INTELLIGENCE AND INSIGHT FOR ICAEW MEMBERS

economia

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JULIA WILSON NIGEL EASTAWAY GEORGE MAGNUS JAMES DUBOIS

RINGING THE CHANGES

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The budget must promote growth over austerity

When the chancellor, George Osborne, rises to his feet in the House of Commons on 21 March, it will be to deliver one of the most important budget speeches for a generation. That claim may get as many airings as the red briefcase itself, but this time it's true.

Budget speeches consist of a mix of headline-grabbing politics and less exciting (but important) technical tweaks. Under this government, the technical detail has been pre-announced in the Finance Bill. This is welcome, not least because it allows the profession to scrutinise the proposals in advance. But it also allows more airtime for the show-stopping politics.

Mr Osborne must have the courage to present the budget for business and growth that the country needs. He must not become the latest politician to pander to a growing chorus of anti-business rhetoric. Greed was culpable for the financial crisis, not business. But the public is in danger of conflating issues of bankers' bonuses with business in general. The finer points of Labour's distinction between predatory and productive capitalism is getting lost. We need all businesses – including banks – to be supported, not undermined. With Fred Goodwin stripped of his honour and RBS chief Stephen Hester forced to decline his bonus, the Occupy protestors pitched outside St Paul's Cathedral appear to have the upper hand over the established business lobby.

But the economy stands at a crossroads. The jury is out on whether the government's plan has worked. Interest rates remain low, as they would be in a stagnant economy. But the ratings agencies are getting restless. Claims that cuts are too deep and too sharp appear vindicated by economic data showing us in recession. With Europe in disarray and export growth anaemic, we need positive intervention to avoid the threat of a Japanese-style "lost decade".

The government is right that recovery must be private sector led. We need business and government to work together to create jobs and growth and drag us out of austerity and back to prosperity. It's time to put money behind ideas such as credit easing and a simplified regional growth fund to boost lending and confidence. A pro-business budget is the first step to achieving that.

THE SQUEEZED MIDDLE NEEDS YOUR SUPPORT

Mr Miliband may be underperforming in the polls, but he has had at least one success. His phrase the Squeezed Middle has been a hit. It was coined to describe hard-pressed working families losing out as tax and welfare favour the neediest, while those at the top remain austerity-proof and was the Oxford English Dictionary's word of 2011. As you would have noticed in our launch issue, it has been purloined by us as a badge for our campaign to promote medium-sized businesses. Medium-sized businesses have also suffered from a lack of government support (which has focused on start-ups), while large organisations are powerful enough to get their voices heard.

The hard-working owners of the UK's medium-sized businesses (such as Hotel Chocolat, profiled this issue) need more support if they are to realise their potential and create jobs. As Hotel Chocolat founder Peter Harris explains, businesses in the middle sector have an advantage because they are big enough to survive a downturn, and small enough to react quickly. "Medium-sized companies are resilient and agile, which is why they can find ways of growing when the economy stalls." We hope the government will take note of this campaign and improve support for these companies.


economia
Jonathan Faull
Director General, Internal Market and Services, EU Commission
0:09 / 3:12
THE SQUEEZED MIDDLE
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Robin Fieth
Executive Director, ICAEW
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March 2012

MARK HARRISON

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Clive Parritt ICAEW
John Philpott CIPD
Penny Power Ecademy
Mark Protherough ICAEW
John Redwood Treasury advisor
Katarina Skoberne Katarina Skoberne Associates
Annmarie Wallis City of Birmingham Symphony Orchestra
Michael D. Watkins IMD business school
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Lord Michael Wills Businessman, former Labour minister
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Contributors

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Chair: **Arthur Bailey** FCA is an ICAEW board member and a consultant with Begbies Traynor Group. He was elected to ICAEW's council in 1998.

Lord Bilimoria FCA is chairman and founder of Cobra Beer.

Robin Fieth is ICAEW's executive director, members & operations.

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Howard Gross FCA is chief executive of Chartered Accountants Gross Klein and an ICAEW council member.

Julie Meyer is founder and chief executive of Ariadne Capital and founder of Entrepreneur Country.

Zarin Patel FCA is the BBC's chief financial officer and non-executive director at BBC Worldwide.

Clive Stevens FCA is managing partner of Reeves, Kent's largest accountancy practice.

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

CONTRIBUTORS

Peter Bartram is an editor, the author of 21 books and a freelance journalist.

Caroline Biebuyck is a freelance writer and was tax manager/audit senior at PwC London and Hong Kong.

Rose Blake is an illustrator, part of the This Is It collective and creator of the illustration for our audit reform feature.

Jason Cowley is the award-winning editor of weekly current affairs and politics magazine the *New Statesman.*

Mark Harrison has photographed Sir Richard Branson and Sir Stuart Rose, and shot Vodafone's Andy Halford for the cover of this issue.

Kalpesh Lathigra is a photographer for *Time* and Unicef. He took the picture of James Dubois for this issue.

Cathy Newman is a presenter at *Channel 4 News*, and writes the FactCheck blog. She previously worked for the *FT.*

Adam Simpson is an illustrator and lecturer. He put together the images for our Beyond Numbers feature.

Michael D. Watkins is author of the *The First 90 Days* and a professor at IMD business school in Switzerland

Muir Vidler went to Wembley to photograph Mark Donnelly at The FA and has also worked for *Der Speigel* and *Esquire*

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If you would like to join *economia's* **Member Panel**, please drop us a line at icaew.com/economia/memberspanel

ECONOMIA

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Deputy editor Amy Duff
Features editor Penelope Rance
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Recruitment advertising Louisa Strachan, Tony Hopkins
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Head of IP and publishing Andrea Eklund

PCP

Managing director Dan Davey
Sales director Stuart Charlton
Group editor Michael Jones
Group account director Linda Louis
Production director Angela Derbyshire

CONTACT US

Advertising
0207 936 6931/6708
economia@icaew.com
Recruitment Advertising
0207 920 8535
icaewjobs@icaew.com
Editorial
0207 936 6983
economia@icaew.com

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Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA

T: +44 (0)20 7920 8508

F: +44 (0)20 7920 8784

E: economia@icaew.com

icaew.com/economia

In review

The stories that matter most from the month just gone

"If we fail to unlock the potential of women in the labour market, we're not only failing those individuals, we're failing our whole economy"

David Cameron says ending a male-dominated business culture will help companies succeed

Quantitative easing

Against a backdrop of falling inflation and a weak economy, the Bank of England's Monetary Policy Committee (MPC) provided a further £50bn of quantitative easing. That's a total of £325bn spent in an bid to fend off recession – "further and faster" than any other country according to Channel 4's Faisal Islam. Many economists had predicted that Sir Mervyn King (above) and the MPC would inject a larger sum but the UK economy had enjoyed some pick-up in activity in January, particularly in manufacturing.

Tax evasion

Brady Dougan, CEO of Credit Suisse, was in no mood for evasion. "The quicker we can get things resolved and have a tax-compliant environment, the better for the Swiss market." He was referring to action by the US Department of Justice, which is cracking down on banks (including his own) suspected of helping Americans evade tax. Talking of tax, HMRC says it spent £300,000 trying to recoup the £100,000 it thought football boss Harry Redknapp owed them. HMRC lost.

Social media

According to The Group's FTSE100 latest social media index, there's been a huge increase in the number of people seeking information from FTSE100 companies via social media from July to December 2011. Carnival has been named as the FTSE100 company making the most of social media, followed by Burberry Group. "Demand for information via these channels is outstripping supply," said The Group's Cathal Smyth.

Burberry CEO Angela Ahrendts

Manufacturing

Great British engine maker Rolls-Royce is flying high. The engineering company made more than £1.16bn in 2011 and expects further growth this year. Orders from airlines including Emirates boosted its order book. CEO John Rishton (above) said, "We expect good growth in underlying revenue and profit with cashflow around breakeven as we continue to invest."

Bosses' bonuses

Few would quibble about a bonus for John Rishton, but the pressure heaped upon Stephen Hester to turn down his bonus spread. Rio Tinto's Tom Albanese said he would waive his bonus, while bosses at state-owned Network Rail did the same. David Higgins, who was eligible for £340,000, said, "I and my directors decided we would forego any entitlement and instead allocate the money to the safety improvement fund for level crossings."

GETTY IMAGES, CORBIS

The month in numbers

30% The vacancy rate for shops in Stockport, the highest in the country. St Albans was lowest at 8.2%.

£2.1m The amount won on the Lotto by Paul and Marie Kibler through "the power of positive thinking".

1.3% Average expected growth for advanced economies in 2012.

8.1% Expected growth for the Indian economy in 2012.

£189,000 The amount paid into Tottenham manager Harry Redknapp's offshore bank account.

£500,000 Alan Hansen's pay cut. The football pundit is down to £1m a year.

£888m

Net profits made by Rupert Murdoch's News Corp in the last three months of 2011, up 65% on 2010. So much for a bad year.

491%

Increase in telescope sales after BBC's *Stargazing* aired.

£963,000

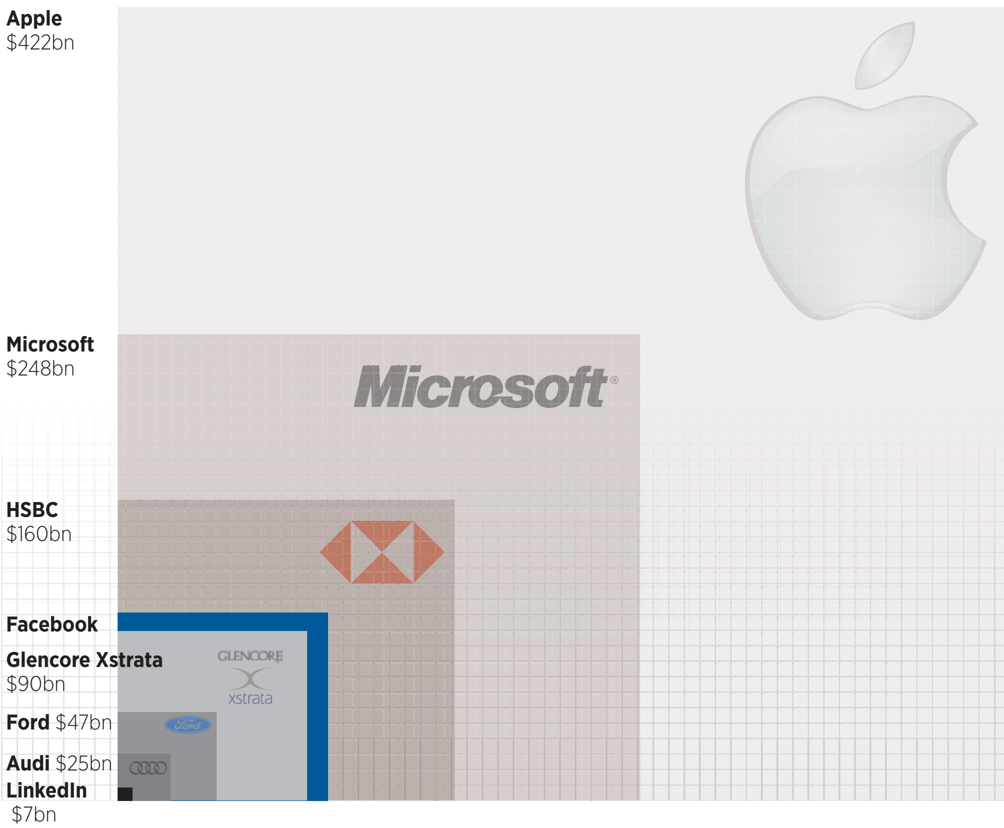
The value of the bonus in shares turned down by Stephen Hester. That's a loss to the Treasury of £481,500.

"Conjunctivitis.com – that's a site for sore eyes"

More genius from **Tim Vine**, who won this year's Lafta award

Facebook flotation

Several industry experts have estimated that the forthcoming IPO would place a $100bn valuation on the social network. This compares to:



GADGET OF THE MONTH
Zaggfolio

To tell you the truth, I still haven't fully bonded with my iPad. It's a guilty secret that it sometimes runs down between charges without me having touched it. It's a terrible waste of a marvelous gadget. So what's needed to make it more useful? Better knowledge of the apps available is one thing, but a proper keyboard that would make typing longer emails and documents a lot easier is a sure-fire winner.

There are plenty of Bluetooth keyboards available, but this latest carbon fibre Zaggfolio is perhaps the missing link to make you love your iPad as much as it deserves.

It is strong and robust enough to offer great protection should you be the clumsy type, but light enough not to turn the iPad into a chunky bag weight.

While there is a sense of loss whenever something that looks and feels as good as the iPad is hidden in a protective case, this one has the advantage of looking stylish in its own right. Is it time, at last, to ditch that chunky laptop?

zagg.com

Richard Cree

Good news bad news

▲ **Barclays**, lent 14% more to small businesses than Project Merlin targets and made a profit of nearly £6bn. But the Merlin five together failed to meet 2011 lending targets.

▲ **Morgan Stanley**, beat Goldman Sachs to be lead adviser on Facebook's IPO, the hottest new stock offering since Google's in 2004. The social media giant seeks $100bn.

▲ **Small businesses**, temporarily spared from HMRC's programme of visiting companies to check up on the quality of their record-keeping. The checks were said to be overzealous.

▲ **Invention**, as business minister Mark Prisk launches the Make it in Great Britain Challenge to find the most innovative pre-market products, processes and concepts. Open to specialists and the general public.

▲ **John Browett**, who swapped Hemel Hempstead for California by taking the job of vice president of retail at Apple. As CEO of Dixons he steered the retailer through exceptionally rough conditions. The relative calm of San Francisco Bay is his reward.

▼ **EasyJet**, suffered its first decline in passenger numbers in two years thanks to the economic downturn. Shares fell following the traffic figures. Then it had freezing February to contend with.

▼ **Rangers FC**, and owner Craig Whyte (centre), as the club appointed administrators after a fight with HMRC. The club will lose 10 league points but, in an even worse scenario, may be formally wound up.

▼ **Sugar**, academics suggested in the journal *Nature* that it's a toxin and should be taxed and restricted just as alcohol is.

▼ **The credit card**, PwC says the number in circulation fell by about 1m in 2011. Consumers find it difficult to get credit, opting instead for loans or pawnbrokers.

▼ **Ernst & Young**, fined $2m (£1.26m) after three partners failed to fully evaluate audits of Medicis Pharmaceutical.

GETTY IMAGES

Talking point

Is HS2 a waste of public funds?

Douglas McWilliams: Yes

You can imagine that a programme that involves spending £36bn will find a large number of vested interests supporting it. And indeed supporters of high-speed rail have been vociferous in their support for the proposed HS2 high-speed rail link.

But looking at the economics issues dispassionately, the sums don't add up. Cebr has checked the demand forecasts, the economic case and the financial sums carefully. We are not opposed to high-speed rail in principle and prepared the economic case for the European Parliament for the PBKAL project (Paris Brussels Cologne Amsterdam London). But our analysis shows three things.

Most importantly, the idea that the alternatives won't provide enough capacity only holds up on the outdated economic forecasts that the Office for Budget Responsibility prepared before the autumn statement last year. Given realistic economic and rail demand forecasts, that claim is complete nonsense.

Secondly, on realistic growth projections most of the economic case disappears and the financial deficit from the business case becomes much larger.

Thirdly, there are many elements in the official economic case that look dubious. The main economic case is dependent on business time savings. But modern rail, with the ability to plug in computers and increasing WiFi and mobile connectivity, is much more like a substitute office than the rail of the time when the official estimates were made. And by the mid-2030s when HS2 comes in, high-tech teleconferencing will make much business travel unnecessary. If you have never seen telepresence, have a look at it before you think HS2 is necessary.

Our analysis is that the benefit cost ratio is only 0.5 rather than the official and implausible 2.0. The financial deficit, which will require a government subsidy, is likely to be £18bn rather than the official claim of £14bn. This seems a major waste of money when public spending is cut and taxes raised.

If the project goes ahead it will be a triumph for spin and vested interests over economic good sense.

Douglas McWilliams
Chief executive, Centre for Economics and Business Research (CEBR)

Lucy James, Spokesperson for the Campaign for High Speed Rail

If you want to contribute to this debate, go to icaew.com/economia/hs2

Lucy James: No

The main argument for HS2 comes from rail capacity. Long-distance, inter-city travel has grown at 5% a year, with passenger numbers more than doubling between 1994/1995 and 2009/2010. The number of journeys in the London and the south east area rose by 70% in the five years to 2010. Freight grew by 45% in the 10 years to 2007.

Sections of the East Coast Main Line are already blocked and the West Coast Main Line is predicted to be full by 2024. The Government case for HS2 assumes 1.5% annual growth in long-distance rail travel – clearly a conservative estimate.

Many forecasts suggest increases in passenger numbers will continue: the increased popularity of rail, population increases, a wealthier population, the transition to a knowledge economy, and the increasing costs and congestion of the roads and air. Indeed, the Association of Train Operating Companies announced that 2011 would see the busiest peacetime year for railways since the 1920s.

Only a new line can provide enough capacity to meet demand, and keep our economy moving. There are many ways in which a high-speed rail network could aid the economy.

It would be easier for companies and individuals to access a wider range of labour markets, customers and suppliers, and be easier for companies and individuals to interact, creating "knowledge spillovers".

It releases capacity for increased services on existing lines, particularly for commuter services, which will support housing growth and promotes Britain's long term competitiveness for international business.

Extending the line up to Manchester and Leeds in a Y-shape has net benefits worth at least £43.7bn in comparison to £17.1bn in net present costs in addition to significant unforseen benefits. The construction of the line will create 9,000 jobs, and a further 1,500 permanent jobs for maintenance and operation, and support the growth of 30,000 jobs.

It is not about whether we can afford to build HS2; it is about whether we can afford not to build it.

EVENTS TO LOOK OUT FOR

PLATFORM 2012
17-18 March
On the back of a global sales boom in digital gaming worth £45bn, entertainment and gaming industry experts will gather with venture capitalists at the University of Hull to showcase the sector.
platformexpos.com

BUSINESS 2012 EXHIBITION
18-20 March
Aimed at start-ups, SMEs and mid-market businesses, this event includes keynote presentations from Sir Richard Branson and Lord Sugar. Head of enterprise for ICAEW Clive Lewis will be hosting two seminars.
business2012.com

ACA PRIZE CEREMONY
26 March
Each year, ICAEW awards prizes to the highest achieving students from around the world who gain the top ACA marks. The ceremony is held in Chartered Accountants' Hall in London.

TRENDS IN LENDING
23 April
The Bank of England publishes its quarterly report assessing the latest UK lending trends.
bankofengland.co.uk

WHY CLOUD? WHY NOW?
30 April
Cloud computing is gaining momentum. Businesses of all sizes are exploring the option of procuring IT services to replace their own infrastructure and systems. This one-day conference in London explores the opportunities and challenges.
To book telephone 01908 248 159

View from the top

Ahead of the budget statement, ICAEW president Clive Parritt tells us what he'd like to see from chancellor George Osborne

It's that time of year again when thoughts turn to the budget. Inevitably, I'm wondering what George Osborne has up his sleeve to cheer up business and stimulate the economy. So I thought it might be useful to write down my thoughts ahead of 21 March and compile a personal wish list.

I want to encourage entrepreneurship and I know that the government does, too. So how can we get more new businesses going and make it easier for existing ones to expand?

It seems to me that the Treasury has an obsession with the corporate form. So many tax reliefs are only available to businesses set up as companies and to people who invest in companies. Yet the administration involved in running a company is a pain in the neck. It is time-consuming and expensive, and filing the annual corporation tax return online along with its accounts and computations is a real challenge.

We have so many talented young people graduating from universities without jobs. Designers can be seen at markets and craft fairs throughout the UK. Web designers, musicians and hairdressers all need seed finance. How about encouraging people to lend money to them without making them incorporate their business first? The banks won't lend anyway (too risky), but friends and relatives might and maybe we could provide some encouragement through the tax system?

And what about making it easier for small businesses to take on more staff? This is an enormous hurdle and one that often puts the brakes on their expansion. The National Insurance holiday is a start. But why not also stop the relentless bureaucratic drive to force people into the PAYE system?

It shouldn't matter whether a worker is employed or self-employed. Sure, there are NIC implications. But while the rationalisation of PAYE and NIC is being addressed at the moment by the Office for Tax Simplification, it needs speeding up.

How about encouraging business investment? Why not cut capital gains tax back to 10%? Or, if that's considered too radical, what about cutting it to 10% for all employees who invest in the business?

The current system is a mess. If I am an owner-manager and I have 5% of the business, I can pay only 10% tax. However, if I own 4.9999%, I pay 28% because I have just failed the 5% cliff-edge ownership test. If I am an ordinary employee and I have acquired a 0.5% share in the business, then I also pay 28%. I think that's wrong. If an employee has shown commitment by putting money into the business – and is lucky enough to make a profit – they should get the same benefit as larger shareholders.

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

MUIR VIDLER

As I see it

Mark Donnelly, chief finance officer, The FA

Looking for a qualification to open doors, Mark Donnelly opted for the ACA and succeeded. He's held FD roles at AEG, the O2, the Lawn Tennis Association and now English football's governing body. He tells Amy Duff about working with Chris Evans, football in recession and delivering on promises

Was your childhood ambition influenced by sport? I played a lot of football and would have loved to be a professional footballer. But I realised that wasn't going to be possible – numbers came easier and I chose a career in business. I did economics at university and liked the idea of getting a good additional qualification that would open up a wide range of options, so I joined KPMG.

What was your first senior role? I joined Virgin Radio as financial controller and progressed to finance director. It was soon after Chris Evans had acquired the group and was probably one of the best times of my working life. Chris was at the height of his popularity and the media market was booming. It taught me a lot, how to deal with unexpected things. One day Chris went on air and announced we were giving away £2m, which certainly was not in any plans.

How did you manage personalities? We had a good balance between serious, talented business people from Virgin Group and Apax, who worked alongside the creative talent. Chris was happy to leave a lot of the business side to trusted people.

What do you enjoy most about The FA? It's steeped in history and everything that goes with the national team. I'm based at Wembley and enjoy the walk up every day – it's inspiring. It's a diverse and complex organisation, there's a lot more to it than you realise. For someone who is passionate about football, the chance to be involved and to feel like you can make a difference to sport is a big opportunity.

And the challenge? The FA gets a lot of press and scrutiny. I'm under no illusions of the importance of doing the right thing and making good decisions.

How has the recession impacted The FA? All events and venues are affected, not just Wembley and England games. Attendances are under some pressure so organisations are keenly aware of ticket prices and companies are watching what they spend. We're not immune but we've got good protection over short-term markets.

What are you most proud of? Being part of the team that opened the O2 arena. There was a lot of pressure – it had a chequered history – so it had to be right. The celebration after Bon Jovi's first night was brilliant. It was great to open the building but it was only the first step.

What makes a good CFO? They have to be really involved in the business and make sure that the finance function is at the heart of many decisions. Where it's interesting and where you can make most difference is the business partner side of it: challenging the business and helping it make better decisions.

What's your biggest extravagance? My wife would say I'm not extravagant and that I count the pennies too much. My family doesn't allow me a season ticket and I've never been able to convince them. I support Southampton but my kids support Arsenal and Chelsea – I've failed dismally in converting them.

What's your biggest bugbear? I don't like missing deadlines or delivering something that's not good enough. If we say we're going to deliver something, we deliver it. It's about reliability and people feeling important.

What motivates you? I'm hugely motivated by the opportunity to work in football. And I want to make a real difference.

Salary survey

Recruitment firm Hays has published its *Senior Finance Salary Guide* for 2011-2012.

As well as featuring salary and employment trends for accountants working across commerce, industry, professional services and financial services, it includes regional breakdowns and analysis of the most in-demand skills for senior finance professionals. The survey, covering both employers and jobseekers, assesses the job market in 2011 and ahead to 2012.

One key finding from this year's survey included a thaw in pay freezes as the job market hots up. Fewer than three in 10 respondent firms (29.8%) imposed universal pay freezes in 2011, a significant drop from 46% during 2010. This might be connected to the fact that the vast majority (78%) of finance professionals intend to look for a new job in the next 12 months – an increase on the two thirds (67%) in the 2010 survey.

As a result of more movement, 43.2% of employers anticipate facing staff retention difficulties in the coming year. This compares with just 14% who were concerned about this last year.

Those pay freezes may have done lasting damage to the psychological contract between employer and staff with 46.3% of finance professionals claiming to be less committed to their employer than this time last year.

But the number of respondents reporting feeling overworked (50.8%) was down from 55% last year. More information from the *Senior Finance Salary Guide* can be found at iceaw.com/economia

SEARCH FOR A STUDENT STAR

Nominations are now open for the Global Inspiration Awards 2012. Launched by the ICAEW Foundation and Chartered Accountants Benevolent Association (CABA) in 2009, the awards recognise the achievements of ACA students who have succeeded in the face of significant personal, social or financial adversity.

Last year's winner, Laura Nyogeri (right) at PwC says, "I hope that my achievements will inspire other students not to give up on their dreams and to triumph over adversity."

Up to six awards of £5,000 are available. For more information visit: icaew.com/inspirationawards

Career path

Secrets for keeping your shareholders happy

Mark Freebairn

For those of you familiar with my column in *accountancy*, welcome back. For those who are reading it for the first time the purpose is to give you an overview of what the finance community is thinking and telling its headhunters. And, on the other side of the coin, what the market is telling a headhunter it is looking for from the finance community.

Around this time of year I always tend to do a tour of the senior finance community to see what is keeping them awake at night. And perhaps unsurprisingly this year, it turns out that there is quite a lot keeping them from sleep.

I've been told so much that I could fill this magazine several times. However, one topic has come up time and time again. That is, "How do I communicate with shareholders at a time of such incredible uncertainty?"

There is a roll call of company names that are making most CFOs quake in their boots. Thomas Cook, Chemring, Tesco, Logica, RSM Tenon... The list goes on.

Worse, I suspect by the time you read this it will be longer still. All of these companies are businesses which have had to give the market a degree of bad news. And most people would say that in many instances the market has over reacted (please do not buy shares on the basis of this advice).

So the question I have asked people is, "How on earth do you manage your shareholders and their expectations at a time like this?" And the answers have been pretty much unanimous:

1. Always tell your shareholders the truth.
2. Keep it very simple.
3. Communicate with them regularly – more than you would do usually.
4. Keep the communication fact based and remove the emotional and intuitive wherever possible.
5. Set out your strategy, ensure investors understand it, and don't change it if you believe it is still the right strategy.
6. Appreciate that the long-term outlook has reduced, but keep educating your market that a short-term-only view is ultimately detrimental to your business.
7. Make sure you hit every number you say you are going to hit.

And as one CFO said to me, "If you want to see who is really good at their job, look at everyone's forecasts two years ago. The great CFOs are the ones who have come in under those forecasts this year, but have never put out a profits warning or a downgrade."

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

European tour

With the European Union's annual recruitment round set to begin, Julia Irvine talks to senior staff who have been tempted abroad

JOSHUA DALSIMER/GALLERY STOCK

Do you fancy assessing vineyards in Sicily, ensuring the destruction of surplus oranges in Greece or checking tomato canning near Naples? That's what Jeffrey Mason found himself doing when he first took his audit skills off to Europe and joined the European Court of Auditors.

He's never looked back. "It really opened my eyes to what lay beyond the UK's shores," he says. "I was exposed to new cultures, new ways of working, the challenges of functioning in different languages and seeing another side to the often perceived dry world of audit."

Now, as a head of unit in the European Commission's internal audit service, he's keen to encourage other UK auditors to join the European Union's civil service. The 2012 concours, or recruitment round for permanent staff, opens later this month and audit specialists are in great demand.

UK auditors' skills and experience are highly regarded by EU institutions, says Brian Gray, director-general at the Commission and responsible for internal audit both in the Commission and in some 40 agencies. "Even new recruits can be given responsibility for guiding the sound financial management of one of the EU's many programmes funding research, external aid or support for the poorer regions.

> "I was exposed to new cultures, new ways of working... seeing another side to the world of audit"

"Policy areas offer the challenges of investigating cartels, enquiring into anti-dumping, the health of financial services or infringements of the internal market."

Like Mason, he also started his EU career at the Court of Auditors, moving across to the Commission to become chief financial officer before taking on the role of director general. He says that in more than 30 years, he has never had a dull moment, thanks to the subject matter and stimulating colleagues from different cultures and professions. "On the contrary, I have found my varied tasks enriching and the end product satisfying." Susan Downhill took the concours in 2003 with a view to capitalising on previous work experience and working in one of the external relations departments. She joined the EuropeAid Cooperation office (now part of DG Development and Cooperation) and has held a variety of roles there.

"When I started, it was at a time of change at the Commission following the introduction of a new financial regulation. It was really fun. I was setting up new control systems within the department and also for the 100-plus EU delegations in non-member countries responsible for implementing EU development programmes."

She then worked on audit methodologies and criteria for EU programmes before moving to her current role in management planning, where she is devising a new online reporting system for the EU delegations.

To apply to work for the EU, you need your professional qualification and a minimum of two languages (usually English and one other).

For further information on working in Europe, visit fco.gov.uk/eucareers

THE BIG IDEA
Daniel Goleman
Emotional intelligence

Who is he? A former science reporter for *The New York Times*, Daniel Goleman popularised the idea of Emotional Intelligence. He prefers the abbreviation EI, but most others refer to it as EQ.
Oh, so that's EQ as opposed to IQ? Exactly. The theory is that there is more to measuring and understanding people than mere cold, hard reason and intellect.
And a journalist solved that? Well, he didn't invent the idea of EQ. In fairness he doesn't claim to have. He came across a scientific article written by US academics John Mayer and Peter Salovey in 1990 and five years later, with a bit of added research, he published *Emotional Intelligence*. It has since sold 5m copies and been translated into 30 languages.
Why do we care? Largely as a result of the book's impact, the idea of EQ has taken a firm grip on the world's business schools and boardrooms. Discussions of subjects such as diversity on boards or the qualities of the ideal political leader often refer to concepts such as empathy exposed by Goleman as essential aspects of EQ.
So IQ's not enough? Being smart is an important element of success, even in an emotionally aware world, but the point of Goleman's theory is that it explains how the most successful people manage to balance both EQ and IQ.
So how do I know if I've got EQ? Good question. Self-awareness is one of four main aspects of EQ, the others are managing emotions, empathy and social skills. So you questioning whether you have it is probably an indication you have some.
Is this the stuff women are good at? There are plenty of tests and measures of EQ and yes, on most of them women do outperform men. But there are signs that awareness of the importance of EQ to personal and business success means that levels among both men and women are on the increase.
That should please the HR department. You're not wrong. The rise of the theory of EQ has coincided with the increase in importance of the HR department in business with EQ ideas such as talent management and employee engagement topping the business agenda.

If I ruled the world

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

Nigel Eastaway

If I ruled the world I would want my peoples to be well-educated, -fed, -housed and -clothed, and well looked after in sickness and old age. I would have to follow Benjamin Franklin and accept that nothing is certain except death and taxes.

I would also reconsider Adam Smith's maxims on taxation in *The Wealth of Nations*. Firstly, he stated that "the subjects of every state ought to contribute towards the support of the government... in proportion to their respective abilities."

To me, this seems fair, but Marx's interpretation of this – "from each according to his abilities, to each according to his needs" – led to communism, oppression and disaster, so I would need to proceed with care.

A mixture of taxes on consumption seems inevitable, if my aspirations are to be met. As Smith continued, "The tax and income which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."

Unfortunately, the edition of the UK tax system currently sitting on my desk extends to 17,665 pages of legislation and quasi legislation. Indeed, that excludes rates, council tax, excise duties and other levies, and there are also countless pages of official guidance.

The amount of tax to be paid is far from clear and plain for which, as a tax adviser rather than a ruler of the world, I am grateful. However, as ruler, I would abandon using the tax system to influence behaviour and use it only to raise revenue for the purposes of the world state.

I would keep the tax law simple and legislate by principles, not trying to anticipate any attempt to exploit the legislation. I would tax income at the same rate as capital gains, but I would allow rollover relief for reinvestment. The rates would be progressive but not oppressive and I would have an abuse of law rule to prevent any artificial manipulation of the system.

Finally, as Smith highlighted, "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributors to pay it."

I don't think anyone would disagree with this, and technology should make it possible to withhold the correct amount of tax at source in many cases. However, some 10% of the population do not have access to, or skills to operate, computers and they must not be sidelined.

For these reasons, please cast your vote for me as King of Utopia.

Nigel Eastaway is private client services partner for BDO LLP

GETTY IMAGES

The graph
Twitter top 100

We've compiled a list of the top 100 most influential finance accounts online, in conjunction with PeerIndex. These have the most sway in the financial world and are picked up and followed by key financial Twitter users

1
@Nouriel
Noriel Roubini, Professor at Stern School, NYU, Chairman of Roubini Global Economics.

2
@TimHarford
Author of *Adapt; Undercover Economist* at *the FT*; presenter of *More or Less*, Radio 4.

3
@TheEconomist
Official site for *The Economist*.

4
@BBCStephanie
Economics editor for the BBC.

5
@moneyscience
Financial intelligence from the people who bring you moneyscience.com

6
@bisgovuk
Official Twitter channel of the UK Department for Business, Innovation and Skills.

7
@HarvardBiz
The latest *Harvard Business Review* blog posts, Management Tips of the Day, Daily Stats, and more.

8
@FalseEcon
False Economy is for everyone concerned about the impact of the government's spending cuts on their community, their family or their job.

9
@RachelReevesMP
Labour MP for Leeds West and shadow chief secretary to the Treasury.

10
@DeloitteInsight
Deloitte Insights is a weekly video podcast program featuring economic, financial and business news for the modern executive.

To see who's in the top ten today visit icaew.com/economia/twitter100

BOOK REVIEW
The Little Black Book of Innovation
by Scott D. Anthony

Innovation is something successful businesses do well. Failure to innovate is often the cause of organisational demise. The trouble is that it's precisely the kind of thing that's much easier to talk about than it is to do well. Add in the fact that there are as many successful approaches to innovation as there are innovative firms and it soon becomes clear why there is a need for this type of book.

The late Apple boss Steve Jobs remains the epitome of the successful modern innovator. Yet few, if any, have been successful at imitating his instinctive approach that often eschewed customer research in favour of creating products he or his development team enjoyed and that they correctly believed others would, too.

Pinning down and codifying exactly what good product development looks like is hard. It is not an exact science. And as Anthony explains, "you don't have to be Steve Jobs to succeed at innovation", which will come as a relief to anyone busy running a small practice or business and not a global technology giant. Anthony understands well that what works in one environment isn't universally applicable.

So he starts with an excellent exposition of the pioneering thinkers in innovation, from early management writers such as Peter Drucker to more recent gurus such as Clayton Christensen. It's not intended to be exhaustive, but it allows Anthony to effectively set out a number of different approaches and strategies. The real meat of this book – and the bit that is potentially of most value – is a section in which Anthony helps the reader through the development of a practical, 28-day innovation programme.

There is always a danger that presenting such a complex subject in 250 pages will end up sounding a little trite. But for those who know their organisation should be innovative but for whom the complexity of where to begin is a little overwhelming, this is an excellent starting point. It may not turn your firm into Apple or you into Steve Jobs, but it won't hurt.

Tales from the front line

Real stories from the cutting edge of business and finance

James Dubois
Managing partner of Body Dubois chartered accountants

Most eight-year-old boys dream of being pop stars or fighter pilots. I always wanted to be an accountant, which you might think is a bit sad. I put it down to my family's background: my great-grandfather was an outfitter in Lewisham who started out repairing gentlemen's hats and then expanded his one shop into a chain, known as Dubois of Lewisham. My father was in banking, which further influenced me.

My school days – and my exam results – were average but sufficient to sign articles at Cork Gully, then a very small audit firm but the most prestigious name in the insolvency world. I was fortunate to follow in my brother's footsteps. He surprised everyone by coming second out of some 3,000 entrants in the intermediate exam, which inspired people to ask me jokingly if I was going to do the same. This focused my mind as I was determined not to fail. With hard work I was placed first, and came second in the finals. This taught me my first great lesson in life: an average person can achieve a great deal with determination and hard work.

In 1965, the audit partner said to me, "Dubois, we have a gentleman from Austria who needs help with his books. You've got a foreign name, I'm sure you'll get on well." He was right. Eddie Schwaiger was here to set up Swarovski in the UK and I worked for the company in some capacity for more than 40 years, retiring as a non-executive director at the end of 2011. By then it had UK sales in excess of £70m.

After qualifying, I went to work as finance director of a company selling caravans and operating mobile home parks. It taught me a lot about marketing and sales but there was nobody to teach me anything about accountancy. Fortunately, I moved to Butlins at the time when Bobby Butlin had just taken over from his father. Amazingly, they had no idea how much money they were making until the auditors came in after the year end. But operationally it was impressive. I worked there for almost three years and ended up as chief financial accountant for eight holiday camps, three hotels, a travel agency and the restaurant at the top of the Post Office tower.

In 1972, I left to expand my professional practice, which was earning me more than my full-time salary. With a team of 10 excellent staff and partners, I have concentrated on servicing businesses from start-ups to those with about £50m turnover, and advising entrepreneurs, businessmen and senior execs on how to improve their performance, increase profitability and (sometimes) achieve their dreams.

But it hasn't always been a bowl of cherries. In 1990, I lost all my accumulated wealth in property transactions that went wrong. Another valuable lesson learned: never borrow heavily or overreach yourself in business transactions. But when the chips are down, you learn who your friends are. My wife, daughters and two particular members of staff all helped me through a pretty tough couple of years.

The last 20 years has been a time of counselling clients to be cautious but still to concentrate on building their enterprises. They are weathering these difficult times through dedication, focus, paying down debt and taking the necessary actions early to cut back. I have also dissuaded some from trying to expand and take unnecessary risk. After all, you can only eat one lunch a day.

Probably the two biggest problems they face are the raft of regulations that come from HMRC, the European Union and government generally (I'm afraid I'm rather cynical about politicians: they all promise to cut red tape but I've never seen it happen). And access to finance. It has been increasingly difficult to obtain financing for clients, even for very good propositions. This is partly due to the credit crunch and partly to excessive regulation where more time is spent on mindless box-ticking paperwork rather than the proper job of commercial and mortgage lending.

Five years ago, at the age of 60, I was invited to be the leader of a group of business owners and CEOs under the banner of Footdown and to act as a coach and mentor. That has been fascinating and, although I stood down recently, I continue to coach senior executives and entrepreneurs. It is essential to have a trusted sounding board, whether a coach, mentor or non-exec advisor (preferably a chartered accountant), to provide a reality check.

But there's no one person to whom I have turned when I have had issues to discuss. In fact, I've used a variety of people for different tasks at different times. I believe that things have always gone better when I've shared particular problems and I would always recommend that others find several trusted advisers with whom they can discuss the business issues that are worrying them.

My personal philosophy is that we should all have a very clear vision of where we are going and what we want to achieve, whether that's climbing mountains or sitting on a beach. Better to travel hopefully than do nothing. So I encourage people to focus on their goals and to work hard to achieve them. This is the same in business, work, spiritually, politically or in any other aspect of one's life.

"My first great lesson in life: an average person can achieve a great deal with determination and hard work"

KALPESH LATHIGRA

Michael Izza

Is the UK open for business?

The news that the UK's economy contracted by 0.2% over the last quarter of 2011 and that the public deficit has hit a record £1trn presents the chancellor with a real dilemma in the run-up to the budget. How to reconcile two apparently irreconcilable aims – supporting the growth agenda while taking measures to cut the national debt?

What should his priority be? The government's growth agenda is hugely important for the UK but it has to be balanced against affordability. There is a need to encourage companies of all sizes and to make the UK an attractive place to do business. Which is why we welcome the government's aims in this year's Finance Bill to ease the controlled foreign companies' (CFC) regime and help the very smallest businesses grow through the proposed Seed Enterprise Investment Scheme (SEIS).

The trouble is it is not enough to put forward sensible proposals; they need to be properly implemented. The proposals must be translated into well-drafted legislation. This is where the problem starts, because the Finance Bill legislation is very poorly drafted. The CFC proposals have been described, quite rightly, in my view, as "fiendishly complicated and counterintuitive". If they are not improved significantly – and there isn't much time left to do it – they will end up causing real confusion for HMRC and taxpayer companies and may well put off rather than encourage investment in the UK.

This is a very important issue for UK competitiveness. The last time the Treasury tried to amend these rules, several companies, including advertising giant WPP, moved their headquarters out of the UK. The new proposals are designed to reinforce the government's message that the UK is open for business, but that message appears to be getting lost when translated into law.

It's a similar story with the SEIS proposals: poor drafting is likely to mean that the good intentions behind the proposals will get lost and will not help to unlock finance for micro businesses which are the engine of the UK economy.

So in the run up to the budget we will be calling on the government, as part of the growth agenda, to review the way that its proposals are translated into legislation. There is an urgent need for better drafting and improved clarity to support the claim that the UK really is open for business.

Michael Izza
ICAEW chief executive

Your feedback

About the first issue

Welcome to issue two of *economia* and thank you for your feedback on the first issue, a snapshot of which is presented here.

ICAEW membership covers a diverse range of professionals, who have equally different opinions. To get the clearest picture of how the magazine had been received, ICAEW commissioned research among a representative sample of members, spread equally among business and practice. The topline figure was that 74% rated it good or excellent, while 88% said it is easy to read and 85% agreed it was relevant. But only 66% thought the balance of technical content was right. This reflected views expressed in emails and letters from small practitioners requesting more practical content.

We have listened and, starting with this issue – already largely planned before the first issue printed – we have boosted our technical coverage. Please keep the feedback coming.

Email: economia@icaew.com
twitter.com/economiamag
facebook.com/economiamag
LinkedIn group: economiamagazine

Thank you for the new magazine. I was particularly impressed with the Sir Philip Hampton interview. But I would take issue with his claim that it may not be worth the cost of separating retail and investment (or gambling) sides of banks.

If the activities were separated, the market will work as it should and customers will be able to understand the costs and risks of the services. If an investment bank goes under because things go wrong, it would not greatly affect the public. The only losers should be its shareholders and employees, both of whom will have benefited from the risk upsides.

David James FCA, via email

As a retired member, who relies on ICAEW publications for CPD purposes, I was pleased with the first issue of *economia,* which I expect will be as interesting and informative as *accountancy*. But I was disappointed that the Sir Philip Hampton interview didn't live up to the front-page promise of explaining why he believes the Euro crisis to be terrifying. I was hoping for some juicy information. Perhaps he might fill in the gaps in a subsequent issue?

Alan Quinton, Eastbourne

Thank for you for sending me economia. On the whole it made interesting and relevant reading but, as with *accountancy*, it seemed directed to the needs of large firms. Could there be a section devoted to small firms and sole practitioners?

Keith Lloyd-Simpson, via email

I have just received the first issue of the new ICAEW magazine and without taking it out of the wrapper I am disappointed. My qualifications have been devalued over the years and auditing and accounting are no longer the respected and valued services they used to be. This decline is summed up by the ridiculous name of the magazine. "Laughing Stock" might have been a better choice.

Clive Pilley, Westcliff-on-Sea

I today received a copy of *economia* and I am wondering what on earth it has to do with me. As a member of the ICAEW since 1973 and a sole practitioner, I have failed to find any article of relevance to me, my small practice, or its clients. No tax update, no indexation tables, no small business or personal taxpayer matters of interest. *accountancy* was written mainly for the big firms but it had some things that were relevant to me and my clients.

Richard Wood, Nottingham

Heartiest congratulations. The new magazine is much better than I had anticipated. It is beautifully designed and logically presented. Nice to have a single leading article where the ICAEW's views used to be relegated to the rear section.

Richard Sutton, via email

Just a very quick line to say how the new magazine is so much better than boring old *accountancy*. Having been a qualified FCA for over 30 years now, I rarely found anything interesting or relevant to me as a member in business in *accountancy*. The new magazine is actually interesting.

David Rowell, via email

I have just received my first copy of the new magazine. I am a sole practitioner and found nothing of value or even of interest in the magazine. I don't see why I should pay CCH for *accountancy* when it should be self-funding from adverts. Does the ICAEW have the ambition of becoming my biggest overhead?

Gary B Robinson, Evesham

I would like to congratulate you on your new magazine, which I found a lot more topical and interesting than *accountancy*. But I was disappointed to see the entire lifestyle section aimed at male readers. For an institute that supports women in the profession and equal rights, this is poor. I also found it right-leaning and would like unbiased coverage of all views.

Sarah Conner, Newcastle

SOCIAL MEDIA

Twitter @economiamag

Ben Heald @bheald
1st issue of @economiamag promising – better, broader ICAEW member magazine. Accountancy was staid and a real CCH vs ICAEW muddle.

IRIS Accountants @irisaccountants
Just got a coffee and having another read of the @economiamag just can't put it down

charity_worker @charity_bod
@ICAEW_talk Received my copy of the new @economiamag today, looks good from initial skim, thank you, more #bedtimereading

LinkedIn group economiamagazine

Thiru Vasagam I like *economia*, highly focused on members' needs.

Lesley Hammond I think it is a huge improvement on *accountancy.*

James Varley I didn't find much that was relevant to my situation, starting a new firm as a sole practitioner.

CORRECTION
Jon Moulton's comments on Allied Irish Bank in the last issue were in fact made about Anglo Irish Bank.

Penny Power

The digital generation means business

Before he was appointed minister for business and enterprise in May 2010, I spoke to Mark Prisk and asked him and the Department for Business, Innovation and Skills (BIS) to support my manifesto, Digital Business Britain. It had become apparent to me that the UK was really lagging behind in our knowledge of the digital arena. The manifesto was about bringing to the fore the key actions we needed so that we could put this country in a better position economically.

I conducted a survey of 817 small businesses over five days and we got some really interesting results. I asked specific questions around social media and the use of it. About 85% said they believed social media was important to their business growth, but only 12.5% said they had anyone specifically doing it for them and only 20% said they were expert in it. So there was a clear skills gap.

There are a lot of cowboys online calling themselves experts but there are no qualifications, there's no barometer of measurement. It's a minefield. Alan Sugar once famously quoted, "Where there's mystery, there's margin". I thought there was an opportunity to help businesses grow. But where was the solution? It seemed obvious. There are administration, marketing, hairdressing or plumbing apprenticeships but none for social media. So I've created one.

I've brought together a team of six from the education sector and formed a company called the Digital Youth Academy, which we're piloting through three colleges. We've got two problems in this country: youth unemployment and businesses not growing fast enough. I think this apprenticeship could be the bridge between the two that at a very low cost can lead to a person working in your business and building your social media with you.

Today's young people are born digital. I did a workshop with unemployed youths without a single qualification between them, but the majority could create a website or a blog and understand Facebook and Twitter. It's a no-brainer for them. They do need some skills around the commercial aspects of their social media and businesses need to understand how to embed it into their organisations. Generation Y don't think hierarchically, they don't want to be controlled; they want to be measured on output, they put relationships above money. So it's got to be a cultural change.

It doesn't surprise me that we're still talking about this. If you think about the marketing industry, it took a long time for people to realise there's a difference between how you do something and why. A lot of people are focused on the technology – how do I use Twitter? How do I use Facebook? That's like me being a singer and focusing on my microphone rather than the song I wanted to sing.

Businesses are learning that you can't say to someone, "Like our Facebook page and we'll put you into a draw for an iPad". At the moment business is closed, selective and controlling. They've got to open up, and be more random and supportive. Young people are transparent. They can cope with information coming at them and filter it quickly. Traditionally business thinks "suspect, prospect, customer", where it needs to be "stranger, friend, follower".

Businesses have to engage on a completely different level to get anybody's attention and I don't think the shift is really going to happen until Generation Y become the leaders of the future. They will all know how to embed social capital and engagement into their organisation. Embedding a shift like that is huge.

Leaders need to manage their communications directly. If Tony Hayward had shown more of his emotion about the tremendous accident at Deepwater Horizon I don't think BP would have had so many problems. Instead he had a huge PR department managing his every word and it was clinical. Look what happened…

Ecademy hasn't changed in 14 years and sometimes I think, "Do I need to innovate it?" But the world hasn't woken up to what social engagement means in business. Ecademy is about being a friend to one another not about transacting and stealing market share. It's a community of like-minded people supporting each other and collaborating and sharing knowledge. There are people who have been here for many years and think of it as their internet home. Of course they use Facebook, LinkedIn and Twitter but they come back to Ecademy for sanity and friendship. It's a place where everybody knows your name.

Financially, running Ecademy has been a huge challenge because we haven't had big investment. Predators such as Facebook have come in and taken a lot of traffic and challenged our business model. They're hugely backed and a lot of people think big is beautiful, so trying to get any sponsor to support us is difficult. They know if they put an advert on Facebook they'll get traffic. But there's no intimacy.

Penny Power is founder of Ecademy. For more on Digital Business Britain, visit ecademy.com/manifesto

Cathy Newman

Lies, damned lies and dubious statistics

Vitriol, lies and kissing babies – there must be an election campaign on. With referenda on local mayors coming up around the country, all eyes will be on the elections in London. The candidates for London mayor haven't yet been snapped with photogenic infants, but it's only a matter of time. Vitriol and lies? There's been plenty already, and the election isn't until May. Boris has been accused of resorting to personal attacks to try and claw back his opinion poll lead. My FactCheck blog pulled up Labour's candidate Ken Livingstone, not once but twice.

Ken's resurgence is down to his "fare deal" promise to cut public transport fares if he's elected "without cutting future investment or hitting services".

It's the centrepiece of his campaign, and it's backed up with hard numbers. Tube fares would go down by 7%, and bus fares by 11%, paid by a £729m surplus in TfL's operating budget, which is "growing every year".

There's a flaw in Ken's argument. TfL's chief finance officer Stephen Critchley told FactCheck there was no operating surplus. The £729m figure is the difference between the operating margin that was originally budgeted and the actual outturn for the year.

If Ken cuts fares, TfL would expect to lose £1.12bn in income and, without any magic surplus, plugging that hole can only mean hitting day-to-day transport funding or taking money from investment projects. If you want more analysis, have a read on bit.ly/zWsB2T

We also found that a leaflet printed and distributed by the Labour candidate's union backers takes a few liberties too.

The Transport and Salaried Staffs' Association has been handing out Oyster card-style wallets containing a rather dubious claim about the tube. "Fares might be soaring, but the service is plummeting! Delays and closures are a daily part of Londoners' lives", screams the "sack Boris" blurb.

True or false? FactCheck chose a handful of performance measures used by TfL number-crunchers to see whether, during Boris's time in the driving seat, the Underground's gone down the tube.

In the average month, how many stations have closed for more than 15 minutes? It was 81.18 during Ken's time in office, and 80.1 under Boris. The number of journeys delayed for more than 15 minutes? That was 207.14 when Ken ruled the roost at City Hall and 147 once Boris took over. And finally, passenger hours lost? That would be 3.9m during Ken's era, and 2.7m during the reign of Boris.

> **If Ken cuts fares, TfL would lose £1.12bn, and plugging that hole means hitting funding**

So, although fares have risen under the Conservative mayor, delays and closures haven't. Go to bit.ly/xa5dQY for more detail.

What does all this add up to? Ken's campaigning hard on transport because he sees it as Boris's main weakness. Fares are to rise by around 7% this year – the fourth above-inflation annual increase since Boris was elected in 2008. In these cash-strapped times, pledging to reverse that rise would be an electoral winner. But economically it doesn't stack up.

While the fare rises have been politically unpopular, the data on the standard of service suggests they might have paid off by reducing delays.

So Boris has right on his side, but that may not be much use to him come 3 May.

The public doesn't like it when politicians go negative, but it often works. When Mitt Romney went on the offensive against Newt Gingrich in the US, he started winning primaries.

Now Boris is fighting back, accusing Ken of lying on fares. Ken retorted that his opponent is turning to the "dark side" – trying to spin his way out of trouble. But Ken's spin doctors have been on the warpath too, complaining to FactCheck about our analysis of tube delays – accusing TfL of "cooking the books" with the figures they gave us, and arguing that we've done some creative accounting ourselves by failing to factor in strike action, which has gone up under Boris. So to play fair, we crunched the numbers again, this time with industrial action included – and Ken still comes off worst.

So when it comes to the facts, it's round one and two to the current incumbent. But Boris shouldn't rest easy. Whether it's landing a blow on his opponent or whispering sweet nothings to a gurgling baby, FactCheck will be refereeing, and ready to blow the whistle.

Cathy Newman presents *Channel 4 News*. Her FactCheck blog can be found at channel4.com/factcheck

Jason Cowley

Salmond's leap of faith

In the summer of 1995, I spent a week on assignment in Edinburgh. The weather was unusually settled, and during long, radiant days of sunshine I explored the city on foot, meeting writers and artists to talk about the renaissance in Scottish culture. I returned home beguiled by Edinburgh – by its architectural grandeur, its civility and its history. It was obvious to me that this was the capital city of a proud nation that was deprived, because of the centralisation of power in Britain at Westminster, of statehood. Scotland had its own separate education and legal systems, but the Scottish people were being ruled from London by a government for which most Scots did not vote. The status quo was unsatisfactory. The British state felt antiquated; it was creaking. The Scots were growing restless.

Those were the dying days of the Conservative and Unionist Party in Scotland, and most of the young people I spoke to had little sense of a larger British identity. They were proudly, defiantly, Scottish. To them Britain was inseparable from England and English expansionism. In May 1997, Tony Blair's New Labour Party swept to power promising devolution for Scotland and Wales. The Conservatives, the party of empire and of the Union, opposed devolution, and were routed, winning none of 72 seats in Scotland.

The Tories opposed devolution perhaps because they feared it would signal the beginning of the end of the United Kingdom. Tam Dalyell, the Labour MP first for West Lothian and then Linlithgow, spoke for many unionists when, in a resonant phrase, he described devolution as a "motorway to independence with no exits". Is that how it will turn out?

When the Scottish Parliament was set up, in 1999 at Holyrood, a proportional voting system was introduced with the implicit intention of preventing any one party from winning an overall majority. In effect, the voting system was rigged against the Scottish National Party, whose mission it is to break the British state and bring independence to Scotland.

The first Scottish government in 1999 was a Labour-Liberal Democrat coalition, with Donald Dewar as First Minister. In 2007, after two successive Labour-led coalitions, Alex Salmond's SNP won power and ruled for four years as a minority government. Then, in May last year, the SNP won an astounding landslide victory against an exhausted and complacent Labour Party. (They exploited the collapse in support for the Lib Dems, tainted by association with the Tories in the Westminster coalition).

Salmond, perhaps the canniest and most relentless politician in Britain, had at last won a mandate to hold a referendum on independence. His intention is to hold it in 2014, which coincides with the 700th anniversary of the Battle of Bannockburn and with the Commonwealth Games and Ryder Cup being held in Scotland.

He is master of all he surveys and has the political momentum. But his opponents are starting to mobilise

Salmond is in no hurry. As a gradualist, he knows that most Scots are against full independence, though they would welcome more devolution, and even full fiscal autonomy. Salmond wants a third question on the ballot paper, offering Scots a chance to vote on what is being called the "devo-max" option.

"I think one of the things that is wrong about devolution just now is that it is not right that you have a parliament that spends money but has no political responsibility for raising it," Alistair Darling told me recently. "That needs to be sorted."

The former chancellor and Edinburgh MP is the most combative and convincing advocate of the Union among Labour MPs. He understands what a dangerous opponent Alex Salmond is, but also how Scotland has benefitted from the Union with England, signed in 1707.

I'm a supporter of greater devolution for Scotland, whether it is devolution-plus, as the Basques have in Spain, or devolution-max, or full fiscal autonomy, as operates in Catalonia. But I'm also a believer in Britain and Britishness, which is a civic identity and has nothing to do with blood and soil nationalism.

Britain is one of the most successful multinational states in history. In an age of globalisation, when capital and people are so mobile, and we are used to sharing sovereignties in supranational institutions such as the European Union, more of us are comfortable with compound or hyphenated identities: Black-British, Asian-British, Scottish and British, and so on. At present, with the SNP at 50% in some polls, Salmond is master of all he surveys. He has the political momentum. But opponents are beginning to mobilise. This one has a long way to run.

Jason Cowley is editor of the *New Statesman*

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Michael D. Watkins

Leadership in a time of crisis

The financial crisis has put everyone into a turnaround mentality. Time frames are shorter, boards are more impatient and there's a lot of anxiety everywhere. But my beliefs about what good leadership is haven't shifted.

Conflicts of interest generated this crisis, the system at some level became corrupted. Great leaders understand that you can't operate in an environment where conflicts of interest of such significance are present. If you have a system that's conflicted it's no surprise when it comes crashing down. I have seen some pretty wonderful leadership since. The good news is that the crisis has been a huge wake-up call.

I'm from the US but I teach at IMD business school in Lausanne, Switzerland so I understand about both sides of the equation. I've been impressed with Obama, frankly. If you listen to the news media in the US, there's a lot of criticism of him. But we don't have any idea how bad things would have been if he hadn't done what he's done in his administration. This is the fundamental problem leaders face: people will always say it didn't work, or it's not working, but it's impossible to know for certain what would have happened if Obama hadn't put all that hard work and energy into the economic situation. We'd probably be in a huge depression now.

We're starting to see a bit of job growth come back in the US. I've seen a lot of mobilisation, much more effective leadership. We're beginning to get to grips with some of the structural problems within the system. But, of course, every time we fix something, we turn around and there seems to be a new crisis. Europe's crisis is different – it's more embedded in the long-term deficits and entitlements that are present in the system. We can argue about whether we've seen good leadership there or not…

Executives have been in survival mode, then retrenchment, then anxiety. But the biggest impact comes from the complexity and the uncertainty of the environment. Leaders need to deal with things today that they haven't had to deal with in the same magnitude in the past.

We've seen this extraordinarily volatile environment. One of the common themes we hear when we talk to people is the need to help them understand and make sense of the external environment. The other part of the question is learning how to strategically shape that environment.

My work has primarily been about workers making transitions. Not all transitions are equal – some are more difficult than others. If you ask people about the most challenging transitions they've faced, virtually everyone remembers the first time they were made a manager. It's like being given the keys to a car and told, "Go manage people, try not to dent this thing up too much."

When you get to the top you have to be the agenda setter in chief for your organisation

Michael D. Watkins is an author and adjunct professor at IMD

The other factor that proves to be extraordinarily difficult in producing great leaders is when people move from senior levels to being general managers. Everyone has a comfort zone, so if you're good in one area there's a tendency for you to be attracted to tackling problems in that area and perhaps ignore problems in others. For example, if you're a finance person you'll look at the world through the lens of ROI and cashflow whereas marketing people will see things through the lens of customer needs and USPs. Good leaders need to bear in mind these different frames of reference.

The more senior you become the more you should take a broad view. It means looking at things in a slightly different time frame. You can get a long way by solving the problems other people pose for you, but when you get to the top you have to be the agenda setter in chief of your organisation. You have to look at that complex external environment and say, "These are the things we should be considering."

Leaders have to look at things such as turning from warrior to diplomat. People at the top of organisations are in dialogue, directly or indirectly, with their competitors all the time. You're more responsible for government relations, media, analysts, a whole set of extra stakeholders. The diplomatic mindset is about intricate moves and counter moves – what alliances can be built – not the warrior outlook of who are my friends, who are my enemies?

We try to make sure people are aware of their strengths and weaknesses. Some people have more inherent flexibility than others and not everyone is capable of becoming a GM. A lot of wisdom can come from realising that you're better off on a functional path.

Letter from America

Agency assassins don't cut spending

A macho new sport is growing in popularity among the US political elite: hunting government departments. Killing off entire agencies seems like the most decisive way to curb government spending. To that end leading Republicans have proposed doing away with a host of government agencies. Those in the firing line include America's environmental watchdog, along with the departments of commerce, education and energy.

Most significantly the president himself has now joined the hunt. In January Barack Obama proposed consolidating six government agencies – cutting up to 2,000 federal jobs over a decade and saving around $3bn over 10 years. If granted new powers by Congress, the president will be able to shrink other federal departments without first obtaining the consent of lawmakers.

Such attacks make for good politics but mislead Americans about the source of their fiscal problem. It is not lavish spending by these departments that is increasing US debt, but surging welfare spending coupled with low tax revenues.

First, consider the scale of Obama's proposed cuts. His agency-slaying would eliminate just 0.09% of the federal workforce. Meanwhile, the $3bn saved amounts to just 0.007% of the projected federal budget over the coming decade. Even culling the departments of commerce, education and energy, as suggested by former Republican presidential candidate Rick Perry, would only reduce federal spending by a mere 2.7%.

The reason such aggressive action achieves so little is that these departments are not the biggest spenders. So called non-defence discretionary spending – which excludes welfare departments – is at just 3% of GDP, its lowest in more than 50 years.

A trawl through government White House figures quickly reveals where the real problems lie. Americans are handing over less to the taxman than at any time since the administration of Harry Truman. As a share of GDP, tax receipts stood at 14.9% in 2010 – lower than at any time since 1950. The average for the prosperous 1990s was 18%. The fall is partly due to a recession-induced rise in unemployment. Still, the tax cuts enacted by George W Bush also deprived the Treasury of around $70bn a year in revenue.

A bigger worry is welfare spending, which includes state pensions and healthcare for the poor and elderly. Back in 1965 these accounted for just 2.5% of GDP. Now they gobble up a full 10%. And this is rising fast. Within 13 years welfare spending is on track to hit around 17% of GDP, according to the non-partisan Congressional Budget Office. Spending on Medicare, which helps the elderly with healthcare, is climbing at an alarming 9% a year. It now covers 47m Americans, but will have to cope with 88m by 2040 as the population ages. Meanwhile, healthcare costs are surging.

Of course, there remains plenty of wasteful spending that could be cut from the federal budget. But if politicians really want to solve America's worsening fiscal problems they will stop focusing on department hunting and turn their sights on taxes and welfare spending.

The latest news from Christopher Alkan, our insider in Washington

Land of opportunity

Colombia is shrugging off its violent reputation and now robust economic growth and the adoption of international accounting standards are creating a wealth of opportunities for financial professionals – if, says **Penelope Rance**, you know how to behave

After the Celtic Tiger and the Red Dragon of Asia come the Civets. The economies of Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa are the favoured emerging markets of the moment and most likely to succeed China and India as the world's boom economies by the end of the decade.

These new kids are set to take advantage of dynamic economies boosted by young, growing populations. They boast controlled inflation and refined financial systems that have yet to be exploited by developed countries. The Economist Intelligence Unit predicts 4.9% yearly growth for the Civets for the next 20 years.

First among them is Colombia, the most robust example of these feisty economic upstarts. It enjoys natural resources – including coffee, petroleum and fruit – that support a variety of raw material exports, and a modest external debt of just 22% of GDP, with inflation in the region of 3.7%. A new political constitution in the 1990s promoted stability and since 2002 the government has pursued policies favouring foreign investment, leading to a 93% increase in outside funding on the back of the oil boom.

"Colombia has had a stable democracy, with market-friendly governments for a significant period of time which, particularly in recent years, has helped lower interest rates and control inflation," says Felipe Janica, partner and IFRS leader at Ernst & Young in Bogotá.

"The quality of manufacturing and services has let Colombia expand exports beyond their traditional dependence on neighbours such as Venezuela and the US to free trade agreements with Canada and South Korea. And now the Colombian government and business community see relations with East Asia as key to future economic growth."

ROLL OUT THE BARRELS

"Oil exploration and production, engineering services companies and other resource companies are growth areas," says Janica. "Although petroleum reserves are not close to those of Venezuela, opportunities abound as exploration and production companies spring up. These are primarily listed in Canada but there are also some based in Brazil, France, India and China.

"In addition, the financial sector is experiencing significant growth with foreign investment taking the opportunity to buy into Colombia, given the increased demand for credit from the expanding middle-class."

As well as its burgeoning middle class, and its demand for luxury goods, financial services and increased energy supplies, part of the appeal of Colombia is its geographical variety. The country includes Caribbean and Pacific islands, while a tropical coastline and cool highlands allow for a wide range of agriculture. Combined with the wealth of natural resources, its open yet efficient legal system encourages outside investment.

The abundance of raw materials, and foreign desire to exploit them, leaves Colombia open to the risk of Dutch disease, where in this case increased focus on extracting base products occurs to the detriment of the manufacturing industry. The country's currency is boosted, making manufactured products more pricy on the world market with resultant pressure on jobs.

Thankfully, Colombia can act as a centre for production as well as extraction. Its excellent education system has produced a workforce with high numbers of young skilled and managerial level employees. There is also no strong union culture, with fewer than 20% of workers belonging to a union.

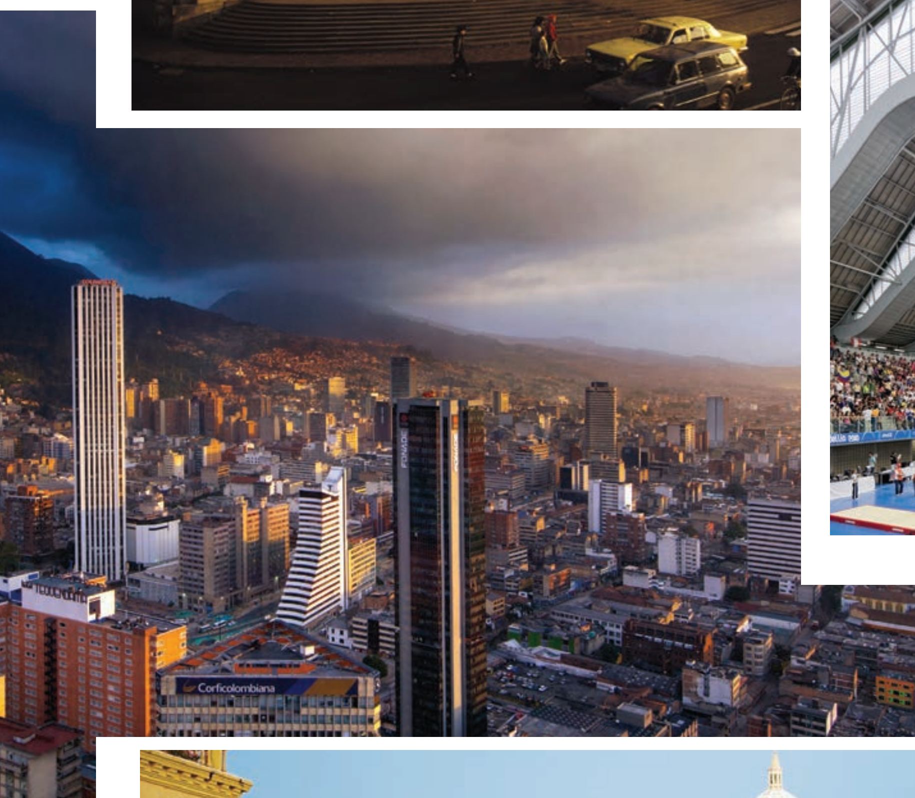
SETTING THE STANDARD

The growth of the Colombian middle class is creating opportunities for accountants, but those looking to move from overseas to take advantage would do well to study the American financial model.

"Current Colombian standards could best be described as being closer to US GAAP than IFRS in the sense they are based more on set rules," says Janica. "In addition, in common with the rest of Latin America, Colombian accounting standards are designed primarily for tax purposes which is challenging from an investor's point of view."

The government, however, has recognised the importance of internationally recognised accounting standards if foreign investment is to continue, and has made a commitment to International Public Sector Accounting Standards (IPSAS). In November 2011, Carlos Andrés de Hart, vice minister of business development of the Ministry of Trade, Industry and Tourism, said at a forum to promote the convergence

District of Colombia: the burgeoning of the country's middle class is set amid a backdrop of the modern and the traditional



IWAN BAAN, ANDREW ROWAT, GETTY IMAGES, EYEVINE

The aquatic centre in Medellin features a pool where audiences can see synchronised swimmers dance beneath the water

IWAN BAAN

of local standards with international ones, "It is the purpose of the national government to say as soon as possible that with these international standards we speak the same language, in terms of financial reporting standards and information assurance, to those international standards that are accepted worldwide. He stressed the improvements this will bring in productivity, competitiveness and entrepreneurship".

The move to IFRS will open the door for chartered accountants with internationally-recognised qualifications, who can slot into companies that need to meet the new regulations. "It is vital for countries' ongoing economic development to have enough people with IFRS skills, in order to operate to a high standard of transparency and comparability and attract inward investment," says Mark Protherough, executive director, learning and professional development for ICAEW.

There will also be opportunities to train local accountants to function within the IFRS. "With more and more countries in South America adopting International Financial Reporting Standards, there is an increased need for training," says Protherough.

"ICAEW is working with training providers and institutions on the ground to fulfil this need. Last year, for example, ICAEW signed a deal with Universidad del Norte in Barranquilla, Colombia to offer IFRS training in both Spanish and English. We are also working in partnership with organisations in nearby countries offering training and assessments in Spanish and Portuguese to help people develop the necessary skills for doing business in the 21st century."

Even with this level of support, it's unlikely to be a smooth transition, and the need for those already qualified will be immediate and urgent. "In 2014 IFRS will be adopted by listed and large entities, which will provide a culture shock to many as the reports will move to a fair value approach," says Janica.

In order to help accelerate the development of the profession, ICAEW has signed a memorandum of understanding with its Colombian equivalent, the Consejo Técnico de la Contaduría Pública (CTCPP).

But other differences between Colombian and UK accounting are more cultural. "From an administration point of view, by law, accounting periods end on 31 December each year, which makes for a busy January and February," confesses Janica.

GETTING ALONG

Despite the resemblance of its financial standards with the US, foreign nationals working in Colombia will notice a number of cultural and business practices that are particular to the country. According to culture and communication consultancy Communicaid, when doing business one shouldn't expect direct answers, or immediate decisions. Colombians prefer to interact in a subtle manner, doing business over long lunches. Diplomacy is key, as offence is hard to retract. Meaning is often conveyed through body language or expression, while they say "maybe" instead of "no".

Timing can be similarly flexible. Punctuality is rarely seen as necessary, and business meetings will often be delayed or cancelled at the last minute. If a series of meetings is planned, or there are several places to visit, always schedule meetings at least two weeks in advance and factor in extra time, as some of those meetings will overrun. Negotiations can be lengthy, but rushing them will result in failure. While the working day can easily run to 7pm, do not expect to do business at the weekend – this is sacred family time.

While some eyes might see nepotism, the prevalence of relatives working together is more a sign of the importance of family. Many businesses are family owned, and it is expected that at least some children will follow the same profession as their parents.

Colombian companies have vertical hierarchies, which should be respected. Decisions are made at the top and titles matter. Use them, and only refer to people by first name if invited to. While personal relationships and trust are vital to successful business, you need to put time into creating them, rather than being too familiar, too soon. Always offer a hand on greeting and departure, but don't be surprised to receive an embrace from a well-known associate.

While it is enjoying an increasingly important role in the world economy, the Colombian financial sector has yet to adopt English. "Although it's possible to live and work in Colombia without fluent Spanish, to fully appreciate the culture, it's necessary to be able to communicate with your peers," says Janica. "While engineering and medicine are more bilingual, English is not widely spoken among accountants."

COLOMBIAN BUSINESS ETIQUETTE

What are the dos and don'ts when conducting business in Colombia? Culture and communication skills consultancy Communicaid provide some tips

- Expect to spend a considerable time getting to know your Colombian business counterparts before progressing with any deals
- Translate all documents and business cards into Spanish, or you may jeopardise your chances of business success
- Do not rush your dealings with Colombians, or press for final decisions
- Never be aggressive in business dealings, as it is considered arrogant
- If dining with colleagues, do not ignore Colombian formal dining etiquette as it will make you look slovenly, and could negatively impact on business opportunities

VITAL INFO

Official name: Republic of Colombia

Capital: Bogotá

Population: 46,294,841

Official language: Spanish, plus almost 90 local dialects

Currency: Colombian peso (COP), £1 = 2,840.5 COP

GDP: $288.2bn (est. 2010)

Norway
AT A GLANCE

Continuing our profiles of business destinations around the world, **Penelope Rance** takes a whistlestop tour of the oil-rich country coming to terms with change

VITAL STATISTICS

POPULATION: 4,691,849 (July 2011 estimate.)
CAPITAL: Oslo
FULL NAME: Norway (Norge), from the Old Norse *nor veg* or north way

ECONOMIC STRENGTH

GDP PER CAPITA: $54,600 (2010 estimate)
EXPORTS: Petroleum and petroleum products, machinery and equipment, metals, chemicals, ships, fish
IMPORTS: Machinery, chemicals, metals, foodstuffs
EXCHANGE RATE: £1 = 9.03 Norwegian krone (NOK)
The government-controlled petroleum industry accounts for 30% of state revenue. Norway saves against oil reserve declines by investing in a $500bn wealth fund.

PROFILE

In 1905, after five centuries of foreign rule, Norway gained independence as a constitutional monarchy. It resisted integration with the EU via referenda in 1972 and 1994. With one of the longest, harshest coastlines in the world, its landscape is two-thirds mountains and includes some 50,000 islands. Oslo has plenty of fancy restaurants, with three deemed worthy of a much-coveted Michelin star. Jens Stoltenberg's coalition government was appointed by King Harald V in October 2005.

IWAN BAAN

INTERNATIONAL IMPORTANCE

Thanks to its location adjacent to the sea-lanes and air routes in the North Atlantic, Norway maintains international military importance. Despite voting against full membership of the EU, it has maintained membership of the EEA and forms a significant part of the European economy. Known for its role in international development, the recipient of the Nobel Peace Prize is also selected by the Norwegian Nobel Committee, a 5-member committee appointed by the Parliament of Norway.

SOCIAL INSECURITY

While the estimated unemployment rate in 2010 was just 3.6%, Norway has to protect its welfare state in the face of an ageing population. Other social concerns include immigration, the integration of ethnic minorities in a country that is 94% ethnically Norwegian, dwindling fish stocks, water pollution and forest-destroying acid rain.

CALL TO ARMS

Norway has the highest per capita military expenditure in Europe, at an estimated 2.49% of GDP. Some 23,000 people are employed in the country's *Forsvaret*, or armed forces. Military service is compulsory for men and voluntary for women. Since 2006, the forces have held cold response exercises, where patrols, road control, surveillance, rescue operations, civilian evacuation and riot control are all practised under harsh winter conditions.

NORTHERN PARADISE

Enjoying more rain and higher temperatures than most northern countries, it has habitats where 450 species of bird and 90 types of mammal thrive. Yale University's 2010 Environmental Performance Index, which assesses government adherence to green policy goals, listed Norway in fifth place among 163 countries. And according to the UN Human Development Index, Norway has been the best place to live for the last 10 years.

SENSE OF SELF

Nordic languages are based in Old Norse, the Viking tongue spoken throughout Scandinavia by the 800s, and in 50 individual kingdoms throughout what is now Norway. In the 19th century, under Danish rule, growing nationalism led to the focus on a distinct Norwegian language. Today there are two official written languages, bokmål and nynorsk, both of which are used in government documents and taught in schools. Children start learning English in their first year at school.

Despite macro-economic shocks and with two significant tax cases to fight, the UK-based Vodafone Group has continued to generate cash. Free cashflow last year totalled £7bn. Andy Halford, its chief financial officer, tells *economia* how the company has reached the top of its industry, the challenge of innovating to stay there and where he sees future growth

UPWARDLY MOBILE

Words: Amy Duff Pictures: Mark Harrison/Lucid

The day I meet Andy Halford, chief financial officer at Vodafone Group – the fifth most valuable brand in the world according to *Brand Finance* and one of the largest mobile communications companies by revenue (£45.9bn at the last count) – the weather outside can only be described as biblical. One minute the sun is shining through the windows of Vodafone's modern headquarters on the appropriately named Kingdom Street in London's Paddington Basin, the next the sky is black and rain is thundering down outside.

Rapidly changing and intense conditions, bright one moment, exceptionally precipitous the next – it's the kind of environment that Halford, only the second CFO in the company's history, works in every day. Luckily for Vodafone, he's cool in a crisis. If he's alarmed about exceptional UK macro conditions, tanking European economies, low consumer confidence and the fallout from two high profile tax disputes (one with HMRC, the other in India) he doesn't let on. He's measured about the challenges his business faces – "consumer disposable income, the euro, streamlining costs".

He can let the figures do the talking. The group 2011 highlights included a 3.2% revenue increase, a rise in operating profit to £11.8bn, a 7% target increase in annual dividends and a free cashflow figure at the top end of its medium-term guidance of £7bn. The UK market along with Germany and the Netherlands saw organic service revenue rise by 2.7%. Halford acknowledges that the pace of change can be rapid in the telecommunications industry.

Speaking in the "quiet room" we've been allocated for our photo shoot while the marketing and product development-types get creative outside, he says there are things happening with applications, for example, that, "one didn't even dream of happening only two or three years before".

In the emerging markets, where Vodafone sees most future growth in mobile customers, it's reached a point where "a lot of people will come to the internet first on a mobile phone. They will never have the experience of going onto a PC because mobile devices are a lot cheaper and a phone is much more usable than a computer. Every two or three years you look at some of the things that are happening that they weren't capable of three or four years ago. There's a lot of change," he nods.

None more so than in Vodafone itself, famously started next to a curry shop on Newbury High Street when it spun out of Racal Telecom in the early 1990s. It had 50 employees then, today it employs a 9,000-strong workforce in the UK, 900 of whom are at Paddington Basin, and nearly 84,000 people worldwide.

When Halford joined the company in 1999 as financial director for Vodafone Limited, after seven years as group finance director at

“We need to be focused on value for money, but our main focus is on driving smartphones and data. We’re pretty bullish about the future… If big business did not exist I have no doubt that society would be worse-off”

East Midland Electricity, it was already the world’s largest mobile phone group. Its huge international presence is a boon, says Halford.

“It’s a good breadth geographically and in terms of spread of customers from the low-end consumer to the high-end enterprise customer,” he says. “The growth going forward will vary in its pace depending on what part of the world we’re talking about. Southern Europe is somewhat tougher, but northern Europe, north America, Asia and Africa are still doing pretty well”.

But “the real engine of growth” will come from data – mobile internet and mobile broadband. In 2006 it accounted for just 3% of industry revenue, by 2014 it is expected to be 21%. Data revenue was already £5.1bn for Vodafone in its last financial year and now accounts for 12% of Group service revenue.

“We’re not short of demand,” says Halford. “We need to be focused on value for money but our main focus is on driving smartphones and data. And in that sense, we’re actually pretty bullish about the future”.

It’s about time the telcos took data seriously, says Emeka Obiodu, senior analyst at telecoms, software and IT research consultancy Ovum, “because it will have a big impact on the way they make money”.

As he explains, the propensity for users to make free calls on their smartphones via applications such as Skype will drastically impact on the business model of telcos such as Vodafone.

“If the bulk of people make calls when they’re at home or in the office, which is the justification for home phone tariffs, what now happens when you’re at home? You’ve got access to free Wi-Fi. So people begin to make free calls through Wi-Fi and it’s a no-brainer, you can no longer justify the exorbitant price per unit for calls.”

He says Ovum has suggested to telcos that they do what fixed line providers such as BT have done and insert a line rental charge so users are charged for the “privilege of being on the mobile network”. Demonstrating a more transparent structure of what it costs the user to do things like download data and own a handset is, claims Obiodu, “the only way they’ll remain profitable in the marketplace”.

But the business has to pay rigorous attention to the amount of risk it’s willing to take for the sake of innovation, says Halford. While risk doesn’t “completely dictate the way the business is run,” the environment and the pace of change means it doesn’t have the luxury of making long-term plans for the next 10 or 20 years. And of course it has a duty to create value for its shareholders – any change, investment or corporate activity has to enhance shareholder returns.

Being able to clearly articulate why the business is doing what it’s doing is a major responsibility for any CFO, says Halford. And he’s not surprised that investors are increasingly careful with their money. “Investors have found it genuinely difficult to know where to put their money, where they can find a reasonable return,” he says. “So they’re asking more questions and wanting to better understand the path of the businesses so they can make wise decisions.” Does that put his role in the spotlight more? Halford sees himself almost as the “seller” of the company. “The CFO’s role is to attract money rather than letting that money going elsewhere. It’s a broadening of the role.” he reflects.

Vodafone’s own shareholders have good reason to feel wise. The business has brought the debt on its balance sheet down to levels that Halford says are lower than “anything it’s had for the last four or so years. We’re in the fortunate position that our significant investment in the US (a 45% stake in Verizon Wireless) is now recommencing a dividend flow to us. We’re comfortable with our dividend while others in the sector are clearly having to take another look at theirs.”

But the two tax cases, one concerning Vodafone’s acquisition of Hutchison Whampoa’s Indian mobile unit in 2007, the other a 10-year battle with HMRC concerning its takeover of the Mannesmann conglomerate in Germany, have negatively impacted on its reputation. You can’t mention Vodafone without someone calling them tax-dodgers. So what happened? In India, the tax authorities had pursued the operator for £1.3bn in capital gains tax because it said most of the assets in the deal with Hutchison were based in India. Vodafone objected, claiming the deal was between two overseas companies and even if tax was due, the seller and not the buyer should pay it. In January this year the Supreme Court ruled in Vodafone’s favour, saying the tax office did not have jurisdiction over the deal. The company’s shares rose 2.55 to 177.05p as a result.

The other case, where allegations have widely been made that Vodafone secured a “sweetheart” or “handshake” agreement with HMRC regarding a tax bill of, on some estimates £6bn and others £8bn, prompted Halford to call an end to the “unjust and unwarranted” misrepresentation by way of a letter to the world’s media in December 2011. He says the Vodafone/HMRC settlement was “focused on some of the most complex tax legislation anywhere in the world. It involved nine years of legal argument through two independent UK tax authority appeals, three court cases and an application to the UK Supreme Court. The outcome was a full and final settlement of £1.25bn,” which

could happen, he says it's imperative that the business looks at its cost base "to see what we can do if things become ever tougher".

Does that mean selling off more parts of the business? "No, it's more about looking at end-to-end processes, trying to get the last bit of efficiency out of them. We did tidy up the overall portfolio last year and I think it's now in good shape and where I want it to be," says Halford.

His caution and cost-efficiencies could protect Vodafone from feeling the full force of another recession if Obiodu's analysis is correct. He says, "From research we did in 2008 it seems to be that telcos lag behind economic performance. So when the recession hit it took 12 months for its impact to reflect on their figures. Now Europe is quivering about another recession it's likely telcos will feel this in 2013."

But it's not all doom and gloom. As Obiodu points out, telcos may not be growing by 5% annually, but they continue to be "solid cash-based businesses that generate solid cashflows". And he sees an important future role for companies like Vodafone, as he explains, "By abandoning their bid to create the killer application, telcos have inadvertently stumbled into a niche market, which is to enable others to do fantastic things. As long as they can extract value from each of these individual ecosystems – such as health, banking, retail and educational solutions – their role in society will remain intact. With that position in society they will continue to reap their profits."

This year Halford says his company will do whatever it can to come out of this period a market leader. Sticking to his guns will play a crucial part in that. Recalling his "excellent experience" working at Verizon for three years he explains, "It's the biggest operator in the US, hugely profitable, cash generative and fortunately we kept hold of our stake. There was a clamour to get rid of it… but if you compare the value of our stake now with the price we'd have got had we heeded the advice of those people, then without doubt we made the right call. Just because people have a view it doesn't necessarily mean they have the right view. You can have minority views, which may or may not be correct, you've just got to do what you believe in".

Vodafone says it paid to "settle the matter and bring nearly 10 years of litigation and uncertainty to an end".

What Halford would like to see now is an end to ambiguity through new tax laws. "This area of tax law has been a problem for many companies for years, and successive governments have admitted UK legislation is wholly unclear," he says. "We and all other multinationals currently present in the UK would welcome greater clarity in the future."

The company says it has been unfairly maligned, but the case has done little to restore faith in the public's perception of big business after the financial crisis. As Halford sees it, "The focus on the banks has raised the profile of big business. Everybody is being tarred with the same brush, but I think many non-financial businesses have done an excellent job through the recession and have continued to prosper, to generate dividends that in turn feed through to pension funds."

If he has a frustration it's that people underestimate the contribution that big business makes to society. "Put another way, if big business did not exist I have no doubt that society would be a worse-off place."

With the two tax cases effectively put to bed, Halford is turning his attention to growing the business and pursuing even stronger positions in the markets in which Vodafone operates. "This recession will not last forever, the strongest will survive," he reasons.

But with the storm clouds that hang over Europe and the pressure on the finance function to think through the various outcomes of what

ANDY HALFORD BIOGRAPHY

After graduating from Nottingham University in 1980 with a bachelors degree in Industrial Economics, Halford joined PwC and qualified as a chartered accountant in 1983. He also worked in South Africa for one year. He is a member of the board of representatives of the Verizon Wireless partnership and a fellow of ICAEW.

Senior positions held

- 1992-1998 East Midlands Electricity plc – business development director; group IT director; group finance director
- 1999-2002 Vodafone UK; Vodafone UK, Middle East and Africa; Northern Europe, Middle East and Africa - CFO
- 2002-2005 Verizon Wireless - CFO
- 2005 Vodafone Group plc - Group CFO
- 2010 The Hundred Group of Finance Directors, UK - chairman

NEW ZEALAND INSTITUTE OF CHARTERED ACCOUNTANTS

Make a smart career move to Christchurch

In February 2011 Christchurch, New Zealand suffered a devastating earthquake that crippled the city. Homes were lost and the central business district was closed to all but demolition crew for over 6 months. In order to survive, businesses needed to be clever and reinvent themselves. Businesses started popping up in garages, homes and in new locations across town.

Photo courtesy of eGuide Travel.com

While it has not been easy Christchurch is emerging as an exciting, spontaneous and challenging place to live and work. And it's not just us that thinks so, Lonely Planet recently described Christchurch as one of New Zealand's 'most exciting cities' (Jan 2012).

Traditionally the most English of NZ cities, Christchurch is superbly located as the gateway to the South Island. Nestled on the coast and only an hour from the magnificent Southern Alps, Christchurch has a lot to offer. Weekends are enjoyed exploring the hinterlands of Christchurch; from the beautiful wine country in the Waipara Valley or the French inspired Akaroa to whale watching or swimming with dolphins, it is all just on the doorstep. If it's something more adventurous you're looking for then skiing or boarding on the many skifields within an hour of Christchurch is a great way to while away your weekends. Not even the earthquake can dampen the kiwi culture of getting out and making the most of what life has to offer.

Christchurch is now on the road to recovery and as Canterbury business reinvents itself, exciting and unique opportunities exist for Chartered Accountants to make a real difference and play a tangible role in the rebuild of Christchurch.

Zowie Murray, Chartered Accountant from Southampton in the UK moved to Christchurch in 2010. Here she talks about her life and career in New Zealand's most English of cities.

WHAT MADE YOU MOVE TO CHRISTCHURCH?

This should be "who" not "what"! The answer being my husband. He came out to NZ on holiday 10 years ago and decided then that this was where he wanted to live! He loves the outdoors and everything that NZ has to offer is right on your doorstep.

For me, the move to New Zealand wasn't such an easy decision, leaving my family, friends and a good job. It was a big decision which I was nervous about. But I needn't have worried, the people in NZ are so nice. They are so genuine and friendly and really made me feel welcome.

WHAT DOES YOUR ROLE INVOLVE AND WHAT WORK EXPERIENCE HAVE YOU GAINED FROM WORKING IN CHRISTCHURCH?

I worked for a big four firm in the UK as an auditor, mainly working on large listed clients as component auditors for overseas parent companies. When I moved to NZ I took a similar role within a reputable mid-tier firm. This gave me experience with a very different size and type of client base, and the challenges that small-medium practitioners face.

I found I quickly got promoted to Audit Manager, responsible for a team of four to appraise, train and mentor. I worked alongside the directors of the firm on a number of projects, and regularly had input into managers and directors meetings. I also became the technical "go-to" person for all auditing and financial reporting queries within the firm. I now work for NZICA as the Audit and Assurance Specialist on the newly created Technical Services Team. This allows me to use my technical abilities to help others. It would have taken me a long time to gain the breadth of this experience if I'd stayed in the UK.

WHAT HAS SURPRISED YOU ABOUT CHRISTCHURCH?

I have been able to design and build my own home which I would never have been able to do in the UK. I am also surprised about the amount of spare time I have now, which I get to spend with my husband!

In terms of my careeer, I feel really valued and appreciated as an employee. I actually contribute to the strategic direction of an organisation, instead of just being a resource allocated to a task.

On the topic of the earthquake, Christchurch has surprised me how resilient the city and the people are – truly inspirational. The remuneration is not too dissimilar to the UK, but the cost of living is cheaper. We have a much better quality of life here, and feel happier and healthier, I think the amount of sun helps keep those blues away!

WHAT WOULD YOU SAY TO PEOPLE THINKING OF MOVING TO CHRISTCHURCH?

Don't be put off by the earthquakes! Recent events have actually created a lot of opportunities here in Christchurch, especially in the job market with people moving away. It also means that Christchurch has a very unique opportunity to start from scratch and create something amazing, and local businesses are keen to be part of the rebuild and have brand new offices designed to specification. Even with the central business district out of action, there is still so much else to do.

HOW WOULD YOU SUM UP LIVING AND WORKING IN CHRISTCHURCH?

There is a really good work-life balance. Everything is so accessible which makes life that bit easier. The malls are ideal for one-stop shopping and the post offices and banks are open all day on a Saturday!!! Also living so close to a few ski resorts means that I have had the chance to take up some new hobbies that I would never have dreamed of doing.

In terms of my career, I feel really valued and appreciated as an employee. I actually contribute to the strategic direction of an organisation, instead of just being a resource allocated to a task.

Zowie Murray

Working with each of the major employers of Chartered Accountants in Canterbury, *NZICA SmartMove* have exceptional roles and packages available for individuals wanting to return to their home city, or to those individuals wanting to move to New Zealand and be a part of the rebuild of Christchurch.

NZICA SMARTMOVE

For more information on accounting opportunities in Christchurch visit www.nzica.com/smartmove

PHOTOGRAPHY: PATRICK BINGHAM HALL

HISTORY

The continent's written history begins in the 17th century with European exploration. In 1770 Captain James Cook took possession of the east coast for Britain, and in 1788 the first penal colony was established. Six regional colonies were created, including Western Australia in 1829, and federated into the Commonwealth of Australia in 1901. The Australia Act of 1986 made Australian law fully independent of the British Parliament.

PEOPLE

The Australian mainland has been populated for an estimated 50,000 years. Today, with a demographic influenced heavily by immigration from Europe, the country's ethnicity is 92% white, 7% Asian and 1% other, which includes indigenous Australians. Although they make up only a tiny proportion of the total population, absolute numbers of indigenous Australians are higher now than at the time of permanent Western colonisation.

GOVERNMENT

The common law system based on the English model governs Australia, where suffrage is universal and compulsory from 18. Despite breaking away from British governance, Queen Elizabeth II remains head of state. Parliament is led by the prime minister, currently Julia Gillard of the Australian Labor Party. The country is divided into six states and two territories, and has several dependant areas in the form of surrounding islands.

BUSINESS

A strong economy, proximity to the rapidly-expanding East and sympathetic legislation make Australia an attractive proposition for foreign direct investment. The majority comes from the EU, with Singapore and Japan also making significant contributions. Proactive reforms have given Australia a transparent, business-friendly regulatory environment, with few restrictions on product markets and low public ownership of business.

ACCOUNTANCY

ICAEW has around 3,500 members in Australia; it's the largest group of UK-qualified Institute members based overseas and the largest group of overseas-trained professionals in Australia. ICAA and the New Zealand Institute of Chartered Accountants are consulting on a merger. Three city groups organise member events and liaise with members from other overseas GAA bodies. ICAA is also a member of Chartered Accountants' Worldwide.

EYEVINE

OPPORTUNITY

A panel of members from ICAEW's Regional Strategy Boards tell us what they would like to see from the budget

"Cut out bureaucracy. Let business get on with business, unfettered by EU legislation"

"Some local authority funding should be ring-fenced at affordable rates for small and micro businesses"

"Bring back the annual investment allowance of £100,000. Having it capped at £25,000 reduces the incentive to invest in capital projects"

Securities, says the chancellor is facing a dilemma. "In this financial year we will come in slightly better than perhaps the Office for Budget Responsibility predicted. He has still to show that he is sticking to Plan A, as he calls it. But he must show that any changes he makes in either direction are simply to keep the economy on track, so that it delivers the results that Plan A is meant to deliver. He might do a bit of tightening up. And at the same time he could allow some flexibility in the future projection for the budget deficits. As long as he has them coming down he can still argue that he is making progress."

A number of large measures were laid out in the pre-budget statement that may now be brought into the battle to stimulate growth and job creation, says Magnus. "They could push out further the year by which they want to balance the budget in structural terms. You could change the allocation of public expenditure, to bring forward or switch to more employment generative investment projects. There is a proposal for a Green Bank with £3bn, that isn't operational. In the November statement, he announced a £40bn programme for credit easing for SMEs and that hasn't got off the ground. The government has talked about a lot of things and nothing has happened. There is limited room for manoeuvre but the government is not without scope for some shift to give us hope that we can squeeze a little more growth over the next couple of years."

Even political supporters of the chancellor are now prepared to say that there is scope for adjusting the programme of deficit reduction announced at the start of the Parliament to respond to today's weak economic growth.

One colleague on the ministerial front bench in the House of Lords says, "We have a sort of 'warped' public sector; we have too much current public sector spending, and not enough public sector investment. The chancellor should educate the world about the concept of good deficits and bad deficits. And he should also define how bad deficits can become good deficits.

Good is where you borrow the money to put it into real payback in investments. Payback must obviously be defined more broadly than just the commercial sense, because of externalities and social gains through such measures as building better railways so you have less polluted

2007-2010

1997-2007

George Osborne is following in the footseps of, from left, Alistair Darling, Gordon Brown, Ken Clarke, Norman Lamont, John Major, Nigel Lawson and Geoffrey Howe

1993-1997

"Investing in skills for growth is critical. If the country needs more accountants, scientists and engineers, then let's encourage businesses to drive this change by giving enhanced tax relief for education sponsorship akin to the R&D scheme. The lost tax revenue would be balanced off by growth these skills would bring in the long-term"

"Increase personal allowances to £10,000. Simplify tax rates. Eliminate the 50% rate of income tax. Introduce a standard 25% rate of corporation tax"

highways. Bad borrowing is chucking endless subsidies in the wrong directions. Big deficits are OK if they are good deficits, that is, if the borrowing is for investments that are recognised as such."

An expansion in debt is an anathema to former Conservative minister Lord Michael Forsyth, who argues that the public sector is crowding out the private sector. "There needs to be much more focus on the debt rather than on the deficit," he says. "There must be more focus on how we can create the measures, and the wealth, that we need to pay down that debt. The easiest way to pay down is to create the money with which to pay it off. The mantra now is: We must have low interest rates. But there is a price to be paid for that, regarding savings and investment. We need to focus on why we are spending considerably more than our income, and our debt is growing."

The public deficit remains of primary concern to Forsyth, who warns that state borrowing is unsustainably high. "For all the concern expressed about austerity and cuts, we are not actually making much progress in reducing the rate at which our indebtedness is growing. If you have the state spending more than 50% of GDP, you are unlikely to get much in the way of growth. If you are raising marginal rates of tax for political reasons, then you need to recognise that the price that you will pay will be less growth and less revenue. The national debate about the budget deficit reduction issue is highly misleading, because the general public don't really follow the terminology carefully. It gives them the impression that we are reducing our debt, as opposed to trying to reduce the deficit. Therefore the seriousness of our overall position is not fully recognised. That makes it harder to get consent for the measures that need to be taken."

Magnus questions the private sector's capacity to lead the economic growth that is so badly needed. He says, "We aren't creating aggregate growth in employment and the people who are in work aren't capable of generating huge increases in income, because the environment is weak, because the companies have this cost-cutting mantra. If you put weak employment and weak income together, you don't have much economic growth. Although companies have a lot of cash sitting on their balance sheet, they are not motivated to spend it on investment, because the prospects don't look brilliant. The lack of growth drivers is due to the financial crash, where we relied on housing construction and financial services before 2007. Now they have all gone AWOL and there is nothing left. The underlying tenor is very weak."

One of the greatest inhibitors to growth is the state of the country's banks, says

1990-1993

1989-1990

1983-1989

1979-1983

REX

Redwood. He says he would like to see the chancellor propose a break-up of Royal Bank of Scotland into a good and bad bank. The good bank, he says, can act as a conduit for the redistribution of funds to the nation's companies, currently starved of new investment.

Redwood explains, "The economy isn't going to grow quickly enough unless they sort out the pretty poor state of the clearing bank industry. We don't have enough banking capital and enough banking competition in the domestic market to power the recovery strongly enough. The government needs to create three working clearing banks out of the assets of RBS and float them off into the private sector and get them to raise substantial capital at the point when they float them off.

"So we then have three well-financed clearing banks, in addition to what we have at the moment. These will then inject quite a lot of money into new projects and good ideas. That might be what we need to get things going again."

Such a structure is vital to stimulate the current sluggish private sector. "This will ease up credit in a sensible way because clearly we are suffering from the long shadow of the credit crunch. We have broken banks and the regulators demanding banks have more capital. This is spot in line with what Sir John Vickers (in his Independent Banking Commission report) recommended."

Watching the chancellor's budget statement with particular interest will be the players in the bond markets and the credit ratings agencies, says Lord Wills. They have, so far, looked favourably on the chancellor's austerity package. But they too are concerned about the lack of growth and will want to see some plan to revive activity. "The bond markets want to see that Britain has a way of growing again," says Wills. "These things are self-reinforcing, and people risk losing confidence."

For now, the chancellor can be pleased with himself. The dire warnings of the Coalition's first budget have not been realised and he has a more positive scenario than was first feared. While the "bond market vigilantes" (in the words of one economist) continue to circle, they see a group of steely politicians who have measures sufficient to fend off a crisis. Magnus says, "It is by no means as sombre a background as it was for the first budget. It is not a crisis backdrop but there is not much for people to look forward to. It is not an emergency, but it is important, because if growth stalls badly or goes into reverse, the chancellor's fiscal arithmetic comes completely unstuck."

Growth remains the part of the jigsaw that eludes even this chancellor. This budget will seek to fill that gap in the puzzle.

"Considerable waste remains throughout local and central government – efficiency savings, rather than cuts, need to be made"

"Higher rates of personal tax are a disincentive to economic growth. Maintain the stance on spending cuts and encourage growth through investment reliefs and tax reduction"

"Look at how other countries use lower VAT rates to stimulate spending in critical sectors – like tourism and building"

For more budget day analysis, visit icaew.com/economia/budget

SUPPORTING **MEDIUM-SIZED BUSINESSES**

Despite the gloomy picture that many economists and forecasters have of the UK economy, one simple and positive fact remains true. Recovery requires growth. Achieving that growth will require all sectors of the economy to thrive. We'll need manufacturing companies as much as financial services providers and we need export businesses as much as UK-focused firms. Such a balanced growth strategy inevitably requires more to be done for a sector of the economy that is still too often overlooked – the UK's medium-sized businesses. We need fast-growth, medium-sized businesses to flourish as much as, or perhaps even more than, start-ups. The squeezed middle campaign that we launched in the first edition of *economia* is intended to highlight the importance of this often-neglected sector. According to the government's own estimates, the squeezed middle represents just 0.2% of all UK firms but accounts for close to 20% of jobs.

It's not hard to see how important this is likely to be to the chances of recovery. That recovery will only come when confidence returns and the economy starts to grow at a healthy rate.

There has been a raft of government initiatives to encourage and support business, perhaps in an effort to present itself afresh as pro-business after feeling the need to act tough to reflect the public mood on bankers' bonuses and boardroom pay.

Whatever the explanation, the squeezed middle stands to benefit from the forthcoming budget, assuming it puts flesh on the bones of schemes such as credit easing. A joint UKTI and CBI export mission next month focusing on the exporting element of the squeezed middle is also on the cards.

These initiatives are welcome and show that there is at last some recognition among policy makers of just how important a contribution these firms can make to the UK economy and to our recovery.

Join the debate and get involved in our squeezed middle campaign online, ICAEW.com/economia and use the hashtag #sqzmid

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BUSINESS IS SWEET

With flexibility, resilience and innovation, successful businesses such as Hotel Chocolat are well placed to survive challenging times, as **Xenia Taliotis** finds out

Peter Harris, co-founder (with Angus Thirlwell) and development director of Hotel Chocolat, is buoyant about the future. Of course he's heard the economic forecasts. And he's seen at first hand the shattered hopes and closing-down sales of some of his high-street neighbours. But for Harris 2012 promises to be another profitable year of business as usual.

And business as usual means "absolutely no slowing down". It means new stores throughout the UK (two have already opened in London, bringing the total to 62); further growth in the US (where there are shops in Boston and New York); and taking confident steps into Europe (with launches in both Copenhagen and Amsterdam). It also means welcoming more visitors to its luscious cocoa plantation hotel in St Lucia, which is called, not surprisingly, the Hotel Chocolat.

The company's success in such stricken times sounds exceptional but Harris doesn't think so. Thousands of medium-sized companies like his are prospering even as the recession tightens its grip on customers' purses.

The beauty of businesses in the middle sector, he says, is that they're not so small as to be ruined by a downturn nor so big that they can't adapt to change without having a widespread negative impact. "Successful medium-sized companies are resilient and agile, which is why they can still find ways of growing even when the economy stalls," he says. "Conglomerates react to financial uncertainty much like a juggernaut would – they slam on the brakes and cause havoc all around them. Their priority is to safeguard shareholder interests, so they make economies in brutal ways – by pulling out of an area, say, or making thousands of people redundant. We're much more flexible – more like a nippy convertible. We respond to challenging times in more subtle ways, by manoeuvring, by being more innovative, by coming up with something new that will excite our customers.

"Our flexibility means we can keep producing, keep growing, which is what makes middle-sector companies so crucial to the economy. We're a driving force for growth and will, I believe, prove instrumental in leading Britain to more stable ground – though we need more government support and less red tape."

Hotel Chocolat has had a presence on Britain's high streets

JAMES BEDFORD

From the cocoa bean harvests of its St Lucia plantation to the packaging around its chocolates and the shelves of its city centre stores, the Hotel Chocolat brand is focused on bringing a taste of the finer things in life to its customers

since 2004, but the story did not begin there. It started in 1987, when Harris and Thirlwell, who'd worked together at Cambridge-based company Torch Computers, decided to start their own business selling corporate mints.

"We saw an opportunity to offer companies something different – something more interesting than pens – which could be produced in large volumes relatively cheaply. So we each put in £5,000, secured a £15,000 overdraft from Lloyds Bank, and set up the Mint Marketing Company (MMC) in Angus's front room," says Harris.

Within a year, MMC had achieved a turnover of £283,000. Within five years – and with BA among its clients – it had reached sales of £1m. As Harris wryly puts it, "Going from very sensible salaries at Torch to zero income when we started MMC was a great motivator."

By 1993, and with MMC growing healthily, the pair were ready to expand into the consumer market. The idea they came up with was beautiful in its simplicity: they knew people liked to give chocolates and flowers; they knew companies had been delivering flowers for decades; and they knew no one was sending out confectionary. So they started mail-order chocolates business, ChocExpress.

"It was a simple idea," explains Harris, "but we were the first to do it. Also, we showed innovation in our packaging, which was designed to fit through the letterbox. We put ourselves in the position of our customers and thought how much nicer it would be to find a beautifully packaged gift sitting on the mat, rather than a 'missed delivery' note."

A ChocExpress offer for readers of the *London Evening Standard* (paid for through a percentage of the sales rather than up front) gave the company a welcome injection of cash and a more extensive database. It also proved that the potential demand for its chocolates was enormous, giving the business the impetus to expand its operations.

Talking to Harris, it becomes clear that he and Thirlwell only take calculated risks. They never overreach; instead, they "incubate" ideas and products, testing how high they are likely to fly before setting them loose. Only once they are sure of a take-off do they let go of the tethers.

"Yes, we are circumspect about how we approach development," says Harris. "I'm a chartered accountant by training and more cautious than Angus, but we both want a business that is sustainable in every sense of the word. That's why our ideas always come way before our overheads – we don't saddle ourselves with huge costs before seeing that an idea has a very good chance of success."

This has always been the company's approach. "Remember we started MMC in Angus's house," says Harris. "Even now when we're developing a product we'll start by maximising our resources to the full. We don't employ more staff, move premises or spend on technology until we need to. Once a product or new part of our business settles down and begins to grow, that's when we allocate more resources to it."

With ChocExpress growing, it was time to introduce customers to another incubated idea, the Chocolate Tasting Club, which was launched in 1999. This monthly, flexible delivery service sends members a box of exclusive new-recipe chocolates, tasting notes, a newsletter and an all-important scoring card.

The club helped to take the company's 2001 turnover to £7m. Now costing customers £18.95 a month, it remains a sophisticated yet easy-to-manage device for giving regular customers more while garnering invaluable market research. "We have 100,000 members, most of whom are extremely communicative," says Harris. "Their feedback is crucial because it gives us a great insight into what they'll want to buy.

"On our website, we say the Chocolate Tasting Club puts 'members at the forefront of chocolate development from the bean to the box,' which is absolutely true. We launched the club in Scandinavia in 2010 ahead of this year's store opening in Copenhagen, and are trialling it in Germany. It's an excellent means of finding which chocolates will prove popular in new countries."

It was partly due to feedback from members that Harris and Thirlwell rebranded ChocExpress as Hotel Chocolat in 2003. "We were ambitious and keen to grow, yet our name was at odds with the values we wanted to embrace, which were all about indulgence and enjoying something luxurious," he says.

Harris describes the rebranding exercise as cathartic. It proved a terrific opportunity to redefine the company's three core ideals – originality, authenticity and ethics – and to come up with a name that would carry it through developments both in Britain and overseas. The name they chose, Hotel Chocolat, was a perfect representation of what their brand stood for – the promise of spending a little lavish but affordable time on one's self.

The first shop opened in Watford in October 2004, with a second in Milton Keynes following swiftly in 2005. To maximise the branding, the shops were designed to resemble the reception area of an elegant hotel.

As the company grew, so did the attention it was getting from supermarkets and private equity firms – though neither sector has had much of a look-in. "We don't want to compromise our product or our principles," says Harris. "We do sell through John Lewis, but supermarkets aren't right for us. We wouldn't be able to monitor sales as closely as we do when we sell direct and we would lose the first-hand relationship with our customers. Supermarkets might want your product one week and de-list you the next."

As for venture capital or private equity, whenever Hotel Chocolat has needed finance for growth it has turned to its long-term banking partner, Lloyds – or on one notable occasion to its customers. In 2010 it raised £4m by offering Chocolate Tasting Club members a three-year chocolate bond, which offers returns payable in delivered chocolate.

Asked about his Hotel Chocolat highlights, Harris picks out three from many that have made him immensely proud.

"Opening that first store and watching customers come in and buy our chocolates with such gusto was a truly fantastic moment," he says. "Second, we came fourth this year in a survey of Britain's most advocated brands by management consultancy Bain & Company.

"Customer care is at the heart of all we do, so to discover we are one of the companies people are most likely to recommend to friends – and the only British company in the top 10 – is extremely gratifying.

"Third was buying Rabot Estate, the oldest cocoa plantation in St Lucia, reproducing and replanting the rare Trinitario trees and then opening our boutique hotel there last year."

Bookings for the Caribbean hotel are already looking strong for this year and both it and its restaurant have had visitors stumbling for superlatives in their TripAdvisor reviews. In buying the Rabot Estate, Hotel Chocolat became the only British chocolatier to grow cocoa on its own plantation, and though the 140 acres only produce a relatively small yield, its fine cocoa – the best of all – is used to make some of Hotel Chocolat's premium Purist range.

The rest of its chocolates – it has been making its own since 2006 – are made from cocoa grown primarily in Ghana by communities that Harris and Thirlwell continue to support.

The company advocates the concept of engaged ethics, says Harris – it provides a ladder for farmers to climb rather than giving them a crutch to lean on. That way sustainable benefits can be brought to a community, which can then survive with or without the success of Hotel Chocolat.

Not that the company is likely to do anything but prosper. Its turnover for the year ending June 2011 was £60m, a 13% rise on the previous year, and it has 800 employees in the UK and another 130 overseas.

While Hotel Chocolat faces the same pressures as the rest of austerity-age Britain, Harris is happy that he is leading a more specialist business that sells what he sees as "affordable luxury". He is happier still that the luxury he is offering is chocolate – a product that's proved more recession-resistant that most.

Nonetheless, he knows the company will have to work harder than ever to maintain the kind of growth it achieved in the 2000s. It is planning more exciting innovations for its customers – the new store in Edinburgh has a lovely cocoa (as opposed to coffee) bar, while those visiting the new London shop on Monmouth Street, near Covent Garden, will be shown how cocoa is roasted and made into chocolate. And there are other ideas incubating all the time. In other words, it's business as usual.

SURVIVING IN AN AGE OF AUSTERITY

Peter Harris shares his advice for surviving the downturn

- Always limit overheads to the absolute necessities. Don't take larger premises until you are bursting at the seams and don't spend on upgrading your equipment until you reach a stage when not doing so would stifle your growth.
- Similarly, don't pay for expensive market research. Your customers are your best focus group – find ways of canvassing their opinions and listen to them.
- Maximise opportunities. Recessions drive down commercial property values, so renegotiate your lease. Leases with six-month break clauses are a good idea in uncertain times.
- Always offer good value, particularly if your products are expensive. People are often happy to pay more for high-quality ingredients or products. Compromise on that and you will lose your customers.
- Stay in control of your business, and watch your stock levels. Getting the right stock into the right place at the right time is critical, particularly if your margins are tight. Getting your merchandising wrong can cripple you.

Do you agree with Peter? Our Squeezed Middle campaign has sparked debate on the economia website, and we'd like to hear your views at icaew.com/economia/sqzmid

CONRADO ARDUINI

SURVIVAL TACTICS

With recovery so slow, the expected wave of post-recession insolvencies has yet to hit – but it's coming. **Peter Bartram** outlines how you and your clients can surf it and not get dragged under

The recent recession has left Britain with thousands of "zombie" companies – surviving rather than thriving. The business world's living dead are hanging on by their fingertips – servicing their debts but with no spare cash to fund growth, says Frances Coulson, president of R3: the Association of Business Recovery Professionals. "They're ticking over but nobody's tipping them over the edge," she says.

The staggering zombie firms are one of the reasons why the number of corporate insolvencies has not peaked, as it usually does during a recession. Instead of creditors putting the zombies out of their misery by forcing them into liquidation, they are keeping them going with a drip-feed of support measures, such as HMRC's Time to Pay scheme, forbearance by trade creditors and agreements by landlords to renegotiate leases. Even the wicked banks have been tipped the wink by the government to go easy on small businesses in trouble.

Such support measures are not always enough. Total insolvencies in the fourth quarter of 2011 were 4,260. This is well below the peak of 7,116 in the fourth quarter of 2008. So far, a post-recession bounce in insolvencies – seen in the 1980/81 and 1990/91 recessions – has not happened. But that's not to say it won't come later. The Q4 figures for 2011 were up 7.2% on 2010. The recession lag is happening more slowly this time – perhaps

because we are still not out of recession. “The economy is taking longer to recover than expected,” says Coulson. “Historically, the lag comes when the economy recovers.”

That lag was particularly noticeable after the early 1980s and 1990s recessions. When the recession ended in the fourth quarter of 1981, there were 2,610 insolvencies – 8,000 for the whole of the year – but the number continued to climb during the 1980s, reaching a peak of 15,000 in 1985.

Similarly, in 1991 there were 30,000 insolvencies, but this rose to nearly 34,000 the following year. It was not until 1995 that the annual rate of insolvencies fell back to the pre-1990 recession level.

The absence of recession lag cannot be taken for granted. ICAEW head of enterprise Clive Lewis says it's the “dog that didn’t bark in the night”. “Insolvency practitioners have told me they’ve been not quite as busy as they expected,” he says, but adds, “The dog may bark in 2012.”

So what should small companies be doing to avoid becoming one of the casualty figures? Or one of the zombies? “It’s important for SMEs to have their fingers on the financial position,” says Bev Budsworth, managing director of the Business Debt Advisor. “So many of the companies we see have accounts at least 12 to 18 months old. Their management accounts are either not up to date or are non-existent. That’s the portrait of a company heading for insolvency, and it’s not a pretty picture."

A backlog of arrears and managers burying their head in the sand about their company’s financial position also spell trouble. But many SMEs in danger could steer clear of the rocks simply by improving their basic record- and book-keeping, says Neil Beck, managing partner at Wellers Accountants. He cites a London IT company client that was struggling to pay its bills, including wages and corporation tax.

“The main problem was that debtors over three months old were consistently in excess of £500,000,” he says. “We recommended the company prepare management accounts monthly and for directors to discuss a debtors listing each month.

“This has allowed the company to establish a more formal credit control system. The debtors have been reduced to no more than £100,000 and the new terms are consistently met. The directors can focus on their core business without worrying they may not be able to pay salaries at the end of the month. The business is now flourishing.”

SMEs should watch out for distress signs that could indicate the company’s position is worsening. R3 questions SMEs each quarter to monitor trends. The top signs identified in its most recent study, for December 2011, were lower profits, reduced sales volume and a fall in market share.

Other measures that indicate a company is heading into distress are pay cuts and freezes, loss of regular customers, cashflow difficulties, suppliers insisting on payment in advance, use of maximum overdraft facilities and difficulty paying invoices on time. Redundancies, key staff resignations and new borrowing to pay existing debt also indicate all is not well.

R3’s study presents a mixed picture, with many zombie businesses just managing to hang on. “In order to be considered healthy, a business must be able to grow and many are struggling to do so,” Coulson says. “Any change in circumstances or sudden disruption is likely to cause serious difficulty for those who are not showing many growth indicators.”

Some businesses become fixated with figures that do not give a true picture of their health. Lewis recalls working for a company that trumpeted the number of tenders it had submitted each month. “It was a spurious figure,” he says. “The company only converted 5% or sometimes 1% of them.”

Companies that have a sound business but hit short-term trouble must find ways to navigate the crisis. HMRC’s Time to Pay scheme, which allows businesses to pay off tax arrears over time, has been credited with keeping hundreds of firms out of insolvency. Budsworth has just negotiated a £60,000 Time

> "A backlog of arrears spells trouble. But many SMEs in danger could steer clear of the rocks simply by improving their basic book-keeping"

to Pay arrangement for an SME with 12 staff in northern England. "To be successful, you need to know what your liability is and to have been compliant and truthful in terms of filing tax returns on time," she says.

She arranged for her client to pay off its arrears over 18 months, starting with repayments of £1,000 in each of the first two months and increasing afterwards.

As trading conditions get tougher, accountants have a responsibility to keep SME clients out of trouble. Many SMEs think they only need to see their accountant once a year when it's time to produce the annual report and accounts. But Lewis says, "Businesses should have more regular meetings with accountants." Lewis suggests that directors might contact the ICAEW's Business Advice Service (BAS) for information.

But acountants also need to become more proactive, he says. "Every practice should have a conversation with clients at least every quarter," he says. "Ring up and ask how business is going and what the latest trading figures show."

Smaller firms of chartered accountants could have their own difficulties as a result of the recession. "There are practices that have lost significant numbers of clients during the recession," says Lewis. These practices need to look closely at their own costs. They also need new clients. "One of the metrics you should look at is the percentage of clients that are new," Lewis says. "If it's dropping, you should look at how to attract new clients."

Despite the depression, many SMEs continue to thrive. But can zombie firms return to the land of the living?

"There are risks for directors in not tackling issues," says Coulson. "If you're at the limit of your overdraft and just servicing the minimum debt you can, the risk is that if your creditors increase, you put yourself at personal risk." Too often business owners are frightened by the imagined stigma of approaching an insolvency practitioner, she adds. "It's like people thinking if you go to a solicitor and write your will, you die," she says.

Coulson argues that an insolvency practitioner should be able to stand back, take a dispassionate view of a business and suggest moves to improve prospects in the long term. "That's better than blindly going on hoping that something will turn up – probably the most dangerous thing to do." So there is hope, even for the living dead.

BAS can be found at businessadviceservice.com

10 TOP TIPS FOR AVOIDING INSOLVENCY

1. Understand the company's key financial measures. Make sure all managers know which financial measures are critical and monitor them constantly. Take early action to deal with any adverse variance.

2. Produce regular management accounts. Most SMEs will need to do this at least monthly or, if a business is under financial pressure, weekly. Share management accounts data with everybody who needs to know.

3. Monitor cashflow on a regular cycle. Decide which is most appropriate for your business – daily, weekly or monthly – and keep a close watch on actuals against budget. Use cashflow forecasts to take decisions about working capital requirements.

4. Set realistic targets. In a volatile economy, past activity may not be a reliable guide to the future. Question assumptions behind cost, revenue and cashflow forecasts. Build in a contingency for unforeseen events.

5. Establish tight credit control. Ensure customers understand terms and conditions. Monitor debtor days outstanding regularly. Consider incentives such as discounts for customers who pay early. Run credit checks on new customers.

6. Focus on best-margin business. Put resources behind the products or services that provide the best margins or have the best prospects for growth. Review prices/terms for unprofitable business or customers. Explore ways to improve margins.

7. Communicate with key stakeholders. If bad news is coming, investors, banks or key suppliers will be more supportive if they know early about difficulties and the steps you're taking to deal with them. Building trust pays dividends in difficult times.

8. Involve staff in cutting costs. They are more likely to rally round if they understand the reason for cuts. They may even suggest economies you hadn't thought of. Update processes and invest in IT to reduce expense.

9. Look at debt problems in the round. Does the company's debt stem from the fact that the owners put a lot of their own money in the business and need some back? If so, tackle the problem holistically – company and personal debt together.

10. Take advice early on. An accountant or insolvency professional will have specialist knowledge to bring to the problem – and can stand back and take an objective view. Have an open mind when taking advice from professionals.

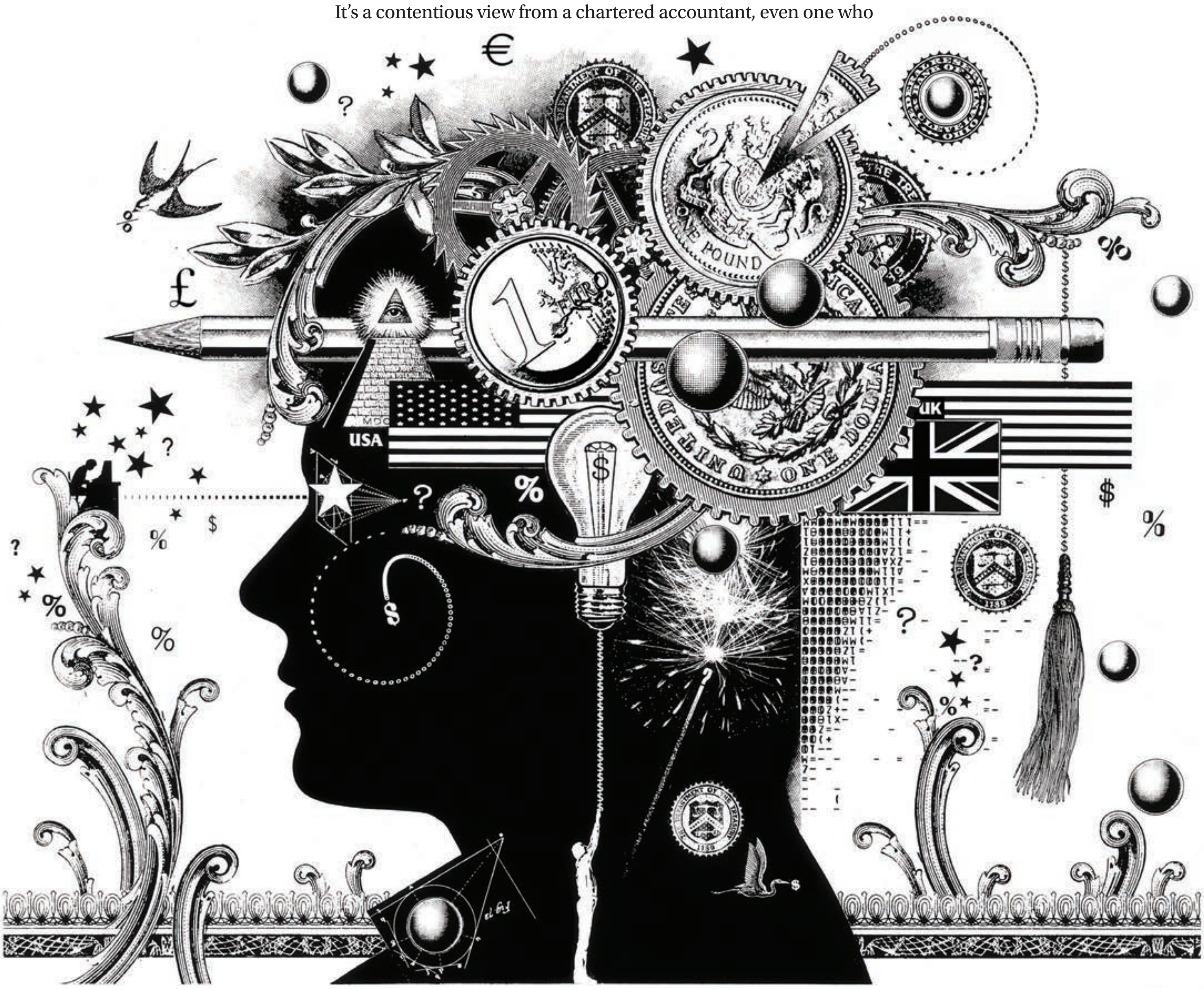
Creative thinking

They contribute almost as much to the British economy as finance, but are the creative industries getting the support they need? **Peter Taylor-Whiffen** says it's time financiers were backing, and not just attending, the theatre

Creative people are smarter than business people," insists Robert Breckman. "They are more exciting. They are the clever ones, creating something marvellous out of nothing, and finance people don't understand them at all. The two sectors are mutually exclusive."

Warming to his theme, he continues, "Adding up numbers is not so clever. Finance people aren't interested in creativity because they don't think it makes any business sense. I don't think financiers will help the theatre. They know all about ICI and Marks & Spencer but they simply don't get Cameron Mackintosh."

It's a contentious view from a chartered accountant, even one who



CORBIS

From left: A production of Gogol's *Government Inspector* at the Young Vic; *Harry Potter* books and films are a hit around the world

50 years ago founded Breckman & Company, one of Britain's first accountancy firms to serve clients from the world of showbusiness.

But as someone steeped in thespian life – in his youth he trod the boards, managed theatres and even married one of the original St Trinian's girls – Breckman knows better than anyone the inherent financial risks of a creative industry.

"There is a fine line between success and failure – much more so than other industries," he says. "A lot of people in the financial industry go to the theatre for pleasure but they're not interested in investing in it because it's far too risky."

Is that ambiguity scaring off potential investors? Certainly there is a high risk factor in several of the 13 official creative industries, as defined by the Department for Culture, Media and Sport (DCMS). One reason for investors' reluctance to part with their cash is that in many of the listed industries – among them performing arts, television, publishing, music, movies and computer games – it is impossible to cite previous success as an indicator of a future hit. Nor is it a straightforward task to put a value on intellectual property.

"The problem is that in the creative industries none of the assets show up on a balance sheet," says Craig Williams, who chairs ICAEW's Entertainment and Media Group. "The finance industry doesn't know how to read the creative industries' accounts, and financiers don't understand intellectual property rights.

"The other issue is that there is no consistency of disclosure of intellectual property – there are no standards to show how this is proscribed."

One of the issues that frightens off the money men is not only that uncertainty between a hit and a miss, but the speed at which investors need to get a return on their money. Most creative projects need proportionally vast investment to get off the ground.

"Record companies are in disarray," says Williams, a former record label boss whose Bristol-based MWM Chartered Accountants is a retained advisor to the Musicians' Union. "They used to spend time developing acts. Now they want interest on their investment immediately.

"At one end of the business pop music has always wanted a quick hit, but in rock it's historically taken a long hard slog, three or four albums to break a band. However, the labels now need to get a return on everything much earlier to keep shareholders happy."

The same is true of the theatre, says Breckman. "It costs hundreds of thousands of pounds to put on a major show and most of that is start-up costs," he says. "It's a reasonable guide to say that if a big show doesn't last a year in the West End or on Broadway it hasn't made ends meet. Many shows sell tickets for a restricted run so they can increase sales to get their money back more quickly.

"Most theatres can't afford to publicise shows a long way in advance so there are only a few weeks for marketing to take effect – and even then the show lives or dies at the hands of the critics. All that work and effort that goes into creating it, all the money spent on it, then one poor review stops a show in its tracks and everyone loses out."

Yet for all their uncertainty, the creative industries are worthy of the financiers' interest, not least because of their contribution to the British economy. According to figures published in December by the DCMS, the

A scene from the theatre adaptation of Michael Morpurgo's *War Horse,* now a Spielberg film; Coldplay's Chris Martin

SIMON ANNAND, CORBIS, GETTY IMAGES, LS PHOTOS/ ALAMY, KEITH PATTISON/YOUNG VIC, REDFERNS

sector employs 1.5m people – 5.1% of the national workforce – and accounts for 10.6% of the UK's exports of services. It brings in £59.1bn a year – 5.6% of GDP, which is double the European sector average and creeping up on the finance sector's 8%.

Many politicians are increasingly inclined to champion creativity. One of David Cameron's first acts as Prime Minister was to appoint Ed Vaizey to the new position of Minister for Culture, Communications and the Creative Industries, while in November the House of Lords debated a motion "to call attention to the importance of the creative industries in the United Kingdom".

This debate, brought by Lib Dem peer Baroness Bonham-Carter of Yarnbury – cousin of the actress Helena Bonham Carter – highlighted some of the financial challenges facing the sector. Although it may ultimately be remembered more for the 72-year-old Earl of Glasgow's unlikely reference to the financial success of *The Inbetweeners Movie*, a film he coyly described as "about a whole lot of young people behaving badly" and conceded was "something I doubt any of us here will have seen".

Aside from the Lords' and Ladies' film-going habits, the debate highlighted what Lord Stevenson described as "a shortage of risk capital for creative companies in the content sectors," adding, "There will be inevitable consequences for UK competitiveness if we fail to address those issues successfully."

Cameron is extremely keen to encourage Britain's creative industries, although his recent efforts to court movie luvvies alienated much of the sector when he backed a review by former Labour culture secretary Lord Smith recommending that more

"Creative assets don't show up on the balance sheet. The finance industry doesn't know how to read the accounts and financiers don't fully understand intellectual property rights"

Lottery money go to films seen as "commercially successful".

The Twitterati consequently had fun dreaming up names of movies most likely to meet Cameron's approval – among them *East Of Eton*, *Raging Bullingdon Club*, *Ten Things I Hate About EU* and *Saving Private Healthcare*.

But on a more serious note, there is no pattern to successful cinema hits (2011's top three British films were *The King's Speech*, *Harry Potter and the Deathly Hallows Part II* and the above-mentioned *The Inbetweeners Movie*). And investing only in blockbusters would deprive some of Britain's best but less commercially successful filmmakers, such as Mike Leigh and Ken Loach. Nor would this create job opportunities as studios briefed with creating a surefire hit will clearly employ staff with established experience over those with callow enthusiasm.

Not everyone sees investment in the creative industries as necessarily a gamble. Analysts at think-tank Demos concluded in a 2010 report that the industry was no more inherently risky than any other, instead identifying the problem as "a lack of business skills in the sector impeding access to finance". The report, called *Risky Business*, added, "If creative firms lack a credible business case for funding, they will be treated in the same way as a non-creative firm in the same circumstances."

This suggests that any problems the creative industries encounter in acquiring backing are not necessarily down to Breckman's assessment – that the

Left: Colin Firth and Helena Bonham Carter in *The King's Speech*; right: online game, Moshi Monsters

finance sector doesn't "get" creative people – but instead could be solved if creative people learned to understand financiers.

That's not to say that creative types are not frequently frustrated by those holding the purse strings. In March 2010, then Labour chancellor Alistair Darling announced significant tax breaks for the UK computer games industry. The move was enthusiastically welcomed by the sector's trade organisation, TIGA, which had campaigned for the incentives after seeing similar schemes revolutionise game production in Canada – and increase the industry's workforce in the country by 33% – by tempting major players Ubisoft (makers of *Just Dance*), EA (*Fifa 2012*) and Eidos (*Tomb Raider*) to move their businesses there.

However, just two months later along came the General Election and George Osborne, whose emergency budget immediately scrapped the initiative as "poorly targeted". Vaizey just as quickly defended the new Chancellor's decision, saying, "A tax break is not a panacea. Canada does not have a national tax break for video games. It has two strong regional governments who actively compete for the video games industry."

More than 18 months on, TIGA'S CEO Dr Richard Wilson is still campaigning for a games tax relief and a creative content fund that, "would make investment available in the form of matched funding repayable contribution in approved game production projects".

Such measures would, he claims, create or safeguard 3,350 jobs in the games industry, lead to £431m investment in development expenditure and garner £394m in tax for the Treasury – and, presumably, halt a brain drain of talented British games designers upping (joy) sticks and logging off to North America.

"I always assume when watching *Waiting For Godot* at the theatre that the show's managers are relieved he doesn't show up because they'd have another unit of staff to pay"

The Coalition did, however, boost the games industry last April by raising the rate of SME research and development tax relief to 200%, with a further rise to 225% pledged for April 2012. Exchequer secretary to the Treasury David Gauke told the Commons, "These changes will benefit innovative companies undertaking qualifying R&D activity in all sectors of the economy, including the video games industry."

There is no shortage of suggestions for other schemes that would help the creative industries to grow. Demos and the CBI have both called on the government to improve the sector's access to its Enterprise Finance Guarantee scheme, which was launched three years ago "to facilitate bank lending to small and medium enterprises with insufficient or no security to secure another type of loan".

The CBI has also urged Osborne to review the effectiveness of the Enterprise Investment Scheme and Venture Capital Trusts, increase creative industries' access to the R&D tax credits – a move vociferously backed by TIGA – and ensure existing funds used to de-risk investments are effectively targeted.

The private sector is also playing its part in boosting the creative industries. In November, investment and advisory group Ingenious not only launched its fifth Shelley Media Fund – to invest in HMRC pre-approved EIS companies producing films, TV programmes and video games – but also a Media Opportunities Fund to

THE UK'S CREATIVE SECTOR IN NUMBERS

225%
Proposed rate of SME research and development tax relief from April 2012, which will benefit the video games industry

UK computer game industry's estimate of increase in jobs in the sector that a Games Tax relief would create
33%

£59.1bn
Amount generated by Britain's creative industries every year

£394m Tax that would be garnered for Treasury if measures called for by the computer games industry were implemented

Proportion of UK exports contributed by creative industries **10.6%**

3
Number of albums traditionally needed to establish a band

CREATIVE INDUSTRIES' PROPORTION OF GDP
5.6%

13
Official creative industries as defined by the DCMS

1.5m
People employed by creative industries in Britain

Age of the Earl of Glasgow, who described smash-hit comedy film *The Inbetweeners* as "about a whole lot of young people behaving badly"
72

"invest in dynamic growth companies across the creative and media industries". The latter, managed by the firm's Ingenious Ventures arm, has a target of £20m to raise and has already established an "attractive pipeline of potential investments" to provide capital for "promising companies at the next stage of their growth".

But Breckman is still sceptical – make that borderline scathing – when it comes to the money men. "The creative industry is being forced to play it safe," he insists. "The television industry is cutting back – there are more chiefs than Indians at the BBC and half the shows are repeats because they are cheap and the production is already paid for. Where's the investment in new shows?

"The theatre is exactly the same. The scale of productions is going down and there are so many revivals around. Look at the West End and see how many shows were hits 20 years ago. It's great to see the old shows and we do have investors in the wonderful Theatre Angels scheme, but the only people guaranteed to make money in the West End are the theatre owners – the landlords. That's why the most successful creative people – Mackintosh and Lord Lloyd Webber – snapped up the theatres as soon as they could. The reason we're not seeing any significant new productions is because the finance industry still won't take the risk.

"Unfortunately, it's the finance industry that determines what is put on TV and on the West End stage," he adds. "I always assume when watching *Waiting For Godot* that the show's managers are relieved he doesn't show up because they'd have another unit of staff to pay. There are one or two encouraging moves but at the moment our culture still doesn't come from the creative geniuses, or what the public wants to see – our culture comes from the financial industry."

However, ICAEW's Craig Williams sees a brighter future – and believes the financiers are recognising the potential in the creative industries. "There has historically been a lack of understanding between the sectors," he admits. "But things have changed and are continuing to do so. There are an increasing number of DOTAS schemes funded around intellectual property. There are a lot of music-related funds around. We're talking to venture capitalists to invest. The government recognises the significance of the creative industries.

"All of these things mean a large number of people are now looking to the entertainment industry. I'm very optimistic about the future."

BEYOND NUMBERS

As the role of finance director becomes more involved, high-profile and influential, **Amy Duff** asks whether there is any truth in the suggestion that numbers people have become the power behind the throne and, if so, which skills they have relied upon to earn their position at the top

What do we know about finance directors and group financial officers? We know that they have reached their position within the organisation because the board feels that they demonstrate the vital ingredients to ensure their business is managed through poor macro conditions as well as boom times.

Ultimately, that requires strong financial foundations, absolute technical integrity, commercial insight and the ability to build and lead a team so that the finance function works fluently with the rest of the business. The person filling the role also needs the personality and confidence to have a voice at the board table (which keeps the chairman and NEDs happy) and the skill to act as the face of the company with third parties such as banks, investors, auditors and the media on all issues related to financial performance.

And then there is the relationship with the chief executive, which is where what we know is less clear-cut. By title, says Les Clifford, senior partner at Ernst & Young and leader of its CFO programme, "the chief financial officer is traditionally the strongest number two to the CEO". But the function has morphed and evolved to such a great extent that "there's a difference between the title that people carry against the role they do".

As Ernst & Young's 2010 report *The DNA of the CFO* announced, "The CFO's unique optic across the business, their rare positioning as a purveyor of the truth and their fact-based discipline has raised their profile to an unprecedented degree." What's more, CFOs are embracing a more strategic remit within their organisations to the extent that the 700 interviewed by Ernst & Young placed the ability to design business strategy and to innovate as second only to "deep technical skills" as the most important capabilities they would expect to have in three years' time.

The role has diversified in such breadth and depth over the past few decades that there is more potential than ever for finance executives to exert significant influence over setting and executing strategy. Combined with their exposure as the front face to the market, especially during difficult economic times, and their capacity to ensure that business decisions are grounded in sound financial rules, it is no wonder the theory that finance people are the real power behind the throne has been reignited.

When Deloitte examined the evolving role of the FD in 2006, it spoke to 250 CFOs and FDs from large organisations about how the skills required for their job had changed. "Massively" was the consensus. "There's far more dependence on analysis, communication and leadership than on number crunching and accounting issues; a more business strategic view," said one. "It's less technical than it used to be; it's more about getting others to do things and

ADAM SIMPSON

“In a recession companies have to be focused on their balance sheets, performance and margins, which goes to the heart of the FD role”

bringing the team together,” said another. Overall, it was considered to have become more of a general management role that encompassed not just risk analysis, but strategy as well.

It is true that the role has changed over time, says Julia Wilson, group finance director at 3i since 2008. But she is not a fan of the power behind the throne concept. She regards it more as a theme that comes in and out of focus depending on the macro conditions of the moment.

“It’s linked to economic cycles,” she says. “Because in a time of recession companies have to be really focused on their balance sheets, their refinancing requirements, they have to concentrate hard on driving performance and margins, which goes to the heart of the FD role. So what you get is the FD coming to the fore.” In an environment of flux and uncertainty, adds Wilson, the FD will be in the spotlight more, “because of their intense investor-relations schedule”.

It is no surprise that the CFO role has come to be regarded as one of the most critical components of a corporate hierarchy. Charlotte Boyle, associate partner of board search firm the Zygos Partnership, says people doing the job are now expected to be more influential and involved than they were historically. “The wording we use when recruiting is often ‘business partner’ to the CEO,” she says. “There is a demand for more rounded FDs so whereas in the past the requirement was all around the finance function, now the expectation is that this person will be a business partner with a broader remit; will be able to contribute to strategy, will be strong enough to stand up to the CEO and someone the board can trust to be the conscience of an organisation”.

But controlling the CEO? No, replies Boyle, “The CEO is still the CEO and if the FD is too powerful then the CEO probably isn’t doing their job properly.”

It should be a form of partnership, albeit one that is in a defined hierarchy, according to Luke Johnson, business author and chairman of private equity house Risk Capital Partners. He says, “Accountants have always been in general management and in financial areas. The FD must have a great deal of input into many parts of the business – not just the annual budget, taxation and banking relationships but also strategy and tactics. However, the chief executive leads the business and ultimately the buck stops with them.”

There is a good reason why the role of the CFO is seen to be more powerful these days, says Philip Gregory, chairman of Medicals Direct Group and a mentor on ICAEW’s leadership programme for FDs. It is because risk management, corporate governance, compliance and strategy are “right up there in boards”.

He has also observed the balance shift over the years from what he calls the “cricket scorer” role – the traditional FD who is semi-detached from the business and does nothing but numbers – towards what he describes as the “general financial executive” where they are good at understanding the business and its strategy and, critically, are a contact and advocate for the executive team in terms of selling their business to the NEDs. Gregory explains, “The chairman and CEO are looking for what I call the hygiene factors; good with numbers, financial control systems, good treasury skills etc. But also good at putting a financial perspective into decision-making and selling the business externally to investors.”

What’s required of an FD differs from sector to sector, he adds, “In some industries, where the product is highly technical, such as software or chemicals, you see a traditional CFO. But in insurance, banking, general services – where it is easier for the CFO to understand the business and make contributions – you tend to see them being much more of a deputy chief executive," he says.

It is a far cry from the criticism that used to be levelled against finance, which was that the function was too numbers-orientated and not commercial enough, says Mark Freebairn, partner at executive search firm Odgers Berndtson. The evolution is being felt in two ways.

First, he is seeing more FDs choosing a role that adds value and drives commercial change within a business rather the traditional "numbers, statutory reporting, expenses" version. Second, businesses are seeing the value of having someone at the top who uses what the numbers are telling them to understand what is happening at all levels.

In the last decade he has seen numerous examples of this trend at work. Construction firm Sir Robert McAlpine took group finance director Dominic Lavelle from retailer Allders in 2003. Then in 2008 Helen Weir, FD at retailer B&Q, moved over to the same role in financial services at Lloyds. Julie Southern's 2009 move from chief financial officer to chief commercial officer at Virgin Atlantic is a more recent case in point.

But there is another dimension to this story – finance executives do not necessarily have to settle for being the power behind the throne because there is nothing stopping them one day taking it.

Says Freebairn, "If you look at the number of FDs who've become CEOs in the last three or four years, it's substantial". Why? Because they are considered a safe pair of hands.

As Zygos Partnership's Boyle explains, strong financial skills and an ability to manage a company through difficult times are a big draw. "Currently, a lot of our boards feel comfortable having the FD as CEO," she says.

It goes back to what 3i's Wilson says about economic cycles influencing whom the board chooses to put at the top, although obviously personality and sector play their part. In a finance- or investment-type business, it makes sense to move an FD into the CEO role, Wilson points out, because finance is "at the heart of the business anyway and you see a lot more focus on FDs becoming CEOs. If you think of 3i, that's something that's quite easy to understand" (both Brian Larcombe and Michael Queen moved from the FD to the CEO role at 3i in 1997 and 2009 respectively).

NINE STEPS TO PREPARE FOR THE GROUP CFO ROLE

1. Gain a breadth of finance experience.

2. Develop commercial insight.

3. Seek out M&A experience.

4. Obtain a balance of traditional and non-traditional skills.

5. Develop leadership and team-building skills.

6. Get international exposure, particularly in emerging markets.

7. Gain experience of finance transformation initiatives.

8. Get exposure to the market and its stakeholders.

9. Build effective relationships with the board.

Source: *Finance Forte: The future of finance leadership*, Ernst & Young

Businesses like having someone at the top who uses what the numbers are saying to understand what is happening at all levels

But do CFOs make good CEOs? Gregory is someone able to speak with authority on this subject: not least because he's taken the top job three times.

"I would say generally not," he comments. "Each of the three times I took the job, it was because the company was in trouble, something had gone wrong and it needed sorting out. I think CFOs are very good in those sorts of situations. But I think the important thing is that you move on when the company is on the straight and narrow."

The move from CFO to chairman, though, is a better fit. Gregory continues, "People generally expect the CFO to be a good chairman because the role is to have an oversight of the strategy, to evaluate how the business is doing and whether the CEO is leading that business as dynamically and positively as possible. You need to understand the numbers, the data and to be interested in things like corporate governance."

A good example, he says, is Douglas Flint, who moved from group finance director to chairman at HSBC. That calmed City jitters because he was considered a steady hand.

But Ernst & Young's Clifford says his firm's research blows any suggestion that FDs and CFOs actually want the chief executive role out of the water. They see their career choice as one to be celebrated – not a staging post to the role of CEO.

He explains, "A lot of people say CFOs are frustrated CEOs. But what we found was that 73% are happy in their finance function, with only 10% saying they want to be a CEO. So that's knocked that one on the head." His explanation for the low 10% figure is that because the role of the CFO has changed so much to "business operational", they don't necessarily need the number one post to get an "all-round business challenge".

But with prominence come extra demands. As the public face of company performance, and by extension a protector of company reputation, the experts agree that FDs and CFOs could do with improving their softer skills. And with just over half of respondents to *The DNA of the CFO* report saying that the shift from "focusing on financial performance to managing a complex stakeholder universe" is one of the most difficult challenges they face, those at the coalface tend to agree.

So the message to aspiring FDs and CFOs is: brush up on relationship building, change management, communication, talent development and influencing skills. And to those established in their roles: become a hero to the aspirants and future leaders. It will make your organisation stand out from the crowd.

Marching to a different tune

LEON CHEW

Annmarie Wallis isn't your typical financial director, with a career that has followed a more winding path than most. **Penelope Rance** finds out what led her to the City of Birmingham Symphony Orchestra

Boasting a CV gilded with financial directorships of international organisations, Annmarie Wallis should have been looking at a senior role to round out her career. Instead, she chose to become director of finance at the City of Birmingham Symphony Orchestra (CBSO), a charity with antiquated accounting systems and looming budget cuts. She says the appeal was partly the passion of the orchestra and staff, but largely the realisation that, to achieve the lifestyle she wanted, something had to give.

"I was looking at two options: the big FD role, with a six-figure salary, or the smaller, more exciting company with better work-life balance," she says. "Here I'm doing a valuable job in a nice environment. It's flexible, although the hours can be long and the pay is not great. Would I have had the job satisfaction I have now with a big company? Probably not."

Qualifying as an accountant was a practical choice for the 54-year-old from Rugby. "I was good at maths, so was led to become an accountant or actuary," she recalls. "I asked the difference and was told it's all about numbers, but an actuary does it with the dead, and an accountant does it with living people. I like the second option."

After studying accountancy at Sheffield University, she got a job with Spicer & Pegler, now part of Deloitte. "At a smaller firm, the opportunities were very good," she says. Wallis qualified with Spicer & Pegler but left a year later, at a time when accountancy firms were not overly female-friendly.

"Women today say it's still the same, and although I don't think it's as bad, it will always be harder. I look back and ask, if I hadn't had to step out a couple of times to have children, where would I be? You cannot have it all and I don't regret the choices I made."

Wallis went into industry with Apricot Computers, now Misys. "You go to a computer company and assume it's all going to be computerised," says Wallis. "But it wasn't – it was manual trial balances. They'd expanded so fast, the finance department hadn't been able to keep up."

After the birth of her first child Wallis took a job as divisional FD at a software company, which had been the IT department of Rover and was later bought by AT&T. "With transactional accounting done centrally it was a very vertical role," she says. "I prefer a job that goes beyond pure numbers."

When her second daughter arrived, Wallis took a local position at Reed Exhibitions. "The accounts department was a mess – management accounts were late, often inaccurate and staff didn't stay long. But I rolled up my sleeves and got stuck in. It was a nice job in a sexy industry and, being profitable, there were chances to invest and improve."

As FD, Wallis split her time between Solihull and London but after nine years she tired of travelling. "I gave notice, recruited my successor, and decided to have some time off playing tennis – but it rained every day for a month," she says.

She took a role as group FD at children's book publisher Scholastic. "Here too, the accounts department needed work," she says. "You look at what you've got, where it's going wrong, change the processes and the people. It's not rocket science." Then her marriage broke down, and she was left with two children to look after and a job that demanded 60 hours a week. "I needed a local job that allowed me more time with the children, so I became bursar at a small prep school. I could be putting chlorine in the swimming pool or making sandwiches for the cricket teas, as well as doing the accounts and paying the wages.

"While there we restructured the non-education teams – I always see ways to make things more efficient. But it wasn't the job for me in the long term."

Hence her role at CBSO. "The accounts department was old-fashioned – everything was paid by cheque, not BACS," she says. "However some fortuitous timing with cheques being stolen or forged helped win that particular debate."

Sticking to budget was another challenge. "They would set budgets, but artistic things would take over and they wouldn't achieve them, says Wallis. "It was a combination of not having robust budgeting or strict enough monitoring during the year. That's the major change I've brought to the organisation. We have artistic versus financial debates all the time, but last year – my first full financial year – we came in on budget and will this year, too."

CBSO is more than 40% publicly funded, by the Arts Council and Birmingham City Council, meaning Wallis had to learn a new set of financial rules and the public sector was squeezed. "I'm very involved with the funders – including making grant applications, which is, rightly, very formal."

Despite the limited salary and unlimited hours, Wallis feels she made the right choice. "We all take a turn at concert duty so if, for example, the conductor didn't turn up, you have to decide what to do.

"I'm not passionate about classical music," she admits, "but so many people at CBSO are; with its membership structure and huge number of volunteers it's like a family. Their enthusiasm is infectious. Because of the budget pressures we have faced, the orchestra perhaps don't think I appreciate them, but they are fabulous and it's a terrible shame we have to cut back. They don't understand why artistic acclaim doesn't translate into more money."

> "The orchestra perhaps don't think I appreciate them, but they are fabulous and it's a terrible shame we have to cut back. They don't understand why artistic acclaim doesn't translate into more money"

And that, for Wallis, is the biggest challenge. "If you've worked in the private sector where you might think things are tough, it's important to realise there are different types of tough," she says. "I've never been anywhere as tight as it is here. Sometimes I say the budget isn't there, we can't do that, and sometimes we have to do it anyway. If the conductor pulls out, you can't go without. What we've done is to build contingency into the budget, which enables us to handle these situations and still achieve our targets.

"A finance person can't change the performance of a company on their own, but they can make people become more financially aware."

She hopes to get on top of things for long enough to look at other opportunities. "I hope to continue a portfolio career by taking on some non-executive roles, if we can get the work down to a manageable level," she says. "What is important to me here is that it gives me the opportunity to be flexible in the last 10 years of my career.

"Sometimes when I mix with finance people I don't feel that old. Then I look at my experience and think, 'you have been around a bit, haven't you?' I do look at my pension, and think what might have been, but I'm very lucky. I have a rewarding job and a life outside work."

Briefing
HMRC standards, audit fees and UK GAAP

From disclosure of company fees to action on service standards at HMRC, we spotlight five key issues for members

DRAFT GUIDANCE ON AUDIT FEES

1 In October last year new regulations changed the way companies are required to disclose the fees they pay their auditors. ICAEW's Financial Reporting Faculty has now issued draft guidance designed to ensure that businesses report the right amounts.

All UK companies have to disclose how much they paid their auditor in their annual report. Larger companies also have to provide a detailed breakdown of the amount paid by the type of service bought. The new regulations – *The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011*, SI 2198 – which came into force on 1 October 2011 change the way that non-audit services are classified, to bring them closer into line with the requirements of the EU Audit Directive and the Auditing Practices Board's Ethical Standards.

The government also ensured that the amount disclosed for audit of the company's accounts includes fees for services provided by associates of the auditor. The draft guidance explains the purpose of the requirement and the basis for deciding the category into which an auditor service falls.

FILING VAT RETURNS ONLINE

2 HMRC has published a new guide for small businesses that have yet to file a VAT returns online: *Support available to help you move from paper to online VAT Returns.* The guide covers where to get assistance both for those submitting returns via HMRC's free online filing service (something users have to sign up to for the first time) and those using a third party. Anyone using a commercial package to submit returns will have to use the supplier's support arrangements if they encounter problems.

The guide also explains how to best use telephone help and outlines a programme of HMRC-run education events that are running now to explain the system in more detail to relevant businesses. Only a few will be exempt from online filing – if they have trouble getting online or have a disability that makes using a computer difficult.

For more information visit ion.icaew.com/taxfaculty/23811

ACTION ON HMRC SERVICE ISSUES

3 Senior staff at HMRC, with the help of ICAEW and other professional bodies and their agent volunteers, are working to improve HMRC services. HMRC staff have visited agent offices and agents have visited HMRC offices to see problems from both sides. **To find updates on progress see ion.icaew.com/TaxFaculty/blog/**

BUSINESS RECORD CHECKS

4 Following extensive lobbying by professional bodies, including ICAEW, a very positive result has been announced. HMRC is undertaking a detailed review of its controversial business record check (BRC) project. Since it was first announced in December 2010, the scheme has been a cause for concern for members. The good news is that following the review, HMRC has called for a pause in the BRC process while it examines how to improve the focus of the scheme and how it ties in to the wider compliance framework. While it hasn't agreed to abandon them altogether (something most members would have welcomed), HMRC has committed to looking at how to tighten the focus of BRCs and will consider a number of possible options to help improve poor record-keeping in the SME sector. ICAEW welcomes this announcement and will be encouraging members to contribute views and feedback from those whose clients have been targeted in the BRC pilot.

THE FUTURE OF GAAP

5 The Financial Reporting Council's (FRC) Accounting Standards Board (ASB) has published financial reporting exposure drafts (FREDs) setting out revised proposals for the future of financial reporting in the UK and the Republic of Ireland. FRED 46 *Application of Financial Reporting Requirements* (draft FRS 100); FRED 47 *Reduced Disclosure Framework* (draft FRS 101) and FRED 48 *The Financial Reporting Standard* (draft FRS 102) are all available for comment now, with the consultation exercise running until 30 April 2012.

FRED 46 sets out a proposed framework that would apply to all UK or Irish entities preparing financial statements that are intended to give a true and fair view other than where an entity is required or chooses to prepare financial statements in accordance with IFRSs or the Financial Reporting Standard for Smaller Entities (FRSSE). FRED 47 is a proposed reduced disclosure framework for qualifying entities, while FRED 48 contains text of a comprehensive accounting standard based upon the International Financial Reporting Standard for Small and Medium-sized Entities. The three new standards run to around 250 pages compared to over 2,500 pages for current UK GAAP.

More technical updates are available at icaew.com/economia/technical

Updates

HMRC TARGETS TRADESPEOPLE AND TOP TAXPAYERS

HMRC is to launch campaigns later this year targeting higher-rate taxpayers who fail to make tax returns, tradespeople working in the home improvement market, and people in the direct selling business.

The move follows earlier campaigns to persuade people in targeted groups to come forward voluntarily to sort out their tax affairs. HMRC has so far raised more than £500m from voluntary disclosures.

As well as chasing people with missing tax returns, HMRC will build on its efforts to tackle the hundreds of thousands of people working in home improvements, such as roofers, window-fitters, bricklayers, carpenters and joiners.

It will also target people who receive income from buying and selling goods direct to others, or are paid commission on these sales.

"We are offering the people targeted the opportunity to come forward," said Marian Wilson of HMRC's risk and intelligence unit. "Penalties will be higher if we come and find people after the opportunity."

Under the similar plumbers campaign, nearly 600 people came forward and offered just under £4m in unpaid tax. Ten plumbers have been arrested and more than 1,000 civil cases have been prepared.

GET YOUR DOCUMENTS IN ORDER

As the 2012 audit monitoring round gets under way, ICAEW's quality assurance department is keen to remind firms of the more common weaknesses they see. If one area sums up where firms go wrong, it is documentation. "Although we see a lot of good and well-documented work, many of the issues we raise on audit files relate to the quality of audit evidence and gaps in documentation," says a spokesperson.

The team will always challenge audit judgements where there is insufficient or conflicting information and where it can't follow the audit team's logic. It adds that the audit files sometimes don't provide enough support to the view that account balances are materially correct. One example is audit test design, where evidence of the existence of fixed assets is obtained through testing additions and disposals but without testing items brought forward from the previous year. Another would be where the audit firm only selects items sold after the year end to test net realisable value of stock.

SMPs ARE GLOBALLY CHALLENGED

Keeping up with regulations and standards is the greatest challenge facing small and medium-sized practitioners (SMPs), the latest poll from the International Federation of Accountants (IFAC) reveals.

And 2012 will be no different – the next few months will bring micro-entity financial reporting to the fore, widely regarded as the most important policy area facing the accountancy profession this year.

Other issues that SMPs find concerning include global regulatory convergence, what it means to be a professional and belong to a profession, and international tax harmonisation.

The poll also shows that pessimism has increased since the third quarter of 2011. In Q4 only 29% reported that business was better in 2011 than 2010. However, 31% of respondents expect business to be better in 2012 than it was in 2011. This does not apply in Europe though, where respondents are less hopeful.

For more information visit hmrc.gov.uk

CGT INDEXATION ALLOWANCE

The indexed rise to be used in calculating the indexation allowance in respect of gains made on assets disposed of in December 2011 is:

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
January	1.157	1.003	0.839	0.765	0.736	0.694	0.640	0.594	0.551	0.501
February	1.141	0.992	0.829	0.756	0.725	0.685	0.630	0.586	0.545	0.493
March	1.132	0.972	0.822	0.751	0.719	0.680	0.623	0.58	0.541	0.489
April	1.094	0.914	0.799	0.725	0.703	0.660	0.607	0.569	0.532	0.472
May	1.082	0.897	0.793	0.719	0.697	0.654	0.600	0.566	0.526	0.464
June	1.075	0.89	0.785	0.719	0.698	0.654	0.598	0.565	0.52	0.465
July	1.073	0.888	0.789	0.725	0.701	0.663	0.606	0.571	0.52	0.469
August	1.067	0.869	0.785	0.724	0.694	0.654	0.597	0.564	0.51	0.462
September	1.053	0.852	0.779	0.717	0.687	0.651	0.59	0.557	0.503	0.456
October	1.037	0.837	0.772	0.711	0.688	0.649	0.598	0.557	0.501	0.455
November	1.02	0.842	0.765	0.714	0.691	0.648	0.598	0.556	0.5	0.456
December	1.015	0.843	0.764	0.72	0.687	0.64	0.589	0.551	0.496	0.456

The RI month is the month in which the allowable expenditure was incurred. The table given is applicable only to bodies within the charge to corporation tax on their

RETAIL PRICES INDEX

Retail prices for November 2011. Jan 1987 = 100.

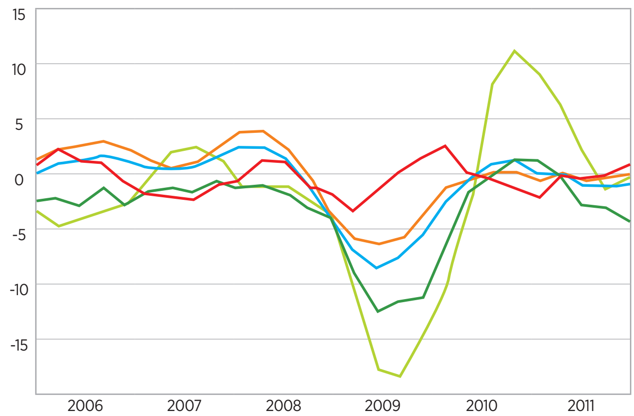
	2007	2008	2009	2010	2011
January	201.6	209.8	210.1	217.9	229.0
February	203.1	211.4	211.4	219.2	231.3
March	204.4	212.1	211.3	220.7	232.5
April	205.4	214.0	211.5	222.8	234.4
May	206.2	215.1	212.8	223.6	235.2
June	207.3	216.8	213.4	224.1	235.2
July	206.1	216.5	213.4	223.6	234.7
August	207.3	217.2	214.4	224.5	236.1
September	208.0	218.4	215.3	225.3	237.9
October	208.9	217.7	216.0	225.8	238.0
November	209.7	216.0	216.6	226.8	238.5
December	210.9	212.9	218.0	228.4	239.4

For more historic data, go to the ONS website at bit.ly/y8xSXy
Source: Office for National Statistics © Crown Copyright

For regularly updated data and tables, visit icaew.com/economia

GROWTH BY SECTOR

- Transport, storage and communication (K18M)
- Distribution, hotels and restaurants (L2PZ)
- Construction (L2N8)
- Business services and finance (K180)
- GDP (YBEZ)
- Government and other (K18Q)
- Manufacturing

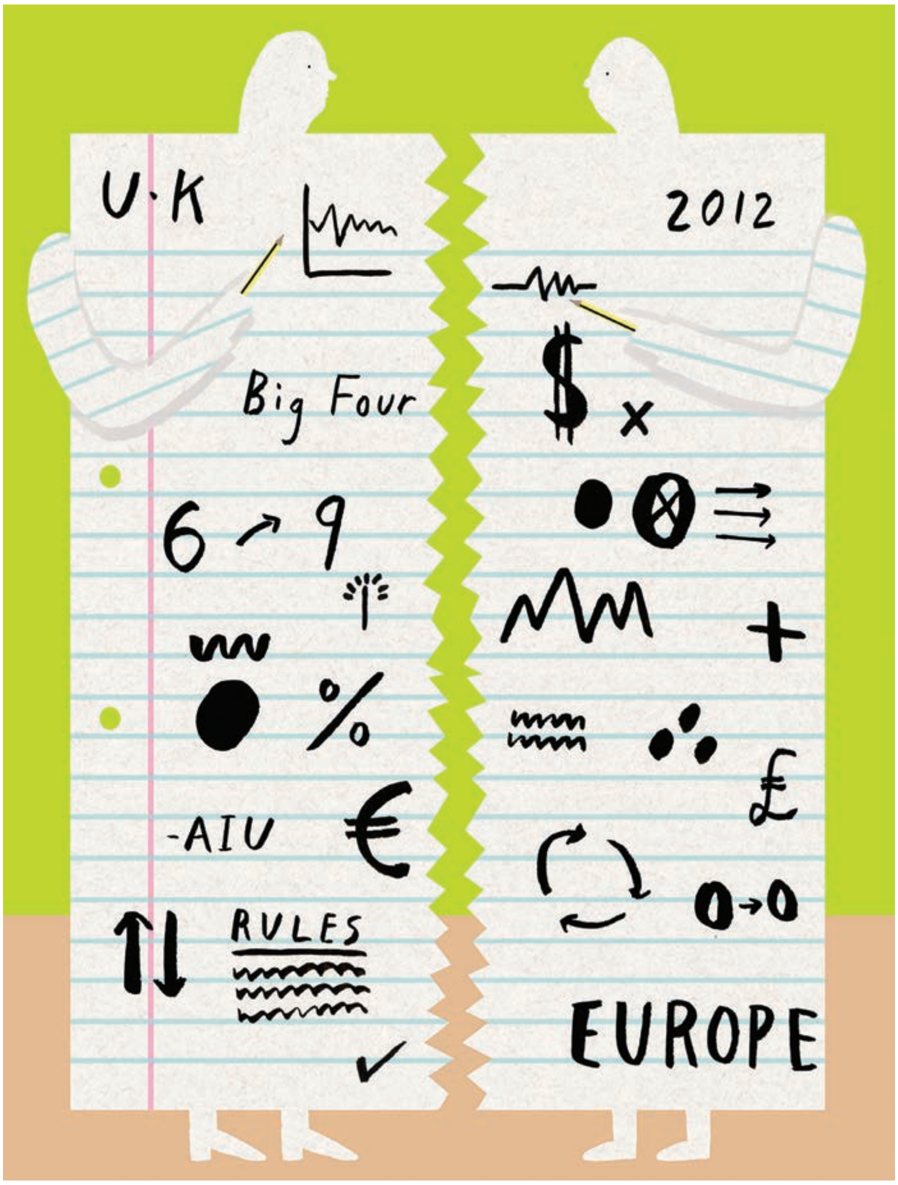


This growth chart sets the scene for the budget. The growth rates of key components of the economy have rarely been so close and uncertain. Total GDP (dark green line) recovered from the recession. Services – about three-quarters of the total – have followed a similar pattern. Construction (one-twelfth) and manufacturing (one-tenth) have been more volatile. **For an interactive version of this chart, visit timetric.com/topic/economia-gdp/**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
0.465	0.437	0.399	0.381	0.342	0.307	0.267	0.238	0.188	0.141	0.139	0.099	0.045
0.462	0.429	0.392	0.377	0.335	0.303	0.263	0.233	0.179	0.132	0.132	0.092	0.035
0.459	0.422	0.39	0.372	0.331	0.297	0.257	0.228	0.171	0.129	0.133	0.085	0.03
0.449	0.407	0.383	0.363	0.321	0.289	0.249	0.218	0.166	0.119	0.132	0.075	0.021
0.446	0.402	0.374	0.359	0.319	0.284	0.247	0.211	0.161	0.113	0.125	0.071	0.018
0.446	0.399	0.373	0.359	0.32	0.282	0.246	0.206	0.155	0.104	0.122	0.068	0.018
0.45	0.404	0.381	0.361	0.32	0.282	0.246	0.206	0.162	0.106	0.122	0.071	0.02
0.447	0.404	0.376	0.357	0.318	0.277	0.243	0.202	0.155	0.102	0.117	0.066	0.014
0.44	0.394	0.371	0.348	0.312	0.273	0.24	0.196	0.151	0.096	0.112	0.063	0.006
0.438	0.395	0.373	0.346	0.311	0.269	0.238	0.195	0.146	0.1	0.108	0.06	0.006
0.436	0.391	0.379	0.343	0.31	0.267	0.237	0.19	0.142	0.108	0.105	0.056	0.004
0.431	0.39	0.381	0.341	0.305	0.261	0.233	0.181	0.135	0.124	0.098	0.048	-

chargeable gains. **For more historic data, go to HMRC website at bit.ly/gCOTnW** Source: HMRC © Crown Copyright

Make or break for audit reform in 2012



You can please some of the people some of the time, but is European audit reform going too far for most, and not far enough for others? **Gavin Hinks** explores how the market is shaping up

In Europe, 2012 is likely to prove a make or break year. But this is not just about the euro. The auditors of public companies are watching closely what European leaders are about to do to audit reform. At the very least the reforms are likely to be far-reaching. At their extreme they could force a radical transformation of the business model for the Big Four audit firms and the market for large company audits.

Some players in the audit market are already disappointed with the proposals while others are clearly shaken by their scope. Few things are certain yet, except that there is a long way to go before the final framework for audit regulation and the shape of the market is defined.

With that in mind, close observers have witnessed energetic lobbying in Brussels over the reforms. That activity is currently aimed at MEPs and government officials on the working group of the European Council, but this is a recent change. Until November the focus was the internal markets directorate where commissioner Michel Barnier was overseeing the development of measures to "restore confidence" in financial statements and improvements in the market for audit. After much speculation, and a major leak, Barnier put out his papers in November. Cries of anguish immediately followed, but the discontented were divided. One faction complained that important proposals had been dumped while another expressed disbelief at what had been left in.

Among the contentious measures that survived are plans for European supervision of the audit sector; giving auditors a passport to practise across the EU; mandatory rotation of audit firms; mandatory tendering for audit contracts; changes to who can own an audit firm; and, most controversial of all, an insistence that firms meeting certain conditions should split their audit functions from non-audit services (tax advice, for example).

The key policy loss to cause frustration was a measure forcing public companies to use two audit firms in a joint audit. This was a flagship policy for many of the mid-tier audit firms who saw it as a way to relax the grip of the Big Four on large company audits. But it received scant

ROSE BLAKE

support from those asked to consider the commission's proposals and has now disappeared, much to the chagrin of some. James Roberts, senior audit partner at BDO, the fifth largest in the UK, says, "In a sense the wrong ground has already been given."

LOBBYING EFFORT

In the coming months the big lobbying effort will go into countering proposals to break up firms of a certain size into pure play auditors on one side, and providers of non-audit services on the other.

The battleground will be on two fronts. Firstly, MEPs on the committees have been asked to examine and report on the proposals. The lead committee, Legal Affairs, which is set to stage its own public hearing on audit in March, and its British rapporteur Sajjad Karim, will take the lead. The other front will be government officials on the European Council working group.

Both MEPs and officials will face the well-rehearsed argument that forcing such a break-up is not good for clients, the firms or markets. Pauline Wallace, head of regulatory policy at PwC, the UK's biggest audit firm, insists that a compulsory split could have far-reaching affects on audit firms. She insists it would make them less attractive places for top graduate recruits, while not providing them with the diverse work experience needed to become the highest quality auditors. "If you are prohibited from doing that work [non-audit services] you would question how people would get the right level of experience."

> "We have created an idea of mandatory rotation for which there is no justification. It's not what our clients want"

She argues that a split would starve audit firms of the necessary internal expertise to produce the best audits and force firms to buy in expertise from outside. She says even one of the profession's own regulators, the Audit Inspection Unit (AIU), concedes audit works best when the additional expertise comes from the ranks of the audit firm's own colleagues.

On top of that, Wallace says that the buyers of audit services are sceptical about the reforms. "We have created an idea of mandatory rotation for which there is no justification. It's certainly not what our clients want," she says. There is some evidence for that. In its submission on the proposals, the CBI's director for competitive markets Matthew Fell claimed that the proposals were the latest in a long line of "unnecessary distractions" from Brussels that added to business costs, without improving audit competition.

There is a widespread belief that the Commission has been compelled to split firms because it has stood by its policy of mandatory rotation. The policy seeks to open up the market for audit, but conflicts of interest can reduce the number of firms available to compete for work. Splitting up firms would counter this by creating more auditors that are conflict-free. The firms argue that without rotation there would be no need to split them up. While there are few advocates of rotation among UK auditors, it has found favour among investor groups concerned that audit firms become too cosy with clients, especially when audit relationships can last for decades.

ROTATION POLICY

But with experts expecting the reform process to run for at least a year, there is much speculation over whether some of the measures proposed can be softened or killed off entirely. BDO's Roberts, along with others, doesn't see the audit-only policy surviving. The UK government is opposed and observers in Brussels believe that Britain is not alone. The Germans are also discomfited. Horse-trading among national representatives at European council level could see it off.

As for rotation, the drive will be to extend the six-year period before a forced change. The limit met with disapproval last year and appears to have little support. Auditors hope this will be teased back to the original nine years. Under the proposals audits can be extended to nine years if it is a joint audit, but few in the UK favour that concession. November's proposals also included a host of intricate rules and criteria for auditors to maintain their independence. These should provide opportunity for amelioration during the haggling. As a quid pro quo the audit industry is likely to back some proposals, such as allowing auditors to practise in any European country and changing ownership rules to make it easier for auditors to obtain capital from outside investors.

A VOICE IN EUROPE

What worries many is whether the UK's voice will be heard in Brussels. David Cameron's use of the veto last year and his threat to wield it against a financial transaction tax may isolate the UK.

But others suggest the personnel now involved bodes well. Many MEPs see competition as a national, not a European, issue. This may also be the view of Karim and Kay Swinburne, the rapporteur looking at the reforms for the economic and monetary affairs committee.

But those looking for a British ally in Jonathan Faull, Barnier's top civil servant in Brussels, may be disappointed. Faull is an EU veteran and is closer to his boss on this issue than UK auditors. Faull has repeatedly stated that the reforms will improve competition and trust in the audit market. He says a "wider sharing" of this work is needed beyond the Big Four and claims that over-familiarity between auditors and clients has led to mistakes.

On a European leadership level there may be better news for those keen to see delays and watering down of the reforms. The Danes, who hold the EU presidency until June, don't see audit as a priority. This means the issue will pass to Cyprus, which comes in for the second half of the year, and maybe the Irish in 2013. It's not clear if any of these presidencies will prioritise audit in times dominated by the survival of the euro.

Barnier is due to step down at the end of 2013 and will be keen to see a resolution to audit reform by then. ICAEW chief executive Michael Izza, while expressing concern about many of the reforms, has written that, "It will be vital to fully understand the possible consequences of future legislation."

It looks very much like there will be plenty of time to do so.

To watch a video interview with Jonathan Faull, visit icaew.com/economia/audit

Hand in hand

DAN MURRELL

Changes introduced by the Legal Services Act make mergers between accountancy and law firms possible for the first time, allowing the creation of one-stop shops. But, asks **Adrian Holliday**, will this benefit accountants as much as their clients?

It's not the first time accountants and lawyers have flirted with each other – or taken things further. In the mid-1990s the UK accountancy profession was building up its own legal practice with some speed. Arthur Andersen created Garretts and bought Dorman Jeffrey. PwC had Landwell. Then came the Enron debacle, the Sarbanes-Oxley Act – and some retrenchment from the cross-selling multi-disciplinary fray as a consequence.

But the core of the Legal Services Act 2007 (LSA) changes saw the accountancy and legal professions rekindling once-close relations, whether they really wanted to or not. The impact of the LSA will also open up the potential for a wider range of bodies to regulate legal services: ICAEW may be able to regulate providers of some reserved legal services, while the Solicitors Regulation Authority (SRA) could regulate accountancy practices, although at present it doesn't have plans to do so.

REMOVING BARRIERS

Why was the LSA needed in the first place? Access to justice was one of the primary reasons. Liberalise the legal market, remove some of its barriers, improve competition and you lower costs for the consumer. Many of these were emphasised in Sir David Clementi's recommendations for the legal profession in 2004. Clementi thought the profession something of a closed shop, although he was against recommendations that legal partnerships should also be open to ownership by non-lawyers. Giles Murphy, head of professional practices at accountants Smith & Williamson, sees the current reality quite differently. "Quite a few non-legal companies have been providing legal services for some time," he says. "The Co-op, the AA, Halifax – these companies all now offer legal services. A lot of attention has been focused on what opportunities and threats the changing environment may mean for law firms. But the more interesting aspect is what it provides for accountancy firms."

Take Deloitte for example, says Murphy. Deloitte merged with Drivers Jonas in 2010 and now provides a market offering that is real-estate led, he says. "If they advise on real estate then the obvious bit that is missing is the law firm.

"Another interesting aspect is the impact on smaller regional firms. Times are tough: I can see a good opportunity for, say, a local accountancy firm merging with a local law firm to provide a strong one-stop shop for professional advice. Previously these sorts of opportunities were simply not allowed. But these barriers are blown away with the Legal Services Act."

Although there has been plenty of consolidation in accountancy, there has been relatively little among legal firms. Partly this is because legal operators are more spread out, with plenty of mid-tier firms around. In addition, in such a strained lending environment, the background ambience for consolidation is not great.

Andrew Durant, a senior managing director at FTI Consulting, is ambivalent about prospects. "Who would put money in? Private equity? Many law firms have quite reasonable access to capital, but private equity investors want a strong turnaround of their money. Don't forget the Barnier report, which is putting more pressure on accountants to divest and become less powerful. So the timing isn't great."

But the perception that the legal market is open for a new kind of investment-and-exit has attracted non-lawyer interest, says Alison Starr, a partner at law firm Pinsent Masons. "This is not just through the traditional UK venture capitalist route; already the SRA has reported strong interest from potential overseas investors and we are seeing this interest from the US, China and Dubai."

REGULATION TENSION

Then, there's the considerably vexed issue of regulation – and there is plenty of potential for tension here. The introduction of Alternative Business Structures (ABS) is certainly new for the SRA. Were legal and accountancy company consolidation to take place, who would have the responsibility of regulating both camps? "If you have a business that is predominantly law and one chap who is an accountant, you have an alternative business structure," says Alasdair Douglas, chairman of The City of London Law Society. "So you could say to the accountant, 'You could be a partner and part own it'. But the SRA says it's still a legal entity. That's where the difficulties lie."

> "In the longer term, I can see it is inevitable that multi-disciplinary practices will be formed. Bringing together a local solicitor, accountant and IFA working to common standards and with a single brand could make a lot of sense"

Or think of a law firm and a finance director who is not a lawyer. They may well have become an ABS, but if the chartered accountant biffed someone on the nose, would the SRA or ICAEW investigate?

And with ABS there are two crucial people as far as regulation is concerned: the compliance officer for legal practice (HOLP) and the compliance officer for finance and administration (HOFA).

"In big firms, many of the HOFAs will be accountants," says Douglas. "But they may also have duties to ICAEW. This is something that the SRA will want to iron out with ICAEW. The Institute has applied to regulate Alternative Business Structures so they must think that they should be regulating entities providing reserved legal services but owned by accountants. [Indeed some ICAEW member firms already provide legal advice]. So, if an accountancy firm starts a law firm, they might go to ICAEW for reserved legal services. It's possible there could be competition for regulators."

There are other tensions , both temperamental and cultural. Lawyers as a breed can be more flamboyant and flash, while accountants are generally more collegiate, more used to a multi-service background.

However, there remain grounds for thinking that some integration could be successful for some players. Although the UK mid-tier legal and accounting industries are fairly fragmented, a one-stop shop service for budget-conscious SMEs wanting vanilla services could seem attractive.

CULTURE SHOCK

"In the longer term, I can see that it is inevitable that multi-disciplinary practices will be formed," says James Hunt, CEO of Everyman Legal. "Bringing together a local solicitor, accountant and IFA working to common standards and with a single brand could make a lot of sense in terms of quality professional advice.

"The key would be that the cultures in each of the three disciplines are embraced so that the client received excellent legal, accountancy and financial advice. Quite a challenge, but it will come."

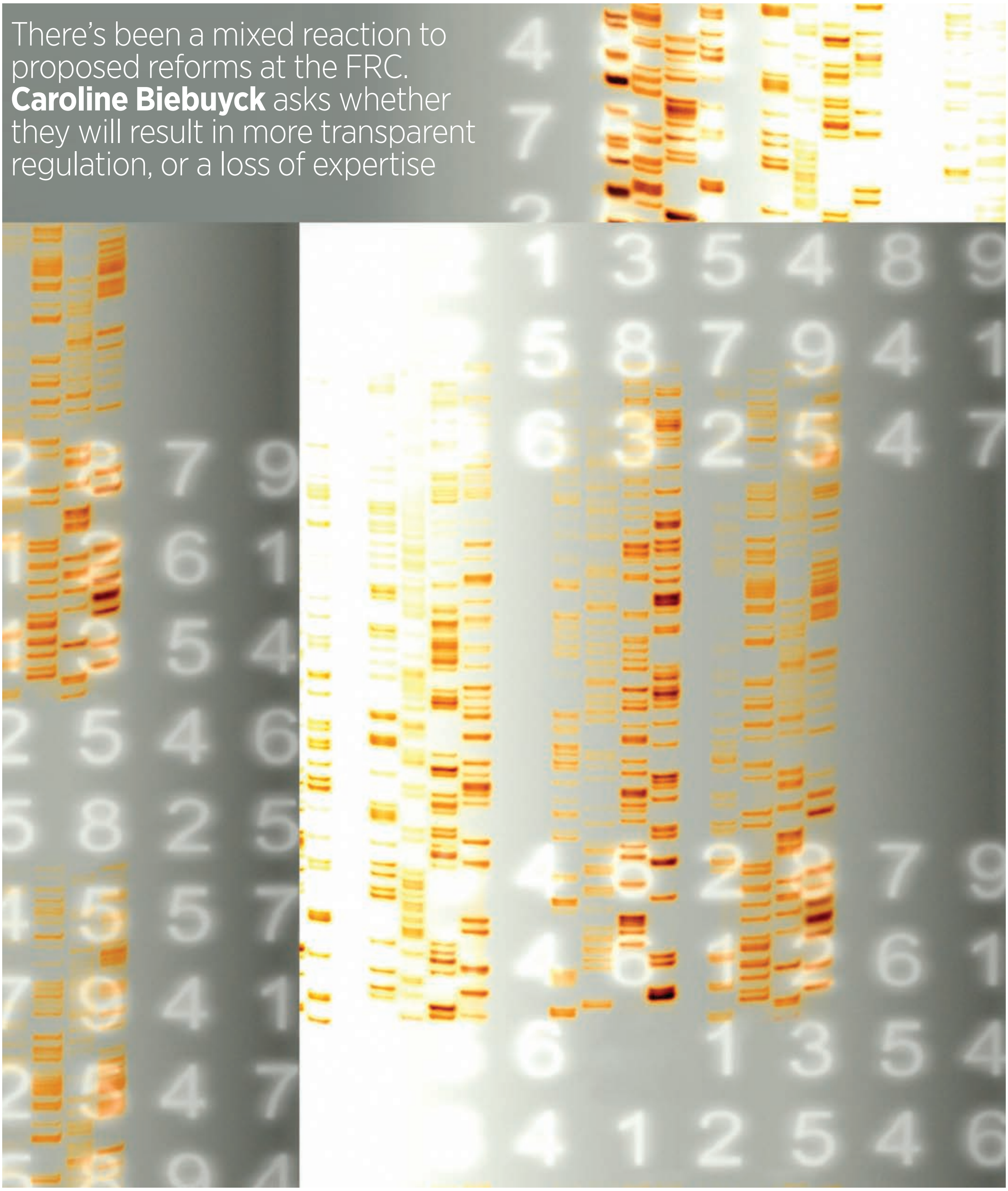
Hunt predicts that smaller accountancy firms might initially take on trust and probate lawyers so they can offer a full personal service. But local lawyers get referrals from local accountants, and vice versa. Fears that referrals will dry up will be a key barrier to mergers, of course, as will the profit motive. A well-paid lawyer still earns more than a well-paid accountant.

According to Smith & Williamson's Murphy, "Relative profitability and partner earnings are often cited as a cause for why law firm mergers fail, so it is right to question whether this will only be exaggerated if a merger with an accountancy firm is considered. However, I often believe this reason is given as an excuse as to why a merger fails."

Meanwhile, roll on the era of multi-disciplinary practice, an era of tough trading conditions and crumbling boundaries. Jobs could be cut and salaries may come under pressure from increasingly fee-sensitive clients. A lot of resolve, then, is going to be tested; partnerships are hard enough already for many firms. So will it be big bang or frightened whimper?

Shaking up regulation

There's been a mixed reaction to proposed reforms at the FRC. **Caroline Biebuyck** asks whether they will result in more transparent regulation, or a loss of expertise



SCIENCE PHOTO LIBRBARY/MEHAU KULYK

Financial regulation is under the microscope. With the light-touch approach blamed for the financial crisis, regulators the world over are taking a long, hard look at their operations – and their results.

In the UK, the government announced a general review of regulation when it came to power. The result of this was a consultation paper outlining proposals for refocusing and restructuring the Financial Reporting Council (FRC), issued in October last year by the FRC and the Department for Business, Innovation and Skills.

Chief executive Stephen Haddrill says that the FRC needed to review its efficiency and effectiveness. "We want to make sure we can hold our heads up high as an organisation that continues to listen to companies and accountants and our other major stakeholders, but that can establish that we operate a regime that is clearly independent of them," he explains.

The consultation paper acknowledges the problem of mission creep by proposing the FRC pares back on monitoring and enforcement to focus on accountants' work in preparing and auditing reports for capital markets.

Other potential misconduct cases that it is currently responsible for, such as within large private companies and charities, would be dealt with by the relevant recognised supervisory body (RSB), such as ICAEW. Given that the FRC's remit is primarily to support capital markets, the response to this has generally been positive.

More contentious, however, are the FRC's proposals to reinforce its independence from those it regulates. Its regulatory oversight work has two strands: inspections of audits and auditors are carried out by the Audit Inspection Unit (AIU), while disciplinary investigations take place through the Accountancy and Actuarial Discipline Board (AADB).

The FRC says that since it does not register or licence the audit firms the AIU inspects, it only has the "nuclear" option of recommending to an RSB that a firm's registration or licence be removed. It wants to be able to take action against RSBs, such as requiring them to take specific actions by a specific date, and be able to impose conditions on their continued recognition as RSBs. It also wants to be able to make its own rules for independent disciplinary arrangements for accountants through the AADB without having to get the RSB's agreement.

Mike Ashley, head of quality and risk at KPMG, points out that the FRC's role is one of oversight of professional bodies that have been recognised as being fit for this purpose. "The FRC is there to ensure the RSBs meet the conditions for recognition," he says. "That's all. There is a danger that having the power to impose more focused sanctions against an RSB could develop into micro management. That's not the way the FRC's role has been designed."

Vernon Soare, executive director of professional standards at ICAEW, states the case for the professional bodies having a place alongside the AADB in how the disciplinary scheme is framed. "We need to make sure that if the AADB writes its own scheme, this isn't detached from or even contradictory to the scheme that we're running for all other kinds of disciplinary matters that the Institute has to deal with," he says.

Haddrill points out that the regulatory role of the professional institutes will continue, and says it's important that the institutes continue to have a strong regulatory role. "The question is how much should the RSBs do and how much should the FRC do?"

He also says there should be full consultation on any changes to the rules. "Before we change the effective veto the professional bodies have over the rules, we would consult on any changes to the disciplinary scheme, including whether there should be an ongoing role for the regulatory bodies in terms of having to positively sign up to changes. The question is: should the professional bodies have the power to institute changes to the scheme if the consultation suggests that those are appropriate? That brings us back to the question of the independence of the scheme and how it's perceived as to whether or not it's operating fully in the public interest."

What of fears that the FRC would be both overseeing and enforcing regulation? Haddrill says this isn't the case. "In the area where the institutes have regulatory responsibility, we would have an oversight role: we would not be involved in the individual decisions."

> The FRC says that since it does not register or licence the audit firms the AIU inspects, it only has the "nuclear" option of recommending to an recognised supervisory body that a firm's registration or licence be removed

One question that has come up during the consultation is, quite simply, what's wrong with the current disciplinary process? As James Roberts, senior audit partner at BDO, says, "I can see that the FRC should not be beholden to the RSBs. But I'm not quite sure what the problems are with the current arrangements."

According to Haddrill, much of the answer is to do with timeliness. Although the current disciplinary scheme has been in place for several years only a few cases have been fully resolved. It takes a long time for the AADB to decide whether a case should go to tribunal, and often many more months for pre-hearing preparations to be completed. "If the firm wants to settle so that we don't have to go to tribunal, why

WHERE NEXT FOR THE REFORMS?

Consultation on the proposed reforms to the FRC closed on 10 January. As *economia* goes to press, the consultation replies are still being evaluated – the government and FRC expect to publish a joint response to the submissions in early March. The aim is to see reforms in place as soon as the legislative timetable will allow, which could be as early as April.

Heads of delegations attend the G20 Summit

REUTERS

SETTING THE GLOBAL AGENDA

Financial regulation has taken a central role on the global policy stage over the past few years, with senior international politicians and bureaucrats taking more interest in this arcane area.

The G20 discussed the role accounting standards played in banking failures, and the European Commission is currently refining major proposals on audit. The major debates at an international level are extending beyond setting standards and moving on to more macro issues such as the purpose and format of good corporate reporting, the future of audits, and what auditors should be doing to add value to their reports.

These are the kinds of issues that are debated at main board level at the FRC, and matters on which senior members of the UK accountancy profession have plenty to contribute. The FRC wants to ensure that it continues to exert influence in these areas as well as in the standard setting debates.

"We have people who have a breadth of experience and credibility in the wider questions around corporate reporting on the councils and we will be expecting them to advise on those questions," says Stephen Haddrill. "We want to make sure the FRC's voice, speaking on behalf of UK interests, is heard at the highest political level internationally. We want this voice to be strong and influential, addressing the subjects and issues of the day," says Haddrill.

don't we take the opportunity and cut all that time out?" Haddrill asks.

While he says that, on balance, there has been a positive response to the idea of reaching a settlement with firms or individuals, there are two big concerns.

The first is the potential for a perceived lack of transparency in reaching a settlement. The second is that reaching a settlement rather than going through due process may lay the AADB open to judicial review.

Both points are particularly sensitive given that the cases would, by definition, involve the public interest. Roberts says, "There may be cost savings and efficiencies in running things tighter. But you do end up with an ironically unregulated situation where the FRC rather becomes the judge, jury and executioner."

Haddrill acknowledges that both these issues have come up in the consultation, and says that the FRC is considering them carefully. He does point out, however, that any settlements would be published.

"I think the point is not one of transparency," he says. "The point is rather do you need to have an independent tribunal hearing to give the public confidence in the settlement?"

The idea of increasing public confidence forms the background to concerns over the FRC's accountability, particularly given the expected increase in its regulatory powers. Currently the FRC reports to the BIS secretary of state on what Haddrill admits is quite a narrow range of its oversight activities. The plan is for the FRC to report both to BIS and to parliament on all its future actions.

"Some of the consultation responses have asked about the transparency of the standard setting process: whether papers should be published or whether some of our meetings should take place in public. These are matters we are seriously considering," he adds.

The other main area of the consultation involves a restructuring of the FRC. At present it comprises six distinct operating bodies responsible for setting standards for corporate reporting, corporate governance and actuarial practice, for monitoring and enforcing accounting and auditing standards, and for overseeing the regulation of the actuarial and accountancy professions.

> "There may be cost savings and efficiencies in running things tighter. But you do end up with an ironically unregulated situation where the FRC rather becomes the judge, jury and executioner"

The consultation proposes that these six bodies be subsumed into two new board committees, one focusing on codes and standards and the other on conduct.

While the idea of simplification has a certain appeal, many are worried about the impact. The chairmen of the operating bodies currently sit on the FRC board. The consultation proposes that they be replaced by the chairs of the two new board committees, which critics say will reduce the core skills embedded in the FRC board.

Another question is over how attractive it would be for people to join the new-look Accounting Standards Board or Auditing Practices Board once they are no longer directly under the remit of the main board of the FRC.

"If these boards are effectively disbanded, how is the codes and standards board going to garner the technical input it needs to position the FRC internationally in these areas?" asks Soare. "How will the technical expertise get up to the FRC board level and inform the decisions taken?"

Ashley cautions that the FRC should not allow a narrow interpretation of independence to affect its governance. "There is a danger that independence always gets interpreted in the context of audit regulation because that is the one element of the profession which is clearly regulatory in nature.

"But the FRC is also there to regulate corporate governance and good financial reporting. It shouldn't therefore have an overly large proportion of corporate representatives on the FRC board, as it will be setting corporate governance codes as well as accounting standards and auditing standards."

In response to these concerns, the FRC is now looking at reconstituting the operating bodies as councils and stipulating that the chairs of these councils will be members of the main FRC board. "The councils will be strongly influential bodies within the FRC family," Haddrill says.

This influence, he hopes, will extend beyond their current remit. "We will look to them not just to deal with their own areas but also to contribute to our business planning in the future, to help us identify what are the big issues that we should be addressing across the organisation," he says. "We will look to work with each council's chair to be someone who understands the technical as well as the strategic issues, and who can play a strong international role."

MEMBER PANEL FEEDBACK

We got a reaction to this story from ICAEW member Stuart Jones of 3CA Chartered Accountants:

"As a small practitioner I am more concerned that the proposed reforms will neither produce more transparent regulation nor a loss of expertise. Given the public outcry over the failure of auditors to foresee the financial crisis and the fact that financial regulation has taken a central role on the global policy stage, how can James Roberts, senior audit partner at BDO, say he's not sure what the problems are with the current arrangement?

"The public must have more confidence in regulation at the very least should mean meetings taking place in public. The recent appearance of HMRC's Dave Hartnett in front of a parliamentary committee shows what can be achieved.

"As far as I'm concerned the large audit firms will use this as yet another opportunity to maintain the status quo."

To join the *economia* member panel, visit icaew.com/economia/memberspanel

Member devised bonus ruse to get his fees paid

A chartered accountant, specialising in business rescue, advised the directors of a bar and restaurant in financial difficulties to pay themselves a Christmas bonus, from which they could then pay his pre-appointment fees

A member has been severely reprimanded by ICAEW for improperly suggesting that the directors of a company of which he was administrator award themselves a bonus in the hope that they would then pay his pre-appointment fees.

Insolvency practitioner Eric Stonham was also fined £5,000 and ordered to pay costs of £7,000.

Stonham, of Stonham.Co, a 10-office firm of chartered accountants in the south-east of England focusing on business rescue, was hired in November 2006 to advise R-Bar & Restaurant Ltd. The company was in financial difficulties. He attended several meetings to discuss the future viability of the company and advised the two directors (a mother and daughter who were also the main employees and creditors of the company) to apply for an administration order.

At the final meeting before the company went into administration (20 November), Stonham claimed he told the directors he would be looking for them to underwrite his fees. When they said they could not afford it, he indicated he would be prepared to wait. In his notes to the meeting he wrote, "Indeed, given the busy period around Christmas and the critical need to keep the business alive until the creditors' meeting after some 10 weeks, and with the extra problems insolvency would bring, a Christmas bonus might be in order. On that basis, the directors agreed to pay pre-admin costs of £2,000 plus VAT." The directors did not agree with his version of events.

Stonham was duly appointed administrator. Three months later he sent R-Bar's creditors proposals for a Company Voluntary Arrangement, which they agreed. Just before he stepped down, he wrote to the directors reminding them that the pre-appointment fees remained unpaid. After suggesting they could give themselves a Christmas bonus of £2,500 each, he added, "As it is likely that the company will pass out of administration into the CVA before I can make the bonus payment, I leave you to pay them as soon as the company is able. I should anticipate this by July 2007 at which time you will settle my agreed pre-appointment fees." The fees remained unpaid and attempts to recoup them, including through the courts, failed.

The tribunal concluded that Stonham had turned a blind eye to the ethics of his actions

At the relevant time, it was well established that once an administrator had been appointed, the assets of the administration estate should not be used to pay the pre-administration fees in preference to other creditors. Stonham's pre-administration fees should have been the subject of a letter of engagement to the directors when he was first called in, explaining how much and when they would become payable.

Stonham admitted to the disciplinary tribunal that part of his motivation in suggesting the bonuses "must have been to increase the chances of my pre-appointment fees being paid". He accepted that he should not have allowed himself to be placed in a position where such "improper considerations could influence my judgement".

The tribunal concluded that Stonham had turned a blind eye to the ethics of his actions in the belief that he was entitled to be paid. His conduct had been improper and had brought discredit to ICAEW, the profession and to himself.

Stonham was also reprimanded in June 2002, when he was fined £1,000 after failing to identify and manage a conflict of interest, while in April 2004 he received a regulatory penalty of £3,000 in respect of unauthorised remuneration.

For further information on this case (D6858) and others, visit icaew.com/publichearings

Report listings

The reports that follow are summaries. Copies of the full reports are available from icaew.com/publichearings or from the Professional Conduct Department, ICAEW, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ

DISCIPLINARY COMMITTEE TRIBUNAL ORDERS

● Richard Iain Michael Jemmett of the White House, High Street, Dereham, Norfolk NR19 1DR
Complaint He was liable to disciplinary action under Disciplinary Bye-law 4(1)(c) because from 9 March 2011 until 9 June 2011 he failed to respond to a letter dated 22 February 2011 from the ICAEW investigating a complaint issued under Disciplinary Bye-law 13.
Decision The complaint was found proved on the defendant's own admission. He was reprimanded and fined £1,000. No order was made as to costs.

In reaching its decision, the tribunal took into consideration his family circumstances and health, and his previously unblemished disciplinary record. However, it also noted the aggravating feature that the underlying matter was potentially very serious, such that the need for co-operation with ICAEW and a response to the letter was heightened.

The tribunal also recommended that the defendant seek the assistance of a support member, because of the personal difficulties he was facing and the nature of the underlying investigation.
D6859

INVESTIGATION COMMITTEE CONSENT ORDERS

● Daphne Tams of 4 Conway Court, Stirling Close, New Milton BH25 6AR
Complaint Between 4 March 2006 and 26 January 2011, she issued 11 audit reports in the name of her firm, Mrs Daphne Tams Chartered Accountant, when her firm was not a registered auditor.
Decision Reprimanded, fined £500 and ordered to pay costs of £1,342. **D6839**

● LS Nabarro of 29 Cumberland Road, Brooklands, Sale, Cheshire M33 3EW
Complaint Between, in or around April 1993 and 30 June 2011, she engaged in public practice without holding a practising certificate, contrary to Principal Bye-law 51(a). Between, in or around April 1993 and 30 June 2011, she engaged in public practice without professional indemnity insurance as required by Reg 3.1 of the Professional Indemnity Insurance Regulations.
Decision Reprimanded, fined £500 and ordered to pay costs of £1,292. **D6840**

● Graham Roy Best of 189 Lynchford Road, Farnborough, Hants GU14 6HD
Complaint On 24 January 2011, he gave an undertaking under the Company Directors Disqualification Act 1986 that for a period of three years he would not act as a director of a company or be otherwise involved with a company or act as an insolvency practitioner. This resulted from his unfit conduct in the matter of X Limited, which went into administration on 27 January 2009, in that between 16 October 2008 and 15 December 2008 he allowed the company to breach its obligations to two separate finance companies.
Decision Reprimanded, fined £1,000 and ordered to pay costs of £1,992. **D6845**

● Philip Kendall of 4 Wheelwrights Corner, Nailsworth, Stroud GL6 0DB
Complaint He wrongfully delayed raising and submitting an invoice covering the entire period he had acted for his client, Mrs X (for her sole trader business), namely 18 years.
Decision Reprimanded, fined £2,000 and ordered to pay costs of £2,092. **D6847**

● PM Heaven of 2nd Floor, 3 Brindley Place, Birmingham B1 2JB
Complaint Between 1 January 2008 and 3 August 2011, he engaged in public practice without holding an ICAEW practising certificate contrary to Principal Bye-law 51(a).
Decision Reprimanded, fined £1,000 and ordered to pay costs of £955. **D6848**

AUDIT REGISTRATION COMMITTEE REGULATORY DECISIONS

● PH Ross & Co of 18 Woodcock Dell Avenue, Kenton, Harrow HA3 0NS
Complaint The firm was in breach of audit regulation 6.06 in that it failed to comply with assurances previously given to the Quality Assurance Department following an audit monitoring visit.
Decision The firm admitted the breach and agreed to pay a regulatory penalty of £2,500.
D6825

● TWY Ltd of 20 Sansome Walk, Worcester WR1 1LR
Complaint The firm was in breach of audit regulation 7.03(h) in that it failed to comply with the requirements of the audit regulations.
Decision The firm's registration as company auditor was withdrawn on 3 January 2012.
D6849

● DB Jones & Co of 14 Providence Street, Earlsdon, Coventry, West Midlands CV5 6ED
Complaint The firm was in breach of audit regulation 7.03(h) in that it failed to comply with the requirements of the audit regulations.
Decision The firm's registration as company auditor was withdrawn on 3 January 2012.
D6851

● John Belford & Co Ltd of 14a Main Street, Cockermouth, Cumbria CA13 9LQ
Complaint The firm was in breach of audit regulation 2.03(a) in that it failed to ensure a principal (non-member) held audit affiliate status between 1 April 2008 and May 2011
Decision The firm admitted the breach and agreed to pay a regulatory penalty of £1,000.
D6850

Life

“Age is just a number. It’s totally irrelevant, unless you happen to be a bottle of wine” **Joan Collins**

We take a look at crowdfunding – it could be harnessing social networking as a new source of capital or a massive con waiting to happen; plus great places for breakfast, lunch and dinner – if you’re not eating like a caveman

THE IN CROWD

A vital source of funding for businesses and a golden opportunity for small investors, or a scam of epic proportions? Whatever you think of crowdfunding it's here to stay, says **Nick Martindale**, and the financial industry should be ready

There's little doubt the internet and social media have made it easier for individuals to interact – with positive and negative results. Now more businesses are interacting with the crowd, using the input of the masses to help research ideas, source labour, shape and even finance the future direction of their organisation.

One of the more impressive crowdsourcing tales involves Canadian mining company Goldcorp, which was struggling to find gold in northern Ontario. A new chief executive released its geological data over the internet, offering $500,000 to anyone who could help and the business found supplies worth $3bn. It became one of the world's leading mining companies in the process.

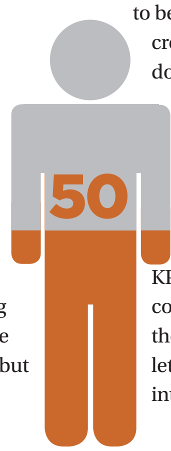
Other examples are more mundane. Elliot Newsome, managing director of SKT Consulting, uses Prizes.org, run by Google, to source information and advice from the masses. "I use it quite a lot for technical support," he says. "Time is important to me. Rather than browse the forums, I put something on there and it gets solved within a couple of hours."

In its original form at least, crowdsourcing involves using many people to openly collaborate or compete on a project. Freelancer.co.uk recently introduced a crowdsourcing concept for design materials such as logos or brochures, enabling organisations to invite bids from designers based around the world. It allows individual suppliers to see other entries and adjust their own in line with feedback from the customer.

Its UK country manager Saif Bonar says the main benefits for businesses are access to a greater pool of talent and a much more cost-effective way of using this. "You can get hundreds of designs, then pick five or six and work with those," he says. "It's an incredibly effective way to tender a relatively low-value project."

Katarina Skoberne, managing consultant at Katarina Skoberne Associates, set up Openad.net, one of the world's first crowd-sourcing ventures – back in 2003. The business eventually folded but not before many firms had used it to source creative advertising concepts from all over the globe.

Interestingly, the business found that customers used it for other purposes than the one for which it was originally intended. "A lot of the advertisers used it to understand the creative perception of their brand, rather than use the advertisement itself," she says. "They would get a wide perspective of responses to understanding their brand, and use that as a research facility."



As long as you reach 50% of your target, you get the money you have collected

Yet there are concerns around the use of crowdsourcing from a business perspective. According to Tom Frederikse, a partner at Clintons Solicitors, it is fraught with danger and leaves businesses open to the prospect of infringing copyright. "How do you have any idea that the song, article, photograph or video is original?" he asks. "And if it turns out you were sold a lemon, are you going to be able to find the guy in the crowd to go after him? If you do, what if he has no money and you have to pay all the money to the original person? You might as well have gone to them first."

Stan Lepeak, director of global research in KPMG's management consulting group, based in the US, points to dangers in letting sensitive information into the public domain.

"Are you going to lose your intellectual property?" he asks. "There are some very serious issues relative to data privacy, particularly in Europe. When you look at smaller projects these issues are risks you can bear; when you start to look at more serious issues like developing systems around customer data you need to be very sure that there's no back door left open."

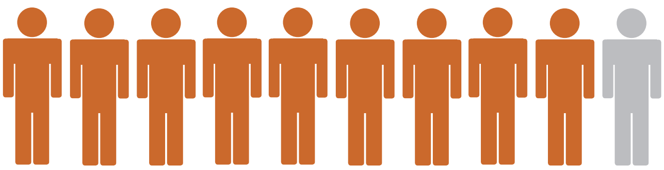
Bonar, though, believes issues regarding quality control and trustworthiness of suppliers can be overcome by applying the same kind of due diligence that would be enforced were the project being put out to tender in a more traditional manner. "You can look at a supplier's feedback and ratings, check their previous work, ask for references and try to build up a rapport in the same way as you would in the real world," he says. "Even though you may be getting something for a tenth of the price, it doesn't mean you should put in a tenth of the effort."

For some businesses the real attraction of crowd power will come in the ability to source funding, usually as an alternative to bank loans or angel finance. In the UK, this approach has been spearheaded by Crowdcube, formed in 2010 by two entrepreneurs who had experienced difficulties accessing bank finance, and who successfully sourced £300,000 from 162 investors over a 10-day period in December.

"Seed finance for early-stage and growing businesses hasn't really changed much in the last 150 years, going back to the industrial revolution when entrepreneurs would go cap in hand to wealthy people," says Luke Lang, Crowdcube marketing director and co-founder. "We thought there had to be a better, fairer way of doing it. Rather than

90

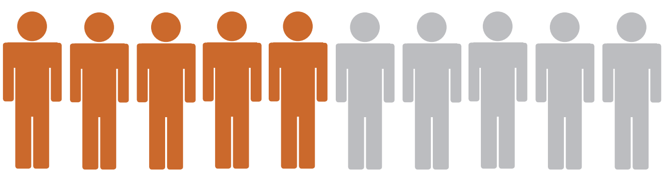
The optimum timespan of days for a crowdfunding campaign



90% of projects that reach 1/3 of funding succeed

£76bn

The amount banks said they were committed to lending SMEs in 2011



50% The amount of income tax relief for people investing up to £100,000 a year in a qualifying start-up from April 2012 (SEIS)

CASE STUDY
FUNDING DOWN THE FARM

Community interest company BigBarn initially looked for £60,000 as it sought an injection of fresh capital and a means of spreading the word about its initiatives to encourage local farm produce.

"Everything we do is in the interest of the producers on our map and consumers using the website, so it seemed to make sense to get these communities involved by offering them shares," says managing director Anthony Davison (below). "If we had 100 consumers investing they would become advocates and tell their friends. That was as important as the money side."

The first attempt was unsuccessful. Davison puts this down to the fact that turnover had been steady but not spectacular over the company's 10-year history and that, as a community interest company, it would be unable to float in the long term. "You want a quarter of the money you need already pledged before you start," he adds.

Eventually BigBarn ran a second event looking for £12,000 from those who had expressed interest in the first attempt in return for a 4% stake, which Davison says was achieved comfortably. He's also talking to more conventional business angels.

"I didn't do it quite right," he says. "But it provided us with a fair bit of PR and it's quite a cheap way of raising money."

pitching to wealthy individuals you can pitch it to a nation of armchair investors, and enable anyone to invest in your business."

The rules of investment are relatively simple; entrepreneurs must be from limited companies and receive all of what they request or pay back any money raised, while investors will receive shares – although not necessarily voting rights – in the entity which they are backing. The business has also attracted interest from more conventional lenders with gaps in their current funding options for small firms, says Lang, and has developed a partner programme for established independent financial advisers.

Inevitably there are doubts over the concept of inexperienced investors pledging money to businesses based on claims made over the internet.

"You could end up with boiler-room operations where it's not dissimilar to asking people to give their credit card details or meet up with a benefactor to make their fortune," says Lepeak. "Those risks could become significantly expanded if this becomes more common."

Entrepreneurs, too, could be at risk of individuals coming forward years down the line and claiming they have a stake in the company, or face difficulties should they want to sell the business. "As the pot grows people will get more aggressive and lawyers will get involved," he warns. "You may find that the loosely defined agreement you had a few years before doesn't hold up."

David Grahame is chief executive of LINC Scotland, the country's national business angel association. He has a number of concerns, including the logistics of dealing with hundreds of shareholders when the business reaches the point at which it needs to seek more established finance, and the lack of expertise which an entrepreneur would normally expect to gain from a business angel.

Perhaps most worrying, though, is his suggestion that as individuals are unable to negotiate the price with the entrepreneur, they could end up losing out further down the line. "If there is another funding round and the business brings in a venture capitalist or angel syndicate it's almost inevitable there will be a downvaluation at that point and investors will get squashed," he says.

Crowdfunding is better suited to instances where equity is not involved, he suggests, such as where backers effectively buy products in advance or individuals pledge donations to social enterprises without expectation of financial returns.

For his part, Lang points out that individuals do not need to invest if they do not like a valuation but admits that negotiation of equity is limited at present. "An entrepreneur can increase the amount of equity that they are offering, thus improving the deal for investors, but not reduce it," he says. "Such a change in valuation would affect the whole crowd of investors and cannot be negotiated on a per-investor basis."

Ultimately, though, he believes the onus is on the rest of the financial world to catch up with the new generation of funding. "Crowdfunding will become an established method of raising finance and institutional investors will need to evolve, to accommodate such emerging models in the future" he says. "We are confident we can structure deals to mitigate the risks of having a large number of investors."

It is perhaps this view that echoes loudest, especially if the history of company email and social media usage is anything to go by, meaning this is an area of which the financial community at the very least needs to be aware.

"Crowdsourcing and crowdfunding are here to stay," says Skoberne. "As with many innovations, they might be used differently to what was originally foreseen but they are contemporary instruments that will be leveraged. How they will structure that interaction remains to be seen, but there's no way businesses can ignore the crowd."

LOW-HANGING FRUIT

Continuing our series on alternative investing, **Penelope Rance** asks Tom Jenkins of fine wine merchant Justerini & Brooks for his advice on building a wine portfolio

If the stock market has left you with a portfolio worth less than George Osborne's promises, it might be worth looking for some slightly more, ahem, solid assets. As an alternative investment, the up side of wine is that it can be a passion as well as a paycheque, being an oenophile doesn't preclude you from making money, whether you have hundreds or thousands to invest. And if the bottom falls out of the market you can always drink your collection.

For pure wine investment, 2011 was a difficult year – but then, argues Tom Jenkins, Bordeaux buyer and broking manager at Justerini & Brooks, it was for most markets.

"On Liv-ex: The Fine Wine Exchange, wine reported a loss for the first time in many years," he says. "But over 10 years, wine has outperformed all of the stock markets. The only market that comes close is gold."

And that's not wine's only advantage. "As an asset, it is deemed to be wasting, so is exempt from Capital Gains Tax. It's a nice add on and a bonus aside from the appreciation of the asset – the tax relief can represent 40 per cent off."

As with all rare commodities, wine's value lies in it being a finite product – people drink their collections or buy direct for the table and, unlike gold, there's little chance of hitting a rich new vein.

Add to this the fact that the top five chateaux are making less fine wine than they used to in order to protect the quality of the product, and you have an asset which can only go up in value. "Latour used to produce 20,000 cases per year of its Grand Vin," says Jenkins. "Now it's more like 9,000 to 10,000.

"A lot of the grapes that used to go into the Grand Vin are now not doing so. And this has raised the quality of the Second and Third label."

Another limiting factor is historic. The most valuable wines come from specific areas. "You can't just plough a field in Surrey and make a fine wine," says Jenkins. "You're limited to the region – and only a few regions are investable in."

Less supply combined with more demand means higher prices. And the demand is definitely increasing. "It's *de rigueur* to drink fine wine in China and Hong Kong – these are growth markets that have been pushing prices up."

GETTING OUT

And if you're in it for the money, you have to think about how you're going to get out. There are a number of ways of exiting the market – but bear in mind that, all puns aside, wine is not a particularly liquid asset. You can't just sell a few cases when the markets open. It may take a month or more to sell a portfolio, much longer if you own rare vintages and want to realise their true value. This is not an asset designed for realising profit quickly.

"It's very important to consider your exit strategy – focus on wines you know you can sell," says Jenkins. "As a basic rule, go for First Growths, which have appreciated massively over the years. It is possible to get large returns quickly, but don't expect it. Wine needs to be thought of as a long-term investment. You need to have a 10-year plan.

"There are also advantages of Second label wines, which are similar in quality to First Growth but offer better value, especially for bulk buyers. You can buy very young wine at low prices when there's a lot of stock on the market, then wait 10 to 15 years until it is more scarce and therefore more valuable.

"Others prefer to buy more mature wine and then see it appreciate as people start drinking it. For example, claret traditionally begins to be drunk when it is 10 years old. But in China and Hong Kong, people are drinking wine younger, creating a strategic rethink."

The cautious will opt for a mixed portfolio of both physical bottles and *en primeur*, or pre-bottled wine. "When you're picking a portfolio, look for positive trends in the drinking market that have a knock-on effect in the investment market. It's like investing in equities, you're looking for brands that will beat the competition."

Choose your market carefully, both in terms of where you're buying from and who you plan to sell to. Burgundy, for example, has many smaller producers, making it more interesting to private investors – you might be able to get one or two cases, or could be limited to six bottles

JAMES BEDFORD

"You can't just plough a field in Surrey and make a fine wine"

of a rare vintage. "It's hard to get bulk buys or achieve the scale that will interest wine fund investors. A whole appellation might produce just a couple of barrels, making fewer than 200 cases."

There is now a demand for top-end Burgundy in Asia, where there was previously little interest, says Jenkins. But to invest effectively in Burgundy, you need to know the top producers. "It can be a minefield and shouldn't be entered into without extensive knowledge and advice."

The most efficient way of selling is brokering your wines, advises Jenkins. In this case the merchant takes a commission (10 per cent is the industry standard) and the seller receives the net profit. You know exactly what you're getting before the sale, and the risk is relatively low.

The alternative is selling at auction. "For recent vintages, the auction market is full of canny buyers looking for a bargain, so you're better off going through a merchant.

"But if you've got something super-rare then selling at auction is better. You may pay a higher fee, but the pay-off comes if two collectors get into a bidding war and push each other into paying crazy prices."

LAYING DOWN

When investing in wine, you can purchase the genuine article, or join a fund that will buy and sell on your behalf without you getting to sniff a single cork. Justerini & Brooks advises people to buy from a respected merchant and store the wines in bond – for security, they strongly recommend ownership of physical wine.

The company will store as well as brokers its clients' wine, but it is held by a subsidiary, each case carefully labelled and inventoried so that, in the worst case scenario, if J&B went under, the wine belongs to the customer and isn't counted as an asset of the company.

"If a fund goes belly up, all you've got is a piece of paper that isn't worth much," says Jenkins. "But with us, the wine is yours, which is generally more profitable. The £11 per case yearly storage fee is equivalent to the admin fee you might pay with a fund."

The advantage of a fund is that they can buy in bulk and at better prices than private buyers. An individual investor may only be able to afford three cases of fine wine, opening them up to the greater risk exposure inherent in a small portfolio. One case might go up, but two might go down and some might be destroyed entirely. By holding shares in a larger portfolio any fluctuations in the market are smoothed out. They buy on your behalf and it matters less the amount you have to invest.

If you go it alone, says Jenkins, the minimum you'd need to invest in order to make it worthwhile is £10,000. "Most people look at investing £20,000 plus, equating to 10 to 20 cases of wine. That's enough to allow them to ride out fluctuations in the market."

NECKING IT

Ultimately, though, people buy wine that they plan to drink. "Investment has grown over the years, but we mostly supply collectors and drinkers. Collectors' behaviour is similar to that of investors, although they use the sale of their wines to fund further purchases. Lots of people bought Lafite in the 1980s, but as its value rocketed, it became too rich to drink. People always sell bits of their collection to fund purchases, keeping the cellar rolling.

"Collectors usually outnumber pure investors. People get involved in wine because they have a passion for it. But they still broker wines, especially as situations change, such as death or divorce. We do sometimes get people selling whole collections due to changes in circumstance."

So if you're planning on laying down a cellar of rare Bordeaux, make sure you get an iron-clad pre-nup drawn up. You have been warned.

10 KEY PRINCIPLES

1. Any investment should be treated as a long term one and at J&B a minimum of five to 10 years is usually recommended.

2. Only buy from trusted wine merchants and never be drawn in by cold-callers. Demand a strong track record from the people you will be buying from.

3. Build a rapport with your merchant. Loyalty will be rewarded with the opportunity to get hold of the rarest wines.

4. Do not put all your eggs into one basket. Wine should only be a percentage of your portfolio.

5. Do your research. Get to know the market, the fine wines and the current trends. Ask a wine merchant you trust to guide you.

6. Use wine-searcher.com to compare prices.

7. Buy under bond cases whose provenance you know. And keep your wines stored under bond. If it is purely an investment purchase then you will be able to sell your wine without ever having to pay VAT.

8. Store your wines in a proper storage facility. J&B use Octavian where each case is labelled for each customer. This is not as common as it should be, but is definitely recommended.

9. Diversify your portfolio. Trends come and go and having all your holdings in one or two wines is a risky strategy.

10. Enjoy wine. This sounds obvious but investments can go down as well as up, and even if you can't sell it, you will have the pleasure of drinking some of the finest wines in the world.

THE FINEST WINES

J&B's top current wines for investment:

- Lafite Rothschild
- Latour
- Haut-Brion
- Margaux
- Mouton Rothschild
- Cos d'Estournel
- Montrose
- Grand-Puy-Lacoste
- Pichon Baron
- Pontet-Canet
- Lynch Bages

CAPITAL FARE

Whether it's for an early meeting, a client lunch or a celebratory evening meal, there's a restaurant in London to suit every taste. Here's three we've enjoyed recently

BREAKFAST
Caravan, London

Located on the corner of north London's Exmouth Market, Caravan bills itself as a "restaurant, bar and roastery", the latter a reference to in-house coffee roasting which ensures the daily caffeine fix here is always fresh and tasty.

And that epithet applies equally to the simple but quirky take on breakfast. Dishes such as fried avocado on toast with chilli flakes, roasted tomatoes, crumpets with "too much butter", not to mention the smokey black pudding (served with maple roast apples, a fried egg and toast) make for an unusual, but memorable start to the day.

caravanonexmouth.co.uk

LUNCH
High Timber, London

Claiming the only City of London restaurant tables on the banks of the Thames, High Timber is in a convenient location by the Millennium Bridge. But if you come for lunch, prepare for a long one because chef Justin Saunders's fare is hearty and generous.

The huge stilton profiteroles with port gel came with a wealth of smoked salmon from Britain's oldest curer, Forman's. The pheasant with sautéed sprouts and fresh chestnuts and Venison with red cabbage and beetroot were highlights. And the Horlicks ice cream, chocolate fondant and popping candy brought back fond memories of youth.

hightimber.com

MENU OF THE DAY

BREAKFAST

Two eggs any style, streaky bacon, slow roast tomatoes, soy mushrooms on sourdough or grain toast.	£8.50

LUNCH

Stilton profiteroles	£7.50
Forman's smoked salmon	£12.50
Kentish pheasant	£18.50
Garlic curly kale	£3.25
Horlicks ice cream	£8.95

DINNER

Game broth	£8.50
Rib of beef on the bone (for 2)	£32.00
Celeriac gratin	£3.50
Apple crumble with custard	£7.95

TOTAL	£111.15

Above (*from left, top to bottom*): the exterior of Caravan in London's Exmouth Market; the interior of Rules; inside High Timber; Caravan's coffee, roasted in-house

DINNER
Rules, London

It claims to be London's oldest restaurant but while the velvet, dark wood and antlers may hark back to the past, there's nothing old-fashioned or fusty about the food, atmosphere or service.

Rules is famous for its venison and game birds, which are sourced from its own estate, but we opted for the Rib of Beef, which was cooked to perfection: juicy, flavoursome and plentiful.

Somehow we managed an apple crumble, which was the type of stodge you dream about. Even better, Nurse Gladys Emanuel was dining there. We quietly raised a glass of Domaine Clos du Caillou Bouquet des Garrigues in her honour.

rules.co.uk

SIX OF THE BEST

BICYCLES

Whether it's for commuting or recreation more people are hopping onto two wheels. We choose six of the best bicycles to get you from A to B

1 STORCK SCENERO
A German bike that's comfortable, responsive and light, the Scenero is beautiful and incredibly well made. Each Storck carbon frame is laid in one piece so there are no joins or bonded frame sections. It's not cheap, starting from £2,000, and is only stocked by about 12 dealers in the UK but it's worth hunting down and investing in. *storck-bicycle.de*

2 PASHLEY PRINCESS SOVEREIGN
A quintessential town and country bicycle, its rear skirt guard integrates with the enamelled mudguards to provide all weather practicality and comfort. For workers leaving their £645 investment on the street all day, the fitted rear lock secures the bike with the push of a lever giving extra peace of mind. Colours are brand Britain: Buckingham Black or Regency Green. *pashley.co.uk*

3 SCOTT SUB 10
The Speed Utility Bicycle is ideal for commuting. A hybrid designed to deliver maximum efficiency, comfort and agility, it glides smoothly over pot-holed city streets even at higher speeds. The alloy frame and Shimano gears work well together so it's quick to accelerate and steady in the wind. The basic cost is £429, with extras like a rack for your briefcase costing more. *scott-sports.com*

4 ELECTRA AMSTERDAM GIRARD 3i
Electra offers an assortment of funky designs for the more style-conscious cyclist. This one features Shimano Nexus gears with rear coaster brake, but its USP is Alexander Girard's colourful artwork with matching saddle, grips and bell. Priced from £688.99 these women's bikes combine vintage good looks with modern components and come in a range of chic designs and funky colours. *electrabike.com*

5 SPECIALIZED ALLEZ TRIPLE BICYCLE 2012
It's not all about getting to work, so for entry-level speed freaks looking for high performance and good looks, the Allez is a good start. Shimano triple gears make ascents easier on your legs and at just 9.8kg it is relatively light compared to other entry-level bikes. Its A1 Premium Aluminium frame with integrated headset gives serious performance at speed. Priced at £600 it's great value. *specialized.com*

6 THE SPENCER
Don't want to break into a sweat? Opt for a bike with power. The Spencer Ivy electric bike is fitted with a maintenance-free Panasonic motor that powers every turn of the pedal. With three levels of help you can choose how hard you want to work with the motor giving you that extra oomph when required. The battery lasts up to 50 miles before it needs recharging. At £ 1,795 it's expensive, but composure comes at a price. *spencerivy.com*

1

2

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5

6

AND THE GEAR TO INVEST IN

LUGGAGE
Ditch the backpack or courier bag and invest in panniers, a handlebar bag or seat-pack – your back will thank you for it. Altura, Topeak and Ortlieb are good quality.

SECURITY
Bikes are an obvious target for thieves so spend as much as you can on a heavy-duty lock for each wheel. Kryptonite, Abus and Trelock are popular.

LIGHTS
It's illegal to cycle at night without a front white light and a red rear light. LEDs are bright and easy to take on and off quickly.

Good online suppliers include wiggle.co.uk, sigmasport.co.uk and evanscycles.com

THE MEASURE

HOW TO FIND THE BEST IN BESPOKE SHOES

Manners make the man, but shoes can break the outfit. If you have the time, patience and the money, a pair of bespoke shoes can transform what you wear. But for those without the finances, the combination of tradition and tech means it's easier than ever to get beautiful, hand-crafted shoes

JOHN LOBB remains the epitome of bespoke, hand-crafted shoes. Part of global French fashion house Hermes, John Lobb only has one freestanding UK store (in Jermyn Street). It operates on the same traditional lines it always has, but as well as selling fully bespoke shoes (a pair of which can take months to make), it also sells a collection of ready-to-wear shoes for men and women. In addition, its "by request" service allows customers to enjoy a happy medium of designing their own shoes by ordering any style in almost any colour and material. *johnlobb.com*

Founded by American Nathan Brown, **LODGER** shoes was acquired by bespoke tailor Tony Lutwyche in 2010 and still operates somewhat confusingly under both brands. Lodger brought laser measuring techniques and a sharp sense of fashion to the stuffy world of handmade shoes. The London shop offers ready-to-wear and custom-made men's shoes and, thanks to the laser measurement service, always ensures the perfect fit. *lodgerfootwear.com*

BESPOKE ENGLAND offers a comprehensive made-to-order online service for men, with a wide range of styles. It also operates a small shop in Uppingham, Rutland, for those people who prefer the hands-on experience. *bespoke-england.co.uk*

TRICKERS offers a full off-the-shelf collection for men and women and as well as its London store, runs a mail-order service. It also offers a great made-to-order service that allows men and women to design shoes and get them made to an especially high standard. At Trickers you get the thrill of having something unique, without the expense of a fully bespoke shoe. *trickers.com*

Ever fancied being your own shoe designer? Well thanks to Australian women's online shoe outfit **SHOESOFPREY.COM** now you can. The site offers a number of basic styles – including the ubiquitous ballet flat, court shoe and gladiator sandal – that can be altered in a staggering number of ways. So if you've always fancied a pair of tiger-striped kitten heels with a purple flower on the front, now's the time to go get them. Expect to wait about five weeks for delivery. The best bit is that if you don't like what you create you can send them back. *shoesofprey.com*

Things we love this month Junya Watanabe's panelled cotton-piqué leather blazer; Ralph Lauren Purple Label striped shirt with contrast collar; Alice by Temperley Surya lace dress; Marc Jacobs croc-effect metallic leather iPad case

EAT LIKE A CAVEMAN

When the pressure is on at work, our diet is often the first thing to suffer. Fitness trainer **Greg Brookes** shares some advice on how to quickly and easily improve the way we fuel up by going back to basics

IKON

"Once you've experienced how great it feels, you may never want to go back to 21st century convenience eating"

Exercising for fat loss without a complementary nutritional programme is pointless. There are certain foods we have not evolved to handle, foods that stress our body and encourage fat storage.

Think about what our ancestors would have eaten 10,000 years ago. In terms of our genes, we haven't evolved at all since then – and most of us are less fit and healthy than the average hunter-gatherer. We may have a greater life expectancy – modern medicine and the lack of predators have seen to that. But if your aim is to live more healthily as well as longer, then take a leaf out of the early humans' recipe book.

I advise my clients to change the way they eat for 30 days. Just one month of avoiding certain foods and emphasising others can revolutionise your body. And once you've experienced how great it feels, you may never want to go back to 21st century convenience eating.

Before you put anything in your mouth think about how close it is to its natural state. Processed foods are likely to contain ingredients you wouldn't choose to eat. But if you have visions of surviving through all-night audit sessions on a lettuce leaf, don't worry. This is a sustainable nutrition plan that will never leave you feeling hungry. There's no counting calories or weighing out portions. Eat when you're hungry, but don't stuff yourself until you can't move. The only rule is you can't cheat. This programme is about detoxifying your body, so if you eat a banned food, you will put yourself back where you started.

These are the main foods you should avoid for 30 days if you want to change your body…

WHEAT
Toast tastes great, but our bodies haven't evolved to cope with wheat effectively. Many people have a sensitivity to wheat they aren't aware of, which could be causing bloating, depression, headaches and weight gain. And yes, wholewheat is just as bad.

SUGAR
This is the biggest cause of obesity. We eat far more than people did even 50 years ago. Remove all sugars from your diet and be wary of any ingredient ending in "ose" – it's a sugar, usually a highly-processed one. Fruit also introduces sugar into your system, so eat whole fruits not juices and limit yourself to a couple of pieces per day.

DAIRY
Many people are allergic to dairy because it's not designed for us to eat. While our ancestors may have had the occasional shot of raw milk, they didn't consume the amount of dairy we do. Any vital nutrients and digestive enzymes we might be able to draw from milk are destroyed by pasteurisation. Live yoghurt is the exception – the bacteria in it helps promote a healthy gut.

STIMULANTS
Caffeine, alcohol and tobacco all cause a stress response that releases adrenaline and the hormone cortisol, which results in fat storage. This includes green tea and cocoa. Drink plenty of water instead.

For more advice, go to Greg's website gbptmembers.com

MEAL IDEAS

BREAKFAST
Smoked salmon with scrambled eggs
Omelette with onions, mushrooms, peppers, leeks
Yoghurt with a buckwheat-based cereal and nuts

LUNCH AND DINNER
Beef chilli: fresh red chillies, red kidney beans, tomatoes, ground cumin, ground coriander, tomato puree, garlic, with brown rice or jacket potato
Stuffed chicken breast: pancetta (no additives), chestnut puree, with green beans, asparagus, sweet potato
Pork casserole: chopped apricots, tinned tomatoes, onion, garlic, with broccoli, new potatoes
Rack of lamb with braised red cabbage, cauliflower, peas, new potatoes
Baked sea bass with sugar snap peas, watercress, new potatoes, slice of fresh lemon

SOUPS
Butternut squash and sweet potato, with onion, cumin, garlic, water
Carrot, parsnip and coriander, with onion, garlic, ground coriander, water

SALADS
Nicoise: green beans, tuna, boiled egg, anchovies, fresh spinach
Chicken Caesar: romaine lettuce, chicken breast, anchovies, boiled egg, red onion
Bean salad: cannelloni, borlotti, chick peas, butterbeans, red onion, cucumber, tomato, iceberg lettuce, fresh coriander, parsley, chillies

SNACKS
Nuts, not roasted or salted
Fruit, the harder the better
Hard boiled eggs
Small tins of tuna

NEXT MONTH We look at yoga for fitness, flexibility, beating stress and generally feeling great

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FINANCIAL CONTROLLER

Susie Watson Designs

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GROUP FINANCIAL CONTROLLER
£150,000 + bonus to 45%
+ car + executive benefits London

Based in central London, my client is a high profile and significant global asset manager. Reflecting internal re-structuring the CFO seeks to appoint a senior Financial Controller. The duties will include the preparation of statutory accounts to IFRS , and the production of detailed board reports, whilst managing a small highly professional team of ten. Supporting a very busy CFO you will also have the opportunity to attend board and management meetings representing the finance function. Candidates should have previous experience of working at this level and posses the character and gravitas to work with highly influential and sophisticated senior exectives. *Ref 1868*

GROUP FINANCIAL CONTROLLER
£100,000 + bonus London

A well established, profitable and expanding hedge fund, with AUM of £1bn seeks to appoint an experienced Financial Controller. The position which reports to the Group CFO will be responsible for the full range of statutory and management reporting duties of an FSA regulated business. *Ref 1861*

OXBRIDGE
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For more information contact us at www.alexander-charles.co.uk

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Alexander Charles is proud to be named Financial Recruiter of the Year at the 2011 FD's Excellence Awards.

In Association with the ICAEW (Institute of Chartered Accountants England & Wales) and supported by the CBI, over 900 senior fi nancial decision makers voted in the awards with FD's awarding Alexander Charles record scores for both the quality of our service and our candidates. We were delighted that our skill as experienced accountants and our efforts to provide an unrivalled level of service had been noted and appreciated by our clients.

Congratulations to runners up Michael Page, Robert Half, Hays and Reed.

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LIFE AFTER WORK

LEARNING TO HELP

Retirement hasn't dulled Patrick St Leger's desire for knowledge. He talks to **Penelope Rance** about getting out then giving back

Ever since I've known Patrick he's been learning – both professional and life skills," says Merle St Leger, his wife of 47 years. "And he's used those skills to help a lot of people."

This is something of an understatement. Since retiring in 2003, Patrick St Leger has completed a degree, become an ambassador for the Chartered Accountants Benevolent Association (CABA), worked for TaxHelp and helped the Personal Finance Education Group (PFEG) teach young people about finance.

"Young people need a lot of help in this area," he laughs.

His degree was motivated by the death of his stepfather. "I left school at 16, and Father always wanted me to go to university. I'm proud of my BA (Open). Now I have more letters after my name than in it."

He left Haileybury College, Hertfordshire, with a prize for maths. "So I was told: 'Better be an accountant'." He is now a Life Member of ICAEW.

"But I never really loved accountancy," he admits. A varied career included time in the rarefied atmosphere of the Consolidated Diamond Mines in Namibia, working as a salesman for IBM, and being a financial adviser for Eagle Star.

"It was really sales," he recalls. "But I felt the key was to meet customers' needs, not to bang on about the products."

He later became an IFA. "I loved it, but I went down to three days a week because we wanted to do other things."

These include his charity work. He enjoys offering tax advice to TaxHelp's clients, who are over-65s on low incomes.

"It's outrageous what they have to bear. I'm proud of the fact that I now get referrals with people asking for me by name.

"I volunteered for CABA soon after retirement – they were very supportive of our daughter Bonnie, who was diabetic. CABA helped her as her condition deteriorated."

Bonnie's sight faded, she was hospitalised, endured the amputation of her left leg and dialysis, and finally underwent a double kidney and pancreas transplant on her 30th birthday.

"She was very feisty, and that's what kept her alive," recalls Patrick. "CABA helped her to live independently."

Bonnie died when she was just 37. "Now I'm spreading the word of what CABA does, such as debt management, benefits assistance, health support, careers advice and counselling.

"People think accountants are all rich, but they're as prone to tragedy as anyone."

But Patrick isn't doing his bit out of a sense of duty. He does it because he loves it. "We feel we've been very fortunate, and now we can help," he says. "It's a pleasure to do so."

"I'm proud of the fact that I now get referrals with people asking for me by name"

PATRICK'S CHARITIES

For more information on the work done by the volunteer organisations Patrick is involved in, go to:

caba.org.uk
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