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ON THE MOVE

How are companies maximising savings in the world of business travel?

April 2018 Issue 263

Negotiation lines

The announcement of the UK/EU agreement on the terms covering the transition period before the UK finally might leave the EU was met with tolerance, for the most part. Significant sacrifices were made to keep the EU on board and friendly.

This is an interesting lesson in negotiation; by announcing "red lines" over which the other party must not cross offers a great temptation for them to do exactly that. It might be analogous to a whist player showing their hand before the betting starts to show the strength of their position. These red lines became the focus of the whole negotiation and great concessions had to be made to protect them.

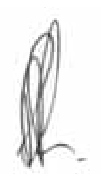
Hence, in the EU/UK terms of the transition period, Theresa May and David Davis lost control of fishing, supremacy of EU law and EU immigration in order to obtain the vital right to be able to negotiate with third parties on trade. Many in the cabinet are disappointed, but will tolerate this 21-month extension on the basis that, from January 2021, the UK would regain control of these areas.

Professors Adam Grant and Adam Galinsky have both written books on negotiating tactics (*Give and Take* and *Friend & Foe*, respectively). They believe that information sharing can be a good idea as it elicits trust in the other person. They believe, however, that any information passed over should be limited. Their second tip in terms of best practice is to rank your priorities – "rank ordering" – Grant's research shows that parties always achieve better outcomes by doing this. Some success may be achieved by sharing some of these with the other party. The third, and possibly the most important one, is to know your best outcome (target price) and your worst outcome (reservation price) and to be ready to walk out.

Their other three tips are to make the first offer, to counter offer and never to "low ball".

May's problem was not so much that she had painted herself into a corner by establishing her walkout terms beforehand, but by her own party letting the EU know that a material number of her own slim majority would not tolerate her walking out, thus undermining her position. At least you should not have to face that problem when negotiating!

We hope that you enjoy this month's edition. Please drop matthew.rideout@icaew.com or robert.russell@icaew.com an email if you have any questions or suggestions for the faculty.



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

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NEWS

BRANDS – THE TOP 10

The Centre for Brand Analysis issued its annual Superbrands survey results, ranking the top 20 B2B brands in the UK for 2018. The annual survey asks B2B marketing experts and 2,500 UK business professionals to rank brands in order of their impact and strength – here are the top 10.

GOOGLE'S SHOPPING LIST

Under a new development by Google, retailers can list their products on Google Search and Google Assistant on mobile phones and voice devices. Retailers pay Google a percentage of sales, and in return receive Google listings and linking to retailer loyalty programmes. Over the past two years, mobile searches asking where to buy products soared by 85%, says Daniel Alegre, Google's president for retail and shopping.

SPORT ON SOCIAL MEDIA

In an interesting move made before it was embroiled in controversy over the sharing of personal data, Facebook bought the exclusive broadcast rights to 25 Major League Baseball games in the US. It plans to stream them on Facebook Watch. Games will not be available to any other network. This follows Verizon's and Amazon's exclusive broadcasts of basketball and National Football League games last year.

£400bn

Value of global space economy

£1.6bn

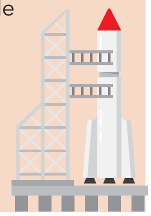
How much online card fraud cost EU member states in 2016

85%

The increase in mobile searches for products over a two-year period

UK IS IN THE SPACE RACE

Further to last month's news about new US legislation to simplify satellite launches, the UK Government's Space Industry Bill was given Royal Assent last month. This Bill will enable the creation of UK spaceports to launch satellites from UK territory. Currently no satellites can be launched from the UK, and the government is keen to increase the UK's share of the global space economy from 6.5% to 10% of the projected £400bn global space-enabled market by 2030. A number of sites have been earmarked as possible spaceport locations, including Glasgow Prestwick Airport, Campbeltown, Stornoway, Newquay and Llanbedr.



VIRTUAL ONLINE PAYMENTS

Revolut, a UK challenger bank, announced last month the launch of a new single-use virtual card to make online payments. The credit card exists only as a set of digits and once used, the number is invalidated and new details are emailed to the customer. The technology counters the risk of credit card theft. In 2016, online card fraud totalled £1.6bn across the EU with some 73% of this in the UK and France alone.

RISK MANAGEMENT FOR CRYPTOCURRENCY

At March's G20 in Argentina, policymakers agreed to 'monitor' cryptocurrencies. This came after the Financial Conduct Authority issued a licence to Coinbase despite money laundering fears. "Without uniformity of regulation on a global basis, businesses will struggle to manage the crime risk from cryptocurrency investments," said Michael Harris, financial crime director at LexisNexis.

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EVENTS
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E-LEARNING LECTURE

12 and 13 June – 90 minutes each, from £85

This three-hour e-learning lecture, split over two days and delivered by David Parmenter, will focus on the rapid production of business forecasts and plans. Annual planning, with its associated long-winded drama, is preventing you from being future-ready. Learn how to introduce rolling forecasting and budgeting to speed up the process.

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

WEBINARS
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FREE 20-MINUTE LUNCH WEBINARS

BREXIT UPDATE

2 May 12:30

All the salient facts with regard to Brexit. Nigel Hastilow will update us on the transition deal. We visit a regional breakfast meeting in Birmingham to gather FD opinions on the latest position.

To book a place, please visit icaew.com/lunchmay3

REDUCING THE RISK OF SUPPLY CHAIN FRAUD

10 May 12:30

The Kroll Global Fraud & Risk Report found that one in five businesses have been subject to supply chain fraud in the previous year. This type of fraud ranges from false invoices and manipulation of the supplier master file to bid rigging. Part of a series presented in conjunction with the Fraud Advisory Panel, it will run through steps you can take to reduce the likelihood of your business suffering supply chain fraud.

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

STATISTICS SKILLS IN EXCEL – SMOOTHING DATA (CALENDARISING)

29 May 12:30

Another in our Excel webinar series on the basics of using statistics, this time offering you practical steps on how to make the most of Excel functions and incorporate basic stats tools to improve reporting efficiency. Excel expert John Tennent talks us through the tools that can assist with removing externally caused variations in your data to eliminate seasonal fluctuations. No previous knowledge of statistics is required.

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

FREE 60-MINUTE MORNING WEBINARS

BUSINESS VAT UPDATE

24 April 10:00

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

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

ECONOMIC UPDATE

23 May 10:00

Dr Stephen Davies, head of education at the Institute of Economic Affairs (IEA), is back by popular demand. He presents on the state of the UK economy halfway through 2018. Stephen will cover growth and employment, while also looking at the state of UK public finances.

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

ECONOMIC UPDATE AND AGM

15 May 2018 18:00
Chartered Accountants' Hall, Moorgate Place, London

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

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WHEEL OF PROGRESS

There are concerns over the safety of self-driving cars, but the positives of adopting autonomous technology may outweigh the negatives

We can now add 49-year-old Elaine Herzberg to the names of Bridget Driscoll and Mary Ward. It's a grim, if largely unknown, list. The first two were respectively the first pedestrian and passenger to be killed by a car, while Herzberg was identified last month as the first pedestrian to be killed in a collision with a car in autonomous mode.

A previous incident involving a Tesla colliding with a truck while in autonomous mode saw the "driver" killed. This is a tragedy for Herzberg's family and friends. But is it any more or less tragic than the near 6,000 or so pedestrian deaths likely to occur on American roads this year? And is it distinct from the 1.3 million people who die in road crashes around the world every year (figures topped 40,000 in the US in 2017)?

Cars have come a long way since 1896, when being hit at 4mph was enough to kill Bridget Driscoll. Safety improvements, as well as an improvement in trauma care, mean that current estimates suggest that 95% of people survive a collision at 20mph, while at that speed 30% walk away with minor or no injuries at all. But if cars have improved, global road fatalities suggest relying on humans as drivers hasn't been an unqualified safety success to date.

While any death on the road should be taken seriously and lead to a review of rules and regulations, 1.3 million reviews a year is not feasible. But in the area of autonomous, self-driving vehicles, it makes sense to stop and review what this latest incident means. But it should not (and will not) be the end of the self-driving car.

In the same way that Bridget Driscoll's death led to an inquiry (a witness at that inquest described the car moving "at a terrific speed, as fast as a good horse"), it is unlikely that the tech giants behind the new wave of automation will move on from this event without some serious reflection on how far and how quickly we allow cars to "think" for themselves. It is all the more serious to reflect given how tantalising the prospect is of removing humans from behind the wheel in business situations (cost savings, notably in haulage, being a motivating factor).

Cars with no steering wheels or pedals bring potential new ways for businesses to maximise productivity while reducing spend

Incremental automation has been a fact of life since mechanisation replaced that "good horse" with the motorcar. Even fairly low-spec cars feature surprisingly high levels of automation such as dipping headlights, selecting gears and some form of cruise control. More sophisticated cars feature technology to maintain distance between a car and the ones in front and behind, lane assist functionality to keep a car within one lane, and intelligent cruise control. A demonstration of Audi technology last year showed a complex display of technologies including self-driving cars that were smart enough to interact with one another and with local infrastructure, avoid obstacles in the road and locate the nearest parking space. Admittedly, one car hit another as it attempted to park itself in testing.

As arguments continue to rage about whether autonomous cars are better or worse for safety than human-controlled equivalents, the rise of self-driving vehicles is inevitable if not always seen as desirable. For years, the concept cars displayed at annual car shows have indicated customers will not necessarily be drivers. Cars that double as offices, with fully flexible seats and no steering wheels or pedals predominate – bringing potential new ways for businesses to maximise productivity while reducing spend.

So the real question is not whether self-driving cars are the future, but rather how we can accommodate their testing in real-world situations. The awkward truth is that cars today are as safe as they are because of the mistakes of the past. Let's hope the smart folks running those tech giants can arrive at a more effective testing solution before Herzberg's name is forgotten. ●

BEYOND THE EGO

What happens to people in finance when they learn to channel their cognitive skills in leadership? You end up with what **John Knights** calls 'transpersonal leaders'

Whether your goal is to be the chief executive of a major corporation, the chief financial officer of an entrepreneurial business or you are happy to let your career emerge, every chartered accountant can benefit from becoming a better leader. We are all born with certain innate abilities, the combination of which is personal to us, but we can build on our strengths and improve weaker areas by learning to take control of rewiring our own brains.

That might sound mind blowing, but rewiring of our neural circuits happens every minute of every day. It's just that much of the time we are not in control of it. We tend to react to our environment and our experiences rather than pro-actively helping our neural cell structures reconfigure in a way that is most positive for our lives and our future.

For example, when we learn to swim, play tennis or learn a foreign language we receive instruction, trying to reach our potential. We rewire our brains all the time.

The same cannot be said of leadership. Most leadership training is limited to business skills and strategic leadership with the emphasis on what we need to do rather than how we need to do it. Often when I ask people what the greatest thing was about a previous leadership course they attended, they will say networking – which is very important but is not the main purpose of the training.

In addition, the requirements to become a very good (let alone excellent) leader in the 21st century have fundamentally changed over the past 20 years. Traditionally, self-confidence, assertiveness, influence and achievement came to mind when we thought of leadership characteristics. These are still important, but unless the individual has developed the right behaviours and has appropriate core values to go along with them, their characteristics easily become arrogance, aggression, manipulation, ruthlessness and obsession with control.

In the past, leaders could get away with these regressive characteristics. Although they are still seen today, tomorrow's followers will resist them more strongly. Various studies show that millennials and generation Z demonstrate "fairness, ethical behaviour and ability to make a difference" ahead of career opportunity as such, so are not motivated to put up with the bad behaviour of such leaders.

As business leaders ourselves who have worked with chief executives for close to two decades, we have developed a leadership journey. Leaders develop at three levels, which are neither linear nor sequential and may develop in parallel.

THE THREE LEVELS

The first level, which we refer to as the 'launch', is development using our rational brain, which includes learning business skills and processes and strategic leadership. We call this the first level because it is the easiest for anyone with a reasonable IQ to learn, and we have been taught to think rationally all our lives, so we have had lots of practice. It is basically what we learn at business school or during training to become an accountant.

And while this is an essential step in becoming a good leader, by itself it is not sufficient. We refer to this stage using the acronym REAL – rational, ego-based, as usual leadership – as individuals are still leading based on their default instincts and individual ambitions.

The second level, 'intermediate', is about increasing our awareness – especially awareness of our emotions and the emotions of others. Increasing our awareness allows us to be more comfortable with who we are. In turn, this enables us to demonstrate more empathy and to be more considerate of others. In essence it helps us behave in a way that will engage others, help them to stay or become motivated and as a result improve performance. Using the acronym REAL again, we refer to the completion of this intermediate level as robust emotionally aware leadership.

The intermediate level is not easy. For example, as an engineer it took me years to develop my empathy to a reasonable level. It required me not only to listen attentively, but also to understand what was behind people's views and keep an open mind to genuine change. I had to learn to let people know I was listening and understood them, which our research has shown is the most common developmental need of leaders. We each have our own individual development needs so for you it might be the need to develop your initiative, how you help to develop the people around you, controlling your emotions, focusing more on achievement or being inspirational. Whatever they are, you will need to learn how to make those behavioural changes.

The third level, referred to as 'advanced', requires us to bring our values to full consciousness so that everything we do is ethical, and we manage our ego so that we are in the service of others rather than just ourselves. As a leader of an organisation, this means working for the benefit of all its stakeholders – customers, employees, suppliers, shareholders, the community, the planet and so on. Using REAL again, these leaders are radical, ethical, authentic leaders. This requires, among other values, courage, humility and integrity.

For some, the intermediate level is the most difficult to achieve, but it is essential because without learning the right behaviours there is no chance that values can turn into action. We have noted that many leaders who are both intellectual and have good basic values are let down by their poor behaviours. I recall the CEO of a major insurance company who was very keen to run a leadership programme for his senior staff and wanted it to result in a better attitude towards customers and the community. But when he spoke to the HR director it was as if he was speaking to a servant.

The advanced journey of bringing our values to full consciousness also requires a concerted effort. It is so easy to just get on with the day job and make decisions that are focused on short-term commercial benefits. We need to develop the courage and resilience to check every decision against whether it upholds our personal core values. Of course, as imperfect humans we never reach the final destination of this leadership journey. But as long as we know the direction we can always work on improving ourselves. We call these leaders 'transpersonal leaders' who operate beyond their ego, continue personal development and are radical, ethical and authentic, while emotionally intelligent and caring.

To help you operate as a transpersonal leader, we suggest everyone develops a personal touchstone with which to check both core values and transpersonal qualities to ensure you are making the right transpersonal decisions. In the example (left), I have included what I consider to be important core values.

So what values will you have in your personal touchstone? Prepare your own and then try consulting it when you next have a difficult decision to make. ●

EXAMPLE TOUCHSTONE

EXAMPLE VALUES:

- INTEGRITY
- FAIRNESS
- HUMILITY
- ALTRUISTIC LOVE
- COURAGE
- RESILIENCE

TRANSPERSONAL QUALITIES:

- CARING
- RADICAL
- ETHICAL
- AUTHENTIC
- SUSTAINABLE
- EMOTIONALLY INTELLIGENT
- PERFORMANCE-ENHANCING

MARK AIRS/IKON

John Knights, chairman, LeaderShape Global and lead author of *Leading Beyond the Ego*

COME FLY WITH ME

Business travel is a £1trn industry and companies of all sizes are opting for an increasingly smart approach in order to maximise savings, finds Christian Annesley

Back in 1985, David McMurtry and Allen Roberts of the Gloucestershire engineering business Renishaw were taking an important business trip to Tel Aviv. On the plane, they begin talking to a fellow passenger.

Somewhere over the course of the friendly discussion, the cost of the flight comes up, and for our otherwise contented pair, it's not good news. Why? It turns out their fellow business traveller's ticket cost dramatically less than theirs.

Some may forget such an incident or look into airline booking options more thoroughly next time around. These two decide to go much further.

Back at Renishaw's Cotswolds HQ in Wotton-Under-Edge, the pair resolve to get a better handle on their business travel costs. They end up creating a separate travel company, owned by Renishaw and with the parent company as its first and, initially, only customer.

Their rationale is that Renishaw exports 95% of all its products, creating a lot of air miles, taxis and hotel stays in the process.

MEET WOTTON TRAVEL

In 1986, Wotton Travel (WTL) was born. More than three decades later, the company spawned at 30,000 feet is an outfit that offers a dozen headline travel services, as well as analytics and advice for the most demanding companies or individuals.

WTL director Wendy Walker, who joined two years after the business was created, says Renishaw is still WTL's biggest client, and everything the travel management company has learned since is rooted in its core purpose of serving Renishaw.

"The aspiration was always to systematise making business-travel as cost-effective and fair as possible, and that has carried us forward down the years. Renishaw has a strict business travel policy in place for its 4,200 staff, but it's a generous one, too. For example, if a flight is more than eight hours' long, it gets booked as premium economy, while car hire is group C as standard. There is not much deviation from the policy – only in exceptional circumstances – but there doesn't need to be. Renishaw's people are being treated well, and we've worked out all the nuances through incremental learning."

But why create a separate business in the first place? "I suppose it's a question of scale," suggests Walker. "If you are going to create an outfit with enough initial business to sustain a small commercial operation, why not create a commercial operation? That way, any profits we make are folded back into the business and we can leverage all we know for others and for commercial benefit. Plus, it's not like our operation

and our relationships with other companies have any bearing on Renishaw as a business. So we might as well pass on the learning and the savings and make some money en route."

These days, business travel is a global industry estimated to be worth something approaching £1trn, so the scale that Walker talks about in relation to Renishaw is also there to be seen wherever you look.

"There are very sophisticated systems that we use that integrate seamlessly with Renishaw. This industry really does run on powerful cloud platforms today, because it's worth investing in the systems to create savings that matter – whether through finding the best prices or through paperwork-slashing automation."

WTL runs its business using back-end travel management software from Dolphin Dynamics, which integrates with Renishaw's finance function for easy or automated approvals.

Walker adds: "Renishaw itself has SAP Concur for its travel, expense and invoice processes, which we connect with through an API, but WTL is effectively Renishaw's online booking tool. The parameters are all set up in line with the company's policies, and everything follows on like clockwork."

Are there any other advantages to being owned by Renishaw? She adds: "Well, the obvious one – our number-one, rock-solid client will never give us notice because they own us. That's quite reassuring."

ECOSURETY'S VALUES PACT

If Renishaw sits at one end of the corporate and systems scale as a large company, with its big headcount and a turnover topping £500m, some way further down the spectrum lies the waste and resource management business Ecosurety. It has a headcount of just 35, generating turnover of more than £10m, and is based on the northern fringes of Bristol.

HR director Luke Hutchison is overseeing the finance function at Ecosurety while its FD is on maternity leave, and says the company has recently taken a different tack with its policies for staff – and it's paying off.

"We have clients and operations around the country, so there is a fair amount of travel in the mix, but the administration is simpler now than ever and is a real saving. Seven months ago, we overhauled our policies and stripped out lots of rules and process. In their place, we've distilled what we expect of workers down to 15 core company behaviours. If staff stick to those, and the values that sit behind them, they are acting within policy."

If that sounds a bit like Google's 'don't be evil' corporate code, Hutchison says it's more tangible than that. "We have recognition and rewards sessions regularly that celebrate when individuals have embodied a value or action in their behaviour, which helps to bring home to everyone what we are about."

In travel terms, the green-minded company has a few codes too, prioritising public transport over car mileage and paying more for it if necessary.

"Partly this is about encouraging staff to work while travelling. We'll pay for first-class rail for staff if it makes sense for getting things done, for example. But we aren't monitoring the detail. Creating administration by making staff account for everything when it comes to business travel is not what we want."

Hutchison admits that the laissez-faire system Ecosurety has adopted is potentially open to abuse, but says the culture in the business, and the people it attracts in the first place, makes this a non-issue – or close to one.

"Trust in people is our code. We encourage flexible working and working from home, because that's the right thing to do and cuts travel. But we don't want to monitor things too much. Staff set objectives and are then expected to meet them. If that means business travel, it's a considered decision, and the individual is free to make the necessary plans, whether that's booking out our all-electric BMW pool car or making arrangements to go to a big-ticket conference."

ECOSURETY HAS A FEW CODES TOO, PRIORITISING PUBLIC TRANSPORT OVER CAR MILEAGE AND PAYING MORE FOR IT IF NECESSARY

What Ecosurety lacks when it comes to travel bookings is a system for ensuring the best prices and proper scrutiny of the travel marketplace for cost and quality. But Hutchison says a relatively small business-travel budget doesn't quite justify adopting advanced systems and scrutiny.

"Bookings are fairly ad hoc. We aren't optimised to get the best prices in the marketplace, or encouraging staff to time their bookings to secure the likeliest savings, but it's a question of priorities. If travel spend starts to rise as a proportion of overall spend, we might have to revisit our approach."

SYSTEMS, CONTROL, CHOICE

For FDs of companies of scale with a big, complex travel spend, having a system to manage costs isn't on the wishlist – it's usually essential.

There are different ways of approaching the challenge, as Renishaw's example shows. But Julie Oliver, MD of travel management company Business Travel Direct, which provides an outsourced travel service to companies, says the service can usually deliver for those with multiple travellers, in multiple destinations, and a large annual spend. "We use SAP

CASE STUDY

Agylia mixes business and pleasure

Many companies have just a handful of staff that travel overseas regularly, and often on regular routes, to manage longstanding overseas clients or because only one or two country markets are important.

Agylia, an e-learning business, is one such company. It does regular work with Microsoft and certain staff members travel to the tech giant's Seattle offices regularly. It also does business in a few other locations, some of which come with extra risks attached, like Russia, Libya and Lebanon.

"It's a mix of travel needs that is particular to us, and it has bred a particular approach," says Graham Papworth, Agylia's finance and HR director.

"For one thing, that question of whether to travel at all is front of mind for some risky locations. Is there another option or is face-to-face essential? If so,

what does the itinerary look like and how should we plan to minimise any potential issues?"

Papworth says this way of thinking sometimes leads the company to suggest clients come to them, which is better received than you might expect.

"We have had situations where the clients themselves are spread out across several offices, and London is a hub for global travel, so you can make a decent case for a UK rendezvous."

WebEx and other virtual meeting options are also well-used by Agylia for follow-up meetings once business is established, with all the time and cost savings that flow from that.

And what about those staff travelling regularly to familiar locations, whether longstanding client offices or to regular conference locations, say?

"Here we've been quite creative," says Papworth. "Like many small businesses, we aren't particularly systems-driven around business travel, but we have gained a lot of experience about how to get the best options for the regular routes we travel. One thing we've discovered is that booking end-of-week flights at the right time, sometimes coupled with choosing less obvious routes with stopovers, can equate to huge savings. So some of our staff are used to now travelling out for a Monday meeting on the Friday, and having a weekend of fun on the business thrown in. It's a nice perk and often delivers a big saving, as well as ensuring some of our key people are in better shape come the Monday to dive straight into the action."

Concur, and there's a lot we can leverage and monitor from end to end on each trip – in-trip expenses managment, total trip costs, and so on."

With the power of controls in place to match a company's travel and expenses policy, Oliver says in practice companies take different approaches.

"Some are tight and prescriptive; others empower staff and keep the systems control element more relaxed. We consult in detail and aim to get the balance just right – and it can be tweaked if needed."

What's powerful about the approach, says Oliver, is that not only does the budget-holder have real, detailed visibility of trips, but lots of economies can be leveraged behind the scenes, like booking flights and hotel rooms at the optimum time for best value, for example.

"For the traveller, there's also the reassurance from travel-tracking tools. We can support with communications like reminders on meal policy or health and safety guidance or a map to get to somewhere in a city they don't know."

So, who in an organisation does Business Travel Direct typically engage with on its contracts? "Not so long ago, we were more likely to engage with procurement," says Oliver. "But now it's more common that it's a mix of HR and finance. With the savings that flow from automated processes, consolidation and other back-office savings, we like it when finance is involved because they appreciate the benefits."

But still, as Oliver and as Adam Reynolds, managing director of Webexpenses, also emphasises, it's never just about the savings.

"You want a system that brings visibility, is equitable, and has the capacity for review. That need for fairness is so important for morale. Companies need to acknowledge how those travelling for the business are often doing so out of hours, with early starts and late nights. There may be some perks, sure, but it's still a big commitment and you need to treat people right," says Reynolds.

Yes, you need to think about fraud risks, says Reynolds, and whether people might be able to play the system, but the policies a company applies still need to be fair and human. "In fact, it's if employees see they system as fundamentally not fair that the processes are most likely be manipulated.

"The organisations that are adaptable about travel, and alive to what matters to their travelling staff, are those that do it best of all." ●

FIVE WAYS BUSINESS TRAVEL MANAGEMENT IS EVOLVING, ACCORDING TO TRAVELPERK

1 Employees are booking their own travel
Not every single booking and decision needs to come from an office manager or administrator. Self-service is gaining ground.

2 Policy is embedded in the booking process
More and more companies understand that by embedding travel policy into the booking process, companies can remove time-consuming approval steps to ensure compliance every time.

3 Paper receipts are disappearing from the travel trail
With today's tech, employees still collecting piles of paper receipts are a vanishing breed. More than ever, it's possible to incorporate a digital expense system into a travel policy for one-click reimbursement.

4 Data analytics is here
More and more finance directors are demanding visibility of travel spending patterns in order to identify problems, optimise policies and streamline spending. Travel management with data gathering built in can enable analytics to drive informed decisions and updated policies. If a company needs average hotel or transport costs for the top cities its staff visit, that kind of analysis is simpler than ever to pull out.

5 The sharing economy is moving mainstream, even for business
Companies have been slow to engage with the sharing economy and the benefits it can offer their employees on business trips, but that's changing, with services like AirBnB now more commonplace.

By Gideon Pridor, VP of marketing at TravelPerk

TAXING MOMENTS

Businesses will need to be prepared for some significant issues concerning VAT. **Neil Warren** provides an update

There are changes afoot for VAT after a quiet period. A couple of major considerations loom, including Making Digital Tax (MTD) for VAT returns and VAT issues surrounding Brexit. As far as Brexit is concerned, there are no clear outcomes, so I will not comment on the issue here.

In this roundup, I will discuss an announcement from the Autumn Budget, which is more significant than many business owners may realise – the freezing of the VAT registration threshold. Additionally, there's the outcome of two taxpayer wins in the First-tier Tribunal (FTT) on the very practical topics of partial exemption and business splitting.

DIGITAL RETURNS

Making Tax Digital (MTD) comes into effect on 1 April 2019, and will mean a significant change in procedures for all VAT-registered UK businesses that trade above the registration threshold, ie, annual sales subject to VAT (including zero-rated sales) exceeding £85,000.

MTD means that businesses must keep certain information in a digital format (referred to as the 'electronic account' in the draft regulations) and must also submit digital VAT returns for each period.

The change will take effect from the beginning of the first VAT period on or after 1 April 2019, so this would be June 2019 for a business that is submitting calendar quarter returns.

In reality, MTD is all about the software used by businesses in order to complete their VAT returns. The relevant information about sales and purchases in the electronic account of a business must be kept in "functional compatible software". This means a software program that

Software must allow for information to be recorded in electronic form, which will send and receive information to or from HMRC

allows for information to be recorded in an electronic form, which will send and receive information to or from HMRC using the API platform, including API-enabled spreadsheets. It is possible to use more than one software program, but there must be a digital link between them.

The information kept in the electronic account will include basic details of the business (name, address, VAT registration number, etc), and also details about sales and purchases made by the business with a breakdown between the different VAT rates. A VAT account is the audit trail that shows the total VAT payable and reclaimable for the period in question, including any adjustments (for example, previous errors) – this must also be retained.

The good news, however, is that if a business is registered for VAT but trades below the annual £85,000 limit, then it does not need to get involved with MTD (for example, if a business is registered for VAT on a voluntary basis).

FREEZING THE VAT REGISTRATION THRESHOLD

There were strong rumours (which later turned out to be false flags) before the budget that the VAT threshold would be reduced to £26,000 from the current level of £85,000. But the threshold will remain frozen at its current level until at least 2020. And I believe that the announcement will have massive ramifications.

To give a practical example: think of a business owner called Jack, who sells hot food as a mobile caterer with annual sales of £83,000. He is not VAT registered, and doesn't want to be registered because most of his costs and overheads do not attract VAT (in this case, zero-rated food purchases and exempt rent for his pitch). His customers are the general public, who can't reclaim VAT on what they buy from him.

Jack will normally increase his prices on 1 April, which is the date when the VAT registration threshold has traditionally been increased in line with inflation.

We now know that the VAT increase won't happen in 2018 or 2019. My guess is that the threshold won't be increased in 2020 or 2021 either. In fact, I suspect that the threshold could be frozen at £85,000 for many years.

If inflation is still 3% next April, Jack would like to increase his prices by this percentage. This would mean his total income would be increased to £85,490 in the next 12 months, all other things being equal.

Based on this turnover, he would need to register for VAT at some time in early 2019. The challenge for advisers is to work closely with each client that trades near the VAT registration threshold and to consider possible solutions (taking more holidays, reducing costs), so that sales can be reduced without affecting bottom line profits... or perhaps just taking the plunge and registering anyway?

Another likely outcome of the registration threshold being frozen is that many business owners might have ideas about splitting their business into separate legal entities.

The classic case example of this is the husband running the bar in a pub (VAT registered) and the wife operating the food sales and trading below the registration threshold.

The first of my tribunal cases, on the next page, considers a business-splitting case that was won by the taxpayer against the odds.

£85K

The threshold below which a business is not liable for VAT may continue until April 2020

Neil Warren, CTA (Fellow) FMAAT ATT, VAT consultant and author

GETTY

VAT TRIBUNAL CASES

Business-splitting success for hairdressers

Graham and Christine Belcher (TC5891) traded as a barbershop and hairdressing salon from their home, ostensibly as two sole trader activities. But HMRC registered them for VAT as a partnership on 1 January 2006, on the basis that the combined turnover of the two businesses exceeded the registration threshold on 30 November 2015. The Belchers claimed they traded as independent sole traders, with the turnover of each entity being less than the threshold.

The Belchers completed a partnership self-assessment tax return each year; they also had one trading name (Crewe Cuts) and common trading premises; their accountant produced one set of accounts in the name of the partnership. They had only one business bank account, a single insurance policy and one music licence covering both businesses. Suppliers dealt with the Belchers as a single entity and there was only one telephone line, which served them both.

Mrs Belcher maintained from day one of the HMRC enquiry that she and her husband traded independently as sole traders.

- There were separate tills, and expenses were paid from the respective tills for that part of the business only.
- The hiring and firing of staff was done independently.
- She told the tribunal that if either business was sold, this would be the sole decision of the owner for that part of the business and not a joint decision.

Tribunal decision

The tribunal noted that there had been "no conscious intention to run a single business in partnership" (para 66). Overall, it was satisfied that there were two businesses despite factors such as the single trading name and self-assessment tax returns being submitted as a partnership.

So, the learning point from this case is that it gives some scope to negotiate with HMRC if they come knocking at the door with similar challenges, although the main objective for any adviser should be to create total independence as soon as trading starts.

Partial exemption – allocating input tax to the correct category

The FTT ruled that London's international tennis club Queens Club Ltd (TC6119) could fully claim input tax on the costs of renovating a café. There was no link with exempt supplies of tennis membership fees. The club is recognised as a world-class tennis facility, and this is significant because the taxpayer claimed (and the court agreed) that members and potential members were only interested in the tennis facilities when they paid their annual membership fee (exempt from VAT). They were not attracted by the catering or bar facilities.

Two differing outcomes

The club decided that the cost of upgrading the café to a restaurant was wholly relevant to taxable supplies of food and drink sold to members and their guests using the facility, so there was no input tax block needed with partial exemption. HMRC concluded that the costs were "residual" for input tax purposes (ie, partly relevant to the exempt membership fees of tennis players) because the restaurant is a benefit of membership. Residual input tax can only be partly claimed, usually based on income percentages using the standard method of calculation (VAT Notice 706, section 4). But the taxpayer's argument won the day.

The outcome of this case appeared to contradict a similar case from a couple of years ago when both HMRC and the courts concluded that the bar at Bedale Golf Club (TC4619) was a benefit of paying membership, and therefore input tax on bar overhead costs was residual. This difference highlights the important point that each case is fact sensitive and it all depends on the actual use of the expense as far as partial exemption is concerned. Bedale is a local club where members are attracted by the whole package of benefits, but it is only about the tennis at Queens, a very different business model. ●

Are the Big Four too big?

The collapse of building and services business Carillion has again shone a spotlight on the audit market and whether or not it is fit for purpose. With a combined revenue of $134bn in 2017, according to Statista, is the dominance of the Big Four having a negative effect? Until now, there has been consensus that the answer to market choice is not to break but to build. But when even the Financial Reporting Council (FRC) breaks that consensus, we need to look at why. Is it time to consider breaking up the Big Four, or separating audit from non-audit firms? As politicians and regulators mull over such questions, we asked a range of experts to weigh up the pros and cons

The numbers on Big Four revenues may have little relevance to the daily lives of many *Business & Management* readers. But they underline the enormous size and power of these four firms. Clearly their size is one reason they are able to offer the wide range of services they do. They are able to draw on deep reserves of expertise and technology, as well as huge global networks of talent.

But at the top end of the audit market, the largest businesses (officially described as public interest entities – PIEs) have little choice but to use one of the Big Four to conduct their audit. That limited choice has long been a source of frustration for some, although the firms highlight a review by the Competition and Markets Authority and new limits on the length of tenure and non-audit services.

Since everyone agrees that there isn't enough competition or choice, and that the market structure must change, the question is surely not, "why do the Big Four have so many PIEs?" but, "what is putting other large firms off?". It is removing such barriers to entry that the FRC would be better focused on addressing.

But there is no shortage of critics who cite the risk of cartel behaviour. Research from The Maturity Institute published in autumn 2017 called the Big Four a "cartel-like group". Nor do these firms always deliver an immaculate service. It is inevitable that there will be errors and questionable performance by auditors.

But even if all the criticisms are unjustified, the power of the Big Four might have negative effects on other firms by hogging market share, vacuuming up talent within the audit industry and through the disproportionate influence they have on the nature of regulation.

Michael Izza's blog on this subject is available at tinyurl.com/BAM-Izza

Atul Shah

professor of accounting and finance at the University of Suffolk

"The size of the Big Four is hugely damaging for the economy and society. In the old days there was pride in professionalism, there was a separation between audit and consultancy. Now, the ethics of the Big Four are purely commercial. That brings a certain culture and it compromises their independence, their ethics and their integrity.

"When you have a huge commercial bank as a client, the chances are that some of their clients will also be your clients. So you are inviting the possibility of huge conflicts of interest. Government is a client of the Big Four; but they're also advising corporates on how to minimise taxes. So they are selling services to government and minimising revenues to government. How is that sustainable?

"The fact they are advisers to government and the fact that they hire ex-ministers after they leave government gives the Big Four huge influence. They are so big and powerful that they can capture the regulatory process. I think auditing needs to be taken out of the private sector. We have examples of public auditing that works, like the National Audit Office.

"If you were to separate audit from other activities and you required audit firms not to be profit-maximising, to be totally separate and not afraid of challenging the client and being sceptical, that would be a worthwhile reform.

"Some of the smaller [accountancy/audit] firms are upset about the dominance of the Big Four. They are upset about the huge increase in regulation that they face and the costs associated with that. They are upset that their voice is not heard in the industry.

"All of this is extremely dangerous, in terms of the integrity of the profession and the future of the profession."

Hywell Ball

assurance managing partner for the UK and Ireland and head of UK audit at EY

"The external lenses on quality are the FRC inspection results, ongoing FRC investigations and things like company failures. From EY's perspective, our quality has been steadily improving in recent years. If you look at those two lenses and try to link the size of the firm to audit quality, it doesn't add up. The size of the firm allows us to have the specialist services we need to do a high-quality audit.

"Having gone through lots of tenders, I can tell you competition is incredibly fierce, due to the amount of innovation firms are throwing at tenders. We're investing in technology to support our methodologies. You're also starting to see techniques using big data to get better insight and test things we haven't tested before, such as culture.

"There is a point to be made about choice at the top end. That is partly driven by regulation: rotation means you put the incumbent out of it and firms are often conflicted because of other work they have done in the year before the appointment. Sometimes companies want a particular firm to do their tax work and not be their auditor.

"More firms at the top end of the audit market would increase choice, but it would not necessarily allow audit firms to invest in innovation as we are today. We do audits for smaller firms, too. We use the same audit methodology for a small or a large business. We might have some simplified approaches to methodology if the company isn't listed, but it's the same work and the same technology, including use of robotics and other innovations.

"We share across the profession with ICAEW and the FRC; so it is quite a collaborative environment. When you're having a regulatory inspection it doesn't feel like you have a lot of lobbying power. I can't see evidence we are abusing our power. It feels like we're quite a heavily regulated profession."

Bill Michael

managing partner, KPMG

"The challenge of managing conflicts of interest has increased. We are more sophisticated at looking at them. If you look at the proliferation of services in the profession, the challenge of managing conflicts has increased. But the lens is changing. To give you an example, 25 years ago it was common for audit partners to go and work for their clients. If you said today you were going to do that, people would think you were mad.

"Audit is core to our business and critical to our brand and what we do. But there is still an expectation. This gap was an issue in the 1980s when I was studying. It is the difference between what an audit is and what it is perceived to be. We have spent 30 years trying to reduce it, but the gap is bigger than ever. I am passionate about reducing that gap and asking what it means for the future of audit.

"The environment we work in has to change. The profession has to change and regulation has to change. As to splitting up the Big Four, there are strong arguments as to why a multidisciplinary firm is good for clients and social outcomes. At the same time managing conflicts is harder and in a mandatory audit environment, with increased regulation and a world of increasing risk and more conflicts, I can see there might be a need for us to re-evaluate our business models.

"At the extreme you get investors who claim the minute you take any fee from a client you can never be independent. If you start with that, you end up with government doing all audits. But if you believe in capitalism and moral hazard, where you are accountable for your actions and get punished if you don't get things right, you wouldn't get this in a government-run audit. If business is being trusted less than ever, then so is government right now. And you wouldn't come up with a better outcome."

Scott Knight

head of audit and assurance at BDO

"Trust and competition in the audit market has once again become a hot topic in the UK. The idea that the size of an audit firm is a proxy for quality is clearly not a valid concept.

"Mid-tier firms certainly have the capability to audit the larger, FTSE businesses. It's an attractive move for those bold enough to make it; not simply as a result of increasing public scrutiny of larger auditors but because of the ability to make every client feel like number one, which is crucial during times where change is constant and profound.

"At BDO we continue to be invited to pitch for an increasing number of larger audits, but mid- and smaller-tier firms shouldn't just be there to make up numbers. Where there is a fair fight – as with our recent success with FTSE 250 firm Mitie – we can go toe-to-toe.

"With lack of trust in big firms set to remain under the media's microscope, audit committees are becoming even more sophisticated in their procurement models and a rise in conflict work is having a positive impact for our business. We audit more listed clients than EY and have the fastest growth rate over the last few years compared with our larger competitors.

"While new reforms and regulations are a step in the right direction, real change to open up the market won't come overnight. Responsibility also lies with individual participants, with audit committee members, CFOs, CEOs and investors, to think about what market structure UK Plc needs and ensure that they are opening their doors to firms beyond the Big Four."

Stephen Griggs

managing partner of audit and risk advisory, Deloitte

"Deloitte signs 15,000 audits in the UK each year and our 4,000 audit professionals are dedicated to delivering the high quality work that underpins trust and confidence in the capital markets. But we recognise that there is an expectation gap between what an audit does and what people think it should do. This gap is significant and it needs auditors, investors, regulators, standard setters and the wider public to work together to better understand the causes of this gap and find solutions to close it. We are supportive of such a debate.

"We do not believe there is a case for breaking up one or more of the firms. The quality of our audit is improved by being able to access specialist resources that sit outside of our audit business – for example within data analytics or tax. By bringing a broad range of skills and expertise to audit engagements we are better able to service the needs of investors, audit committees, regulators and the markets as a whole. A break-up would be to the detriment of capital markets."

"Real change to open up the market won't come overnight. Responsibility also lies with audit committees, CFOs, CEOs and investors"

Richard Murphy

professor of practice in international political economy, City University, and director of Tax Research UK

"Is there a market at the top end for audit, when there are so few firms? The options on who you can appoint to carry out an audit are very limited, so at the top end I would say there are real questions about whether there is a market at all.

"The Big Four dominate the thinking of the profession with regard to audit and the regulatory environment around audit. They so dominate the market with regard to lobbying on tax and other regulatory issues that the voices of other firms and interests tend to be ignored. That's very dangerous.

"Research suggests that large businesses are often not the most innovative businesses – in some ways they are too big to be innovative. To some extent that's true in the audit market. The Big Four retrench to what they know to maintain their market share and their earnings.

"I believe that the power of the Big Four is bad for the business environment. Audit is fundamental for the concept of capitalism as we know it. If the confidence of investors and markets is critical to make modern capitalism work, then the quality of financial reporting we have today is not good enough. There is a need for change.

"Does that mean we need to have a rule for large companies that means there is a separation of audit from all other services? Ultimately, I think it does. The idea that there is a market in audit is breaking down. It is a regulatory function that is too important to capitalism to be left to the market. I know that sounds strange, but the referee can't be paid by the players."

REFLECTIONS ON STRATEGY

The faculty's **Rick Payne** chaired a panel at the American Accounting Association conference to discuss ways finance business partners can play a bigger role in strategy

We brought together four leading thinkers and asked them a simple question: how can finance professionals improve their influence on business strategy? The discussion generated a wide range of ideas as part of the American Accounting Association (AAA), Management Accounting Section conference in Scottsdale, Arizona, this January.

STRENGTHS AND WEAKNESSES OF THE BSC

The reach of the balanced scorecard (BSC) means many organisations look beyond the financials when assessing performance. When structured as a strategy map, the BSC quadrants – financial, customer, internal processes and learning and growth – provide a perspective on strategy and the cause and effect relationships between actions and outcomes. However, an over-reliance and narrow use of BSCs can result in weaknesses and blind spots.

For example, professor Elaine Harris, University of Roehampton, pointed out that the measures in the balanced scorecard are rarely linked to what is written in strategic investment proposals, where NPV comparisons remain the order of the day. Professor Rajiv Banker, Temple University, questioned whether the BSC should be treated as balanced at all. If you follow a customer intimacy strategy, the focus should be on the customer quadrant. If it's product leadership, learning and growth should be to the fore, and if it's an excellence/cost leader strategy, it will require excellent internal processes.

Similarly, professor Josep Bisbe, ESADE Business School, pointed out that organisations seeking to be 'ambidextrous' – meaning simultaneously exploiting existing products and services while exploring new opportunities – may find the measures in each quadrant do not align, and indeed, may actually conflict. And, while it is clear the BSC is powerful in driving behaviours that meet targeted measures, Bisbe argued that such power can lead to rigidities, overcommitment and less strategic dynamism. Correspondingly, Dr Chris Ford, Lancaster University, reiterated the strengths of the BSC in measuring wider sources of value than traditional financial measures. But he questioned whether it went far enough, particularly when value creation and value capture activities are widely distributed between collaborating organisations.

The upshot is that finance business partners can help organisations think about how they link performance measures to strategy and whether the neat boxes of the BSC are a constraint on innovative thinking. One approach Bisbe has seen work is when measures are developed bottom up rather than imposed top down. This resulted in more fruitful discussions about how organisations create value and enabled managers to generate support for innovative ideas.

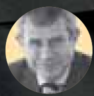
CAPTURING THE MAGIC IN STRATEGY DEVELOPMENT

Building on this, Bisbe highlighted the business model of Ryanair, which showed the wide range of interrelated factors that contribute to their low fixed costs and high profitability. The use of the standardised fleet of Boeing 737s means lower costs by keeping things simple, and in turn, increases the bargaining power with suppliers, especially when coupled with the recruitment of tough negotiators.

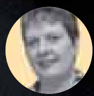
The relationships between these variables are not necessarily linear (when negotiators get too tough deals may not get done) or unidirectional (low costs enable low fares, low fares drive higher volume, higher volumes help lower costs through economies of scale). Finance professionals who can document the complexities of their organisation's business model – going beyond a strategy map and capturing its magic – will provide better insights into performance and strategy development.

THE PANEL

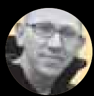
Rick Payne, of ICAEW's Business & Management Faculty, chaired the panel, which featured:



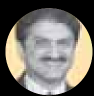
Professor Josep Bisbe, ESADE



Professor Elaine Harris, University of Roehampton



Dr Chris Ford, Lancaster University



Professor Rajiv Banker, Temple University

PROJECTS – BEYOND THE EARLY STAGES

In his research on innovation through projects, start-ups and joint ventures, Ford noted that managers struggled to demonstrate value to stakeholders after the early stages. The transition from an investment based on beliefs and a willingness to experiment, to something that conforms to normal ways of working and reporting, is an uncomfortable one. In Ford's experience, managers are often unable to generate the right evidence and measures to convince those in power to continue investing, because they are busy with their entrepreneurial activity. As a result, potentially successful initiatives are halted prematurely.

This is where finance business partners, with their analytical capabilities, organisational knowledge and influencing skills, are ideally placed to work closely and advantageously with innovation managers to develop tailored measures and reports for the robust assessment necessary to make the right call.

SPOTTING CYCLICAL STRATEGIC OPPORTUNITIES

Banker's research in the oil and gas industry highlighted a counterintuitive approach to strategic investment in cyclical industries. The standard approach is to invest in assets and acquisitions as the market starts to rise by taking advantage of improving cash flows and borrowing capacity.

However, some CEOs and CFOs in oil and gas suggested to Banker that it was better to build up cash reserves through the boom, wait for the inevitable overreach of certain firms and then step in to buy up prime assets at bargain prices. Always sceptical of management anecdote, Banker then looked at the industry data, which demonstrated that this was indeed the more successful strategy. Again, this would seem like an ideal role for finance business partners – analyse your competitors, identify any industry cycles and determine the best timing for investments.

LEARNING FROM THE PAST

The panel all agreed with Harris's assertion that organisations could benefit significantly from rigorously reviewing past strategic decisions. With the pressures of day-to-day demands and also a reluctance on the part of businesses to highlight any failures, such reviews are rarer than they should be.

Nevertheless, it is only through such reflection we are likely to learn and make better judgements next time. Finance professionals could be instrumental in running an effective review process with a focus on learning rather than blame.

ACADEMICS OR CONSULTANTS?

Both Ford and Banker argued that one of the problems with using consultants to help with strategy development was that they are likely to make more money from selling pre-packaged solutions – and successful strategies usually need a fair degree of uniqueness to be successful. Academics may provide an alternative, with their interest in novel solutions, extended engagements with organisations and willingness to innovate. Taking a broader perspective, deeper, more diverse engagement between academia and business will lead to better, more relevant research that benefits all. ●

Rick Payne, finance direction programme, Business & Management Faculty

PREPARING NOT TO FAIL

With some high-profile businesses hitting the rocks in recent months, it's time to take a fresh look at how to head off crisis. David Parsley investigates

It seems rarely a week goes by before we hear of the next struggling company. While the sectors and reasons may differ, there appears to be a familiar story of management not reacting fast enough.

That has certainly been the talk around Carillion, the outsourcing giant that collapsed earlier this year leading to the UK's largest corporate failure since the global economic crisis a decade ago.

The group, which had been in business for 200 years, went into liquidation after contract delays hit revenue, and a fall in new business left it wallowing in debt and with a pension liability of more than £2bn.

Since it collapsed, the inevitable inquiries have already pointed to management's failures - that the board knew the problems existed, but attempted to paper over the cracks, and even deny its existence to the outside world.

FAILURE TO ADAPT

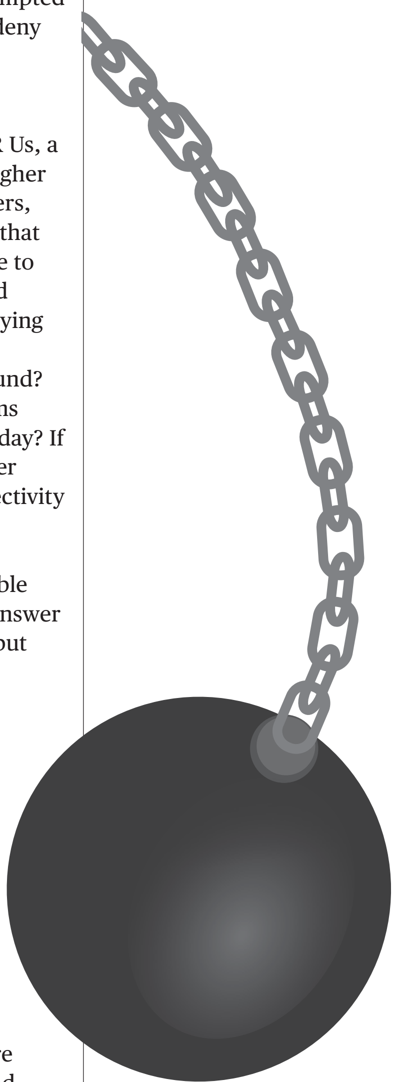
As for the likes of Maplin and Toys R Us, a failure to prove added value from higher prices than the likes of online retailers, such as Amazon, and supermarkets that are constantly expanding their range to overlap high street stores in toys and electricals, appears to be the underlying reason for their failures.

But could they have turned it around? Had Carillion confronted its problems earlier, would it still be operating today? If Toys R Us and Maplin provided better online offerings and a greater connectivity between the physical and virtual shopping worlds, would they have enjoyed many more years of profitable business? We cannot be sure if the answer would be yes in any of these cases, but what businesses can do is ensure procedures are in place to give themselves a fighting chance of survival should things turn sour.

Speak to some of the UK's leading insolvency groups, business advisers and people who have been involved in some of the UK's largest corporate failures to discover whether or not a company can be bullet proof, and you'll find there is good news, however. There are steps any business can take to ensure it is ready to face the tough times and give itself the greatest possible chance of survival. Big, medium or small, every company has options if that corporate crisis hits.

One of the UK's largest restructuring and advisory firms, BDO, has advised on some of the largest company insolvencies. Tony Nygate, a business restructuring partner at the firm, believes there is one overriding factor in saving a company that may otherwise have taken a fatal blow.

"It's important to act fast if you notice any signs of distress in your business, however small or insignificant you may feel those signs are initially"



While he says the signs of a company being in distress may differ - a dip in sales, increase in costs, decline in profits - the key to tackling any issue is to act quickly.

"It's important to act fast if you notice any signs of distress in your business, however small or insignificant you may feel those signs are initially," says Nygate. "There are all sorts of different issues, but if any put you in a position where cash is drying up, or you're not finding it as easy to pay creditors or staff, then the first reaction must be to act fast to identify the problem and look for a solution."

Charles Brook, a business recovery specialist partner at Poppleton & Appleby, echoes Nygate's view. "Business owners and directors should be encouraged to seek advice as soon as a financially related problem arises," says Brook. "Taking advice early isn't admitting defeat and consulting with a licensed insolvency practitioner shouldn't be the final port-of-call; it's a source of support and, more often than not, reassurance for beleaguered management.

"Early intervention will always produce a better managed outcome. Our perspective and relationships with other advisers and potential lenders means that we may already know the people who can help solve the problem in hand."

MORE THAN MEETS THE EYE

As for those signs of potential problems that could lead to a company collapse, Brook says they are not always financially related as many would believe.

"Externally, practical failings or untypical reductions in qualitative performance may be the first signs that all is not well, but these generally appear some time after internal stresses have already started to show," adds Brook.

One question often asked is when is it right to consider restructuring your business? There is no simple answer, but all businesses should be responsive to market changes and that includes taking proactive measures to manage the expected impact of everything including changes in demand, changes in regulations, tax rates, interest rates, exchange rates, raw material costs, customer attitudes and even the weather.

"One of the principle reasons for business failure is a lack of adaptability and planning," adds Brook. "Financial ill-health is a symptom far more often than it is a cause of business failure. If it is possible to be general about these things, then I would say that steps should be taken as soon as the management team is taken by surprise by an event that has more than a transitory impact on the business.

"All business recovery professionals would agree that most business owners and managers seek advice far too late. Delays almost always results in missed opportunities to resolve or avoid the wider impact of a crisis."

TOO LITTLE, TOO LATE?

Rick Smith, managing director at business management consultancy Forbes Burton, believes a company can be saved as long as its proposition is sound and the cause of the problem can be identified and removed. His advice is to spot problems and seek advice at the earliest opportunity. "There are often times when it is just too late to do anything," he concedes.

"This usually comes about when a director has buried their head in the sand and let problems escalate. However, even when a company has failed, there may still be a solution which can be applied should the directors want or need to carry on trading. If a director feels that they want to continue in some form or another, however, it may not be the original company that continues as a complete restructure may be required. It all depends on the case."

If your business does hit a rough patch, one key action to take is to ensure management has the skills to manage a downturn. The skills required in tougher times are, according to many, very different to those when everything is going well. Smith says some senior management teams will cope with guidance, but many will need the assistance of external consultants.

Brook believes the ability to lead well in times of uncertainty is a rare skill. "A business that is facing a major challenge requires leadership from the front," he says. "Giving direction may work reasonably well in a settled economic and political environment, but uncertainty requires an approach to management that is subtly but importantly different.

"It is in periods of uncertainty the day-to-day culture of a business matters as much as its strategy. In fact, many might say that the culture of a business is more important than strategy at any time. What has this got to do with leadership? Leaders create the culture and an unhealthy culture is extremely difficult to manage through periods of uncertainty."

ADAPTING TO CHANGE

Matt Ingram, managing director of restructuring, bankruptcy and insolvency litigation at Duff & Phelps, believes there has been a fundamental change in the way firms like his become involved in troubled firms.

"Pre-2008," says Ingram, "secured lenders, like banks, would take a far more active role in introducing advisers like ourselves to companies when the lenders felt their creditor was showing signs of distress.

"More recently, lenders are giving management more leeway, and the consequence is we tend to be getting involved at a later stage than we used to. However, while we're getting involved later, that doesn't always mean it's too late."

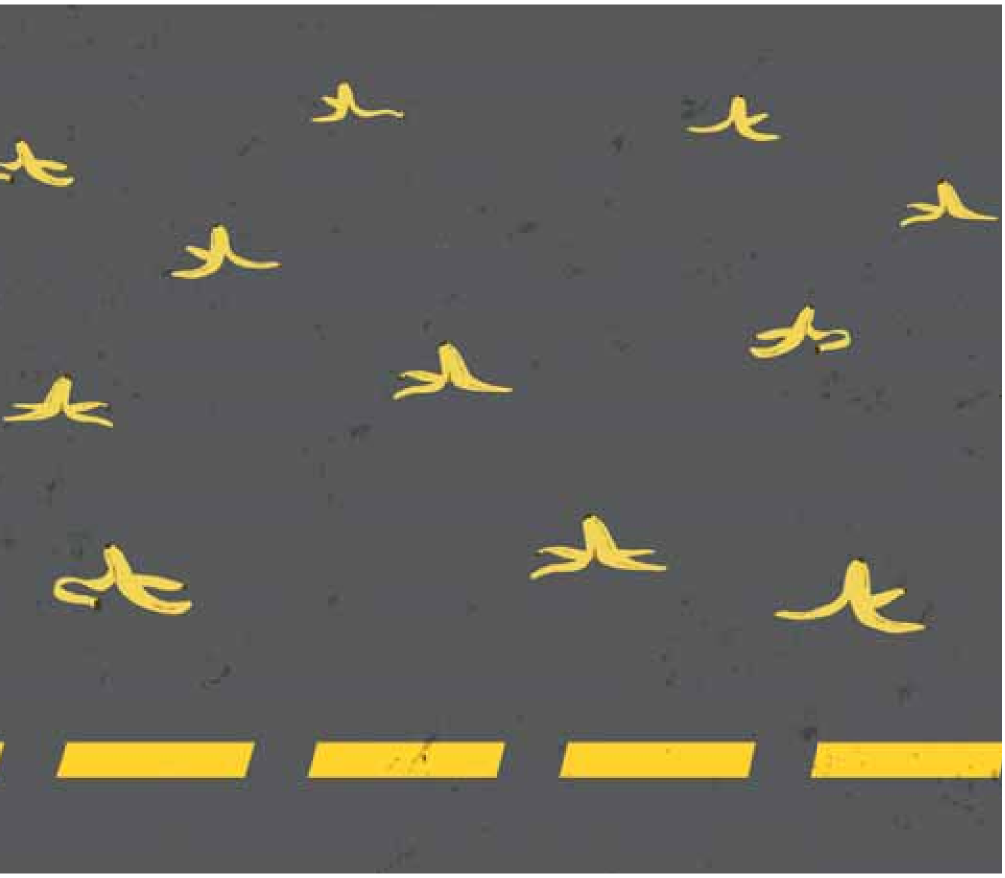
While much has been made of struggling retailers, there is evidence some high street chains have learned lessons and shown that if they adapt they can not only survive, but also thrive.

"Look at WH Smith," says Simon Willmett, finance director at Nucleus Commercial Finance. "A decade or so ago, it was considered in trouble. We

"Pre-2008, secured lenders would take a far more active role in introducing advisers to companies when the lenders felt their creditor was showing signs of distress"

TIP TIPS TO AVOID CRISIS

1. Act quickly.
2. Seek advice as soon as a financially related problem arises.
3. Ask how the recurring business is generated.
4. Be proactive.
5. Ensure your management has the skills to manage a downturn.
6. Adapt to changing times.
7. Focus on operational profit and loss, and working capital.



were reading page upon page in the press about its falling sales and restructuring challenges. However, a decade later it has shown the way for many retailers who are faced with threats from online sales.

"WH Smith adapted. It looked at the stores in high streets that were not doing well and closed them. It then looked at where stores were performing and found that its outlets in train stations were doing well. It also discovered it could get away with charging more in prime locations than in stores away from station platforms. It's now very rare that you don't see a WH Smith at a major station and we don't read about them being in trouble any longer."

There is evidence some high street chains have learned lessons and shown that if they adapt they can not only survive, but thrive

IMPORTANT LESSONS

The lesson here is to adapt to changing times, keep thinking and keep adapting to changing consumer needs and trends. If you fail to evolve your business it will never be long before you are left behind.

While a troubled business may be getting in touch with Ingram at a later stage than was the case pre-2008, he confirms today's economic climate is creating more uncertainty and risk for enterprises of all sizes.

"We're the busiest we've been for five years," says Ingram. "Businesses are more nervous and there appear to be more threats and uncertainty. But, again, I maintain, if a business gets on top of things soon enough and seeks advice, there's almost always a solution of some kind."

It has often been considered that the bigger the business the tougher it is to keep an eye on the financials. However, this often is not the case, despite Carillion's demise suggesting otherwise.

It is often the case that with daily sales and profit and loss reports the scale and sophistication of a large business's accounting team will actually make life easier.

What Ingram and others suggest, is that while a small or medium-sized business may have managers that know the industry and products well, it can be these SMEs that can often overlook the importance of the accounting function. However, while a strong financial team can be expensive, it can also be a cost well worth absorbing as with detailed and regular reports on trading, a business will more easily spot any trouble ahead.

"My top tip would be to focus on operational profit and loss, and working capital," says Ingram. "Ensure your business has a strong grip on the finances and an FD who can get inside the nitty-gritty of the figures to spot the trends and the direction the business is going in. While the rest of the management focuses on product and sales, it's key to have a strong accounting function and to get regular reports on progress and changes."

BDO's Nygate could not agree more. "We're not talking about quarterly financial reports here," he adds. "Firms, no matter what size must have a tight grip on capital flow through the business, the liquidity of the firm, and be in a position to spot where things aren't working and where they are. Senior management needs a daily understanding of where the high margin activity is in their sector, where margins are falling and where to focus their efforts. Your product may be great, but if it's not producing the margin then you've got to look at ways how the product can be made better, or in a less expensive way."

While navigating through a tough situation is a combination of preparation and having the systems in place to spot and deal with a financial shock, it is, most of all, about timing. As the management of Carillion has found out to its cost, there's little point spotting the problems and not acting to fix them immediately. ●

NICK DIGGORY/IKON

TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

EMPLOYMENT LAW

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

ENTREPRENEURIAL SPIRIT CREATING TEMPORARY JOB CONUNDRUM

According to a new survey, more than a quarter of workers yearn to be their own boss. A survey conducted by employment analysts Robert Half found that 23% of those asked believed they would achieve this aim. A further 19% thought this would involve them running a small business with up to 250 employees. The reasons for this change include the desire of individuals to have "flexibility, autonomy and freedom" at work.

As well as the poll of 1,000 UK employees, Robert Half also researched how far employers were feeling the effects of this shift. It stated businesses have reacted to a lack of available skilled workers in the market place by relying more heavily on contractors.

Some 27% of hiring managers in the UK admitted to relying on temporary or contract workers, in particular to help fulfil digital transformation projects. Just 17% were focused on finding permanent staff. In the finance and accounting functions, 59% and 45% respectively were planning on using contractors over the coming year.

Those businesses worried about creating a skills and knowledge gap should pay attention to how their temporary and permanent workforces mesh. Robert Half states: "Blending contractors and in-house professionals encourages specialist skill transference which benefits both the business's long-term plans and the career development goals of in-house professionals."

See tinyurl.com/BAM-RHBoss

FRESH PENSION PROTECTION MOVES BY GOVERNMENT

A new government white paper has outlined the intention to make reckless management of a pension scheme a criminal offence. The document, *Protecting Defined Benefit Pension*

Schemes, which was released in March, is designed to assist the Pensions Regulator in being "clearer, quicker and tougher" where mismanagement is detected, and to safeguard against poor performance. This follows recent high-profile cases including the collapse of defunct retailer BHS's pension fund and Tata Steel's offloading of a £15bn pension liability to keep 10,000 jobs safe.

The Department for Work and Pensions states that £1.5trn of assets held in defined benefit pension schemes, which support 10.5 million people from 14,000 employers, are "of crucial importance to the UK economy" and must be better protected (though most such schemes are now closed to new members).

Under the proposed changes, the Regulator would get new powers (beyond the current disqualification option) to punish those putting pension schemes at risk. This could include punitive fines or the issuing of criminal charges against those who commit "wilful or grossly reckless behaviour". Individual company directors could be held responsible, along with any other connected persons. It is not yet clear what type of criminal sanction might be imposed, but it is possible that specific legislation may be enacted so that courts do not have to continue relying on existing laws.

The Regulator will also get more support to conduct its investigations.

For a full list of the proposed regulatory powers and employer obligations around cooperation, see tinyurl.com/BAM-PRPEN

GOVERNMENT RECOMMENDATIONS FOR PATERNITY LEAVE OVERHAUL

The government has issued a report that suggests current schemes for encouraging paternity leave are not working.

The Women and Equalities Committee conducted an inquiry that resulted in publication of *Fathers and the workplace*, which suggested that the low uptake of shared parental leave and low pay for dads meant it was in need of a rethink.

Currently, dads may take up to 50 weeks of shared parental leave and up to 37 weeks of shared parental pay in the first year of a child's life.

The report recommends that the government considers replacing the current offering with an "alternative policy of 12 weeks paternal leave and pay", which could be taken more flexibly and not affect a mother's right to maternity leave and pay. The committee proposed that this could be available to agency workers and employees, paid at 90% of pay for four weeks (with a higher earnings cap), reducing to eight weeks at statutory level.

Pre-empting any criticism, the report concluded: "We accept that the alternative policy we have outlined would not, on its own, replicate the current option of fathers being the primary carer in the child's first year, but we have seen no evidence that any but a very small proportion of families would be able to or choose to do this under shared parental leave as currently designed."

The proposals can be found at tinyurl.com/BAM-PatLeave

TAX

NEWS AND UPDATES FROM THE TAX FACULTY WEEKLY NEWSWIRE. VISIT ION.ICAEW.COM/TAXFACULTY AND CLICK THE SIGN-UP LINK TO SUBSCRIBE FOR FREE

SPRING STATEMENT

The chancellor delivered his Spring Statement on 13 March 2018. There was a little about tax in the speech, though a number of new consultations were announced at the same time.

In this news item we give an overview of the statement and what it told us about the public finances. The new consultations are summarised in a separate news item (available at tinyurl.com/BAM-NTC1).

A recent Tax Faculty news item explained the new fiscal timetable and why we now have a Statement, not a Budget, in the spring (available at tinyurl.com/BAM-NTC3).

The public finances

Most of the speech was commenting on and responding to the Office for Budget Responsibility's (OBR's) Budget forecasts.

The chancellor's message was upbeat, but the OBR took a rather more cautious approach: growth was higher than forecast at the time of the 2017 Autumn Budget and the forecast deficit for 2017/18 was revised down from £49.9bn in Autumn 2017 to £45.2bn, a reduction of £4.7bn. However, the OBR's view is that much of the improvement in borrowing since November is cyclical, with the forecast for the structural deficit little changed on average and just £0.3bn better by 2020/21.

Clearly the UK's structural deficit has improved since 2010, but real longer-term improvements appear to be harder to achieve. However, forecasting is not an exact science and can vary widely: the 2017/18 deficit is now almost 10% lower than predicted as recently as November. But it is important to remember that what goes down could equally well go up.

The costs of Brexit

The OBR has sought to put a cost on Brexit and this is set out in Annex B of the OBR's report. The final total cost is quoted as £37.1bn, with £16.4bn payable up to 2020 and potentially £18.2bn over the following eight years to 2028, with a few billion pounds elsewhere. As compared to the overall UK finances, the numbers while significant are not huge sums, and much of it is already committed expenditure under existing obligations.

The consultations

10 new consultations and three updates on previous consultations were published on 13 March 2018. In addition, a written ministerial statement gives details of what consultations and consultation responses will be published in the coming months. The government has also published a consultation tracker to show the status of current and closed policy consultations through their lifecycles.

See tinyurl.com/BAM-SPSTQA and tinyurl.com/BAM-SPSTCHK

WALES: DEVOLVED TAXES

The first devolved taxes for Wales went live on Sunday 1 April 2018. The taxes concerned are:

Land transaction tax

Land transaction tax (LTT) will replace stamp duty land tax (SDLT). LTT will be collected by the Welsh Revenue Authority (WRA) rather than HMRC. HMRC will reject any SDLT returns relating to Welsh land with an effective date of transaction on or after 1 April 2018. Conveyancers or solicitors representing people buying and leasing property and land in Wales need to register on the WRA website before filing an LTT return. The WRA is encouraging businesses to sign up at least 10 days before their first transaction that includes LTT.

You can access transitional guidance and the LTT rate calculator through following the links at tinyurl.com/BAM-TaxWal

The rates of LTT for residential property were originally set by the Welsh minister for finance on 3 October 2017 but, following the introduction of the SDLT exemption for first time buyers of residential property up to £500,000, announced in the UK Autumn Budget in November 2017, the Welsh finance minister announced revised land transaction tax residential rates in December 2017. The Welsh government decided not to introduce an equivalent of the SDLT first time buyers' relief but instead has increased the threshold at which LTT first becomes payable to £180,000. The average property price for a first-time buyer in Wales is £135,000.

Landfill disposals tax

Landfill disposals tax will replace landfill tax in Wales and is payable by landfill site operators in Wales. LDT will also be administered by the WRA and landfill site operators will need to register with the WRA.

Further change from April 2019

With effect from April 2019, devolved income tax rates are also coming to Wales, mirroring similar changes already in place in Scotland. At this stage we do not know what the rates and bands will be. The Welsh government may decide to keep them the same as those for the UK, but if the Scottish experience is a guide to what might happen then we are likely to see some changes made.

COMBATTING ONLINE VAT FRAUD

The new powers for joint-and-several liability (JSL) for online marketplaces came into force with Royal Assent of the Finance Act 2018 on 15 March 2018.

The new rules make online marketplaces liable for VAT where they knew or should have known that an overseas online seller should have been VAT registered, but was not.

Marketplaces must now also make sure sellers using their platforms display a valid VAT number on the site, when they are given one. This will help buyers make an informed choice about buying goods from a VAT-registered businesses with confidence.

As well as this, businesses can apply to register for the Fulfilment House Due Diligence Scheme from 1 April 2018. This scheme, which was first announced at Budget 2016, will require businesses that store imported goods for, or on behalf of, overseas sellers from outside the EU to keep certain records and perform certain checks on the goods they are storing.

MAKING TAX DIGITAL FOR VAT

The secondary legislation for Making Tax Digital (MTD) for VAT was laid before the House of Commons on 28 February 2018. The legislation is now on the statute book as regulation *261/2018: The Value Added Tax (Amendment) Regulations 2018*. The primary legislation is included in Finance (No. 2) Act 2017.

There were two significant changes from the draft regulations:

- If a business ceases to have an obligation to meet MTD for VAT requirements it will not be required to preserve records in functional compatible software; other formats (still to be specified) will be acceptable.
- HMRC has been given the power to vary the information that must be kept electronically where it is likely to be impossible, impractical or unduly onerous to do so. How HMRC will use this power should become clear when the final VAT notices are published; this power is helpful as it will allow for pragmatic solutions to practical issues, eg, situations where records are maintained by third parties.

ICAEW made a representation (18/18) on the draft regulations and notice. The final notices for MTD for VAT are expected to be published in the next few months (before the MTD for VAT pilot moves to public beta).

The legislation and official guidance section of the ICAEW MTD hub has full information on the progress on MTD consultations and legislation at tinyurl.com/BAM-MTD-Guide

THE DIGITALISED ECONOMY

The European Commission is working on a draft directive for fair taxation of the digital economy. We reported on the ICAEW response to its 2017 questionnaire and also on our response to the UK November position paper on corporate tax and the digital economy.

The UK government published, at the time of the Spring Statement on 13 March, an updated position paper on *Corporate tax and the digital economy* and there has also been a UK consultation on royalties withholding tax as one of the interim measures which are discussed in the OECD interim report. ICAEW responded to the latter consultation in February.

See tinyurl.com/BAM-TaxDig and tinyurl.com/BAM-CorpDig

ON A LIGHTER NOTE

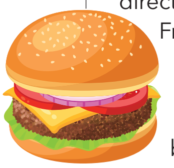
THE TOP JOBS TO GO FOR

Recruitment consultants Glassdoor has issued its top UK jobs for 2018. The list is based on the median base salary, job satisfaction rating and the number of job openings. The top 12 are listed below in order:

1. Marketing manager (4.5)
2. Operations manager (4.4)
3. Audit manager (4.4)
4. Finance manager (4.4)
5. Product manager (4.3)
6. HR manager (4.3)
7. Contract manager (4.3)
8. Commercial manager (4.2)
9. Business analyst (4.2)
10. Project manager (4.2)
11. Business development manager (4.2)
12. Software engineer (4.1)

SACRE BLEU, IT'S A BUN FIGHT!

Hamburger chains have long been vilified in France. But after decades of marketing, they have managed to persuade the French to eat more of them. Some 1.46 billion hamburgers were eaten in France in 2017 – 14 times as many as 10 years ago. An astonishing 1.22 billion jambon-beurres (ham baguettes) were sold over the same period, according to the study by consultants Gira Conseil. "Jambon-beurre is a French tradition," said director Bernard Boutboul. "But the French are now crazy about burgers." The research also showed that 85% of French restaurants had at least one burger on their menu.



GOLDEN OPPORTUNITY

A Nimbus Airlines AN-12 cargo aircraft scattered its £265m cargo of platinum, gold and diamonds after taking off from Russia's Yakutsk Airport – a major diamond-producing region – en route to Krasnoyarsk. *TASS* reported that gold bars were scattered up to 15 miles away from the airport; over 170 20kg bars have been recovered. Police are investigating the possibility of criminal involvement.

1.46bn

HAMBURGERS WERE EATEN IN FRANCE LAST YEAR – 14 TIMES AS MANY AS 10 YEARS AGO

259

NUMBER OF BOTTLES STUDIED FOR PLASTIC CONTENT IN THE WATER – 93% TESTED POSITIVE

25%

OUT OF A TOTAL 2,000 PEOPLE INCORRECTLY ASSUMED THAT COFFEE CUPS ARE RECYCLABLE

RECYCLING CONFUSION

The British Science Association commissioned a piece of research into recycling last month, which involved a quiz. Out of the 2,000 surveyed, not one person was able to score full marks on the quiz. Nearly a quarter incorrectly assumed that coffee cups were recyclable, while over half did not realise that aerosol cans and foil containers could be put in recycling. Unclear council guidelines and packaging labels were cited as reasons for the confusion over recycling.

PLASTICS FOUND IN WATER

The World Health Organisation (WHO) will launch a health review after research found plastic in a majority of branded bottles of water. Some 259 bottles of 11 brands in nine countries (Brazil, China, India, Indonesia, Kenya, Lebanon, Mexico, Thailand, and the US) were examined in research conducted at the State University of New York. The study found that 93% of the bottles contained plastic particles – roughly twice as many as tap water. A spokesperson for WHO commented: "We are aware of the study about microplastic in bottled water. Currently there is no evidence on impacts to human health; we are aware that this is an emerging area of concern for consumers and member states."