

# Business & Management

**MUST IT BE TAXING**  
HOW WILL REFORMING  
CORPORATION TAX  
BENEFIT BUSINESS?

**BRAVING THE STORM**  
REVIVE YOUR CAREER  
BY EVALUATING YOUR  
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## October 2017 Issue 258



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# The price of power



The ongoing discussions about the price and value for money of heat and light falls squarely in finance's space.

UK energy prices operate in a competitive environment and Office for National Statistics' research backs the claim by energy companies that the prices faced by UK domestic consumers are fair – UK domestic prices are average in the G7, although 8.3%

above the median. The situation is not so rosy when taxes are removed, however, with the average UK price (at 14.65p/kWh) second in the G7 – some 44% above the IEA median. Norway's electricity only costs 4.8p/kWh before taxes, for example.

Some of this extra cost might be due to the recent movement in sterling against the dollar as the UK imports both the raw materials to generate electricity and the energy itself, but most of the price must be due to an imperfect market or to a phenomenon known as "sticky prices". The resistance of prices to change when the market would imply a different price could be a deliberate ploy by energy companies to maximise profits or the difficulty in changing prices too frequently.

Ofgem, the energy regulator referred not to sticky prices, but to "sticky customers" in its 2012 assessment of the UK energy market, blaming the consumer for failing to look for bargains to explain the perceived failure of market pricing. This apparently extraordinary assessment is sadly backed by polling. Ofgem's own figures showed that some 16% of consumers switched suppliers in 2016, one of the highest levels in the world for energy supply. Having said that, the dominance of the Big Six (British Gas, Scottish Power, RWE npower, Eon, SSE and EDF – almost all of which are owned by overseas governments) in the UK market means that we are effectively in an oligopolistic situation.

Energy price comparison site UK Power claims however that 74% of consumers switching energy choose a supply from outside the Big Six. Smaller suppliers now account for some 13% of the total domestic energy supplied in the UK, up from 1% in 2012. This significant movement should address the sticky price of energy, but sadly it won't address the sticky consumer.

The business energy market is more competitive with the Big Five claiming 75% of the market. It would however, be an idea for members to check their supplies in both their own homes and in their business. After all, we wouldn't want to be seen as the sticky customer.

We hope that you enjoy this copy of the magazine – please contact [matthew.rideout@icaew.com](mailto:matthew.rideout@icaew.com) or [robert.russell@icaew.com](mailto:robert.russell@icaew.com) if you have any questions or comments about the Business & Management Faculty.

**Robert Russell**  
Technical Manager

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

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## NEWS

## RIVAL APPS EXPLOIT UBER'S LONDON TROUBLES



Transport for London's suspension of

Uber's licence in the city last month was accompanied by a series of rival firms announcing expansion plans. US rival Lyft started exploratory talks with TfL within days of the announcement to operate in London. Likewise, Daimler AG is starting to run shared 12-seater minibuses in London later this year, in co-operation with Via Transportation Inc, whose on-demand shared taxi app is used to book one million journeys a month across New York, Chicago and Washington. The Via service works by connecting multiple passengers who are travelling the same way, allowing riders to share a Mercedes van. "On-demand ride-sharing offers many new ways of making city traffic efficient, needs-based and sustainable," said Volker Mornhinweg, head of Mercedes-Benz Vans.



**\$333bn**

The value of Norway's sovereign wealth fund














**64<sup>th</sup>**

The highest UK entry in the *Forbes* rich list

## US ENTREPRENEURS DOMINATE FORBES RICH LIST

*Forbes'* updated list of the world's richest sees businessmen based in the US continue to take most of the top 10 slots. Spanish retail tycoon Amancio Ortega is the highest-placed non-US-based person, and *Forbes'* ongoing real-time rankings briefly placed him in the top spot after stock market fluctuation boosted his wealth during August. The highest UK entry is at number 64, although as a combined wealth position, it may be challenged.

1  <b>Bill Gates</b> (61) \$86bn, Microsoft, US	6  <b>Carlos Slim Helu</b> (77) \$54.5bn, Telecom, Mexico
2  <b>Warren Buffett</b> (87) \$75.6bn, Berkshire Hathaway, US	7  <b>Larry Ellison</b> (73) \$52.2bn, Software, US
3  <b>Jeff Bezos</b> (53) \$72.8bn, Amazon.com, US	8  <b>Charles Koch</b> (81) \$48.3bn, Diversified, US
4  <b>Amancio Ortega</b> (81) \$71.3bn, Zara, Spain	8  <b>David Koch</b> (77) \$48.3bn, Diversified, US
5  <b>Mark Zuckerberg</b> (33) \$56bn, Facebook, US	10  <b>Michael Bloomberg</b> (75) \$47.5bn, Bloomberg LP, US
	64  <b>Hinduja family</b> \$15.4bn, Diversified, UK

## FLAT-PACK ASSEMBLY PROBLEMS? THERE'S NOW AN APP FOR THAT

Ikea announced that it is purchasing TaskRabbit, a US-based gig economy app for finding assistance with tasks

including assembling Ikea furniture. According to Recode, Ikea wants to use TaskRabbit to strengthen its digital customer service as it competes with Amazon and others that offer home-installation services.

## NORWAY CHANGES TACK ON SOVEREIGN WEALTH FUND INVESTMENT

Norway's sovereign wealth fund announced sweeping changes to its \$333bn bond portfolio last month, cutting back its bond index from 23 currencies to securities in dollars, euros and sterling, according to a letter sent to the Norwegian

Finance Ministry. "In the long term, the gains from broad international diversification are considerable for equities but moderate for bonds," the fund said. "With 70% of our investments in internationally diversified equity, there is little reduction in risk obtained with bond investments across a large number of currencies."



**£2bn**

The combined investment into electric car and battery tech by Dyson. Another £500m will be spent on other products

## DYSON AIMS TO CLEAN UP ON BATTERY-POWERED CARS

Dyson announced late last month that it would be investing £1bn into battery technology and another £1bn into the design and manufacture of premium electric vehicles for sale from 2020. The company has been working on electric battery technology for almost two decades. "We know this is a crowded market," said the company's founder Sir James Dyson, but he predicted Dyson Car division would "quickly" outgrow the rest of the company and be profitable. Morgan Stanley had previously noted the credibility of such a venture because of the battery technology that Dyson already possesses.



DYSON





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# EVENTS & WEBINARS

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## EVENTS

ICAEW.COM/BAMEVENTS

### TECHNOLOGICAL ADVANCES: TWILIGHT OF THE FINANCE FUNCTION?

**21 November 18:00-20:00**  
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 from 17:30.

To book a place, please visit [icaew.com/bamnovent](http://icaew.com/bamnovent)

## WEBINARS

ICAEW.COM/BAMWEBINARS

### FREE 20-MINUTE LUNCH WEBINARS

#### GRAPHS - CLARITY AND IMPACT IN YOUR DOCUMENTS AND SLIDES

**18 October 12:30**

Visual presentation of information can be either an enhancement of, or a detraction from, the main points you might be trying to make. Jon Moon has years of experience teaching how to present with clarity and impact. This webinar will show you how to improve your presentations with words in tables.

To book a place, please visit [icaew.com/lunchoct](http://icaew.com/lunchoct)

#### BREXIT - ECONOMIST OPINION AND FD FEEDBACK

**25 October 12:30**

Matt Kilcoyne, head of communications at the Adam Smith Institute, will provide a practical update on Brexit and attempt to clear the smoke surrounding the fractious negotiations. He will be joined by Nigel Hastilow, who will offer FD opinions on Brexit to date.

To book a place, please visit [icaew.com/lunchoct2](http://icaew.com/lunchoct2)

### TRENDS IN FRAUD - MINIMISE YOUR RISK

**1 November 12:30**

David Kirk, chairman of the counter-fraud charity Fraud Advisory Panel and anti-fraud partner at US law firm McGuireWoods, will quickly run through emerging fraud trends. This practical webinar will update you on the latest trends in fraudulent activity and detail the steps that you should take to avoid your business becoming a victim of financial fraud.

To book a place, please visit [icaew.com/lunchnov2](http://icaew.com/lunchnov2)

### 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). 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](http://icaew.com/lunchnov)

### 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 (IEA) presents a one-hour webinar on the state of the UK economy five months after the UK general election. Stephen will cover current growth, the state of UK public finances, growth prospects, and touch on Brexit negotiations and trade deals.

To book your place, please visit [icaew.com/bamnovwebinar](http://icaew.com/bamnovwebinar)

#### EXCEL SKILLS

**5 December 10:00**

John Tennent, our Excel guru, offers his 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](http://icaew.com/bamdecwebinar)

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# UNCERTAIN TIMES

What do businesses want to know about Brexit?  
If one thing's certain, we don't want months of  
needless uncertainty, says **Nigel Hastilow**

The partisan nature of Brexit reporting combined with heavy pro-European Union lobbying from the EU Commission (and even from within the UK government itself) makes analysis of the potential outcome of our negotiations difficult.

Winston Churchill had a motto during the Second World War when the world seemed to be collapsing around him: "KBO," he would say. "Keep bugging on." That's the attitude of British businesses today as politicians wrangle about whether Britain will ever actually be allowed to leave the EU and under what terms.

## POWERLESS SPECTATORS

Companies can lobby and advise, make a noise and plead for their own industries, but by and large they are powerless to alter the course of the negotiations, always assuming the two parties are truly taking part in constructive talks rather than simply sniping at each other. Despite the many hours of airtime devoted to the tortuous process, it is almost impossible to understand exactly where the UK stands in relation to Brussels now or where we will stand in the future.

It is even difficult to know when Brexit will actually take place. Officially, it's in March 2019, but prime minister Theresa May has announced a two-year extension. There's every likelihood our

involvement will go on after that, especially given the EU's negotiating stance. Indeed, this looks increasingly like the Eagles' song *Hotel California*, "you can check out any time you like, but you can never leave". This makes serious business planning for Brexit almost impossible. The motto has to be Churchill's: "KBO."

Talk to ICAEW chartered accountants running businesses up and down the country and that's precisely what they are doing. They are already feeling some of the impact of Brexit, of course. Some find that their EU workers are going home or demanding 20% pay rises to compensate for the devaluation of sterling.

The exchange rate is also hitting companies which rely heavily on imported goods – one insolvency practitioner says he has just handled his first Brexit-related failure with a printer reliant on imported paper. On the other hand, the manufacturing industry is a bright spot on the economic landscape because British exports have become so much more inexpensive.

Caution is the watchword, however. It's tempting fate to make long-term decisions in the face of Brexit uncertainty.

As one Midlands finance director says: "Can you get much worse than this when it comes to confidence? People are in a state of hiatus; customers are starting to hesitate before making

orders. If you are doing something in the UK it's unwise to do something for the next 12 months. To me it's amazing the economy has been so resilient for so long."

## MATTER OF CONFIDENCE

The Bank of England (BoE) is now preparing to put up interest rates because inflation is over its 2% target and likely to stay that way. The effect of that is likely to be modest, given that the BoE is likely to increase the base rate in baby steps of a quarter of a per cent at a time. But it won't make life any easier for businesses, especially as it seems bound to have an impact on consumer confidence, which is already looking fairly fragile.

Businesses used to coping with the effects of policies and events beyond their control will continue to concentrate on the fundamentals and hope that eventually politicians can shine a light on the way ahead.

In the meantime, we just have to sit back and trust we are going in the right direction through the pea-souper of Brexit. ●



**Nigel Hastilow,**  
director, enterprise,  
ICAEW

# TAKING CHARGE OF CHANGE

If businesses must embrace change more frequently, why do managers find it so unsettling? **Sally Fisher** explains how to turn it to your advantage



If you have been in your career at least 18 months, there is a high probability you have experienced at least one corporate change programme. How well did it work out for you? Many of us can look back over several restructures, technology implementations, process changes, new leadership regimes and culture changes.

Over the past 20 years I have worked as an international consultant, advising private and public sector clients to predict, shape and manage the impact of transformation on their people.

Whether working in Europe, Asia or the Americas, I have observed how thousands of people have reacted to those changes. I have also experienced changes first hand and am fascinated by how some people make change programmes a catalyst to accelerate their careers, while others let them stall or even stunt their career trajectory.

There are some great lessons we can all learn from those who make change programmes work well for them. Many feel a victim of change, powerless to affect it, but actually we have much more control and influence than we think.

So how do you want to influence the outcome on your career of the next corporate change programme that comes your way?

### UNEXPECTED DISCOVERIES

Much is written about what organisations must do to successfully deliver the transformation's expected business case and return on investment. Comparatively little has been published about what it takes to make a change programme work well for you and your career.

Several years ago I was working with a global retail business as it transformed its working ways and strategy to better drive growth through technology. This was going to be a significant shift of culture, technology and process – every department and function was going to be affected. One director, who had already proven his ability to make rapid and sustainable change in his own function, was now asked to lead a

global team that was struggling to make the significant shift in performance and culture needed for the organisation's future success. He asked me to observe an early meeting with the leadership team he had inherited. I was not expecting to see what happened that day.

After sharing his vision and declaring that he was keen to hear how others saw the future, he paused, took stock of everyone in the room and said: "In six months' time, I expect only 30% of you to still be sitting around this leadership table."

### HOW WOULD YOU REACT?

There was a very clear divide in the room that day. I could see by the body language of the team members how they were going to respond: half looked angry or terrified; 30% looked inspired; 20% looked resigned to their fate.

In the weeks that followed, the actions of each person were consistent with their initial reaction. A few pro-actively sought time in the leader's diary to discuss their ideas and to shape the role they wanted to play. One or two requested early retirement. Some did their best to undermine the new leader, or were passively aggressive.

What was interesting was that the changes the leader needed to bring about were all about investment and impact, not cost-cutting. There was room at the leadership table for everyone who wanted to step up to the challenge of a different way of operating. But the leader didn't want any passengers in his team, so he gave the choice to them. He was never faced with any dilemmas about who to keep. Each member of the team effectively made the choice for themselves, both emotionally and through their actions.

### TAKING CHARGE

Those who turn change into an opportunity to advance their careers and reputations do three things really well:

## 01

### GET ON THE FRONT FOOT

Ever listened to the announcement of the next change in your organisation and thought: "If I sit tight this will all blow over and I can carry on as normal"? We've probably all been guilty of this at some stage. But it never serves us well.

Changes are being implemented more frequently and more rapidly than ever before. Often the announcement of change is like the starter gun for a middle distance race rather than a marathon. Getting a good start looks like deciding how you want to actively engage in making the change a success. Take the initiative, don't wait for instructions.

## 02

### BE HONEST WITH YOURSELF

Getting a good start also looks like being honest with yourself about your emotional reaction to the changes. Are you angry? Excited? Fearful? Or confident? Take the time you need to acknowledge those emotions and understand what beliefs they are founded on. Ask yourself: "If I knew I would be successful in the new world, what would I do right now to start moving towards it?" Then do it.

## 03

### DOUBT YOUR DOUBT

One of the most valuable insights I have gained into how to help myself be at my best even in challenging times was the moment I realised that the nagging voice of self-doubt in my own mind wasn't a shameful secret. It is a totally normal part of the human condition.

Why do we all pay so much attention to the voice in our head that doubts or criticises us? Maybe because we often use it to drive ourselves to try harder. Maybe because it is so habitual that we can't imagine a world in which we are caring, considerate and encouraging of ourselves.

Whatever the reason, try experimenting with simply doubting your voice of doubt. After all, your doubt is just that – a doubt. You are not certain you are not good enough, you are just afraid you might not be. So next time your voice of doubt speaks in your head, why not doubt it and take on that challenge anyway? You will be amazed at what happens. You will discover that your biggest obstacle was just your doubt – so doubt it! ●



**Sally Fisher, leadership and career coach and founder of Ah!Ha Moments. She has worked as a lawyer at Linklaters and a partner at Deloitte leading its human capital financial services practice [ahhamoments.co.uk](http://ahhamoments.co.uk)**



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# KEEP IT SIMPLE

With corporate taxation set to be streamlined, David Adams looks at whether businesses see the benefits



Tax is complicated and so is modern business, but there is clearly scope for simplifying the UK's labyrinthine corporation tax system. The pressure for simplification is becoming increasingly urgent, in part because Making Tax Digital (MTD) is set to be extended to businesses over the years ahead, but also because it could be an important way to help make the UK look as attractive a place to do business as possible in the post-Brexit era.

Since its foundation in 2010, the Office of Tax Simplification (OTS) has been examining ways in which complexity could be removed from tax. In July 2017, following a year of research and consultation, it published its review of corporation tax, looking in particular at four areas: simplifying tax for smaller companies; aligning tax rules more closely with accounting rules; tax relief for capital investment; and some additional issues affecting the very largest companies.

But the guiding principle of the process, according to the review, was that corporation tax should be levied on profits disclosed in accounts after deduction of all legitimate business expenses, with a minimum number of adjustments. The starting point for reform, it stated in the review "is that tax should follow the accounts" as these reflect commercial reality.

A number of other key proposals are made. Micro-companies using FRS 105 should be taxed on accounting profit; while for other small companies the tax calculation should be simplified to require only a minimum number of adjustments.

Optional cash accounting should be permitted for companies with a turnover

## **"For small companies moving to a system where you pool profits and deduct expenses [the proposal] will make life easier"**

under £150,000; and MTD reporting should be integrated with the existing iXBRL reporting system.

The accounting definition of capital expenditure should be used for tax purposes and there should be alignment of the definitions of trading/property deductions and management expenses.

Different sources of income should be integrated into a single profit or loss calculation for tax purposes, with losses fully pooled - meaning abolition of the schedular system in which different income sources are taxed separately. And the capital allowances (CA) system for managing asset depreciation should be replaced.

The review concludes that its recommendations could enable reforms that would allow corporation tax "to fit properly with the UK's aspirations and the needs of 21st century business", although further work is needed to determine costings, impacts and transitions.

The latter point was echoed by the chancellor Philip Hammond when he wrote to the OTS in mid-August to thank

them for the report and to express his own commitment towards simplification of the system, particularly for smaller companies.

Hammond said the proposed alignment between tax and accounting definitions merited further consideration, but that would need to take into account the potential impact on the Exchequer and progress towards MTD for business. He agreed that changing the schedular system was a sensible long-term objective, but said that as this would create transitional burdens and uncertainty, he wanted to develop a better understanding of how it could work in practice.

The most promising aspect of his response, from the OTS point of view, was a request for further investigation of the proposal to replace CAs with accounting depreciation, and a commitment to set the terms of reference for this new enquiry within weeks.

Bill Dodwell, leader of the tax policy group at Deloitte, believes the proposal to replace CAs with tax relief for depreciation may be the best idea in the report. "It would be useful for companies of all sizes," he says. "The chancellor has told the OTS to go and do some more work on this. I hope to see that sooner, rather than later - I don't think it's going to need decades of study."

Paul Morton, tax director at the OTS, also highlights the encouragement offered by the chancellor in relation to the proposal. "We were very pleased... because that was an area lots of people mentioned in the consultation, particularly in relation to small and medium enterprises," he says. "We haven't yet agreed the terms of reference, but it's clear there will be progress at a reasonably quick pace."

### **THE ICAEW VIEW**

"We always welcome and support simplification," says Sarah Ghaffari, technical manager, SME business tax, in the ICAEW Tax Faculty. Her primary concern about the proposals is the timing of any possible changes, in light of the introduction of MTD for VAT from April 2019. "That matters, because businesses aren't going to want to run two separate systems," she

explains. "Any changes made need to be thought about in conjunction with MTD for VAT."

ICAEW also broadly supports the proposal to move from the schedular system to one where profit and loss would be considered together, particularly for smaller businesses that often do not need to make any further tax adjustments after going through the process of breaking accounting profit into different income streams

for tax purposes. "For small companies moving to a system where you pool profits and deduct expenses [the proposal] will make life easier," says Ghaffari.



But she thinks the most important of all the proposals may be the commitment to set out a five-year roadmap for corporation tax "to set out what government intends to do and give businesses fair warning of what's on the horizon" and to include further consultation.

"But we are definitely encouraged by what the OTS has produced. These are sensible suggestions, and the report is really substantial."

But Stephen Herring, head of taxation at the Institute of Directors (IoD), strikes a note of caution. “Our membership have been incentivised to invest in capital equipment through the Annual Investment Allowance – especially before the qualifying cap was reduced from £500,000 to £200,000 [in 2017],” he says. “We strongly support its retention, although hopefully the existing AIA and CA regimes could be simplified. We are convinced that those allowances nudge people into more capital expenditure and thus probably have a positive effect on productivity.”

Abolition of the schedular system is also an attractive goal for many. “It’s understandable that the chancellor might say that at the moment getting rid of it would cost too much money,” says Dodwell. “Companies would either be neutral or better off as a result, so the only loser would be the exchequer. But it would be easier to understand and administer, and it would make the UK a more attractive place to do business.” However, he adds: “I don’t think it will be happening any time soon.”

Toby Ryland, corporate tax partner at HW Fisher, would also like an end to the schedular system and is more optimistic about how quickly this could happen. “I could see that starting to get some traction over the next few years, just because I can’t see the benefits in retaining the schedular system,” he says. “Why don’t we just have a single figure to reflect economic reality?”

Dodwell also recognises the theoretical value in aligning tax and accounting rules, but questions how it would work in practice. “International accounting standards are changed now and then by the international standards board, and it thinks nothing at all about

## “There’s nothing in the OTS proposals the Treasury can’t afford to introduce... whether it has the willingness to do any of it is the big question”

the UK tax system when it’s doing that,” he points out. “So in practice I don’t think that’s very easy.”

Although the IoD would like to retain the CA system in some form, in general it also supports the proposals made by the OTS, says Herring, particularly for smaller companies. But he also suggests that another way to approach the issue would be to separate out corporation tax to apply in full only to the largest 10% or so of companies – because most complex technical changes made to the tax actually only apply to these companies anyway.

At present, of course, there are no concrete plans in place to implement any of the OTS proposals. Such changes would usually take a long time to implement and the present government has only a tiny majority in Parliament and the huge issue of Brexit overshadowing all other policy priorities. There is an argument that simplification of the tax system would help to make the UK look like a more attractive place to do business during

the transition towards and beyond the eventual implementation of Brexit – but it is also the case that some of the proposed changes might become easier to implement after the UK has actually left the EU.

But Herring rejects the idea that political circumstances should hold up progress. He points to significant changes made to the system by radical chancellors in the past, including the introduction of corporation tax by James Callaghan in 1965, when the UK economy was facing serious problems, and major changes made by Geoffrey Howe to the tax system during the political and economic turmoil of the early 1980s.

“There’s nothing in the OTS proposals that the Treasury can’t afford to introduce and there’s nothing it doesn’t have the time to introduce,” he says. “Whether it has the willingness to do any of it is the big question.”

At the time of writing there had been very little press coverage of the OTS review and the chancellor’s response to it, which may also account for a relatively muted response from businesses to the proposals. But Morton says the OTS would very much welcome further input from business about how the proposed changes could work in practice. “If people have strong views about areas they would want to look at sooner rather than later, it would be good to hear that from businesses themselves,” he says. ●

### Further information

To see the full OTS review, including all 32 of its recommendations, visit [tinyurl.com/BAM-GovOTSReview](https://tinyurl.com/BAM-GovOTSReview). To see the chancellor’s response in full, visit [tinyurl.com/BAM-OTSchancellor](https://tinyurl.com/BAM-OTSchancellor)

### THE FD VIEW PETER FENTON, GROUP FINANCE DIRECTOR, MARINE & INDUSTRIAL TRANSMISSIONS



“The proposals as outlined would appear to be very sensible. Anything that simplifies the area of tax calculation has to be a good thing, although accountants who charge for working out corporation tax (CT) would argue otherwise.

“From our perspective, I calculate a CT figure every month based on our P&L accounts. After our tax

accountants have done all their calculations it comes to within a few thousand pounds of my estimate from the reporting P&L – so it seems to be a lot of work for very little benefit...

Having said that, companies with large capital expenditure programmes may argue differently.

“Transparency and simplification are to be applauded, but I agree with

the chancellor’s response in that they need to work out how many winners and losers there will be.

“In terms of the impact it would have on us, it may help to reduce our fees on tax calculations, but the auditors will probably still need to audit the tax calculation, hence the benefit is likely to be relatively small. But every little helps.”



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The Confederation of British Industry (CBI) recently produced a report entitled *Now Is The Time To Innovate*.

It called for a UK government commitment to spend 3% of GDP on research and development (R&D) by 2025, up from the current 1.7%. That compares to South Korea at 4.3%, Sweden at 3.3% and Germany at 2.9%.

The call came despite prime minister Theresa May declaring at the end of 2016 that an extra £4.7bn in R&D would be invested in the UK. The CBI, which said the government pledge was positive, clearly wants more. It said: "Innovation drives productivity and raises living standards. It pulls in overseas investment, supports thousands of jobs and helps businesses be more competitive and successfully export."

To back this up, the CBI provided evidence stating that 63% of the UK's annual labour productivity growth between 2000 and 2008 was due to innovation. That's sobering considering that the UK currently has a 16% productivity gap between it and the other G7 economies.

It also added that firms who introduce a new product to market will grow turnover by 10% over the next three

# THE FLOCK OF THE NEW

Encouraging new ideas and fresh ways of doing things is vital for economic growth. David Craik looks at how the UK is planning to improve its performance

years in contrast to 5.8% for non-innovating firms.

The CBI stressed that the UK was a world leader in innovation, ranking second in the world for the quality of scientific research institutions and surging ahead in chemicals, life sciences, aerospace, creative industries and automotive.

But the UK places just 26th of the EU 28 on sales of new-to-market and new-to-firm innovations as a percentage of turnover. The CBI also stated that we are only 18th when it comes to the proportion of SMEs introducing product or process innovation.

In *Forbes'* 2016 list of top 100 innovative companies, nine of the top 10 were US-based, with only six hailing from the UK. *Forbes'* Most Innovative Growth Company list for 2017 had UK property group Rightmove topping the ranking and fashion firm Asos also in the top 10. However, both firms – along with other Brits in the Top 100, including Abcam and Paysafe – turned down or did not respond to requests from *Business & Management* to share the secrets of their success.

Innovate UK, the nation's innovation agency, helps businesses identify the potential in new technologies and turn them into new products, processes and

### A COMPANY VIEW CONCRETE CANVAS

Concrete Canvas has created a fabric that, via water and air, can be hardened into a concrete layer for use in engineering and construction and to make concrete shelters.

The idea was born in 2005 out of an Imperial College and Royal College of Art (RCA) project by Will Crawford and Peter Brewin. It is now a £8m turnover firm employing 40 people and exporting to 50 countries.

"We received excellent funding and intellectual property support to help us get the project off the ground," recalls Crawford. "Also, the blending of the technical Imperial College background with the creative environment at the RCA really drove us forward. We feel this mixture should be replicated elsewhere as it should bolt on incubator space to technical universities to help the commercialising of ideas."

Crawford said universities taking a significant, but not controlling, stake in its new venture was vital in securing funding after graduation: "Typically universities take the majority share in our kind of firm. That means the owners don't have the flexibility needed when looking to make decisions or find funding. There should be limits on the stakes universities take."

Concrete Canvas did have the flexibility needed to secure funding from business angels and use research and development grants. "We are still innovating and see a lot of potential in future spin-out ideas," Crawford says.

services. Tim Sawyer, chief investment officer, explains: "We are focused on the end goal, which is increased economic growth. However, we recognise that this is difficult to measure and takes 10 years or more in some sectors to materialise. So, capturing the whole journey from investment to innovation, activities and commercialisation, employment and profit is really important to us."

The agency publishes a programme of economic evaluations across all its activities and also measures innovation through Business Expenditure on R&D (BERD).

"While clearly there are limitations in using an input to measure innovation performance, it is a useful benchmark," Sawyer says. "The Community Innovation Survey, conducted across most EC member states, goes further in asking about innovative companies' innovation outputs. This includes whether they've introduced new goods or services to market, or implemented new processes or organisational innovations."

Innovate UK says its evaluations show a consistent positive impact. "On average, every £1 we invest in business-led innovation results in up to £7.30 of value added in the UK economy," Sawyer says. "Looking at the wider

measures things are looking reasonably bright. While BERD has been stubbornly flat, at around 1.7% of GDP, the UK consistently performs well in composite innovation indicators. In the Global Innovation Index, the UK has slipped from second to fifth over the past two years, but fifth still represents a strong standing."

### IDENTIFY THE POTENTIAL

Innovate UK hopes its new strategy will help make the the nation more innovative. "We have reorganised our funding support and teams into much clearer sector groups to make it easier for industry, investors and the government to understand and access," says Sawyer. "These sectors are emerging and enabling technologies, health and life sciences, infrastructure systems and manufacturing and materials."

So, what does UK industry think? What are we doing right and where are we going wrong when it comes to innovation? Where are the exciting sectors and what role can finance play in stimulating more innovation?

Professor Philip Nelson, chief executive of the Engineering and Physical Sciences Research Council (EPSRC), is certainly proud of the



sector's innovation push. He explains that the EPSRC has helped stimulate more than 1,000 patent applications in the last decade and create 548 spin-out firms since 2004.

"The UK is right at the forefront," he states. "One of the most effective ways to maximise and accelerate the impact of research is through collaboration with each other."

Indeed, the EPSRC, which works with universities and 3,000 UK and international businesses, invests £800m each year in research and doctoral training with 50% given to "blue-sky proposals". Examples of EPSRC-funded research include the use of diesel additives to reduce carbon emissions and researchers working on putting human stem cells into plasters and bandages to heal wounds.

Abdul Basit, chief financial officer of Innovate Finance - the body that represents the UK's global fintech community - also says the sector is booming.

According to recent figures from Innovate there was \$6.5bn worth of global venture capital (VC) investment in the first half of this year. The US accounted for \$3.3bn, China \$1bn and the UK \$564m.

"We have built this on the three pillars of talent, investment and regulation where we have a particular global USP," Basit says. Taking regulation first, he explains that the Financial Conduct Authority (FCA) was responsible for changing the game through the launch of Project Innovate in 2014: "The FCA wanted to open up the fintech sector and through Project Innovate it has worked closely with firms helping them understand the regulatory environment and gain crucial FCA authorisation.

"It is a real step-change from the FCA with open and accessible dialogue with the sector to understand new areas such as blockchain."

In terms of talent, Basit says the UK excels with a "deep pool". He estimates that 30% of fintech founders are non-British, with 40% of employees sharing the same status: "Brexit has put a microscope on this and we need certainty around these people's positions going forward. We need global talent to scale and grow.

"We also must tackle the shortages in science, technology, engineering and mathematics (STEM) subjects in schools

because there are shortages compared to the huge amount of developer talent coming out of India. We're working with the City of London to incentivise school kids into STEM and launching fintech courses via the Open University."

Basit believes the government has helped funding through schemes such as the Seed Enterprise Investment Scheme, which encourages investors through tax breaks to put money into high-risk start-ups. "It gets entrepreneurs' ideas off the ground," he explains. "But when you reach that £5m-£25m stage you tend to hit a ceiling in this country. Companies look elsewhere and that is when the US and Chinese investors come on board."

Indeed, the government, under its Patient Capital Review, is beginning to look at this area. The review has been set up to "identify barriers to access to long-term finance for growing firms".

Professor Birgitte Andersen, chief executive of the Big Innovation Centre (BIC) - which works with businesses, universities and public agencies - notes:

"We are very strong in this country in innovative start-ups, but where we have a problem is commercialising these ideas. We don't have enough VC investing in early-stage finance."

#### TIME TO STEP UP

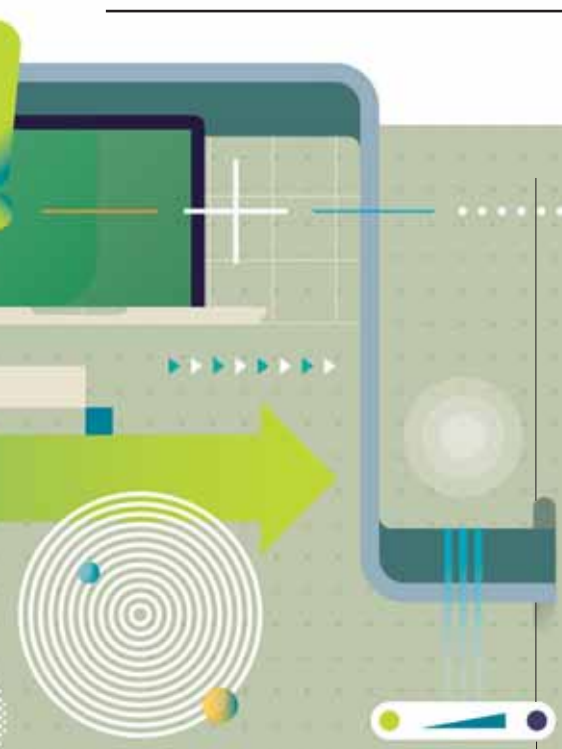
Tax consultants ForrestBrown says a third of UK companies have benefited from grant funding aimed at innovation, with only a quarter receiving R&D tax credits - and a worrying 73% of the UK's smallest companies had made no use of government funding. Half of these firms said innovation was not a high priority.

Director Jenny Tragner says: "We work with innovative companies all the time but there is an issue around access to and awareness of funding."

She adds that the complexity of the R&D system puts some firms off applying: "CFOs need to think more broadly about what cash and tax incentives for innovation are available and that includes closer engagement

# £800m

Amount invested by the EPSRC each year in research and doctoral training



with their technology teams."

Andersen agrees that CFOs have a bigger role to play: "We need to show the value of innovative technology in the way that we report it in accounts. That will bring more investors in."

The BIC recently issued a report looking at the under-reporting of intangible assets. "Companies generally report on physical assets such as buildings but they probably invest twice as much in intangible assets."

She explains that statutory reporting refers to intangibles as those assets that can be separated out from other assets and purchased and sold on the open market. This includes patents, copyrights and trademarks but excludes R&D. She wants to see companies move closer to economic reporting in which intangibles are seen as investments that deliver a return beyond the current financial year. This would include R&D and innovative property. She also wants to see productivity measurement reported.

"We need better standardised intangible reporting," Andersen says. "It can lead to more data sharing and better knowledge around our innovative sectors such as AI. It can create stronger links between companies, universities and entrepreneurs."

Sawyer says CFOs are in a tricky position when it comes to reporting innovation. "Innovation is often dressed up in goodwill, and returns ultimately have to be measured in increased profit

### INNOVATION LOANS PROGRAMME

Innovation Loans will be a pilot programme, with the first competition to launch this year.

"Innovate UK is looking to launch bigger ticket loans for innovative businesses that are about to come to market," explains chief investment officer Tim Sawyer. "Innovation Loans are intended to support businesses as they progress beyond the stage that existing grants typically cover."

Other funding options include R&D tax credits, Seed Enterprise Investment Schemes, Start Up Loans fund and Innovate UK's grants and funding competitions across sector areas.

for the business," he states. "CFOs and finance teams can probably best help by looking carefully at both investment opportunities and funding sources externally to build an innovation business case."

Andersen identifies another crucial area where UK innovation can be developed - geographical clusters and innovation hubs such as the large number of science firms in Cambridge and tech in East London.

Innovate UK also runs Catapult centres in the UK where the very best of the UK's businesses, scientists and engineers work on late-stage research and development. Examples include Offshore Renewable Energy.

"We have some vibrant hubs but nothing like Silicon Valley or China," says Andersen. "In Chinese cities the scale is mind-blowing with fintechs rubbing shoulders with large company headquarters, entrepreneurs and VCs. We can do more."

Adrian Williamson, investment director at Cambridge Investment

**"We need to show the value of innovative technology in the way that we report it in accounts. That will bring more investors in"**

Capital - which puts its cash into intellectual property-rich tech firms spinning out of the university - clearly sees the benefits of clustering. "Once we invest we follow the company on through to a public listing or trade sale. It's for the long term as we are investing at a stage where many don't go. We go in when a lot of R&D is yet to be done and it can be risky," he says. "However, the fundamental of the Cambridge cluster is the quality of the research coming out of the university. The cluster is also a very supportive environment. Some companies get larger while others stall and get recycled into something better. It is easier to resource talent and find finance in a cluster. There is a constant flow of opportunities."

He also says it is easier to attract foreign talent (even from behemoths such as Google and Facebook) and investment to a cluster. "They bet on the cluster not just one individual company," he explains.

### START AT THE STEM

Another potential barrier is lack of STEM graduates. "Our firms are citing a lack of skills and knowledge as one of the key barriers to innovation. We are trying to inspire our kids into STEM. But we must keep our eye on some of the key innovative disciplines of the future," says Sawyer.

"Our Knowledge Transfer Partnership (KTP) helps businesses in the UK link with an academic or research organisation and a graduate. A KTP enables a business to bring in new skills and the latest academic thinking, while the graduate benefits from hands-on experience."

Andersen adds: "We have to do better at capturing the quality of our education and encouraging more university STEM degrees. We are developing businesses in the right areas for the future but we must also meet the skills gap."

So, what of an overall mark for UK innovation? Progress is being made but barriers such as finance, skills and investment are holding the country back.

What is clear is that the spirit of UK innovation is still prevalent today. Stronger collaboration between business, academia and the government can help unleash it. ●

# CROSSING THE BOUNDARIES: CENTRALISATION VERSUS SUBSIDIARITY

With agile practices in business on the minds of many CEOs, Hazel Davis examines which approach is better – having full subsidiarity or centralised management and procedures

Globalisation and fast expansion can play havoc with traditional management structures. Take John Green, who works for a London publishing group. He says: “In the early 2000s, my boss was at the company’s New York office. His boss was in London and sat in the same room as me. And his boss in turn was a board director, based in New York. So the chain of command flipped across the Atlantic at every level. It was a disaster. The echo from the conference-call system made it almost impossible to hear or to talk.” This, he says, “was symptomatic of all intra-company communications. The company was, and is, split between locations in the UK, North America (a number of cities) and Asia. For most business units they were in one or the other, but quite a few were split between London and New York, as was the unit I was in. It didn’t work.” This scenario isn’t so unusual. Luckily, for managers like Green, centralisation is on the way out.

While centralisation can offer benefits in scale, according to Deloitte’s 2016 *Human Capital Trends Report*, companies are decentralising authority and moving toward product- and customer-centric organisations. In fact, just 38% of all companies and 24% of large companies in the report are functionally organised. This, it suggests, is to do with the millennial demographic (those born between 1981 and 2000), the diversity of global teams and the need for companies to work more closely with customers and innovate more quickly.

## FREE FOR R&D

Michael Keegan is head of product business, Fujitsu EMEA, which restructured a couple of years ago to become more integrated on a European and global level. This meant arranging the business by capability (such as cyber security or products) rather than by country.

There have been many benefits of this approach, says Keegan, “for both our customers and partners, who can now work more easily with us across multiple markets. It’s also much easier for us to make sure that all of our customers in every region benefit from our global investment in R&D and best practice.”

Now, many people at Fujitsu work in teams based across different offices, if not different countries, and this does bring its own challenges. Keegan says: “Diversity and inclusion is a vital part of who we are at Fujitsu and we must maintain that aspect of our company culture in every location.

“That in turn helps us to support our multinational customers, wherever we work with them.”

It’s important that managers build and maintain personal relationships within the business. “For me, that means some time spent travelling, to meet face to face with other members of the leadership team and the product business,” says Keegan. “We have also invested in the technology that supports teams based in multiple geographies. However, in the digital age it’s vital that we’re able to operate across international



borders, so a global approach is core to our future as a business.”

## CENTRES OF EXCELLENCE

Many companies, such as Nestlé for example, are decentralising and instead using information centres to help manage productivity. The Deloitte report cites companies such as GE which posts leaders in regional centres of excellence rather than manage from afar.

Centralised processes allow consistency, which is great for branding and quality control, while also good for payroll and accounting systems. This is one reason franchising has become so





**"It's also much easier for us to make sure that all of our customers in every region benefit from our global investment in R&D and best practice"**

service is good, the figures are good and they are happy". It works, the company's chief executive James Timpson has said in the past, because the business hires primarily on personality. Timpson's famous "upside-down management" approach means that colleagues have total authority to do whatever they can to please the customers. The official line is: "If we make a mistake, then we can put it right there and then without the need to speak with a manager. We trust our colleagues to run our business as they see fit."

#### **A UNITED FRONT**

However, centralised management shouldn't necessarily be seen as the bad guy, says Chris Simpson, South East regional director for Business Doctors. Simpson ran a subsidiary for the Swedish business, The Search Works, with operations in 18 countries. Centralisation, says Simpson, allows international business to put forward one face in a particular market. This is particularly useful in the travel industry, he says, adding: "When the business is complex and international it can help. When you have independent autonomous subsidiaries they can compete against each other."

The choice between centralisation and subsidiarity shouldn't be a binary one, says Simpson, "It's about understanding the requirements of your market and having the right people. It's about understanding what the business is trying to do and recruiting against the set of behaviours." ●

popular in the fast food industry, where a degree of centralisation is often still necessary. Retailers John Lewis and Debenhams have management at a local level, with store managers able to decide everything from which products to promote to how to handle customer complaints.

At John Lewis, stores are given certain freedoms, such as how they deal with customer service enquiries, while other decisions, such as pricing, are made centrally. At John Lewis and Waitrose, there are local divisional councils elected every three years. While the council concentrates on agenda items

relating to the whole business, each selling branch has a PartnerVoice, the local avenue for partner opinion and is the method by which partners can provide feedback, question management on local branch matters and raise their own issues.

Timpsons famously has no management head office structure, and capital expenditure is the only decision that requires head office input. Timpson's branch colleagues are given the autonomy to "order what stock they like, charge customers what they like and open when they like, as long as the customers are happy and the customer



In its latest snapshot of the UK's economic state, the ICAEW Business Confidence Monitor for Q3 2017 reveals a mixed picture. The long-running programme, which interviews 1,000 members on a quarterly basis, found overall confidence dipped while sales growth was modest. The headline findings are that businesses should "move away from a focus on managing cost in the short term", and that investment will be key if there is to be any long-term growth opportunity.

Respondents were asked to describe their level of confidence in the prospects for business over the coming 12 months, compared with the previous 12.

#### **BUSINESS CONFIDENCE**

The confidence index, which has fallen to -8 this quarter, repeats the trend of Q1 after the positivity of Q2 (which indexed at 6.7). The negativity was replicated in all sectors, regions and types of firm. "Mixed economic news and political uncertainty are the likely reasons," the monitor reported.

## **IN FULL FLOW**

With growth holding its own in the face of tough times, Nina Bryant charts the ups and downs noted by UK companies in the latest ICAEW analysis of the economy

For comparison, the CBI Business Optimism Index noted a rise from 1 point in Q2 to 5 in Q3, and recognised manufacturing production had grown at its fastest pace in 22 years.

Tracking confidence in GDP growth, ICAEW's monitor predicted a 0.3% increase in Q2. In Q3 it falls to 0.2%. However: "The 0.2% growth projected for the last quarter of 2017 is likely to be followed by a further increase in GDP in the last three months of the year."

#### **FINANCIAL PERFORMANCE**

Input price inflation is still rising (2.5% year on year), but companies deal with this by controlling wage rises and seeking to pass costs on to customers. High input prices are most prevalent in manufacturing and engineering, energy, water and mining, wholesale and retail, and transport and storage, all vulnerable to currency movement. Respondents did however expect input price inflation to slow in the next 12 months.

Businesses have revised down their confidence in profit growth from 4.8% in

Q2 to 4% because of a downward pressure on margins as a result of the “gap between input and selling price inflation”. Sales growth in domestic and export markets is set to remain modest. Domestic growth at 3.5% a year is likely to remain steady. Export growth has stuck broadly to 3% with a view to rising to a modest 3.5%.

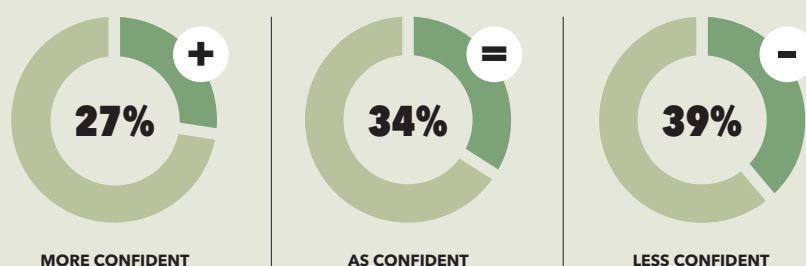
When it comes to job creation and investment in staff, modest increases are expected, “reflecting wider business uncertainty”. Budgets for R&D are also likely to remain modest. There are concerns about skills shortages in non-management roles with 24% of businesses reporting difficulties. A downturn in net migration since the Brexit vote is a possible explanation.

A lack of commitment by businesses to large rises in capital investment has been identified and more than 50% of firms are operating below capacity.

Confidence levels for the next 12 months have dipped almost across the board, with the exception of the energy, water and mining sector where profits have risen. The lowest level of confidence for eight years has been identified in retail and wholesale, the least confident sector at -23.4 (against an all industries average of -8). An input price rise of 3.4% in a year, availability of non-management skills and impact of regulations are all said to have had an effect on confidence levels in this sector.

The IT and Communications sector reports a lack of availability of correctly skilled staff as one factor affecting its lowest score since 2009, but staff development budgets look set to rise at the same pace as 2016 (1.6%), so the problem is unlikely to be solved soon.

#### BUSINESS CONFIDENCE IN Q3 2017



Only the East Midlands region bucks the trend of declining confidence in Q3, though its positivity scored only 2. This looks less weak when contrasted with the South West and Wales, which scored -13.2 and -10.25 respectively.

Positivity in the East Midlands has been put down to its large and diverse manufacturing base “which is likely to be why its performance has followed a similar trend to the improved domestic sales witnessed in manufacturing nationwide”.

#### COMMON THEMES

The monitor identifies common themes around the negative scores in all other regions, including the rise in input prices despite steady sales growth; downward revisions in growth for the next year; and low expected levels of investment. The monitor does also offer guarded optimism, especially for the South West: “Although... it has the lowest confidence index, it also has the lowest proportion of firms working below capacity, at 44% compared to the national average of 51%.” This could feed into “stronger

investment intentions” if confidence in the region improves.

Confidence levels for all business types have dipped into negative territory since Q2. Large privately owned companies are currently the least confident, with an index score of -13 compared with -4.5 for SMEs. As a category combined they are at -7.9 and so more confident than non-UK listed companies, which while improved since a year ago are still on -11.1. The most confident, though still weak, are UK listed companies on an index score of -4. The report adds: “The difference in volatility may be because quoted companies are on average more multinational, and so have less exposure to political and economic uncertainty in the UK.”

Companies with fewer than 250 employees reported greater confidence levels than those with more than 250 employees, replicating “the pattern seen a year ago following the Brexit vote”.

#### NEXT MOVES

As well as suggesting a move away from a focus on short-term costs, the monitor suggests that looking to new overseas markets would help UK businesses “counter weakening domestic demand”.

In facing the challenge presented to business of high input prices, which has led to a stagnation of wages, the monitor suggests staff investment must not fall by the wayside. Bridging skills gaps and improving staff retention will eventually have an impact on the ability to meet future growth needs.

Finally, the monitor suggests that government “needs to urgently and clearly articulate its industrial strategy” and its support for business investment as those in industry await news of transitional arrangements around Brexit.

The full Business Confidence Monitor is available at [tinyurl.com/BAM-BCM-Q32017](http://tinyurl.com/BAM-BCM-Q32017) ●

#### UK ECONOMIC FORECAST

ICAEW's UK Economic Forecast, a sub-section of the Business Confidence Monitor, takes views from chartered accountants in business, working across the UK and in all sectors, on a quarterly basis.

In Q3, they suggest, economic rebalancing will continue. But this is likely at the cost of slower growth.

Predictions for a fall in capital spending of 1.1% are tempered by the belief that investment conditions will remain positive, thanks to strong corporate balance sheets and export

profits up due to sterling's weakness.

Some caution is expected around employment following an uptick in jobs throughout 2017 that resulted in the lowest unemployment level for more than 40 years. Those surveyed believed there would be continued wage stagnation.

With the household spending squeeze set to continue, the forecast is that businesses will need to support profitability by tapping more into overseas markets and looking more closely at efficiency.

Full details of this forecast can be found at [tinyurl.com/BAM-EF-Q32017](http://tinyurl.com/BAM-EF-Q32017)



# THE DIGITAL PICTURE



What can technology offer to boards, investors and those who prepare business accounts when it comes to corporate reporting? A project by the Financial Reporting Council aims to find out

With digital technologies permeating our lives, from smartphones through to sophisticated cloud-connected accounting and business software, it is not a surprise to find that the bodies behind the UK's corporate reporting mechanisms also want to bring corporate reporting fully into the 21st century.

However, for businesses that meet the mandatory threshold for audit, the challenge posed by new and revised financial reporting standards makes it important to know what they think are the benefits that digital technologies will bring to telling their stories, particularly since boards face increasing narrative reporting requirements around areas such as executive remuneration and corporate responsibility.

This year, the Financial Reporting Council's (FRC's) Financial Reporting Lab has been engaged in the Digital Futures project, following on from its 2015 report *Digital Present*. Two years ago the Lab identified that technology was not meeting its potential in corporate reporting, and stated that to be successful, technology should "focus on providing benefits that match or exceed those that investors currently receive".

Thomas Toomse-Smith, project director of the Lab, said of the future: "Things will change and regulators across the world are working on solutions. But if they get no response from the preparer or investor communities when they seek to consult on new regulation, what they produce is going to be suboptimal at best and burdensome at worst."

Based on discussions with preparers, investors and other stakeholders (see box, below), the first phase of Digital Futures explored how technology can match or exceed current expectations. This project led the FRC to develop a framework based on three areas said to be essential to the future of corporate reporting in a digital landscape: production, distribution and consumption. As the project proceeds, it will assess technologies that could play a role in these areas, including augmented and virtual reality, blockchain, XBRL and alternative tagging techniques, and video.

### PRODUCTION

The FRC states that the production of corporate reports is focused on the “collation, amalgamation, packaging and presentation” of information from within a company with the express purpose of being released to the wider world.

This part of the process, being of most importance to the companies themselves, should be cost-efficient, easy, compatible and timely. Where costs are concerned, the Lab identified that production “cannot be out of line with the costs for current reporting or with the benefits it provides”. In addition, any change to digital must be compatible with the present system of reporting.

Systems must also either support multiple reporting requirements or find ways to remove them. Additionally, a transfer to digital must make it simple for companies to produce their reports, with the technical skills or tools required for the purpose “kept to a minimum”. Users of reports felt that timeliness was of importance in any new reporting environment, and so digital must speed up production, or at the very least not create delays.

### DISTRIBUTION

Companies and users of corporate reports may be most interested in distribution, namely the “dissemination of the packaged information, both to meet regulatory requirements and to communicate with external stakeholders”.

The factors the FRC sees as important in a digital world are that company level information should be accessed for free by users, and that whether data is provided for peer, industry or national consumption it be easy to make use of, as well as easy to find and access. Compliant “distribution and storage of regulated information” is also deemed key to

**“If they get no response from the preparer or investor communities, what they produce is going to be suboptimal at best and burdensome at worst”**

success in this area. As with production, promptness will also be a factor in a move to digital reporting. The FRC’s study revealed a need to flag up the release of information (regular and ad hoc) to potential users.

### CONSUMPTION

The final area of importance for digital is around the consumption of corporate reports by users and other stakeholders. In this, the FRC has identified characteristics of context, usability, credibility and engagement that should be taken into account.

The FRC sees that there should be some continuity between any new system and the present system that is “anchored around the creation and filing of specific documents”, such as annual or half-year reports that are “well understood by the market” and set the context for those who compile and decipher them. But as a result of the study, the FRC agreed that reporting could also “go beyond the current system by embedding the context at the level of individual pieces of data or disclosures”. Contextual items considered useful by project interviewees include:

- report types and boundaries, ie, annual report/sustainability report;
- period covered and release date/version;
- external or other frameworks used;
- internal frameworks (such as accounting policy or materiality);
- whether data is assured or audited;
- links to notes or explanations; and
- links to company information.

When it comes to usability of corporate reports, the study identified that digital reports ought to be intuitive, searchable, universal and uploadable. Intuitive reports are ones that are not difficult to consume, and need only limited technical expertise and skills to access – especially important to those in broader stakeholder groups. Having a strong search function makes the above point easier to achieve, enabling the pinpointing of relevant information quickly and easily. Uploadable data helps with the linking of important data, including whole documents or just individual items of interest.

Some participants told the FRC they would like to keep links to original sources. They also suggested that introducing good digital reporting by preparers across all markets and sectors would make it more attractive and well used, as well as more cost effective.

### THE LAB’S DIGITAL PROJECT

The Financial Reporting Lab developed its framework for the future of digital reporting in conjunction with a variety of users and other stakeholders who comprised investors, analysts, data users, services providers and preparers of corporate information.

The Lab interviewed 93 people from 14 countries and 30 companies, speaking to them in a wide range of settings, including at roundtables, company and investor forums and other events. Links to the Lab’s social media and other work can be found at [frc.org.uk/lab](http://frc.org.uk/lab)

Of the utmost importance in a digital environment is the credibility of reports – can they be trusted? The FRC’s findings indicated that digital reporting would need to be immutable and secure, communicate assurance and guarantee authenticity. As a “permanent record of the financial position of a company at a specific point in time”, users may want access to the original material even if it is altered at a later point.

Assurance comes internally from executive sign off and externally from audit, and the FRC is positive about the opportunities for enhancing this in a digital environment, especially around communication to users. Users and preparers, says the FRC, value being able to confirm if entire data sets or individual data points are authored by the company in question or others involved (such as auditors). “Digital reporting should support the communication of, or guarantee the authenticity of, the information delivered,” the regulator stated.

In terms of engagement, preparers in particular wish for digital reporting to help companies better “engage with their audience”. The FRC said: “Modern financial reporting has a relatively high level of designed content; this reflects the desire of preparers to tell their story in their style.” This ought to be supported in a digital environment, and tools should allow customising of communications – but could need to be balanced with

**“It is becoming apparent that no one single technology, initiative or regulation is going to be sufficient to change corporate reporting”**

investors’ needs around usability, particularly if the technology requires an element of standardisation to enable comparison (for example, when using artificial intelligence technologies).

#### WHAT’S NEXT?

Toomse-Smith said: “We are now in the middle of our technology deep-dives, and it is becoming apparent that no one single technology, initiative or piece of regulation is going to be sufficient to change corporate reporting.

“The solution is likely to be a combination of all the above, working in concert, not just on a local UK level but on a global basis. However, that is also one of the challenges; there is no single vision or unifying body that controls all the right pieces of the process to make a change.

“What does this mean for companies? We think it means they need to get interested and get involved. The work of the Lab is designed to start the debate.”

That debate will soon bear its first fruit: the first of the technology reports, on XBRL, is due out this month, with another on blockchain expected to be released before the end of the year. The remaining reports are due out early in 2018, with a full blueprint for digital reporting expected later in the year.

For the latest news on developments with the FRC Lab’s future digital project, visit their website at [tinyurl.com/BAM-FRCFutureDigital](http://tinyurl.com/BAM-FRCFutureDigital) ●





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# CAPITAL COSTS

Putting a figure on the cost of capital is a tricky business. **Andrew Jones** discusses the pitfalls to consider when trying to value the returns on company investments



In the years since the 2008 financial crisis, several commentators have bemoaned a lack of investment by the private sector, and implicated this as the cause of modest GDP growth in the developed world's economies. Low investment is, of course, not the only possible cause of low economic growth. Indeed, rather than a cause it may be a symptom, with businesses reluctant to invest because they see insufficient returns from doing so.

Others have suggested that growth is higher than currently being recorded. It is our measures of economic growth that are faulty, through their failure to recognise the new or improved services increasingly available over recent years. Investment therefore may not be as low as assumed, as an increasing proportion of it may be going into areas such as intellectual property, human capital or similar intangibles that may not be recognised fully, or even at all, by accounting or national statistics.

All of these could be true. While I won't touch on the measurement point here (though it is important to returns on capital), given there's enough evidence of a growth problem, let's examine the cost of capital issue further.

### THE INVESTMENT HURDLE

As the financial crisis unfolded, governments deployed first conventional, then unconventional measures to lower long term interest rates with the aim of encouraging investment. Interest rates collapsed in all G7 countries and have remained at historically low levels. Lower long-term interest rates should have the effect of reducing required returns on investment, which should promote more investment as more projects clear a lowered bar. But is this feeding through to company decisions?

Most major investment decisions include a hurdle based on what an organisation determines as its cost of capital. The measures usually used are based on weighted average cost of capital (WACC), and blend the costs of debt and equity.

The cost of debt is relatively easy to measure as, in the absence of a default, costs to maturity are known at issue.

Cost of equity, on the other hand, is more difficult to quantify. The classical formula is  $K_e = R_f + \beta \times \text{equity risk premium}$ , where  $K_e$  is cost of equity,  $R_f$  is the risk-free rate, and  $\beta$  is a measure of the level of undiversifiable risk relative

to the market. There are various possible bells and whistles for this but - and economists, please forgive me - they generally boil down to 'risk free rate plus a bit', with the bit being the equity risk premium, accounting for the additional risk of equity returns compared to more certain debt.

Has WACC declined? Corporate debt rates are clearly lower, as we can see from Figure 1. But what about equity? Here we run into a problem. Unlike debt, investors don't know at the outset of their investment what they will receive.

When attempting to apply the equation above, we can come up with a measure for  $R_f$  and some sort of estimate for  $\beta$ , though even these aren't without uncertainty. However, the main source of difficulty is measuring the equity risk premium; there are three main ways of estimating this.

### THE THREE ESTIMATES

First, we can estimate this by examining what was achieved by equities in the past. Second, the equity risk premium can be derived from assessing the risk premium, which justifies its current price using aggregate analyst forecasts. Third, the risk premium can be evaluated from surveys of how people think it should be.

Each of these estimates has its problems. The first option is an ex-post observation and does not reflect what people expected at the beginning of the period. The high returns, for example, in the run-up to the 2007/2008 crisis are included as if people knew they were

going to happen at the outset. The result is that the method is highly sensitive to the choice of opening and closing dates. Being historic, it is flawed as an estimate of current level.

The second option uses analysts' forecasts that are based at best on the most likely outcome for each company and exclude a wide variety of negative items, which even if unlikely for an individual company, are near certain to some extent across the entire market. Furthermore, looking at recent years' out-turns compared to prior forecasts suggests a certain level of optimism, which may inflate estimations of cost of equity.

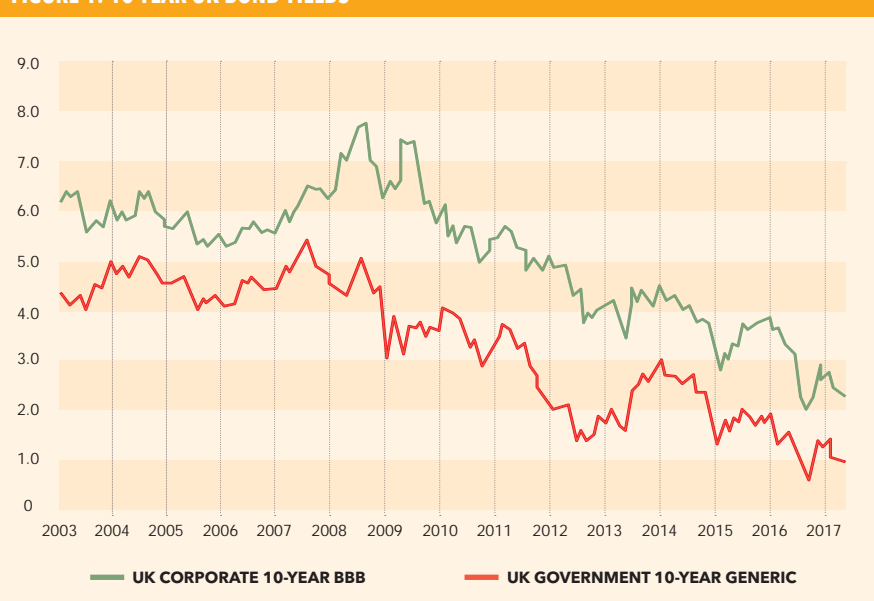
The final option uses a better measure - an ex-ante estimate - but requires a willing audience and the result received depends on the questions asked.

My own experience of the right rates when assessing investment decisions suggests that any reductions in the rates used for assessing major organic investment decisions have been fairly limited and have not fallen by as much as interest rates.

This contrasts with decisions made in purchasing existing assets with apparently assured returns, where prices have clearly increased.

Taking a more systematic view, the American academics John Graham and Campbell Harvey annually conduct a survey of US CFOs. The most recent shows the US equity market is expected to achieve a return of 5.8% over the next year on average. Given long bond yields

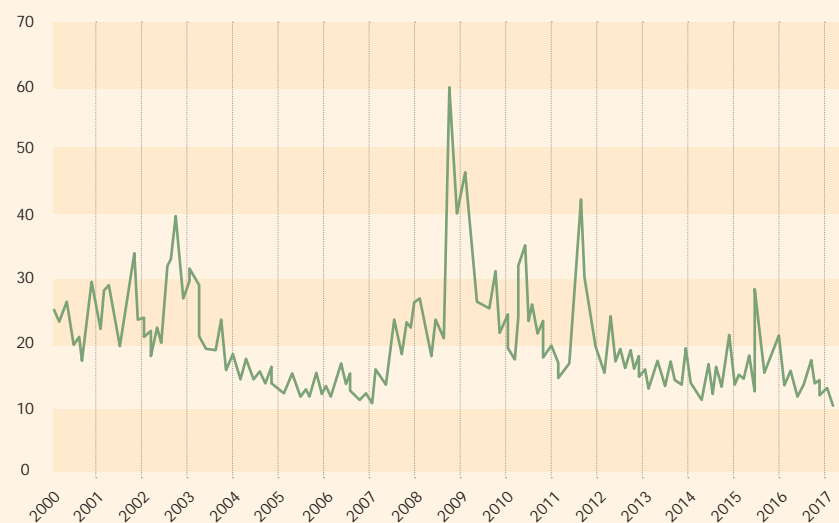
FIGURE 1: 10-YEAR UK BOND YIELDS



SOURCES: DATASTREAM;  
THOMSON REUTERS; IMF



FIGURE 2: CBOE VIX VOLATILITY INDEX



SOURCES: DATASTREAM; IMF; THOMSON REUTERS

at the time of 1.8%, this suggests a risk premium of around 4%.

Given the capital mix in most companies will include some debt, even with a slightly higher assumption on risk free rates, an average cost of capital of significantly below 6% would be expected.

Also, the survey reveals the risk premium has varied between 3% and 4.5% with no clear trend since the crisis, which results in a declining trend for expected return on equity over the last 16 years and, in particular, a fall of at least 2% since 2008.

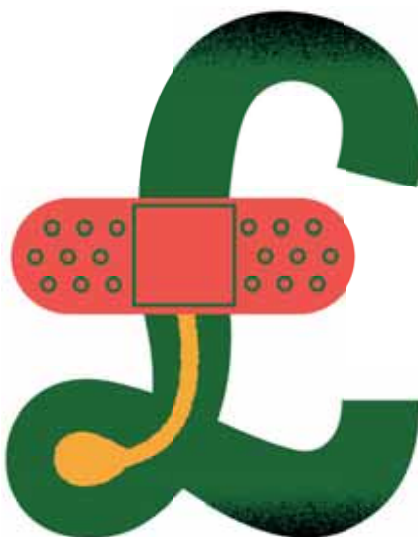
Lower interest rates have lowered expected returns. But when the same group are asked what their company's WACC is, they give a substantially higher number - about 10%.

The survey provides less history here, but this, coupled with anecdotal evidence, suggests that WACC expectations within companies remain stubbornly high. It should be noted this does not appear to be an adjustment to allow for internal budgeting optimism by project proposers. When asked what hurdle rates were used, the survey reported a still higher figure with a further addition of around 4%.

#### UNEXPECTED OUTCOME

While we might have expected internal estimates of WACC to have declined in line with falling interest rates, they do not appear to have done so, implying the risk premium used by companies has increased. The premium at which high-risk corporate debt is traded

**"The premium at which high-risk corporate debt is traded suggests that risk per se is not more expensive than it was before"**



suggests that risk per se is not more expensive than it was before - as demonstrated by the shrinking gap between the two lines on Figure 1.

Additionally, the Chicago Board Options Exchange Volatility Index (CBOE VIX) - see Figure 2 - suggests that equities have not become intrinsically more risky, notwithstanding the continuing claims of a volatile and uncertain environment.

Costs of share trading have decreased over time, which reduces the cost of holding equities. These factors suggest that a premium derived from risk and its cost would be flat or declining.

We have an issue here about the reasons that WACC expectations remained stubbornly high. There are certainly those who feel that the risk free rate is too low, whether because they use a very long term average, or maybe because they feel that current rates are artificially depressed by governments and not a fair picture of the cost of money.

But to my mind, these low rates and low risk premiums are evidence of excess capital looking for a home, and thus, if anything, support a lower estimate of WACC.

Others claim that institutional equity managers, who decide where to invest, consider lower equity returns or WACC targets unacceptable (or maybe companies incorrectly believe they do) because they, in turn, are bound by historic and now possibly undeliverable promises made to their customers - in particular pension funds.

The UK's Investment Association recently called for businesses to disclose the cost of capital and method of calculating it in annual reports, which would help to shed light on the matter. Whatever the reason, it seems that an important component of the function of low interest rates is not being achieved while companies do not react. ●



**Andrew Jones,**  
lead: investor  
engagement, IIRC

# TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

## TAX



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### AUTUMN BUDGET: 22 NOVEMBER

The chancellor, Philip Hammond, has announced that the government will publish its autumn Budget on 22 November 2017, setting out the government's plans for the economy based on the latest forecasts from the Office for Budget Responsibility (OBR).

This will be the first autumn Budget under the new timetable announced at Autumn Statement 2016: there will be only one Budget each year, held in the autumn.

The OBR is required by law to produce two forecasts a year, and from 2018 there will be a Spring Statement, responding to the forecast from the OBR, but no major fiscal event – though the government has said it will retain the option to make changes to fiscal policy at the Spring Statement if

economic circumstances require it.

Also in line with the new timetable, it is expected the second Finance Bill of the current parliament – Finance (No 2) Bill 2017-19 – to be published after the Budget; this will become Finance Act 2017. The draft clauses for this Bill will be published for consultation on 13 September 2017.

The first Finance Bill of the current parliament is on its way through parliament and it is expected it to receive Royal Assent as Finance (No 2) Act 2017 before the Budget.

### CONSULTATION ON DRAFT CLAUSES FOR FINANCE (NO 2) BILL 2017-19

On 13 September 2017 the government published a list of draft legislation destined for Finance Act 2018. At this stage the legislation is subject to consultation, with a closing date of 25 October 2017.

Confusingly, HMRC has decided to call this "Draft legislation published for Finance Bill 2017 to 2018". Correctly, the Bill in which the clauses will appear is the Finance (No. 2) Bill 2017-19, to be published after the Autumn Budget. It is so named because it will be the second

Finance Bill in the current parliament, which runs for two years – the first Finance Bill 2017-19 was published on 8 September 2017 and is making its way through parliament.

The final contents of Finance Bill (No 2) 2017-19 will be subject to confirmation at the Autumn Budget on 22 November 2017.

For each measure there are the following documents:

- a tax information and impact note (TIIN) that sets out what the legislation seeks to achieve, why the government is undertaking the change and a summary of the expected impacts;
- the draft legislation; and
- an explanatory note which provides a more detailed guide to the legislation.

The measures are:

#### **Bank levy: changes to scope and administration**

This measure limits the bank levy to UK activities and makes other changes to the regime.

#### **Draft legislation: tackling disguised remuneration: avoidance schemes**

More changes to the legislation aimed at disguised remuneration avoidance schemes, including a close company gateway test and new reporting requirements for those within the outstanding loan charge.

#### **Income tax: debt traded on a multilateral trading facility**

This measure removes the requirement to withhold tax on interest for debt issued to a multilateral trading facility operated by an EEA-regulated stock exchange.

#### **Landfill tax: disposals not made at landfill sites**

A measure to tackle evasion by extending the scope of landfill tax to include disposals at sites which do not have an appropriate environmental permit.

#### **Offshore trusts: anti-avoidance**

This measure is designed to ensure that payments from an offshore trust intended for a UK resident individual do not escape tax when made through an overseas beneficiary or a remittance basis user.

#### **Partnership taxation: proposals to clarify tax treatment**

Changes to partnership rules, including the allocation of partnership profits and partnership return requirements, following consultation last year.

#### **Pensions tax registration**

The extension of HMRC's powers to register and de-register master trust pension schemes and schemes for dormant companies.

#### **Termination payments: removal of foreign service relief**

The withdrawal of foreign service tax relief, currently available for employment termination payments received by UK resident employees.

#### **MAKING TAX DIGITAL - DRAFT SECONDARY LEGISLATION**

HMRC has now published secondary and tertiary legislation on Making Tax Digital (MTD), specifically on income tax and VAT. This follows the publication of Finance Bill 2017-2019 on 8 September 2017 which includes the primary legislation.

HMRC is inviting comments by 10 November 2017 at [makingtaxdigital consultations@hmrc.gsi.gov.uk](mailto:makingtaxdigital consultations@hmrc.gsi.gov.uk)

The draft legislation is as follows:

#### **Income Tax (Digital Requirements)**

**Regulations:** are made up of 11 parts with the rules for (among other things) digital records, quarterly updates, end of period statements and corrections and omissions.

#### **Income Tax (Digital Requirements)**

**Notice:** sets out the information HMRC expects to receive when a business first makes a quarterly submission (the designatory data which includes information about the individual, the business and any rental properties) and what should be submitted each quarter.

#### **Income and Corporation Taxes (Electronic Communications)**

**(Amendment) Regulations:** amends the rules on electronic communications to or from HMRC, to pave the way for MTD.

There is also *MTD for VAT: legislation overview*. Secondary legislation for VAT is expected no later than April 2018, and businesses adopting the flat rate scheme, the annual accounting scheme or non-standard VAT returns can continue to do so under MTD.

The MTD hub ([icaew.com/mtd](http://icaew.com/mtd)) will be updated once we have reviewed the draft regulations. The Tax Faculty will be responding to the consultation. Please send comments by 20 October 2017 to [caroline.miskin@icaew.com](mailto:caroline.miskin@icaew.com)

#### **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**

#### **NOT ALL WORKERS FEEL PRODUCTIVE**

More than a quarter of workers feel their workplace doesn't enable them to work productively, according to a report based on seven years of global research.

London-based benchmarking company Leesman undertook an assessment of "workplace effectiveness" featuring the views of 276,422 people at 2,160 places of work in 67 countries.

The resulting report, *The Next 250K*, stated: "This is an analysis of a dataset of a size never before amassed... based on a simple proposition: is your workplace working?"

Some 27.6% of people polled disagreed with the statement "My workplace enables me to work productively", while 57.3% agreed and 15.2% were neutral.

Factors affecting people's answers included whether there were positive or negative attitudes towards workspace, how that space was divided and noise levels. These factors were said to have an impact on individual work tasks rather than collaborative tasks. The paper stated: "Some organisations may be investing a disproportionate amount of focus on supporting creativity and collaboration, at the expense of the spaces needed to commit these collaborative thoughts ... to paper."

As well as productivity, the study looked at four additional factors around performance: the work profiles of different age groups, the effectiveness of workplace projects, efficiency in open plan offices, and the workplace in the mobile age.

The dataset, known as the Leesman Index, and the report can be explored at [tinyurl.com/BAM-250k](http://tinyurl.com/BAM-250k)

#### **NINE IN 10 PEOPLE DESIRE FLEXIBLE WORKING**

A study of working practices has found two-thirds of full-time employees have flexible working arrangements – and most other people would like flexible employment too.



The Timewise report found that both men and women would like flexible working arrangements (84% of men and 91% of women). The idea was most popular among the young (92%) and those currently unemployed (93%). A quarter of the 3,000 interviewees would like to work part-time.

Timewise defined flexible working in various forms: flexible working hours; working from home or remotely; shiftwork in patterns that suit the worker; term-time or seasonal work; and part-time work.

The principal reason for wanting flexible employment arrangements was to create a good work-life balance, followed by improvements to commuting, care responsibilities, and a desire to fit in leisure or study activity.

The companion report, *The Timewise Flexible Jobs Index 2017*, found there was a low proportion of flexible job opportunities by comparison with this demand. Just 9.8% of advertised posts offered flexible opportunities while paying the rate of £20,000 FTE. This was an increase from 8.7% in 2016.

Both reports can be found at [tinyurl.com/BAM-TWres](http://tinyurl.com/BAM-TWres)

### PODCASTS ON HR MATTERS

XPert HR, a creator of tools and guidance for compliance, good practice and benchmarking in human resources, publishes podcasts that are free to access, and which cover a range of HR issues, including recent case law.

The latest podcast concerns the case of *Agoreyo v the London Borough of Lambeth*, concerning a workplace suspension which the High Court held was a "breach of the implied trust and confidence between the employer and employee".

To hear Capsticks lawyer Nicky Green in conversation, find the podcast at [tinyurl.com/BAM-XPertHR-AvL](http://tinyurl.com/BAM-XPertHR-AvL)

Links to other podcasts can be found at [tinyurl.com/BAM-XPert-pcasts](http://tinyurl.com/BAM-XPert-pcasts)

### ACAS: NEW GUIDANCE

In its regular e-connect briefing, the Advisory, Conciliation and Arbitration Service (Acas) publishes updates on areas of employment law for businesses.

There is new guidance now available concerning the handling of employees who have premature or ill babies, as well as for those undergoing gender reassignment.

In the case of babies, the new guidance has an overview, an explanation of what premature birth means, an outline of an employee's responsibilities around documentation of pregnancy and birth, supporting parents, how to deal with the death of a premature or sick baby, and guidance on the handling of hospital appointments and returning to work.

For gender reassignment, the guidance contains an overview, plus sections on supporting trans employees, adaptations in the workplace, managing absence around gender reassignment, and making claims for discrimination. There is also a video about the protected characteristics of a person.

See [tinyurl.com/BAM-AcasECB](http://tinyurl.com/BAM-AcasECB)

## FINANCIAL REPORTING



**YOU CAN FIND OUT MORE ON THE LATEST FROM THE FINANCIAL REPORTING FACULTY AT [ICAEW.COM/FRF](http://ICAEW.COM/FRF)**

### MATERIALITY PRACTICE STATEMENT

The IASB has issued IFRS Practice Statement 2 *Making Materiality Judgements* (PS2) providing companies with guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS.

PS2 provides an overview of the general characteristics of materiality. It also presents a four-step process companies may follow in making materiality judgements when preparing their financial statements. There is guidance on how to make materiality judgements in specific circumstances; namely, how to make materiality judgements about prior-period information, errors and covenants, and in the context of interim reporting.

PS2 is non-mandatory. It does not change or introduce any requirements in IFRS standards and companies are not required to comply with it to state compliance with IFRS standards.

Companies are permitted to apply the guidance in PS2 to financial statements prepared after 14 September 2017.

Visit [tinyurl.com/BAM-IFRS-PS2](http://tinyurl.com/BAM-IFRS-PS2)

### DEFINITION OF MATERIAL

The IASB has published Exposure Draft (ED) ED/2017/6 *Definition of Material - Proposed amendments to IAS 1 and IAS 8*.

The ED proposes minor amendments to IAS 1 and IAS 8.

Comments are due by 15 January 2018.

Visit [tinyurl.com/BAM-IASB-DOM](http://tinyurl.com/BAM-IASB-DOM)

### POLICIES AND ESTIMATES

The IASB has published ED/2017/5 *Accounting Policies and Accounting Estimates Proposed amendments to IAS 8*.

The purpose of the proposed amendments is to help companies distinguish accounting policies from accounting estimates. This is important because changes in accounting estimates often affect a company's profit or loss, whereas changes in accounting policies generally do not.

Visit [tinyurl.com/BAM-IASB-P-E](http://tinyurl.com/BAM-IASB-P-E) ●

# ON A LIGHTER NOTE

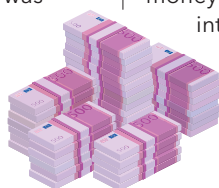


## OLI'S STEIN CHALLENGE ENDS IN CHEERS

A new world record has been set for the number of beer tankards carried at once. In Bavaria at Oktoberfest, the world's biggest beer festival, Oliver Struempfel cradled 31 beer-filled tankards stacked in two tiers, walking 40 metres. Losing only two at the last minute, Struempfel successfully carried a total of 29 jugs - more than 69kg (11st) of beer and glass - breaking his own previous record of 25 that he had set in 2014. To prepare for this year's attempt, Struempfel trained at the gym three to four times a week since February. "When I think about it, it's 200 hours for about 40 seconds of walking," he said after the feat.

## MYSTERY CASH STASH GOES DOWN THE PAN

Geneva prosecutors are investigating after lavatories in a bank and three restaurants were blocked with €100,000 worth of €500 banknotes. The cash was confiscated during the investigation and it was unclear who would get it if it were found to be lawfully earned. The European Central Bank

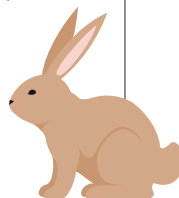


said last year it had decided to discontinue the €500 note due to concerns that it was being used too often for illicit activities including money laundering. "We are not so interested in the motive but we want to be sure of the origin of the money," Vincent Derouand, a spokesman for the public prosecutor's office, said.

## A PET IS FOR LUNCH, NOT FOR LIFE

Venezuela's government this week urged its hungry citizens to breed rabbits as a food source. The so-called Rabbit Plan is an effort by the government of president Nicolas Maduro to boost food availability. Authorities have also been encouraging people to grow vegetables on the roofs and balconies of their homes. Rabbits are more efficient than pigs and cattle at converting vegetable matter into

protein, according to the Food and Agriculture Organization of the United Nations. "There is a cultural problem because we have been taught that rabbits are cute pets," urban agriculture minister Freddy Bernal said in an interview last month. "A rabbit is not a pet; it's two and a half kilos of meat that is high in protein with no cholesterol."



29

THE NUMBER OF STEINS CARRIED TO THE FINISH BY BARMAN OLIVER STRUEMPFEL



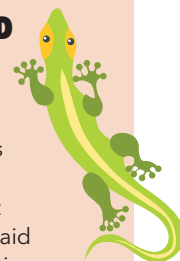
£100K

THE VALUE OF EUROS DUMPED DOWN FOUR SWISS LOOS

## 'LOUSY WORK' ADVERT IS A HIT WITH JOB HUNTERS

Job adverts normally emphasise the positive in order to attract staff, but a wine bar in Guildford, Surrey, risked putting off potential staff with a refreshingly honest advertisement. Five and Lime bar's tongue-in-cheek job advert promising "lousy work conditions, mediocre pay, practically no benefits whatsoever and strictly no social life" surprisingly attracted a lot of interest. The bar's owner, Darren Ayres, said he was "quite taken aback by the interest" the advert had received. He said competition for catering staff in the area has become "increasingly fierce" over the last few years, and so decided to get creative: "We had to ramp up the message when putting out a job advert having had very little response from a previously more staid advert."

## WHEN IS A LIZARD NOT A LIZARD?



"It was around seven inches long and about two inches wide. It was protruding from the edge of the bed and it wasn't moving at all," said Vic Hurr, animal collection officer from the RSPCA. A Coventry family had called the charity when they found what they thought was a lizard hiding under a bed. Hurr said she warily approached the "lizard" after being alerted to its presence: "I got out my torch to see better and I realised it wasn't a lizard at all, it was a pink stripy sock." A spokesperson for the RSPCA added that "the family were mortified. Vic said she couldn't stop laughing once she got back into the car and I think the family saw the funny side too". Hurr left the family with some sage words: "I advised the young girl whose bedroom it was to tidy her room and reminded her that another sock will turn up soon as they tend to operate in pairs."

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