

INTELLIGENCE AND INSIGHT FOR ICAEW MEMBERS

# economia

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**GEORGE SOROS ROGER BOOTLE JULIA MASSIES MARK LUMSDON-TAYLOR  
CHARLES KENNEDY YVONNE CRAGGS DOUG MCWILLIAMS PHILIP JOHNSON**



## BEAR NECESSITIES

**DAVID RAMSDEN, CEO OF BBC CHILDREN IN NEED, ON  
INNOVATION, POLITICS AND THE LASTING APPEAL OF PUDSEY**

THE FUTURE OF THE EURO | CARBON ACCOUNTING | NEWLY QUALIFIEDS | GADGETS

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# economia

## The UK's prosperity will be dictated by what happens in the eurozone

There are few issues that divide political and public opinion as strongly as Europe. What started as an experiment in integration to bring nations together and prevent future wars on the continent has itself become the cause of political and economic conflict.

It's rarely easy to get economists to agree on anything, but in a rare outbreak of consensus there is a clear acceptance among most number crunchers that the UK's future is now inextricably linked to that of its nearest and largest trading partner. Regardless of opt-ins, opt-outs, vetoes or other political posturing, the UK's slow recovery is all the evidence needed that uncertainty and recession in the eurozone are the biggest factors hampering growth.

ICAEW's first economic forecast, published last month, suggested that regardless of any occasional indicators of a nascent recovery, business investment, confidence, growth and employment will remain depressed in the UK throughout 2013. What is most alarming is that these predictions are made on the basis of the eurozone crisis bumping along

and not getting significantly worse. As we went to press the outcome of the German constitutional court challenge appears to have gone in favour of establishing the European Stability Mechanism.

This €500m rescue fund will make a difference and may prevent any of the weaker economies from sliding out of the single currency. While that will paper over a few cracks, it won't change the political reality. At the next round of elections across Europe there are signs that hardline anti-euro parties in countries as diverse as Finland and Germany could win majorities with promises to lead their countries towards the exit.

It's easy to paint a picture in which the collapse or the survival of the euro is a political inevitability. In truth nobody knows which way it will go and that uncertainty is the worst of all possible worlds. No wonder research among ICAEW members earlier this year found only a few have made contingency plans for the collapse of the euro. What isn't in doubt is that the next few years will be tough for everyone.

### THE RESHUFFLE LEAVES THE TREASURY WEAKER

**R**eactions to the recent Cabinet reshuffle were mixed. For some it was the start of the inevitable shift to the right required of David Cameron by restless (and potentially mutinous) backbench Tories. For others it marked the start of the Conservative Party's preparations for the 2015 election campaign. But for a government still apparently focused on achieving deficit reduction, even though

they appear to be going soft on their previous hard and fast promises, it may represent something of an own goal.

One of the unintended consequences of the reshuffle was to remove all three treasury ministers with a background and training in chartered accountancy. Maybe they will still be able to achieve plenty in their new departments, but it is difficult not to sense that the government's finance

function is a little poorer for the loss of the only senior people with a real understanding of finance.

If the chief executive of a PLC were to move all the qualified accountants out of the finance department into marketing, particularly at a time when the company was struggling to manage a huge debt, it would raise a few eyebrows. Perhaps now is the time for another U-turn?

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# Contributors

## EDITORIAL ADVISORY BOARD

Chair: **Arthur Bailey** FCA is ICAEW vice-president and a consultant with Begbies Traynor Group and Kingston Smith.

**Lord Bilimoria** FCA is chairman and founder of Cobra Beer.

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**Trevor Williams** is chief economist at Lloyds Bank Wholesale Banking & Markets.

## CONTRIBUTORS

**David Adams**  
**Guilhem Alandry**  
**Christopher Alkan**  
**Richard Ansett**  
**Sarah Bridgland**  
**Raymond Doherty**  
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## PCP

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**Production director** Angela Derbyshire

## CONTACT US

**Advertising** 020 7936 6931/6708  
 economia@icaew.com  
**Recruitment advertising** 020 7920 8535  
 icaewjobs@icaew.com  
**Editorial** 020 7936 6983  
 economia@icaew.com

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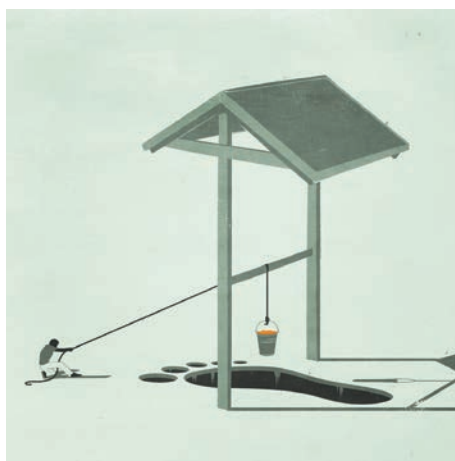


# ICAEW in this issue

Some of the expert opinions you'll find in *economia* this month

"The Legal Services Act was the earthquake, but the real seismic shift will be in the aftershocks. It remains to be seen what will happen, but I think that in five years' time the landscape for professional services will be very different indeed."

**P72** Imelda Moffat, solicitor and manager at ICAEW, considers the post Legal Services Act outlook.



"One important thing is that it tried to move beyond just asking 'what's the carbon footprint?' It's a framework that has to be linked to regulatory and other risks, and to performance. This stuff can have an immediate effect on your bottom line."

**P74** Richard Spencer, head of sustainability at ICAEW, outlines the advantages of carbon accounting.



"This is an attractive place for anybody to live and work. Everybody talks about work-life balance but it's a reality in Scandinavia. It's possible to have a well-functioning family life and a career at the same time."

**P30** Helene Dunbar, ICAEW member contact in Denmark and area finance controller, Denmark and the Nordics at Lloyd's Register EMEA, extols the virtues of Scandinavian living.

"The old Controlled Foreign Corporations regime was complicated and unreasonable. The new system is more like a rapier rather than a blunderbuss. Meanwhile the falling tax rate is a recognition that rates throughout the world are coming down."

**P60** Ian Young, Tax Faculty technical manager, explains why Britain's corporate tax revolution is a step forward.



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## ON THE ECONOMIA WEBSITE



- ICAEW launches interest rate guidance
- Cable makes key SME reporting requirement changes
- HMRC wealth team pulls in extra £500m
- Tax informer awarded \$104m

# In review

The stories that matter most from the month just gone



**“If we don’t take some risks we’ll not get growth. We need to do something that ricochets around the world”**

**MP Liam Fox adds to calls for an emergency tax**



## Rescue Plan 2.0 is launched

Downing Street launched a series of measures to boost the flagging economy. David Cameron and George Osborne set out a scheme to help first-time buyers, and a plan to cut red tape to fast-track projects through the planning system. Vince Cable announced plans for a government-backed business bank to increase lending to UK companies and boost industry, a new growth implementation sub-committee was created, new rules exempting businesses from health and safety inspections are to be enforced in a deregulation drive and a scheme for “mini-jobs” is being considered. Something has to work, right?

■ PwC risked the ire of its mid-tier competitors by submitting a letter to the Competition Commission stating the audit market is more dynamic than it is generally claimed. It said that firms outside the Big Four have failed to take advantage of opportunities in the last decade. The letter claims that in the last 10 years there have been more than 130 instances of FTSE-350 companies switching auditor – approximately one switch a month.

■ David Cameron ruffled a few feathers this month with his first reshuffle (or should that be shuffle?). The largest of those feathers belonged to Tory stalwart Ken Clarke. However, Clarke, 72, denied that being moved from justice secretary to minister without portfolio was a humiliation, telling reporters: “Being offered a job in the Cabinet at my age? Don’t be daft.”

■ Unsurprisingly, Moody’s spread its gloom on both sides of the Atlantic. The

ratings agency maintained its negative outlook on the UK banking sector, due to “weak economic growth prospects.” Across the pond it delivered a stark warning that it will follow its rival, Standard & Poor’s, and strip the US of its top rating unless Republicans and Democrats reach an agreement that has proved beyond them over the last four years.



■ Bradley Birkenfeld isn’t too concerned about the forecasts though. The former UBS banker has just been awarded \$104m (£65m) for supplying details about hundreds of overseas tax evaders. Birkenfeld was awarded what is believed to be the largest-ever payout to a whistleblower after he made disclosures to the Internal Revenue Service about how the bank helped wealthy Americans avoid tax, leading to a \$780m settlement in 2009.



REUTERS, GETTY, REX

GADGET  
OF THE MONTHInvoxia  
AudioOffice

## The month in numbers

**£50m** the amount George Osborne has vowed to underwrite for private-sector building projects in an effort to boost growth, as part of the Infrastructure Bill

**0.7%** the percentage the UK economy will contract this year, according to the OECD – a sharp revision to its earlier estimate made in May, when it forecast growth of 0.5%

**7%** the proportion of multinationals in Europe that claim tax planning has a negative impact on reputation

**\$17.73** Facebook's lowest closing price since the company went public at \$38 a share, prompting a promise from CEO Mark Zuckerberg not to sell his shares for a year

**\$100m**

Tiger Woods' career winnings after he finished third in the Deutsche Bank Championship

**2,000**

The permanent jobs online retailer Amazon will create in the UK over the next two years

**0.5%**

The Bank of England interest rate, now on hold for more than 3 years

## Paying the price of tuition fees

Overall demand for university places was down by 7% on last year, increasing suspicions that £9,000-a-year tuition fees have put off many school-leavers. Seven out of 24 institutions in the elite Russell Group (which includes Durham, Edinburgh and Warwick universities) were still advertising vacancies on more than 1,000 courses days before the start of the academic year. If the places are not filled, some universities could suffer multi-million-pound losses.



**"It is not pie in the sky. We will be separated as one of the top five clubs in the world in revenue"**

Arsenal FC chief executive **Ivan Gazidis** says the club's financial prudence will pay dividends soon



Frustrated by sub-standard sound quality when on a video call with a client or even a friend? Possibly not. Desperate for a new iPhone dock that also doubles as a Skype video-calling device? Possibly not either. But there may still be a few reasons why the Invoxia AudioOffice could be a smart purchase if you work from home.

The multi-talented AudioOffice is an iPhone



dock with a wired handset and iPad Skypeing station that can double as a set of (fairly weedy) speakers.

Once the Invoxia app has been downloaded, your contacts and music will be on the device ready to use.

The design is clever, although the all-white exterior, with its dash of vibrant orange, is a matter of taste. In short, if you really want a speaker system, then there are several other docks that will save you money and do a better job. And while there is some satisfaction in speaking into a proper handset rather than your mobile, there are other ways to get that sensation.

The Invoxia AudioOffice may not seem an essential purchase, but for those who care for clear conversations with added perks, it may be worth the €250 cost.

*Raymond Doherty*

# Good news bad news



▲ **Business at Heathrow:** momentum is gathering on the third runway. New Tory chairman Grant Schapps said "all options" would be examined when pressed on whether ACA Justine Greening's move was a signal of a looming Heathrow expansion.

▲ **Michelle Obama:** the "mom-in-chief" not only electrified delegates at the Democratic National Convention but also worldwide viewers with a stirring keynote speech that focused on the president's humble beginnings.



▲ **Roman Abramovich:** the Russian oligarch and Chelsea FC owner won his £3.7bn case against fellow countryman Boris Berezovsky, as a High Court judge branded his rival dishonest. It was the most expensive case ever heard in a British court.



▲ **Human spirit:** the Paralympics feelgood factor captured our imagination, as athletes such as David Weir (left) and Ellie Simmons became household names and Paralympics GB exceeded its medal predictions.



▲ **David Laws:** the former up-and-comer (left) has returned from backbench exile – following his expenses scandal – in a roving role which includes advising Michael Gove in the education department.



▼ **George Osborne:** the chancellor had to endure the ignominy of being booed at the Olympic park, more galling as ex-prime minister Gordon Brown was cheered shortly after.

▼ **iPhone competitors:** JP Morgan predicted that the release of Apple's new iPhone 5 could make quite an impact on US GDP. The firm's chief economist said sales of the new device could add between 0.25 and 0.5% to the economic growth rate.



▼ **Top-rate tax cut:** the government's idea to cut the top rate of income tax was lambasted from several quarters this month, with the most notable criticism coming from Sir Martin Sorrell and David Davis.



▼ **Gas investment:** The Climate Change Committee warned unequivocally that the government would breach the Climate Change Act if it pursues plans for a surge in new gas investment.



▼ **Mitt Romney's accountant:** the Republican nominee has endured yet more calls to produce his tax records from his time at Bain Capital. A hacker now claims to be in possession of the figures and is threatening to release them.

# Talking point

## Should medium-sized businesses be exempt from statutory audit?

### No: Philip Johnson

The Federation of European Accountants supports measures that reduce administrative costs, simplify business, encourage entrepreneurship and increase employment while preserving public policy objectives such as stakeholder protection, reduction in the cost of capital and market stability.

But a proposal to exempt medium-sized businesses from statutory audit does not meet these goals. The plan by the European Parliament legal affairs committee would limit the scope of the audit under European law to large and public interest entities, leaving member states free to impose (or not) an audit of (all or parts of) their medium-sized entities. It is based on an outdated vision of an internal market that is the privileged playground of large multinationals.

Investors and lenders willing to support the real backbone of the European economy (SMEs) would face a fragmented landscape across Europe regarding the quality and reliability of financial information.

Fortunately this seems to be an isolated view among policymakers in Europe. The European Parliament's economic affairs committee, the Council of Ministers and the European Commission all support an internal market where the public interest is protected by having mid-sized companies audited.

Renationalising the audit of most businesses in Europe would be a significant step backwards for the confidence of cross-border investors and trade; tax collection by member states; and SME access to finance and the cost of capital.

Such a measure would also go against two of the objectives of the current reform of audit policy in that it would reduce choice and competition in the audit market by further impeding development of mid-sized audit firms and reducing audit capacity; and it would inhibit efforts to enhance the internal market for audit services, as states would take different routes to audit of the vast majority of enterprises.

High quality, reliable financial information is a major contributor to the efficient functioning of the economy, particularly in the current circumstances. Now is not the time to make adventurous changes.



**Philip Johnson**  
President of the  
Federation of European  
Accountants



**David Gorton**  
Partner at Gorton  
Chartered Accountants

### Yes: David Gorton

At its simplest level the proposal to allow national control over audit limits should be welcomed. British business and the accountancy profession generally believe regulations on business, especially those imposed by Europe, should be eliminated or minimised.

Once the decision rests in the UK, the question is whether directors of all companies with a £6.5m-plus turnover and £3.26m in gross assets should continue to be forced under international auditing standards to have an audit of their full statutory accounts.

International auditing standards are designed for publicly quoted companies with sophisticated systems and many tiers of management. For many medium-sized companies where management, shareholders and directors are all the same they are cumbersome and irrelevant. In a more flexible system, confidence in the board's financial statements can be given to shareholders however they wish, which is effectively what happens for small companies.

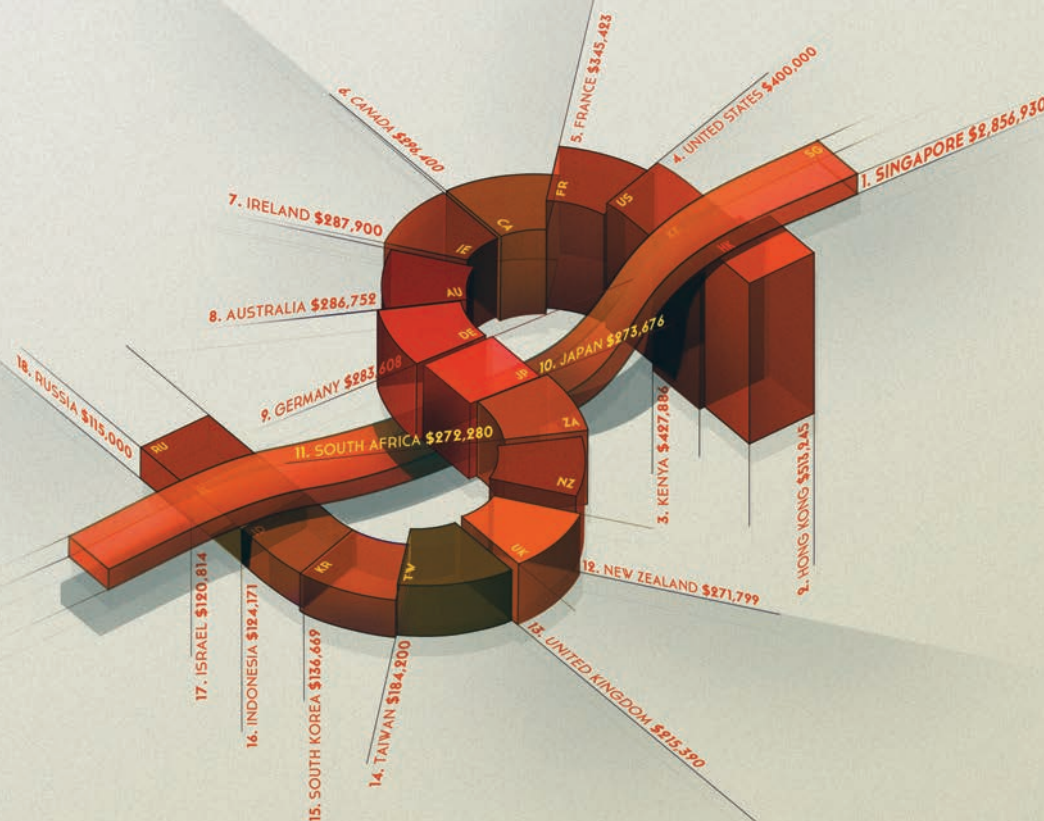
It is worth noting that if there is a public interest in part of a business rather than the whole of it, that part can be examined and monitored by a regulator if necessary – Solicitors' Accounts Rules reporting is an obvious example. For larger companies, third parties such as credit insurers, credit referencing agencies and asset finance institutions are able, by commercial pressure, to obtain confidential management information. But they also demand formally approved accounts. So there is already pressure on the more significant medium-sized companies to be audited. There is also an internal pressure for an audit in any company where there are non-shareholder directors with reputations to protect.

An audit is an opinion expressed to shareholders. Auditors have worked hard to eliminate their responsibility to anyone else. As long as shareholders are able to demand an audit if they wish, why should the government automatically intrude?

British businesses should have their accounts audited whenever this offers value to them. The government, particularly in Europe, should have little if anything to do with it.

If you want to contribute  
to this debate, go to  
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# The graph Highest paid political leaders



CHARLES WILLIAMS/MADEUPORG SOURCE: THE RICHEST PEOPLE

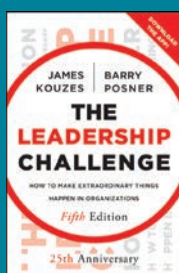
Against the strongest headwinds for decades, good leadership is key to survival. So the release of the 25th anniversary edition of *The Leadership Challenge* by Jim Kouzes and Barry Posner is timely. But after more than two decades – and sales of two million copies – is it still relevant?

With its accompanying app and over 100 new case studies, the authors reckon this book still has appeal. Kouzes and Posner, both at the Leavey School of Business, Santa Clara University, maintain that their original concept – the Five Practices of Exemplary Leadership – hasn't changed since 1987 and doesn't need to.

The five practices will be familiar to anybody who is a keen reader of business or self-development books: model the way; inspire a shared vision; challenge the process; enable others to act; and encourage the

## BOOK REVIEW

*The Leadership Challenge: How to Make Extraordinary Things Happen in Organizations*  
**James Kouzes and Barry Posner**



heart. Leadership is not about who you are but what you do. The Five Practices framework has passed the test of time, they add, because it's about content not context. Do it right, and you'll have an engaged workforce, better retention rates, reduced absenteeism and increased sales.

At the end of each chapter there are "take action" suggestions. You might want to ask questions and stop giving answers, to continuously experiment with new ideas through pilot projects, or become more involved with your team's recognitions.

If it sounds like you've heard it all before, you probably have. This is of course the fifth edition and the mostly American case studies might not add much for those readers who rail against process. But if this is your first foray into taking your leadership skills to the next level, it's both a comprehensive and insightful guide.

**Amy Duff**

# If I ruled the world

Every month we ask prominent figures how they'd handle the biggest job of all

Julia Massies

If I ruled the world I'd improve women's self-assuredness to enable them to play a greater role in business.

Women are still under-represented in business. The lack of affordable childcare is certainly a major cause. Discrimination was prevalent in the past but many employers are now actively seeking to increase diversity to enhance productivity and consumer focus. In spite of such initiatives, many companies are struggling in their efforts to either recruit or promote women. Why?

Somewhat contentiously, I'd suggest women themselves choose to opt out, for two reasons. First, the prevailing thought is that the workplace is male, unfeminine and aggressive. Successful women can attract negative feedback. "I never want to work for a woman... they are either incompetent or crazy," is one particularly colourful comment, which says more about the person proffering it than about female bosses. Nevertheless, the relative scarcity of successful women and their tendency to be driven, results in a skew towards more aggressive work-styles. This perception means more "balanced" women may choose to stay away.

Second, there is a feeling that women need to apply



higher standards to gain recognition. An acquaintance was recently critical of a woman being

promoted although she was not better than a male colleague. But why would a woman need to be "better"? Should the same standard not apply? There's a tendency to place an onus on women to over-achieve, which can create excessive pressure.

Women are as academically successful as men and their contributions in the workplace are comparable. They need to gain confidence to put themselves forward for roles they are competent for, and companies need them for.

The issue is confidence, not skills. Upbringing will help – from an early age, women need to be confident they can do and contribute as much as men. At Oxford University, there's an outreach programme for women to visit female students to make them realise it is not "out of their league" – increasing applications and admissions from women who would otherwise have excluded themselves.

In the workplace, I'd suggest similar schemes of active mentoring between female colleagues. Companies could also celebrate "normal" role models, which would help women re-engage and realise that successful careers are within their reach.

Julia Massies is finance director at Pernod Ricard UK

## THE BIG IDEA

C K Prahalad  
Core competencies



**Who is he?** One of the world's most influential and provocative management thinkers who delighted in shaking up convention, but had practical ideas on connecting thought leadership with business practice. Before he died in 2010 he notched up many distinctions, among them distinguished professor at University of Michigan and a Thinkers 50 number one.

**What's he famous for?** They're part of the business lexicon now, but at the time his work on "core competencies", "strategic intent" and "the bottom of the pyramid" was groundbreaking and prompted many executives to change their ways.

**What was his most popular idea?** Dr Prahalad's major breakthrough was in cahoots with fellow guru Gary Hamel, when they described in *Competing for the Future* how businesses should define themselves by their key abilities, rather than as a line of products or services. Core competencies was born.

**Is that it?** No, he then teamed up with Venkat Ramaswamy to argue that managers needed to be more imaginative in assessing public demand. It seems obvious now, but in 2004, when *The Future of Competition: Co-Creating Unique Value With Customers* was published, the idea that businesses make the customer into a co-creator of products to add value and sustain growth was seen as visionary.

**A true prophet of profit then?** He liked to help corporate boardrooms stay competitive. But in *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits* he suggested business could empower the poor by tapping into their power as a consumer. He wrote: "If we stop thinking of the poor as a burden and start recognising them as value-conscious consumers a whole new world of opportunity will open up." Companies would spring up in less developed parts of the world, he said.

**And not just any guru?** No, the way he managed to wear two hats – practitioner and professor – meant he was a popular teacher and admired by CEOs. Towards the end of his illustrious career, he focused on the link between sustainability and long-term business success. In his honour, there is now a CK Prahalad global sustainability leadership award, won this year by Unilever CEO Paul Polman.

EVENTS TO  
LOOK OUT FORWORLD ECONOMIC  
FORUM ON INDIA

6-8 November

India is expected to overtake Japan as the world's third largest economy by 2015. Thought leaders will ask, what will the next wave of economic growth look like?

## SME CONFERENCE

8 November

Small businesses need to be more focused than ever on strategy and operations. This event will look at how SMEs can keep up in a global landscape. London.

GLOBAL  
ENTREPRENEURSHIP  
WEEK

12 - 18 November

The world's largest celebration of the innovators and job creators who launch start-ups that bring ideas to life, drive economic growth and expand human welfare.

SOLE PRACTITIONERS  
CONFERENCE  
(NORTH WEST)

13 November

Practical advice on PAYE, tendering, tax, QAD, accounting and audit. A great chance to network and share problems and experiences. Merseyside.

CHARITY AND VOLUNTARY  
SECTOR CONFERENCE

15 November

Lord Hodgson and the Big Issue's Nigel Kershaw are among the speakers discussing technical updates and new trends. Various UK locations.

## SOCCEREX

24-28 November

Experts from football and business head to Rio de Janeiro to discuss issues such as responsibility, talent management, rights, image and sponsorship.

Visit [icaew.com](http://icaew.com) for more details on ICAEW events

View from  
the top

It's time to dispel the traditional myths about accountants, says Mark Spofforth



I am not yet half way through my year as president but one message that has come through to me loud and clear, as I travel around the UK and overseas, is just how proud our membership is of the chartered accountancy qualification.

The high quality of the training and the toughness of the exams give us all a mutual and special bond. They have also led to ACA's enviable reputation as one of the world's leading accountancy qualifications. Last year, our student numbers hit a 20-year high, growing from 17,653 to 19,073, with a new student intake of 5,951, 25% of them training in offices overseas.

To ensure the exams are up to date, we review them annually for technical changes. But every five or six years, we go back to a blank sheet of paper and invite all our stakeholders – training employers, students, training providers, academics and educationalists – to give us their views on what the qualification should look like and how we can ensure the ACA continues to meet the needs of firms and businesses for the foreseeable future.

It's an essential exercise and one we've been going through over the last year. This month, we are launching the updated ACA, which we believe will match the requirements of business up to

2020, if not beyond. It will also enhance the knowledge, skills and experience that chartered accountants possess.

The evolved exam syllabi still include the same level of technical content in tax, assurance and financial reporting as the current one. However students will see more of the technical content at an earlier stage, which is important to our training employers in practice as well as business.

In addition to launching the new ACA, we continue to look at ways to widening access to the profession. We have already introduced various schemes to attract people who might otherwise not think of an accountancy career but at the same time we mustn't lose focus on recruitment of top graduates. Recent research from Oxford Brookes University, which looked at why graduates, particularly women, are not applying to become chartered accountants, showed that we have failed to dispel the traditional myths about us – boring male beancounter nerds with accountancy degrees. Worse, they think life as a lawyer would be more exciting.

Perceptions are the trickiest things to deal with, but if we want to attract the brightest and the best, we have to grasp that nettle firmly. If you have thoughts on the matter, please let us know.

If you have any views about this opinion, please get in touch by emailing [president@icaew.com](mailto:president@icaew.com) or join the debate on our website [icaew.com/economia](http://icaew.com/economia)

CHARLOTTE PLAYER

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\*S60 T3 Manual Business Edition.

Image shows Volvo S60 with optional metallic paint, BLIS (Blind Spot Information System), Winter Pack and Accessory Front Skid Plate.



### Quasi Judicial Committee Vacancies

ICAEW is looking for members who would be interested in filling vacancies on some of its quasi judicial committees. In particular, it needs volunteers for the Investment Business Committee, which is responsible for undertaking ICAEW's duties as a regulator under the Financial Services and Markets Act 2000. Meetings are held three times a year at Chartered Accountants' Hall and last two hours.

**For more details contact Fiona Lancaster at fiona.lancaster@icaew.com or on +44(0)20 7920 8627**

### COFRA nominations

The annual ICAEW Charities Online Financial Reporting and Accounts Awards (COFRA) are open to charities registered in the UK and the closing date for submissions is **31 December 2012**. ICAEW is looking for nominations for charities whose online financial reporting demonstrates excellence in transparency, innovation and follows best practice. Winners and runners-up will be announced on Monday 24 June 2013 at ICAEW's Charity Awards evening in London.

**For further details and tips on how to succeed visit [icaew.com/cofra](http://icaew.com/cofra)**

# Career clinic

**Do you have a CV dominated by experience with one employer? It may repel some recruiters, but it needn't spell professional doom**

Mark Freebairn



I was presenting a recruitment shortlist recently and we started talking about a candidate who had spent 13 years with the same organisation. There were three clients in the room – CFO, CEO and group HR director. The candidate was very capable and had more than enough relevant experience to do the role we were recruiting for. Yet I could sense that the three were not as keen as I expected. It soon became clear what the issue was when one of them said something along the lines of: “But they have been with the same organisation for 13 years. Aren't they a bit institutionalised?”

This is a recurring theme. And it's one we headhunters are very grateful for. Nothing keeps a headhunter busy like people moving roles and so if the general perception is that you have to move frequently, we stay busy. However (and I should be careful here or my industry will shun me) I'm not so sure.

Take the example above. The individual in question had filled eight different roles in the 13 years. They had worked in four different businesses and in three different locations around the world. They had worked at business unit, divisional and group levels with responsibilities spanning operational, technical and strategic areas. They had worked with a variety of different leadership teams and cultures and had seen businesses going through growth and decline. In a number of roles, they held responsibility for things they might not have had exposure to for a number of years, but they were trusted because they were a known entity.

And this is why I have an issue with the idea that there is a length of time that you can be with one organisation before you

have to move. Working in a business allows you to build your credibility and your reputation. And you are far more likely to take what might be perceived to be a risk on someone if you know them

and believe they will deliver. That's not something that happens in a one-hour interview; it's something that builds over months and years of working with someone. So in return for showing loyalty to a business you create the opportunity to develop faster – hardly a bad thing.

Yet the view that it is bad persists. This is because the traditional view of someone who stays at a business for a long time is that they will have done the same thing year after year and not developed much at all. Where this is the case, serious questions will be raised about the candidate's ambition.

More importantly, it's less likely they will have been exposed to the degree of change, leadership teams, business models and cultural variety that someone who has worked for four different businesses will have seen. That leads to questions about institutionalisation. And they are never good questions.

In short, I don't think there is anything wrong with career loyalty as long as you manage that career intelligently. If you stay within one business it is even more important to ensure that you're moving roles and responsibilities fairly frequently. Exposure to different cultures and business models is equally valuable. But never feel that you have to move.

With respect to the example above, there are very few people who could have gained such career experience by moving to four different firms. That experience is worth a huge amount. And in case you were wondering, they did make the eventual shortlist.

Mark Freebairn is partner and head of financial management practice at recruitment consultancy Odgers Berndtson

GETTY



## As I see it

Jeremy Newman, chairman, the Audit Commission

**Contributing to the public sector is something Jeremy Newman is keen to do. He tells us what motivates him and how, in his globetrotting days as global CEO of BDO, he always made it home for Friday dinner**

**What was your childhood ambition?** To be an accountant. Seriously, I don't remember one particular ambition – it all depended on which day you asked me.

**What was your first senior role?** Being one of three partners asked to do a review of the strategy of my firm (then known as Stoy Hayward, now BDO LLP) in 1990. This was my first involvement in management.

**What do you enjoy most about your job?** Variety and the opportunity to meet lots of interesting people – and hopefully make a difference to at least some of them.

**What are you most proud of?** My family – particularly my two children.

**What would you do differently?**

There are too many things to

list here. It is inevitable in business that you will make mistakes; the important thing is to learn lessons from each mistake and not make the same one again.

**What have you learnt about expanding globally?** The importance of cultural sensitivity. It is crucial to have respect for, and try to understand, other cultures and ways of working.

**What's the best way to get things done?** Understand the issue and the challenges from the perspective of others and then engage with them in a positive way, so everyone shares a common view of the best outcome and will work together to achieve it.

**Who do you admire most and why?** At the moment it has to be Sebastian Coe. He did an astonishing job with the

Olympics and Paralympics yet seems to have retained his modesty and not taken away any credit from anyone else.

**What career ambition would you like to achieve before you retire?**

I left professional practice in order to pursue a career in the public sector. I have just secured my first role as chairman of the Audit Commission [he started on 1 October] and hope this will be the first such appointment. I am keen to make a contribution to the public sector, as I hope I have also done in the accounting profession.

**What's your guilty pleasure?** Chocolate – but I don't feel that guilty about it.

**What's your biggest bugbear?** Arrogance and people who won't listen to others. Everyone has a

contribution to make and we need to provide an environment in which they can do so.

**What motivates you?**

The feeling that I am making a difference.

**How do you maintain a work/life balance?** I work hard at it. When I was travelling nearly every week I made sure I was always home for dinner on Friday night, even if this meant flying home from China on Friday and then going back east to Japan on Sunday. It was important that my family (particularly my wife – who is very supportive of everything I do) knew that I would always be home at some time every week. In three years I managed this every weekend except three – two of which I spent with one of my sisters just outside New York.

# Tales from the front line

Real stories from the cutting edge of business and finance

Mark Lumsdon-Taylor  
Group director of finance and resources, Hadlow College

I have never thought of myself as a stereotypical accountant but I have no regrets about studying the ACA. Accountancy is not about going into a grey finance office or just churning out numbers and accounts. There are far more opportunities and career paths in chartered accountancy than any other profession.

Having said that, I started out life wanting to be a musician. At school I played the piano and organ, gave concerts and conducted. I went to Keele University to study law and music but realised the latter was never going to be a career. So I swapped music for economics, which I absolutely loved, and decided to become a lawyer. Four years of studying law, though, turned me off. So at a loose end, I wandered into the Keele careers office, picked up an Arthur Andersen brochure, read about chartered accountancy, liked the economics perspective and thought, "Marvellous, I don't have to make another career decision for three years."

I chose to train at MacIntyre Hudson rather than a large firm because they came across as a fun but very focused and driven place to work and they had real charisma – so important in accountancy.

I turned out to have a natural flair for going into businesses and spotting issues, and I got heavily involved in developing a really unique approach to risk management and risk audit. Hadlow College was one of the clients we won in 1999.

Hadlow, a specialist agriculture and horticulture college in Kent, was going through very challenging times. There had been a notorious murder in 1998, there was fraud and corruption, the principal had been removed and investigated, student numbers were plummeting, Ofsted had condemned the college as failing, the estate was dilapidated and it was teetering on the edge of bankruptcy. Nobody even knew what the bank balance was. In 2002, the acting principal, Paul Hannan, now a close friend, appointed MacIntyres to sort out Hadlow's systems, finances, operations, and to help restructure the whole organisation. I was seconded for six months and then invited to stay on for a couple of years. That was 10 years ago and I'm still at Hadlow.

My friends in London thought I was mad to give up a great job in the City with fantastic career prospects for what was turning out to be a

public-sector nightmare. But I never back away from a challenge and if I walked out, who else would do it? I believed absolutely in the staff and their passion for what we do at this institution. So for the first four months of my new job, I was fighting for Hadlow's very survival. We were audited nine times in four months. Although you could write what I knew about agriculture on the back of a postage stamp, it rapidly became a labour of love.

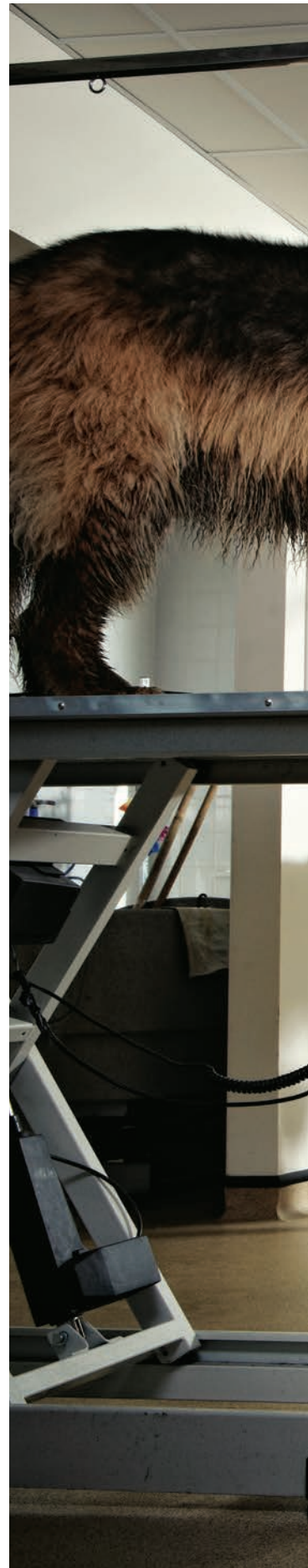
My philosophy has always been not to think like everyone else, and to break preconceptions. We took substantial risks in the early days – building the rural regeneration centre was one, but I thought it would serve as a beacon to show that Hadlow was back in agriculture, back in sustainability. And it has.

Over the 10 years we have not lost money and we've invested £28m – a phenomenal sum for an organisation that hadn't a penny to its name. To do so, we leveraged our balance sheet to borrow £4m, received £5.8m in government grants for capital investment and the rest I raised from profits, joint ventures, public private partnerships and cashflow.

We've gone from a failed institution to one of the UK's leading colleges, rated outstanding by Ofsted. I firmly believe that private-sector principles can be applied to the public sector. In 2006/7 I implemented a fiscal rule based on a balanced portfolio of revenue streams in equal fiscal terms from further education, higher education and commercial operations. That rule is still in place and everything we do commercially supports our teaching and learning.

Our student numbers are up from around 1,500 to nearly 4,500. We have reacquired asset-stripped estates and boosted our acreage from 250 to over 1,000 and our campuses from two to five. And instead of losing £500,000 a year, we are expecting to report a surplus of £500,000, reserves of £13m and a projected turnover of about £17m.

Our turnaround has won us numerous awards but the one that has pride of place is this year's ICAEW Finance for the Future Award. We survived the most rigorous vetting to get to the final and I was truly delighted to win because it recognised the hard work and commitment of all of the staff. It also shows Hadlow now punches well above its weight.





MARK HARRISON

# Michael Izza



# Your feedback

## Transparency and consistency

**B**ack in 2002, the then UK prime minister Tony Blair stood up at the Johannesburg world summit on sustainability and announced the establishment of the Extractive Industries Transparency Initiative. This brought together governments, companies, investors and civil society organisations in a campaign to improve revenue transparency where governments receive payments from companies in return for the right to exploit a country's oil, natural gas and minerals.

Initially, Ghana, Nigeria and Azerbaijan were part of a pilot programme issuing audited reports detailing monies received and from whom. Since then, 36 resource-rich countries have signed up to EITI's transparency standards and produced reports covering some 130 fiscal periods.

Ten years on and the campaign is hotting up. A couple of months ago, the US Securities & Exchange Commission adopted country-by-country reporting rules that will require resource companies to disclose payments made to governments on a project-by-project basis for fiscal years ending on or after 30 September 2013. The European Union is also looking at the issue and legislation is expected by the end of the year. But where the US and Europe are leading, you can be sure the rest of the world will be watching.

Transparency in this area is a good thing and one we at ICAEW support. We must not forget the catalyst for the campaign came from NGOs working on the ground in emerging economies. They wanted to improve the transparency of payments from multinational companies to make governments more accountable to their people. Knowing how much money is flowing into a country makes it easier to follow the trail and makes it more difficult for corrupt individuals to syphon money off. However, if rules for transparency are to be mandated, we need to ensure the information disclosed is comparable on an international basis. It should therefore be collected on a consistent basis, with major jurisdictions implementing similar rules. Companies that do not have to meet the same country-by-country reporting requirements should not gain unfair advantage.

Consistency is particularly important in relation to the level at which the information is collected. Data is most efficiently gathered where individual "projects" correspond to those management already evaluates and reports on. And the format in which the disclosures are made should enable them to be used in the most useful way. That does not necessarily mean including it in the ever-growing annual report; the US approach of a separate filing requirement seems sensible. Let us make sure that such a good and worthwhile initiative is designed and implemented effectively and proportionately, so that it is able to achieve its objective of greater transparency and better governance of resource-rich economies, with benefits that clearly outweigh the costs to business.

Michael Izza  
ICAEW chief executive

## Tax and morals – the debate continues



There is ample evidence that the gross inequality in countries like the UK and US is bad for the rich as well as the poor, in so many ways: higher levels of crime and other social problems, physical and mental illness, more obesity, anxiety and teenage births, less trust, lower life expectancy and worse educational levels.

This is well documented in *The Spirit Level* by Wilkinson and Pickett.

All tax systems are inefficient in some ways and there are always people selfish enough to try to avoid their fair share of tax – legally or not. It is incumbent upon those who argue for less redistributive tax systems (*Your feedback*, September 2012) to come up with other ways of making society fairer for us all.

Martin Wright

## Beyond the law?

Richard Murphy (*Talking Point*, August 2012) says: "The UK has a desirably complex tax system". Desirable to whom, exactly? While a complex tax system can offer flexibility to taxpayers, it also promotes uncertainty, which is detrimental to taxpayers and the economy. Complexity may keep tax advisors and HMRC busy, but simplicity and certainty would produce a more desirable result.

Mr Murphy also wrote: "I suspect that the question asked was incorrect". The question was perfectly appropriate; tax planning is the action undertaken by the taxpayer and his advisor, tax avoidance is the result of effective tax planning. In questioning whether tax avoidance is morally flawed, Mr Murphy is not questioning the actions

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of the taxpayers and their advisors, but the outcome of those actions, for which tax authorities must take some responsibility.

He goes on to say, "The result... does not match the economic substance... (as is invariably true when tax havens are used)". This implies most activity in international finance centres (to use a less emotive term) is undertaken with the aim of substituting the legal form of the activity with the economic substance. This will be a surprise to businesses that legitimately chose to base themselves in such jurisdictions.

I wonder if he'd also apply this argument to "tax havens" such as the UK, which choose to gain a competitive tax advantage by introducing tax favoured holding company legislation, or other EU countries such as Cyprus, which use the concept of territoriality to attract businesses.

Mr Murphy also says that no law permits avoidance. He clearly considers case law to have no function if he believes the acceptability of ordering one's affairs to reduce tax, as promulgated in the Duke of Westminster case, is not an example of law specifically permitting tax planning. Under this logic, one would only be able to do something if there was a specific law which permits it. The UK has a long and proud tradition of permitting and encouraging innovation and entrepreneurship. I

shudder at the prospect of the society Mr Murphy desires, in which businesses and individuals are able to engage only in activities which have been codified into law by government.

Craig Brown, director, IOMA Solutions

## Sister act

I enjoyed the profile of Helen Costigane ("I wanna give you devotion", September). I remember working with Helen at Ernst & Whinney's - I even remember her leaving party - and it is no surprise she has achieved so much in her chosen life. Her profile offered a further example of how the ACA can benefit a wide range of career choices. I hope Helen has forgiven the colleague at that leaving party who asked in puzzled tones why on earth she was going in to religious orders.

Kathryn Cearns, consultant accountant,  
Herbert Smith

## Bank of England monitor

In your very interesting interview with Sir David Lees ("The quiet revolutionary", September), the matter of monitoring the banks was skated over rather briefly. Taking back this responsibility from the FSA, with the Bank of England's history of the BCCI debacle, is very testing. Without staff with experience at the relevant level in the private sector one cannot feel that all holes are being blocked. Might I suggest the Bank of England needs to select, for an extended secondment, those with a genuine "smell of the turf"?

Michael Frampton, FCA

## Online comments

The tax debate generated comment online too, with reader D James writing: "Rich people who actually pay taxes as they should are already paying a lot under the existing regime and a temporary tax could be avoided

legitimately by many, who could either bring forward or defer when they receive their income. It would make more sense to use broad-brush laws to outlaw tax evasion schemes other rich people are using."

Athlete Usain Bolt's tax arrangements in particular came in for some attention after we ran an opinion piece entitled *Why Usain Bolt is wrong to oppose UK tax laws*. One reader disagreed, saying: "Why should Bolt's worldwide income be subject to the UK tax regime when he is in the UK? Normally non-residents only get taxed on the income they generate in the UK - which I think is fair. I thoroughly enjoyed the Olympics and it would be a crying shame if young Mr Bolt never came back to the UK because of tax. The author was less enthusiastic about the event than I was. Please ease up HMRC/Treasury, otherwise you'll kill the UK's chances of being seen as open for sports."

Another said: "I'm with Bolt. You wouldn't expect a cleaner, or even a tax advisor, to undertake work where the tax charge would outweigh the fee paid. Why should athletes be any different? However, I would fully endorse any change in the tax legislation which penalises Premiership footballers." A third reader made the point: "If I work in Germany or Japan for a week I am still only taxed in the UK as I am UK resident/domiciled for tax purposes. I don't understand why the UK government believes it can tax non-residents/non-doms because they happen to be in the country for a few hours."

The *economia* website is constantly updated with news, features and breaking technical stories. To join the debate and comment on anything from the magazine or online, visit [icaew.com/economia](http://icaew.com/economia)

Letters and comments may be edited for clarity and space.

## TOP FIVE MOST READ STORIES ONLINE AS WE WENT TO PRESS

- 1 Cable changes audit requirements
- 2 PwC challenges Competition Commission claims
- 3 RSM Tenon: flying too high?
- 4 PwC becomes top auditor among small-cap companies
- 5 Cameron pressed over growth

# Cathy Newman



## Medals for Cameron, Crow and the shadow cabinet

David Cameron's attempts to channel the Olympic spirit didn't quite go according to plan. First there were his disparaging comments about schools teaching Indian dancing rather than the good, old-fashioned competitive sports that one plays (I believe) at Eton. Then his education secretary queered the pitch when it emerged he'd been flogging off school playing fields left, right and centre, overruling official advice.

In the midst of it all the PM defended the government's record on sports in schools, denying he'd scrapped compulsory PE and claiming, "There's £1bn going into school sport over the next four years." In fact one of the first things Michael Gove did on arriving at the education department was to scrap a target imposed by the previous government that ensured 84% of children took part in at least two hours of PE a week. Without that target it's impossible to know how many pupils in state schools are working themselves into a sweat.

As for the £1bn supposedly being spent on school sport, £50m of that is for further education colleges and universities, £40m for local authority sport funds, £180m for sports' governing bodies to spend on the general population and £270m for those bodies to spend on 14- to 25-year-olds. Only £200m is going directly to schools. So I'd say when it comes to accuracy, on this one Mr Cameron definitely doesn't qualify for a gold, silver or bronze. If you want to read more, take a look at [bit.ly/QfRogr](http://bit.ly/QfRogr)

If there were a medal for political pugilism, Bob Crow would surely qualify. Never one to avoid a punch-up, the RMT union boss was at it again after news emerged of inflation-busting rail fare rises.

With rail companies preparing to raise ticket prices by three percentage points more than RPI inflation, Mr Crow fumed that the money will "not be invested back in services, it will be trousered by the greedy train operators as another windfall profit".

Is he on the right track or heading into a siding with this? The Association of Train Operating Companies told *FactCheck* that there was no way members could profit from the price rise. Thanks to terms and conditions agreed with the government, all

**Knee-jerk opposition can usually guarantee a few headlines, however nonsensical it might turn out to be**

additional revenue from fare hikes goes straight to the government. Ministers have promised to pour the money into a massive rail investment programme.

A better target for Mr Crow's "trousering" jibe might have been the rolling stock operating companies (ROSCOS) that own Britain's train fleet. They appear to be doing rather well. All three big players are owned by private equity and although they're obliged to invest heavily in new stock to replace older trains, it's a very lucrative business.

They've already been referred to the Competition Commission over allegations of excessive profits. And Sir Roy McNulty's report on the industry last May singled out rolling stock as an area where costs could be cut. For more on the railways and those trousers, have a look at *FactCheck* at [bit.ly/RRq5ih](http://bit.ly/RRq5ih)

Perhaps Mr Crow hadn't quite engaged his brain fully after the holidays. After all, it had been the silly season. And no story is sillier than the row over commercialisation of the NHS.

The government briefed selected newspapers that it was inviting NHS hospitals to set up profit-making branches abroad. No sooner had the papers hit the newsstands than shadow health minister Jamie Reed proclaimed: "Under David Cameron we're seeing a rampant commercialisation of the NHS."

Never has sound and fury signified less. Health secretary Andrew Lansley's plan, dubbed Healthcare UK, sounds uncannily similar to the previous Labour health secretary's NHS Global. Just before the 2010 election, the then government announced that the NHS could generate additional funding from other countries "using its knowledge and products". Mr Lansley has taken that idea and run with it.

Just why Labour felt moved to express such outrage is rather bewildering. The only explanation we could think of was that in the summer knee-jerk opposition can usually guarantee a few headlines, however nonsensical it might turn out to be. For this ultimate silly season story go to [bit.ly/ShM4xt](http://bit.ly/ShM4xt)

We can expect plenty more synthetic outrage, opportunistic spin and bunkum in the party conference season – but nothing will escape *FactChecker's* beady eyes.

Cathy Newman presents *Channel 4 News* and runs the *FactCheck* blog. It can be found at [channel4.com/factcheck](http://channel4.com/factcheck)



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**GENE FRIEDA**, global strategist for Moore Europe Capital Management, considers whether the European financial crisis is over

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Vince Cable makes changes to SME reporting requirements

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Country-by-country reporting gets go ahead

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Mid-tier company audit exemption exception dropped

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- 4 PM pressed over growth



### THE HMRC MALAISE

It’s the bane of many accountants’ lives, but amid job cuts and industrial action, just what is wrong at HMRC?



### TAX FOR MEDIUM-SIZED FIRMS

The coalition has made a good start on corporate tax policies for the multinationals but what about medium-sized corporates?

# Jason Cowley



## Cable could take the lead

For those who don't know him well – and even for those who do and work alongside him – Vince Cable, the Liberal Democrat business secretary, remains a mystery. I have interviewed him several times and he is unfailingly courteous but never warm or expansive. He has a formidable understanding of economics and a genuine intellectual hinterland. Long before the financial crisis, he was one of the few politicians who warned that the economic boom was unsustainable, recklessly powered by credit, debt and asset price inflation. He got that right.

What I like about Cable is that his politics are never predictable – he supports wealth taxes and the free market – and, unlike most politicians, he evades easy categorisation. He has been called many things – a socialist, a flinty Gladstonian (by his Tory colleague, the higher education minister David Willetts), a left libertarian (by Samuel Brittan of the *Financial Times*), a social democrat (his self-description), a classical liberal, and an anti-business business secretary (by all those Tory MPs who support deregulation and supply-side reforms). Is there another senior politician in Britain who is so misunderstood?

The Conservatives tolerate but don't trust Cable because they believe he would rather be in coalition with Labour – his relations with Ed Miliband are good and they exchange texts. In the recent reshuffle, two right-wing loyalists, Michael Fallon, the former deputy party chairman, and Matthew Hancock, George Osborne's 34 year-old former chief of staff, were dispatched to the business department. It was as if David Cameron and Osborne were sending an explicit warning to Cable – we're watching you.

Yet many on the left mistrust Cable too, because they believe he was wrong to sign-up to the government's deficit reduction programme. More recently, the left were enraged by his reforms of employment law, making it easier for firms to hire and fire among other things – described, predictably, as a “capitulation” to the Tories.

Cable remains popular with the grass roots of his

**He enjoys power and the challenges of running such a potent department at a time of austerity**

Jason Cowley is editor of the *New Statesman*

party but not with senior colleagues; his relations with Nick Clegg have cooled, if they were ever warm, since the Liberal Democrats entered government in 2010. The rivalry between them has hardened as Clegg has become ever more unpopular, inside and outside the party.

Cable will be 70 in May, an age when most of us have retired or are at least considering retirement, and yet he is once again considered to be a contender to lead the Lib Dems, as and when Clegg is forced to go as he surely will be before the next general election. Cable has done little to discourage the speculation. Asked if he would like to lead the party, he said that the “worship of youth [in our culture] has diminished” and he offers “insight into what's going on”. We'll take that as “yes”.

At the outset of the coalition, it was widely predicted that Cable would be the first casualty of the new government. He would either resign out of frustration and unhappiness or be sacked. I never believed it would happen. For a start, he was committed to the new fiscal discipline; he believed that the deficit had to be reduced more rapidly than Labour proposed. I also sensed, whenever I met him, that he was very much enjoying power and the intellectual and practical challenges of running such a potent department at a time of austerity.

Last year, Cable complained to me that he had inherited a “broken model”. He said: “We've got the hollowing out of industry: we now don't have the skills. And then we have the deficit, which was the consequence of the bank collapse. Growing out of that isn't just about pressing a few buttons and reducing government spending.”

The key to his fortunes – both of leading the Lib Dems and of being in place to form a coalition government if Labour are the largest party in the event of another hung parliament in 2015 – is whether, over the next three years, he can help bring about the grand business and economic transformation that we all seek. There is time enough, and the government claims its policies are necessary. But will they prove to be sufficient?

# George Soros



## Why Germany should lead or leave

Europe has been in a financial crisis since 2007. When the bankruptcy of Lehman Brothers endangered the credit of financial institutions, private credit was replaced by state credit, revealing a flaw in the euro. By transferring their right to print money to the European Central Bank (ECB), member countries exposed themselves to the risk of default, like third world countries heavily indebted in a foreign currency. Commercial banks loaded with weaker countries' government bonds became potentially insolvent.

There is a parallel with the international banking crisis of 1982. Then, the International Monetary Fund (IMF) saved the global banking system by lending just enough money to heavily indebted countries; default was avoided, but at the cost of a lasting depression. Now Germany is playing the role the IMF played then. Creditors are shifting the entire burden of adjustment onto the debtor countries and avoiding their own responsibility.

The euro crisis is a complex mixture of banking and sovereign-debt problems, as well as divergences in economic performance leading to balance-of-payments imbalances within the eurozone. The authorities did not understand the complexity of the crisis, let alone see a solution, so they tried to buy time. Usually, that works. Financial panics subside and the authorities realise a profit on their intervention. But this time the financial problems were combined with political disintegration.

When the European Union was created it was a voluntary association of equal states that surrendered part of their sovereignty for the common good. The euro crisis is now dividing member countries into two classes – creditors and debtors. As the strongest creditor country, Germany has emerged as the hegemon. Debtor countries pay substantial risk premiums for financing their debt, which is reflected in their cost of financing in general. To make matters worse the Bundesbank remains committed to an outmoded monetary doctrine that recognises only inflation as a threat to stability and ignores deflation – the real threat today. Germany's insistence on austerity for debtor countries can easily

**Creditors are shifting the entire burden of adjustment onto debtor countries**

George Soros is Chairman of Soros Fund Management and of the Open Society Institute.  
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become counterproductive by increasing the debt ratio as GDP falls. Since a breakup of the euro would cause immense damage, Germany always does the minimum necessary to hold it together.

Recently, German Chancellor Angela Merkel has backed ECB President Mario Draghi, isolating Bundesbank President Jens Weidmann. This will enable the ECB to put a lid on the borrowing costs of countries that submit to an austerity programme under the supervision of the Troika (IMF, ECB and the European Commission). That will save the euro, but is a step towards the division of Europe into debtors and creditors. The debtors are bound to reject this two-tier Europe eventually. If the euro breaks up, the common market and the EU will be destroyed. So it is time to consider hitherto unthinkable alternatives.

Germany must either lead the creation of a political union with genuine burden-sharing, or leave the euro. If Germany left, the euro would depreciate. Debtor countries would regain their competitiveness; their debt would diminish in real terms; and with the ECB under their control the threat of default would disappear and their borrowing costs would fall. The creditor countries would incur losses on their investments denominated in euros and encounter stiffer competition at home from other eurozone members. The extent of creditor countries' losses would depend on the extent of the depreciation, giving them an interest in keeping the depreciation within bounds.

The eventual outcome would fulfil John Maynard Keynes' dream of an international currency system, in which both creditors and debtors share responsibility for maintaining stability.

The same result could be achieved, with less cost to Germany, if it acted as the benevolent hegemon and implemented the proposed European banking union; establishing a level playing field between debtor and creditor countries by establishing a debt reduction fund and converting all debt into Eurobonds; plus aiming at nominal GDP growth of up to 5% so Europe could grow out of indebtedness. Either would be better than creating an unsustainable two-tier Europe.

# Letter from America

## Mr Budget – Mitt Romney's small-government running mate

When a presidential nominee picks a running mate they also have the chance to create a political celebrity. John McCain, the Republicans' last White House hopeful, launched the polarizing career of Sarah Palin – who quickly became a darling of the right wing and an object of ridicule for the Democrats.

Mitt Romney's choice could scarcely be more different. While Palin was viewed as an intellectual lightweight and once famously struggled, during a TV interview, to list which newspapers she read, Paul Ryan, Romney's pick for vice-president, is one of the Republican Party's big thinkers.

There is much about Ryan that may appeal to voters – at least at first sight. Despite his youth, the 42-year-old lawmaker has been in Congress for 13 years. Few could accuse him of inexperience – a charge frequently levelled against Sarah Palin. He has also chaired the powerful House Budget Committee. A seasoned speaker, Ryan is not prone to the kind of verbal gaffes that could embarrass Romney. Added to this, he may help bring out Republican voters on his home turf, the important swing state of Wisconsin.

But Ryan's main selling point is political courage. Most Republicans – including Romney – have been unwilling to take the chance of upsetting voters by laying out the painful steps needed to sort out America's public finances. In April last year he laid out a credible blueprint geared to achieving a balanced budget by 2015 – excluding interest payments – and paying off the federal deficit by the middle of the century.

Voters tired of procrastination in Washington may warm to Ryan's political boldness.

That's the good news. The downside is that Ryan's actual plan will horrify many voters. At its heart is a deep cut in the American government's spending on healthcare for the poor and elderly. These costly programmes – Medicare for those over 65 and Medicaid for low-income Americans – are indeed a major part of Uncle Sam's fiscal problems. As baby boomers retire, spending on these programmes is set to nearly double during the next 25 years as a share of GDP. Rampant inflation in healthcare costs isn't helping either.

Under Ryan's plan, the federal government's open-ended commitment to Medicaid would be held down to the rate of inflation and population growth. Meanwhile the elderly would be given a choice of private plans that would be subsidised by the government. Again, the subsidy would grow more slowly than healthcare costs. None of this will endear Ryan to the roughly 40 million Americans over 65. Overall his plan is a recipe for pain, with \$6trn worth of cuts in federal spending over the next decade. (That's about six times more in savings than President Barack Obama's 2011 budget plan envisaged.)

Romney has not fully signed up to Ryan's radical budgetary proposals. But by selecting him as a running mate he gives the appearance of backing them. That presents Democrats with a clear target to aim at. Until now, this has been something Romney has appeared keen to avoid. ■

The latest views from  
Christopher Alkan, our  
insider in Washington



## ECONOMIA ONLINE SPOTLIGHT

The career path of an ACA can be varied and diverse. Our new monthly feature *Spotlight* profiles an ICAEW member's experiences in the working world, from writing a novel, to chemical engineering, being the youngest teacher at Eton, or auditing in local government during hefty, public-sector cuts. If your ACA has taken your career into unusual areas, and you want to share your experiences, we want to hear from you, email: [economia@icaew.com](mailto:economia@icaew.com)

Find out more at [icaew.com/economia/spotlight](http://icaew.com/economia/spotlight)

# NORTHERN HIGHLIGHTS

There's much more to Scandinavia than midnight sun and murder. **Amy Duff** explores the landscape of working life up north



**D**on't let those Scandinavian dramas put you off. Denmark, Norway and Sweden regularly make the top five of the OECD's work-life balance ranking, even though characters in *The Killing*, *Borgen* and *The Bridge* would have you believe they work 24/7 to get the job done.

As Helene Dunbar, ICAEW member contact in Denmark and area finance controller for Denmark and the Nordics at Lloyd's Register EMEA, says, "This is an attractive place to live and work. Everybody talks about work-life balance but it's a reality in Scandinavia. It's possible to have a well-functioning family life and a career at the same time."

The region is a good – if not immediate – choice to take a secondment or secure an accounting or finance job. Danish-born Dunbar moved back to Copenhagen with PwC on a secondment, but says several ICAEW members are in Denmark with the big Danish organisations. More and more people are choosing to live and work in her country as companies such as Carlsberg seek qualified professionals.

And because Denmark, Norway and Sweden generally have efficient, flexible labour markets, transparent financial and legal systems, outstanding infrastructure and a highly educated workforce, they will feel like a home from home for most expats.

Working in Scandinavia will throw up some unique differences, says Jez Pannett, ICAEW member contact in Sweden and partner at Deloitte in Stockholm. But he adds, "There are a lot of things that make it relatively easy to work here. There is a close association and lots of common ground."

## DANISH DELIGHTS

Denmark came top in the UN's survey of global happiness in April. The Danes take an informal approach to work and, although it varies from company to company, management structures tend to be flat. Employees and managers are on first-name terms and most decisions are collaborative. "You won't have a great distance between you and the managing director," says Dunbar. "In Denmark, everybody tends to eat lunch together – everybody from the factory floor to the directors."



The country's industry – renewable energy, life sciences, shipping and food and drink – is mostly based in Jutland and Funen. It is home to global brands Lego, Maersk, Carlsberg and Vestas Wind Systems. And because most people live in or near the capital, Copenhagen, there's no long commute and it's possible to combine the buzz of city life with relaxing in the countryside or by the sea.

Dunbar's advice is to secure a job before coming to the region. "Build a network before you get here and have somebody help you settle in," she says. "A lot of people come because they've met someone from Denmark and then try to get a job. There can be a lot of bureaucracy when you sign up with the tax authorities and all public communication will be in Danish."

As soon as you arrive to work you must contact the tax authorities as well as the national register of your local authority to get a CPR (personal identification) number. If you don't have a tax card your employer will withhold 60% of your salary for taxes without allowances. And you'll need a CPR to open a bank account.

There are few language barriers, everyone speaks English, but Dunbar recommends learning Danish. "You can speak English for work but if you want to make friends you really need to learn the language and culture. And you can get free education to learn the language."

The Scandinavian countries are well known for their high level of social welfare but that means personal taxation is high. Denmark has one of the highest

personal income tax rates in Europe but salaries are generally higher too. And all people working in Denmark benefit from a well-kept infrastructure, an extensive public transport system – though lots of people use the cycle path network – and excellent recreational facilities.

"It's a fairly equal society – you don't get a lot of filthy rich or desperately poor people. Childcare isn't free but it isn't outrageously expensive – it's available for everybody and enables you to have a full-time job. And we still have free university education and grants here," says Dunbar.

The emphasis on work-life balance puts family and friends at the heart of Danish life. The day starts and finishes early so that families have the afternoon and evening together. The Danes' apparent satisfaction with life is often attributed to factors such as leisure time and family life as opposed to material wealth. "It's very family-oriented," agrees Dunbar. "We don't have a lot of going out for drinks after work – people tend to go home. Everybody tends to be in a club of some sort – that's a good way to make friends."

#### LAND OF THE MIDNIGHT SUN

Sweden is a country of wide-open spaces and pristine wilderness. It's also recognised as a socially and technologically advanced society and a leader in sustainability – the government poured SEK400m (£38m) into an environmental technology strategy last year. Its capital,

Stockholm, is the base for many banks and businesses including Ericsson, Sandvik, Hennes & Mauritz, Volvo, Electrolux, Skanska and SKF.

The country punches above its weight in terms of its economy and trade. With only 0.2% of the world population, it accounts for almost 2% of world trade. It has strong international trade ties, a well-educated and skilled workforce, low corporate tax rates and a user-friendly bureaucracy. Sweden regularly appears in the top 10 of the World Economic Forum's growth competitive index and *The Economist's* list of the best place to do business.

The Swedish economy was hit hard in the financial crisis, rebounded strongly in 2010 and 2011 but prospects for 2012 have been scaled back. About half of Sweden's GDP directly depends on exports, though services are seen as increasingly important.

Jez Pannett, who's been working in Stockholm on a secondment for the past three years, says Sweden isn't just home to big household names and global businesses. "There's also an entrepreneurial environment, with the likes of Ikea, Spotify and Skype here," he says. "There's a disproportionately large private equity market with a focus on innovation and sectors such as high-tech and medical tech. It's skilled and entrepreneurial, there's a lot of international interaction. That's attractive."

The Swedish Migration Board publishes a labour shortage list twice a

year. If your profession is on the list, your chance of finding an available job in Sweden increases. The kinds of jobs on the labour shortage list vary hugely. In 2010, computer specialists were in demand but other jobs in the top 10 have been restaurant staff, civil engineers and architects, professional athletes, entertainers and accountants.

The cost of living in Sweden is high and it has a relatively high-rate tax system. But the benefits via the social welfare system (healthcare, subsidized childcare provision) are good. As a new resident you'll need to register with the Swedish Tax Agency. You'll be assigned a personal identification number. Your legal identity in Sweden hinges on this – it is used for opening bank accounts, renting apartments and getting your salary paid.

Many employers pay for Swedish language classes for their foreign employees, but there are also state-subsidised courses that can be taken for free or at minimal cost. Developing a grasp of the language is important, says Pannett. "It helps build relationships. It's about being respectful to your host country, respecting the culture and the way you go about life here."

From the age of six to university, students don't have to pay for tuition. This is typical of a country where equality is high on the agenda. The strong social welfare system and infrastructure is very supportive for young families, says Pannett. "People take a lot of pride in their work but as a nation they're respectful of the work-life balance. Stockholm is a vibrant city yet you're so close to water and the outdoors."

Sweden does experience extreme contrasts of long summer days and long winter nights. But the Swedes have a phrase, says Pannett – "there's no such thing as bad weather, just bad clothing". "You might have the view that it's dark and cold but the Swedes are probably outside more than the Brits," he says. "There's kit for every season."

### NORWEGIAN GOOD

Norway has no external debt. The World Bank has ranked it among the top places in the world for ease of doing business. The UN's Human Development Index has for years ranked Norway as the best place to live. And its economy remains relatively strong.

According to Eurostat Norway had the second highest GDP per capita in Europe in 2011, more than 50% higher than the GDP levels of the other Nordic countries. It has

### TOP TIPS FOR RELOCATING

#### Try to have a job lined up before you head to Scandinavia

Build up contacts before you relocate – you'll need help settling in and dealing with bureaucracy

#### Get in touch with the tax and local authority as soon as you arrive so you can be issued with a personal ID number

While not essential, it's advisable to learn the local language to help you fit in more quickly

#### Expect a flatter management structure and more informal professional relations

Check the Swedish Migration Board's labour shortage list to identify job opportunities

#### Be prepared for an outdoor life and a greater exposure to the cold and dark

100% literacy and the highest female employment rate in Europe (74%). The economy is dominated by the oil and gas sector, revenues of which are invested in the government pension fund (£386bn, August 2012). About 600,000 people work in the capital, Oslo, 86% of them in financial or high-tech industries. The R&D sector is also strong – 45% of activity is located in the capital's 15 universities, four science parks and 11 R&D Centres of Excellence.

Owen Lewis moved there four years ago on a secondment with PwC. "I signed up for 18 months and never went home," he says. Although he describes working overseas and learning a different language as "incredibly challenging", Norway is a good place to work. "It's safe, the social benefits are advantageous and the people are very friendly and easygoing. And there's great outdoor life."

He adds, "If you don't like dark evenings and snow for four months don't come to Norway. If you do, it's a fantastic experience."

A rich mix of music, cuisine, design and art makes Oslo a highly attractive city. It's home to a large international community – more than 20% of the population is non-Norwegian – and it's compact and easy to get around.

Learning the language really helps expats to fit in, says Lewis. "I've learned the language because you then become a part of the system, not just 'that English guy'."

Norway has a well-functioning and transparent democratic society as well as a well developed health and welfare sector. But that again means taxes are high – Oslo is consistently ranked alongside Zurich, Geneva, Copenhagen and Stockholm as among the world's most expensive cities. EU residents, with some exceptions, no longer need apply for a residence permit although they are still required to register. The UDI (Directorate of Immigration) is responsible for processing the relevant work and residence permit applications.

Like the rest of Scandinavia, the system has a healthy respect for work-life balance. "And it's quite open: you can just go and chat with whomever; the teams are smaller; you don't have that sense of hierarchy," adds Lewis.

He describes Norway as a home from home, adding, "If you like snow and boats, you'd never want to live anywhere else. It's fantastic here for skiing and a lot of people have boats and spend the whole summer cruising around the fjords. If you like the outdoors, you're going to enjoy Norway." ■



# MAN OF THE WORLD

Group commercial finance director **Chris Robinson** has experienced many roles in the 14 years since joining Tesco as a finance manager. He gives an insight into the scope of his global role and the importance of international experience



## How have your previous roles in finance prepared you for your current position?

I'm Tesco's group commercial finance director. The team's primary objective is to leverage the skill and scale of the Tesco Group specifically in sourcing and supply chain. I was previously finance director in Malaysia and Japan, and CFO for Retailing Services which comprised Tesco's internet businesses, Telecoms, dunnhumby and Tesco Bank. Each of my previous roles has provided all the usual financial challenges while giving me a good commercial understanding so that I can contribute as a finance professional but, more importantly, as a general manager.

## How does gaining international experience really benefit a finance team member?

International roles tend to have both breadth and depth and so you are stretched in ways that are difficult to imagine before you begin. So my textbook knowledge of tax and treasury was quickly superseded by the real thing when negotiating with the National Bank in Malaysia, or working with specialist tax consultants. Once you've had this range it's difficult to think about performing a narrower role again.

## What are the key attributes that you look for in a globally-facing finance executive?

I expect people to be well prepared and to have thought critically about the business and our wider industry. They must be resilient, tenacious and able to take difficult decisions; this will often mean thinking clearly, strategically and calmly on fast-paced and sensitive issues. I look for people who can express themselves clearly and succinctly, and who I believe will fit with the business. I always ask about mobility.

## Is Tesco able to offer a truly international career, and does it encourage overseas placements for its rising stars?

Tesco operates in 14 markets and I've been fortunate to spend time in 13 of them. I was asked to move to Kuala Lumpur for my first FD role which was a fantastic experience working in a greenfield start-up with a Joint Venture partner,

and within three years I moved to Tokyo when Tesco acquired a small supermarket business there. Working in different markets, with people from very varied cultures, has been a great learning experience. Since returning to the UK I have actively placed members of my own team into China, Japan, India, USA, and Hungary while welcoming colleagues from Poland and Thailand into my UK-based team.

## How much travel is involved in your own role?

In my current role I have the opportunity to travel to our trading countries as well as the countries we source from. I've recently been in Turkey, India, Hong Kong and China, and will soon be in Czech Republic, Poland and Spain.

## What achievement are you proudest of?

Recruiting and developing people and teams has been a great motivator. I recently bumped into somebody I hired while I was in Malaysia who is now a director on the board of our Malaysian business. I couldn't have been prouder.

## How important has setting personal targets been?

I've never really had a career plan, but I've made good decisions at the right times and had great guidance.

## What is the best piece of career advice you've ever received and who was it from?

When one of my former bosses (a country CEO) asked his boss for feedback on his performance, he was simply asked: "Who have you developed in the business? Who is your legacy?" It made me think a lot about what it is that I'm really here to do. Other than that, my own advice is that it's very important to be strong enough to say no to a role (even a promotion!) if you know it's not right for you, however difficult it may be.

**This is the second of three articles. To find out more about Tesco please visit [tescoplc.com](http://tescoplc.com) To discuss how you too could have a global finance career at Tesco contact [sarah.gallo@uk.tesco.com](mailto:sarah.gallo@uk.tesco.com) or visit [tesco-careers.com/jobsearch.cfm](http://tesco-careers.com/jobsearch.cfm)**



# Indonesia

## AT A GLANCE

Greater freedoms and economic advances have put the archipelago on the business map in recent years – but it still has to tackle poverty, poor infrastructure and the effects of natural disasters, says **Penelope Rance**



### VITAL STATISTICS

**POPULATION:** 248,216,193 (July 2011 est.)

**CAPITAL:** Jakarta

**FULL NAME:** Republic of Indonesia

### ECONOMIC STRENGTH

**GDP PER CAPITA:** \$4,700 (2011 est.)

**EXPORTS:** \$208.9bn (2011 est.)

**IMPORTS:** \$172.1bn (2011 est.)

**EXCHANGE RATE:** £1= 15,030.49DR (Indonesian rupiah) (28 Aug 2012)

Indonesia was one of just three G20 countries, with India and China, to record economic growth in 2009, followed by 6.1% growth in 2010 and 6.4% in 2011. Fiscal conservatism has led to a sub-25% debt-to-GDP ratio and a fiscal deficit below 2%. Its credit rating was raised to investment grade in December 2011.

### PROFILE

The world's largest archipelagic state, Indonesia gained independence from the Dutch in 1945 but suffered repressive rule for 50-plus years. Free elections in 1999 made Indonesia the world's third most populous democracy. It has embraced new freedoms and is focused on consolidating the political system, fighting poverty, improving education and defeating terrorism and corruption. It also faces big natural challenges including flooding, droughts, tsunamis and volcanoes.



## MONEY MATTERS

Financial reforms in the early noughties resulted in low inflation, capital market development and a tighter tax and customs system. With natural resources including coal, gold, tin and copper, mining is a big industry, as are petroleum and natural gas extraction, rubber and textile production and agriculture. Despite recent robust results, overcomplex regulation, corruption and inadequate infrastructure are still holding the country back, while rising oil prices are putting pressure on the government's fuel subsidy programme.

IVAN BAAN

## POPULATION

Indonesia's diverse geography is reflected in its population – 40% Javanese, 15% Sundanese and the rest from its smaller islands. The country has the largest Muslim population in the world (86%). Bahasa Indonesia, a form of Malay, is the official language and English, Dutch, Javanese and indigenous dialects are also spoken. Just under half the population is urbanised, with 9.12m living in the capital, Jakarta. The World Bank reports that more than 32m live below the poverty line.

## EMPLOYMENT

With a labour pool of 117.4m, Indonesia ranks fifth in the world in terms of available workforce. Dramatic economic growth at the end of the last century led to a big change for the largely agricultural working population. Now nearly half work in the services industry, 38.3% remain in agriculture (rice, cassava, cocoa, palm oil, coffee, beef and poultry) and 12.8% work in industry. Unemployment was a moderate 6.6% in 2011 but labour unrest due to low wages is an ongoing problem.

## INFRASTRUCTURE

Despite stable finances, poor infrastructure has held back development in Indonesia. In 2011, 15m households had no electricity and four out of the five international airports were functioning above capacity. But strong public finances mean the government can now invest in infrastructure – it aims to add 15,000MW of power generation and build 20,000km of roads by 2014. Invitations for foreign investment in power plants, steel factories, ports and mass transport systems should also bolster industry.

## ACCOUNTANCY

ICAEW has a Memorandum of Understanding (MoU) with the Indonesian Institute of Certified Public Accountants (IAPC) as part of its global strategy to work with national accounting bodies. The MoU, signed in July, sets out how ICAEW and IAPC will work together to share knowledge in areas such as IFRS and audit quality. They will also collaborate to advance the interests of their members and contribute to developing the profession across Southeast Asia.

BBC Children in Need is something of a British institution and **David Ramsden** has been its CEO since 2007. Here he tells *economia* about how he always wanted to use his qualifications and experience to help others, and how the charity continues to raise record amounts for children's charities while keeping their audience engaged in the digital age

# LIFE IN THE OLD BEAR YET

Words: Richard Cree Pictures: Rick Morris Pushinsky

**D**avid Ramsden is running late. As I sit and wait, declining endless offers of tea, I become aware I am being watched. Wherever I look, Pudsey Bear appears to be staring back. He's everywhere. To be frank, it's slightly disarming, not unlike stepping into some kind of surreal cult following the way of the One-Eyed Bear. A PR pops by to apologise again and offer me more tea. She catches me staring at a cardboard Pudsey in the corner. "It's mad," she happily admits. "Whenever we go out with Pudsey the reaction is amazing. People of all ages rush over to have their picture taken with him. He's a proper celebrity".

Pudsey is a relative new comer to BBC Children in Need. The first televised appeal took place for one hour on Christmas Day in 1955, hosted by Sootie and Harry Corbett. The other cuddly figure now synonymous with BBC Children in Need, Sir Terry Wogan, joined in 1978. Pudsey arrived in 1985 as a brown bear, returning a year later in his now familiar jaundiced yellow.

When Ramsden arrives and we start the interview, it's immediately clear this vast heritage is both a blessing and a burden. The telethon might have been around for 32 years, but it remains one of BBC's biggest shows. That in itself, Ramsden admits, is a surprise. "When we were brainstorming about the

future 10 years ago, digital Britain was a threat. We expected our audience to decline, as it has for everything else. What we didn't anticipate was that by creating that collective public moment, our audiences would stay the same or grow. Our relative position in the broadcasting ecology has improved. People don't want to timeshift major live events such as Children In Need, Comic Relief, *The X-Factor* and *Strictly* finals or sporting events. It puts us in a very fortunate position."

But the challenge remains to make sure they make the most of that heritage. "You have to embrace it. You have to make sure you create something anchored in the affection people have for the charity." But in a fast-changing world Ramsden says no one can stand still. "You have to look for new ways to expand your appeal while making sure you don't neglect the core audience."

Last year the appeal raised a record £46m, and stretched its allure by collaborating with high-end fashion designers such as Henry Holland and Jonathan Saunders as well as urban pop stars. The Designer Bear event gave the bear a fashion makeover, with the bears displayed in Liberty and sold at an auction. Meanwhile respectable urban musicians such as Tinie Tempah, Tulisa, Labrinth and Rizzle Kicks collaborated on a single with the more homely figure of Take That's Gary Barlow.



“Making sure we are an efficient organisation that maximises the difference we are making to the lives of children and young people is at the heart of how we operate”

But before we get to that, I want to know how Ramsden, now (almost) comfortable dropping names of rappers and designers into conversation, got here from auditing insurance clients for Ernst & Young. In fact his first love was politics and his teenage ambition was to help others and make a difference (more of that later). This led to a degree in politics, philosophy and economics, before he landed a job at the House of Commons as a research assistant to a backbench MP. If working with constituents offered insights into the challenges of the everyday lives of ordinary people, the job also helped him realise the limits to a life in politics. So he decided to get a profession and opted for accountancy over law, because, he says: “The accountancy firms were initially more supportive. I wouldn’t have to do more academic study and could get straight into the workplace. Also my brother had just qualified as a chartered accountant and I saw the opportunities it opened up for him.”

A spell auditing insurance clients for E&Y followed, before the calling to help others returned. “I had always had a genuine desire to use the professional rigour and expertise in some way to make a difference. A lot of my friends were sceptical. They didn’t really believe me and there was a germ in me that didn’t really believe me either.”

His time at E&Y taught Ramsden invaluable lessons, some of which he says aren’t always associated with accountancy. “While I certainly obtained the rigour and discipline you’d expect, what is underestimated is the customer service experience you receive and the fact that you are client-facing and have to operate in a professional manner at all times. You are also working in widely varying environments and interacting with lots of different people at all different levels,” he explains.

A stint spent travelling helped him kick the audit habit and follow a desire to work in the not-for-profit sector. After initially rejoining E&Y he decided to go to the British Red Cross as a regional finance manager, just as the organisation was undergoing a major shake-up, replacing a multi-region structure with a centralised one. Ramsden admits he found the change of sectors a shock.

“I wasn’t prepared for how different the culture would be. In a professional services firm most of us were hewn from similar rock and had similar aspirations. We were on the same career ladder and people progressed upwards, year-on-year. I then went into an environment where people had been operating in the same role successfully for decades and were driven by different motivations. I learnt a lot about management and motivation there. This sector is also about an incredible passion. People



#### BBC AND CHILDREN IN NEED

Children in Need is effectively the BBC’s in-house charity. But it is a separate legal entity from the BBC and is a registered charity as well as a limited company. Its trustees are split between those with and without BBC connections. The CEO is accountable to the trustees, but he also reports on activity to other parts of the BBC. It is funded from investment income, gift aid on donations and any trading income. The main network appeal show, is licence-fee funded and the BBC has editorial control. Children in Need makes sure the infrastructure (phone lines etc) works and that the stories about its work are properly researched and demonstrate why people would donate.

often bring much more of themselves into the role.” Ramsden rejects the idea that the charity sector is less dynamic and inherently more wasteful. “I don’t think the common characterisation is fair. At BBC Children in Need we support 2,700 projects, some of them small organisations. At the heart of each of those is someone you could classify as a social entrepreneur. They keep the show on the road, often by themselves. They are ruthless about how they manage costs, because if cash runs out they can’t opt to go for an IPO or go to the bank to get debt finance. They use that passion and entrepreneurial zeal.”

Ramsden points out that the idea of BBC Children in Need wasting the money it raises is ludicrous. “We have to be rigorous because the money we spend is donation income. The good we are trading is the promise that we will spend that money well. Making sure we are an efficient organisation that maximises the difference we are making to the lives of children and young people is at the heart of how we operate. We are an organisation that has £100m of investments, that generates up to £50m a year in cash and that supports thousands of projects.” Described like that it’s obvious why a chartered accountant’s skills and experience are perfect for the CEO. “That professionalism, ethical code, all the things you need to do to fundamentally make sure you are trustworthy, are essential to the organisation’s success, because we are essentially trading trust.”

If that trust has never wavered, the public’s affection for the annual telethon had dipped when Ramsden joined. “I joined at an exciting time. Shortly after I came on board as head of finance and operations there was a new CEO and a new head of marketing and the three of us injected energy at a point when BBC Children in



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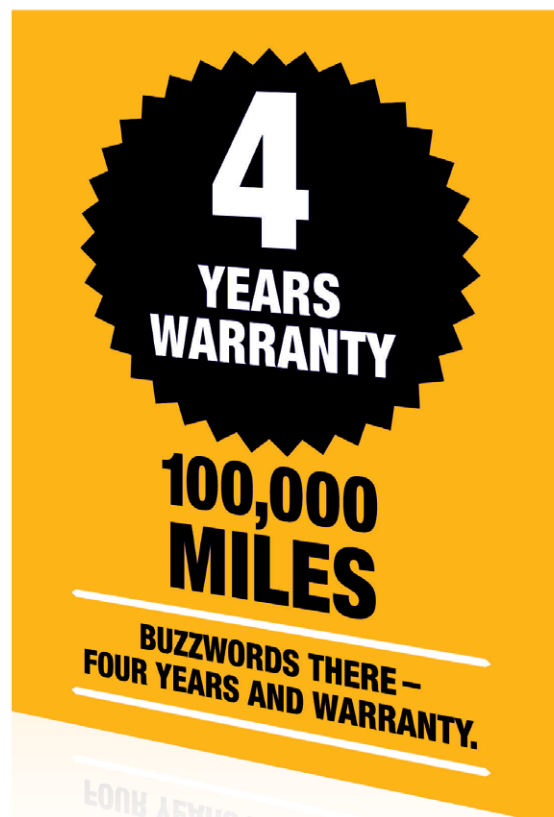
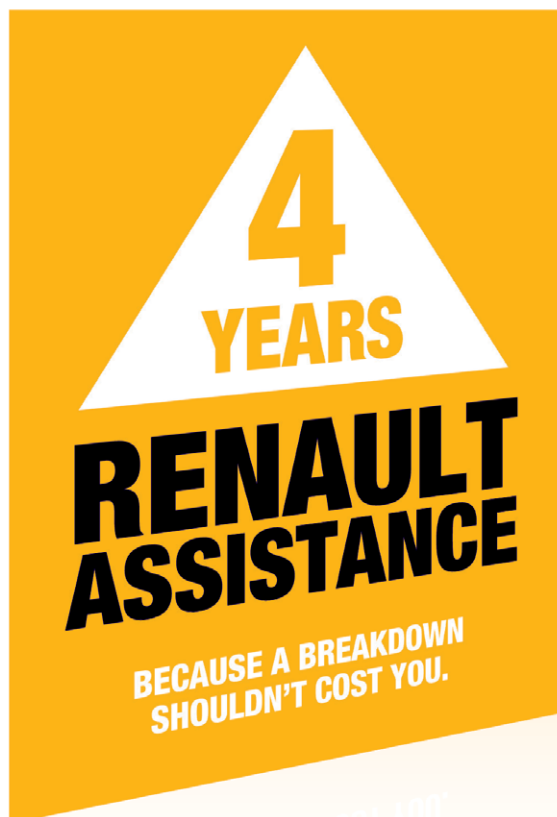
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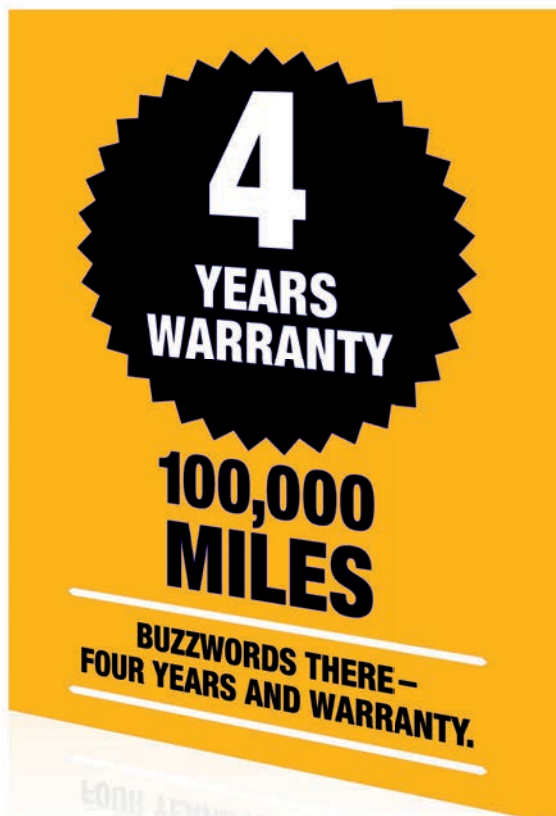
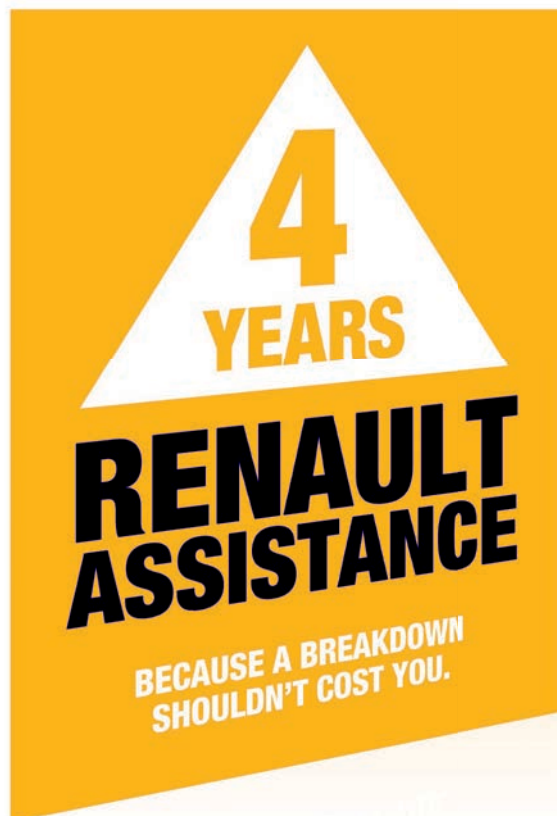


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Need had seen a decline in income for some years. We had an opportunity to reinvigorate the charity and how we marketed it."

Last year's success included innovations that allowed the telethon to regain its former lustre. That involved learning from other similar appeals, including Comic Relief and Sport Relief. Ramsden is bullish that he and his team have taken risks to breathe life back into Pudsey. "We recognised we had to take risks and last year we worked with *The One Show* to fund Matt Baker's challenge of riding a rickshaw from Edinburgh to London. That was a significant logistical and financial undertaking. But what we saw, almost in a forerunner of the Olympic torch relay, was tens of thousands of people come to the side of the road to give us money. The key is to be constantly hungry for new ideas and to make sure we are taking full advantage of the digital space. We have 800,000 fans on Facebook and are the largest UK charity in that environment. That gives us a fantastic opportunity to connect all year round rather than on just one night.

"A decade ago BBC Children in Need and Comic Relief had unequivocal advantages over other charities, notably access to the media. With the rise of digital media and the portability of media that advantage is eroding. It means we need to properly exploit the opportunities we have. We have to make impactful films of the work we do and the effect we have on children's lives in the UK. And we are, in a very commercial way, watching and monitoring not only what other charities are doing, but what businesses are doing. And remember we have some brutal and public metrics about our success. We advertise every year how much income we've got."

Clearly there is no way to avoid that headline number. After last year's record-breaking £46m, there is naturally lots of pressure to top it. Following a summer in which Olympic and Paralympic volunteering has, according to some more enthusiastic supporters, made the UK a more gentle and caring society, is Ramsden looking forward to a bumper year?

"From my perspective what we have seen over the last few months is not a surprise. We are operating in a pretty tough world on occasions. The challenges of the children and young people we help can be life and death situations and we are often helping them through tough times. But we also operate in an environment that has very little cynicism in it. We have millions of fundraisers and the thousands of people who work at the projects we support and the incredible children they work with. What we have seen this summer has been more of a representation of the UK I see everyday."



### CAREER HIGHLIGHTS

After an early career in politics, Ramsden decided to switch to accountancy with the intention, he says, of using the professional skills for the good of others. After a stint in audit with E&Y he joined the not-for-profit sector, first at the British Red Cross and then at BBC Children in Need. After a spell as finance and operations director, he became chief operating officer then CEO. He says the experience helped him be seen as more than just a finance person by the board. This is important, he says, for all CFOs keen to make the step to CEO. "Finance professionals risk being ring-fenced. They need to expand beyond the finance brief. Coming into this organisation with the professional background of chartered accountancy and the skills associated with being a finance professional has been a useful tool for becoming a credible part of the organisation. But there are challenges in the transition to leadership. For the FD it's that the board see you in a finance context because that's what you talk about at the board. Showing that your skills can grow and improve beyond that is important. There also has to be confidence that the new CEO will give the person coming in as FD the space to do the job."

The biggest headache for Ramsden, unlike many other charity chiefs, is that even while his income last year was an all-time record, the demand for that cash was much bigger. "Although we had £46m to give out, we had requests for five times that from the charities working with disadvantaged children. What's tough is that we know we are often the last, best hope for some of those projects. If we don't support them, they won't get the money to do the good work they need to do."

In order to meet his vision of making sure children have safe, happy and secure childhoods and the chance to realise their potential, even greater efforts to grow income are required. This is something that's getting harder in an environment when few, if any, are feeling better off than last year. One thing that has helped has been an expansion in the number of corporate partnerships. BBC Children in Need now partners with over 60 companies.

"Businesses find raising money for BBC Children in Need galvanises staff and customers around a collective effort. It allows them to have fun and change children's lives in their local communities."

Ramsden refuses to be drawn on the politics of cuts in local government funding, many of which have affected children. He also won't get drawn on David Cameron's Big Society. He is clear BBC Children in Need is non-political. Despite his early career, that includes him as well, he says. "I don't have political affiliations. The narrative of my personal ambitions and what I set out to do means I am privileged because we are able to make a difference. But there is a role we collectively can play to be informed friends to policymakers. We are not banner wavers. Partly because of its affiliations with the BBC and partly because of its heritage and the role it plays in society, BBC Children in Need is most effective when it is carefully reporting on the lives of children and young people in the UK and what might be effective at alleviating some of the difficulties they face. We have an important role to play in a positive but neutral way to say 'this might work, but this certainly doesn't'. And I am aware that £46m last year was an amazing achievement. We will give that out, but it is £46m and not £4bn. So there is a requirement for us to use our knowledge learning and evaluations to make those who have access to the really big sums aware of what can and can't be achieved."

Ramsden says that he takes nothing for granted in his role. "Every year we have to work hard at it. If we are not meeting audience or donor expectations we won't endure. Each year we go back to the public and ask for a renewal of our contract. Last year we had an emphatic renewal and we have to work hard to maintain that this year." ■

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The continued uncertainty over the **future of the euro** is doing little to enhance the prospects of any kind of economic recovery in Europe. The single currency **threatens to take** not just entire countries, but **global economic** prospects with it **into the abyss**. Thus far, the approach has been to lurch from one crisis to the next, with banking bailouts on a regional or even national level. Traders, meanwhile, are quick to speculate on **increasingly volatile markets**, creating a further threat to recovery that is as dangerous as it is unwelcome. Out of this, one thing is becoming increasingly clear: **the euro cannot continue to function** in its current state. What do the experts – politicians, economists and those from the financial industry – think should be done to help the euro either work in practice or successfully **evolve into a new format?**



WORDS: NICK MARTINDALE / ILLUSTRATIONS: SARAH BRIDGLAND



### **Roger Bootle, managing director, Capital Economics**

The most likely and probably the most sensible way for things to break is through the departure of one or more countries. As things stand the departure of a weaker country – most likely Greece – is the most probable way. But it's not the only way. Various people have talked about the idea of Germany leaving and that's actually a very sensible idea. Finland leaving is a distinct possibility as it is getting increasingly frustrated, but it could end up being Spain, Italy or Portugal.

The issue then is how successful that country is outside of the euro. If it is successful, which I would expect, then I don't think it will be possible to hold the eurozone together because the weaker members will be under enormous pressure to leave. You would then get some members remaining with a currency that might still be called the euro. Those countries would be Germany, the Netherlands, Luxembourg, Austria, Finland, probably Belgium and there's an interesting question mark about France.

When the euro goes, the weaker and more peripheral countries of southern Europe will have a more competitive exchange rate and will stage some sort of net export-led recovery. Germany and the northern core would undoubtedly suffer from the loss of net exports and would find themselves under enormous pressure if their currencies went up to expand domestic demand, which is the healthy thing to do. What comes out of all this is a much healthier European economy.

# 11.2%

unemployment in  
the eurozone

# €9.5trn

GDP of eurozone

# 332m

population of  
the eurozone

**“The practical difficulties of breaking up the system are considerable”**

### **Martin Koehring, European economist, Economist Intelligence Unit**

For the European single currency to work the euro area will have to move closer to becoming an “optimum currency area”. Economic theory looks at four factors in this regard: the extent of intra-regional trade; the extent of labour mobility; the similarity of economic structures; and the degree of fiscal federalism.

First, intra-regional trade has not been significantly boosted by the introduction of the euro. Members now trade more with countries outside the eurozone than countries within it. With trade in goods already liberalised, a full implementation of the Services Directive could help boost services trade in the euro area.

Second, in practice labour is not moving as freely as it should. Differences in languages, cultures and pension systems deter many people from seeking employment in other euro area countries. Much stronger efforts will have to be made to encourage labour mobility.

Third, there are huge differences in economic structure. The German-led focus on structural reforms could help to bridge these gaps but the process will be far too long for some countries, unless Germany erodes some of its competitive advantage by boosting domestic demand.

Finally, the eurozone has to move closer to a fiscal union, allowing for fiscal transfers from prospering regions to suffering ones. The fiscal compact is a first step in that direction. But fully-fledged fiscal union will require the eurozone to obtain politically sensitive powers such as the power to raise taxes and a banking union with supranational supervision.



**Douglas McWilliams,  
Gresham professor of  
commerce and chief executive  
at the Centre for Economics  
and Business Research**

Break-up of the euro is near inevitable. There are many ways in which this might happen, but it looks likely the process will be forced by a crisis. The Germans might pull out after the next election, as might the Finns, who now seem to be the hardest of the hardliners on refusing to bail out the southern states. Or the Greeks or Italians might revolt from austerity. If the process happens piecemeal, a return to the old currencies is likely.

The practical difficulties of breaking up the system are considerable. There will be major costs to the banking system, which will have to be bailed out from its losses as some of the new currencies devalue against the euro. These banks will probably have to be nationalised.

The extreme estimate of the impact of the end of the euro comes from the German government, which estimates a loss of 10% of GDP for Germany alone. I think this is exaggerated; my number is about 5% of GDP for Europe on average. But these figures do not take into account that there will be a basis for European countries to start to revive their economies again.

**Charles Kennedy, MP and  
president of the European  
Movement UK**

The eurozone must invest politically and financially in coupling economic and monetary union with fiscal and political integration. It needs to collectively guarantee the banking sector, mutualise eurozone debt and put in place a system of fiscal transfers that can assist the weaker parts of the eurozone.

This needs to take place in parallel with more pooling of sovereignty and closer co-operation when drafting budgetary and fiscal policies.

The EU budget must support growth and promote initiatives that help the EU achieve economies of scale. Investment in information and telecommunication technologies, green energy, and research and development can produce better results when co-ordinated at the European level. Investing in such areas can help the EU as a whole to regain its competitiveness at the global level.

Last but not least, all the above institutional innovations must involve EU citizens. The directly elected European parliaments must be part of the decision-making process that affects economic and fiscal policies and it must be central to greater democratic input at all levels. At the same time national parliaments must be empowered further to scrutinise common EU economic policies.

**Bob Lyddon, managing  
director, IBOS (International  
Banking – One Solution)**

Sorting out the euro requires a proper central bank. The eurozone national central banks should be merged into the European Central Bank, with member states as the ECB's direct shareholders, and joint and several guarantors. Currency and bullion reserves would become directly owned and controlled by the ECB. Non-eurozone member states should drop out of the ECB structure until they join the euro.

This would give the ECB more firepower and autonomy. And it should carry out real banking: public ministries and public sector entities would hold their bank accounts at the ECB, allowing a central overview on public sector payments. To complement that move, the public sector debts of eurozone countries need to be recorded and published using a consistent methodology.

That would shore up the currency and give it a proper foundation: stability. How to create growth is another matter. It means eliminating the gap between aspiration and economic performance. For 20 years, rising public debt has supported the gap, and it is very tough to turn the tide on that habit with the French president paddling in the opposite direction entirely.

**10%**

**estimated drop in euro  
GDP if the euro collapses**

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**Geraint Johnes, professor of economics, Lancaster University Management School**

There are two issues. The first is whether the economies that currently comprise the eurozone constitute an economically sensible currency area. There are structural issues that affect the south differently from the north, and it is likely that southern economies in Europe would have fared better had they enjoyed the flexibility afforded by their own separate currencies.

That said, moving the southern economies onto their own currencies now represents a daunting prospect and would lead to speculation against the new currency and enforced devaluation that would result in stagflation. The alternative for these countries is to tough things out within the single currency, adopting structural reforms that go well beyond short-term tinkering with budget deficits.

The second issue concerns the need to impose fiscal discipline, whether the eurozone remains as it is or not. The idea of European bonds is attractive since, by averaging out the risk attached to states with vulnerable fiscal positions with the relative security of stronger states, these would allow the high interest rates faced by southern economies to fall. But Germany is understandably sceptical, since such a solution does not deter profligacy.

The answer is to issue conditional bonds, so that states with weaker fiscal positions pay interest rate penalties if they fail to strengthen their public finances. A credible scheme of this kind should reduce interest rate spreads, thereby considerably easing the position for Italy and Spain.

**Ian Stewart, chief economist, Deloitte**

Europe's plan A involves a long process of adjustment. Countries like Greece and Italy need to grind down costs, shake up their economies and curb public spending. Europe needs to create the infrastructure of a durable monetary union, especially ways of avoiding and managing banking and debt crises in weaker economies. This will be a slow and challenging process.

Many fear the alternative would be a chaotic and hugely damaging break up of the eurozone. However, it is possible to imagine a more ordered process of restructuring. There are many options, from creating two or more new currency zones to a return to a free trade zone of 17 national currencies.

What is clear is that a successful solution would need to be meticulously planned, largely under conditions of utmost secrecy, to avoid the destabilising effects of uncertainty. It would also require excellent co-ordination, execution and political assent to work. It would be a hugely demanding venture and, as with plan A, there would be no certainty of success.

There are no true historic parallels. But big currency devaluations, as would be seen in a break up of the euro, often do kickstart growth. The experience of past financial crises, such as Iceland in 2008-09, shows that, with good management and good luck, even deep financial crises can pass.

**Dr Constantinos Alexiou, senior lecturer in economics, Cranfield School of Management**

If there is a way to be envisaged out of this crisis, it is imperative that the ECB acts as a lender of last resort in the euro area bond market, easing off the ever-so-volatile environment dominating the bond markets across the globe.

Further steps should be taken to ensure that the uncontrollable activities of the monstrous financial edifice are closely monitored and effectively regulated. In particular, there has to be a separation between commercial and investment banking. Public investment projects should be actively pursued by means of co-operative and non-profit banking. An imposition of a financial transactions tax (a Tobin-type tax) should also be introduced to restrain the ill-driven speculative behaviour of investors.

It is of paramount importance to prevent speculation, especially against struggling economies, by swapping any remaining government bonds for jointly guaranteed euro bonds. A right policy mix of both common monetary and fiscal policies should be pursued to ensure that full employment is set as the ultimate target.

Finally, a co-ordinated European wage policy should top the policymakers' agenda so that the current dwindling trend of the share of wages in national income is reversed, ensuring that countries with relatively lower incomes converge towards those with higher incomes.

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### Glenn Uniacke, senior dealer, Moneycorp

In any discussion of how to manage the euro crisis, a sensible place to start is by asking whether it is worth saving. There are, of course, advantages to the euro, albeit fewer than were promised. Price transparency has been achieved, along with the reduction of transaction costs. Yet advantages such as increasing cross-border employment have never materialised and many of the key benefits envisaged at the inception of the euro – financial market stability and macroeconomic stability – are clearly nonsense.

My roadmap to recovery is for the euro to split in two, with a stronger northern euro and weaker southern version. This retains the euro project as well as its combined institutions. Lower transaction charges are retained (two is surely better than 17) and crucially it provides an immediate credible boost to growth where it is most needed, in the struggling periphery. The southern euro could plausibly weaken off 10-15%, making its constituents immediately more competitive and able to stage an export-led recovery.

### Andrew Smith, chief economist, KPMG

The financial bust has left unsupportable debt burdens and uncompetitive economies in the periphery of the eurozone. Eventually one of two impossible things will have to happen.

First, the eurozone could make a dash for full union. Aggregate government debt to GDP is around the same as for the US, which is having no trouble funding at record low bond yields, and the annual budget deficit is lower. But the stronger economies are unwilling to write a blank cheque, certainly not without both political and banking union.

Second, break up. One or more countries could decide to exit the euro and devalue to restore competitiveness. But that would compound their debt problems and widespread defaults would be unavoidable. The practical complications would be horrendous: preparations for a new currency, capital controls, recapitalisation of the banking system and rewriting of contracts would have to be conducted in secret. To prevent cross-border panic and contagion, firewalls would need to be built in advance.

Or is there a third way? Rather than austerity, the adoption of expansionary policies in the core would give the periphery a chance to adjust through growth, but only if export-led Germany, for example, was prepared to allow higher inflation to erode its own competitiveness and undermine its trade performance. That sounds like an impossibility as well.

### THE PLAN

#### HOW TO GIVE THE EURO A FIGHTING CHANCE

- The ECB acts as a lender of last resort to both countries and banks
- National banks are merged into the ECB, which owns and controls currency and bullion reserves. Fiscal transfers are undertaken to assist the weaker parts
- Eurozone debt is mutualised and European bonds issued to average out the risk attached to states. Those with weaker fiscal positions would face interest rate penalties if they fail to strengthen their public finances
- A separation of commercial and investment banking should be imposed along with a financial transactions tax to deter speculation against struggling economies
- Closer economic union is accompanied by moves towards greater social and political union, with a European parliament having the power to raise taxes and supervise the banking system, and barriers to labour mobility eased
- More prosperous nations that have benefited from greater exporting power allow higher inflation to erode their own strength and enable struggling nations to grow their way out of trouble

#### AND HOW TO SUCCESSFULLY MANAGE A TRANSITION

- An ordered and highly secret operation is put in place to oversee a restructuring of the euro, with the aim of creating a number of currencies or a looser free-trade zone
- Alternatively, a number of weaker countries leave the euro, either reverting to national currencies or to a "euro lite" currency. This is likely to divide along north/south lines
- Countries leaving the euro can devalue their new currencies to go on and stage an export-led recovery
- Remaining members of the euro suffer from a fall in exports and focus on building domestic demand
- Governments face up to the possibility of more banks needing to be nationalised

According to ICAEW research, the majority of UK businesses have no contingency plans in place should the current situation in the eurozone deteriorate.

Its findings can be read in the report *The Impact of the Eurozone Crisis on UK Business* at [icaew.com/eurozone](http://icaew.com/eurozone)

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# A GOOD YARN

By remaining flexible and moving with the times Allied Textiles has survived while many other British manufacturers have not. **Xenia Taliotis** learns the art of cutting your cloth according to your means



“It’s remarkable really, given the upheaval the industry has gone through over

“**D**id you see Jeremy Deller’s huge bouncy-castle Stonehenge?” asks Stewart McGuffie, group chief executive at Allied Textiles.

“It was commissioned by the Glasgow International Festival of Visual Art but then toured the UK. We made the fabric for that. That’s what our textiles end up as: bouncy inflatables and hot air balloons, butchers’ aprons and parachutes, air bags and tents.

“People aren’t aware of our product but each time they put up an umbrella or throw a rucksack on their back they may well be using something we had a part in making. We don’t make any of these finished items but we do produce a good deal of the high-quality technical material they’re made from.”

With a small head office in Barnsley, South Yorkshire, Allied Textiles – now one of the UK’s leading manufacturers of synthetic textiles – has been in business since William Blake’s satanic mills glowered over north-west England in the early 1800s. A century ago the

company traded in cotton and wool. But with the departure of the bulk of those industries from Britain’s shores, and with no desire to follow them, the company decided it was time to spin a different yarn. Eight years ago, the last metres of natural fibre left Allied Textiles’ factories and the company switched to making polymers – polyamide, polyester, polyolefin and polyurethane among them – that had more numerous and versatile applications.

According to McGuffie, of the three or four largest listed companies that were around a century ago, Allied Textiles is the only one still running as an independent concern. The others have merged, sold up or gone abroad, no longer the stalwart British companies they once were. “It’s remarkable really, given the upheaval the industry has gone through over the decades, that we’re still here,” he says.

“I’m not pretending it’s been easy. I’ve been here just five years, and even in such a short time I’ve seen some turbulent times, but we’re doing okay. Annual turnover is up, we hit £30m last year and each of our businesses is busy, but I can’t

say with any degree of certainty that we’re through the worst.

“The markets are still volatile. We do a lot of business with Spain, France and Germany and the European situation is very tricky, potentially disastrous, so we’ll have to sit tight to see what happens there.”

#### PRODUCTION LINES

The businesses McGuffie refers to are the handful of subsidiaries that sit under the Allied Textiles umbrella. Located in Derbyshire, Yorkshire and Lancashire, and employing nearly 300 people in total, they each specialise in a different aspect of synthetic fibre production.

The companies – William Reed Weaving, Mayfield Yarns (which also has an offshoot in Canada), Coating Applications Group and Century Dyeing – operate as discrete businesses. But together they provide Allied Textiles’ customers with a full range of services, from basic yarn processing and loom-state fabric to fully finished, dyed and coated material that can go straight onto their production lines.

By keeping them as separate concerns, Allied Textiles can monitor closely how

each one is doing and take steps to address problems that arise at an individual level without affecting the entire company.

"When I joined, I did wonder whether they should all be consolidated into one name, one brand, but I realised that wouldn't have been right for us," says McGuffie. "This way each one of them survives on its own merits, and this model allows for a high specialisation of skills.

"Our customers also want to ensure confidentiality and this is protected by such segregation. All our staff are highly trained to do a particular job. How you weave is different to how you coat, for example, and we have companies that offer expertise in one or the other. It's one of our key selling points, something that allows us to stay ahead of our competitors, because each of the companies is seen as a specialist in its field and manufactures only

for its specific market rather than as one unified brand that tries to do everything."

#### CUTTING LOSSES

Keeping the businesses separate also enables Allied Textiles to sell off those that no longer fit within the company's portfolio. This is what happened in 2009 when the company divested two enterprises that, says McGuffie, "didn't gel with our long-term strategy". The sale part-funded the acquisition of four others, including a dyeing and a coating business.

"That's the upside of a recession: the fact that it does present good opportunities. We saw that some of our competitors were struggling so we bought them. In all, we replaced about a third of our business to give us a more sustainable portfolio that could offer additional services to our clients."

That was the soft side of the downturn.

The hard side of it was that Allied Textiles had to close its Canadian factory, run by Mayfield Yarns Canada, for eight months during 2009. "We had to act quickly to protect the whole," says McGuffie. "Of course it was a tough decision to close the Quebec factory and to reduce our overall group workforce by 20% but it would have been foolhardy to have done otherwise.

"Following the collapse of Lehman Brothers, the automotive business imploded, taking other markets with it. Mayfield Yarns Canada, which prepares yarn for the air bag industry, had absolutely no orders for most of 2009. In situations like that you can't afford to procrastinate because every day costs you money."

He continues, "It's obvious what you need to do and you should do it as swiftly as possible. And it's better for morale. There's nothing worse than for people to keep going to work when there's no work

the decades, that we're still here"



For Stewart McGuffie the recession has offered up the chance to focus on his company's strengths and to capitalise on new opportunities

to be done. They sense the inevitability of closure or redundancy and the strain of that uncertainty is extremely stressful.

"It was a difficult time but orders are slowly picking up again. The impact of the recession was felt earlier and deeper by our North American business than in Britain but our recovery has been stronger over there and so far is holding its ground."

#### RECESSION PROOFING

One of the problems faced by an operation like Allied Textiles is that it is very difficult to make recession-proof (if that is ever possible), partly because it is situated in the midst of a long supply chain. This is business to business, or even business to business to business, since many of its clients don't sell direct to the public either.

For example, it supplies the material to a business that makes camouflage netting

for a paintball enterprise. As such, it has almost no direct control over its sales because it is so reliant on the continued success of its customers' customers.

The other big challenge, McGuffie explains, is that Allied Textiles operates in generally mature markets, which means that there are fewer opportunities to increase sales or to collect significant new customers.

The focus over the past few years has therefore been on consolidation through acquisition, creating new products for existing clients, optimising profitability, investing in technology to increase efficiency and economising in every area of the business without compromising on quality.

Another step the company has taken, after 100 years, is to switch banks.

"Lloyds offered us such favourable terms that we'd have been daft not to go with them," says McGuffie. "Their pricing

was good and they were prepared to be very flexible.

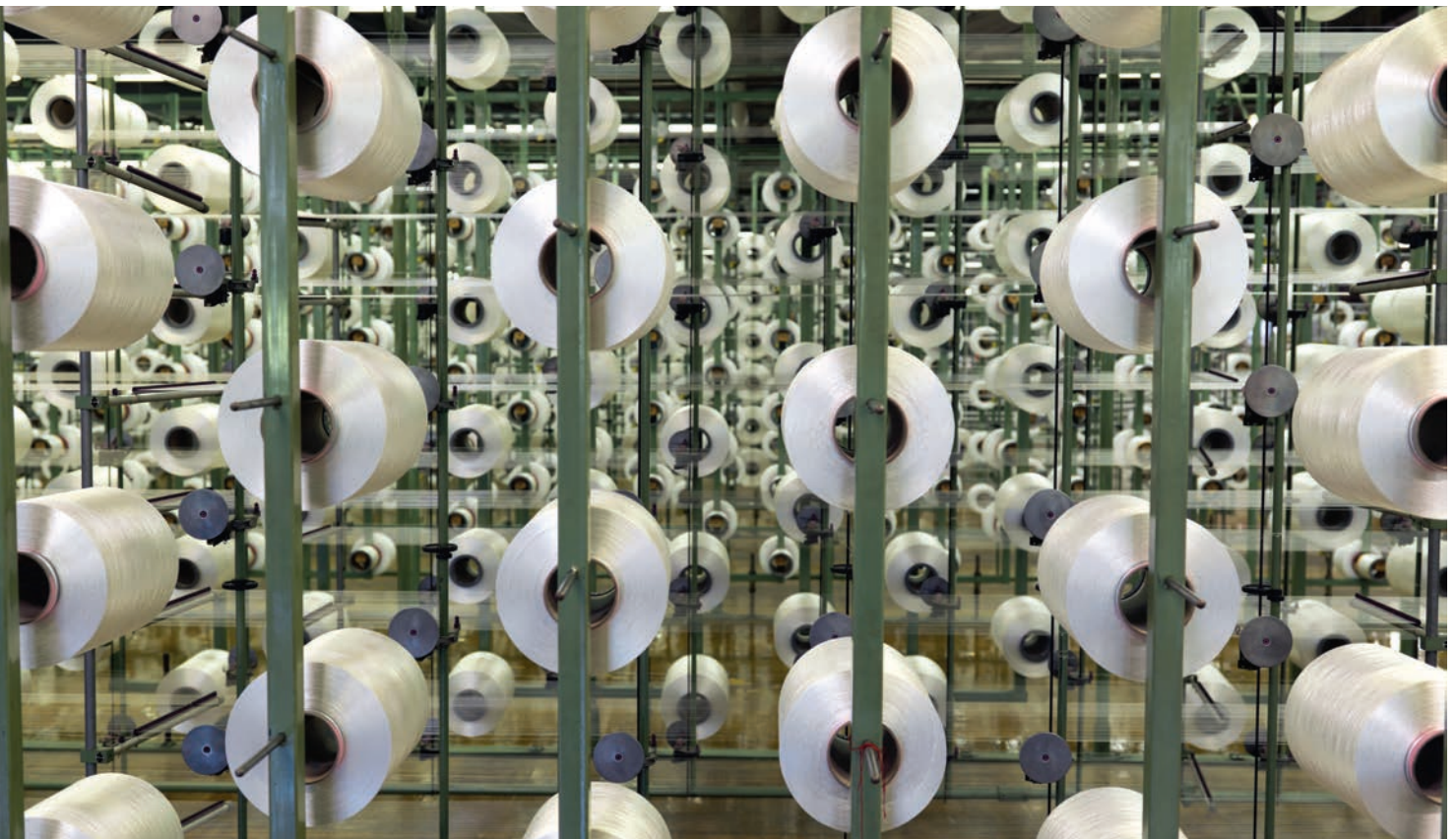
"I also got the impression that they really understood our business and were in it for the long term, which was so important. They are also able to approve facilities locally and quickly. That's the kind of partner you need by your side in a recession – the kind that helps you find solutions to keep your business profitable."

#### CLOSED GOVERNMENT

McGuffie wishes he could speak as favourably about government assistance, which he says is non-existent.

"It's hopeless – over-bureaucratic, rigid and tied up in so much red tape that you'd need a lifetime to cut through it. I realised pretty quickly that I had better things to do than try to fight my way through that system. I'm sure many companies would say the same. We need more concrete

"We've had to be more flexible. It's far better in times like this to demonstrate



PICTURES: ROBERT WHITROW



Plastic fantastic: during the recession Allied Textiles has focused on creating new products and optimising profitability

## your agility, to show your clients that you can work around them”

support rather than vague promises of advice or facilitation. Generally our people know what has to be done – it is the resources to do it that are a problem.”

### CHINA CRISIS?

How does McGuffie view the Chinese companies that have gobbled up British and American cotton manufacturing? Are they a legitimate threat to what Allied Textiles is doing?

“I think we have some protection because we offer our customers something different. Asian companies are more about making the finished product. Plus, if you ordered from Asia you’d have to commit to set volumes and long lead times – often up to three months – and you wouldn’t be able to check the quality until your entire order arrived on your doorstep.

“At Allied Textiles, we’re much more accommodating. Our lead times are much shorter and we offer our customers low minimum order contracts. Since the recession we’ve had to be far more flexible. It’s far better in times like this to demonstrate your agility, to show your clients that you can work around them.”

Asked whether Allied Textiles will be

around for another century, McGuffie says, “I’ve every hope that will be the case and we’re doing our utmost to keep the textile industry alive in the north-west. We’re very aware that we need to move with the times – that’s why we moved all our production to synthetics – and right now we’re investing heavily in technology.

“I’ve been in this industry since I left university more than 20 years ago and I’ve seen how it has changed over the years. As long as we keep innovating, keep producing quality technical textiles for our clients, keep focused on our core niche market, we’ll continue to benefit from our strong market positions.” ■

The Squeezed Middle campaign is supported by Lloyds Bank Wholesale Banking & Markets. For more information, visit [lloydsbankwholesale.com/growthchampions](http://lloydsbankwholesale.com/growthchampions) Read more coverage of the campaign at [icaew.com/economia/sqzmid](http://icaew.com/economia/sqzmid)

### STEWART MCGUFFIE'S TOP TIPS FOR SURVIVING A RECESSION

- If you face difficult decisions – like laying people off – act quickly. Procrastination costs money and destroys morale.
- Sort the wheat from the chaff. Look at your business and offload aspects that have no future. Getting rid of the weaknesses will fortify your strengths.
- Keeping your customers is key, so listen to them. It's not always about prices – often it's about offering flexibility and giving your clients what they want, when they want it.
- Seize opportunities. The time may be ripe to buy out a competitor, but don't overstretch. There's no point in buying a new factory if you can't afford to cover the costs on your existing assets.
- Keep staff motivated. They form a key investment and if staff leave, another firm will reap the benefits of the training you've given them. Think about succession, too. Is it time to start training the next generation of workers?

Blowing the whistle on a client might not be good for business but, where money laundering is concerned, it's a legal requirement. **Susan Grossey** explains what to do when you spot the warning signs of suspicious activity

# KEEPING IT CLEAN

In the middle of May 2012, after four and a half years and a trial, numerous hearings and an appeal, the case of Shah vs HSBC finally came to an end. Money Laundering Reporting Officers (MLROs) had followed it avidly because it was not a money-laundering case but an anti-money-laundering case. In short, HSBC made a suspicious activity report about their client, Mr Shah, to the Serious Organised Crime Agency – as required under the UK's anti-money-laundering (AML) regime – and Mr Shah contested that report, saying that it should never have been made.

For MLROs, the case was invaluable in that it laid bare all the elements of the UK's money-laundering reporting system, and tested them in court. What sort of suspicion is strong enough to warrant a report? What information should appear in a suspicious activity report? Are reporting individuals allowed to remain anonymous? And just what is a reporting institution allowed to say to its client?

Pronouncements were made on all of these points, but the extract that sticks in the mind is this: "It is plain that the Proceeds of Crime Act has intervened in the contractual relationship between banker and customer in a way which may cause the customer prejudice. This has been recognised by the courts. However, the courts also recognise that it is a price parliament has deemed worth paying in the fight against money laundering."

## THE PRICE WORTH PAYING

The UK's AML regime is laid out in two main pieces of legislation: the Proceeds of Crime Act 2002 (PoCA) and the Money Laundering Regulations 2007. PoCA contains the individual money-

laundering offences: concealing the proceeds of crime; entering into an arrangement to help someone else to conceal proceeds of crime; acquiring, possessing or using proceeds of crime; failing to disclose knowledge or suspicion of money laundering; and tipping off.

These five offences are echoed in almost every jurisdiction in the world, though some aspects of the UK regime are more rigorous than most, notably in that all crimes, not just serious ones, are covered and it includes lawyers and accountants.

The value of pursuing criminals' money-laundering activities rather than proving the underlying crime has been repeatedly demonstrated. Terry Adams, head of the Clerkenwell crime syndicate in London, evaded the police for years. They tried to secure convictions against him for many criminal activities – among them extortion, drug trafficking, bribery, serious assault and murder – but the fearsome reputation of Terry and his brothers Tommy and Patsy meant that few victims were willing to talk to the police, and none was prepared to give evidence in court.

In 2007 Terry was convicted of a specimen offence of money laundering. Unable to prove any legal provenance for his large fortune and fancy possessions, he was sent to prison for seven years. He is now also subject to a Financial Reporting Order, which requires him to report to the authorities every financial transaction he undertakes for 10 years.

The Money Laundering Regulations 2007 require those businesses covered – including auditors and external accountants – to put in place policies and

£525K

Amount Habib Bank was  
fined for failures in its  
AML procedures

## ASK THE EXPERTS

### ICAEW's Fraud Advisory Panel

Money laundering is just one part of the financial crime jigsaw. Fraud, bribery and corruption, tax evasion and other forms of crime can all be predicate offences. Accountants should be aware of warning signs surrounding such associated activity and report suspicions about potential money laundering offences at the point when the unusual becomes suspicious.

It is important to know your clients well. This covers initial identification through to fully understanding their activities. The value and volume of activity should be considered in context of the business type and sector in which clients are operating. Documenting the enquiries undertaken and recording the rationale for decision making are tools that help when deciding whether to report or not.

The discipline of demonstrating transparency in reviewing what is initially considered unusual will help when considering if there is a reporting obligation. Failure to report remains an offence under UK legislation and all accountants have an obligation to be part of the framework. Your nominated MLRO makes the final decision on whether to report but the responsibility for initial identification rests with all.



procedures to “prevent the use of the financial system for the purpose of money laundering,” covering customer due diligence, record-keeping, internal reporting of suspicions of money laundering, and staff training.

Management at the most senior level – the board of directors, or the senior partners – are responsible for overseeing these policies and procedures and making sure that they are appropriate and proportionate to the money-laundering risks facing their business, while the MLRO is responsible for implementing them.

Senior staff may not generally recognise their oversight role, believing they can leave everything to do with AML to the MLRO. But, the Financial Services Authority’s recent finding against Habib

Bank AG Zurich demonstrated that this is not the case. For protracted failures in its AML regime, particularly with regard to poor identification of high-risk clients and the unsatisfactory application of enhanced due diligence, the MLRO was fined £17,500 for failing to implement certain AML procedures – but the bank was fined £525,000 for “failure to take reasonable care to establish and maintain adequate AML systems and controls”. In short, the senior management of Habib Bank had failed to apply a risk-based approach when designing procedures that would mitigate the AML risks.

#### THE RISK-BASED APPROACH

The risk-based approach is the opposite to the one-size-fits-all structure: in short,

accountants must adjust the level of initial and ongoing due diligence that they apply to a client on the basis of the money-laundering risk they believe that client's activity presents. That risk is assessed by looking at four elements: customer risk – some clients are inherently more complex and risky than others; product/service risk – money launderers favour products and services that offer anonymity or put distance between assets and owners; delivery channel risk – how dealings with the client take place, whether face-to-face or at a remove; and jurisdiction risk – some jurisdictions are known to have high levels of criminal activity or inadequate AML requirements.

Accountants must use these elements to decide the risk category for each of their clients, and then apply an appropriate level of due diligence. There are some exceptions to this assessment – politically exposed persons (PEPs), for instance, must always be considered high risk. And as the point of the exercise is to ensure that in-house AML procedures address current money-laundering risks, it is vital that procedures are regularly reviewed to make sure they are still appropriate and proportionate. Accountants should also perform regular reviews of clients to check their risk category along with the level and frequency of due diligence that follows.

The beauty of the system is that accountants' familiarity with their clients' activities can be used to adjust their risk ranking, so that time is spent on due diligence checks where they are most needed and will have most effect, rather than wasted in unnecessary checks on clients who appear to present a low risk.

Information about jurisdictions is perhaps the simplest to obtain, as several agencies busy themselves in providing lists of high-risk jurisdictions. The world's AML agency, the Financial Action Task Force (FATF), has a well-regarded list of "jurisdictions with inadequate AML regimes" that is updated about three times a year, and forms a backbone for an MLRO's list of risky jurisdictions.

Leading anti-corruption body Transparency International (TI) publishes an annual Corruption Perceptions Index,



### ICAEW SAYS: ACTING ON SUSPICION

Publicly available examples of draconian enforcement action relate mostly to actual or potential money laundering by banks. That is not a reason for complacency in accounting firms. Accountants act for most businesses in the UK, and see different aspects of the business than those seen by bank staff. The intelligence supplied in suspicion reports made by accountants can therefore be uniquely valuable in detecting and prosecuting criminals and preventing organised crime and terrorism. If an accountant failed to provide that intelligence this would not just be a failure of professional ethics and integrity – it could also lead to professional and even criminal action against the accountant.

See September's *FS Focus* magazine for three rules to combat money laundering criminals and how best to satisfy the regulators.

ranking countries according to how corrupt they are perceived to be. TI also assembles a Bribe Payers' Index once every three years, looking at the supply side of corruption. Other indices can also help inform your jurisdictional risk rankings, such as the second volume of the annual International Narcotics Control Strategy Report published by the US Department of State ([state.gov](http://state.gov)), which lists countries of money-laundering concern. The new Basel AML Index on the same website has a free public version and a more detailed one for subscribers.

The FATF has published helpful guidance specifically for the accountancy sector on designing, implementing and reviewing a risk-based approach. This guidance highlights those functions performed by accountants "that are the most useful to the potential launderer":

- giving financial and tax advice – seeking such advice is a common cover for money launderers who are really seeking to conceal the source of funds;
- creation of corporate vehicles or other legal arrangements – such as trusts – which can disguise the link between a criminal and his proceeds of crime;
- buying or selling property – to provide a cover story for money movements, or as a convenient final investment for criminal proceeds;
- performing financial transactions on behalf of a client; and
- providing introductions to financial institutions.

Of course, all of these are valuable services provided every day by accountants to their honest clients; the only way to avoid providing them to criminals is to take precautions against acquiring active criminals as clients. And the key here is to ensure that staff are aware of and apply your AML procedures, particularly where due diligence and record-keeping are concerned.

The FATF is a rich source of examples of how accountancy services have been used by criminals to launder money. In recent years, it has produced detailed documents – including case studies from member countries, among them the UK – on laundering through trust and company service providers, securities and real estate. The detailed case studies

demonstrate the deviousness and imagination of criminals, and are useful for staff training.

### THE BEST DEFENCE

Although the regulations require procedures that cover four areas, the most vital of these is staff training. The other three areas are worth nothing if staff don't know about them, or how to implement them. The aim should be to create an AML training programme that sensitises staff to money-laundering issues – without terrifying or overwhelming them or inducing paranoia – and tells them about the company's procedures for customer due diligence, record-keeping and internal reporting.

The regulations require accountants to train relevant staff, and it is perfectly acceptable – indeed it is expected – that training is varied according to the staff roles, with more detailed training given to client-facing staff and a less detailed overview to back-office staff. Regular refresher training is expected, not just to revise key points, but also to develop staff understanding of AML issues and growing areas of criminal activity, and to give them the opportunity to raise questions and concerns.

Guidance from the Consultancy Committee of Accountancy Bodies (CCAB) makes it clear that specific tailored training should be given to MLROs and senior management. Accountancy firms need to be able to show that their AML training has been effective, and to keep careful records of all training activities.

If staff fail to make an internal suspicion report when there are grounds to do so, they commit the non-reporting offence under PoCA – unless they can demonstrate non-existent or inadequate training. If the firm has given them inadequate training, it has committed an offence under the AML regulations.

### DO THE RIGHT THING

In spite of every precaution, sometimes it can feel as though something is not quite right with a client or a transaction. A client may have asked their accountant to do something that is unusual, abnormal or unexpected for them, without ample explanation. In these circumstances, the

## In spite of every precaution, sometimes it can feel as though something is not quite right with a client or a transaction

path is clear: the suspicions must be reported to the MLRO. In turn, the MLRO must evaluate the report and, where appropriate, make a disclosure to the Serious Organised Crime Agency.

The findings of *Shah vs HSBC* confirm those of an earlier case that a suspicion need not be “clear or firmly grounded” nor “based on reasonable grounds,” simply that it must be “more than fanciful”. In other words, it does not have to be a strong suspicion – but must be reported nevertheless. The uncomfortable four days spent in the witness box by HSBC's MLRO Michael Wigley shows it is crucial that full and detailed contemporaneous records are kept of all suspicions and the decisions that surround them.

Sometimes a suspicion may arise that a client has been an innocent party in money-laundering activities by a third party, or that they are the victim of a money-laundering scheme or remunerative crime. All money-laundering suspicions need to be reported wherever there is information that could be used to identify the money launderer, or the whereabouts of the proceeds of the crime.

It can also happen that accountancy staff are concerned not about their clients but about their colleagues. They may fear that AML procedures are not being followed, or even designed properly, or they may think that reports of suspicion are not taken seriously. To allow for these kind of concerns to be expressed, along with others that relate to any area of compliance, firms should provide a whistle-blowing route – whether an in-house hotline, one provided by a commercial organisation or, for FSA-regulated firms, by a supervisory body. Detailed guidance on offering a whistle-blowing path, and making sure that it complies with the terms of related

### THE FINANCIAL ACTION TASK FORCE (FATF)

FATF has introduced reforms to its global anti-money laundering standards (known as the 40 Recommendations, but which are taken more seriously than many more impressively named requirements). The EU is considering an update to the Money Laundering Directive, to implement the FATF changes and improve the operation of the AML system throughout Europe. Changes will need to be made to UK legislation, to ensure it complies with international requirements, but these are unlikely to have a significant effect on what accountancy practices in the UK need to do. The reforms are more an indication that other countries wish to introduce something similar to the UK standards.

legislation such as the Public Interest Disclosure Act 1998, has been published by ICAEW. However, reports of suspected money laundering should be made to the MLRO, not via a whistle-blowing hotline.

The UK's AML regime is strong and comprehensive, placing obligations both on individuals and businesses. But there is plenty of detailed and practical guidance available for accountants who, in their role as gatekeepers and facilitators, are in an excellent position to guard the financial and its related sectors from infiltration by criminal money. As HHJ Superstone said to HSBC and Mr Shah, “This is a price worth paying.” ■

Susan Grossey provides AML training and advice, and is the author of many articles and books on the subject, including *Anti-Money Laundering: A Guide for the Non-Executive Director* (UK Edition). See [thinkingaboutcrime.com](http://thinkingaboutcrime.com)

### Useful references

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With the aim of selling Britain as a great place to do business, **Christopher Alkan** judges how Britain's corporate tax revolution is succeeding in wooing business back to stay

**“The ink is barely dry on much of this tax legislation, yet already commentators are speculating whether the overhaul will win back multinational tax exiles”**

The British government has launched a massive bid for popularity. This time it's not voters that politicians are trying to woo and no kissing of babies has been necessary. Instead the UK has been trying to win over multinational companies.

Until a few years ago Britain's tax system made life pretty uncomfortable for these cross-border businesses. As rival countries slashed corporate income tax, the UK's demands started to seem unreasonable. In addition, Britain was one of just a handful of nations that laid claim to a share of a multinational's earnings around the globe – rather than just profits garnered at home. To add a final insult, the set of rules designed to stop tax evasion was complicated, convoluted and – by many accounts – too strict.

This toxic combination proved too much for many companies. Some even decided to vote with their feet. The Henderson Group, a London-based asset manager, and WPP, one of Britain's most successful advertising companies, moved to the more friendly tax jurisdiction of Ireland. Regus, the office space and business service provider, upped sticks for Luxembourg.

Accounting firm KPMG identified about a dozen companies that deserted Britain due, in part, to complaints over the tax regime. This mini-exodus added urgency to proposals to reform the nation's corporate tax system. The result has been a quiet revolution in Britain's corporate tax system. The ink is barely dry on much of this tax legislation and the process is not yet fully complete. Yet already commentators are starting to speculate over whether the overhaul will win back multinational tax exiles.

They are also asking whether the price will be worth paying. To partly offset some of the expected loss in revenue from lower taxes, the British government is leaning on manufacturing, tightening the tax rules for factories. This may be a recipe for further de-industrialisation, suggests Michael Devereux, director of the Oxford University Centre for Business Taxation. “We might end up getting more headquarters and less manufacturing,” he says.

The success or failure of Britain's experiment may also reverberate beyond its borders. Republican presidential candidate Mitt Romney is proposing tax changes remarkably similar to those just enacted in the UK. If reforms in Britain prove a hit, it will be easier to convince American lawmakers to follow suit.

It is not hard to understand why politicians are so eager to court multinational firms. Revenues from corporate income tax account for a large chunk of the government's income – close to a tenth or around £40 billion. (To put that in perspective, that's enough to cover about 40% of the budget for the National Health Service.)

Crucially the lion's share of that money comes from the oft-maligned multinationals. Research by Oxford University's Centre for Business Taxation shows that multinationals paid 85% of all corporation tax over the past decade. The largest 1% of companies picked up 81% of the total bill. Meanwhile, the forest of corporate head offices in big cities, especially London, helps support a flourishing eco-system of accountants, lawyers and bankers.

While multinationals make a hefty contribution to government coffers and the economy, they are becoming ever harder to

**£40bn**

Government revenue from corporate income tax

**85%**

Percentage of corporation tax paid by multinationals

**\$1.4trn**

Amount stashed in foreign accounts by American companies

pin down. "These businesses are becoming more mobile, at least when it comes to where they establish a head office," says Scott Hodge, president of the Tax Foundation, a Washington-based think tank.

He continues: "Modern communications, including the internet, make it easier to make decisions about a company's destiny from almost any location."

As a result, governments around the world have been vying for the attention of global firms – mainly by cutting the corporate income tax rate. The average effective rate in rich nations has dropped from 34% in 2000 to around 28% in 2007, according to the Organisation for Economic Cooperation and Development (OECD). Indeed, 25 of the 30 OECD member nations cut their corporate income tax rate over the period.

In recent years Britain has entered this race with a vengeance. "The reforms in Britain represent a pretty thorough metamorphosis," says Alan Auerbach, an economics professor at Berkeley and director of the university's Center for Tax Policy. This reformation has three main elements. For a start, Britain has abandoned its global system, which taxed firms on profits all over the world. This old approach meant any dividends sent back from lower tax countries – such as Ireland, which has a 12.5% rate – would be subject to an extra layer of tax to bring it up to the higher British level, until recently set at 28%.

This system has several drawbacks. In theory, it put British companies at a disadvantage when competing with rivals that only had to pay one tax when operating abroad. In practice it was both complicated to administer and yielded surprisingly little revenue – only about £300m per year in Britain's

## "Modern communications, including the internet, make it easier to make decisions about a company's destiny from any location"

case. This was because companies could simply avoid paying the tax by hoarding foreign earnings overseas.

American companies, for example, which are also compelled to pay a top-up tax when they bring foreign profits home, have stashed around \$1.4trn in foreign accounts, according to a recent estimate by JP Morgan. The global system thus has the perverse effect of keeping vast sums away from the country. This is money that could be used by businesses to invest in domestic growth and also to pay dividends to investors.

Not surprisingly, this system has been going out of vogue. Now only eight of the 34 OECD nations have a global system. Japan recently decided to exempt 95% of repatriated earnings from tax. In 2009 Britain also moved to a territorial system, seeking only a cut of profits generated within its borders. "This was certainly a smart move," says Hodge. "It makes Britain far more friendly to businesses."

In addition, Britain introduced a lighter anti-avoidance regime – the so-called Controlled Foreign Corporation (CFC) rules. These are designed to ensure that companies can't artificially shift profits overseas to skirt British tax. "The rules are now less strict," says Devereux. Foreign profits are not liable to British tax so long as a

business can convince the UK tax authorities that a foreign subsidiary holds no assets in Britain and no significant management decisions are made out of the home office.

Alternatively a company can demonstrate that they are not using certain tax avoidance schemes. This new regime only came into force this summer.

Finally, and most traditionally, Britain has a multi-step plan to trim taxes. Prior to the financial crisis Britain had a tax rate of 28%. This is now due to drop to 22% by 2015. Chancellor George Osborne has boasted that this would give Britain the lowest rate of the Group of Seven leading industrial countries – assuming none of them decide to leapfrog ahead.

The government has high expectations of this policy. Osborne has claimed they are an "advertisement for investment and jobs in Britain", and that it will help the nation "earn its way in the world". Already there are some signs that he might be right. Of the two most famous tax exiles, WPP has moved back to the UK from Ireland after just four years and publisher United Business Media says it is considering a return.

A further encouraging sign came in January this year when Aon, the American insurance firm, announced that it would be moving its corporate headquarters from Chicago to London. The company said the move was mainly intended to provide better access to emerging markets and the Lloyd's of London insurance market. Still, the high-profile defection is a powerful sign that Britain's tax system is no longer so poisonous for multinationals.

Simon Palmer, a partner at accounting firm KPMG, believes that the UK government has at least managed to stop the rot. "Not all of the companies that left will be tempted back, though a few appear willing to do so," he says.

"But there are good reasons to believe the reforms will at least stop others going. Added to this, new international businesses will at least now be willing to give Britain a chance. It will of course be several years before we can come closer to a definitive verdict."

Of course, there is no shortage of sceptics. While Britain's tax rate will be low by the standards of major nations, it faces tough competition from smaller countries. Serbia offers a tax rate of just 10%. In Cyprus resident companies are taxed on their worldwide income at the rate of 10% on their net profits. Others worry that Britain is sacrificing too much revenue. There is expected to be a modest decline in revenues by scrapping the tax on foreign dividends – though this was never a huge money-spinner. The government itself expects to lose around £840m each year by moving to a new anti-avoidance system. But given that Britain has been going into a double dip recession – which would normally reduce tax revenues anyway – it will be particularly hard to disentangle the various influences.

Fans of old manufacturing raise another concern. To offset the decline in revenue from corporate income tax cuts, the rules on capital allowances were tightened. These allowances enable companies to depreciate investments in plant and equipment, cutting a business's tax liability. Making these less generous makes Britain a less attractive place to locate manufacturing facilities, explains Devereux. "The UK already had one of the stingiest allowance regimes," he says. "So the latest move will make the country even less friendly for companies that are doing anything real."

Economists such as Ha-Joon Chang, author of *23 Things They Didn't Tell You About Capitalism*, believes that Britain has been

## "Manufacturing remains extremely important and governments are wise not to get too hung up on the idea of the knowledge economy"

too willing to neglect the interests of manufacturing. He believes that deindustrialisation is not inevitable for rich countries, as the experience of export powerhouse Germany shows. "Losing manufacturing also tends to have a damaging effect on balance of payments since services are typically harder to export. So a nation is less able to pay its way in the world."

Meanwhile, much of the productivity surge in the service sector proved illusory, as the 2008 financial crisis illustrated. Chang also argues that the apparent decline in manufacturing in nations such as the UK has been partly a statistical trick.

The impression of a dramatic plunge has been caused by a surge in industrial productivity, which has lowered prices combined with the greater use of outsourcing of non-core activities, such as cleaning and catering, at manufacturing businesses. "In fact manufacturing remains extremely important to industrial economies and governments are wise not to

get too hung up on the idea of the knowledge economy."

The UK's experiment will be closely watched. The US now stands alone among the rest of the large economies in sticking with the unpopular combination of a global system and high tax rates. This may be putting American multinationals at a disadvantage. Lawmakers are already under heavy pressure from the nation's main business lobby, the Chamber of Commerce, to ditch this system.

Resisting such calls will get even harder if Britain succeeds in winning back more tax exiles without a plunge in corporate tax revenue. ■

### ICAEW VIEW: IAN YOUNG, TAX FACULTY TECHNICAL MANAGER

"The government has made a very deliberate effort to make Britain a good place to do business. This is a sensible recognition of the important role that multinational companies play in public finances. If you look just at corporate income tax you don't get the full picture. For every £1 in corporate income tax, businesses contribute another £3 at least in other taxes – including National Insurance contributions, fuel duties and business rates.

"Overall the changes made to the tax system in recent years make the United Kingdom a sensible choice of location for international businesses. Moving towards a territorial system brings the country more in line with the rest of the world. The new anti-avoidance rules are an improvement and the falling tax rate is a recognition that global rates generally are coming down. International companies now have far less cause to flee Britain."

# THERE'S A NEW SHERIFF IN TOWN...

... and he's gunning for those that want to hold administrators to ransom. R3 president **Lee Manning** tells Julia Irvine how he plans to rescue Britain's businesses



If you ask Deloitte partner and R3 president Lee Manning how he came to be involved in the insolvency business, his answer might surprise you. Sex, drink and rock 'n' roll seduced him away from audit and into business restructuring.

Not that bidding farewell to audit would have taken much, he confesses with a broad grin. "It was hardly the most inspiring thing to be doing." So when, as part of his training at Touche Ross (a predecessor of Deloitte), he was seconded to the insolvency department, it came as a welcome relief. "All I was doing was bank reconciliations but I could see all these people who looked like they were enjoying themselves. And I kept hearing about these interesting cases they were working on."

Qualifying in 1983, he asked for a transfer and was hooked. His first insolvency case involved pleasure boats on the Thames. "It was a nice hot summer and I was being paid to sit by the Embankment and watch

these vessels filled with tourists go up and down the river. In the evenings I had to supervise so I'd be going to the discos. I couldn't believe my luck. It was a great job."

From discos he moved on to a chain of pubs, one of which was round the corner from his flat in Maida Vale. "That was great too because I was doing the cashing up. I'd go to work during the day and to the pub at night and it was still work. I thought to myself there was definitely something in this."

Almost 30 years on, he says he has enjoyed his career more than he could have imagined. "It's fascinating being given the reins of a business and having to clear up problems other people have created," he says. "It's also very demanding. It requires insolvency practitioners to balance financial acumen with commercial flair and legal knowledge, but they also have to be able to deal with difficult decisions on a daily basis that inevitably have social consequences.

"The problem is that the way the law is

written, we have to do the best we can for the creditors. That's why we get a lot of bad press when jobs are lost. But jobs can be lost in order to save other jobs. If I can sell a business that has 1,000 employees but 200 have to go because that's the only way someone will buy the business, then I don't have a choice. It doesn't make it right that 200 people lose their jobs, but the benefit is that the business thrives and the greater proportion of jobs are maintained.

"We have to be able to justify everything we do. Communication is the most important tool that restructuring and insolvency practitioners need to possess."

The use of pre-packs is a classic example of where the profession has not always got its message across well. These are the cases where the sale of the business or assets is negotiated before an administrator is appointed, then goes ahead immediately, often to one of the former stakeholders. Not surprisingly, the creditors are often unhappy.

## “Communication is the most important tool for restructuring and insolvency practitioners”



“In reality, there are many situations where it has to be sold quickly,” Manning says. “The key employees could go, the clients could go, there’s no inventory so you can’t function, you’ve got contracts that would be terminated if you went into insolvency without immediately handing them over. All sorts of financial penalties would therefore drive the value down.”

“The reason why the business is often sold to the very people who were running it in the first place is that they either possess the funds to do it quickly, or the intellectual capital and the business relationships.”

Better communication is a key theme for his year as president of R3, the insolvency practitioners’ trade body. He wants to make sure that creditors and the wider stakeholder community understand what practitioners do and how it benefits them.

Manning also sees an opportunity to encourage positive change. The UK’s insolvency regime compares favourably

with many around the world, he says, but there are improvements to be made. For instance, R3 has worked out that its “Holding ransom to ransom” campaign for legislative change to prevent suppliers demanding ransom payments during administration could result in up to 14% fewer insolvencies.

“A lot of our time is spent shaping policy or defending changes in policy and regulation that are going to impact on our community in a negative fashion and trying to make our job easier, while making it better for those who benefit from the work we do.”

An expert in sports insolvency – he was administrator to Millwall, Bradford City and Swindon Town football clubs – he draws on his experience of the infamous football creditors’ rule to illustrate his point.

The rule gives priority to players’ contract obligations and money owed to other clubs over other creditors, not just in arrears but in the future. This not only makes it difficult for anyone to rescue a club, but it is unfair

to the ordinary creditor as there is rarely anything left after meeting the liabilities. “But it’s still a hell of a lot better because you know what it means,” he says. “If you go bust in England, it’s a 10 point deduction and you’ve got to deal with these football creditors if you want to come out the other side. In Scotland there’s no rule and it’s chaos.”

“Look at what happened to Rangers. They went bust in February and various people were keen to buy the club but the football authorities kept changing the rules – you’re fined, you can’t sign any players, we’re not sure how long we are going to keep you out of Europe... Everyone withdrew their offers until there was only one guy left. Then the players decided they weren’t bound by their contracts.”

“The insolvency process went on and on, it became more and more expensive and the price of the asset was driven down because nobody knew what was going on. The creditors will get virtually nothing from what was one of the biggest sporting institutions in Great Britain.”

One major initiative is the codification of administration expenses. It’s important to know the terms of engagement, he says. Unfortunately, much of what the administrator can or cannot claim as expenses is based on case law. This has created anomalies, in particular over rent liability and pensions contributions, and bred more law suits that in turn lead to greater uncertainty. “It’s like a game of ping pong at the moment,” Manning says. “What we need is someone to knock this on the head and make legislation that is fair.”

Certainty in the insolvency process may be a long time coming. It will require legislation, not to mention parliamentary will and time, and, as Lord Mischoon famously observed during a debate on the 1986 Insolvency Act, “Insolvency is not a very thrilling or amusing subject.”

For Manning, the business case for change is inescapable. Just ending the uncertainty over expenses and implementing the ransom campaign’s demands could save over 3,000 more businesses per year, he believes.

“We need a better system, with streamlined processes that offer value for money, and we need greater clarity so that creditors understand that we are working for them. And ultimately, we want to ensure that there are more business rescues and fewer liquidations.” ■



A reminder that starting from October 2012, all employers must enrol eligible workers into a qualifying workplace pension scheme. The date you have to do this by depends on the size of your company, but to give yourself time to prepare, visit The Pensions Regulator at [www.tpr.gov.uk/actnow](http://www.tpr.gov.uk/actnow) where you'll find out all you need to know.

**Workplace pensions. We're all in.**



The Pensions  
Regulator



Department  
for Work &  
Pensions

# Briefing

## Mid-tier exemption, DPA and Libor governance

Key issues this month include residential property transactions, audit threshold and ICAEW forthcoming guidance on Libor

### MID-TIER AUDIT EXEMPTION

**1** Removing medium-sized companies from statutory audit is a move too far, according to the UK's Consultative Committee of Accountancy Bodies. It has written to MEP Sajjad Karim to express its concern about the amendment to the accounting directives proposed by UK government in its campaign to divest UK business of expensive regulation. It says such a move would have a "highly detrimental impact on the UK and the wider EU economy".

Without the reassurance of an audit, the level of cross-border investment and trade is likely to fall, as will companies' access to finance. Furthermore, it could undermine the reliability of financial reporting in Europe, reducing stakeholders' confidence and investor protection in the internal market. And member states could end up seeing their tax revenue significantly reduced.

Go to page 13 to read a debate on this subject

### MOVES ON LIBOR

**2** ICAEW's Financial Services Faculty is to develop guidance for auditors on interest rate benchmarks in response to the recent Libor and Euribor manipulation scandals.

It has set up a working party, chaired by Mike Lloyd, chairman of ICAEW's banking committee, which intends to issue draft guidance by the end of the year.

The faculty has also responded to the Wheatley review of Libor. This looked at ways of strengthening Libor and suggested: a trade reporting mechanism to improve the availability of transaction data; more independent, robust and transparent governance of the Libor process; and bringing the administration

of and submission to Libor within the scope of regulated activities.

The faculty thinks Libor can be strengthened in its current form, thus avoiding the ramifications for existing contracts a radical overhaul would involve. It sees the work it's doing on assurance as increasing confidence in the reliability of interest rate benchmarks.

Copies of ICAEW REP 131/12 are available from [icaew.com/representations](http://icaew.com/representations)

### DEVIL IN THE DPA DETAIL

**3** As a concept, deferred prosecution agreements are a useful tool for legal authorities to use against economic crimes perpetrated by corporate entities. However, the devil is in the detail, as ICAEW points out in its response to the Ministry of Justice's recent consultation paper.

ICAEW says the idea is ineffective unless there's a realistic chance of prosecution. This would be difficult, for example, in cases where criminal liability depends on establishing the "directing mind and will" of an organisation is at fault as it goes against the principles of company law.

ICAEW recommends further research and a fundamental review of the principles of corporate liability for criminal activities carried out on their behalf.

Copies of ICAEW REP 114/12 are available from [icaew.com/representations](http://icaew.com/representations)

### AUDIT THRESHOLD ALIGNMENT

**4** New BIS regulations, which come into operation for accounting years ending on or after 1 October 2012, will exempt thousands more UK businesses from audit and make it easier for them to move from IFRS to UK GAAP.

The regulations align mandatory audit

thresholds with accounting thresholds and exempt SMEs from audit provided they meet two out of three following criteria: no more than £3.26m on the balance sheet; less than £6.5m turnover and a maximum of 50 employees. They also exempt subsidiary companies from audit, as long as their parent company guarantees their liabilities.

And following the Financial Reporting Council's consultation, the government will allow companies that currently prepare their accounts under IFRS to move to UK GAAP.

### RESIDENTIAL PROPERTY

**5** ICAEW Tax Faculty believes the government proposals for ensuring the fair taxation of residential property will be counterproductive for existing structures. That is because they provide an incentive for companies to stay within the corporate envelope or artificial stamp duty land tax avoidance scheme.

The faculty says the demands on parliamentary counsel's time mean "there is insufficient time to think through all the technical repercussions so as to produce legislation that is fit for purpose".

It also criticises the non-natural person definition in the 15% SDLT rate which was enacted by the 2012 Finance Act. It is too wide and penalises genuine businesses where there is no SDLT avoidance.

The faculty recommends dropping the CGT measures entirely: "Government could consider whether the policy of not subjecting non-residents to CGT is still appropriate. This would be a radical move which would need transitional rules and separate meaningful and open consultation."

Copies of ICAEW REP 121/12 are available from [icaew.com/representations](http://icaew.com/representations)

To find more technical updates visit [icaew.com/economia/technicalupdate](http://icaew.com/economia/technicalupdate)

# Updates

## EMPLOYMENT LAW

### Remedies for unfair dismissal

A company has to pay compensation for the losses suffered by a former employee who, as a result of being dismissed, was deprived of the use of his company car, mobile phone and fuel allowance. The fact that he had worked briefly as a consultant for a different company within the group during the three-month notice period to which he was entitled did not mean that the chain of causation for his losses as a result of the dismissal had been broken.

In *Commercial Motors (Wales) Ltd v Howley*, the Employment Tribunal decided that Mark Howley had been unfairly dismissed and, at a later hearing on compensation, awarded him £44,579.02. The company appealed against part of the award on the grounds that it was excessive.

It argued the tribunal should not have awarded Howley the sums of £3,993.36, £300 and £96 respectively for the loss of use of the executive car, the fuel allowance and the use of the mobile phone during the three-month contractual period to which he was entitled. It said all Howley lost was the use of a pool car supplied by one of the other companies owned by the owner of Commercial Motors. The availability of that car – a Mercedes – had ended when those other companies went into administration one month before Howley's dismissal, and therefore he should not recover the benefit of the use of a car from that day onwards.

The Employment Appeal Tribunal rejected the argument because not only was Howley entitled to the three months' notice period but he also had a right to the use of a car during that time, wherever it came from. However, because he was given an Astra and a fuel allowance during his brief consultancy contract, the tribunal reduced the amount of compensation accordingly.

The tribunal also rejected the company's argument that by accepting work from a different company in the group Howley had broken the chain of causation. As he had worked as a consultant and not a full-time employee, he was still entitled to compensation from the loss caused by his original dismissal.

## DATA PROTECTION TIPS FROM THE ICO

Charities and third sector organisations should think about inviting the Information Commissioner's Office to pay them a free advisory visit to ensure that they are not committing any serious breaches in handling data. The ICO points out that charities often handle sensitive information, such as individuals' medical details, and so are potentially more at risk of encountering a serious breach. This could result in a fine of up to £500,000. As well as promoting the free visit, the office has issued five top tips for data protection aimed at small and medium-sized organisations. These include:

- telling people in an open and honest way about what the organisation is doing with their data and who it will be shared with;
- adequate training for staff;
- using strong passwords;
- encrypting all portable devices used to store personal information;
- only keeping people's information for as long as necessary.

To have your organisation considered for an advisory visit, send an email to [advisory@ico.gsi.gov.uk](mailto:advisory@ico.gsi.gov.uk)

## DEFINING VULNERABLE BENEFICIARY TRUSTS

HMRC has issued a consultation document about vulnerable beneficiary trusts. In particular, it is seeking views on the definition of a vulnerable beneficiary for tax purposes and various proposed changes to remove inconsistencies between different tax regimes in the qualifying conditions for vulnerable beneficiary trusts.

This type of trust attracts special income tax, capital gains tax and inheritance tax treatment but, as the consultation points out, it is difficult to define a "vulnerable person" in a way that can ensure certainty that the special tax treatment applies. As a result, it tends to get applied to two more easily defined groups – orphaned minors and those with a severe physical or mental disability. Copies of the document can be downloaded from [hmrc.gov.uk](http://hmrc.gov.uk). The

deadline for any feedback and comments is 8 November 2012 and these should be emailed directly to:

[ihandtrustsconsult.car@hmrc.gsi.gov.uk](mailto:ihandtrustsconsult.car@hmrc.gsi.gov.uk)

## BIS CONSULTS ON CONSUMER RIGHTS

The Department of Business, Innovation and Skills is keen to hear from businesses and consumers about implementation of the EU Consumer Rights Directive into UK law.

The directive, which was agreed by all member states last year, is designed to simplify and harmonise rules to encourage growth and raise consumer confidence in buying across borders. It is not intended to be all encompassing with regard to consumer rights.

Its main provisions focus on the importance of transparency of information – especially on pre-contractual information for distance and off-premises contracts (such as via telesales or on the internet), express consent for payments, and cancellation rights and responsibilities. It also prohibits excessive fees for paying and contacting the trader.

Although BIS does not have discretion about how it implements most provisions, there are a few areas where it has some flexibility. These include contracts relating to financial services, healthcare, package travel, timeshare, property transactions and passenger transport among others.

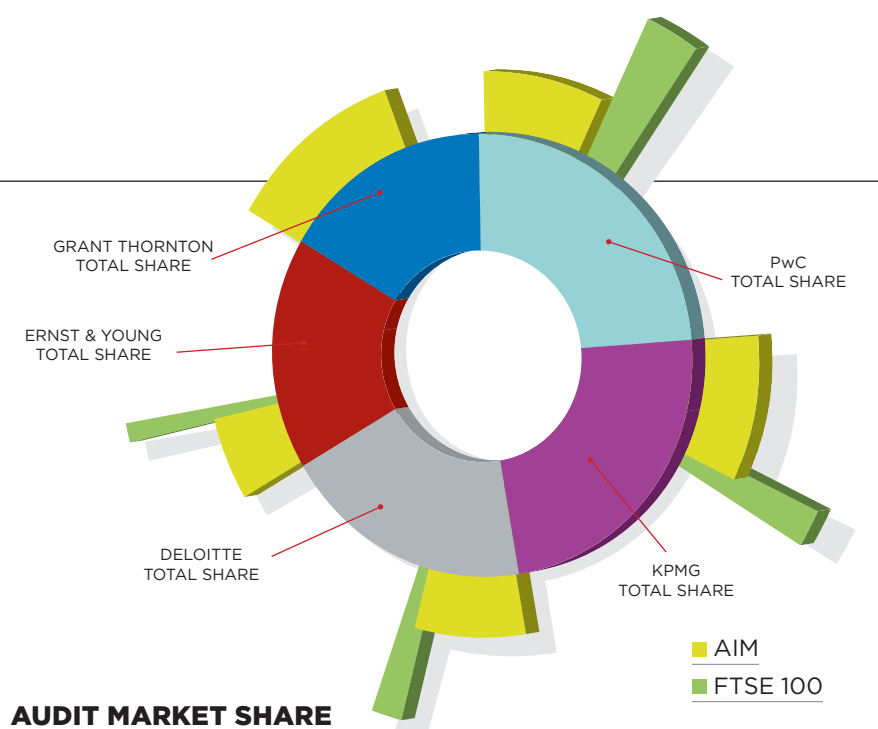
The deadline for comments is 1 November 2012. These can be emailed to [implementingthecrd@bis.gsi.gov.uk](mailto:implementingthecrd@bis.gsi.gov.uk)

## IT FOR THE SMALL ACCOUNTING PRACTICE

The ICAEW IT Faculty has responded to a number of requests from members and published *IT for the Small Accounting Practice, including Practice Start-ups*.

The requests came from members who were considering setting up in practice on their own and were wondering where they could get information on what systems and IT they might need.

The publication – written by Glover Stanbury partner Kevin Salter, deputy chair of the faculty's technical committee



## AUDIT MARKET SHARE

Company	AIM clients	FTSE 100 clients	Other clients	Total
PwC	112	42	216	370
KPMG	130	24	214	368
DELOITTE	102	20	173	295
ERNST & YOUNG	70	16	177	263
GRANT THORNTON	165	-	84	249

SOURCE: MORNINGSTAR

Small practioners are operating in a dwindling space as the big firms grow. Our graphic shows the top five's total market share, according to the latest Morningstar Professional Services Rankings Guide, with breakdowns into presence on the FTSE 100 and AIM.

The first logo is aimed at individual ICAEW licence holders who can use it together with the following legend: "[Name and surname] is licensed as an insolvency practitioner in the UK by the Institute of Chartered Accountants in England and Wales".

The second logo can be used by firms, provided all the licence holders are licensed by ICAEW. It should accompany the words: "The insolvency licence holders of this practice are licensed as insolvency practitioners in the UK by the Institute of Chartered Accountants in England and Wales".

The logos are designed to be used on business products such as business cards, websites, advertising, email and stationery. They may not be used in advertisements where a member is endorsing or approving the products of a third party, such as a client, on commercial publications or in other ventures with non-members and on the stationery, accounts or publications of a third party, such as a client, even those prepared by a member.

To download the logos and the guidance on how to use them, visit [icaew.com/insolvencylogos](http://icaew.com/insolvencylogos)

and regular blogger on *IT Counts* – originally started out with new start-ups in mind. However, following reviews by the technical committee and staff from the quality assurance department, it was broadened to include all small accounting practices.

The guide, which covers hardware, software and other important issues like training and information security, is available to all ICAEW members at [goo.gl/I4nGQ](http://goo.gl/I4nGQ)

## CHARITY FUNDRAISERS FACE NEW REGULATIONS

Charities face fines of more than £1,000 if their street fundraisers breach new rules from the Public Fundraising Regulatory Association.

Under the new rules, which came into effect on 20 August 2012, a fundraiser will be prevented from following a person for more than three steps; standing within three metres of a shop doorway, station

entrance, pedestrian crossing or cashpoint; approaching members of the public who are working; and signing up anyone to a direct debit who is unable to give informed consent due to illness, disability, drugs or drink.

Breaches of the rules carry penalty points of up to 100 points for the fundraising organisation. Each charity has a threshold of 1,000 points before having to pay fines, but once the threshold is breached, charities will pay a monetary fine equal to £1 per point.

At the end of the financial year, the charity's point balance will be reset to zero.

For further information, visit [pfra.org.uk](http://pfra.org.uk)

## INSOLVENCY PRACTITIONER LOGOS

ICAEW has launched two logos that will allow both individuals and firms to promote themselves as ICAEW-licensed insolvency practitioners in the UK.

## NEW CORPORATION TAX CALL CENTRES

HMRC is in the process of changing the way corporation tax customers contact its offices by telephone. Over a two-month period to mid-November it will be rerouting calls on a permanent basis from the 14 local CT offices to one of two contact centres in Cardiff and Glasgow.

The move is part of the department's bid to improve its falling services standards and comes in response to pressure from tax practitioners. The contact centres should provide more staff to answer the phones, as well as agent priority lines.

If the enquiry cannot be dealt with at the first point of contact, it will be passed on to a dedicated operations team.

Once the relevant CT office has transferred to the new number, practitioners and clients should contact 0845 366 7819 (in the UK) or +44 151 268 0571 (from overseas).

# Relying on intellect

Business owners are increasingly putting together their pension funds and intellectual property rights and coming up with funding options. Valuation is the key to managing the risks and rewards, says **Sally Percy**

**M**oney, money everywhere but not a note to lend. That seems to be the message from the Bank of England, which reported a further contraction in bank lending to small business in July. Despite £325bn being pumped into the economy through quantitative easing since 2009, lending by banks to UK businesses is set to fall by 5.7% this year, according to Ernst & Young. Funding for SMEs is particularly hard to come by – just 35% of the £450bn in outstanding loans to UK businesses in the 12 months to May 2012 went to SMEs. That's 5% down on the year before, says the Bank of England report *Trends in Lending – July 2012*.

The financial crisis and the pressure it has put on banks to shore up their balance sheets has forced SME owners to take a more innovative approach to funding. A high-street bank, once the obvious solution, might not be an option at all now thanks to onerous terms or a reluctance to lend. Owners are turning to alternative asset-based funding such as invoice finance, equipment finance and distribution finance – or pension-led asset finance for those with large enough pension schemes.

The latter allows company directors to draw down on

pension funds held in self-invested personal pension schemes (SIPPs) or small self-administered schemes (SSASs) set up to benefit specified employees. The pension fund will buy a particular asset of the business, such as commercial property or heavy machinery – but not residential property or moveable assets such as works of art as these can occur prohibitive tax charges. The business then leases the asset from the pension fund and makes monthly payments for the privilege.

Alternatively, the asset can be used as collateral to secure a pension loan. SSASs – not SIPPs – can make loans to the business of up to 50% of the fund's net value. The loan must be on a commercial and repayment basis, with a maximum term of five years and secured as a first charge against an appropriate asset with a value at least equal to the outstanding loan.

The principles of pension-led finance can be applied to a business's intellectual property (IP) assets, such as patents, copyright, designs, brand or trademarks – assets that businesses often fail to capitalise on.

"The accountancy profession has been aware of pension loans as a funding route for a long time," says Adam Tavener, chairman of



Bristol-based financial services provider Clifton Asset Management. "Intellectual property as an appropriate asset for a pension fund to hold is relatively new. It stems from the 2004 Finance Act." With its Optimise product, Clifton has pioneered pension-led asset finance based on IP and has helped more than 1,000 business owners secure funding.

The average customer that Clifton helps with IP-based, pension-led funding is aged 55 and has a pension pot of £200,000, from which they draw down £125,000. Tavener

says the director or directors applying for the funding need to have a minimum pension pot or combined pot of £50,000 to make it viable. The pension fund can theoretically invest 100% of its value in IP, Tavener says. But he adds, "In reality, for reasons of good housekeeping we would not let business owners go beyond 60%-70% of the total pension fund."

Tavener emphasises that the costs of IP-based, pension-led asset finance compare favourably with other funding methods. A five-year loan for £100,000

The costs of IP-based, pension-led asset finance compare favourably with other funding methods

from a high-street bank at a rate of 5.5% would effectively cost £30,000 while a similar sum raised through Optimise would cost £12,000.

Meanwhile, the pension fund receives a string of licence fee payments for the intellectual property it has bought and is therefore a net beneficiary of the cost of funding the business.

"With the exception of the fee, virtually all the costs of borrowing the money are repaid into your pension scheme, making it larger, rather than going to the lender," Tavener says.

The payments the company makes to the pension scheme for use of the IP are 100% tax-deductible and the pension fund will pay no tax on the income it receives or on any gain it makes while the IP is held in the pension fund. And if the business revenue rises, the value of the IP will increase and the pension fund can sell it back to the company, making a profit.

When a business owner comes to sell, the fact that their pension fund owns the business's IP is not an obstacle, according to Tavener. The pension fund can sell the IP back to the business for an appropriate sum of money, which may be

more or less than it paid for it. If the business is sold to family members, the IP is sometimes even retained in the fund.

It is possible for start-ups to access IP-based, pension-led finance but there are restrictions. "They have to have a good business plan and a way of proving that other businesses with similar business plans have been successful," says Tavener.

But before directors start using their pension schemes to finance their businesses, they need to ask themselves a hard question: is their business worth investing in? If it isn't they shouldn't risk their pension. IP-based funding has to be a win-win for the business and the pension scheme. "The investment must be made with the purpose of generating a commercial profit for the pension scheme," Tavener insists.

The most obvious risk associated with this form of finance is that if the business fails, the owner will be left not only without a business but also with a giant hole in their pension fund. "IP valuation is a big problem because it's so fluid at any given point in time, which is often why it's kept off-balance sheet in the first place," says Louise Howard, senior counsel in the pensions team at law firm Taylor Wessing.

"Is the value going to be maintained over a long period? If a company gets into trouble, the first thing to fall away is the goodwill. The pension fund can find itself in the difficult position of having bought something that rapidly becomes worthless. The failure of the business

## CASE STUDY

### DMACK Tyres, Carlisle



In late 2008, Dick Cormack, managing director of DMACK Tyres, wanted to expand his business to produce its own brand of tyres. It was the worst possible financial climate for an SME looking for funding, so after his bank turned him down he settled on pension-led finance. Cormack had a pension fund with his previous employer. He drew down £175,000 (80% of his fund) and invested the rest in a SIPP with Clifton Asset Management. His SIPP bought the IP rights to his company's tyre brand and the company makes a monthly rights payment into the fund.

"It was a risk," says Cormack. "But I felt comfortable with what I was doing and knew I would be able to recoup the money."

It took just six weeks from Cormack's initial meeting with Clifton for him to get the funds and he describes the costs involved as reasonable. The company now makes racing tyres for the World Rally Championship and its annual revenue has shot up from £385,000 in 2008 to just under £6m in 2012.

and the devaluing of the IP asset are inherently linked."

"You have to make sure the valuation is right," says Andrew Roberts, a partner at actuarial consultancy Barnett Waddingham. "The company and the pension scheme might value the IP at different prices." He also believes it's sensible to prepare for a bad outcome. "The trustees need a valuation that reflects a worst-case scenario," he says. "The IP shouldn't just be of sufficient value when the loan is made. What value would the IP have if it all went wrong? It's much more prudent to lend against commercial property than intellectual property."

Howard questions the opportunism of businesses that have failed previously to put a value on their goodwill

suddenly "pulling something out of nothing". "Certain businesses have a value built entirely on IP and goodwill," she says. "Those businesses will have had to go to banks in the past and borrow against it. But when you've got a business that hasn't valued its IP in the past you're creating something out of the air."

Arguably, there is a fine line between IP-based asset finance and an unsecured loan. But the reality is that business funding of any sort is rarely without risk. "You can lose your house if you have a charge on it," Tavener points out. "Business owners know what they are doing and accept there is some degree of risk. But they will never wake up and say, 'I'm going to pull the rug on myself'. That's the biggest risk with lenders." ■

# To the power of one



The Legal Services Act has opened the door to the creation of alternative business structures, and it's not just for the lawyers. **Sandra Haurant** looks at what it will mean for accountants

**T**he Legal Services Act 2007 was billed as a seismic shift for the legal profession. The term "Tesco Law" was quickly coined, referring to the fact that the law effectively makes it possible to offer legal services in supermarkets, banks and other High-Street outlets and for the practices that are created to attract external capital. Many solicitors see the introduction of alternative business structures (ABS), which is supported by the Law Society, as an opportunity to be grasped.

But some in the legal domain are concerned that large companies could come in and scoop up smaller law firms to offer a one-stop-shop legal service, making small practices a thing of the past.

Of course the Act does not just affect

lawyers. It was designed to shake up the legal services industry, to introduce greater competition and to provide a better deal for consumers. But there are two key sides to it, both with the potential to have a large impact on accountancy and other professional services.

The one that got most of the attention is the infamous Tesco Law element. This lets non-lawyers apply to own, invest in or become partners in law firms, and provide certain legal services. Its introduction will allow accountants to offer certain services that previously only lawyers could.

This change clearly has the potential to reshape the way professional services are offered, and the way in which accountants are employed within legal firms. For the first time accountants employed in law firms could become partners and have a stake in the company.

But the other, less high-profile side of the Act is perhaps even more significant for accountants and the way accountancy practices are run in the future. The Legal Services Act opens the door to ABS. So for the first time it will be possible for multidisciplinary practices (MDP) to open and to offer a combination of services side by side. Accountants, estate agents, financial advisers, insurance brokers and lawyers could in theory all come together to provide a one-stop-shop for professional services.

"No one is under any illusion – this is potentially a major shake-up," says Mark Stobbs, director of legal policy at the Law Society. And yet, in spite of the potential impact on accountancy, the Legal Services Act 2007 has been broadly overlooked and indeed ignored by many outside of the legal profession, according to Imelda Moffat, solicitor and manager at ICAEW.

"The problem is with its title," observes Moffat. "Because it is called 'the Legal Services Act', a lot of the emphasis has been on lawyers. Nobody, within the legal profession or outside it, really thought about the other side of the story. If it had been called 'the Professional Services Act' I think its impact on other professions would have been far clearer. Because it's not just about lawyers. I think the bigger story in the future is going to be multidisciplinary practices."

ABS is still in its infancy and the first ABS firms were a mixed bunch, with the

emphasis on legal services. There are currently only two licensing bodies dealing with ABS applications – the Council for Licensed Conveyancers (CLC) and the Solicitors Regulation Authority (SRA). The first ABS was licensed by the CLC in October 2011. The SRA began accepting applications in January 2012, and the first ABS were approved in March 2012.

### THE EARLY ADOPTERS

Tesco is conspicuous by its absence from the current register of ABS firms, but in its place as a wide-reaching, well-known brand with fingers in many and varied pies is Co-operative Legal Services Ltd. Part of the Co-operative Group, Co-operative Legal Services was set up in 2006 offering legal advice and services limited to personal injury claims, will writing, probate and estate administration and employment law. Now that it has an ABS licence, granted in March, it plans to offer a full range of legal services, beginning with fixed-fee family law services later this year.

While Co-operative Legal Services is big – it hopes to create some 3,000 new jobs – another trailblazing ABS currently boasts a staff of two. Lawbridge, a Sidcup law firm run by husband and wife Michael and Alison Pope, applied to become an ABS as soon as applications were opened in January, and was licensed the day after the Co-op. Michael is a solicitor and Alison's background is in accounting and tax. But currently there are no plans to include accountancy in their portfolio of services.

"Being an ABS makes us equal partners, and means that if we take on staff, I will have some status," explains Alison. "But we will stay on the legal side. We won't be going into accountancy."

### FLEXIBLE FRIENDS

Another ABS licensee, Oxford-based real estate solicitors Plainlaw, applied to become an ABS because of the potential flexibility it would bring the firm in the future.

"We were early adopters of Limited Liability Partnership status, and were also recently one of the first firms to achieve the Law Society's Conveyancing Quality Scheme accreditation," says Philip Horn, senior partner at Plainlaw. "We see our ABS licence as a similar opportunity, as it gives us

additional flexibility in terms of structuring our business going forward. Our interest in the concept of ABS is driven more by the potential it offers us for the future than by our current circumstances, where we are not intending any immediate change."

Currently, then, the intentions of the first ABS firms do not suggest a surge towards MDP or a desire to bring accountancy into the same room as legal services on a large scale, rather a wish to benefit from the greater flexibility the structure offers. But, warns Moffat, the possibility is there and it is one that should be taken seriously.

"Accountants and other non-lawyers are slightly behind solicitors on this," she says. "But you have to be aware that perhaps the

Accountants, estate agents, financial advisers, insurance brokers and lawyers could in theory all come together to provide a one-stop-shop

entrepreneurial solicitor down the High Street from you is planning on employing an accountant and offering accountancy services. And I think once a sizeable legal firm builds up its accountancy side, things could be very different. Accountants need to be aware of that."

### POSITIVE CHANGE

The potential for change should not necessarily be seen as a threat, but as an opportunity. Which is part of the reason ICAEW is applying to the Legal Services Board (LSB) to become a licensing body for ABS, as well as a regulator of the reserved legal service of probate, says Claire Phillips, regulatory policy manager, professional standards, at ICAEW.

"It is about trying to anticipate and get into position," she says. "With ABS, it is anybody's guess how things will unfold but there is speculation that this could be a very big change. For smaller practitioners there

may be benefits to be had in going into partnership with others. For example, a classic model might be teaming up a solicitor, an independent financial adviser and a chartered accountant.

"ABS opens many doors. Previously, a lawyer could be employed by a firm of accountants but could not be called a solicitor or work in a client-facing role. ABS changes all that, and could include estate agents, financial advisers and a whole range of other professional services."

ICAEW consulted on its application between June and September. "It was a full public consultation and we were really keen to engage with members and stakeholders," says Phillips. The consultation will be followed by a formal application to the LSB. However, she says, the LSB has warned that the application process could take up to 12 months. In the meantime members who are interested can contact ICAEW to discuss the opportunities of becoming an ABS.

The potential for change in the industry thanks to the introduction of ABS, and consequently the likely growth of MDP, may be significant. But for entrepreneurial accountants there are fresh opportunities that have never before been available.

The trick will be to find a way to benefit from them before competitors do the same, warns Moffat: "The Legal Services Act was the earthquake, but the real seismic shift will be in the aftershocks. It remains to be seen what will happen, but I think that in five years' time the landscape for professional services will be very different indeed." ■

### MEMBER PANEL VIEW

Although we may consider the possibilities for different business structures in the future, we see a more immediate benefit from the changes. From our point of view, the proposed change that interests us the most is ICAEW's application to become a licensing body and the potential of being put on a level footing with solicitors for probate work. We currently help a lot of clients within this area of expertise but are hampered by the restrictions placed on us. In future, we could be in an ideal position to deliver this service to our clients.

Kara Williams, Ellis Lloyd Jones

# Big strides with a smaller footprint

Carbon accounting is far more than PR value and hot air. **David Adams** finds out how saving the environment can dramatically boost the bottom line

**N**ot so long ago, a business owner would have laughed if you'd asked about their company's carbon footprint. Such attitudes are unusual today, partly because of regulatory pressure but also because carbon accounting is proving to be good for the bottom line and investor relations, as well as for compliance, corporate social responsibility and public relations.

The Carbon Reduction Commitment (CRC) regime introduced in 2010 (now the CRC Energy Efficiency Scheme) requires organisations that consume the most energy – those consuming 6,000 megawatt hours of half-hourly metered electricity per year – to report on energy use. This data is then published in a league table.

The government is conducting a consultation exercise aimed at simplifying the CRC but the scheme is all but certain to stay and may well be extended to a wider range of organisations.

Another key regulatory change will be mandatory greenhouse gas emissions reporting for all businesses listed on the main market of the London Stock Exchange from April 2013. Announced by deputy prime minister Nick Clegg at the Rio +20 conference in June, it will be reviewed in 2015. It may then be extended to cover more companies.

At its most basic, carbon accounting measures three scopes of emissions. Scope one relates to sources owned or controlled by an organisation, such as vehicles and boilers. Scope two includes emissions from bought energy such as electricity. Scope three covers indirect emissions resulting from business activity, such as waste, water and air travel. Scope three is the largest source of emissions for many companies but often the hardest to measure as it covers emission sources not owned or controlled by the company.

Carbon Trust consultant Louisa Ziane

points out that carbon doesn't just signify cost but also risk. This is particularly so for scope three since that applies to the supply chain and what happens to goods and services once sold to customers. "You may want to look at risks in different countries, such as energy prices, which might affect the cost of raw materials, or labour risks," she says.

One of the most influential organisations promoting carbon accounting is the Carbon Disclosure Project (CDP), an independent, not-for-profit organisation that helps other organisations measure, manage and reduce carbon and greenhouse gas

"The longer you put off carbon accounting the more it will cost"

emissions, water use and related risks. It works with thousands of companies and with about 655 institutional investors that hold more than \$78trn in assets.

The CDP is also a leading member of the Climate Disclosure Standards Board (CDSB), a consortium of business and environmental organisations that has worked with ICAEW, equivalent bodies abroad and big accountancy firms to create the climate change reporting framework. This is designed to be compatible with all existing carbon accounting and greenhouse gas emissions measurement standards, including the Greenhouse Gas (GHG) Protocol developed by the World Resources Institute and the World Business Council for Sustainable Development.

"One important thing is that it tried to move beyond just asking 'what's the carbon footprint?'," says Richard Spencer,

head of sustainability at ICAEW. "It's a framework that has to be linked to regulatory and other risks, and to performance. This stuff can have an immediate effect on your bottom line."

CDP's chief executive Paul Simpson cites IT company Logica, which identified £10m of potential cost savings when it measured carbon use, as a good example.

There can be valuable savings for smaller companies too. Some are working on carbon accounting because their key business partners – larger companies or organisations seeking to reduce their own scope-three emissions – have asked them to do so. But many of these companies soon gain significant benefits as a result. "For an SME in this economic climate any opportunity to reduce costs is important," Ziane points out.

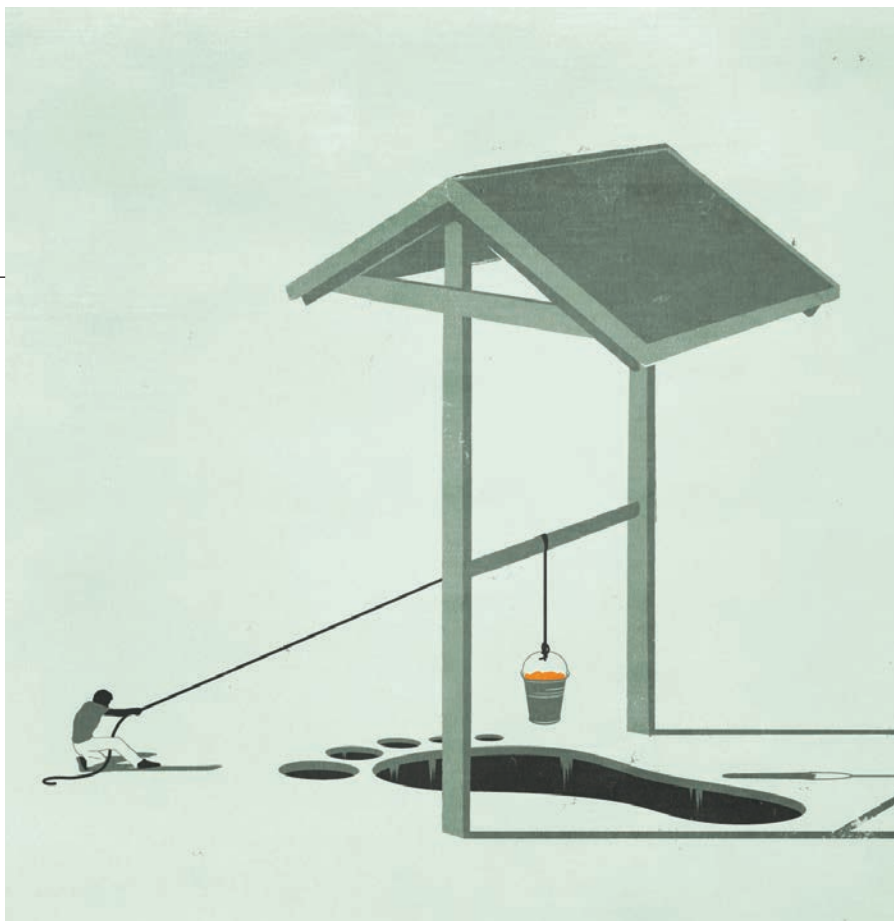
Accountancy and advisory firm HW Fisher & Company has developed a range of energy and carbon audit services for clients, including SMEs. "Before we carry out the work, we give a client a rough idea of what savings could be made and what our fees would be," says Simon Mott-Cowan, partner at HW Fisher. "In every scenario we've been able to save them more than we've charged, in the first year."

Among the firm's clients are London

## MEMBER PANEL VIEW

Carbon accounting is an important mechanism that extends the field of governance to energy use. The primary reason for action is to reduce greenhouse gas emissions. But carbon is a complex reality to measure and account for. Equal focus needs to be directed towards operational efficiencies and on making information more reliable, comparable and valuable for stakeholders.

**Carla Edgley, Cardiff Business School**



restaurant Kitchen W8 (see box right). And on a grander scale Microsoft is attempting to become carbon neutral during this financial year. It operates an internal market that charges fees to divisions of the company for carbon use, while improving environmental efficiency in data centres, laboratories, offices and air transport. The company will also share best practice with its hundreds of thousands of business partners.

"We believe that the opportunity here is to lead by example," explains Josh Henretig, Microsoft's director of environmental sustainability.

Sportswear manufacturer Puma has published its environmental profit and loss performance. Malcolm Preston, partner and global leader on sustainability and climate change at PwC, which worked with Puma on this, explains that the company studied its greenhouse gas emissions, other gas emissions, water use, waste and land use. Examining environmental impact all the way down the supply chain to the agricultural production of cotton, leather and rubber has helped to guide Puma's strategy for sustainable growth. This has given it valuable risk management and competitive advantages, says Preston.

One problem some businesses face when trying to publicise work on carbon

accounting or sustainability is the accusation of greenwash – empty climate change gestures. Carbon offsetting often comes in for criticism in this respect.

"Companies need to demonstrate that they've done as much as they can before they go to offsetting," says Ziane.

"Measurement is very important as a starting point. Then they should look at reducing emissions through energy efficiency and maybe renewables – perhaps offsetting as a final step.

"If you account properly for emissions and you're reporting them, people can judge for themselves whether you're greenwashing."

Ultimately, the best reason of all to practise carbon accounting is not because it makes you look good but because it saves money, says Jae Mather, director of sustainability at HW Fisher.

"It's much easier to reduce costs than to increase sales," he says. "It's not necessarily about doing everything you can, but about knowing how to get started. The longer you put it off the more it will cost." ■

**Further information**  
ICAEW: [icaew.com/en/technical/sustainability](http://icaew.com/en/technical/sustainability)  
CDP: [cdproject.net](http://cdproject.net)  
GHG Protocol: [ghgprotocol.org](http://ghgprotocol.org)  
Carbon Trust: [carbontrust.com](http://carbontrust.com)

## CASE STUDY: WINCANTON

Logistics service provider Wincanton claims its efforts to improve environmental performance are helping it win and retain clients. It reports its carbon use to the CRC, the Carbon Trust, the CDP and the Freight Transport Association's Logistics Carbon Reduction Scheme.

"The CRC brings [carbon accounting] to the attention of senior figures within the company because there is a bill to pay each year," says Steve Tainton, Wincanton group energy sustainability manager.

"With the Carbon Trust, you show you are good at measuring and managing carbon. If that's important to a client it may give you an advantage.

"When it comes to the CDP we've had investor groups contact us and say, 'we notice your score is this, what are you doing about it?' Our chief executive has had letters from groups of investors saying 'well done for your score'."

The company is open to cutting carbon use by switching fuels or vehicles and it is looking at operational adjustments that will allow services for multiple clients to be combined. Wincanton already uses longer trailers on its vehicles, cutting emissions and delivering a 15% productivity rise and up to £400m in cost savings each year.

## CASE STUDY: KITCHEN W8

HW Fisher recently conducted a carbon audit on Kitchen W8, a Michelin-starred restaurant in Kensington, west London. "We will be implementing some of the recommendations immediately," says the restaurant's co-owner Rebecca Mascarenhas. "Restaurants are very energy-intensive. All recommendations that reduce energy consumption are of huge financial importance. From a corporate ethics point of view it's something we do naturally, so it's altruistic and financial. It's quite a time-consuming process gathering the necessary data, but HW Fisher made it painless."

The main change will be replacing the restaurant's lighting with LED lights. "That will provide the biggest payback: in a restaurant lights are on from nine in the morning until midnight, seven days a week," she says. "That's a lot of light bulbs and a lot of energy."

HW Fisher also highlighted equipment wear and tear issues. Mascarenhas says, "By using timer switches, optimising voltage and not hammering everything all the time we'll look to have a longer lifespan for equipment and reduce maintenance and replacement costs."

# A reprimand, a guilty verdict and an exclusion

Failure to answer correspondence, a finding of incompetence and exclusion for not paying VAT

## DISHONESTY AND INCOMPETENCE

**F**ormer ICAEW member Gary Toulson faced a total of 19 heads of complaint – including dishonesty and incompetence – when his case came up before the disciplinary committee tribunal.

Most of the heads related to his incompetence as a practising accountant. His work was so bad that in one set of accounts he prepared, he showed cash at bank and in hand of £674,723 when the two bank accounts only contained a total of £39,324. For the same client he filed abbreviated accounts at Companies House for 2009 that he had simply copied over from the 2007 accounts. The tribunal found that his work was of such “a deplorably low standard”, it amounted to professional misconduct.

Three of the heads related to Toulson’s alleged dishonesty and concerned money sent to him by clients to discharge tax liabilities. He argued that the money would have been “forwarded on to the appropriate authority” and said he did not know why the payments hadn’t discharged the tax liabilities they were meant to discharge.

The tribunal found that the heads hadn’t been proved “on the balance of probabilities” in the first two instances but there was sufficient evidence to convict on the third. This involved a sum of £10,952.49 which Toulson admitted had been transferred to him. The client incurred a penalty for failure to pay the VAT and when it contacted him, he said the liability had been paid when it had not. The tribunal would have excluded Toulson but was unable as he was no longer a member. It was recommended that application for readmission should not be entertained for five years.

## EXCLUDED OVER VAT

**A** member has been excluded after an accountancy services company of which he was a director failed to pay its VAT liability despite demands from HMRC. The company went into administration and he was disqualified from acting as a company director for four years.

Andrew Stuart became a director of London Global Ltd (LGL) in October 2004 and sold the goodwill in his previous business to the company for £202,500. He didn’t take any cash and the money was treated as a director’s loan. LGL went into administration in June 2007 with debts of £156,547, of which £116,548 was due to HMRC.

Stuart bought LGL’s goodwill for £48,000. He then emailed ICAEW to say that LGL had ceased trading but did not explain why. The institute only found out when the Insolvency Service sent a copy of Stuart’s undertaking not to act as a company director. In it, he admitted that LGL had never paid VAT, leaving an outstanding £86,210 owed to HMRC. He also admitted that he had caused LGL to make loan repayments of £85,468 to him in respect of the goodwill loan and to pay dividends to his co-director totalling £68,250.

## RESPONSE NEEDED

**T**he ICAEW Code of Ethics states that professional accountants should always conduct themselves with courtesy and consideration. It’s a fundamental principle that Chantrey Vellacott tax partner John Keating should have remembered when he failed to answer correspondence from a former partner and ICAEW.

Keating is one of six surviving partners of Hill Vellacott (Chantrey Vellacott’s predecessor firm) who are potentially

liable for a statutory debt of £79,650. This represents the former firm’s apportioned liability for the deficit in the Chartered Accountants Employees’ Superannuation Scheme which was being wound up.

Keating contended that he had a letter of indemnity which excluded him from liability but when former partner Robert Thomson emailed him on 1 September 2010 asking for a copy, he did not reply. Nor did he respond to subsequent letters, phone calls and emails sent to him over the next six months by Thomson and the other four partners involved and by ICAEW staff. Thomson then complained to the institute.

At the disciplinary committee tribunal, Keating apologised for his lack of response. He said that he had been trying to make progress on the matter internally but he had been angry at Thomson’s actions and had allowed it to cloud his judgment.

The tribunal said that Keating had been at fault in allowing the matter to drag on unresolved and for ignoring ICAEW’s attempts to contact him. He had failed to comply with fundamental principle (e) and the ethical code, for which he received a reprimand, a fine of £1,150 and was ordered to pay costs of £2,400.

## UNFIT FOR MEMBERSHIP

**A** disciplinary committee tribunal has ruled that former Deloitte trainee Nahied Kabir is unfit to become an ICAEW member.

Using an NHS letterhead, he forged a letter from a non-existent doctor who was supposed to be treating his sick mother in an attempt to deceive Deloitte after he had failed a number of his chartered accountancy exams.

The tribunal described Kabir’s actions as “dishonest conduct... of the most severe kind.”

# Report listings

The reports that follow are summaries. The full findings are available from [icaew.com/publichearings](http://icaew.com/publichearings) or from the professional conduct department, ICAEW, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ

## CESSATION OF MEMBERSHIP

The following have ceased to be ICAEW members for failure to pay outstanding fines and costs.

- Brian Brake of London
- Julie Sanders of Cheadle, Cheshire
- Michael Anthony of Singapore
- Ashok Valera of Ilford
- Po Choi Chu of London

## INVESTIGATION COMMITTEE CONSENT ORDERS

- Rakesh Patel of 35 Bellflower Road, Leicester LE5 1TS

**Complaint** He was a member of X, a limited liability partnership engaged in public practice which had a winding up order made against it on the grounds of insolvency in 2010. He then entered into an individual voluntary arrangement under the provisions of the Insolvency Act 1986.

**Order** Reprimanded and ordered to pay costs of £1,149.

- Rebecca Gardener of Braeside, 7 Heol Y Pentre, Penttyrch, Cardiff CF15 9QD

**Complaint** Between 2007 and 2011, she engaged in public practice through X without being in possession of a practising certificate, contrary to ICAEW's principal bye-law 51(a). She also engaged in public practice through X between 2007 and 2011 without professional indemnity insurance as required by regulation 3.1 of the Professional Indemnity Insurance Regulations. **Order** Reprimanded and fined £500.

- Kent Sam Sing Wong of Astoria House, 62 Shaftesbury Avenue, London W1D 6LT

**Complaint** He failed to ensure that his firm complied with the requirements of the Money Laundering Regulations 1993 in that, from 2005 to 2007, he failed to ensure that he had any sufficient client identification evidence, and from 2007 to 2012, he failed to complete client identification procedures by reference to original documents. Furthermore, between 2005 and 2012, he failed to ensure that clients were notified in writing of the firm's complaints procedures and between 2005 and 2012, he failed to comply with confirmations he gave to ICAEW's Quality Assurance Department in an email dated 2005 that he would: revisit the adequacy and evidence of identification checks he had made on new clients taken on after 1 March 2004; and write to his clients notifying them of his complaint procedures.

**Order** Severely reprimanded, fined £5,000 and ordered to pay costs of £1,015.

- David Sinclair of Churchill House, 120 Bunns Lane, London NW7 2BA

**Complaint** On 20 December 2010, he was subject to a partial prohibition order and ordered to pay a financial penalty by the Financial Services Authority in connection with his conduct while a director and controlled function holder of X Ltd in the period 1 October 2008 and 5 November 2009.

**Order** Severely reprimanded and ordered to pay costs of £2,680.

- Alison Knapper of 9 Hawthorne Place, Clitheroe, Lancashire BB7 2HU

**Complaint** On or about 11 March 2010, she behaved in a manner which was contrary to section 110

of the Code of Ethics (Integrity) when she accessed areas of her employer's computer system.

**Order** Reprimanded, fined £500 and ordered to pay costs of £900.

- David Shalom of 9 Valley Road, Cheadle, Cheshire SK8 1HY

**Complaint** Between 2010 and 2012, he engaged in public practice without holding a practising certificate, contrary to principal bye-law 51(a).

**Order** Reprimanded, fined £1,500 and ordered to pay costs of £992.

- Michael Carolan of 196 Hoppers Road, London N21 3JX

**Complaint** On 15 July 2011, he was convicted in Enfield Magistrates Court of acting contrary to s 170(4) of the Road Traffic Act 1988 and Sch 2 to the Road Traffic Offenders Act 1988 in that he failed to stop following a road traffic accident on 2 April 2011.

**Order** Reprimanded, fined £2,000 and ordered to pay costs of £1,880.

- Anthony Leon of 4 Westfields, Hale, Altrincham, Cheshire WA15 0LL

**Complaint** Between 2007 and 2012, he engaged in public practice without holding a practising certificate, contrary to principal bye-law 51(a).

**Order** Reprimanded, fined £1,500 and ordered to pay costs of £992.

- Vincent Finnegan of 4 Fulmer Chase, Stoke Common Road, Fulmer, Slough SL3 6HB

**Complaint** Between 2009 and 2011, he engaged in public practice without being in possession of a practising certificate, contrary to principal bye-law 51(a). Also, between 2009 and 2011, he engaged in public practice without professional indemnity insurance, as required by regulation 3.1 of the Professional Indemnity Insurance Regulations.

**Order** Reprimanded, fined £500 and ordered to pay costs of £867.

## AUDIT REGISTRATION COMMITTEE ORDERS

- Beever and Struthers, St George's House, 215-219 Chester Road, Manchester M15 4JE

**Breach** The firm failed to comply with the requirements of APB Ethical Standard 2 and was therefore acting in breach of audit regulation 3.01 when partners in the Blackburn office acted as trustees for four trusts whose major assets were shares in audit clients of the firm.

**Order** A regulatory penalty of £5,750.

- ma2 ltd, 5 Crescent East, Thornton Cleveleys, Lancashire FY5 3LJ

**Breach** The firm's 2009, 2010 and 2011 annual returns were not completed accurately in breach of audit regulation 6.06.

**Order** A regulatory penalty of £1,000.

- Price Bailey LLP, The Quorum, Barnwell Road, Cambridge CB5 8RE

**Breach** Between 2008 and 2011 a person in a position to influence the conduct and outcome of the audit acted as trustee in a trust that held a financial interest in an audit client that was material to the trust. As a result, the firm was in breach of audit regulation 3.01.

**Order** A regulatory penalty of £3,500.

- David Smith & Co, 41 Welbeck Street, London W1G 8HH

**Breach** The firm failed to comply with the requirements of the audit regulations.

**Order** The firm's registration as company auditor was withdrawn on 2 July 2012 under audit regulation 7.03(g) of the Audit Regulations and Guidance 2008.

# THE COST OF AMAZING

Working out the real cost of car ownership is a complex business, but Lexus can help

In times of austerity it is natural to focus on value. And the cost of motoring remains a major headache, with the desire to cut budgets increasingly in conflict with inexorable rises in the cost of motoring. This is compounded by the fact that calculating the true total cost of owning a vehicle remains complex.

Fortunately fleet managers can use a number of tools to help them manage the fleet costs. These calculators work on the basis that while costs and values vary by location and driver, there are trends and cost bands that can help decision-makers make the most informed choices.

Lexus has been at the forefront of providing drivers and fleet managers with information on the models within its range. In simple terms, the total cost of ownership is about recognising that any purchase decision should look beyond the headline OTR price. While this will play a major part in the calculation of total cost, there are several more nuanced factors including details such as fuel consumption, taxes and insurance.

It is no surprise Lexus has been so upfront on the total cost of owning its



## £10,620

The three-year saving if a firm opts for a RX450h rather than the comparable ML350

## £6,003

The amount the RX450h saves in tax over BMW's X5

## £7,314

The saving from RX450h over the Range Rover Sport

vehicles, because when comparisons are made, their vehicles fare well.

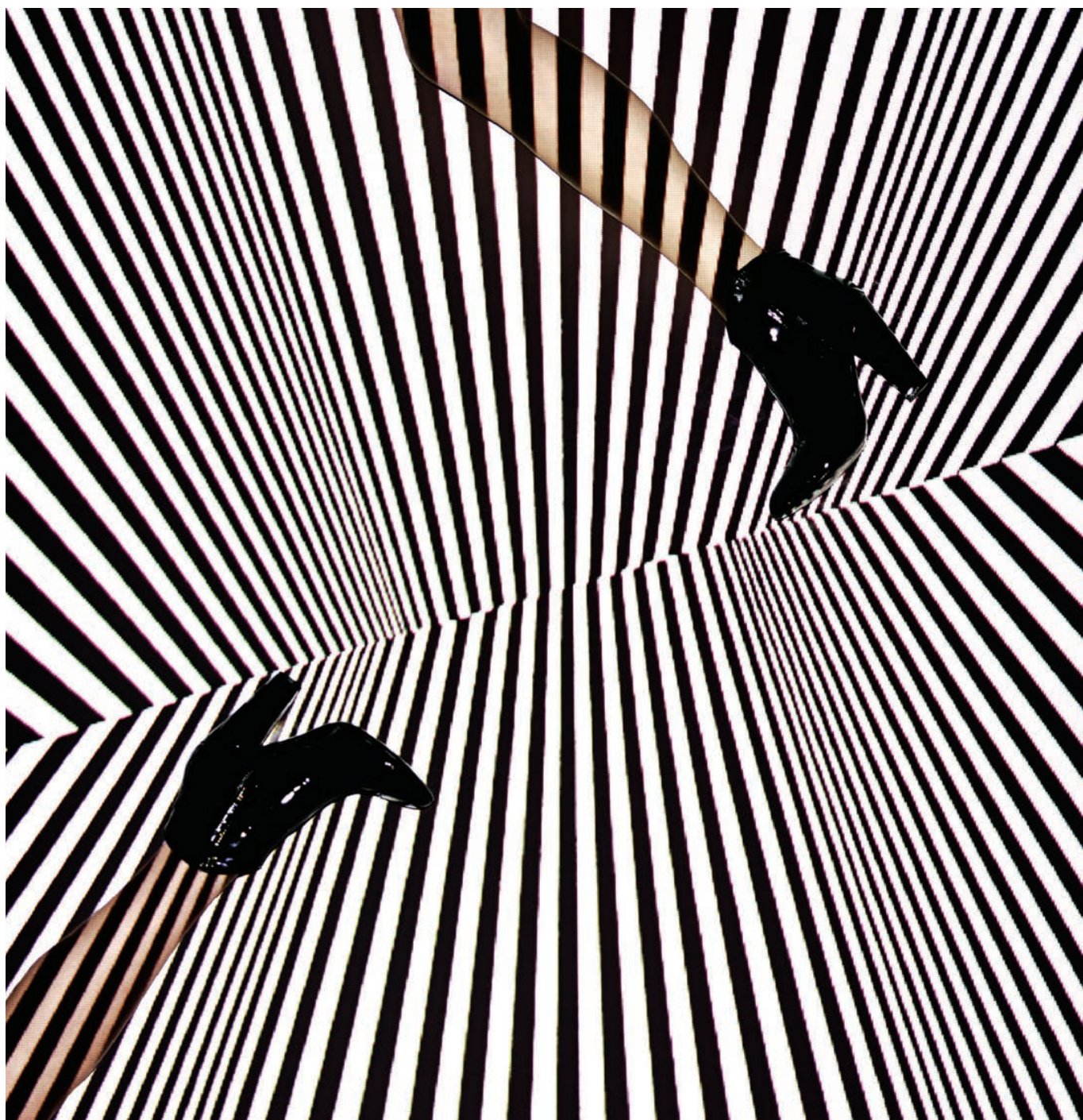
As the example below shows, as well as being cheaper than a comparable Range Rover Sport, the total cost of ownership shows the RX450h to be a much smarter choice, with a total saving to the company of over £7,000, with the employee saving almost £6,000. The same is true for a comparable BMW X5 or Mercedes ML350, (with the latter costing the company over £10,000 more). And the numbers don't consider the luxurious feeling that comes as standard with Lexus and which is better described as the joy of ownership.

To calculate the true cost of tax, visit: [m.lexus.co.uk/company-cars/company-car-tax-calculator/index.tmxex#/CarTaxCalculator](http://m.lexus.co.uk/company-cars/company-car-tax-calculator/index.tmxex#/CarTaxCalculator).

Make	Lexus	Range Rover	BMW	Mercedes-Benz
Model	RX450h	Sport 3.0 SD V6	X5 3.0d SE Auto	ML350 3.0CDi BlueTEC Auto
OTR Price	£44,495	£49,795	£45,070	£48,490
MPG	44.8	32.1	38.2	39.2
CO2 g/km	145	230	195	189
Company Costs over 3 years and 60,000 miles				
Servicing	£3,181	£3,512	£3,093	£4,191
Insurance	£5,445	£5,325	£5,550	£5,550
National Insurance	£4,201	£6,178	£6,272	£6,356
VED	£135	£250	£250	£270
Cost for 3 years	£38,481	£45,795	£45,495	£49,101
RX450h saves your firm	-	£7,314	£7,014	£10,620
Driver Costs over 3 years and 60,000 miles				
Tax Band %	20, 21, 22	33, 34, 35	33, 34, 35	31, 32, 33
BIK cost (40%)	£12,175	£17,907	£18,178	£18,422
RX450h saves you	-	£5,732	£6,003	£6,247

# Life

"I have learned that what is important in a dress is the woman wearing it" Yves Saint Laurent



TRUNK ARCHIVE / MATTHEW DONALDSON

**Leisure and life** – turn on and tune in with the latest **gadgets**, try Britain's £21bn **fashion industry** on for size, **enjoy a meal** and then stay for the night or, if that doesn't work, sip on a **wee dram** of the world's finest whiskies to relax

# SEE HOW THEY SHINE

With something for everyone from the materialist to the philanthropist, **Penelope Rance** rounds up gadgets to make you feel good



## NIKE+ SPORTWATCH GPS LIMITED EDITION

**Price: £149**

**store.nike.com**

SportWatch combines TomTom GPS for tracking pace, distance and time with an accelerometer, which does the job indoors. The upshot is consistent stats, which can be fed into a spreadsheet. A USB port on the strap allows direct uploads to a computer as well as battery recharging.

**Verdict:** Easy to use, but the Run Reminders could result in this stylish item being locked in a drawer.



## PHILIPS DS6600 SOUNDSPHERE

**Price: £379**

**philips.co.uk**

As well as great design, these speakers sound very good. There's an iDevice dock on one speaker that's compatible with most cases, and a 3.5mm input means they are not Apple-exclusive, plugging directly into a PC or Mac. Compatibility with the DockStudio and Fidelio apps adds web radio, music sharing and alarm features.

**Verdict:** Sounds good, looks better.



## CROSSKASE SOLAR 15 BACKPACK

**Price: £139.99**

**crosskase.com**

A backpack with a three-watt solar panel that will charge most handheld devices. The panel trickle-charges in low-level sunlight and bright artificial light, so you should never go flat. Positives are the space for a 15-inch laptop and compartments for an iPad and iPod. Down side is the 1.7kg empty weight.

**Verdict:** Heavy on both price and shoulders.



**OLPC XO-3**

**Price: Less than \$100**  
**one.laptop.org**

Designed as part of the One Laptop Per Child campaign, this is a tablet with a heart. The XO-3 has a rugged screen and can be recharged by in-built solar panel or with a hand crank. Its Linux-based operating system ensures it can do anything a laptop can. It's no gimmick but a genuine learning tool. To be released when it finds a finance partner (if you're interested).

**Verdict:** Proof that technology is used for good.

**POWERSKIN SPAREONE**

**Price: \$59.99**  
**power-skin.com**

In a world of smartphones, the PowerSkin SpareOne is refreshingly low-tech. There is no screen, just a keypad, and it's powered by an AA battery. Its makers claim it'll stay juiced-up for 15 years, without use. It's designed to make emergency calls, and needs no SIM card to do so – although one is required to call anyone else. Available in the US, UK to follow.

**Verdict:** Ideal for car, life raft or fallout shelter.

**CANON EOS 60DA**

**Price: £1,099**  
**canon.co.uk**

If you're interested in taking pictures of the stars then this is the camera for you. The only down side is that urban light pollution distorts the images.

**Verdict:** Good enough for Brian Cox.

**TOMTOM VIA 130 EUROPE**

**Price: £149.99**  
**tomtom.com**

The Speak & Go feature recognises 1,000 vocal commands. At the end of a long day, just yell, "take me home!" and it will, though it won't drive. The Via 130 also has a 4.3 inch touchscreen, in case you lose your voice.

**Verdict:** Never lose your way, or your cool, again.

**BMW C EVOLUTION ELECTRIC SCOOTER**

**Price: TBC**  
**bmw.co.uk**

The BMW C Evolution electric scooter promises to step beyond the prototype and become a commercial reality. It boasts a top speed of nearly 75mph and a range of up to 62 miles courtesy of its 8kWh battery. The air-flow cooled battery can be charged from a household socket, taking less than three hours to fill up, or at an on-street EV charging station.

**Verdict:** Cool, but likely to be costly.

# CREATIVE ACCOUNTING

The UK fashion industry is more than frocks and frills, it's a £21bn creative success story. But **Iwona Toke-Wilde** discovers that a British label isn't enough to ensure a profitable brand

What do accountants know about fashion? A great deal, apparently. Jaeger, one of Britain's oldest fashion houses, was founded in 1884 by Lewis Tomalin, a London accountant and head of finance at a large City grocer. He was inspired by a German professor of zoology and physiology, Dr Gustav Jaeger, who claimed people would be healthier if they wore clothing made from animal hair and wool rather than from cotton. Animal fibres, especially when worn against the skin, were thought to help rid the body of noxious vapours.

Tomalin's first shop – near London's Moorgate and called Dr Jaeger's Sanitary Woollen System – proved to be a hit. Writers Oscar Wilde and George Bernard Shaw signed up to the sanitary system, as did explorers Ernest Shackleton and Captain Robert Falcon Scott. In the 1930s Jaeger changed its focus from health to fashion and, in its heyday, went on to dress Hollywood stars Vivien Leigh, Marilyn Monroe and Audrey Hepburn and later British style royalty Marianne Faithfull, Twiggy and Jean Shrimpton.

Fast forward to April 2012 and the retailer had 50 stores and 70 concessions across the UK, some of them threatened with closure after a rescue sale to Jon Moulton's Better Capital

for just under £20m, a sum roughly equivalent to Jaeger's total debt. At the same time, Jaeger's sister company Aquascutum, manufacturer of iconic trench coats, collapsed into administration. Hong Kong-listed fashion retailer YGM Trading Ltd, which already owned Aquascutum's license for Asia, bought its worldwide license from the administrators for £15m.

The fortunes of Burberry, Aquascutum's trench coat rival, could not be more different. Both brands were founded in the mid-19th century and each cashed in on their British heritage. Yet only Burberry seemed to find new opportunities. Although it reported last month that it expects adjusted profit before tax for the 12 months to 31 March 2013 to be "at the lower end of market expectations", its total revenue for the quarter to June 2012 was £408m. And Burberry says it continues to see strong sales growth in Asia.

"Burberry has exploited the ethos of 'classic with a contemporary twist' with its diffusion lines and by acquiring previously divested overseas licenses," says Peter Saville, partner at corporate advisory firm Zolfo Cooper. "Aquascutum remained rooted in the past and the decision to concede licensing in Asian territories

contributed to the brand's demise. As well as targeting emerging markets, Burberry made bold decisions such as bringing in outside management help," adds Saville, referring to the company's American CEO Angela Ahrendts.

So, is the success of the top British fashion houses linked to the fact that those making financial decisions behind the labels – the management, as well as investors and customers – are largely non-British?

"The UK has a long history of importing CEOs and sometimes it seems they are

## SPOTLIGHT ON BARBOUR

Founded in 1894 the country clothing firm J Barbour and Sons celebrated 100 years since its incorporation this September.

The British-owned and British-made company posted strong annual results for 2010\*, with turnover rising from £74.5m to £89.8m and pre-tax profits from £10.2m to £11.3m. Overseas turnover was up from £42m to £45.6m, while UK turnover rose from £32.5m to £44.2m. Based in South Shields, the company plans to open more stores in the US, Germany and other countries.

\* Barbour's financial statements for year end 31/12/11 came out on 30/09/12 after this issue went to press. See [economia.icaew.com](http://economia.icaew.com)



better at turning our brands into marketable commodities," says Paul Alger, international affairs director at the UK Fashion and Textile Association. "Church's and Belstaff have been transformed by Italian ownership, too. But these brands were successful before they were bought out. Their continued success lies in a combination of market savvy and awareness of what had made them appealing in the first place."

Prior success can guarantee foreign ownership, though. Stella McCartney is a joint venture with French company PPR and Church's Shoes now belongs to Prada. Paul Smith is 40% owned by a Japanese company, the controlling interest in Mulberry belongs to a Singaporean billionaire and Gieves & Hawkes was acquired by Hong Kong's Fung family for US\$147m last April.

"Heritage styles and British eccentricity make dressing more interesting within cultures where the dress code is conservative. Burberry is also a status symbol and offers



*"Manufacturing quality products closer to home would make sense for generations of workers"*

Main picture: British fashion guru Paul Smith, whose business is now 40% Japanese-owned.  
Above: Japanese women are picking up on vintage British style

affordable luxury in China, where the middle classes are becoming wealthier," says Jaana Jätyri, founder of trend forecasting agency trendstop.com. "The currency markets have also helped boost sales in Asia. Over the past three years, sterling has lost about a third of its value against the renminbi."

Is it possible to rejuvenate Brand Britain's sales in Britain itself? Wendy Malem, director at the Centre for Fashion Enterprise, says: "The fashion industry needs a better understanding of finance as well as confidence in the investment markets to allow our top designers to scale up."

Long-term investment is where the UK falls down, agrees Alger. The British need to reassess their values, too. "As a nation, we should consume more responsibly. And we don't spend enough on our fashion to create a sustainable industry," says Alger. "Designers understand the home market wants something cheaper, so rows of formulaic goods are coming out of factories, especially in China."

Manufacturing quality products closer to home would make sense for generations of workers. But many of us cannot afford to buy EU-made products so volume production is unlikely to come back to our shores any time soon."

But the outlook isn't all doom and gloom. "Mulberry and Dunhill still craft products in the UK," says Malem. "Savile Row has an apprenticeship scheme that allows tailoring know-how to thrive. London and Northampton still make footwear and woollen fabric is still produced at Fox Brothers in Somerset. This high-level skill base is surviving, employing people, exporting and paying taxes to HMRC."

So today's accountants know a lot about fashion, it seems. As Toby Hargrave, accountant and former financial director in the food sector who now co-directs shoes e-tailer Oliveira says: "The basic business principles of providing a quality product at a fair price along with outstanding customer service apply to all sectors – including accountancy and fashion." And if Hargrave could go back in time and talk to Jaeger pioneer Lewis Tomalin, what trade secrets would he want to learn? "I'm fascinated by how some fashion items become timeless classics," he laughs. ■



PARTNER IN  
LEARNING



# Fast-track your accounting career with the BSc Applied Accounting and Business (in collaboration with ICAEW)

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**[www.bbk.ac.uk](http://www.bbk.ac.uk)**

**London's evening university**

## Head of Finance

**Location:** City of London (EC4R)

**Salary:** £65-80k + equity + bonus

**Employment basis:** Full Time

### Business outline

Hearthstone is an FSA regulated fund manager in the residential property sector. We recently launched the UK's first residential PAIF (Property Authorised Investment Fund), which enables retail investors, including those investing through ISA and SIPP wrappers, to invest in residential property from as little as £1,000. Several key hires are now being sought to expand the residential investment funds platform.

### Role description

The Head of Finance position is the main financial role within the business and reports directly to the CEO and the board. There is scope to move into a full CFO role as the business expands

- Overall responsibility for the day to day finance functions, including company secretarial and tax
- Production of monthly management accounts and associated Board commentary and reports
- Management of statutory accounts and year-end audit process
- Financial modelling and cash forecasting
- Primary contact point for suppliers, legal advisers and FSA compliance, including maintaining robust internal controls

### Candidate

The ideal candidate will be an ACA or CIMA qualified individual with experience of working in financial services, preferably fund management. Advanced excel skills are essential for the role. An understanding of residential property investment is desirable and previous experience within an FSA authorised environment will be highly valued.

Personally, you will have strong interpersonal skills and the desire to play an integral part in the growing Hearthstone team. The role is hands-on and you will need to be highly driven and able to work on your own without supervision. This is a fantastic opportunity to make your first move up toward board level within a fast-moving, entrepreneurial culture.

Interested candidates should send their CV to: **[recruitment@hearthstone.co.uk](mailto:recruitment@hearthstone.co.uk)** with details of current remuneration and describing how their experience would add value to the role.



# DINNER, BUT NOT TO GO

Enjoyed dinner so much you wish it could last all night?  
At our favourite restaurants with rooms, you will – and it can

## MAES-YR-HAF, PARKMILL, GOWER PENINSULAR

Set just off the narrow road that winds along the south coast of the Gower Peninsular, Maes-Yr-Haf is a pocket of sophistication. After a day spent getting sandy at Three Cliffs Bay it was a pleasure to retire to one of the elegantly furnished rooms for a bath before repairing to the restaurant to explore chef Ben Griffiths' daily menu. Local produce is abundant – mackerel, pulled from the sea just hours before, was a delight, as was tender asparagus from nearby Nicholaston Farm. Welsh lamb with pickled Penclawdd cockles was perfectly pink. On the vegetarian side the linguini was made local with Gower wild garlic pesto. A trio of Welsh cheeses including the justly named Celtic Promise lived up to their billing. [maes-yr-haf.com](http://maes-yr-haf.com)

## THE THREE CHIMNEYS, COLBOST, ISLE OF SKYE

Dinner at The Three Chimneys, followed by a stay in one of the six rooms in adjoining House Over-By, is a truly Hebridean experience. The restaurant is housed in a 120-year-old crofter's cottage. We opted for the Seven Courses of Skye. Seafood dominates, but what seafood – all five courses of it were glorious. Loch Dunvegan langoustines with tattie scones; smoked fish with Colbost skink and Talisker crumb; Loch Bracadale crab; oysters with Black Isle sirloin; and Sconser king scallops. The meat course was venison, served as pan-fried saddle and slow-cooked haunch, with Orbst nettle purry (mashed turnip). The marmalade soufflé with Drambuie syrup would have had us reaching for kilt and bagpipe, but any movement was impossible. [threechimneys.co.uk](http://threechimneys.co.uk)

### MENU

#### MAES-YR-HAF

Local mackerel, sourdough toast, Nicholaston Farm asparagus, veloute,	£7.45
feuilleté & shaved salad	£7.95
Welsh lamb, pea & wild garlic, pickled	
Penclawdd cockles	£22.00
Linguini, courgette & chilli, Gower wild garlic pesto	14.80
Welsh cheeses	£7.25

#### THE THREE CHIMNEYS

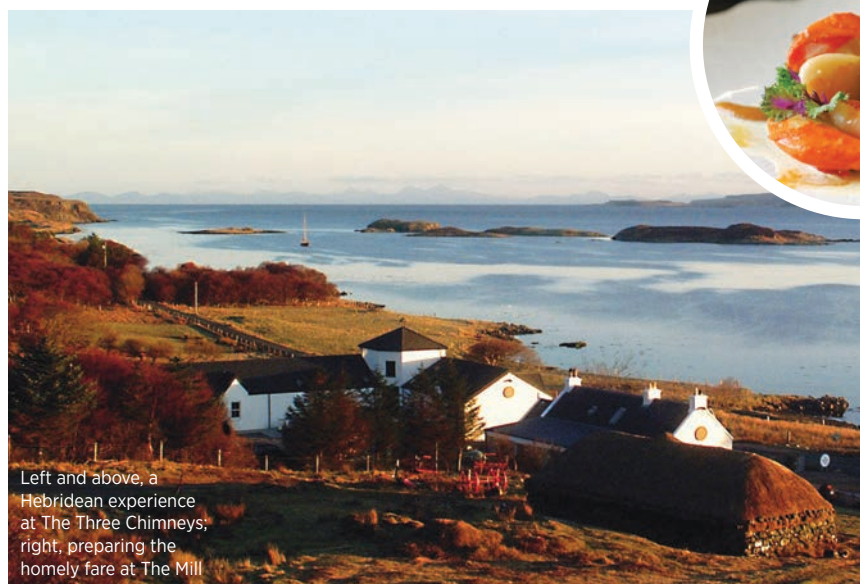
Seven Courses of Skye	£90.00
Extra course of cheese	£10.00

#### THE MILL RESTAURANT

Dinner at the Mill	€41.00
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## THE MILL RESTAURANT, DUNFANAGHY, CO. DONEGAL

A former flax mill, this family-run restaurant with rooms is the epitome of home-cooked comfort. With six bedrooms, each furnished with antiques, the Donegal welcome never fades. An aperitif in front of the open fire enhanced the pervading warmth, as did the local Irish menu. Warm rabbit with sautéed new potatoes and wild mushrooms was a taste of the fields, while Killybegs seabass came with chorizo and anchovy beignets. Roast Ballyare rib-eye with mini cottage pie and buttered leeks took me back to my Granny's kitchen. The chunky chips were as advertised – and were excellent. Naturally there were Irish cheeses to follow, but we opted for the baked apple terrine with cinnamon mousse. Mmm, homely. [themillrestaurant.com](http://themillrestaurant.com)



Left and above, a Hebridean experience at The Three Chimneys; right, preparing the homely fare at The Mill





**Blundell L**, Hitchin  
**Boardman J**, London  
**Boath J**, London  
**Boden T**, London  
**Bohles F**, Loughton  
**Bolam H**, Milton Keynes  
**Bonner J**, Grimsby  
**Booth D**, Wokingham  
**Booth G**, Derby  
**Bossy N**, Jersey  
**Bottoms A**, Macclesfield  
**Bourne R**, London  
**Bousfield K**, Sale  
**Boustead J**, Romford  
**Bower J**, Basingstoke  
**Boxall L**, Bristol  
**Boyle J**, Manchester  
**Braddick L**, Worcester  
**Braddock B**, Maidenhead  
**Braddock P**, Wigan  
**Bradford C**, London  
**Bradley J**, London  
**Branagh L**, London  
**Brereton T**, Kingston upon Thames  
**Brett S**, High Wycombe  
**Brewer J**, Portsmouth  
**Brierley V**, Huddersfield  
**Briggs O**, Wokingham  
**Bright L**, Manchester  
**Brighton O**, London  
**Brightwell A**, Marlow  
**Brimble T**, London  
**Briscoe C**, Cobham  
**Brogan C**, London  
**Brook R**, Leeds  
**Brooker C**, Marlow  
**Brooker L**, London  
**Brough A**, Macclesfield

**Brown A**, London  
**Brown E**, Gateshead  
**Brown E**, Loughborough  
**Brown J**, Manchester  
**Brown R**, London  
**Brown S**, Warwick  
**Brown T**, Durham  
**Bruce M**, Chelmsford  
**Bryan C**, Farnham  
**Buckley T**, Leeds  
**Buckley T**, London  
**Bucksey S**, Walton-on-Thames  
**Budd C**, Jersey  
**Bull C**, London  
**Bullock A**, Knutsford  
**Bullock T**, London  
**Bunch A**, Radlett  
**Burchell T**, Sevenoaks  
**Burge A**, Hull  
**Burge R**, Isle of Man  
**Burgess T**, London  
**Burke S**, High Wycombe  
**Burkinshaw T**, London  
**Burn L**, Milton Keynes  
**Burnham S**, Nottingham  
**Burnie A**, London  
**Burns M**, London  
**Burns V**, Sheffield  
**Burrell R**, Ilkeston  
**Burton J**, Waterlooville  
**Bury A**, Preston  
**Bush G**, London  
**Butcher C**, Redditch  
**Butler D**, Cockerham  
**Butts A**, Wigan  
**Byrne M**, Jersey  
**Byrtus A**, London  
**Bytheway T**, Northwich  
**Cahyadi A**, Singapore

**Caine M**, Bury  
**Caldicott H**, Matlock  
**Calvert S**, Sevenoaks  
**Cameron B**, London  
**Campbell K**, High Wycombe  
**Campbell L**, Duns  
**Carberry R**, London  
**Carmichael L**, Wickford  
**Carne S**, Southampton  
**Carter A**, Waterlooville  
**Carter J**, St Helier  
**Carter M**, Chippenham  
**Carter R**, Castleford  
**Carter S**, Northampton  
**Cassidy L**, Newcastle upon Tyne  
**Castanho K**, London  
**Catton A**, Stourbridge  
**Cayzer S**, Bristol  
**Chadwick J**, Manchester  
**Chadwick J**, London  
**Chamberlain E**, London  
**Chan C**, Kuala Lumpur  
**Chan S**, Petaling Jaya  
**Chan Y.Z**, London  
**Chance S**, London  
**Chandhoke R**, Derby  
**Chang W.H**, Petaling Jaya  
**Chantler M**, Wadebridge  
**Chapelov V**, London  
**Chapman C**, Kirkby Stephen  
**Charalambous E**, Nicosia  
**Charalambous L**, Larnaca  
**Charalambous M**, Nicosia  
**Charalambous S**, Nicosia  
**Charles O**, London  
**Charley M**, Coventry  
**Chatha G**, Coventry  
**Cheeseman J**, Sheffield  
**Cheetham G**, Selby  
**Chen D.C**, London  
**Cheng X**, London  
**Chernousova N**, Moscow  
**Cherrett R**, Southampton  
**Cheung J.J.F**, Birmingham  
**Cheung M.H.M**, Fleet  
**Cheung M.Y**, London  
**Chew H.L**, Kuala Lumpur  
**Chibber A**, Orpington  
**Chin J.K**, London  
**Chiu S.S.H**, London  
**Choi Y.T**, Newbury  
**Choitram N**, London  
**Chong A**, Bristol  
**Chong J.P**, London  
**Choo L.A**, London

**Choo S**, Petaling Jaya  
**Chotai N**, Stanmore  
**Choudhury H**, London  
**Chowdhury A**, Newcastle upon Tyne  
**Christian-Edwards S**, Northwood  
**Christodoulidou C**, Larnaca  
**Christodoulou C**, Nicosia  
**Christodoulou K**, Nicosia  
**Christodoulou M**, Nicosia  
**Christofide M**, Geroskipou  
**Christoforou H**, Nicosia  
**Christou M**, Nicosia  
**Chrysostomou A**, Dherinia  
**Chrysostomou C**, Nicosia  
**Chrysostomou T**, Paphos  
**Chung Z**, New Malden  
**Clark A**, Birmingham  
**Clark E**, Sudbury  
**Clark H**, London  
**Clark J**, London  
**Clark R**, Reading  
**Clarke L**, Bristol  
**Cleave K**, Watchet  
**Clerehugh M**, Leeds  
**Cleverley E**, York  
**Close-Brooks H**, Cheltenham  
**Clough T**, London  
**Clubb M**, London  
**Coady M**, Melton Mowbray  
**Coe H**, Aylesbury  
**Cohen E**, London  
**Cohen J**, Borehamwood  
**Cole J.M**, London  
**Cole L**, London  
**Cole P**, Morpeth  
**Coleman N**, London  
**Colloby A**, London  
**Colwell H**, Manchester  
**Connon H**, St Albans  
**Considine C**, London  
**Constantinou C**, Nicosia  
**Cooke P**, Sutton Coldfield  
**Cooke T**, Pwllheli  
**Coombs R**, Alresford  
**Coote L**, Chichester  
**Coothen P**, Gravesend  
**Corcoran E**, Edinburgh  
**Cork A**, Stoke-on-Trent  
**Cornelius M.S.C**, Banstead  
**Cottam C**, London  
**Cottam M.L**, Chorley  
**Cotterill R**, Birmingham  
**Couzens J**, London  
**Cove K**, Kettering

Cowan M, Tadcaster	Dickason L, Bristol	Finesilver S, Harrow	Goldman A, Edgware
Cowell M, New Malden	Dickson L, Bournemouth	Finglass M, Solihull	Goman I, London
Cowin R, Bristol	Diehl V, London	Fink A, London	Gomm D, St Albans
Cox A, Bristol	Ding S.M, Bath	Firth A, London	Goode T, Sevenoaks
Cox J, Eastleigh	Djanogly-Silverstein E, London	Fisher I, Liverpool	Goodwin D, Manchester
Crabb E, Southampton	Djokic D, London	Fitch T, London	Goss C, Crowborough
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Da Rocha R, Northwood	Egneby V, Cobham	Freezer K, Swaffham	Guilbert R, Guernsey
Dabb L, Grimsby	Eldridge A, London	Froggatt M, Swansea	Gulyarenko D, Saint Petersburg
Dankwah K, London	Ellinas P, Limassol	Frost L, Northampton	Gunawardana G, Kettering
Darby A, Thames Ditton	Elston D, Newton Aycliffe	Gabbay M, London	Guo S, London
Datta A, London	Endersby A, Shefford	Gallagher C, Bootle	Gurd M, Eastleigh
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Davda S, Cambridge	Evagorou A, Limassol	Garkusha V, London	Hadjicosta E, Nicosia
Davidson F, Southampton	Evagorou C, Nicosia	Garland C, Northampton	Hadjigeorgiou A, Nicosia
Davidson R, London	Evans B, London	Gaughan N, Manchester	Hadjigeorgiou S, Famagusta
Davies B, Isle of Man	Evans D, Wrexham	Gawel M, St Albans	Hadjilambri C, Nicosia
Davison C, Manchester	Evans D, Street	Gaze C, Sittingbourne	Hadjimichael I, Nicosia
Dawson K, Guernsey	Evans F, St Albans	Gaze M, Rotherham	Hadjiphani A, Nicosia
Dawson S, London	Evans S, London	Ge J, Shanghai	Hadjirousos A, Nicosia
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Dennis J, Nottingham	Fenlon I, Croydon	Gibson D.E, Glasgow	Hall D, Coventry
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Dhanani S, Karachi	Field A, Harrow	Gilmour M, Liverpool	Hall J, London
Dhanani V, Northwood	Filippou A.M, Nicosia	Gitay Y, Ilford	Hamer T, London
Diamond L, Rochdale	Fine B, Manchester	Glenton W, Southampton	Hamilton S, Amersham
		Goad E, Basingstoke	
		Goh S.C, Cheras	



## SINGLE MALTS

# SIX OF THE BEST

As the nights draw in, **Rob Haynes** welcomes the dusk with some of the world's finest whiskies

### 1 THE MACALLAN 18

If you like your single malt with an earthy twang, opt for a bottle from Islay in the Inner Hebrides. The island is composed mostly of rich, dark peat, and supports nine distilleries, making whiskies reeking of peat smoke, brine and iodine. Chief among these is Laphroaig, which pours a bright gold liquid into the glass and offers up flavours of smoke, spice and vanilla. The 18-year-old variety is a rarity, but is all the more satisfying and oaky for lingering in the barrel that little bit longer.

### 2 LAPHROAIG 18

If you like your single malt with an earthy twang, opt for a bottle from Islay in the Inner Hebrides. The island is composed mostly of rich, dark peat, and supports nine distilleries, making whiskies reeking of peat smoke, brine and iodine. Chief among these is Laphroaig, which pours a bright gold liquid into the glass and offers up flavours of smoke, spice and vanilla. The 18-year-old variety is a rarity, but is all the more satisfying and oaky for lingering in the barrel that little bit longer.

### 3 YAMAZAKI 12

"For relaxing times..." Yes, this is the brand of whisky Bill Murray plugs in the film *Lost in Translation*. In reality the drink has been endorsed by Sean Connery, Sammy Davis Jr and Mickey Rourke (to name a few), but ignore the rat-pack cool and you'll find a whisky that delights with fruit, polished wood and creamy oak. Suntory (maker of Yamazaki) is the oldest distillery in Japan and, based in the Kyoto region, is ideally placed to exploit fresh air and pure water direct from the mountains.

### 4 JURA SUPERSTITION

Of the four main whiskies hailing from the Jura distillery, you'll recognise Superstition as the one that bears the Ankh cross – an Egyptian good luck symbol. Whatever fortune may favour the drinker, the real good fortune has befallen the island of Jura itself – since the two estate owners revived a rundown distillery in 1950 to create one of today's most well-recognised drams. Tall stills make for a distinctive drink that is lightly peated with honey, pine and traces of smoke.

### 5 OLD PULTENEY 17

In contrast to the earthy tastes of many scotches, the Old Pulteney distillery inhales the briny air that whips around Wick and offers up a malt that is both fresh and a wee bit salty. The business was established in the 1820s during a herring boom, and due to its remoteness relied on transport by sea for its supply of barley, which in turn increased its salty notes. Several owners later and the result nowadays is a product that wins as many awards as it heats cockles.

### 6 TALISKER 10

*The king o' drinks, as I conceive it, Talisker, Islay, or Glenlivet!* So wrote poet Robert Louis Stevenson in *The Scotsman's Return From Abroad*. The prominence of Talisker in that list is testimony to the effect created by water that springs directly from above the distillery and the rare practice of using worm-like condensing coils in place of a condenser. The outcome is a fruity, dark oak-coloured drink with tastes of marmalade and eucalyptus.



1



2



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5



6



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## Head of Finance

**Location:** City of London (EC4R)

**Salary:** £65-80k + equity + bonus

**Employment basis:** Full Time

### Business outline

Hearthstone is an FSA regulated fund manager in the residential property sector. We recently launched the UK's first residential PAIF (Property Authorised Investment Fund), which enables retail investors, including those investing through ISA and SIPP wrappers, to invest in residential property from as little as £1,000. Several key hires are now being sought to expand the residential investment funds platform.

### Role description

The Head of Finance position is the main financial role within the business and reports directly to the CEO and the board. There is scope to move into a full CFO role as the business expands

- Overall responsibility for the day to day finance functions, including company secretarial and tax
- Production of monthly management accounts and associated Board commentary and reports
- Management of statutory accounts and year-end audit process
- Financial modelling and cash forecasting
- Primary contact point for suppliers, legal advisers and FSA compliance, including maintaining robust internal controls

### Candidate

The ideal candidate will be an ACA or CIMA qualified individual with experience of working in financial services, preferably fund management. Advanced excel skills are essential for the role. An understanding of residential property investment is desirable and previous experience within an FSA authorised environment will be highly valued.

Personally, you will have strong interpersonal skills and the desire to play an integral part in the growing Hearthstone team. The role is hands-on and you will need to be highly driven and able to work on your own without supervision. This is a fantastic opportunity to make your first move up toward board level within a fast-moving, entrepreneurial culture.

Interested candidates should send their CV to: **[recruitment@hearthstone.co.uk](mailto:recruitment@hearthstone.co.uk)** with details of current remuneration and describing how their experience would add value to the role.



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Amison G, London  
Anastasiou M, Nicosia  
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Anderson E, Jersey  
Anderson K, London  
Anderson S, Grantham  
Andrew D, Leicester  
Andrew S, Chesterfield  
Andrews J, Rugeley  
Andrews S, Exeter  
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Annear C, Truro  
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Aritkan H, Nicosia  
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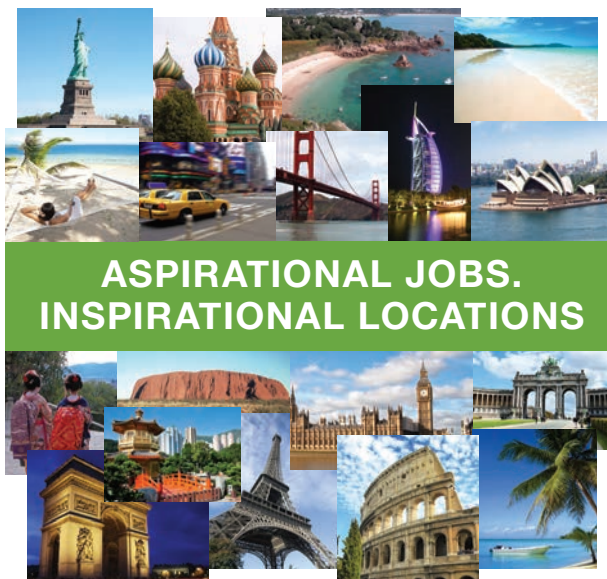
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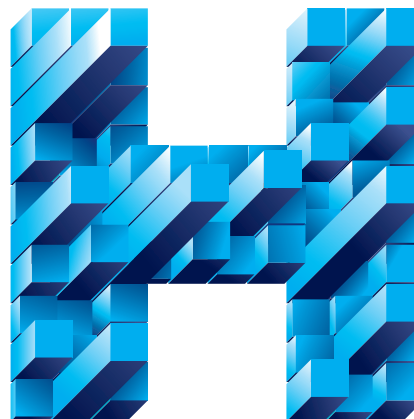
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## LIFE AFTER WORK SCHOOL'S IN

As a school governor, Yvonne Craggs has spent a decade giving back to her local community. She tells **Penelope Rance** why accountants should use their skills to get involved

Yvonne Craggs made a career out of breaking the mould. "I was asked at one interview why they should hire a woman when there were so many good male candidates around," she recalls. "It was seen as an acceptable question in 1973."

Undaunted, she secured a place at Thomson McLintock, now part of KPMG, where she remained until she retired. "Being female worked to my advantage: I was noticeable because I was different."

Qualifying in 1976, she spent 15 years working with owner-managed businesses. "It's very satisfying helping clients to understand how their accounts work. You feel you're adding value. I was involved in the audits of several private schools and the winding up of one, which sparked my interest in education."

Craggs moved into forensic and litigation support, helping

to set up the department in Bristol. Diagnosed with Parkinson's at 46, she went into internally facing risk management at director level. "I enjoyed it enormously. You never knew what the situation would be and what the solution would be."

She retired in April 2010 at 58. "I quite surprised myself when I was able to just step away. It's nice to spend more time with my teenage sons. I left motherhood quite late – I found out I was pregnant for the first time on my 40th birthday. When I told one partner, I rendered him speechless. I was one of the first women at a senior level in the Bristol office to have a baby."

"It was hard having a family and working full-time and I don't think it's got easier. It's still very much a man's world in accountancy. My generation thought you could have it all – I think the younger

generation is more realistic."

Craggs became a school governor in 2002, at the state infant school her children attended. "I'd been very lucky in my life – a good job, stable employment – and I wanted to give something back. As a parent I've seen what a difference good teachers in a well-run school can make and I wanted to give back to that school in particular. Being a governor dealing with finances was something I could do."

"The governors are responsible for the running of

*"My generation thought you could have it all – I think the younger generation is more realistic"*

the school – budgets, staff, the building, any refurbishment, community cohesion. It's like running a small business.

"As schools become academies they will need governors who understand finance so there's scope for accountants to get involved. I've been the Honorary Secretary of West of England Society of Chartered Accountants (WESCA) for years, and I came up with the idea of running seminars for retirees. We've held them on the responsibilities of charity trustees and what is involved in being a school governor, and we're holding one on social networking. There are a lot of retired accountants with much-needed expertise, and I wanted to let them know about the opportunities."

"Living with Parkinson's is draining, but I keep going by keeping busy. I'll give up when I cease to make a contribution." ■



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