payments;
- how employers should assess residence status mid-year;
- the new rules for NIC including from April 2019;
- how penalties will be applied; and
- the impact, if any, on the apprenticeship levy.

We also recommend that, as the reporting processes and payment dates for termination payment employer-only NIC will be completely different from that for class 1A NIC on benefits-in-kind (BiK) and the NIC legislation has not yet been laid, the opportunity should be taken to call the new employer-only NIC charge something different from class 1A – say class 1C – to distinguish it from class 1A on BiK. A different class name would avoid confusing employers and would reduce mistakes.

FINANCIAL REPORTING



YOU CAN FIND OUT MORE ON THE LATEST FROM THE FINANCIAL REPORTING FACULTY AT [ICAEW.COM/FRF](https://www.icaew.com/frf)

PENSION ACCOUNTING

The International Accounting Standards Board has issued *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*, effective on or after 1 January 2019.

IAS 19 *Employee Benefits* specifies how a company accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset.

The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan.

Read more at tinyurl.com/BAM-IFPEN

ACCOUNTING AND REPORTING FRAMEWORK

The UK's Financial Reporting Council (FRC) has issued a briefing to remind Boards of companies in the construction and business support services sectors of their reporting obligations. However, they note that the guidance will also be relevant to other entities.

The guidance draws particular attention to the requirement for the directors to assess the company's ability to continue to adopt the going concern basis of accounting and disclose any material uncertainties. It also reminds directors of the purpose of the strategic report and the importance of risk and viability reporting and how disclosures might be enhanced.

Good disclosure of judgements and estimates applied in preparing the financial statements continues to play an important role and has been the subject of a recent FRC thematic review.

Read the guidance tinyurl.com/BAM-ARFW ●

ON A LIGHTER NOTE



DOWN THE GOLDEN TOILET

Every incoming US president is offered the loan of a piece of art from the Guggenheim Museum in New York. Donald Trump's request was *Landscape With Snow*, a painting by Van Gogh. However, the museum insisted that the painting was too fragile to move, and rather cheekily offered an alternative – a functioning lavatory made entirely of 18-carat gold, entitled *America*. The piece was rumoured to be worth over \$1m. The museum described the piece as an “extravagant luxury product seemingly intended for the 1%” and patrons were encouraged to make use of it.

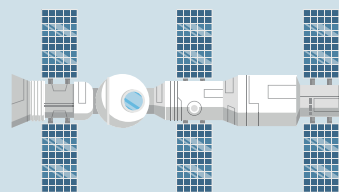


18

CARATS, THE QUALITY OF GOLD USED IN A FULLY FUNCTIONING TOILET WORK OF ART

TAKE A SPACE-CATION

Bigelow Aerospace, owned by 72-year-old billionaire hotel mogul Robert Bigelow, has announced plans to launch a private research station in space. The new venture, Bigelow Space Operations, will market and operate the two B330 inflatable space habitats that are set to launch by 2021. The 55-ft modules can hold six people and will be able to function in low-Earth orbit, 250 miles above sea level. The company plans to sell time slots to governments and agencies needing space time, but also to sell holidays to people. Though they won't be cheap, as Bigelow says a booking for a module will likely cost an eight-figure sum.



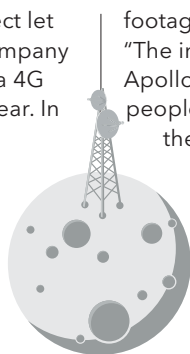
FLYING TO WASHINGTON DC JUST GOT EASIER

Primera Air, an Icelandic-owned airline, announced that it will fly a new route from Stansted to Washington DC from this summer. With prices starting at £199, this new route will use the narrow-bodied Airbus A321 aircraft. Primera Air has cancelled previously announced routes as they were less profitable than expected. Aviation analyst John Strickland commented: “Long haul, low cost is a growing business model but that doesn't mean it is immune to challenges. Such markets tend to be more price sensitive which makes airline profitability more elusive.”



COMING SOON TO A MOON NEAR YOU...

Mission to the Moon, a project let by private German space company PTSScientists, plans to install a 4G network on the moon next year. In conjunction with For All Moonkind, Vodafone, Audi and Nasa, the plan is to revisit the site of the 1972 Apollo 17 landing with remote-controlled vehicles equipped with cameras and broadcast the



footage of the approach via 4G.

“The inspirational power of the Apollo missions even touches people who weren't alive to see them first-hand,” explains Robert Boehme, chief executive officer and founder of PTSScientists.

“I want to create a new Apollo moment to inspire a new generation of explorers, engineers and scientists.”



250

MILES ABOVE SEA LEVEL THAT BIGELOW SPACE OPERATIONS WILL OPERATE AT

MARDI GRAS? WHAT A LOAD OF RUBBISH!

In the past month, nearly 1,200 tons of rubbish was removed from the Mardi Gras parade route in New Orleans. It included 46 tons of plastic beads, which were pulled from storm drains along a five-block stretch of the route. It is a tradition to wear and throw beaded necklaces as the parade passes. Dani Galloway, interim director of the city's Department of Public Works, asked residents to help clear the beads before they rolled into the sewer system.



1,200

TONS OF RUBBISH REMOVED FROM MARDI GRAS PARADE ROUTE

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