BUSINESS & MANAGEMENT FACULTY PUBLICATION

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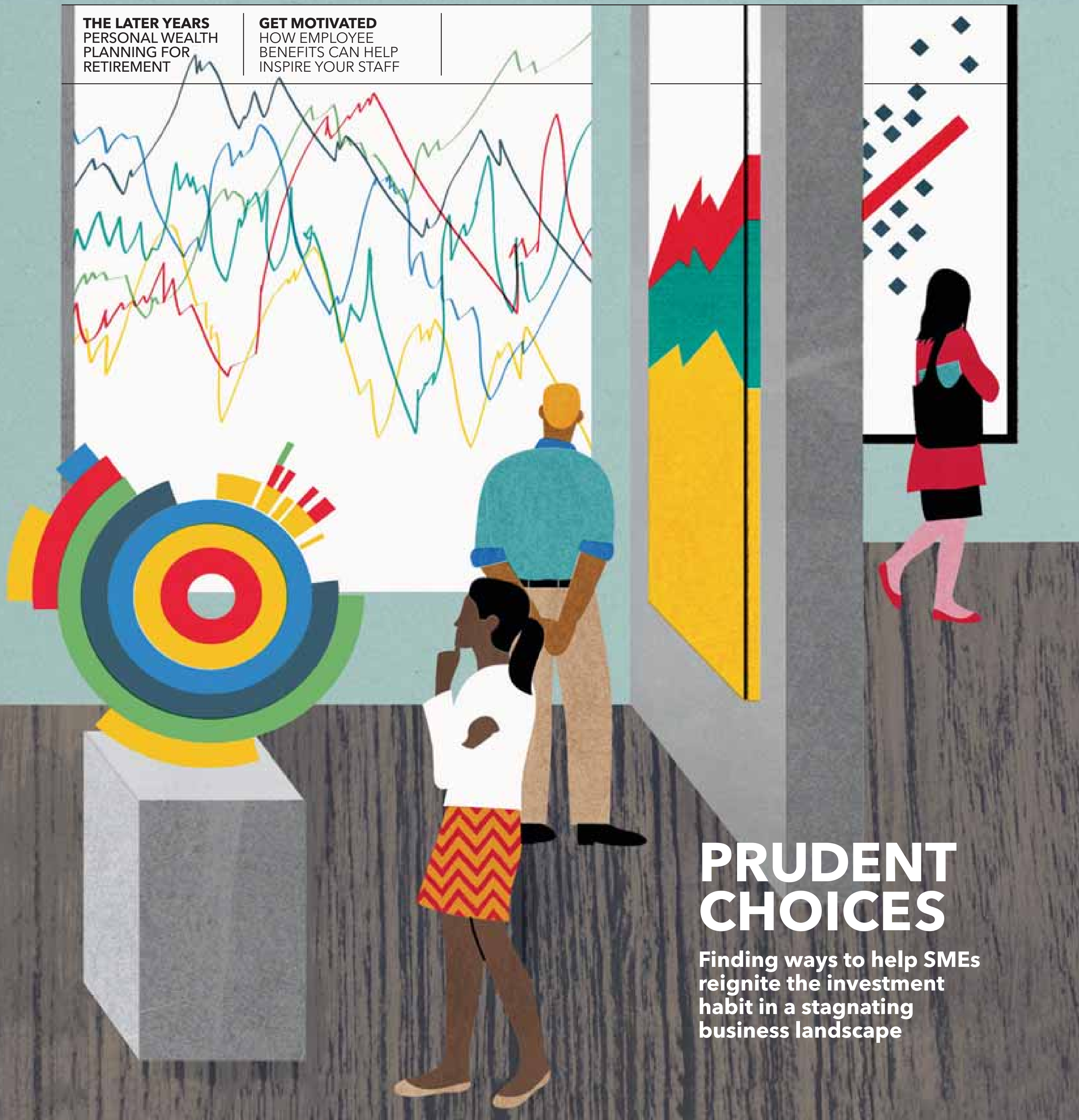
ISSUE 259
NOVEMBER 2017

ICAEW

Business & Management

THE LATER YEARS
PERSONAL WEALTH PLANNING FOR RETIREMENT

GET MOTIVATED
HOW EMPLOYEE BENEFITS CAN HELP INSPIRE YOUR STAFF



PRUDENT CHOICES

Finding ways to help SMEs reignite the investment habit in a stagnating business landscape

November 2017 Issue 259

Deficits and spending

The Institute of Fiscal Studies' (IFS) assessment at the end of October of the parlous state of UK finances reminded me of the quotation from Dickens' Mr Micawber: "Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."

The extraordinary timidity of government in dealing with the problem is disappointing – shareholders and banks do not generally allow a business to lose money year after year (apart from a very few notable exceptions like Tesla or RBS).

Government has made some efforts to reduce spending but has put a great deal of effort into raising taxes, pushing the burden up to the same level that it was back in 1969 with more rises to come. The annual deficit however, continues. Former chancellor George Osborne had predicted the ability to pay down debt by 2020 because forecasting showed the annual deficit being eradicated by then. Philip Hammond, the current incumbent, is now looking at 2025 to close the annual spending shortfall. The IFS thinks that this is not possible, with a gap of up to £20bn arising owing to weak productivity.

The UK has lower productivity than almost all G7 countries, but has seen a slow but steady increase since the Second World War, averaging about 2% a year. Government forecasts had assumed the continuation of this slow but steady growth in productivity. The issue facing the UK now is that productivity has only just recovered to those levels seen in 2007 and has basically flatlined since 2014.

Arguments will flare for the reasons behind this, according to which school of thought one follows. The essential issue remains however that the government had been hoping that growth would eradicate the deficit without it having to cut spending in departments which successive governments have seen as sacred cows, notably healthcare and overseas aid.

Options are limited – the room for squeezing more money from taxpayers is tight. The Office for National Statistics found that half of the UK population receive more in benefits than they pay in tax, leaving the other half to carry the burden. This burden weighs disproportionately on the middle class. Anyone with earnings of more than £51,400 pays more than half of the tax take in the country. This burden will increase further after changes in stamp duty and other tax increases.

The easiest solution is for Hammond to stick his head in the sand and pretend that things will get better through inflation and GDP growth. I have no doubt this is what politicians will keep doing.

Please email matthew.rideout@icaew.com or robert.russell@icaew.com if you have any thoughts or ideas for the faculty.

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ICAEW

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Annual membership of the faculty costs from £96 for the whole year.

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

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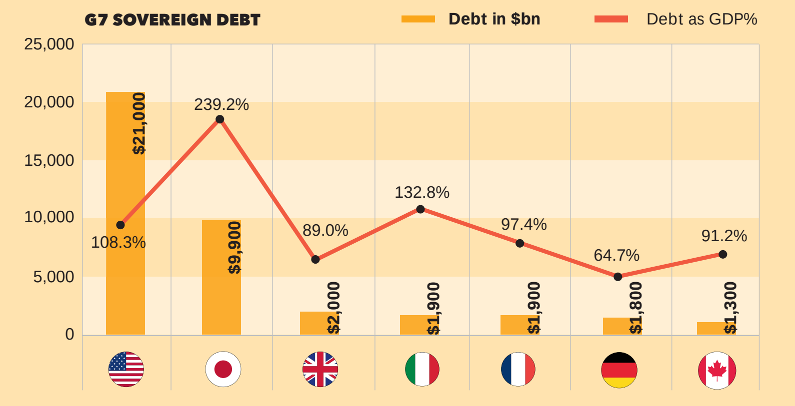
NEWS

GOVERNMENT'S DEFICIT DILEMMA

The Institute for Fiscal Studies (IFS) issued a bleak assessment of the government's ability to bring the deficit under control last month. It warned that chancellor Philip Hammond is going to find balancing the books more difficult than forecast owing to poor productivity growth. *Forbes* lists the UK as having the third largest sovereign debt in the world at $2trn.



SOURCE: FORBES

$2trn
The UK's sovereign debt – third largest in the world

11m
packages stolen from outside US homes every year

8.9m
unauthorised school absences were recorded in the first two terms of 2016/17 in the UK

MY HOME IS YOUR HOME

With an estimated 11 million packages stolen from outside US homes every year, Amazon has developed its own solution. The Amazon Key system involves installing a smart door lock that Amazon can open remotely to allow packages to be placed inside the home when deliveries arrive. Concerns have been raised about the risk of hackers stealing the door code database. Yahoo technology writer David Pogue suggested people would have to balance the risk of homes being potentially ransacked against parcels being stolen from off a porch.

TECHNOLOGY BOOST FOR FOLDABLE PHONES

The University of Sussex published a research paper about alternatives to the existing expensive glass mobile phone screens, which are prone to smashing. The replacement would allow screens to be flexible, cheaper and virtually shatter-proof. Currently, touch screens are made of indium tin oxide, which is so fragile that it must be laid on glass. The suggested replacement features silver nanofibres and a graphene film, allowing for bendy mobile phones. Professor Alan Dalton said: "Brittle phone screens might soon be a thing of the past."

TERM-TIME SCHOOL ABSENCES SOAR

The Department for Education disclosed that 8.9 million unauthorised absences were recorded in the first two terms of 2016/17, up 20% on the previous year. This is despite a Supreme Court ruling in April 2017 that any such absence is unlawful. Commentators note that the publicity given to *The Isle of Wight Council v Platt* highlighted the relative cheapness of the fines compared with the extra costs of out-of-term travel.

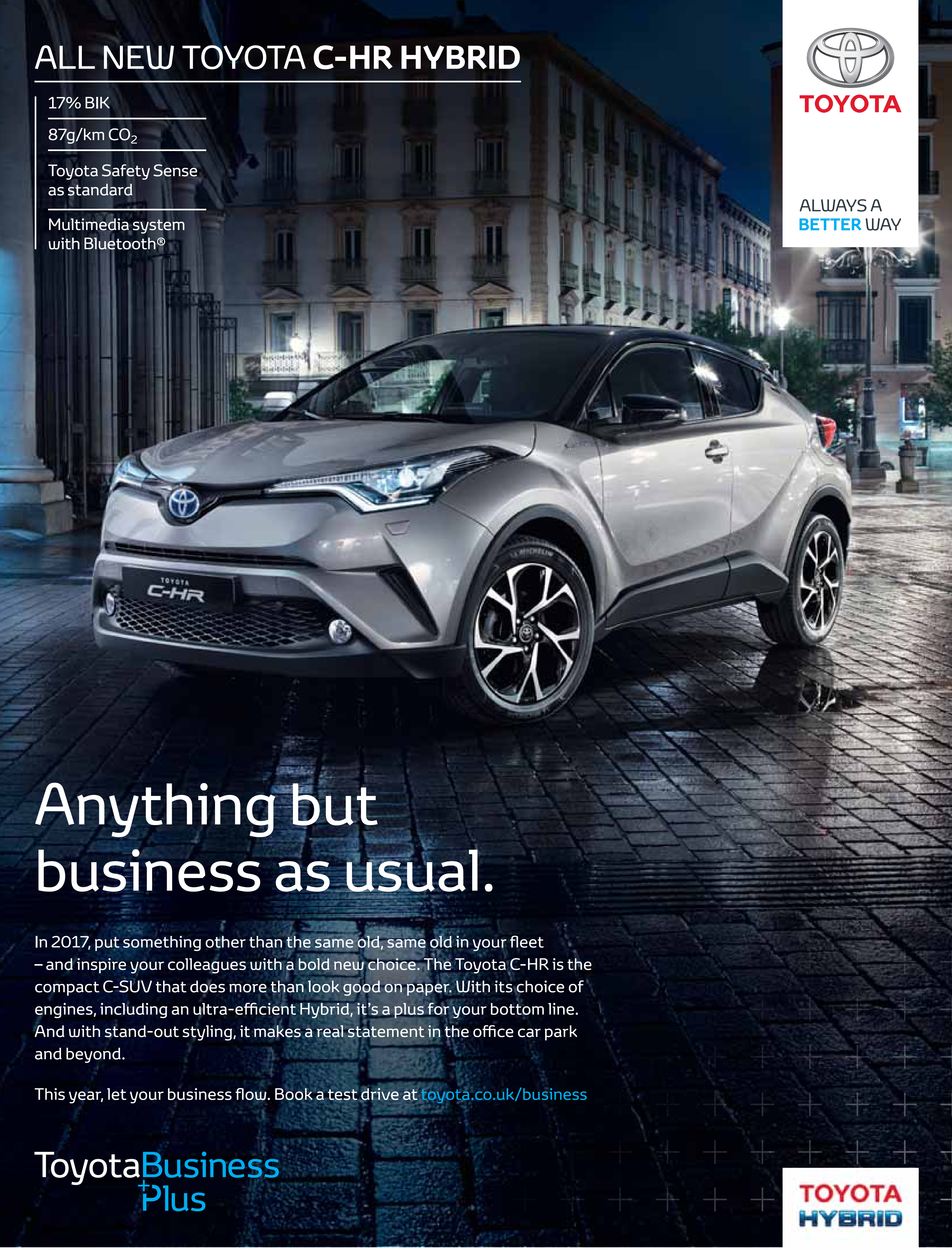
SCALE OF YAHOO HACK REVEALED

Yahoo finally revealed last month that the security breach admitted last December has compromised all of its three billion email accounts.

The hack exposed names, email addresses, telephone numbers, dates of birth, encrypted passwords and unencrypted security questions. Users are advised to change their Yahoo password (and that of all other accounts making use of the same password) and security questions, but not to delete their Yahoo account as the email address is then issued to third parties.

LONDON NAMED MOST INFLUENTIAL EUROPEAN CITY

London increased its lead over Paris as the top European city of influence, according to Colliers' Q1 2017 *Cities of Influence* report. Paris scores higher than London for skills and talent, but London wins for its more flexible labour laws, lower costs and English language proficiency (although it scores lower than both Dublin and Manchester in this aspect). Manchester is in third place, followed by Stockholm and Dublin.



5 year TOYOTA WARRANTY

C-HR Dynamic 5 door Coupe FWD Hybrid 1.8 VVT-i Auto. Official Fuel Consumption Figures in mpg (l/100km): Urban 80.7 (3.5), Extra Urban 68.9 (4.1), Combined 72.4 (3.9). CO_2 Emissions 87g/km. All mpg and CO_2 figures quoted are sourced from official EU regulated laboratory test results. These are provided to allow comparisons between vehicles and may not reflect your actual driving experience.

Model shown is C-HR Dynamic 5 door Coupe FWD Hybrid 1.8 VVT-i Auto at £28,085. Prices correct at time of going to print. 5 year / 100,000 mile manufacturer warranty subject to terms and conditions.

EVENTS & WEBINARS

EVENTS
ICAEW.COM/BAMEVENTS

TECHNOLOGICAL ADVANCES: TWILIGHT OF THE FINANCE FUNCTION?

21 November 18:15-20:30
Chartered Accountants' Hall, London

Advances in technology have the capacity to upend workflow and processes in the finance departments of all businesses. More powerful software, automation and artificial intelligence are set to make a sizable impact on finance functions across the globe. In this event, we will examine where finance professionals should be focusing their attention to ensure our continued relevance to business. Registration is at 18:15.

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

WEBINARS
ICAEW.COM/BAMWEBINARS

FREE 20-MINUTE LUNCH WEBINARS

STATS FOR BUSINESS – USE OF STATS TO DETECT FRAUD

15 November 12:30

This short talk is the third in our series on Statistics for Business to refresh your memory (or introduce you) to this topic. Nigel Marriott, of the Royal Statistical Society, explains how statistics can be used to identify anomalies in data sets and assist in deterring and preventing fraud. This webinar will cover the easiest methods available for statistical fraud detection but does assume a good working knowledge of statistics.

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

STATISTICS SKILLS IN EXCEL – THE BASICS

24 January 2018 12:30

We go back to basics for this series of Excel statistics webinars offering practical steps on how to make the most of Excel functions and incorporate basic stats using Excel tools to improve your reporting efficiency. Excel expert John Tennent will lead us through the maze in this very basic level webinar where no previous knowledge of statistics is required.

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

PRACTICAL PASSWORD POLICIES

8 February 2018 12:30

GCHQ last year issued guidance on password policies, stating that forcing staff to change passwords frequently was no longer deemed best practice. Other recommendations by cyber security experts include the avoidance of symbols and numbers as these are less likely to be memorable. Mark Taylor provides us with practical advice on the adoption of effective and efficient password policies for your business.

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

BRIBERY AND CORRUPTION UPDATE

28 February 2018 12:30

The Criminal Finances Act, effective from April 2017, created new offences. The easiest way to avoid falling foul of the legislation is implementing robust procedures when dealing with sub-contractors and agents, as well as ensuring that your own staff don't trip up over this. This webinar, presented in conjunction with the Fraud Advisory Panel, will run through practical steps to reduce the likelihood of your business suffering from an unintentional breach.

To book a place, please visit icaew.com/lunchfeb2

FREE 60-MINUTE MORNING WEBINARS

ECONOMIC UPDATE WITH IEA

22 November 10:00

Dr Stephen Davies, head of education at the Institute of Economic Affairs, presents a one-hour webinar on the state of the UK economy five months after the UK general election. Stephen will cover current growth as well as looking at the state of UK public finances and growth prospects and touch on Brexit negotiations and trade deals.

To book your place, please visit icaew.com/bamnovwebinar

EXCEL SKILLS

5 December 10:00

John Tennent offers practical tips on financial modelling and budgeting while teaching some excellent easy functions that Excel offers.

To book your place, please visit icaew.com/bamdecwebinar

FORECASTING WITHOUT FEAR

20 February 2018 10:00

Jonathan Swan, Excel guru, presents this practical webinar on how to forecast beyond six or 12 months without fear.

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

TAKE CONTROL OF YOUR FUTURE WITH A SIPP

Emma-Lou Montgomery
Fidelity Personal Investing

Gone are the days when the only time you gave a passing thought to your pension was when a payment was taken out of your payslip and then again when you eventually retired. Today we're all encouraged to be actively involved with planning for our financial future.

The fact we're living longer and could enjoy a retirement of 30 years or more makes it crucial to ensure your pension lasts as long as you do. Self-invested personal pensions (SIPPs) have revolutionised retirement planning. You choose what you invest in and when, and can take withdrawals when and how you like after the age of 55, thanks to the flexibility they offer.

TAKE CONTROL BY BRINGING YOUR PENSIONS TOGETHER

It's easy in today's job-hopping workforce to build up numerous pension pots with different employers. Pooling your pensions together in a SIPP can help you take control of your savings. Bringing them together in one place makes it easier to manage and keep track of your retirement savings, helping you to plan ahead more effectively – and it could be cheaper.

Always check your existing pensions, though, to make sure you don't lose any valuable guarantees by moving to a new provider.

GET YOUR MONEY WORKING HARDER

By consolidating your pensions into a Self-Invested Personal Pension (SIPP) you can get your investments working as hard as possible. A SIPP offers a wide range of investment options and the freedom to manage your own investments, with all the tax perks of saving into a pension.

CUT YOUR COSTS

Charges vary greatly between SIPP providers. Who you choose to hold your SIPP with can therefore make a significant impact on your costs, which in turn can make a big difference to the income that you could get in retirement. The trick, as always, is to shop around. Investors who do their homework and find the best home for their retirement portfolio stand to be substantially better off when it comes to their retirement than those who don't.

You'll find a wealth of pension information, tools to help with investment and retirement planning, guides and factsheets at fidelity.co.uk Plus find out more about the Fidelity SIPP at **fidelity.co.uk/SIPP** or call **0800 358 0753**.

HELPING YOU TO GROW YOUR MONEY

Fidelity offers ICAEW members a range of benefits to help you grow your money and become a better investor.

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- Over 100 fund providers
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- Additional benefits for larger portfolios

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The value of investments can go down as well as up so you may get back less than you invest. This information and Fidelity tools are not a personal recommendation for any particular investment. The value of tax savings and eligibility to invest in an ISA or self-invested personal pension (SIPP) depend on personal circumstances. All tax rules may change in future. With pension products you will not be able to withdraw your money until you reach age 55. It's important to understand that pension transfers are a complex area and may not be suitable for everyone. Before going ahead with a pension transfer, we strongly recommend that you undertake a full comparison of the benefits, charges and features offered. To find out what else you should consider before transferring, please read our transfer factsheet at fidelity.co.uk/transfer If you are in any doubt whether or not a pension transfer is suitable for your circumstances we strongly suggest that you seek advice from an authorised financial adviser.

Register for benefits at
fidelity.co.uk/icaewoffer

Terms and conditions apply

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A RISK WORTH TAKING?

Nigel Sleigh-Johnson looks at the implications of Brexit on financial reporting, including whether it's best to stick to what we know

More than six months have passed since formal negotiations for the UK's departure from the European Union began. However, the implications of Brexit from a financial reporting perspective have yet to attract sufficient attention and debate.

Post-Brexit, it is likely the UK will become an International Financial Reporting Standards (IFRS) jurisdiction outside of the EU. IFRS have become the benchmark for reporting by listed companies across the world over the past decade, and a move away from IFRS would risk the UK becoming a less attractive market to investors. At a time when the UK will be seeking to reinvigorate trading relationships and reinforce its position as a global financial centre, it seems unlikely there would be any appetite to move away from IFRS.

INFLUENTIAL AUTHORITY

It will be important for the UK to continue to exercise an appropriate degree of influence on the development of reporting practice and standards. This could be achieved through enhanced institutional participation, such as becoming a member of the IFRS Foundation Monitoring Board (the oversight board responsible for governing the public accountability of the IFRS Foundation). Additionally, the UK financial reporting community could up its game in developing and sharing accounting thinking and practice.

Various options for IFRS adoption will be available to the UK in future. The UK could simply accept IFRS as issued by the International Accounting Standards Board (IASB), establish a national endorsement mechanism, or continue in some way to participate in the existing EU mechanism. On balance, the arguments for establishing a national endorsement mechanism are persuasive.

While the time and resources involved in establishing and operating a separate mechanism are likely to be significant, it could function more smoothly and far more quickly than the EU's. Almost all developed economies that have adopted IFRS have instituted some form of national endorsement mechanism and the UK has the opportunity to learn from their experiences. A key prize available to the UK post-Brexit would be a simple, cost-effective and efficient mechanism, subject to the need for proper accountability and due process.

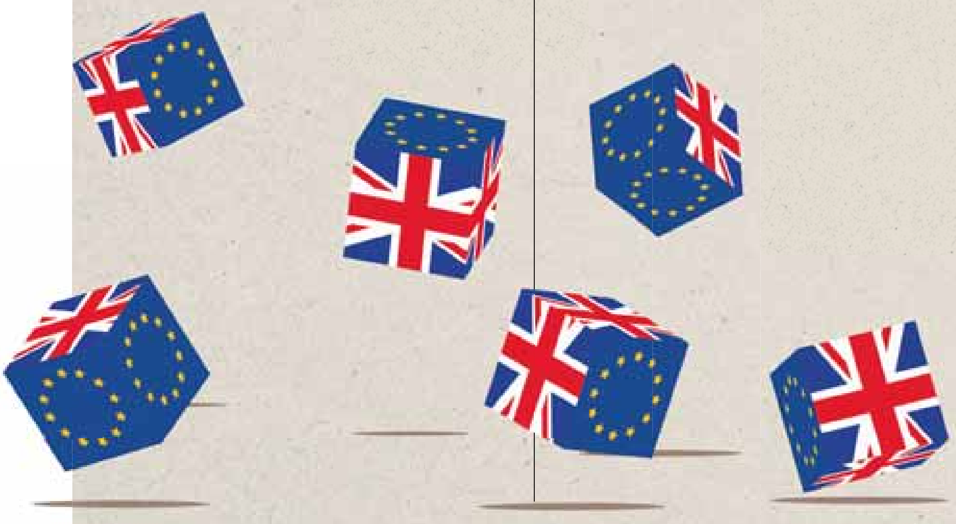
Endorsement criteria that any new IFRS would need to meet will have to be set. While current EU endorsement criteria can be used as a starting point, the opportunity should be taken to consider how they could be improved and simplified in ways that do not detract from a clear focus on the need of investors for transparent financial information.

FOR THE MANY

Finally, the majority of private companies in the UK use UK GAAP rather than IFRS, so it may seem that they will be less affected by Brexit than their listed counterparts. However, much of the financial reporting regime under which they operate is based on EU regulations, and UK company law is now largely derived from EU legislation. There are strong incentives to minimise changes to the UK accounting regime in the next few years and the need for continuity and stability for business will need to take precedence. However, in the longer term Brexit provides an opportunity for a more profound review of UK company law. The scope and content of accounting-related provisions could be rationalised and simplified and the balance between law and standards revisited.

There are clearly several policy challenges for the financial reporting community to consider in the light of Brexit. The economic importance of the decisions to be taken should not be underestimated. It would serve everybody well for conversations to start in earnest sooner rather than later. ●

ICAEW's Financial Reporting Faculty recently published its latest report, *Brexit: implications for financial reporting*. The full report can be accessed at icaew.com/brexit

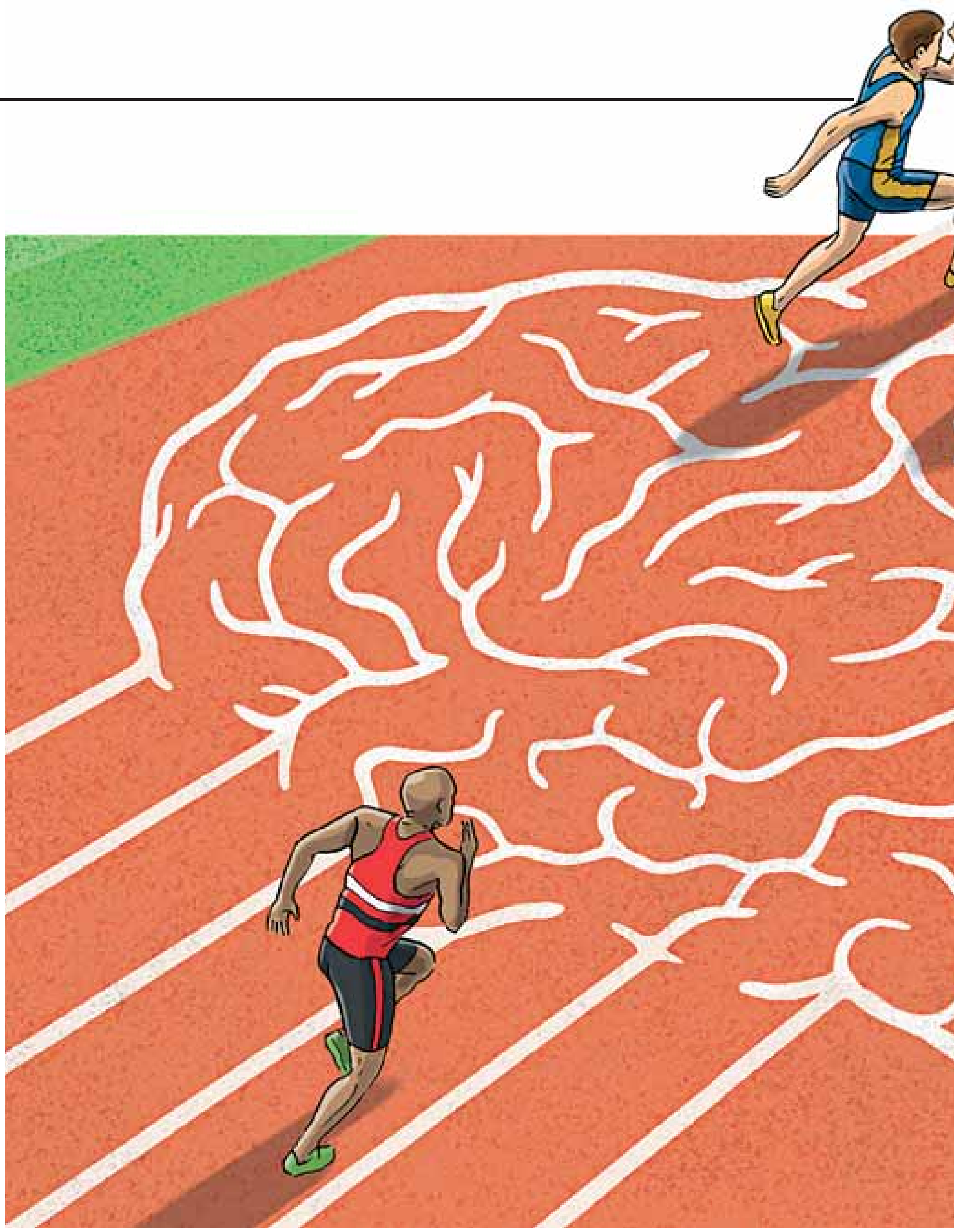


Nigel Sleigh-Johnson, head of ICAEW's Financial Reporting Faculty

BENJAMIN HARTE/IKON

KEEPING ON TRACK

It takes effort to reach success. Psychologist **Phillip Adcock** offers his practical advice on how to stay on course to achieve your goals

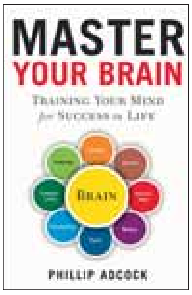


You may know where you want to go in life, but what about the practical steps needed to take you there?

Whether you are looking for more qualifications, a promotion or something more personal, it's not always easy to tell if you're succeeding or failing at achieving your goals by simply relying on memory alone.

Our brains can often recall past events differently: they remember some and forget others. Even when they do remember, they tend to distort the reality.

The same can be true as you travel along your journey toward success; so, you'll need a means by which to evaluate your progress. Not only should you regularly evaluate where you stand, but you should also accept the notion that you'll need to change course occasionally. Remember, you never fail, but you may well not always get the outcome you were hoping for. On such occasions, you need to be prepared to refine the design of your approach.



***Master your brain* contains chapters on the roles played by and the effects of instinct, sleep and our emotions, as well as advice on breaking bad habits**

Although your brain has phenomenal power in terms of providing you with inventive and effective ways to reach the personal achievements you crave, it's less independent and objective when it comes to evaluating its own performance. To overcome that shortcoming, you'll need to keep a success journal that records your day-to-day journey along your route to your dreams. Keeping a journal can help improve your effectiveness and the likelihood of surpassing your goals in a number of ways.

RECORD YOUR SUCCESS

To begin with, writing things down is a proven way to store them more effectively in memory. It also provides you with the opportunity to analyse previous events – either from one day or along your entire journey. If you list what you have achieved and what you've failed to accomplish, you'll soon discover what works for you and

DAN MITCHELL/IKON

Keeping a day-to-day success journal can help you improve your effectiveness and the likelihood of surpassing your goals

what doesn't. Most importantly, your success journal will act as a prompt to remind you of things that you should have done on a particular day but didn't.

But what should you write in your success journal? Here are some suggestions. First, note in general how things are going and how satisfied you are with your progress. What reasons or excuses do you have for why things may be off track? Second, make a daily note of any success you've experienced, no matter how small the achievement. This will help train your brain to focus on all of your successes.

Finally, write down those things that have gone wrong or that you didn't accomplish that day. Provide a line on what caused that and how you'll prevent it from happening again. By focusing on how you'll prevent any recurrence, you are replacing the purely negative memory of the failure with a more positive thought on improving in the future.

SPECIFY YOUR WANTS

In addition to the journal, I also recommend you write down all the things you want to achieve. Be specific and describe them in as much detail as possible. For best effect, enter your goals into specific dates in the future. In other words, give your brain a timescale for each of the things you desire to accomplish. If you adopt this very effective strategy, be realistic with your estimates. Some of your goals may take days to achieve; others, weeks, months, or even years.

The brain finds such concrete goals very rewarding. So, the very act of ticking off a successful goal works on several different levels. Your brain realises it has done well, you feel more successful, and you receive positive affirmation that you're heading in the right direction.

REVIEW AND REFINE

Keeping a journal is a good way of tracking how well you're doing, but you need to read it and review your progress regularly. That will help you refine your strategy for optimum success. It will also prevent any likelihood of that type of insanity where you do the same thing over and over while hoping for a different result.

Reviewing your success journal will allow you to see how you've performed over a period of time and determine what has worked, what hasn't and what you need to do next. Good luck! ●

INSPIRED TO EXTEND YOUR GOALS?

In order to make records of and measure success, the keen finance professional will want to include a range of training and networking experiences as part of their CPD repertoire. The Business & Management Faculty and ICAEW's Academy can help.

Faculty-specific events can be found in full on page 7.

Be inspired to advance your goals on 21 November at the next London B&M event, 'Technological advances: twilight of the finance function', which will be followed with opportunities for networking. Registration is at 18:15. You can sign up at icaew.com/bamnovevent

This month, the Academy is running an Accelerate your career session with Alice Deakin. Delegates will formulate clear goals for career advancement, and learn how to achieve them with targeted networking, deliberate development and engagement.

For those wishing to prepare for a future board role 'Board readiness' focuses on personal performance, while 'The high-performing board director' immerses participants in current topics such as cyber security. Email events@icaew.com

Phillip Adcock, commercial psychologist, author of *Master Your Brain: Training Your Mind for Success in Life*

LIVING WELL LATER

Retirement income isn't something you should only think about on the day you're handed a carriage clock. *Business & Management* looks at the personal wealth planning themes FDs should consider to ensure a comfortable post-career life

Are you on track for a comfortable and secure retirement? It's a deceptively simple question, and it's especially easy to put off answering it. There is no bad time to dust off your pension policies and investment plans to see whether you will be able to enjoy the Riviera lifestyle or be eating cold baked beans in a tent in your later years. When you're enjoying your evening or weekend, glass of wine in hand, it's tempting to believe you're automatically going to have the former rather than the latter because of your finance experience and the funds you've put aside to date.

But retirement planning was never straightforward, and it's a process that should be engaged with in an active rather than a passive context. In today's world of very low annuity rates and restrictions on the tax efficient amount that you can invest annually, planning for a secure retirement has become more challenging, and worse, the government could make changes to pensions regulations at any time which will affect your position in the years to come.

There are pivotal questions that all need to be properly considered: how much money do I need to live a comfortable life? Should I buy an annuity or use a pension drawdown plan? Is my pension performing as well as I had thought it would, and if not how do I minimise my taxes?

In anticipation of you beginning to answer these questions for yourselves, Nigel Hutchinson from Mazars, Adam Tavener of Clifton Asset Management, and ICAEW's John Gaskell share their expertise on the broader themes you should be aware of around personal wealth planning.

WHAT'S IN THE POT?

Nigel Hutchinson, financial planning partner, Mazars Financial Planning

When it comes to creating retirement income, there are very few defined benefit (DB) pension schemes still around, the state pension will only form part of most people's planning (see *The state we're in* box on page 15), cash returns are low and there is a less generous tax environment for buy-to-let. The situation doesn't seem promising.

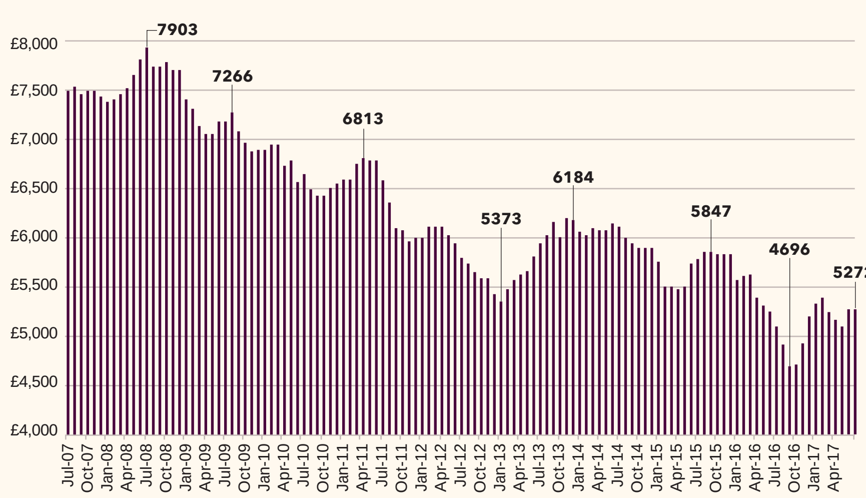
The key starting point then, is knowing how much you need to accumulate in order to fund your desired lifestyle in retirement. Advisers can assist with this by using financial modelling to help identify the level of savings and/or investment returns required to meet your retirement aspirations. Some advisers call this "knowing your number".

Individuals should be aiming to create a diverse pot of assets and use these to create a tax efficient, sustainable income stream once in retirement, while also considering issues such as long-term care costs, inheritance tax (IHT) planning and passing on wealth to future generations.

Defined contribution (DC) pension funds should be the first port of call for saving towards retirement but the government is reducing the amount high earners can contribute via the tapered annual allowance and the total that can be accumulated within pension funds via the lifetime allowance (reduced from £1.25m to £1m in the 2016/17 tax year). Individuals therefore need to use a variety of vehicles to accumulate a retirement pot to draw upon.

Once at retirement, the traditional route to providing retirement income has been to use pension funds to purchase an annuity, but low annuity rates may make this unattractive to some retirees. The introduction of pension freedoms has enabled people to consider options other than using pension funds to provide an income. Individuals should devise a strategy to utilise all of their personal taxation allowances. This would enable them to create a tax-efficient income stream from their pensions, ISAs, investment portfolios and rental income. In fact, because of the favourable Death Tax position of pension funds (since 2015 the 55% Death Tax on pension funds has been removed), it may make sense to defer using pension funds for as long as possible, so as to pass them on outside one's estate to future generations.

ANNUITY RATES: THE DOWNWARD TREND



ANNUITY RATES CHART FOR £100,000 FUND, AGED 65, LEVEL AND SINGLE LIFE

SOURCE: WWW.SHARINGPENSIONS.CO.UK

Another key issue is risk and investment management both pre- and post-retirement. Prior to retirement, volatility can be your friend, due to the effects of cost averaging when you are making contributions to retirement savings. Post-retirement, once drawing upon your assets, volatility can be your enemy (drawing on pension funds when market value is low has a detrimental effect on the pension fund in the long term) so close monitoring of asset allocation, fund performance and withdrawals is necessary.

Individuals who are lucky enough to have final salary pensions may be attracted by the guaranteed stream of income throughout retirement. However, current high transfer values and the added flexibility offered by drawdown pensions, plus the scope for generational planning in order to benefit from the favourable IHT rules on drawdown, makes it essential to take advice on whether to stay within the DB environment or transfer out.

It is vital to choose a financial adviser who can look at your case as a whole, providing a multi-dimensional approach to retirement planning, including the use of sophisticated cash flow modelling.

They should be able to provide an ongoing review service to ensure that you remain on track to achieve your financial goals.

In the meantime, calculators from the likes of the Money Advice Service (moneyadviceservice.org.uk) can give individuals some cold comfort or a wake-up call...

FREEDOM OF CHOICE?

Adam Tavener, chairman of Alternative Business Funding (ABF) and Clifton Asset Management

Over the summer the Financial Conduct Authority issued warnings based on its research that suggested taking money early from pension pots was the 'new normal', however in the vast majority of cases this was being done without the benefit of advice, and thus the real financial consequences of this decision would only be felt at a later date.

Nowadays anyone over the age of 55 can access their DC pension pot (and, depending on the scheme rules, their DB pension as well, by means of a transfer out). Pensions are often significant pots of cash and thus can represent a temptation. Sometimes accessing these funds is done for the most banal of reasons; a holiday, say, or paying down credit card debt. Frequently the decision is more strategic and involves parlaying some of an individual's pension savings into a start-up capital fund for a new venture. In both cases it pays to be wary and take appropriate advice, even if you are a seasoned and qualified financial professional.

In the first instance, accessing cash for essentially domestic reasons, the first stage landscape is fairly benign. Accessing up to 25% of the total pot has no adverse consequences (beyond the inevitable reduction in value later on) and comes tax free.

Go just £1 over this limit however, and the world is suddenly a very different place. Two things immediately occur. The first is that all withdrawals over the 25% limit are treated as taxable income in the year that they occur, potentially delivering a sizeable increase in your ultimate tax bill (and yes, the published figures do show an HMRC 'windfall' of taxes paid by the unwary withdrawing pension monies which has already run into the billions of pounds). The second is that you will now be subject to the Money Purchase Annual Allowance (MPAA) that effectively reduces the amount of future pension savings that qualify for tax relief from (typically) £40,000 down to £4,000.

For those who have a wish to continue working after this point, and might wish to enjoy further employer contributions, or offset their own earnings, this is a pretty savage reduction and renders future saving marginal at best. Combined, these two considerations make for a pension freedoms landscape that is far from free, and a thoroughly delighted HMRC.

The second scenario - if you are either not yet due or not yet inclined to retire - may be to use your pension

MORE PLANNING POINTERS

Long-term care costs

No one knows if or when they will need assistance, but it pays to have an idea in advance of the cost of assisted living or residential accommodation. As well as financial advisers who specialise in costing care, for an initial ballpark estimate there are calculators available like the one provided by UK Care Guide. For example, someone going into a care home in Greater London in 2021, and living there for 10 years, may spend around £400,600. For the same duration and location, care at home for 20 hours a week could be approximately £171,600. An adviser will be able to inform you of the cost and tax implications of becoming an employer if you hire someone to work for you directly in your own home.

Investment portfolio

Whether investors are fans of the DIY approach or prefer the assistance of a broker, assessing a stock portfolio and the income derived from it when approaching retirement may require a different tack than in the midst of your working years. How long should you hold assets? How to decide what ones to sell? What is the best use of the proceeds?

Property portfolio

The entry costs into the buy-to-let (BTL) market may have jumped due to a recent increase in stamp duty, but according to several experts a property portfolio can still be lucrative when compared with other asset and savings return on investments. At present interest rates are still low, although investors should heed the warnings of a rise aimed at the BTL market in the near future – can you cover the cost through rent and still come away with a strong yield? Again, how large to grow a property empire, and how long to live on the rental income or sell the portfolio will need periodic review.

GETTY, TAYLOR CALLERY/IKON

pot to start your own business. This scenario is far more nuanced. One could argue that successfully launching a business using pension monies is the best investment a person could make - a position that I would support, with some obvious qualifications. The merits of the decision itself notwithstanding, there are still pitfalls and advantages to look out for.

The 25% part of the process still stands. Thereafter the choices might be to withdraw a single lump (take the tax hit all in one year, probably the most expensive), multiple smaller lumps to spread the tax payments out over succeeding years, or just 'little and often' as required. In all cases, however, the tax and MPAA positions are as described above.

So this is where the need for good advice really kicks in. Under the current and very longstanding regime there are a number of ways that a pension can fund a start-up (or inject into a more mature business, for that matter) without all the nasty consequences. Built around the SIPP and SSAS pension capabilities, and broadly described as pension-led funding, a pension can provide capital in a number of ways. Loans are a common way of doing this, or share purchase. The purchase of certain types of asset on a leaseback basis often works well too.

This type of transaction is usually more complex and thus involves paying some professional fees, but to avoid significant taxation of pension savings and being subjected to the MPAA, it could be worth checking out.

Other resources: Links related to managing your income ahead of retirement

Inheritance tax: tinyurl.com/GOV-InTax

Pensions lifetime allowance: tinyurl.com/GOV-LifeAll

Buy to let tax relief: tinyurl.com/GOV-BTL

Check your state pension age: tinyurl.com/GOV-AgeCheck

The new state pension: tinyurl.com/GOV-NewPen

The money purchase annual allowance explained: tinyurl.com/GOV-MonPur

The 2017/18 limit for annual deposit into one of four types of individual savings account (ISA) is £20,000. tinyurl.com/GOV-DepLimit

AGE IS MORE THAN A NUMBER

John Gaskell, head of personal financial planning, ICAEW

If you are going to have that secure retirement, you and your family need a joined-up personal financial plan that is properly co-ordinated and regularly reviewed. Moreover, that plan needs to consist of more than just putting together a personal wealth balance sheet and running some projections around investment returns, longevity and lifetime cash flows: that's the relatively easy bit. The starting point in your planning, which is arguably the most difficult part of the entire process, is to get to grips with how you (and your partner/spouse if applicable) want to spend your later years. Be honest with yourself so that you understand what is really important to you and your nearest and dearest and allocate your retirement resources accordingly. Your planning also needs to include provision for what will happen financially if and when you need care, not just provision for the good times.

Do not make the mistake of underestimating how long you are likely to live, and therefore how long your funds will need to last. Statistically speaking, UK life expectancy for a 65-year-old man today is 84, and for a woman is 86. This increases to 91 for a man who is presently 85, and 92 for a woman. At the age of 95, life expectancy for both sexes has increased to around 98 years of age, with a reasonable likelihood of a congratulatory note from the Palace to follow soon after. Whether your 100th card is postmarked to the Riviera, or to that tent where you're eating baked beans in a forest, is in your own hands. ●

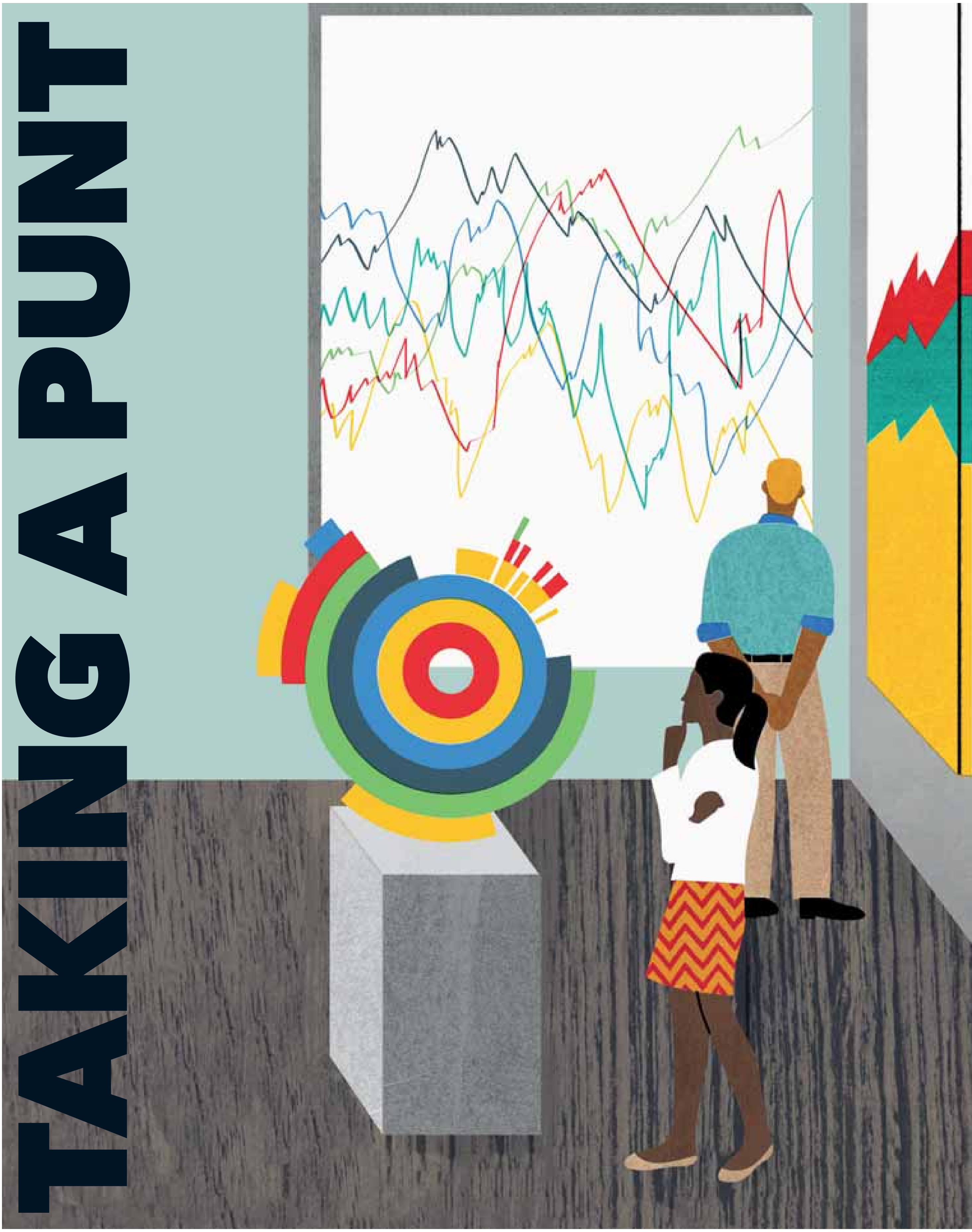
THE STATE WE'RE IN: HOW PENSIONS ARE CHANGING

State pension calculations are not the same for all, and people need to pay close attention to the sums, particularly if drawing the money will take them over the various thresholds for income tax when combined with personal pensions and other income.

However, in line with rising life expectancy, the government has started raising the minimum age at which a state pension can be drawn. For men born on or after 6 April 1951, and women born on or after 6 April 1953, the new state pension age – currently 65 – applies. This increases over the next decade or so to 66 by 2020, to 67 by 2028, and to 68 by 2039. The Pensions Act NI (2015) made provision for regular reviews, meaning that 68 is unlikely to be the fixed end point for long. For details of when you will be able to draw your state pension from, see tinyurl.com/BAM-age

Citizens are eligible for the state pension if they have made at least 10 qualifying years of (non-consecutive) NI contributions. However, anyone commencing their national insurance (NI) record from 6 April 2016 will need 35 qualifying years of contributions. For those who have spent time living or working abroad or those who have paid married women's or widow's NI rates different rules may apply. See tinyurl.com/GOV-calc for a detailed explanation of what you will be entitled to.

TAKING A PUNT



With business investment in the UK slowing, Paul Golden considers the impact on productivity and employment and the role of the finance function in identifying and assessing potential sources of investment

Data from the Q3 2017 ICAEW economic forecast supports the view that many companies are struggling to make additional investment in their business (see *Business & Management*, October 2017). While accepting that figures are often revised at a later date, the forecast refers to negligible growth in business investment in the second quarter and predicts that investment will be flat for 2017 before falling by 1.1% next year.

Meanwhile, research from the Office for National Statistics points to a 0.4% decline in investment by private and public corporations between 2015 and 2016 (the weakest annual growth figure since 2009).

UNCERTAIN TIMES

The Bank of England states that investment intentions had strengthened a little further in its most recent agents' summary of business conditions, but it also notes that heightened uncertainty remains a drag on the willingness of some businesses to invest.

The ICAEW economic forecast mentions political uncertainty - both in a domestic context and with respect to the UK's relationship with the EU - as a key driver of businesses' reluctance to invest. This view is shared by Laurent Ferrara, adjunct

SPACE FOR INVESTMENT

Oxford Space Systems, a developer of deployable structures for the global satellite industry, recently completed its third round of fundraising (an interim round) to follow the initial seed investment and a series A round. Both rounds were oversubscribed.

High-tech start-ups usually accesses funds from business angels who come from a technology or science background, explains founder, Mike Lawton. "It would be unusual for a company like ours to raise capital from a high-net-worth-individual from a non-tech background," he says.

The seed capital for Oxford Space Systems came from a venture capital fund whose manager had previously run a technology business. One of the later round funders is an evergreen fund – a fund that doesn't have a fixed lifespan and is therefore not in a hurry to exit the business via an IPO or trade sale. However, the majority of the current syndicate will want to see an exit strategy, probably in the next 3-4 years.

Lawton says the company's CFO, Matthew Dreaper, played a vital role in building the business case for investment. "We speak about financial strategy at least once a week and he was instrumental in identifying the timing of the funding round and how to position the opportunity to maximise the valuation," adds Lawton.

Entering its fourth year, Oxford Space Systems is still losing money as it develops the technology it hopes to commercialise, which is why it is being funded by venture capitalists rather than high street banks. "Myself and Matthew face the constant challenge of deciding how much to invest in tools, processes and people to accelerate the development of the technology to get it to revenue before we run out of money," says Lawton. "We think we have found a balance between burning through our cash too quickly and extending the development phase too long by not spending enough."

IMAGE COURTESY OF OXFORD SPACE SYSTEMS/INNOVATE UK/ADAM GASSON professor of economics at University Paris Nanterre, who observes that while expected demand is the main driver of business investment, uncertainty has an adverse impact. In such an environment, the most costly projects with the most distant return prospects are likely to be the first to be sidelined, given that they cannot be easily undone.

At a regional level, lack of clarity around the future of the Northern Powerhouse projects has not been helpful in terms of boosting productivity in that part of the country, although the recent report from the Northern Powerhouse Partnership – which suggests that an additional 850,000 jobs could be created across the region – acknowledges that the full benefits of the initiative will not be realised without substantial business investment as well as state support.

The modest upturn in investment sentiment highlighted by the Bank of England was based on companies' stated intentions to invest in technology to improve efficiency.

However, the findings of the British Chambers of Commerce Q2 economic survey – which reports that that 65% of manufacturing companies and 49% of services companies were actively recruiting between April and June – suggests that in any case, companies are looking to expand by adding to staff numbers rather than investing in productivity-boosting technology and equipment.

This is a tempting option in a low wage inflation environment, even if almost two thirds of the manufacturers and more than about four in 10 of the services companies surveyed by the British Chambers of Commerce admitted to facing recruitment difficulties.

Investment in additional labour is flexible and can be unwound more easily than capital investment, although options such as rental and leasing offer a degree of flexibility

Stephen Pugh, finance director at regional brewery Adnams, observes that a desire for flexibility can push companies to prioritise recruitment over capital investment. Investment in additional labour is flexible and can be unwound more easily than capital investment, although options such as rental and leasing offer a degree of flexibility. But ICAEW reckons that in order to support profitability and growth, businesses may need to look for opportunities to make efficiency savings, including via investment in productivity enhancing technology. It describes unwillingness by businesses to invest as an increasing risk to future prosperity in the context of stagnating productivity in the UK.

Short-termism manifests itself in ways other than increasing headcount to boost output. For example, Pugh says senior staff incentive schemes often lead to under-investment by encouraging management to take decisions that maximise immediate profitability rather than considering what

DEALING WITH A MIXED MESSAGE

James Buffoni is managing director of Ryedale Group, a family-run group of companies that specialises in print manufacturing solutions. He agrees that increased emphasis on cost management has reduced the risk appetite of UK businesses to invest in long-term projects, adding that although low-cost loans are available there is a level of uncertainty that is causing businesses to think hard before making any significant outlays, or simply postpone non-essential spending.

"We have invested in management information system and task automation software as well as bespoke automation in production to improve throughput and flexibility," says Buffoni. "But I think there is a mixed message at the moment." He adds that prices are not increasing in line with costs and they are at risk of being less competitive compared with the UK's largest trading partners. "If we invest in automation to improve throughput and therefore reduce labour costs, it will have an adverse effect on employment. However, funding criteria is often based around job creation, which can make us less competitive."

Ryedale Group has participated in the Manufacturing Growth Programme, which identifies opportunities and creates plans for sustainable growth, provides grants to cover some of the costs of making improvements and connects manufacturers to support networks.

Buffoni says the company has taken advantage of various regional schemes for capital expenditure or developing new equipment, such as the Regional Growth Fund. He also welcomes a rise in distribution or management of funds via universities: "Universities promote the availability of the loan and have the resources to guide companies through the process (for free)," says Buffoni. "They are also looking at how they can engage more effectively with businesses, for example by setting up networks with mutual interests, which acts as a feeder for them to use to identify appropriate projects for their academics."

is best for the business in the longer term.

He says the finance function should play a vital role in identifying where investment produces the best returns, while warning that future-gazing is always more art than science and that finance professionals need to be most wary of those who build their business case to meet a target rather than according to genuine expectation.

Adnams has had an unchanged equity base for many years and uses bank debt as its source of investment finance. For those businesses that find it harder to access funding from conventional sources, alternatives include equity crowdfunding and peer-to-peer lending, although the former will require the business owner to dilute their shareholding, while the interest rates charged on peer-to-peer business loans reflect the level of supply of business loans.

Another option may be collaborative investment, which is a significant (but not widely publicised) source of funding for small businesses in the UK.

Research by law firm Bond Dickinson shows that although the number of deals struck between large organisations and SMEs fell by 28% in the 2016/17 tax year after a three-year upward trend, the former invested £21bn across more than 1,100 deals. This was a sharp rise on the £16bn committed during the previous tax year.

The firm estimates that such deals accounted for more than one pound in seven of total UK business investment between 2013 and 2016 and were worth two thirds more than all UK research and development spending over that period. ●

MITCH BLUNT, JAMIE JONES/IKON

THE VALUE OF TRADITIONAL FINANCE

WR Davies Motor Group operates car dealerships across north Wales and the West Midlands. The company recently completed a £1.5m investment in new showrooms funded by its business bank on traditional lines of debt. Finance director Len Jones says this is proof that banks will still lend if the business is cash-positive, has a decent management team and a business model that is understandable, relatively stable and can service the debt. "If an SME struggles to get finance from its existing bank, something is wrong with the fundamentals," he suggests. "Most finance directors spend their life keeping the weighted average cost of capital under control, so having positive relationships with mainstream lenders is vital."

The most appropriate type of borrowing is one that matches asset life, expected return, interest and capital repayment abilities. Building the business case for investment and deciding how these funds are spent is about aligning the board's intended strategy with investment planning. "Most investment appraisals start off with an idea and may suffer from optimism bias," says Jones. "This is no bad thing, but when taken to extremes investments become vanity projects or there are non-investment criteria that overrule the numbers."

Some investments have to be undertaken for the company to keep up with the market – one of the showrooms WR Davies Motor Group upgraded was in the wrong location and needed more than a lick of paint. This is an example of 'defensive expenditure', where the company has to spend money to prevent its competitors from taking market share.

£1.5m

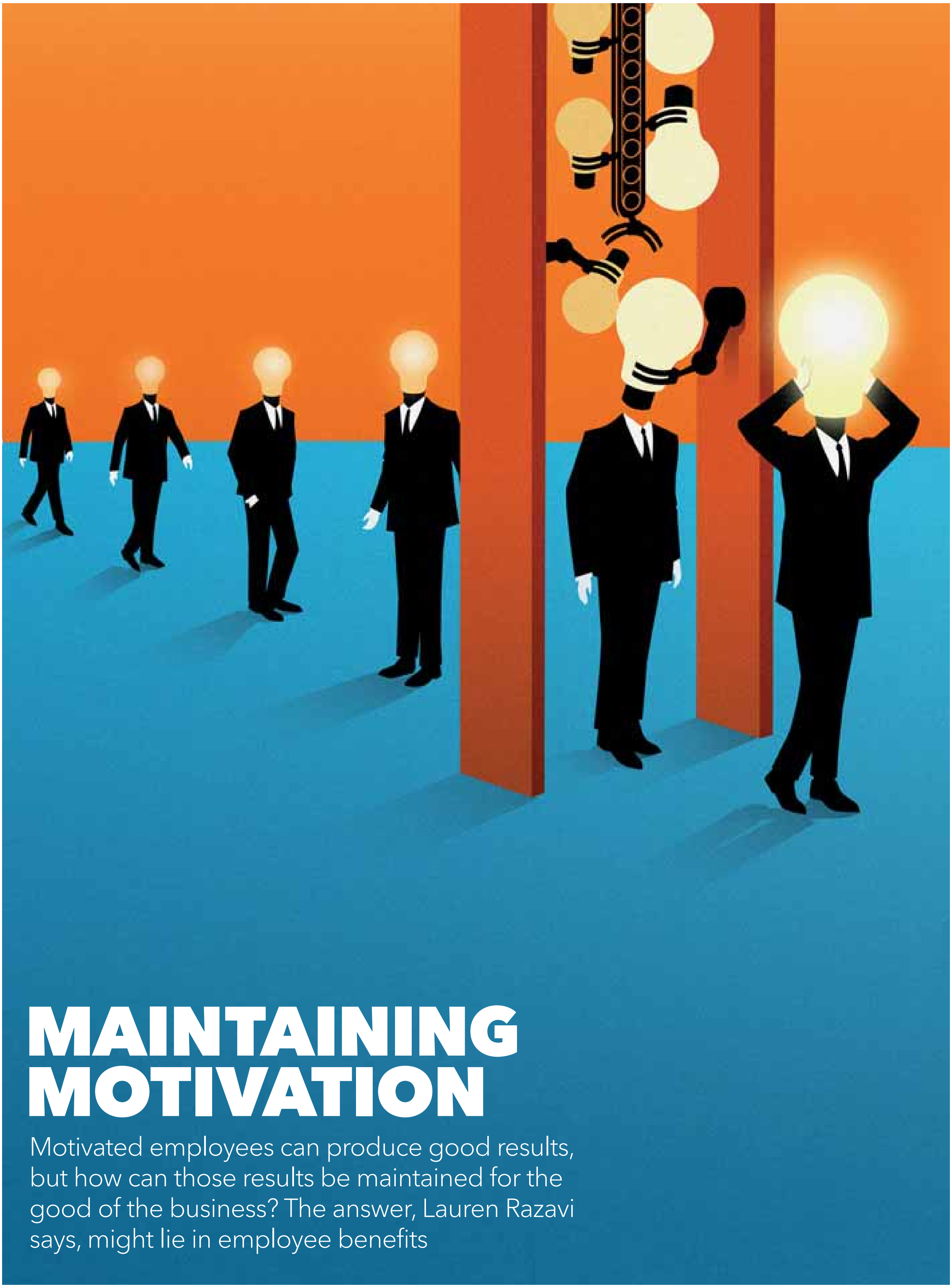
WRDMG's investment in new showrooms

While the finance function would have a difficult task in quantifying intangible, market-related and revenue-protecting investment, the very process of applying traditional finance techniques is a useful discipline to maintain, says Jones.

"It keeps the business on its toes when questions are asked about costs and benefits, questions that finance professionals are traditionally best placed to raise," he adds. "The trick is to appreciate that finance is not the sole decision-making input."

Jones rejects the suggestion that increased emphasis on cost management has reduced the risk appetite of UK businesses to invest in long-term projects, pointing out that risk aversion and loss aversion are two separate issues: "Cost management sometimes loses the plot and we should really be talking about revenue management, so revenue/cost analysis and the move away from a fixed cost base is becoming more prevalent, especially when we have new ways of working and gig economy workers who seem content to be part of a pay-as-you-work culture."

Jones does agree, though, that business investment would benefit from greater clarity around the future of regional and sectoral funding programmes. "There are some great initiatives and grants around the green economy," he adds. "We recently secured funding for solar panels, and the advent of electric vehicles and charging points is a great opportunity to kick-start a paradigm shift in transport infrastructure. The money is there for the right scheme; the challenge for businesses lies in finding out about such schemes and overcoming some of the bureaucracy. This is part of the role of the financial director."



TANG YAU HOONG/IKON

MAINTAINING MOTIVATION

Motivated employees can produce good results, but how can those results be maintained for the good of the business? The answer, Lauren Razavi says, might lie in employee benefits

Today, the Yorkshire village of Saltaire is a Unesco World Heritage site. But when the first stone was laid in 1851, no one was thinking about tourist attractions. Saltaire is an example of paternalism, a 19th-century movement that viewed business owners as the "parents" of their employees. Salt's Mill, named after founder Titus Salt, hoped to improve productivity by becoming involved in wider aspects of its workers' lives. At its peak, Saltaire housed 3,000 textile mill employees and their families. They lived in houses with running water and a gas supply – novelties at the time – and had access to a hospital, school and gym. But these benefits came with rules and restrictions: Salt's employment contract, for example, banned workers from behaving in ways he deemed unproductive, like drinking at the pub.

This form of austere paternalism is no longer prevalent in UK society where government provides generous benefits, but the idea of companies looking after their staff remains. The modern equivalent, though, is less about controlling the lives of employees, and more about recognising what motivates people, providing a choice of perks and ensuring talent is retained. So how can companies create the right employee benefit packages – and ensure they see a good return on investment (ROI)?

RECRUITING AND RETAINING STAFF

Measuring the financial ROI of employee benefits is challenging, because there are a multitude of factors that have an effect on staff wellbeing, performance and morale at any given time. Often the rewards of an effective employee benefits scheme are about examining the overall effect on the business rather than directly calculating a specific figure.

A survey by industry magazine *Employee Benefits* found that 84% of employers use benefits to improve staff retention. The idea is that employees are more likely to stay in a role if their company offers them generous benefits. In turn, businesses save money that they would otherwise spend on recruiting and training staff to replace those who decide to take their skills elsewhere.

This rationale is an important part of award-winning energy consultancy Indigo Swan's strategy to keep staff engaged and committed. "We make sure new employees get really involved with our vision from the start," says Emily Groves, founder and managing director. "We'd rather put a little extra effort into keeping hold of good people than go through the recruitment process again and again."

"The benefits we offer are a strong point of difference ... Interviewees are always pleasantly shocked when we talk about them"

The average financial impact of losing an employee is £30,614, according to Oxford Economics. The cost is split into two: the first half being lost output while a new employee gets up to the standard expected of them, and the second being the cost of absorbing the new employee, including advertising, use of a recruitment agency, and more.

While Indigo Swan doesn't measure the ROI of its approach head on, it has achieved an extremely impressive staff retention rate: since it introduced its benefits package – which includes five extra days holiday on top of the statutory minimum and monthly social events funded by the company – it has not parted ways with a single employee (current headcount of 18). Members of the team clearly see no reason to move on from a company that goes the extra mile to make them feel valued.

Retail marketing consultancy The Shopper Agency offers a range of perks including life insurance, a health cash plan, childcare vouchers and flexible working as part of the employee benefits package. It also provides seven more holiday days than the government mandates (most workers are entitled to 28 days of paid holiday per year including bank holidays – see gov.uk/holiday-entitlement-rights).

Helen Thain, the company's finance director, has made rewarding employees a focus as the company scales up. "Our business has grown from 12 to 18 people since we introduced our benefits package last August. The benefits we offer are a strong point of difference for us," she explains. "We're starting to get a good name for ourselves in the marketplace now, meaning that prospective employees approach us rather than the other way around. Interviewees are always pleasantly shocked when we talk about the benefits we offer."

While it can't all be attributed to Thain's approach to employee benefits, overall company financial performance has been strong since they were introduced: "In terms of profits, we doubled our bottom line between 2016 and 2017."

Offering generous benefits helps attract committed employees and can aid business growth. Rather than offering a quick-fix ROI, benefits often become part of a company culture, helping employees feel appreciated and attracting new talent.

Fashion and homewares retailer Oliver Bonas, with more than 500 employees, has recieved praise for its perks: 30 days' holiday is standard with the option to buy more; monthly free lunch; subsidised exercise classes; free counselling; profit-related pay; season ticket loans; bike scheme and a raft of voluntary benefits.

PRODUCTIVITY AND WELLBEING

The Office for National Statistics estimates that 137.3 million working days are lost to sickness or injury annually in the UK. When employees are absent, projects face delays and the productivity of entire teams

THE PSYCHOLOGY BEHIND REWARD SCHEMES

Pietro Micheli is professor of business performance and innovation at Warwick Business School. "To make benefits work, managers need to spot what incentives employees value and base their strategy on that," he says. "A reward needs to be a motivator, and what people value most is very dependent on their individual circumstances and the sector they work in.

"Whatever the reward, it needs to have sufficient strength. If you give an employee a £500 annual bonus on top of a £50,000 salary, they won't put the effort in next time around, because the reward is too low.

"Managers also need to consider their goals. If you want a team to collaborate better, individual rewards will only encourage competition. Reward the team as a whole instead. On the other hand, if you want to improve individual performance your incentive should be tailored to individual employee needs."

suffer. This has a negative impact on a company's bottom line, which is why investing in the mental and physical health of employees makes good business sense.

Perks such as gym memberships and private healthcare encourage staff to take care of themselves and feel cared for by the company. According to a survey by benefits provider Cigna Healthcare, more than a quarter of employers have experienced staff absences for long periods while they wait for NHS treatment. Four in 10 companies are also looking to invest further in health and wellbeing perks for their staff.

"On their own, benefits such as gym membership or counselling are unlikely to reduce absenteeism," says Debi O'Donovan, director at the Reward and Benefits Employee Association. "But if they're used within a wellbeing strategy, staff may feel their employer cares for them and be more engaged at work. To be truly effective, employers should consider preventative measures rather than implementing benefits when a problem has already manifested itself."

Investing in matters of employee wellbeing can increase employee engagement by as much as 8.2%, according to a 2015 study by CEB Global. Research from the University of Warwick also supports the idea that employee wellbeing and company performance are closely linked, finding happiness made people 12% more productive.

The best schemes take the wants and needs of employees into account. There'll be little or no ROI for a company that provides generous benefits but doesn't understand what its employees will find valuable. This is why it's a good idea for company leaders to consult with their teams directly when devising their employee benefits strategy. Once a package has been created, good communication is key to making sure staff are aware of the options available to them.

"If employees don't understand the relevance of benefits to their situation, they may not use them effectively," says Mark Ramsook, head of sales and marketing at benefits consultancy Willis Towers Watson. "To get the best possible ROI, it's important to communicate benefits to your employees. Some organisations spend anywhere from 10-20% of their payroll providing benefits, but less than 1% of it communicating them."

Demographics should be considered too. Workers at different life stages will likely be impressed by different benefits. For example, 79% of millennials look for flexibility in choosing a job. So to attract and retain millennials, flexible working might be a better place to invest than company cars, given that millennials are less concerned about owning private vehicles than previous generations. Parents might find a perk like childcare vouchers more appealing than shopping discounts or an experience day. Research from pensions provider DAM found that 50% of workers would include childcare in their ideal benefits package, suggesting this is an area that appeals to many.

Whatever their age, understanding what motivates employees is crucial for benefits success. Lead generation firm MVF Global, for example, offers a generous benefit if its employees meet their targets: an annual group trip to Ibiza. "That perk helps us get on the radar of top talent," says Michael Teixeira, the firm's CEO. "But what keeps people in the company are benefits that focus on the issues that really matter to our teams, like meaningful training. We offer a management training scheme endorsed by the Institute for Leadership and Management."

Whether it's extra days off or tapping into the latest trends, there are many possibilities for employee benefits. Measuring the ROI of those options is almost never simple, but by paying attention to staff needs, considering the bigger picture and making employee benefits part of overall business strategy, they can offer real business value. That just leaves one question: what will your team get up to on next year's company retreat? ●

POPULAR EMPLOYEE BENEFIT SCHEMES

From a fancy three-course restaurant meal to a once-in-a-lifetime Ferrari driving experience, more companies are choosing to use reward schemes that give employees a direct choice of benefits. You'll find some of the most popular options below.

- Reward scheme Perkbox offers virtual badges, reward experiences and customisable performance leaderboards to motivate your team – perkbox.com
- Busybees helps workers combat stress with life coaching services, health insurance and a 24/7 doctor service – busybees.com
- Sodexo takes the stress out of commuting with loans to cover season tickets and a cycle to work scheme – sodexoengage.com
- Health-focused scheme Vivup offers smoking cessation programmes, personal trainers and weight management plans to reduce absenteeism – vivup.co.uk
- Through EdenRed, employees can choose incentives like travel vouchers, high street gift cards and experiences such as a Ferrari test drive – edenred.co.uk

DECISIONS, DECISIONS...

Clear presentation of alternatives, uncontrollables and unknowns is a vital prerequisite for responsible, strategic decision-making, says Matthew Leitch

One of the most important occasions for managing risk is when a big decision has to be made. People will be looking for more information, asking about the implications of things that might happen, looking at alternative courses of action... all of which is likely to involve a finance professional.

One of the keys to promoting responsible instead of reckless decision-making is to make people aware of what is not known or cannot be controlled, and help them cope with that uncertainty. Clear and helpful presentation is crucial.

The following questions are designed to pick up some of the most common mistakes in big decision-making in organisations, and apply to business planning, business cases for projects, and all manner of other important decisions. They should be applicable regardless of your organisation's particular approach to big decisions and should be common sense to most people, even if they are not always done consistently in practice.

They could be considered when tackling a big decision or when reviewing procedures, tools or templates for decision-making.

01
DO WE STATE CLEARLY WHAT WE PROPOSE TO DO?

In other words, can decision-makers see what actions are involved in a proposal? For example, do we state the locations involved, the number of people, the technology, and so on?

This seems like an obvious suggestion, and how could anyone be expected to make an important decision if it is not clear what they are deciding to do? And yet, here are some common mistakes that you will probably recognise:

- Stating objectives, perhaps also with financial targets, but with no actions to support them.
- Blurring the line between what has a credible plan and what is just a goal at this stage.
- Not quantifying the extent of work to be done.
- Focusing on the value of achieving a goal rather than the credibility of the plan to achieve it.

For example, in a recent review of a development bank's lending documents, it was noticeable that projects were often justified more on the basis that the problem to be solved was important than on the basis that the proposed project was a credible solution to the problem.

One major reason for not being clear about what is to be done is that details have yet to be worked out. This is a crucial form of uncertainty with proposals. It should be made clear what actions are proposed and what still needs to be worked out and perhaps might be decided later when more information is available.

02

IS THE ALTERNATIVE CLEAR?

Decisions are always between alternatives, but these might not be clearly stated or might be misleadingly stated. This weakness comes in different flavours. In particular, projects justified by the savings they will generate need to be clear about what is assumed will happen if the project does not go ahead. "Cheaper compared to what?" For example, if redundancies are being considered then the savings will not necessarily be the salaries currently paid because some people might have left anyway.

If two or more projects are being compared then one can be taken as the benchmark for the other or both can be compared to "carry on as usual". Whichever approach is taken it needs to be the same for every cost and revenue item, and readers of a business case need to be told what was done. It may also be important to clarify what "carry on as usual" means, especially if other changes are already planned.

Quite often the alternative is uncertain because it is to wait and see if a better proposal comes along. Here again it helps to be open about this and give some information that might help to judge the prospects for this uncertain alternative. For example, property development companies need to have a good idea of what a typical good opportunity looks like and need to adjust their ideas as the economy changes.

03

HAVE ALL IMPORTANT CONSEQUENCES BEEN PREDICTED?

At the very least we need to consider if each of the consequences of a particular course of action is important and if it is helpful or unhelpful. Ideally, we will use judgement, data and models to make carefully quantified predictions.

Too often predictions deal with planned costs and hoped-for achievements only.

Too often predictions deal with planned costs and hoped-for achievements only

That leaves unplanned costs and undesirable side-effects, including indirect effects, unstated. For example, redundancies may save salaries directly but if the work those people are doing is not cut too then someone will have to do it and, sooner or later, in some way, the costs will come back. Similarly, moving to a central office may save on rent and the extra travel costs for some employees will be met by them - in the short term. Longer term there will be extra costs that creep in, distributed and invisible, as people adjust.

Another dangerous mistake is to make a theoretical plan and estimate its cost then write a list of 'risks' and add up the cost of each risk multiplied by the probability of the risk occurring. Adding the total of these average risk impacts does not give you a risk adjustment. It just adds an amount that should have been included in the initial estimate. Risk is more about the extremes of outcomes than their statistical mid-point.

04

ARE PREDICTIONS CLEARLY STATED?

Strictly speaking it is not necessary to predict every consequence clearly. If you can see from the predictions that are easy to make that a plan is a good idea provided the other consequences are not very important and negative, then it may be enough to just consider if the other consequences are bad enough to make a difference.

However, precisely stated predictions using numbers are better than rough indications using quantitatively vague words like ‘large’ and ‘significant’.

05

WHAT ABOUT UNCERTAINTY?

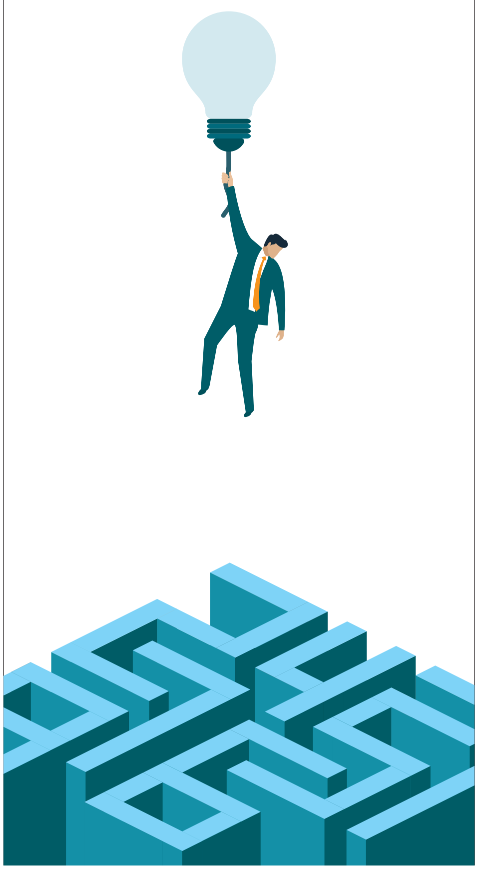
Precise predictions should not be precise best guesses presented as reliable facts, and there are several ways to avoid this mistake. We can explain key points about how predictions were made, drawing attention to factors that were and were not considered, data and judgements used, assumptions made, and predictions that were particularly uncertain.

Numbers and graphics can be used to give predictions as ranges or mid-points with ranges, or even distributions. A list or matrix of predictions can be given, showing how a key result would vary with one or two key assumptions. The combined effect of many uncertain input estimates can be summarised using a Monte Carlo simulation.

For example, suppose that the resale value of some asset after five years is a key estimate required for a decision and you are 90% sure it will be between £190,000 and £390,000. How do you explain that? You could just put in an estimate of £300,000 and trust in rounding to convey your doubts. Alternatively you could say it will almost certainly be between £200,000 and £400,000, or just present the range as a graph so that readers can see the figure will be between just under £200,000 and just under £400,000 but the exact figures are not stated. These are just three of the possibilities using the numbers alone. Narrative and alternative summary predictions give you other options.

This type of disclosure is crucial to helping decision-makers appreciate the value of caution and of building learning and adaptation into plans.

Precise predictions should not be precise best guesses presented as reliable facts



GETTY

06

ARE SOURCES STATED?

Decisions should be based on information, ranging from statistics about the past to projections of the future, and all the input estimates that go into them. Decision-makers should be told where that information came from. If the estimates are based on judgements, then whose judgements were they? Where did that chart about the size of the market and its future growth come from?

07

IS EVIDENCE INDICATED?

Is there an explanation, at least brief, of how information was generated? For example, expert judgement can be gathered in various ways, from workshop guessing games to scientifically validated elicitation and de-biasing procedures. Even information from impressive-sounding external organisations is not necessarily reliable. It may be based on voluntary reporting, samples, or definitions designed to suit some vested interest.

SUMMARY

In summary, the decision-support material should be clear about what is being proposed, what else could be done, what might happen in future and what those predictions are based on, who provided information, how that information was generated, and how accurate those predictions might be.

But these evaluation questions only tackle the final presentation of information designed to support big, strategic decisions. Of course it is also important to gather relevant information, develop plans, consider alternative futures, do calculations, consult appropriately and so on. But what a waste to do all the ground work and then fail to present it in a way that helps people make full use of it. The final presentation is important and usually less work to get right.

Also, this good presentation of uncertainty is a contribution to risk management that is embedded within the most important decision-making activities of the organisation. That surely makes it important. ●

LEASES MADE EASY

The publication of IFRS 16 *Leases* has been demystified with the creation of an ICAEW guide

Most businesses know whether they own or lease the building and plant they are using. But what about the servers hosting the company website? Or the trucks and ships transporting goods? Or the solar panels from which the business sources power on its land, but which were installed by the provider? These are the kinds of questions that the new accounting standard, IFRS 16 *Leases*, raises – and which the ICAEW Financial Reporting Faculty publication, *Putting theory into practice*, will leave finance teams better equipped to answer.

An introductory article (pictured below) comes from Peter Westaway of Deloitte, who focuses on how to identify whether there is a lease based on the existence of an identified asset and customer control over its use.

Westaway states that an asset is typically identified by being explicitly specified in a contract, but that this can be implicit, "if for example there is only one asset that can be used under the contract". However, "even if an asset is specified as set out above, a customer will not be regarded as leasing it if the supplier has a substantive substitution right". On the control question, Westaway uses the example of shipping, explaining how the extent to which a customer designs and directs the use of an asset has a bearing (for example if it can transport any goods anywhere in a given period).

Westaway also reminds readers concerned about the changes, and the time required to check contracts to see if they are leases, that recognition exemptions are available in certain circumstances.

To obtain your copy of *IFRS 16 Leases: Putting theory into practice*, visit icaew.com/ifrs16 or email frfac@icaew.com

THEMES COVERED BY THE LEASES PUBLICATION

In essence
Kathryn Donkersley provides an outline of the key elements of IFRS 16

Taking into account
Eddy James examines the new standard's effect on lease liabilities and right-of-use assets

Leases redefined
Peter Westaway explores what constitutes a lease under the new standard

Discount decisions
Paul Sutcliffe on why determining an appropriate discount rate may be easier said than done

Remeasurement
Joseph Finn details what happens when things don't work out as expected

Different perspective
Sandra McGowan highlights what lessors need to know about IFRS 16

It's all in the planning
Kirsty Ward charts the key phases that are crucial to successfully implementing the new standard

Seamless transfer
Steve Brice and Ben Levy consider the transition options available

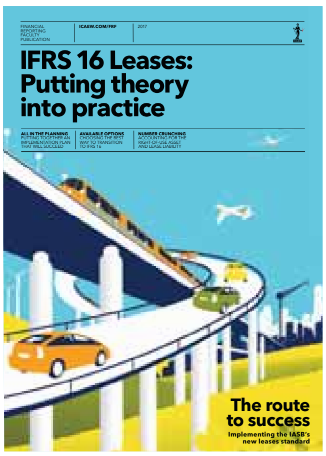
Timely disclosures
Neil Parsons explains what the new disclosure requirements will mean for lessees

Tax changes ahead
Paul Martin reviews the options HMRC is considering in response to IFRS 16

Credit where credit's due
Sam Holland presents a rating agency's perspective on IFRS 16 (published opposite)

Transatlantic debate
Fred Gill discusses the similarities and differences with the US leasing standard

ICAEW resources
Useful links and advice to help keep you up-to-date

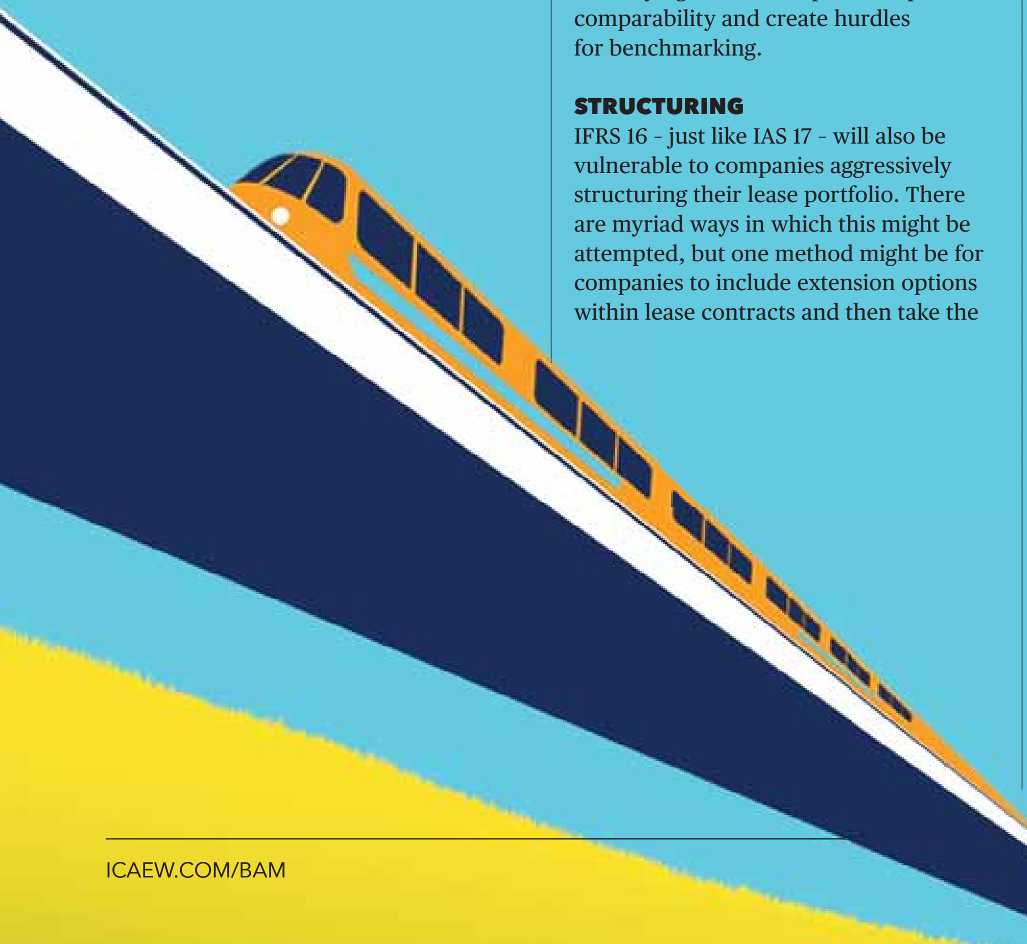


CREDIT WHERE CREDIT'S DUE

Sam Holland provides a rating agency's perspective on IFRS 16

When analysing corporate debt issuers at S&P Global, we view leasing as a form of financing - irrespective of the accounting treatment. Indeed, we have long viewed the distinction between operating leases and finance leases as an artificial one and for several decades have made adjustments to treat operating leases as debt, while adjusting the income statement and cash flow statement to reflect the financing nature of lease transactions.

In this way, IFRS 16 is conceptually very similar to our methodology and clearly a substantial improvement on the previous accounting rules. The enhanced disclosures will also provide much greater insight into the nature of lease arrangements and the likely profile of future cash flows. The fact that leases will be subject to greater audit scrutiny is another very welcome development.



NO PANACEA

But the new accounting is no panacea. Unlike IFRS 16, the US GAAP equivalent retains the income statement treatment of the lease cost as an operating expense (rather than interest and amortisation), requiring analysts who wish to make transatlantic comparisons to continue to make adjustments.

Moreover - like many other IFRS - the new leasing standard is riddled with accounting options, which will allow identical lease arrangements to be presented differently by different companies. Company A could exclude payments for short-term leases, leases of low-value assets and non-lease service components from its balance sheet liability, while Company B includes all of those items. While we understand that these accounting choices have been offered to provide (arguably much-needed) practical relief for preparers of financial information as part of this demanding new standard, there is no denying that these options impede comparability and create hurdles for benchmarking.

STRUCTURING

IFRS 16 - just like IAS 17 - will also be vulnerable to companies aggressively structuring their lease portfolio. There are myriad ways in which this might be attempted, but one method might be for companies to include extension options within lease contracts and then take the position that they are not reasonably certain to exercise those options.

Depending on how the new accounting is applied in practice, if we believe companies are obtaining an artificially favourable accounting outcome then we will continue to make analytical adjustments to give a fairer reflection of the economics of the lease arrangements.

CREDIT RATINGS

And finally to the question I am most commonly asked about IFRS 16: what will it mean for credit ratings? We believe our opinion of a company's underlying creditworthiness will generally not change as a result of the new lease accounting. We expect to commonly use the IFRS 16 measure of the lease liability in our analysis and for most companies we do not expect this to differ materially from our previous estimates.

That said, if, as a result of the new lease accounting, we are provided with significant new information that we consider to be relevant to our opinion of a company's underlying creditworthiness, it will be factored in to our analysis. Indeed, like other stakeholders, we'd urge companies to be transparent as fully and as early as possible in disclosing the approximate expected impact of IFRS 16 on their financial statements.

A GREAT STEP FORWARD

So IFRS 16 is a great step forward for analysts and investors, superior (and frustratingly different) to the US GAAP equivalent, with very helpful enhanced disclosures. But of course the financial statements are only the starting point for analysis, so users of financial information will need to keep their pencils sharp. ●

Sam Holland leads the accounting specialist team responsible for the EMEA and Asia Pacific region of S&P's corporate ratings group

SAY WHAT YOU SEE

Author **Steve Wexler** reflects on the importance of feedback, iteration and constant improvement when it comes to creating the best data visualisations

People ask me how three opinionated people can write a book like *The Big Book of Dashboards* together. Didn't we disagree on things? How were we able to work out our differences? I can't speak for Jeff Shaffer and Andy Cotgreave, but I'm very glad I found two fellow authors who would challenge every assertion I had, as it made for a much better book.

And why did it work? Because we had one overarching goal in common: clarity.

When I am asked about the process I think of a band breaking up because of "artistic differences". That didn't happen with the three of us because we weren't trying to create art. For certain, we wanted dashboards that were beautiful, but more than anything else we wanted dashboards that allow the largest number of people to get the greatest degree of understanding with a minimum amount of effort.

Let me take you through a case study on how the Churn dashboard came to fruition and how following the approach we used could also help you to make better dashboards.

BACKGROUND

I had just finished presenting the third day of three days' worth of intensive data visualisation training when an attendee showed me a data set similar to that in Figure 1 of subscribers gained and lost over time within different divisions.

I asked the attendee what she thought she needed to be able to show and she said it was important to know when and where things were really good (ie, many more people signing up than cancelling) and where and when things were really bad (ie, more people cancelling than signing up). She also stressed that management would insist on seeing the actual numbers and not just charts.

NOT A HORSE, BUT A DASHBOARD

Here's a famous quote attributed to car designer Alec Issigonis: "A camel is a horse designed by a committee." Which is one way of saying that you will run into problems if you attempt to incorporate many people's opinions into a single project.

This was not the case with the Churn dashboard as I received more input from more people over a longer period than any other dashboard in the book – and it resulted in a much better product than if I had just gone at it alone.

Let's look at the evolution of the dashboard.

FIGURE 1: SUBSCRIBERS GAINED AND LOST

Date	Division	Gained	Lost
1/1/2015	A	70	0
2/1/2015	A	80	-90
3/1/2015	A	100	-30
4/1/2015	A	110	-45
5/1/2015	A	70	-95
6/1/2015	A	45	-33
7/1/2015	A	50	-110
8/1/2015	A	99	-34
9/1/2015	A	112	-34
10/1/2015	A	99	-88
11/1/2015	A	55	-65
12/1/2015	A	110	-45
1/1/2015	B	80	0
2/1/2015	B	80	-15
3/1/2015	B	90	-30
4/1/2015	B	120	-25
5/1/2015	B	100	-50
6/1/2015	B	119	-77
7/1/2015	B	75	-45
8/1/2015	B	119	-77
9/1/2015	B	90	-30

CHURN – TAKE ONE

Take a look at Figure 2 which is one of my first attempts to show what was happening for Division A.

Starting with the left side of the top chart, we see the starting point for the month (0 for January), number of people subscribing (the grey bars going up) and number of people cancelling (the pink bars going down). It's easy to see that I had more people subscribing than cancelling in January, and more people cancelling than subscribing in February.

The second chart shows the running sum over time.

CHURN – TAKES TWO THROUGH 50: THE MOUNTAIN CHART

Most of my attempts were fashioned around some type of GANTT/Waterfall chart, but one chart that showed promise for a small group of reviewers was a juxtaposed area chart, dubbed the "mountain chart" by one client who was kind enough to give me feedback (see Figure 3).

While some people "got" this, most had a problem with the negative numbers (the cancellations depicted as pink mountains) being displayed as a positive. The idea was to allow people to see in which months the negatives exceeded the positives and you can in fact see this easily (February, May and especially July). But most people were simply confused, even after receiving an explanation of how the chart worked.

In addition, superimposing a second chart (in this case the running total line) almost always invites confusion as people must figure out how the axes work (eg, do the numbers on the left axis apply to the area chart or to the line?)

GETTING CLOSER…

I made some modifications to the GANTT chart and thought I had a winner, but Andy wasn't buying it. It was then that I realised that I had lost my "fresh eyes" and what was clear to me was not clear to someone else, even someone as adept at deciphering charts as Andy. Andy explained that he was having trouble with the spacing between charts and the running totals. It was just too hard for him to parse.

I took the feedback to heart and came up with a solution that I think works well (we'll see it on the next page).

STILL MORE TWEAKING

You may recall that one of the requirements is that people using the

FIGURE 2: EARLY ATTEMPT AT SHOWING CHURN

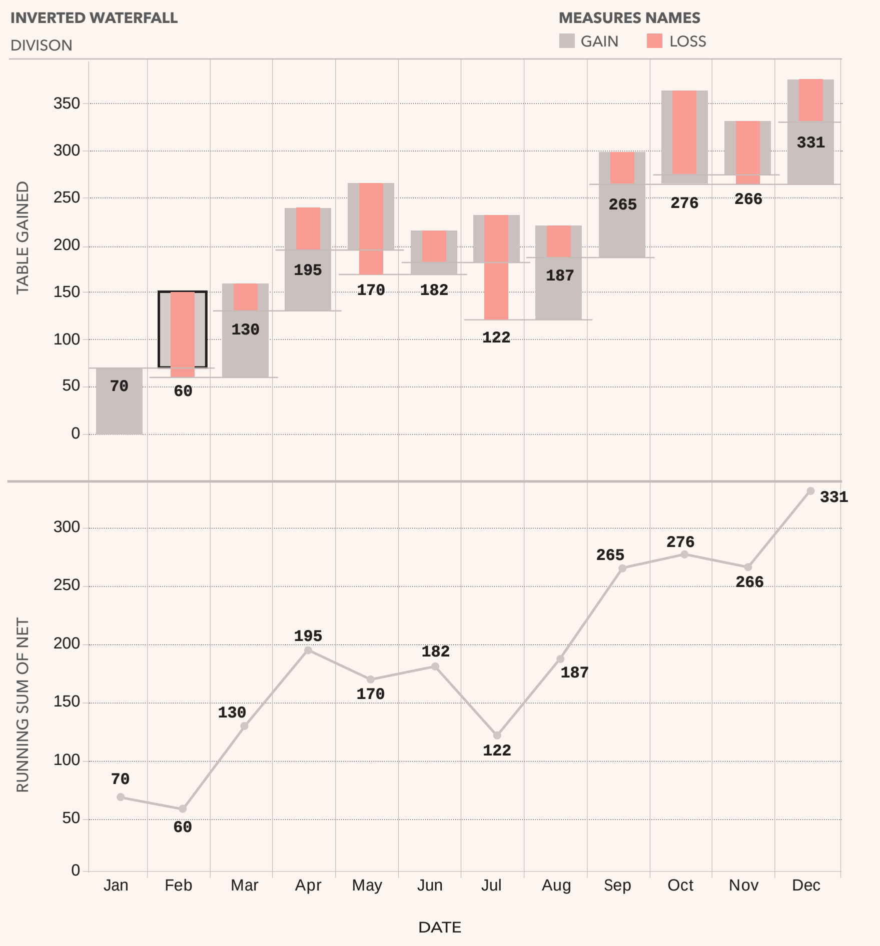
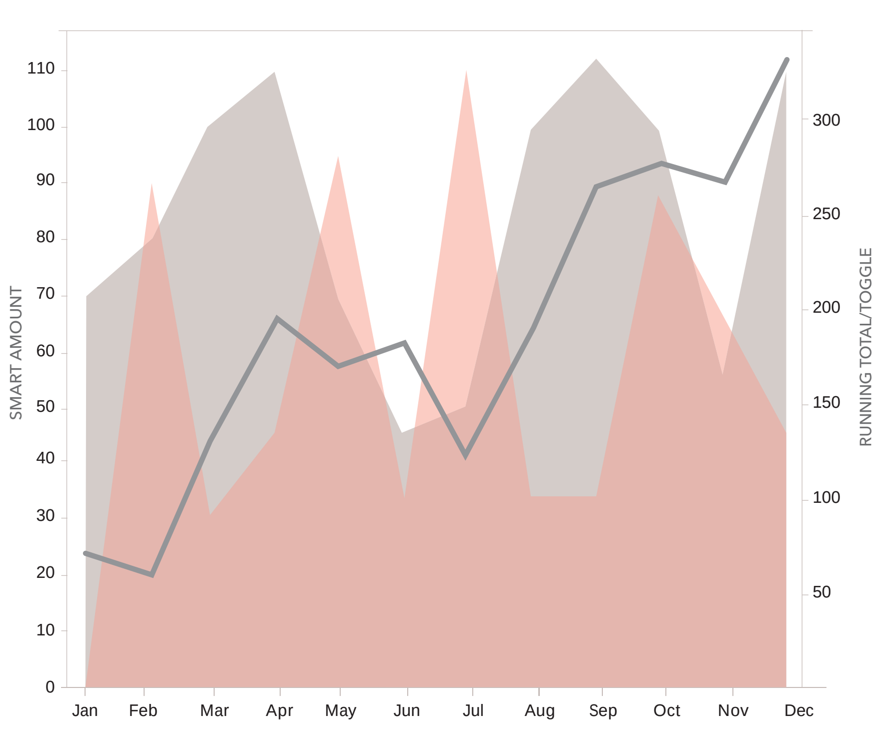


FIGURE 3: THE MOUNTAIN CHART – BEWARE OF DUAL AXIS CHARTS



dashboard would need to see the numbers driving the chart. I suggested adding a text table (also known as a cross tab.)

When I showed this to Jeff there was a long pause, and then I recall him saying that he didn't think this added much to the analysis. By this time I had worked with Jeff for well over a year and I knew that "I don't think this adds much" was Jeff's way of politely telling me that he hated that component of the dashboard.

I started to argue with him that there was a stated demand by the audience to show the actual numbers driving the charts when I realised that Jeff was, in fact, correct. Just showing the numbers didn't add much and there was a better way to meet the requirement and provide additional insight: use a highlight table (also called a "heat map").

WHERE ARE THE BANS?

I got a great deal from reviewing the dashboards other people submitted to the book and now wish I could go back in time and borrow some techniques from those dashboards and apply them to my own. Indeed, there isn't one dashboard that I built for the book that I wouldn't like to modify and that is certainly the case with the Churn dashboard.

Figure 4 – Churn dashboard with BANs (Big-Ass Numbers) – is the dashboard I would submit now. There are BANs along the top and these elements can do a lot to help people understand key components of a dashboard, they can be conversation starters (and finishers), provide context to adjacent charts, and serve as a universal colour legend.

REFLECTIONS

If I could only make one recommendation on how to make better dashboards it would be to find people that can give you good, constructive feedback on whether what you've built is as clear as you think it is. Gird yourself for a lot of revisions and be prepared to add refinements, but it will be more than worth it. ●

Steve Wexler, data visualisation presenter and trainer, and founder and principal of Data Revelations. ***The Big Book of Dashboards: Visualizing Your Data Using Real-World Business Scenarios*** (Wiley) is nominated for a Kantar Information is Beautiful award

FIGURE 4: CHURN DASHBOARD WITH BANS (BIG-ASS NUMBERS)

EXAMPLE DASHBOARD: CHURN OR TURNOVER

Wexler, Shaffer and Cotgreave present a series of business scenarios and develop dashboards for each, so that people can take the most relevant one as the basis for their own scenario. Options include:

- What-if analysis (wage increase ramifications)
- Ranking by now, comparing with then
- Multiple key performance metrics
- Year to date, year over year – at the same time
- Sentiment analysis – showing overall distribution
- Sentiment with net promoter score
- Showing rank and magnitude
- Showing churn or turnover
- Show actual versus potential utilisation
- Economy at a glance

Wexler uses two examples to demonstrate different churn/turnover dashboards: the growth of a subscriber service and airport passenger flow.

For the subscriber service, his dashboard monitors fluctuations in subscriptions over time; comparison of overall gains and losses by division; a way of identifying where losses outweigh gains; the details for each month, and the ability to spot best and worst months' performance. The various merits of waterfall diagrams, spark bars, mountain charts and heat maps are compared to see which works best for the dataset (Figure 4 also shows examples of waterfall, spark bar and heat diagrams).

Raw tabulated data arranged by month also records gains, losses, net and running total (a waterfall diagram). Data is presented month to month in each 'step' of the waterfall, with colours to differentiate the gain and loss columns. Wexler also uses a sparkbar in the top left of his dashboard to make easy comparison of monthly gains and losses, while also highlighting the months with the greatest gain/loss.

In an airport flow diagram, Wexler uses a sparkbar arrangement without a waterflow chart as a better measure. He layers multiple bars on top of one another to show inbound and outbound flights against the number of planes on the ground, with this bar changing colour when a certain number of planes is exceeded. This is plotted over time on an X-axis to show change throughout the day.

The full chapter explaining Churn dashboards in detail is available free online at tinyurl.com/BAM-Dash

TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

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

HMRC PUBLICISES NEW TAX EVASION FACILITATION OFFENCE

From 30 September 2017 the Criminal Finances Act 2017 introduced the new corporate criminal offence of failure to prevent the facilitation of tax evasion. HMRC has published guidance informing people about the offence and the obligations it imposes.

The offence

The legislation for the new offence is in sections 44 to 53 of the Criminal Finances Act. It applies to both companies and partnerships, and effectively makes a business liable for the criminal acts of its employees and other persons associated with it.

There are in fact two new offences. The first applies to all businesses, wherever located, in respect of the facilitation of UK tax evasion. The second applies to businesses with a UK connection in respect of the facilitation of non-UK tax evasion.

The employee or associated person must have criminally facilitated the tax evasion in their capacity as an employee or associated person providing services to the business. A business cannot be criminally liable for failing to prevent the facilitation of tax evasion if the facilitator was acting in a personal capacity. The action must be deliberate – the offence does not apply to accidental, ignorant or negligent facilitation of tax evasion.

A business can be liable even if the senior management of the business was not involved or aware of what was going on. But it will have a defence if it can show it has put in place reasonable procedures to prevent the facilitation of tax evasion taking place, or that it was not reasonable in the circumstances to expect there to be procedures in place.

Guidance

A government press release on 30 September headlined 'Stop facilitating tax evasion or face criminal prosecution, HMRC tells corporations', publicises the introduction of the new offence.

A second piece of guidance – Tell HMRC about a company helping people to evade tax – sets out how a business can self-report if it thinks it is liable under the new offence. Self-reporting does not guarantee protection from prosecution but it could be helpful in a defence. It is important to bear in mind that self-reporting must be done with care and – as HMRC suggests – it is wise to take professional advice first.

HMRC published the final version of its detailed guidance on 1 September 2017 – see *Tackling tax evasion: Government guidance for the corporate offence of failure to prevent the criminal facilitation of tax evasion*.

There are a number of sources of guidance available for members: an ICAEW webinar was presented by Jennifer Haslett, head of corporate crime at HMRC and David Stevens, integrity and law manager at ICAEW tinyurl.com/ICAEW-LaunGuid

The September edition of *TAXline* (the Tax Faculty's monthly publication) includes an article by Jason Collins of Pinsent Masons on this subject: see tinyurl.com/TX-Sep17

HMRC GUIDANCE ON OFF-PAYROLL RULES (IR35)

HMRC has updated its guidance on when off-payroll working rules apply to a worker providing services through an intermediary and when one needs to check.

A worker is involved in off-payroll working when they work for a client through their own intermediary, often a personal service company (PSC), but would be an employee if they were providing their services directly.

As off-payroll workers are paid through their own intermediary, they pay income tax and national insurance contributions (NICs) in a different way from an employee.

The off-payroll working rules are in place to make sure that where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax and NICs as an employee.

These working rules need to be considered by those who provide services to a client through their own intermediary or hire people who provide their services through an intermediary to public sector clients.

The intermediary can be: a worker's own limited company – known as a PSC; a partnership; or another individual.

The guidance explains the different roles and responsibilities for applying these working rules depending on whether a worker provides their services in the public or private sectors.

The change to the guidance is an explanation that off-payroll rules may apply if an agency, umbrella company or similar third party supplies a worker by engaging the worker's intermediary.

See tinyurl.com/BM-GOV-IR35

UNDERSTANDING EVASION BY SMALL AND MID-SIZED BUSINESSES

HMRC has published research report 433, *Understanding evasion by small and mid-sized businesses*, which looks at what causes businesses to engage in tax evasion and whether they hold particular attitudes making them more likely to seek to evade tax. We are pleased to note that using an agent seemed to limit engagement in evasion by the majority.

The particular attitudes of business owners, which differentiate evading and non-evading businesses, are listed as:

1. sense of citizenship – an individual's core values and beliefs;
2. distinction between personal and business assets – the extent to which business affairs and assets are kept separate from an individual's own (or family) affairs and assets;
3. perceived risk – both in terms of the risk itself, and the business' ability to manage or mitigate risks;
4. perceived financial imperative or reward; and
5. willingness to seek out or create opportunities to evade: the degree of strategic planning involved in evasion activity.

The report goes on to link the five attitudinal variables above with external influences, ie, social norms, media noise, market pressures and agent use, to determine four core types of evader:

- unthinking evaders: for whom low level evasion is habitual, and often adopted without thought;
- invested evaders: for whom evasion is seen as an unfortunate financial necessity in order to grow or to stay in business (where they believe the end justifies the means);
- lifestyle evaders: for whom evasion enables a lifestyle otherwise out of their reach, which they feel is justified by the taxes they do pay; and
- systematic evaders: where evasion is actively considered and integral to the business model.

The research was conducted with a relatively small number of businesses (40 small, and five mid-sized), but did pick up some behaviours that will sound familiar. It should be noted that the sample included only businesses that were actually engaging in tax evasion.

The sort of evasion reported ranged from the obvious (so businesses which dealt with cash-paying customers had more opportunity to under-declare income) to those employing their teenage schoolchildren who were not really working, but whose personal allowances could be used to 'save' tax. There were those business owners who over-claimed personal (but related) expenses which could feasibly have been actual business expenses, and also those who bought new assets for their business (such as a computer), but who then used these at home and took the old home one for business use.

Clearly these will all mount up in terms of lost tax to the economy, but quite how much it contributes to the £5.2bn tax gap estimated to attribute to this sector by HMRC, it is difficult to conclude from this research. See tinyurl.com/BM-SMM-Evade

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

NEW GUIDES FOR MENTAL HEALTH AWARENESS

To mark World Mental Health Awareness Day, Acas released a new set of guidance aimed at helping employers assist employees appropriately. *Promoting positive mental health in the workplace* is a 22-page guide that outlines the responsibilities of an employer that are enshrined in law, and offers a five-step plan for improved practices.

Step one involves understanding the meanings of the terms mental health and mental ill health, and addresses the issue of stigma.

Step two looks at how to make a commitment to improving mental health at work.

Step three is about identifying workplace factors that can contribute to problems and working out remedies and support services.

Step four addresses how employers can set up their workforce to create better awareness and understanding of mental health.

Step five contains resources and support suggestions specifically for employers/managers and employees.

Download the detailed guide from the dedicated page at tinyurl.com/BM-Acas

Associated pages include one on dealing with stress in the workplace and how to manage staff experiencing mental health difficulties (tinyurl.com/BM-AcasSt).

You can also download a document with tips on how to approach a sensitive conversation regarding mental health at tinyurl.com/BM-AcasTip

APPRENTICESHIP EMPLOYEE GROWTH OUTPACING GRADUATES

An annual survey tracking the employment of graduates and non-graduates has uncovered a surge in apprenticeships.

The Institute of Student Employers found that hiring of graduates increased by just 1% this year, up to 20,614 individuals hired. This compared with an increase of 19% in the number of apprentices taken on – 11,016 were hired in the past year.

While apprenticeships are now at a seemingly conservative 54% of the volume of graduate roles, this has risen from 44% in just a year.

Becoming more popular are degree-level apprenticeships, which grew at the fastest rate (50%) compared with other types of apprenticeship.

Internships were also on the rise, up 3% on 2016 to 6,833 placements.

NO LEAVE FOLLOWING BEREAVEMENT

A survey has found that up to a quarter of workers have failed to take time off work when a loved one died. In addition one in 10 people asked took just one day of compassionate leave.

The survey of 2,000 people also revealed that the majority (98%) believed having some level of compassionate leave would be acceptable. Up to 22% thought that three to five days was acceptable for the loss of a parent, grandparent or sibling, while 25% felt three weeks or more would be suitable for the death of a partner. Some 34% thought three or more weeks for the death of a child would be acceptable.

Jeremy Field, managing director of funeral firm CPJ Field, which conducted the survey, said: "It's clear there's a gap between how much compassionate leave UK workers feel they need and how much they are actually able to take."

FIRST AUTO-ENROLMENT PROSECUTION LOOMS

The Pensions Regulator is to pursue its first prosecution against a company accused of deliberately not putting staff into a workplace pension.

The Pensions Act 2008 made it mandatory for all UK employers to enter certain workers into, and to contribute towards, a pension scheme. Staging dates for enrolment were set in 2012, and all existing firms were to have enrolled by April 2017.

A bus company in the North West is accused of not complying with pensions law on behalf of 36 members of staff and a magistrate's court appearance by its managing director is expected this autumn.

FINANCIAL REPORTING

YOU CAN FIND OUT MORE ON THE LATEST FROM THE FINANCIAL REPORTING FACULTY AT ICAEW.COM/FRF

BREXIT

The Financial Reporting Faculty has published *Brexit: implications for financial reporting*. The report sets out the faculty's current thinking on some of the key issues the UK will face post-Brexit. In particular it comments on:

- the use of IFRS by UK listed companies and the future scope of IFRS reporting in the UK;
- how the UK, as a major user of IFRS, can continue to exercise a level of influence in international accounting that fits in with its position as a global financial centre;
- the options available to the UK for IFRS adoption as an IFRS jurisdiction outside of the EU;
- the possible features of a new national mechanism for the endorsement of future IFRS standards and changes to existing standards; and
- the potential for longer term changes beyond IFRS reporting, in particular regarding relevant company law and the use of technology in corporate reporting.

The report sets out 16 policy recommendations aimed at policymakers and their constituents, which are offered both as a basis for conversations about the impact of Brexit on UK reporting and as an illustration of the challenges that similar national economies face in using international standards.

The faculty would welcome your comments on these recommendations.

Read the report at tinyurl.com/BM-BrexImp

IFRS 9 AND IAS 28

The IASB has published amendments to IFRS 9 *Financial Instruments* and to IAS 28 *Investments in Associates and Joint Ventures*, effective for accounting periods beginning on or after 1 January 2019.

The amendments to IFRS 9 allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss.

The amendments to IAS 28 clarify that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9.

The IASB has also published an example that illustrates how companies apply the requirements in IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.

For more information visit tinyurl.com/BM-IFRS9-IAS28

2017/18 ANNUAL REPORTS

The UK's FRC has written to listed companies to highlight changes to reporting requirements and key areas where improvements can be made when preparing annual reports for the 2017/18 reporting season. The letter draws companies' attention to areas of investor focus, including:

- the implementation of new accounting standards (IFRS 9, IFRS 15 and IFRS 16);
- non-financial reporting;
- viability statements;
- dividends;
- critical judgements and estimates; and
- defined benefit pensions.

The UK's Financial Reporting Lab has also published an implementation study, *Disclosure of dividends – policy and practice,* with recommendations on how disclosures could be improved.

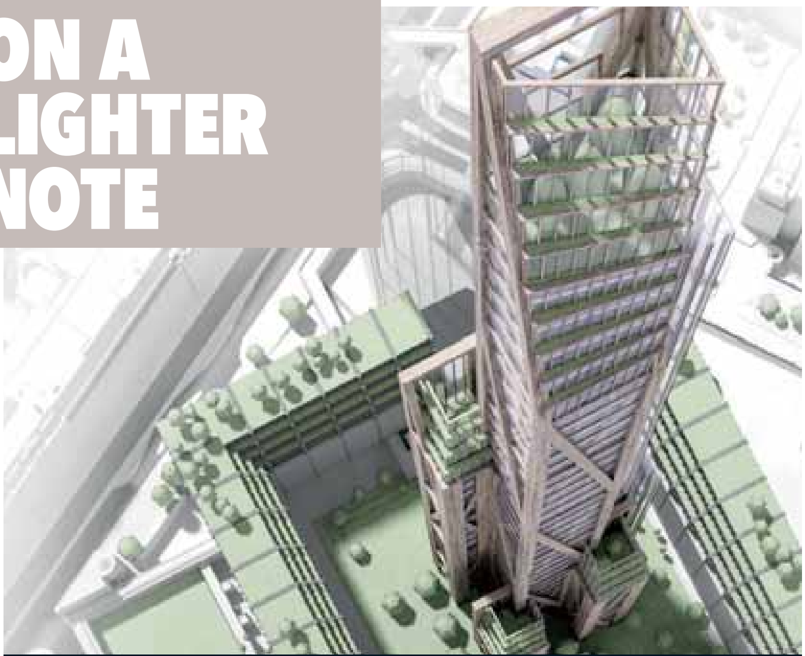
Read the FRC letter at tinyurl.com/BM-FRClet

TRANSACTIONS WITH DIRECTORS

As a result of regulations issued in 2015, small companies are required to disclose material transactions entered into with their directors that have not been concluded under normal market conditions. The Financial Reporting Faculty's latest FRS 102 update *Small companies: disclosure of transactions with directors* answers some of your questions about what companies applying the UK small companies regime need to disclose. It also offers some guidance on factors to consider when determining whether a transaction, for example directors' remuneration, has been concluded under normal market conditions or not.

Download the FRS 102 update at tinyurl.com/BM-FRS102Up ●

ON A LIGHTER NOTE

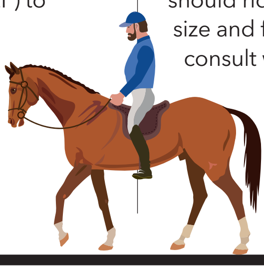


REACH FOR THE PLY

A conceptual project proposed by PLP Architecture for an 80-storey tower to be constructed in wood within the Barbican, London, might raise eyebrows owing to growing concerns about fire safety in high-rise buildings. PLP says, however, that the cross-laminated timber (CLT) – made from gluing layers of sustainable wood together – is stronger than concrete and more fire resistant. CLT, also known as mass timber, is lighter and more environmentally friendly than current materials and requires significantly less labour. Australia, Norway and Canada have already approved high-rise buildings made of CLT, dubbed plyscrapers. For more about PLP's proposals, see tinyurl.com/BAM-PLP-tower

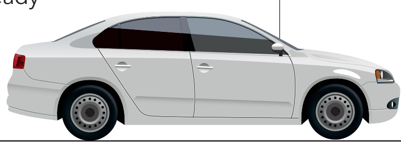
LIGHTENING THE LOAD

Concerns about the increasing weight of riders has led the British Equestrian Federation (BEF) to commission research with World Horse Welfare into the problem. Study leader Dr Sue Dyson, an equine veterinarian from the Animal Health Trust, said: "This study does not mean that heavy riders should not ride, but suggests that if they do they should ride a horse of appropriate size and fitness." The BEF will now consult with member groups to establish new guidelines. Great Yorkshire Show organisers are already asking riders to dismount if they look too heavy.



WHITE TOPS CAR COLOUR CHARTS

Global motor vehicle paint manufacturer PPG has released data on the colour preferences for its largest markets last month. The most popular colour in the top five European countries is white (apart from Germany where it is black). The most positively correlated countries in terms of car colour preferences are France and Italy at 0.978 while the least similar colour preferences are shared between France and Germany at less than 0.65. Jane Harrington of PPG said: "White, black, grey and silver continue to be popular colour choices, but we're seeing a steady increase in blue and brown."



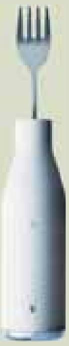
$181m

COLORADO'S NET TAX INCOME BETWEEN Q1-Q3 2017

58%

OF CONSUMERS DID NOT NOTICE ANY SIGNIFICANT BENEFIT WHEN SWITCHING SUPPLIERS

SLURPS OF SHAME SOLVED



Nissin Food Products, a Japanese food firm, has developed a high-tech fork that masks the socially-awkward slurping sound from eating noodles in public. Traditionally, the noise correlates to diner's appreciation of the noodles, but is has also led to phrase "hu-hara" ("noodle harassment") on social media. The fork looks like an electric toothbrush and sends a signal to a user's phone which then plays sounds of flowing water to mask the noise. The fork will set buyers back about £100.

DOPE TAX IS PROVING PROFITABLE

Colorado has at least one reason not to regret its decision to legalise the recreational use of marijuana in 2014. Last year, the annual tax income stood at nearly $200m, while for the first three quarters of this year the US state has already netted $181m. Tax is applied at 27.9% on the base cost of the drug, in addition to license fees. This unusual revenue is also proving lucrative elsewhere. Washington state raised $256m and Oregon $60m in 2016. Perhaps the chancellor, Philip Hammond, might care to look at this method to ease the UK's deficit problem.

THE POWER TO CONFUSE

A survey last month from Echo Managed Services showed 58% of consumers did not notice any significant benefit when switching energy suppliers. On top of that, 75% stated that they were no happier with their new supplier than the old one.