Beyond the Numbers

February 2019 | Issue 7

Buzzacott
100 years of expertise

Same Buzzacott, only smarter

End of an era

The Generation Games

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Celebrating 100 years of expertise and trust

Tony Hopson
Managing Partner

This year is a very exciting one for us here, as it marks 100 years of Buzzacott being in business.

We're extremely proud of our long history and how we've embraced change over the years. I wholeheartedly believe that change always brings about opportunity. At Buzzacott we've continued to build lasting relationships with our clients, helping them to explore the opportunities for themselves or their organisation and we look forward to another 100 years of doing more.

Most of you would have noticed by now that we have a fresh feel about us and a new website. In the midst of changing times we wanted to clarify what makes Buzzacott different. We hope our new brand and website communicates this, while also making it easier for you to find answers to your questions and the solutions you need.

In this edition we focus on some of the changes that have had to happen as a reaction to scandals and government legislation, such as the way charities move forward in staying in line with their mission and how businesses can take hold of government changes to digitalise tax. We also draw on the expertise of our team to look at some of the opportunities that businesses and individuals have, exploring how to scale your business successfully, how you can use your pension for more than just retirement income and to save money with estate and inheritance tax planning.

We also sit down with former Managing Partner, Amanda Francis to talk about how she has led through change, her 35 plus years at Buzzacott and why she loves working with her clients.

This is an inspiring time to take on leadership at Buzzacott and we all hope that you genuinely enjoy this issue of Beyond the Numbers.

As always, please let us know your thoughts and thank you for being supportive and faithful clients.


Buzzacott
Hello. We are Buzzacott. Who are you and how can we help?
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The same Buzzacott, only smarter

Our refreshed brand is a reflection of Buzzacott's evolution, and this reflection started long before any colouring in began. In fact, it began with words.

Anyone who knows Buzzacott well, will understand that we have a unique culture, as a client recently commented, 'Buzzacott are all lovely people, just slightly odd.' And like others facing tumultuous times, we have found it more important than ever to agree on what won't change, what we won't compromise on, what is at our core.

At the start of this project we wanted to articulate what made us different to other professional services firms. Why do our clients continue to work with us year on year and why do we always get to work with new and fantastic individuals and organisations? To answer these questions, we enlisted the help of communications agency, Bladonmore.

So, what were the answers to these questions? Our clients and contacts see us as trusted advisors. We build relationships, get to know all the details so that we can advise and protect their interests, and where it's out of our scope we point them in the direction of other great advisors, who can help them in other areas.

Out of the numerous responses we received from our clients, one really stood out to us – 'Buzzacott is the friend you take to the difficult meeting.' And we're extremely proud of this.

Once we found out all the wonderful reasons why our clients enjoy working with us – we needed a brand to match.

Our newly rebooted visual brand is a reflection of that personality and embraces it confidently. The brand is an outward facing sign of Buzzacott's modern outlook and willingness to evolve.

The broad colour palette mirrors both the different types of people within the firm and the diversity of our offering. Brand architecture has changed to assert that we are one firm, working together for the benefit of our clients.

Ricky Oh, Creative Director at Thirteen, the design agency who supported us on this project said in summary of our refreshed brand "Today, Buzzacott does more than it ever has. It isn't just an accountancy firm. It has many facets and is fluid in what it can do for its clients. So, a combination of seven colours and a set of gradients using these colours means that there is more than one way to see the company.

"By showing these simple faces, we are asking you, either as a client or a potential client or even an outside observer, to see the bigger picture; to see that Buzzacott is more than the sum of its parts."

Our relationships with clients and contacts were at the heart of the project. In particular, our redesigned website looks at what questions you need answering, rather than just telling you what we want to say.

As we continue to grow, we feel certain that this knowledge and confidence in what our clients value will allow us to continue to deliver exceptional service and maintain meaningful relationships. And that applies no matter which facet of the business you interact with.

Hope you love our new look and feel. As always, please reach out and let me know your thoughts.

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Have charities responded to changing expectations?

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In light of the heavily-publicised charity scandals of the last few years, Eddie Finch, a Partner in our Charity and Not-for-profit team, discusses how charities are taking the exposure of poor practice seriously and implementing changes.

In 2018, a number of significant incidents within the charity sector hit the news agenda. These occurrences have led to a tightening up of the fundraising, safeguarding and serious incident reporting requirements. In addition, a number of major players in the aid sector lost their access to new funding from the Department for International Development (DFID), some because they were barred, others self-suspended before they could be.

Given the miserable state of public sector outsourcing - from the Carillion collapse to East Coast mainline - the not-for-profit sector is still a valued contributor to the wider community and the public sector needs to work better with charities.

Charities and not-for-profits are invaluable in society, providing essential public services. In fact, many modern charities began as providers of public services in health, social care and education, before the development of the welfare state.

In their turn, charities must be able to show they have integrity and values and that they deliver what they promise effectively and efficiently. Expectations have got higher and will get higher still.

How have charities responded to changing expectations?

In order to regain public trust and enable donors to resume funding, charities have invested in considerable enhancement of governance and operational oversight. During a recent review of leading organisations in the international development sector, our team saw a significant number of newly rewritten policies, enhanced whistleblowing facilities and expanded codes of conduct. It is noticeable that considerable talent and resources have been devoted to this.

The sector was well aware of the risks connected with abusive relationships with beneficiary communities before the scandals but believed they had mechanisms in place that addressed these. It is now clear that having policies "available on our intranet", even when supplemented by internal audit and donor compliance audits, does not prevent endemic disregard for ethical considerations.

Policies and procedures must be part of an engrained culture with clear values and ethics, in which individuals feel confident that their voices are heard. On the ground, we have seen an increase in training that emphasises the ethical platform of the organisation, reinforced by prominent visual reminders of codes of practice.

At a governance level, trustees are acutely aware that much of the press criticism has focused not on the failure to prevent serious incidents but the response to these by senior corporate management and trustees.

The main results of this to date include additional reporting to trustees by compliance and internal audit functions and increased adherence to principles of zero tolerance where sexual abuse or harassment is identified. There has also been a considerable tightening of policy and practice in recruitment and procurement.

Procurement and logistics are areas in which prioritising values and ethics has a massive preventative impact. This also applies in the area in which due diligence was found most wanting – the recruitment of personnel with employment records littered with previous incidents of beneficiary abuse.

Organisations are beginning to adopt a "no exceptions" approach to taking up references as well as asking for specific confirmation that an individual was not found to have breached policies around safeguarding or financial irregularity.

All of this activity is beginning to reassure donors that charities have adequate governance and operational oversight to manage serious incidents properly, and reduce their incidence to the lowest levels possible. Some have been restored to funded status and others are still negotiating, but the sector as a whole has significantly "upped its game". All of this, however, led to a not insignificant increase in the cost base of many charities.

How can charities measure their social impact and prove they are achieving their aims to donors and fundraisers?

Alongside this, there has been an increasing trend among charity stakeholders, to ask for additional evidence of the social value or impact that an intervention delivers. This is in part driven by value for money considerations but it is also part of evaluating which programmes deliver the greatest change.

Parallel to this, trustees and management increasingly wish to evaluate the impact of their charities' interventions to best allocate resources and make the case for further funding for "what works".

Of the various sub sectors among UK charities, overseas development can probably claim to do the most monitoring, evaluation and learning (often called "MEAL"). This is a sector wide phenomenon, driven by global donors.

What types of issues can Buzzacott help clients with?

Buzzacott has been close to many of these developments. We have worked with our clients' audit committees to understand how changes in procurement and monitoring might affect the speed of responses to emergencies.

We have considered the impact on audit risk of increasing volumes of whistleblowing (actually usually more reassuring than not) and considered the benefits of including statements about social value and impact in annual reports.

The issues highlighted above are the result of a small number of high profile failings across a sector that operates across every continent in the world.

There is a real risk that the seriousness of such incidents detracts from the overwhelmingly positive work these organisations do every day for the benefit of millions of people.

Similar concerns also affect charities engaged in providing services to the most vulnerable people in the UK. However, through transparent and demonstrably ethical governance, and clear evidence of social value creation, charities can maintain the right to be trusted with these great responsibilities.

Cryptocurrencies: Fad or fix?

Leading finance writer Adrian Holliday gives his thoughts on cryptocurrencies and whether they might become a fad that lasts.

It has been impossible to escape the headlines and (former) hype around cryptocurrencies. Many will be aware of the extreme valuations around Bitcoin, the best-known cryptocurrency, in recent times. Bitcoin's value swelled from under $1,000 at the start of 2017 to close to $20,000 by December 2017. In August 2018 it slumped to under $7,000.

The question at the top of everyone's minds is how should we approach and treat this emerging digital asset class as it continues to make headlines, often highly negative ones?

Will a better understanding of this new 'currency' affect a client's prospects or risk profile? What ethical and reputational traps – even opportunities – might lie ahead? Behind the hype, is something more interesting going on?

Understanding the crypto concern

Cryptocurrencies remain burdened not just by extreme volatility but by significant regulatory murk – unsurprising given their newness. Fuelling the worry, as the Bank of England pointed out in June 2018, is on-going concern about links to criminal activity.

Even the language lashed to this new asset class is misleading, slippery, even. The noun 'cryptocurrency' implies a bona fide working currency backed by a central bank or currency exchange board.

This is not the case.

Cryptocurrencies have no intrinsic value in themselves and most are highly illiquid. At a technical level, all responsible advice should cover this ground.

The underlying guidance for the professional services industry must continue to be extreme caution.

What is the UK doing about it?

The UK appears to be heading for a 'light touch' cryptocurrency regulatory environment.

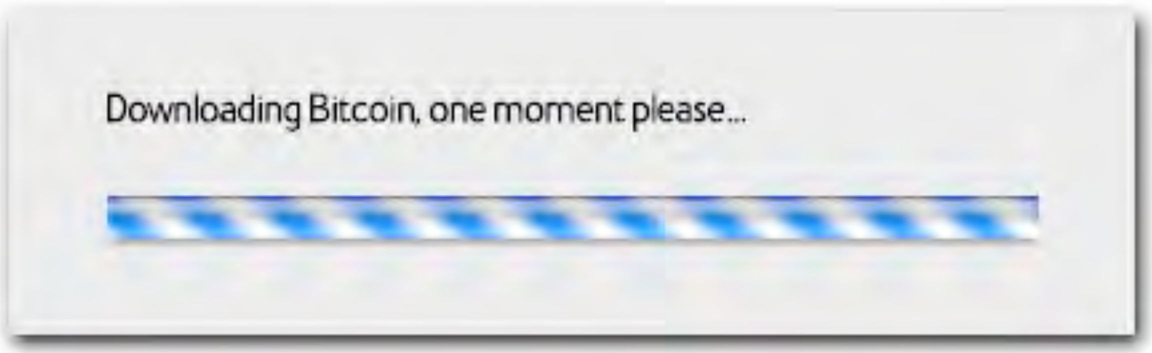
That means policymakers such as the Prudential Regulation Authority (PRA), regulated by the Bank of England, is paying close attention to rule-making in other jurisdictions.

This pragmatic approach means hard-and-fast UK guidance must remain in semi-shadow in the short-to-medium term. At least, up to a point.

At the end of June 2018 the Deputy Governor of the PRA, Sam Woods, updated guidance for businesses with cryptocurrency exposure or those considering it.

Woods made it clear that any cryptocurrency move must be considered fully by a board and at the highest levels of management.

Senior management approval must be sought for any cryptoasset signing-off, Woods added, and cryptoassets should not be considered as legitimate currency "for general prudential purposes".



Look to Asia for progress

While these words from financial authorities are solid, bear in mid some jurisdictional hedging of bets is on-going. No-one knows what fully-formed cryptocurrency regulation will look like long term. Japan and South Korea are where the lion's share of cryptocurrency trading is – so look east for guidance progress. The bigger advice picture, then, should allow a measure of suppleness as the debate continues. There's another major driver for crypto regulation – market manipulation. Price manipulation is easier when there are few rules.

Does my business need to prepare for cryptocurrency payment?

Most likely not. Given the extreme volatility of cryptocurrency, relatively few businesses are making plans to address this payment area.

However, the case for this could change depending on your client base. For example, if you target millennials – millennials are a disproportionately higher investor in cryptocurrencies than older generations – then you may want to explore this further.

You will also need to tread carefully on the security side. If you're a retailer wanting to accept crypto payments, then you will need to set up the necessary security measures to protect against fraud and legal implications that could affect your business.

But as always take expert advice before considering to introduce a new payment ledger.

Cryptocurrencies a 60 second explainer

Cryptos' are an online global digital currency. They were originally designed to be a cross-border form of cash, bypassing fee-hungry banks and other intermediaries. The lack of regulation around them has made cryptos attractive for some criminals and tax evaders, provoking money laundering concerns; there is a strong 'anti-authority' ring to cryptos. Bitcoin is the biggest and most popular cryptocurrency.

Cryptocurrencies are subject to UK tax law and capital gains tax rules. The more cryptocurrency legislation increases then the greater potential they have for becoming a legitimate currency or store of value. If UK regulations change, it is unclear how the new rules will be enforced. Cryptos are not subject to specific HMRC rules currently.

Underneath the wild cryptocurrency valuations sits blockchain. This is the technology that allows cryptocurrency transactions to take place. Blockchain technology is a decentralised database, meaning it's duplicated across tens of thousands of computers, constantly reconciled and updated by a group of people called 'miners'. It claims to be non-corruptible – helped by being distributed so widely – and therefore carries high levels of trust.

This technology has the potential to become significant for business long term, not just for accountants and their clients but any business with a supply chain that demands integrity or transparency. Blockchain takes information control away from a few single entities like banks and brokerages and returns it to many different independent entities. This has commercial value because it slashes the number of middlemen used to regular transaction fees. In other words, blockchain has the potential to be highly disruptive.

Cryptocurrencies are volatile because of a lack of mainstream acceptance. For example, if cryptocurrency exchange-traded funds known as ETFs – assets bought through the stock market by retail investors, for example – get approval from financial regulators, some think this may stabilise valuations. This might attract banks and pension funds into this asset class. Greater investor protection will be needed before this happens realistically.

Bitcoin was built on something called open source software. This allowed other people to design and build their own interpretations of Bitcoin – Ethereum, Litecoin and Ripple, for example. All are variants of each other with subtle and not-so-subtle differences.

Taking hold of Making Tax Digital

Good news: after many delays and false dawns, the age of digital tax appears to be upon us. The first good news is that the HMRC have initially rolled out MTD for VAT returns, which allows us all to take a breath and ease into the new era. Second, is that 2020 will herald the rollout for other taxes.

If you're a business owner, you probably already know about and (we hope) are fully prepared for the Making Tax Digital (MTD) deadline. But just for a bit of background, the move to modernise and consequently transform the UK tax system was initially announced in the government's spring 2015 Budget with a goal to have a new system in place by 2020.

This announcement was then pushed into action, with HMRC announcing in July 2017 that the deadline for all VAT-registered businesses with a turnover above £85,000 would be 1 April 2019.

However, if you are one of the 3.5% of large businesses with complex requirements, a trust or an unincorporated not-for-profit organisation, you have a 6-month reprieve, with MTD, deferred to 1 October 2019.

Change is disruptive and nobody really likes it at first, but at Buzzacott we view this change positively and have always encouraged our clients to get on board as early as possible. For most companies, accounting is filed once a year to comply with legislation, but with the digitalisation of tax affairs, businesses will be able to do more with their finances. With this in mind, we see three key benefits:

1. As information will be in one centralised place, your tax affairs will become more transparent between businesses, banks, accountants, business advisors and also the government.

2. Businesses will have up-to-date access to tax information, so they will have an earlier and clearer idea of how much they will need to pay and how to budget.

3. With tax moving online, communicating with HMRC will be easier.

How will it affect businesses and how should I prepare for the change?

So practically, what does this mean for businesses? Firstly all affected businesses will be issued with a digital tax account. This will enable businesses and accountants to submit VAT returns to HMRC through the new portal.

So the question is what will change? Essentially, not much, the large names in cloud accounting software, Xero, Quickbooks and Sage have already tailored their software to be MTD compatible. So other than your new digital account 'it is business as usual' if you're using these packages.

However, for businesses still using desktop software, keeping their accounting records and/or finalising their returns in Excel, there will be changes. Businesses will now be required to use bridging software between Excel and the HMRC to submit their return.

It is also important to note the requirement to store digital records (on a transaction level). Although this does not mean that businesses have to store invoices and receipts digitally yet, this makes sense from a business efficiency perspective and is definitely the way forward.

How are we working with clients?

Every client has unique circumstances, so we believe in a tailored solution to fit your needs. MTD will present a challenge for some businesses and less so for others. For those of our clients open to the cloud, we have migrated their accounts over to cloud accounting software. However, cloud accounting is not a requirement to be MTD compliant; but another option in reporting, access, and storage of accounting records.

Although the move to the cloud is now looking like an inevitability in our digital age, Buzzacott has developed a bridging solution for clients that still want to submit their returns using traditional accounting software or even straight from an Excel spreadsheet. Our software solution is very easy to use and will allow our clients to link directly to HMRC to file returns at a touch of a button.

What's the future of tax?

As mentioned, VAT is the tax in the line of fire regarding, MTD and everyone are well aware of the well-published pilot schemes ahead of the April 2019 implementation date. However, the roadmap is yet incomplete for the rollout to other taxes, with income tax and corporation tax not expected until 2020.

When corporation taxation follows, there will be a paradigm shift in the return process. It is suggested that filings will become quarterly as opposed to the traditional annual return. This will enable small businesses to stay up to date with taxes due and not have any surprises at the year end, therefore helping them to manage their cash flow more effectively.

In conclusion, clients face numerous challenges throughout the lifecycle of their business, but MTD is a step forward in an increasingly digitised world and will result in complete visibility of transactions and a more efficient tax system.

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Knowing your worth

a mergers and acquisitions guide

While mega deals naturally make for bigger headlines, the smaller merger and acquisition (M&A) deals are often more successful. UK M&A deal figures have been skewed upwards by larger deals as a weaker pound makes UK firms more attractive targets for overseas rivals. When it comes to M&A, however, companies that execute small deals tend to do better than those that embark on infrequent, large deals.

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Why the buzz around M&As?

The headlines around M&A are not unwarranted, billions of pounds change hands every year as companies are bought and sold. Despite Brexit uncertainty, the industry has prospered in the last few years especially as the sterling has weakened, making UK targets more attractive.

Our research last year showed that in 2017 there were 247 disclosed transactions of US acquirers of UK businesses up to £1 billion, an 86% increase since 2009. The 2018 figures are not yet in but there is evidence to suggest that this upward trend of smaller transactions is likely to continue.

Research from the Harvard Business Review has also found that smaller acquisitions boost shareholder value by between 8.2% and 9.3% versus just 4.4% for the big transactions. Entrepreneurial businesses often have faster growth rates than their larger counterparts, but there's more to it than that.

Why are entrepreneurial businesses attractive?

Acquiring knowhow

It is often cheaper and quicker to acquire technologies or know-how than it is to develop it in-house; these frequently lie within the start-ups and entrepreneurial businesses. The rapid pace of technological innovation over recent years has made technology and the associated in-house skills a popular driver of deals. For instance, enhanced digital capability in areas such as internet of things (IoT) and cybersecurity has been in high demand.

Technology giants like Cisco Systems have long used this acquisition strategy successfully. In 2018, it acquired cybersecurity firm Duo Security in a $2.35bn deal, enhancing its capabilities in cloud authentication.

The strategy has been mirrored lower down the market-cap spectrum too, and with great success. For example, the Buzzacott Corporate Finance team disposed of Vocality International to NYSE listed Cubic Corporation - Vocality specialises in low latency, lossless communications and had developed some fantastic intellectual property. Cubic understood the IP and were excellently positioned to exploit it globally.

Gain a competitive advantage

Start-ups and entrepreneurial businesses are able to give acquirers something truly unique; they can provide established players with major competitive advantages. For example, in 2013, Cambridge-based Evi Technologies Limited was acquired by Amazon. It was from the AI technology of this small, British company that the Amazon Echo was built.

Market access and/or go international

Larger firms may have a strong distribution network and more established relationships with key buyers. But entrepreneurial businesses also have leverage when it comes to market access.

Smaller firms tend to have unique and differentiated products and may also be placed in an attractive geographical market. For example, in 2018 Buzzacott disposed of Pex to Nasdaq listed RealPage, a SAAS business focusing on the real estate sector again with excellent IP, but also the perfect platform from which RealPage could launch into the UK and European markets.

Economies of scale

Smaller or mid-tier firms merging together are also more likely to reap the advantages that come with greater economies of scale. The simple reason is that larger companies are intrinsically more likely to be already operating at an optimum scale.

Such a strategy can potentially result in a significant reduction in unit costs, for instance where production platforms and distribution networks can be shared. The companies merging can still choose to retain their separate brands.

As an example, the proliferation of craft beer companies over recent years has made the sector ripe for M&A. Merging with other smaller producers stands to reduce unit costs, which is likely to be critical to long-term profitability in a crowded market.

Investment from bigger groups can also enable small producers to increase the scale of their production. In 2018, London-based craft brewer Beavertown sold a stake in its business to brewing giant Heineken in a £40m deal, with plans for a ten-fold increase in Beavertown's brewing capacity.

Success

Start-ups and entrepreneurial businesses are often most attractive to larger companies, however exits to closer peers should not be ignored as they are often the best at spotting the huge amount of potential that a business may have.

Overall, start-ups and entrepreneurial businesses have a lot to offer when it comes to the prospect of being bought out or merging with another company.

Buzzacott's Corporate Finance team make sure that entrepreneurs understand and realise their true value.

If this is the way you want to go, the question you need to ask yourself is: what's the best next move for my business?

How can I better position my business for the next step?

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Corporate Finance Manager, Anna-Louise Shipley shares her top tips for how entrepreneurial businesses can make themselves more attractive to secure the best transactional outcome.

If you are a business owner, hopefully, by now, you understand that in a lot of cases entrepreneurial businesses have a great deal open to them when looking at options for the next stage. Instead of continuing to grow, many consider the possibility of a disposal. If going down this route, there are some key things you should consider to ensure, as a business owner, you are in the right place to get the best deal.

1 Many entrepreneurial businesses won't necessarily have the luxury of a full-time finance director or fully fledged finance team. However, it is essential that you have good "data" on your business. This may include several KPI's but it is vital that your core financial information is clear and transparent. This information needs to prove where the business' value stems from, that there are solid revenue streams, good profits and you know what is in your balance sheet. Ultimately, good quality information implies that the management are well organised and have a strong handle on the business.

2 The value of trust cannot be overestimated. People will pick businesses to work with which are owned and managed by strong, sensible and trustworthy individuals. Initial conversations and behaviour often sets the whole tone for the transaction that follows. Therefore, those first impressions are really important and a strong indicator as to whether the right businesses are engaging with one another. If you have got off to a difficult start it usually just gets harder.

3 Understand exactly what drives value in your business. Is it intellectual property, recurring revenue, your team, your brand, your market position, profitability or simply your potential? Also, accept that, just like any business, there will be weaknesses in your business and don't ignore these. Take time to identify both and build on the strengths and reduce the weaknesses.

Scale Models

The art of growing successfully

In August 2018, Business Insider reported that the UK fintech sector received the most funding globally, already surpassing 2017 totals. This shows that the UK, especially London, is extremely attractive for tech founders and investors.

Fundraising is, of course, necessary to growth but money really isn't everything for scale-up success. Not convinced? Have you ever heard of Fling?

Fling was a London-based social media app that allowed users to send photos and videos around the world. The platform once boasted 4 million users through the Apple App Store, secured £17 million in funding and occupied plush top floor offices in Hammersmith. It seemed to have all the trappings of a UK tech success.

However, Fling burned through its funding in three years, never brought in any actual revenue and was removed from the Apple App Store in 2015 for inappropriate content and user safety concerns. There were also reports that the company lacked real leadership or vision and staff were mistreated and unhappy. The next year, Fling filed for administration.

While the sector remains healthy now, there are hurdles ahead that could make long-term success even harder to achieve. With the UK media clamouring for the next tech unicorn and uncertainty around the wider impact of Brexit, scaling businesses can be guilty of obsessing about securing investment and valuations that are as high as possible. It's more important than ever that scaling tech businesses focus on factors beyond the funds – and that, of course, means taking the right advice throughout the business life-cycle.

So, what should tech businesses consider on the road to growth glory?

Planning

A core part of scaling successfully is working to a plan. Businesses should define their 'moving forward' strategy over 24 months or so, outlining their focuses and where they will spend any funds. Keeping a view on the overall purpose is key for outlining priorities.

All too often, however, young companies can lose track of what they have set out to do and are pulled in an entirely unplanned direction.

Returning to the example of Fling: the company had initially started as a social network for students called Unii, attracting 100,000 users in six months. However, apparently inspired on a flight to Hong Kong, the founder pulled his team from the Unii concept and Fling was born.

Two years might seem an extended period to plan, especially in a sector that's moving so quickly, and remaining agile and adaptive is undoubtedly important. But a plan will help businesses to spend the time and money that they have well and will keep young companies on the right trajectory.

Employees

The right people strategy is essential. In a highly competitive talent market, businesses require a laser sharp understanding of the skillsets they need.

Should resources be poured into product development, is making a name quickly through PR and marketing important, or will having feet on the ground in specific locations make all the difference?

Once you get the right people, it's just as important to engage and keep them. This may involve a combination of providing flexible working or bonus schemes but is mostly achieved through encouraging, respecting and inspiring your employees.

Looking back at Fling, *Business Insider* reported that staff morale was low and the whole marketing team resigned at once. This may sound harsh, but – you might be the founder, who has the best technical skills but might lack those essential people and leadership qualities to take your business to the next level.

The question then is: should you put others in place to take care of the operations side and also the on-going business strategy?

A diverse employee base, with a range of experiences and ideas, is also proven to benefit performance, so inclusion should be prioritised from the start.

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Timing

The tech sector moves quickly and it's easy to be distracted – and miss a chance. Having a strong understanding of the window of opportunity will inform the business strategy, product roadmap, fundraising approach and timescales.

Your business service or product might seem crazy now, but there may be a market for it in five years' time.

The most successful scaling businesses will have a plan of how they can add to their original product or service line and when to implement these changes to carry their business into the future.

Funding that fits

Having said that money's not everything, of course, it's a critical resource for enabling businesses to achieve growth and long-term sustainability.

But arguably more important are the terms attached to that funding, whether a founder has to stay with the firm until it reaches a specific valuation and how easy it will be to secure further funding.

Finding investors whose objectives align with the business is invaluable and ensuring the right terms and timeline for the business purpose and strategy will be central to lasting success.

So what does the story of Fling and many others really teach us? Securing investment is brilliant, and it's incredibly positive that so much is available in London. However, fundraising is just one part of a broader growth story. Businesses need to pursue a holistic strategy, defined by a clear sense of purpose and the right people to achieve stable growth and scale in the long term.

Then we can look forward to more growth stories to be proud of, rather than 'could have beens.'

"The Generation Games"

Succession Planning and Pensions

Many of our clients are pleasantly surprised when we tell them that pensions can serve a greater purpose than income for retirement. In fact, wise pension planning can potentially be used to benefit multiple generations in a family and is increasingly a point for discussion when we are advising many of our clients. Let's take a look at the Gonzalez family.

Considerations for Parents & Grandparents

Matthew and Maria Gonzalez have the following assets:

Investment Detail	Investment Amount (£)
Pension Policies	£1 million
ISAs	£500k
Other Taxable Investments	£1 million
Property	£1.5 million

They have two children, Tom and Seth to whom they wish to leave a nest egg. They are also conscious about making immediate gifts due to the potential high costs of long term care. Whilst they have considered the use of trusts, they want to manage their affairs in the simplest way possible.

Prior to the 2015 pension reforms, introduced by the Government, pensions were not necessarily the most flexible asset in terms of how it could be passed on to beneficiaries. However, since 2015, Defined Contribution pensions have been outside the scope of inheritance tax in the majority of circumstances. It should be noted that Defined Benefit or 'final salary' pensions will not typically allow the same flexibility.

As such, if Matthew and Maria were to draw down from their ISAs and other taxable investments in the first instance rather than automatically drawing from their pensions in retirement, it could benefit them in two key ways.

1. Every pound brought back into the estate from the pension that has not been used is likely to incur a 40% inheritance tax charge on death. This should be compared to any potential pension lifetime allowance tax charge and the marginal tax rate of drawing from other available assets. However, drawing from other assets could reduce the potential inheritance tax bill on their death.
2. By 2021, the Resident Nil Rate Band (RNRB) allowance will be £175,000 each. This will work in tandem with the existing £325,000 nil rate band (NRB) for inheritance tax on one's estate to enable a couple to pass on a total of £1m to children/grandchildren free of inheritance tax. However, the RNRB will be reduced by £1 for every £2 that the value of the estate exceeds the £2 million taper threshold. By drawing from non-pension assets, Matthew and Maria could potentially reclaim some, or all, of this allowance.

As such, for those clients of ours with other non-pension investment assets, we increasingly consider the most tax efficient manner to draw down their assets to meet their objectives of both providing income/capital in retirement and reducing their potential IHT bill.

Considerations for children and grandchildren

Let's return to our example and Matthew and Maria's children, Tom and Seth. Both are saving what they can into the pensions provided to them by their employers. However, they are concerned that even if they can afford to pay significant amounts in a pension whilst trying to get on the property ladder, accumulating a pension fund of a sufficient size is increasingly challenging.

The challenge is partly due to the pension lifetime allowance reducing over the years (now at £1.030 million) and the introduction of the tapered allowance. The tapered allowance can mean that individuals may be able to have as little as £10,000 per tax year added to their pensions.

Furthermore, based on current annuity rates, a pension of £1.030 million could provide an income to a healthy 65 year old of as little as £20,000 p.a. Questionably, this amount is insufficient at a time when retirement costs are spiralling. Although many may not use their funds to purchase annuities, it provides a reasonable point of reference. As such, the incentive and ability for the younger generation to save solely into a pension has reduced in recent years.

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A key benefit for Tom and Seth is that any pension inherited would not count towards their own lifetime allowance. This potentially allows for the inherited pension to grow in a tax-free environment. How an inherited pension is taxed depends on the age of the deceased from whom they inherit the pension.

The death of the pension scheme owner/policyholder before 75 will see the pension inherited completely tax free. Death after 75 would require Tom and Seth to pay tax at their marginal rate but only when they draw from the pension, no inheritance tax should be due.

Another advantage for Tom and Seth is that the pension could be left invested with no or little withdrawals taken by them. As with the above, on their subsequent death, the pension they inherited (along with any pension they accrued in their lifetime) can be passed on to their beneficiaries. The tax treatment on the new beneficiary will be subject to the age at death of the pension policy owner. However, the pension would not be subject to inheritance tax.

The result of this approach is that, where one's pension is not required, it can cascade through the generations to the benefit of children or other beneficiaries as well. This is more difficult to achieve in a flexible, tax-effective manner with non-pension assets.

As the example of the Gonzalez family shows, pensions have become a versatile tool for both your retirement strategy and your estate planning. It is increasingly important to understand one's short and longer term objectives and having a robust financial plan in place is essential. Income drawdown in retirement is a complex area and an important one to get correct to ensure you are being as tax efficient as possible in retirement while also being cognisant of inheritance tax issues.

Our role as financial planners is to assist our clients to formulate financial plans that are bespoke to them and can be reviewed regularly to ensure that they optimise their position, are linked to their objectives and importantly, are flexible enough to adapt to ever-changing legislation and regulation.

Stepping stones

Estate and Inheritance tax planning

While Income Tax planning is normally the prime focus for most individuals, gift, Estate and inheritance tax planning is often just as important for the transfer of property to the surviving member of a family. For those with a US and UK connection, both US and UK tax rules should be considered in conjunction to ensure the preservation of wealth during lifetime and after death for the eventual beneficiaries of the individual property.

To highlight how these rules can be easily navigated, take a look at what steps Jason could take to save money through Estate and Inheritance tax planning.

Jason's story:

- Jason moved to the UK from New York in December 2004. He is a US citizen. In July 2005 he married Maria, but they are since divorced.
- Jason is 51 and in good health, he has three children.
- Jason owns a UK property worth £1m, a US bank account worth $3m and cash in UK bank accounts worth £1.5m. Jason wishes to pass his wealth to his children.
- Jason heard that the UK Inheritance tax (IHT) rules have changed recently for non-UK Domiciliaries and he was concerned about his worldwide exposure to Inheritance/Estate tax.

This is how Jason can reduce his and his family's global tax exposure to Estate and Inheritance tax.

What can Jason do?

As Jason has US and UK estate/inheritance tax exposure, with no planning in place he will most likely be exposed to a 40% inheritance tax bill on his worldwide estate.

In the UK each individual qualifies for the nil rate band (currently £325,000), meaning the first £325,000 of their estate is excluded from UK IHT. US Estate or Gift Tax is only applicable where the total value of a deceased US citizen's estate exceeds the lifetime exclusion amount. Under the new US tax reforms, the lifetime exclusion has doubled.

As Jason's estate ($6.25m) is under the US threshold his primary concern will be UK Inheritance Tax, but he should consider how to preserve his exemption where possible.

Lifetime Gifting

One of Jason's UK bank accounts has a cash balance of £500,000. He would like to pass the cash to his children in a US and UK tax efficient manner. He wants to give them the gift directly.

For UK tax purposes a gift can be fully excludable from IHT if the donor survives seven years from the date of the gift. If the donor dies within seven years the gift remains taxable in their estate, however Jason is in good health and expects to live seven years.

For US estate tax purposes any lifetime gifts will be deducted from the lifetime allowance (currently per person) but, it is possible to gift up to the annual allowance (currently $15,000) of your estate, per recipient, each year without reducing your estate allowance.

Jason could therefore gift up to $15,000 to each of his three children per year, with the gifts remaining outside the scope of US estate tax. Provided he lives seven years from the date of the gift, they will also not be subject to UK IHT. In addition, there is an annual UK gift allowance of £3,000 to each child and potentially if the gifts are considered regular and out of Jason's income, they could be entirely exempt gifts without the need to survive seven years.

If Jason gifts $15,000 (approx. £11,500) to each of his three children annually, over a 10 year period, he could exclude £345,000 from his taxable estate.

If Jason remains with the US gift annual allowance of $15,000, he could save £138,000 in taxes.

Deemed UK Domicile

UK domiciled individuals are subject to UK Inheritance Tax (IHT) on their worldwide assets. Non-UK domiciled individuals are only subject to UK IHT on their UK status assets.

Under General UK Law, it is possible to keep your 'domicile of origin' in the US, where domicile is based on your intention to return to the US. However, since 6 April 2017, it is possible to acquire deemed-UK domiciled status when an individual has been resident in the UK for at least 15 out of the last 20 tax years.

As things stand, since he arrived in the 2004/05 UK tax year, Jason will be deemed UK domiciled from 6th April 2019. With no planning in place, from this point his worldwide estate in excess of £325,000 will be subject to UK IHT.

Excluded Property Trust

Jason does not need all of the money within the US investment portfolio. He would like to give $2m of the funds to his children, but restrict them from withdrawing until they are 25. Jason could set up an excluded property trust before 6th April 2019 with the funds he would like to give to his children.

For a UK domiciled individual, settlement into a trust is a chargeable inheritance tax event. Jason is however not domiciled in the UK so only his UK assets are subject to UK IHT. As the US account is non-UK based and Jason is currently not deemed domiciled, he could therefore settle the funds into a non-UK trust, creating an excluded property trust which will be outside the scope of UK IHT. The funds can therefore be passed to his children without being subject to UK IHT.

If Jason settles $2m (£1.5m approx.) into the new trust, he could save his estate £600,000 in Inheritance tax.

Working with Buzzacott, Jason would benefit from timely, practical and cost effective joined up US/UK tax advice. We would also be able to refer him to a law firm to help with the legal side of setting up a will and the creation of an excluded property trust outside the UK.

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End of an era: leading through change ...

An interview with Amanda Francis

Thirty-five years and counting ...

2018 brought a change of leadership for Buzzacott, former Managing Partner Amanda Francis shares her thoughts on eight years of leading through change and muses over her 35 years and counting at Buzzacott.

Tell me about your journey to becoming Managing Partner, did you envisage that's where you would be when you joined the firm?

Not at all. Since qualifying as a Chartered Accountant, I have only ever wanted to work with charities. I stayed at Buzzacott due to the firm's commitment to the charity sector, and was promoted up through the ranks becoming a Partner in 1994 and then Charity Team Leader shortly thereafter. In 2010, I took over as Managing Partner from Mark Farmar.

"Two key ingredients for any successful business are a happy team of people and happy clients."

Mark and our then Chairman, Anthony deLacey, had effectively transformed the business, introducing the Team structure and giving the firm a very stable foundation and a strong reputation for high quality and specialist work.

When I was elected as Managing Partner, I made clear my intention for "evolution not revolution" – I wanted to build on what Mark and Anthony had established.

My wish was to continue to build our reputation for high quality work, to differentiate us from many of our competitors and to develop an organisation where people would want to learn, develop and stay.

Buzzacott has never pretended to be all things to all people and I was determined that we should continue to build on our strengths, developing further the niche areas we had become known for and continuing to work in collaboration with other professionals to provide our clients with the best possible service and added value.

The Buzzacott values and culture have been a focal point during your leadership. Why do you feel they are important?

Staying true to, and believing in, our values has helped Buzzacott grow from strength to strength, enabling us to attract high quality people that train and stay with us and also helping us to adapt to changing times. Having a clear culture and set of values has better enabled us to deal with change. They act as the yardstick for our decision making and ensure we always consider the people impacted by those decisions or by the advice we give.

In particular, our value of client focus has remained key. This also applies internally as well. We are all clients of one another when we work as part of a team. Any successful organisation has to change with the times and I believe passionately that in order to do this, you have to listen to your clients including your team members. If you don't, you will get left behind.

Examples of this are clear if you look at what has happened in parts of the commercial sector in recent times. Many businesses have struggled and failed, partially because they haven't been responsive to their clients or customers and the changing times and needs. Two key ingredients for any successful business are a happy team of people and happy clients.

During your eight years in leadership, you led the firm through significant change. How have you dealt with that and what advice can you pass on to other budding leaders?

Human beings often fear change and its implications. This fear has to be faced – it is necessary to accept that change is inevitable – you have to embrace it and recognise that with change there will always be opportunities. Never run away from change or say that you'll deal with it tomorrow. When change happens, concentrate on the positives.

Buzzacott became a UK top 25 firm in 2012, how did that make you feel as Managing Partner?

It's just great and testament to all the hard work of my predecessors and fellow partners and our staff team. It demonstrates that you can still, even in this day and age, be a successful business whilst remaining independent and putting your values at the forefront of everything you do.

> Having just the one UK office encourages open face-to-face communication, an environment where people can bounce ideas off each other, and so give clients the best possible all-round added value service.

We have a lovely office space, right in the heart of the city. What motivated the decision to move to Wood Street?

Our heritage is that of a "city" firm and retaining that link with the City of London is important to us – it also allows us to work easily with many other professional firms and advisors for the benefit of our clients. By 2007, we were outgrowing our premises in New Fetter Lane and they were in need of significant modernisation. We moved in February 2011 returning to Wood Street, coincidentally across the street from the location we had left 14 years earlier. Our current home has allowed us to develop an office space that reflects who we are – we wanted a space that was modern, open plan and large enough to house everyone in the one building.

Being a firm with multiple specialisms, the ability for us all to be under one roof is very important. Having just the one UK office encourages open face-to-face communication, an environment where people can bounce ideas off each other, and so give clients the best possible all-round added value service.

What's been your proudest achievement here for the firm?

I have not, and could not have achieved anything on my own – the entire Buzzacott team, however, has many things to be proud of. Most recently, our refreshed brand and new website. This was the culmination of three years of work, really understanding our employees and our clients and how we can visually represent that relationship and be more helpful to clients. This new brand, together with our reputation as a good employer, is an outward facing sign of Buzzacott's modern outlook and willingness to evolve. There is a lot of hard work and soul searching that goes into maintaining that modern outlook and spirit so the brand, in a way, is a symbol of our achievements and success over the past few years.

Personally, I'm hugely proud also that we have retained our independence and we continue to be successful. As a firm we are true to our values – values are important in today's world and we've proved that they work.

You've been at Buzzacott for more than 35 years, joining in 1987 as a graduate. Can you think back to why you decided to pursue accounting as a career and why you chose Buzzacott?

I'm afraid I simply fell into accounting. I studied maths at university and, at the end of my course, I was told my options were teaching, actuarial work, further academic study or accounting – in 1987 there was no such thing as "careers advice"! I took a chance and explored accountancy. I interviewed with two firms, got offers from both, but obviously accepted the one from Buzzacott.

The two firms I interviewed with could not have been more different – one was what later became one of the Big Six (before the days of the Big Four!) and the process was remarkably slick and enticing. However, Buzzacott seemed to have more character and it intrigued me. I also liked that it was a medium-sized firm and so would provide me with a broader range of experience.

> As a firm we are true to our values – values are important in today's world and we've proved that they work.

Why did you decide to specialise in charities?

Again luck and timing played a very significant part. Soon after qualifying, I decided that if I was going to stay in the profession, I wanted to work with clients I felt a particular affinity with and whose work I felt drawn towards. The late 1980's saw the beginning of a transformation in the governance and accountability of charities with many charities requiring soon thereafter formal accounts and audit for the very first time. This coincided with a small firm called Godfrey Lord joining Buzzacott and bringing with it a number of charity clients which, together with those charities already served by the firm, gave us the critical mass that allowed us to develop and build our charity specialism.

I'm a firm believer that, in one way or another, we are all in this world to serve and, to me, that's what the charity sector and the people within it do so brilliantly. I hope that by using my own skills to help charities, I too give a little something back to society.

Who has had a real impact on your career?

Throughout my career, I have met so many inspirational people – many of them clients. From within Buzzacott, there have been two people that have had a massive influence on my career, my outlook and the way I work with clients: Bobby Vincent and John McNiff.

Bobby was passionate about the charity sector and had the foresight to see the impact of the legislative changes on the sector and the vision to see how Buzzacott could help. Our specialism and reputation in the charity and not for profit world can be attributed very much to him. His enthusiasm was contagious, his "can do" attitude gave me confidence and his encouragement gave me the determination to learn and succeed.

> I hope that by using my own skills to help charities, I too give a little something back to society

John joined us from Godfrey Lord. From John, I learned client skills, the importance of listening to and understanding clients' needs and concerns, the significance of looking at more than just the numbers on the page and the need for client focus and exceptional service.

Both very different characters, but both taught me so much about the work I do and how I approach it.

Is there a moment that stands out for you with regards to your clients?

I'm proud of all my clients, they vary in size and activity hugely but they are all selfless and work tirelessly for the good of others. Many of my clients are people who you may sit next to on a train or bus not realising that you are next to someone who has done amazing work, established projects and helped many, many people. I've met some truly inspiring people in my career.

Looking ahead what do you think will be the big changes for accountancy firms and the professional services industry?

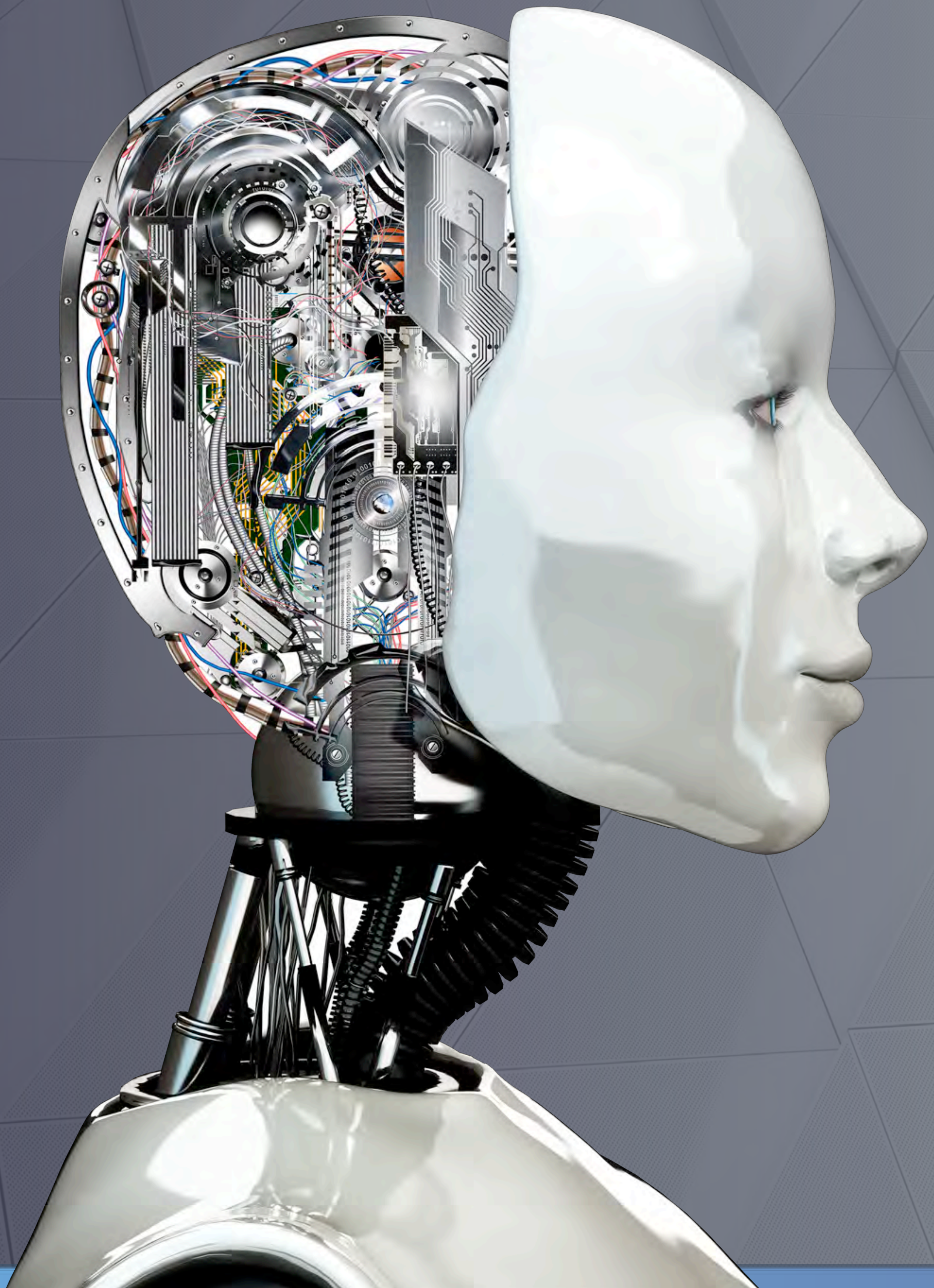
During my career we have seen some massive advancements in technology. It is sobering to recollect that when I joined Buzzacott 35 years ago there were hardly any computers used. Nowadays, we all carry mobile telephones around in our pockets or handbags that are more powerful than the computer that sent the first rocket to the moon. The pace of development will not slow and artificial intelligence will, in many ways, revolutionise the way we all work and live.

For the accountancy profession, I believe much of our compliance work will become more and more automated and regulated. This will necessitate change but, as I said, change leads to opportunities.

Machines are very good at doing and following instructions and rules. However, our profession deals with people who will continue to need advisers who can interpret, who can outline options, and who can explain solutions to complex problems in a manner that can be understood and implemented.

One outcome of this may be that we see more and more multi-disciplinary professional firms with advisers with different skill sets and expertise coming together to provide all encompassing advice to clients.

> I learnt early on that my job is to look beyond the numbers. We are in a people business and inter-personal skills will become more and more important – it all comes back to client focus.



The inside view

Buzzacott's Tech team and HR Consultancy share their thoughts on what they're expecting to see in 2019

Technology

<ins>The rise of the CTO and the CDO</ins>

By now most companies have a dedicated Chief Information Officer (CIO), to oversee the technology that a business uses internally, the email system, CRM, payroll systems, etc. But does your company have a Chief Technology Officer (CTO) or a Chief Digital Officer (CDO) as well? In 2017, Consultancy UK reported that 20% of the global corporates had a CDO in place. Not surprising, considering the value a dedicated technology architect brings by leading on how products and services can be better integrated with technology to cut costs and increase efficiency and accuracy in an organisation. We envisage that this trend will filter down to the SME's. Does your business big or small need a CTO or CDO to take it to the next level?

<ins>What's-next-tech?</ins>

We have *fintech, legaltech, edtech, healthtech*. This modern phenomenon is where different industries are using tech to solve their business problems, offering more and better solutions to consumers. You may be thinking this is generally what all modern businesses are doing, however this new 'tech' label is usually the sign of start-ups challenging a traditional market with technology. We see this challenge moving into more areas different sectors are gradually starting to position themselves as tech companies to avoid being left behind. This is a trend that we believe we'll see growing in 2019 and beyond with some great technology being created to revolutionise the manufacturing and energy sectors.

<ins>Sayonara technology-san</ins>

Technology is constantly changing our lives and gradually we've stopped doing the things we used to. Who still memorises people's phone numbers? Checks a map before making a long journey?

Every few years we notice that everyday household items are disappearing from our homes. Long gone are the days of pagers and VHS players. Well now stereos, DVD players, landline phones and even desktop computers are disappearing from homes – items that we thought were revolutionary and would be around forever.

As well as the use of 'staple' tech items disappearing from homes, they're also disappearing from businesses. Therefore, it's key that business owners start thinking ahead from now about what technology will no longer be useful in their workplace or to their clients and how this could impact the way your business works.

What do we think will start to disappear next? That's an easy one: desktop workstations in the workplace will soon be nothing but a memory .

HR

More automation

One of the major trends in HR now is the drive for efficiency through technology. HR information systems continue to develop and become more sophisticated, employee engagement tools such as "pulse surveys", access to digital learning and the use of technology to process data are all bringing efficiencies to HR as well as the wider business community.

For businesses, the key stumbling block is finding the right technology for their particular needs amongst the wide range of technology now available, and that which is coming on-line in the near future. Those HR teams and organisations which successfully implement technological opportunities will benefit from increased productivity and enhanced employee engagement, and this trend will continue into 2019 as more mobile applications become available.

Employee welfare

For the last few years, awareness of mental health issues in the workplace has increased, with multiple reports and recommendations constantly being released to emphasise the importance of taking employee welfare seriously, such as the independent report, "Thriving at Work" released in October 2017. This reported noted that around 15% of people at work have symptoms of some form of mental illness, with around 300,000 (1% of the UK workforce) with a long-term mental health problem losing their job each year. A drop-out rate for this reason is problematic for any economy. That's why in 2019 and beyond, we predict that the government will start to intervene into mental health issues in the workplace and start to put actual pressure on businesses to take more practical strides towards improving employee welfare.

Plug the gap

The struggle for businesses to find the right talent has been recognised for some time and shows no sign of improving. The CBI has commented that the size of the UK workforce is shrinking as the number of vacancies for skills is growing. Brexit is possibly playing a part, as recent Office for National Statistics figures in August 2018 showed the largest fall in EU nationals working in the UK since these statistics started to be recorded in 1997. HR has an important role to play in helping a business prepare for life post-Brexit and keep employees engaged and to attract new employees in a more difficult market.

The Bank of England Inflation Report published in August 2018, states that by late 2019 the demand for labour will outstrip the available supply. Whilst wage growth has been weak, it is now becoming stronger as businesses find it more difficult to find quality, skilled candidates, and will continue to be so as the availability of labour tightens.

Companies are increasingly reviewing benefits packages to retain and attract new talent, but also are becoming more aware of the aspirations of younger employees, for work-life balance and other factors when deciding to join an organisation. Increasingly, young people are not just looking at salary and benefits, but also, and equally importantly, they want to see opportunities for training and personal growth, flexibility at work and a company culture which will satisfy those needs.

Adapting to changing expectations will be the challenge for employers throughout 2019 - engaged employees with a broad range of benefits will be more productive and will stay longer. More motivated employees will allow businesses to be adaptable to changing markets at a time of great uncertainty as the UK moves into the post-Brexit environment.

Beyond the Numbers

For further information or if you would like to speak to us about anything outlined in this magazine, get in touch.

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