Beyond THE Numbers

Issue Four

HIGHLIGHTS

Mastering tronc

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Buzzacott

ISSUE FOUR

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MAGAZINE EDITOR: LUCY LIENG

WELCOME TO THE FOURTH ISSUE OF BEYOND THE NUMBERS

Politically much has changed over the past six months and I feel certain that there are many ramifications still to become apparent. As such, we are in a state of uncertainty. As Brexit negotiations with the European Union begin and the Trump administration continues to unveil legislative reforms, how much meaningful forward planning can be achieved?

As a firm, we make it our mission to anticipate and scrutinise the evolving landscape so that you, our clients, don't have to. So while we await the outcome of certain political changes, our specialist teams have put together this issue of *Beyond the Numbers* to provide insight into the future of data protection, the impact of the Common Reporting Standard and how our new troncmaster service caters to the hospitality sector. In other articles, some of our longest serving members of staff look back on their time at the firm and we consider key milestones in a person's life and the financial implications they bring. We set out also the exclusive findings from our social impact survey.

As always, I hope you enjoy this issue of *Beyond the Numbers*. On behalf of all at Buzzacott, may I thank you for your enduring support. I look forward to receiving your feedback.

Amanda Francis

Amanda Francis
Managing Partner

The design life

Claire Watkins, Head of Buzzacott's Professional Practices Group, discusses the lifecycle of an architecture practice, from birth to maturity and passing the legacy on to a new generation.

At the Royal Institute of British Architects, improving business skills in practices is on the 2017 agenda. RIBA's objective is music to the ears of our team, who have spent many years supporting architects with the financial side of their business. And while no two practices are the same, most adhere to a three-stage cycle.

Birth – learning to stand on your own two feet

We have witnessed many new businesses emerge from bigger, older practices. Typically a group of architects or junior partners, enthusiastic to drive the organisation in a fresh direction but hampered by an inflexible Board, make the brave decision to set up their own practice.

One of our longest-standing clients started with just such a breakaway. From the start, their focus was on attracting a pipeline of projects and creating a team. To do so successfully they first needed to refine and strengthen their business plan so it could be presented to their bank to secure much needed finance.

Since then we have helped the firm choose the most appropriate corporate structure, implement the right accounting software and produce reliable management information. We see our role as creating the financial cement which binds the bricks of the business together.

Growth – understanding that clarity leads to prosperity

No business should underestimate the importance of maintaining up-to-date, clear accounts. Having a strong pipeline of clients and a clear vision of the future of the business can only take you so far. You'd be surprised how much unintelligible management accounts can hinder your ambitions.

It might not be the most exciting of tasks but unpicking complicated accounts will serve to support the strengthening of a firm's financial strategy. Many of the business managers we work with are beginning to understand the importance of challenging the financial data produced by their in-house finance team, as well as how tax planning can help their business. This clarity means they can appreciate where they need to tighten up their spending and where they need to invest for growth.

As a side note: HMRC are now attempting to make it even easier for architects to benefit from the Research & Development tax credit. It's a mystery why the profession hasn't made the most of the credit up until this point. However, given the numerous innovative ways in which architects are impacting on our lives we hope to help more of them submit successful claims in the future.

Maturity – securing the long term future of your business

Having toiled blood, sweat and tears to create a strong business, no-one wants to see it fade and die. And quite apart from anything else, financial rewards are available from passing a successful practice on to the next generation.

Mid-tier practices often find fast growth renders their current structure impractical. In these cases, a share option scheme can achieve a gradual transfer of ownership, a route which encourages potential shareholders to have a vested interest in the business's success. We are seeing more and more architects opting for Employee Ownership Trusts, where shares are held collectively on behalf of staff.

And with LLPs, where share-based models aren't appropriate, we continue to talk to architects about buying and selling the goodwill in their business. This could mean passing it on to the next tier of partners or merging the firm into another practice at an agreed value. Great architecture looks to the future. With proper financial planning and consideration, architect firms can practice what they preach.

Buzzacott's Professional Practices Group works with architects and other professional businesses on all aspects of financial management.

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For many years, the UK has held the top spot as the European destination for foreign direct investment. Is this set to change in the face of the EU referendum result?

As the world's fifth largest economy, the UK has long been a popular destination for foreign investment. Its proximity to continental Europe, skilled workforce and business-friendly tax climate attract investors. Moreover, the UK has one of the most established judicial systems worldwide, a key consideration for overseas business. And significantly, English remains the preferred language for international business.

The UK's popularity seemed unquestionable. But after the Brexit vote last year, what does the future hold for foreign investment? Doubtless there will be significant implications for the tax environment as we make moves to leave the single market, but the UK remains an attractive place to do business. Let's explore why.

The dwindling tax burden

Wherever a business looks to set up, the burden of tax will always be top of the list of factors to consider. In 2010 Corporation Tax stood at 28%, currently it's at 20% and by 2020 the plan is to bring it down to 17%, among the lowest in the G20.

In recent years, changes to our domestic law have made the UK an attractive place for setting up a holding company. Most dividends received by a UK holding company are exempt from Corporation Tax. And where the conditions are met, UK holding companies are able to dispose of trading subsidiaries tax free. Furthermore, there is no withholding tax on dividends paid by UK companies, meaning that often dividends or gains realised from subsidiary operations may be paid up to its owners free of UK tax.

Leaving the EU will likely result in our removal from the European Directives that enable interest, royalties and dividends between member states to be paid free of withholding tax. But the UK has one of the world's widest network of tax treaties, meaning companies will continue to receive interest, royalties and dividends from overseas subsidiaries with no or low levels of withholding tax.

Relief schemes

A number of generous schemes providing tax relief are encouraging investment in the UK, including:

- Tax credits and enhanced deductions for companies incurring expenditure on Research & Development (R&D);
- A reduced 10% tax rate for UK companies receiving income from patents under the Patent Box regime; and
- Tax credits for companies operating in creative industries (including film, TV, video games and theatres).

> *"Developments in the UK's tax environment post-Brexit will create risks but also present new opportunities."*

In recent years the Government has encouraged investment in R&D with finance bills that increase the reliefs available. Their commitment is reflected in HMRC's September 2016 review, which revealed the cost of reliefs to encourage R&D expenditure had grown to over £2.4 billion.

Looking ahead

Developments in the UK's tax environment post-Brexit will create risks but also present new opportunities. Ultimately, the UK remains open for business, as existing factors for its popularity join with new incentives for business to set up in the UK.

Coming up…

Our Corporate & Business Services team are producing a guidance report on post-Brexit business in the UK. It will explore how to maximise business opportunities, manage the drawbacks and mitigate the risks arising from leaving the EU. Interested in receiving a copy or got some questions? Get in touch with us.

Mastering tronc

There are some 150,000 businesses in the UK where tipping is common, but the practice is far from transparent. Head of Buzzacott Troncmaster Services, Mark Taylor, explores how troncs are clarifying murky waters for millions of employees.

Earlier this year, a West London department store was targeted by campaigners after it emerged it was keeping up to 75% of its restaurants' tips – up to £2.5m a year. The store has since pledged to review its position, but the story is a familiar one. Customers generally pay a 12.5% optional charge on bills to reward the staff who served them, but they are frequently disappointed. Cases of employers unjustly reaping the rewards show no sign of slowing.

> *"How can businesses in the hospitality, leisure and service sectors distribute tips fairly and transparently?"*

So what's the solution? How can businesses in the hospitality, leisure and service sectors distribute tips fairly and transparently? Many employers decide to distribute gratuities by adding it to the general payroll. But there's a drawback: the extra is often taxed as salary, meaning the staff receive it net of Income Tax and National Insurance Contributions (NICs).

Enter an alternative option, one which benefits all: troncs.

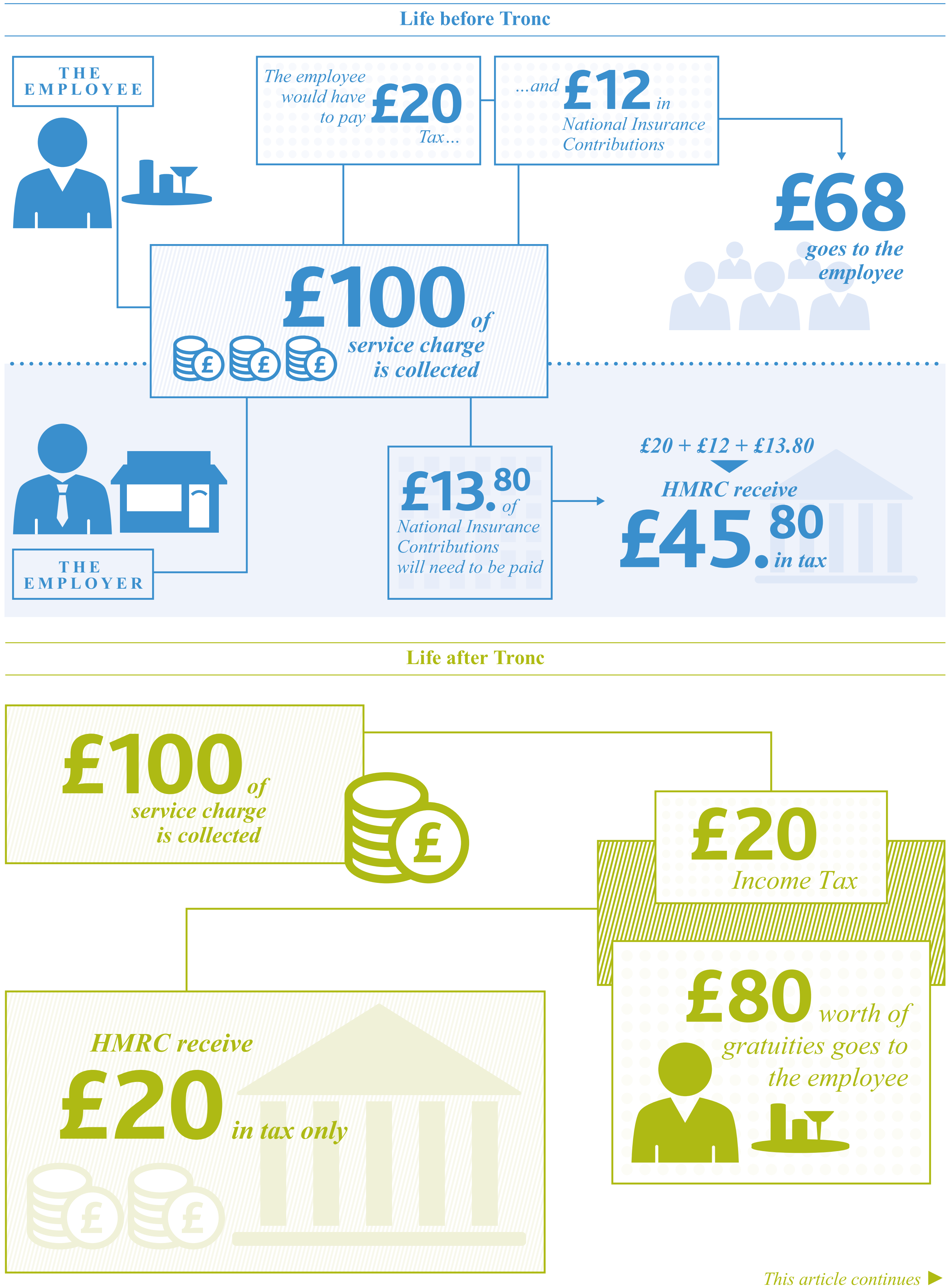
Tronc

A tronc is a special pay arrangement used to distribute tips, gratuities and voluntary service charges given by customers to staff. The word finds its roots in 1920s France where "tronc des pauvres", or collecting boxes, were used to accept donations for the poor.

Troncmaster

A troncmaster is an individual solely responsible for arrangements to share tips, gratuities and voluntary service charges given by customers to staff.

Take a look at a typical scenario...



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Tronc transparency

The reasons for having a tronc are pretty simple:

1. Staff can have up to 100% ownership of their hard-earned tips with a say in how they are shared out between front and back of house staff.
2. The arrangement can be genuinely independent, free from employer interference and influence, run for the benefit of staff.
3. Staff and customers can refer to formal rules that set out how the service charges are allocated and distributed.

NIC savings

To ensure tips are not subject to NICs, the troncmaster must not be the proprietor, a partner or other company official. Moreover, employers must not decide or get involved in the allocation of tips. Employer and employee NICs total over 25%, so this represents a significant saving, which can be passed on to employees' take-home pay.

Independent troncmasters

There is growing demand for troncmasters who are not employees of the business, and therefore cannot act under the influence of an employer. Businesses see the advantage of someone with up-to-date knowledge of tronc rules, who acts fairly and ethically – free of bias, favouritism and personal friendships or motivations.

To help our hospitality clients form trusting relationships with their employees and customers, we recently launched a new service as independent troncmasters. Our troncs are completely transparent, conform fully with HMRC requirements, provide exemption from NICs and offer significant savings to employers and staff. Each role is bespoke and tailored to assist our clients in recruiting, motivating and incentivising their employees. We only agree to act as troncmaster if NIC savings are passed on to members of staff.

Cheque, please

Next time you're paying a discretionary service charge remember to consider whether or not your money is actually being distributed fairly. With a troncmaster, you can be sure it is.

GET IN TOUCH

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The exchange factor

In the light of recent shocks in global politics, we have been busy reviewing changes that could impact our clients. On the agenda is the Common Reporting Standard, so let's look at what this could mean for you in practice.

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The Common Reporting Standard (CRS) is a new global reporting regime, now adopted by 100 jurisdictions, designed to crack down on tax evasion. Participating countries agree to exchange information on the investment income and gains of their residents. This prevents residents from avoiding tax by hiding their assets offshore.

So how does it work exactly? "Financial Institutions", a term that here includes a range of broader organisations than usual, gather key data on their "Account Holders". This information is then exchanged with relevant jurisdictions, via local tax authorities.

If the new system impacts your business, now is the time to act. The CRS has already been implemented in the UK, and first reports are due on 31 May 2017. These will relate to financial accounts that were open at any time in the 2016 calendar year.

Show me an example…
Jean is a resident of Nice in France. He has an account with a Financial Institution in the UK. This Institution provides details of Jean's account to HMRC, which then passes on his information to the French tax authority. So Jean becomes unable to hide the fact that he has a UK account from the French government. They will know if he leaves it out of his French tax return and he may be penalised for non-compliance.

Financial Institutions that do not comply with the CRS may also be penalised in their local jurisdiction, where there will be a penalty regime in place.

Let's explore how the CRS could affect some of our clients

I'm a UK business that provides financial services to customers

How does CRS impact you?
You most likely fall under the definition of a Financial Institution. Details relating to the accounts of individuals who are resident in participating jurisdictions will need to be gathered and reported to HMRC by 31 May following the calendar year in question. For some entity clients, details of the beneficial owners will need to be reported.

Your next steps
You will need to review your account holders on an annual basis, particularly with a view to establishing where each one is resident for tax purposes during the year. Account holders will need to be contacted and told that their information may be disclosed to the tax authorities.

I'm a privately owned trust or company

How does CRS impact you?
If you qualify as a Financial Institution then your beneficial owners will be treated as the account holders and their details will have to be reported on an annual basis.

If you're not a Financial Institution, you will still have to declare your status to the Financial Institutions that you have accounts with.

Your next steps
Your response will depend on whether you meet the so-called "Financial Assets Test" by having both of the following attributes:

- Gross income primarily attributable to investing or trading in financial assets.
- Being managed or your assets being managed by a Financial Institution.

The first step towards compliance will be to apply this test.

I'm a charity or a not-for-profit organisation

How does CRS impact you?
Some charitable organisations will be caught by these rules if they meet the Financial Assets Test, i.e. if at least 50% of their income comes from financial assets.

The UK charitable organisations most affected by these rules will be grant-making trusts making grants to non-UK resident beneficiaries, who will be reportable as account holders.

Most incorporated charities will not need to report anything but there will be some exceptions. Those that own financial assets will need to seek professional advice to determine their status.

Your next steps
The first step will be to determine whether you are a Financial Institution under these rules. Many of you will not be. For example, charities that receive most of their income from donations or bequests will not need to report anything.

However, in some cases, it may be necessary to review where your income is coming from each year. The analysis may change from one year to the next if your charity owns financial assets.

If you're unsure whether you are currently compliant with CRS, we encourage you to seek professional advice as soon as you can. We're here to help.

THEN & NOW

As the countdown begins for Buzzacott's centennial, we take a trip down memory lane with some of the firm's most familiar faces.

In 1919, an English munitions accountant set up a City practice in the wake of World War One. Based in the shadow of St Paul's Cathedral, Fred Buzzacott's founding firm has grown into the business we are today. To reflect on our journey, we spoke to some of our longest serving members of staff, who collectively have been part of the Buzzacott family for nearly 100 years.

Familiar faces

Mark Worsey
from Audit Assistant
to Partner
33 years at Buzzacott

Mark started his career at Buzzacott as a chartered accountant trainee when much of the work he did took place at client offices as opposed to at Buzzacott premises. Now a computer savvy Partner, he does not miss the days when the average audit job saw him transporting vast amounts of paperwork (and enough clothes to last the length of the job) to and from client sites. Fast forward 33 years and Mark is now a Partner of the firm and helps to maintain Buzzacott's PrimeGlobal membership (which connects us to 90 countries around the world).

"Over the years, Buzzacott, the accountancy market in London and the way of working has completely changed. We're much more internationally focused now and we have computers! There's a sense of pride when I think about how the firm has developed both in size and in the services we can offer."

Stephen Hart
from Computer Associate to
Head of Grantmaking Services
22 years at Buzzacott

From the very first day he stepped foot on Buzzacott premises, Stephen's passion for tech has helped steer his career. Having witnessed the rapid changes in regulation and reporting in the grant giving sector, nowadays Stephen spends much of his time utilising his knowledge and enthusiasm for tech as a force of education for clients - here and around the world.

"In a way, the change for me has been the attraction. You can make your role as interesting and different as you want, as long as it fits more widely with the firm's direction and serves our clients."

Helen Schofield
from Admin Assistant
to In-house Accountant
30 years at Buzzacott

Our clients are at the heart of what Buzzacott is about – what they do and what they need informs our decisions. In the 30 years that Helen has been with us, she has helped us deliver and maintain those relationships. In the face of rapid change, Helen has been an important and steady presence in keeping the firm ticking on, so that the rest of us can continue to do our jobs.

"It doesn't feel like I have worked at the same place for all these years – things have changed so much and they're still changing. People come and go. I've moved buildings four times. My role has constantly evolved and I am trusted to get on with my job."

Smells like team spirit

Years ago, Buzzacott was structured like a traditional accountancy firm, with departments organised by service lines. In response to a rapidly changing marketplace, we changed tack. The firm is now made up of specialist teams for sector-specific clients, such as the such as the Corporate & Business Services and Charity and Not-for-Profit teams.

"I would send the cassettes off and a few days later a man on a motorbike would turn up with the reports!"

"Back when I joined a lot of the 'teams' were beginning to become defined," Stephen remembers. "Over the years we've changed from being service to client orientated."

And, in turn, our client base has evolved too. "At least half of my current clients are international or internationally-owned, which is a massive increase from when I joined," Mark explains. "And we have significantly more charity clients now, so I've witnessed our charity niches grow over the years."

Into the digital age

With data generation now at the end of our fingertips, the Silent-700 Terminals we used in the eighties have moved from office desks to museum display cases.

"Data recording was completely different when I arrived at Buzzacott," Helen tells us. "All the data for timesheets and client work was recorded on a cassette tape that was fed through this machine. I would send the cassettes off and a few days later a man on a motorbike would turn up with the reports!"

New walls, new rules

It's not just our technology that's transformed: we've moved buildings too.

"We changed a lot when we moved to New Fetter Lane," Stephen notes. "In the old building, the office was very quiet and you'd have 4/5 people in one room. Suddenly, we moved to a semi-open-plan situation. All the partners had their own offices, like they do now, though they had doors back then."

Today, in our new Wood Street home, our Partners work in hives – offices with no doors. We want to create an open environment, where everyone communicates, irrespective of team or role. It's a positive change for Mark, who remembers when all the Partners were referred to as 'Mr this' or 'Mr that'. "It's much less formal now. I think it's made us more approachable and responsive."

"If the past decades have shown us anything, it's that our agility and adaptability will keep Buzzacott at the front of the curve."

What the future holds is anyone's guess. But if the past decades have shown us anything, it's that our agility and adaptability will keep Buzzacott at the front of the curve and we hope it will continue to be a place where people want to make a lifelong career.

THE NEW DATA DICTUM

GET IN TOUCH

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The world of data protection is set for dramatic change. John Sharples, from our Giving Solutions team, outlines what the new regulations mean for your organisation.

Data Protection laws have traditionally been a headache for companies operating across the EU, where regulations differ across countries. But after years of negotiation between member states, change is afoot. 25 May 2018 marks the introduction of the new General Data Protection Regulation (GDPR), a drastic overhaul of current legislation. The GDPR will unify law across member states and, crucially, comes into effect before the UK departs the EU.

The change will affect any organisation holding personal data – that is any information about a living individual that can be identified from that data alone, or alongside other information that the organisation holds. So in reality, this will affect most organisations. Are they ready to ensure compliance?

Strong incentives for best practice
Non-compliance with GDPR could have serious ramifications. The EU is set on synchronising often differing data standards in member states and determined to ensure best practice is upheld. The top level of fines could be up to a whopping €20m, or up to 4% of total worldwide annual turnover of the preceding financial year, whichever is greater.

Faster turnaround times
There will be more responsibility put onto Data Processors, who must notify the Controller if they become aware of a breach. For Data Controllers, there will be mandatory breach reporting to the ICO (Information Commissioner's Office, or other supervisory authority if applicable). In some cases the Controller must communicate the personal data breach to the data subjects. Individuals requesting access to their data must now be responded to within a month.

Tighter checks
The regulation also requires that for types of processing likely to result in a high risk to the rights and freedoms of natural persons, a Data Protection Impact Assessment be carried out. Examples of where this might be required is for outsourcing data processing, data migration to new IT systems and use of Cloud systems.

Data Protection Officer
Lastly, organisations may need to appoint a Data Protection Officer (DPO). This is obligatory in certain organisations:

- for a public authority or body;
- where the core activities of the Controller or Processor consist of operations that profile on a large scale;
- there is large scale processing of special categories of personal data.

A DPO must not have a conflict of interest with any other tasks or duties so cannot for example be a CEO, COO, CFO, Head of Marketing, HR or IT. While many organisations will appoint a DPO to their staff, an external person can fulfil the role.

"The change will affect any organisation holding personal data – that is any information about a living individual that can be identified from that data alone, or alongside other information that the organisation holds."

Time to act
The most likely reasons for non-compliance will be failure to keep personal data secure (both physically and in IT systems), sharing data when no consent has been given, and processing the data for any purpose other than that for which it was collected. To prepare for the new law, organisations should act now to review policies and procedures, to consider if they will need to appoint a DPO and examine any data collection notices in marketing and fund-raising material.

If you're uncertain about how the GDPR might impact you, please contact us.

MEASURE FOR MEASURE

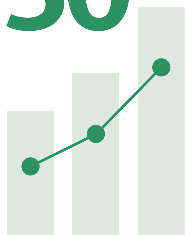
How social purpose organisations measure and report on their social impact is an ever-growing discussion. The Charity and Not-for-Profit team set out to establish the key trends.

Impact measurement is far more than a corporate buzzword: its development could make seismic changes to the social purpose sector. In collaboration with Matter&Co, The Good Economy Partnership, and The Esmée Fairburn Foundation, we decided to find out more.

We wanted to understand the importance that charities and social enterprises place on measuring and reporting their social impact. With responses from over 180 participants, we learnt a lot.

Here are our top five findings

50%



1.

50% believe impact measurement is crucial in improving services but a significantly lower proportion, 28%, believe it is crucial to their board.

68%

2.

68% believe impact measurement is essential but 45% believe they have poor knowledge and awareness of the subject.

3.

Respondents say there can never be a "one size fits all" approach to measurement methods. However, some degree of standardisation will increase the uptake of impact management as organisations see it as furthering their objectives.

4.

Measuring and reporting impact based on a "theory of change" can be complex and difficult to maintain, which reduces the number of organisations that record and utilise this information. There is a desire for simplification.

5.

Overall, there is an increased tendency to plan and lead based on impact management. However, many still see the measurements as an expedient for investment or fundraising, rather than a way to achieve core goals.

What does the future hold?

Our survey highlights the desire to develop practical, easily-adopted tools and standard methodologies. There is an opportunity for "experts", practitioners and social organisations to come together to develop simplified methods of measuring impact that can be more easily maintained and scrutinised. Simplifying impact measurement will open it up to the mainstream and enable more organisations to grow their impact.

WANT TO KNOW MORE?

To reserve your copy of the full report please get in touch.
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The social spotlight

The headlines might seem dominated by divisive geopolitics, but don't despair just yet. Recent trends in entrepreneurialism are all about doing good for others. Eddie Finch and Matt Katz discuss why start-ups are just as interested in social impact as social media.

GET IN TOUCH

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Reflecting on an event at the New Entrepreneurs Foundation, Eddie Finch, our resident social enterprise expert, recalls: "I was sat in a room full of young aspiring entrepreneurs and almost every question in the Q&A focused on how to make their business more socially progressive."

The story is in keeping with trends from the start-up community at large, as seen by Matt Katz, our Head of Corporate Finance. "Going back ten years in the world of corporate finance, entrepreneurialism was all about making as much money as possible. The entrepreneurs that I meet today still want to run a sustainable profitable business – but they also want to make a difference."

In this climate, businesses run principally for social gain – or social enterprises – are thriving. "There is an element here of necessity being the mother of invention," Eddie notes. Public sector cuts mean charities must look to other options for a sustainable future. Yet just as significant is the desire from consumers and employees to engage with or feel part of socially beneficial outcomes."

"Entrepreneurs understand what the market is demanding and they mould their business to it," Matt summarises. "More and more are promoting their social impact, realising the positive force behind this that gets them closer to their goals of a successful, sustainable business."

This article continues ▶

But where there is success there is also scepticism. Enterprises without an asset lock or a socially-responsible ownership model face a nagging suspicion that their social motives are dispensable, or just marketing shtick for commercial purposes.

Matt regards this pessimism as largely overblown. "I think in general the world holds itself to account more than it did a decade ago. There are far more lobbying organisations, for example. Social media in particular makes it quick and easy to identify when an organisation is doing wrong."

Moreover, social motive is more concrete than commentators expect. "Social benefit becomes completely embedded in an organisation's culture. Employees work there because of those values, and are incentivised by it, so it would be a huge risk to step away from it."

Eddie agrees, arguing that being too prescriptive about a social enterprise's structure can be counterproductive. "I think of social enterprise as a verb – something organisations do, rather than something they are."

He deliberately avoids setting boundaries between sectors. "If the commercial world starts behaving socially responsibly, social enterprise has done its job. And, in fact, were this to become a reality it would do itself out of a job." However, realistically, it is far more likely that there will always be a need for businesses that are governed by a constitution and an embedded purpose that isn't purely about making money.

Buzzacott's own relationships with Social Enterprises are just as inclusive, often spanning different services, beginning with start-up services such as accounting and basic tax compliance. "We help small enterprises consider whether it is better to remain private, or to become a charity, which makes a lot of sense from the tax perspective."

> *"If the commercial world starts behaving socially responsibly, social enterprise has done its job."*

As smaller enterprises scale up, they may move across to Matt's team. "We support them with their forecasting and their business planning, and help them to raise money through the traditional banking route, or through social investment."

The future of Buzzacott's services in this area looks exciting. Methods of valuing social impact are developing including approaches such as Social Return on Investment, which expresses social value creation in monetary terms. However, such methods should be used with caution if at all to compare different organisations, as should any indicators that take human value into account.

Many social enterprises won't have the capabilities to make these sorts of evaluations in-house and the sector is in need of simple tools to provide assurance of their social impact. Buzzacott is currently looking to software solutions to capture this information.

Similar to an audit, social value reporting has more credibility when it's assured by an independent third party. "We're well placed to provide this sort of assurance. Assessing the approach an organisation has taken to deliver sensible outcomes is exactly our area of expertise," comments Eddie.

"We are already seeing organisations delivering social impact above or at target levels, resulting in the cost of their funds reducing," Matt adds. "As this trend grows, the measurements of social impact will become an essential part of a social enterprise's formal reporting."

Eddie is similarly enthusiastic about the possibilities. "There would certainly be a neatness and an elegance in signing off this assurance (regarding social impact created) at the same time as yearly financial statements."

As we creep closer to 2020 it will be interesting to see how Social Enterprises continue to adapt and how emerging methods of assuring value will ensure they hone their impact and flourish.

Buzzacott joins the Employee Ownership Association

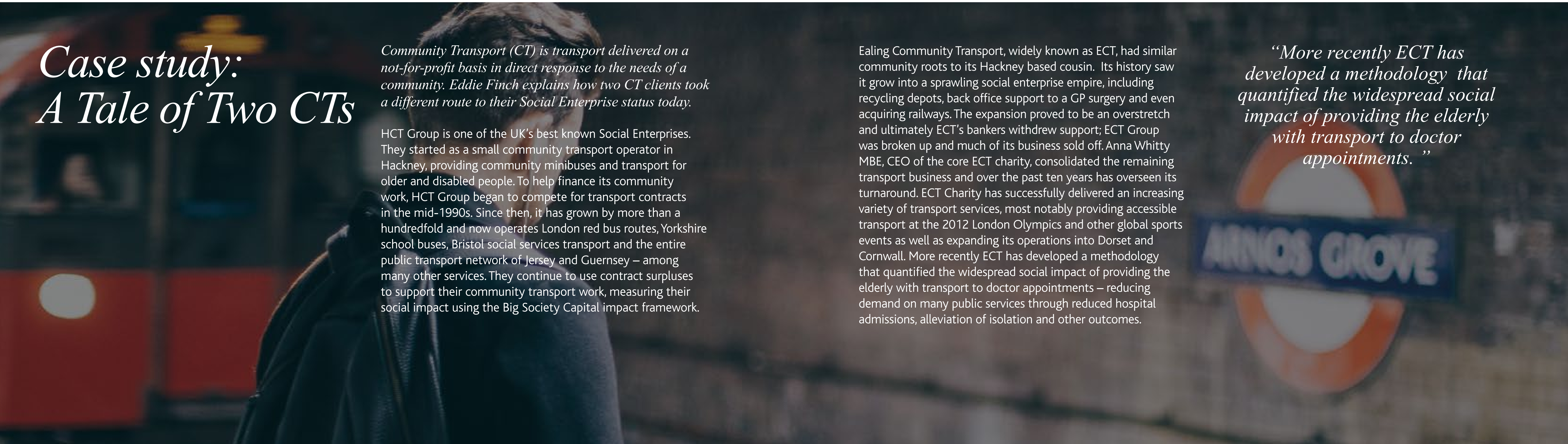
Employee Ownership, made famous by retail giant John Lewis, is becoming increasingly popular with start-ups and established companies alike. Many Employee Owned organisations identify as social enterprises, and both run without external stakeholder profit as their primary motive.

> *"I foresee a world where most Social Enterprises that generate profit are Employee Owned."*

We recently joined the Employee Ownership Association to better service our clients making the change. The demand from our client base is broadly two-fold: millennial entrepreneurs who want to do good for the staff that work for them, and Professional Practice firms, like architects, where the service provided is all about their people.

The Government is further incentivising the model with significant tax breaks, including no Capital Gains Tax on selling into Employee Ownership and a yearly tax-free bonus for employees of £3,600.

Even without the financial rewards, the cultural change is palpable. Analysis of Employee Owned companies reveal colleagues to be more participative, with greater incentive to deliver high-quality service. To have a conversation about the future of your business, or whether Employee Ownership is an option for you, contact Matt Katz.



Case study: A Tale of Two CTs

Community Transport (CT) is transport delivered on a not-for-profit basis in direct response to the needs of a community. Eddie Finch explains how two CT clients took a different route to their Social Enterprise status today.

HCT Group is one of the UK's best known Social Enterprises. They started as a small community transport operator in Hackney, providing community minibuses and transport for older and disabled people. To help finance its community work, HCT Group began to compete for transport contracts in the mid-1990s. Since then, it has grown by more than a hundredfold and now operates London red bus routes, Yorkshire school buses, Bristol social services transport and the entire public transport network of Jersey and Guernsey – among many other services. They continue to use contract surpluses to support their community transport work, measuring their social impact using the Big Society Capital impact framework.

Ealing Community Transport, widely known as ECT, had similar community roots to its Hackney based cousin. Its history saw it grow into a sprawling social enterprise empire, including recycling depots, back office support to a GP surgery and even acquiring railways. The expansion proved to be an overstretch and ultimately ECT's bankers withdrew support; ECT Group was broken up and much of its business sold off. Anna Whitty MBE, CEO of the core ECT charity, consolidated the remaining transport business and over the past ten years has overseen its turnaround. ECT Charity has successfully delivered an increasing variety of transport services, most notably providing accessible transport at the 2012 London Olympics and other global sports events as well as expanding its operations into Dorset and Cornwall. More recently ECT has developed a methodology that quantified the widespread social impact of providing the elderly with transport to doctor appointments – reducing demand on many public services through reduced hospital admissions, alleviation of isolation and other outcomes.

> *"More recently ECT has developed a methodology that quantified the widespread social impact of providing the elderly with transport to doctor appointments."*

THE BIGGEST TRADE

GET IN TOUCH

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Richard Rivlin, former journalist for the Financial Times and The Sunday Telegraph, highlights the potential challenges faced by hedge funds trying to navigate Brexit.

Hedge funds exist to deliver market-beating returns to their investors, whatever the economic back-drop. These organisations are used to harnessing uncertainty and volatility as part of their day to day decision making.

So there was something faintly ironic about the decision to trigger Article 50 on 29 March being announced nine days earlier; the British government's attempt to give financial markets sufficient time to prepare for a tempestuous and volatile negotiating journey.

David Jarman, Partner and head of the FCA Regulated Firms team at Buzzacott, providing advisory services to over 75 fund manager clients says "The talent dimension is important: There are 40,000 Europeans living in London working for hedge funds. Managers will be looking around their offices wondering if their talent is going to be able to stay and work?"

That is for tomorrow. The essential issue today is what contingency planning hedge fund managers can and should be doing? Currently the Alternative Investment Fund Managers Directive (AIFMD) regulates managers in the EU. Post Brexit, will this mean all those London managers become non-EU managers overnight?

David says, "If hard Brexit becomes reality, there will be many voices in London calling for it to become more in line with the likes of Singapore in terms of a regulatory framework and low tax jurisdiction."

And so those who can deliver returns may become more attractive to a global set of investors from the US, Asia and other low tax markets. It's the outcome hard-core Brexiteers hope for – but it could come at a high cost.

Nearly 300 companies have received the AIFMD passport since it was implemented in 2013, enabling them to sell their funds freely into the EU. That dynamic will change, although fund managers will argue that a new, parallel base within the EU may overcome the issue.

Such postbox planning is likely to antagonise the regulators so managers should think very carefully before leaving London.

Vocabulary will change; David says, "Words like equivalence are going to become important." This is a system which might extend the passport to a non-EU country if it has the equivalent level of regulation. Those who crave the status quo are pushing for equivalence to take hold, even though – to date – no non-EU country has seen the AIFMD passport extended their way.

As the tone and optics of the negotiations develop, so the pendulum of confidence will shift. This is an industry where significant fortunes are made on anticipating an issue and making a trade. For each one who is successful, many more fail. For many, how they play the uncertain Brexit future may be their biggest ever trade and key to their long-term sustainability.

ALL IN GOOD TIME

GET IN TOUCH

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At Buzzacott we're passionate about giving all of our staff the opportunity to volunteer, but realise that life can get in the way. Ellie Seaward, our Head of Corporate Social Responsibility, tells us how we hope flexible volunteering will change the game.

> *"Colleagues are free to choose when they volunteer, but they don't have to start from scratch."*

A lot of the people I speak to outside Buzzacott are a bit envious of our volunteering allowance – quite rightly! The thing is, it's only a proper benefit if you're able to make use of it and one of the CSR team's key objectives is to make sure that everyone who wants to volunteer is able to. In the last few years, our headcount has grown but the number of volunteering hours taken up has stayed fairly static and in 2015-16 the number dropped – a strong hint at least that something needed to change.

So, we spent last year seeking feedback so we could understand the barriers to volunteering and come up with some new initiatives to help our colleagues.

One clear message was that our focus on full-day group volunteering gave too few opportunities for those wanting to use their hours in weekly increments. The programme also just wasn't flexible enough for colleagues who have particular busy periods, are studying or spend a lot of time at client premises.

We also weren't talking enough about the possibility of using the 14-hour allowance for personal volunteering. The rules weren't clear, and we weren't engaging those who already volunteered in their own time from personal motivation – potentially our greatest advocates.

In response to all this, we developed the concept of flexible volunteering. The CSR team acts as a kind of broker, making contacts with charities and researching and advertising volunteering opportunities. Colleagues are free to choose when they volunteer, but they don't have to start from scratch – we do the research, but they are in charge.

We're introducing using a programme of face-to-face communication, speaking in team meetings and employee induction sessions. By doing this, we can take questions in person and get instant feedback on our new ideas. We have also made our CSR annual report the focus of our written communication, presenting essential guidelines in a concise and colourful format.

We've used the same communication channels to clarify how to claim time for personal, self-organised volunteering, so that those who are already giving their time can benefit.

The project is in its infancy, but the initial response to flexible volunteering has been very warm and we hope to be able to confirm our suspicion that engagement in CSR requires innovation as much as persuasion.

STEPPING STONES

Our Private Client Team is ready to help you plan your future, whatever it entails.

Life is full of change. Whether big or small, planned or spontaneous, each new phase in life arrives with its own financial implications. We will always do our best to know about your life changes, but you'll inevitably be aware of any upcoming changes far before us so let us know to allow us to help you plan for the future.

The following aims to highlight common milestones in our lives and the financial implications that typically partner them.

Keep us in the loop
Know of some upcoming changes in your life that might impact your financial situation? Let us know so we can help you plan for the future: privateclients@buzzacott.co.uk

WHAT'S HAPPENING

Adulthood

Turning 18 is when most of us start thinking about our financial future. It's also when we can first start making decisions that could have long term financial ramifications we hadn't considered. For example, have you considered the financial impact of your student loan or grant?

Have you considered these?
- Student loans / grants
- Making a will

Full-time job

You've started earning money. Happy days! While spending seems top of your list, it might be worth starting a pension scheme and making the most of the tax deduction options. There are ways to maximise financial benefits, just make sure you plan early.

Have you considered these?
- Checking tax deductions
- Starting a pension scheme
- Maximising benefits

Expatriation

Time for a change of scene? Becoming an expat is exciting, however individuals can often find themselves caught by the tax rules both at home and away. To ensure your time away reveals no unwelcome surprises, make sure your contract with your overseas employer is robust. Financial planning can be complicated, so plan ahead. Have you considered making a will in both countries or how you canminimise your tax burden in both countries?

Have you considered these?
- Planning and timing of leaving or coming
- Contracts with overseas employers
- Maximising benefits
- Minimising tax in two countries
- Making wills in both countries
- American tax issues

Redundancy

Usually everyone's nightmare but out of your control. There are a number of options available to help you manage this. There are ways to plan the payoff to minimise your tax burden. Ever considered investing your assets or perhaps going down the route of self-employment?

Have you considered these?
- Planning the payoff to pay least tax
- Planning investments
- Self-employment - going it alone

Setting up a business

Decided that being managed isn't for you? Becoming self-employed or starting a company brings with it a number of new financial implications. From starting or buying a company to remuneration planning, there are a number of paths to consider.

Have you considered these?
- Self-employment
- Starting a company
- Buying a company
- Remuneration planning

Becoming a homeowner

Congratulations – you're getting onto the property ladder. Have you thought about the different options available for you to easily finance your property? Or are you considering letting it out?

Have you considered these?
- How to buy
- How to finance
- Letting it out
- Making a will if not already done

Children

Children can be expensive. Start making financial arrangements early to ensure you're well-equipped to provide for them. Should you be thinking about appointing guardians or insurance?

Have you considered these?
- Appointing guardians
- School fees payment and planning
- Insurance for you / your partner

Marriage/remarriage

Have you considered changing your will or putting plans in place to provide for your children or stepchildren?

Have you considered these?
- Making a new will
- How best to provide for your children or stepchildren

Divorce

While this is difficult to plan for, when it happens there are a number of financial implications. Splitting of assets and pension should be thoroughly considered.

Have you considered these?
- Asset splitting
- How to finance the settlement
- Pension splitting

Pensions and investments

It's important to ensure you are considering all the options available to ensure you don't come across any nasty financial surprises later on down the line.

Have you considered these?
- Making investments
- Review of investments
- Pensions review
- Pension planning
- SIPP provider

Passing on the business

Established your legacy and now looking to start a new chapter? There are a number of options available when looking at succession planning.

Have you considered these?
- Succession planning
- Transferring to children
- Selling out
- Liquidating

Inheritance received

There can be a number of tax implications that arise from inheritances, but some options are available for you to minimise tax implications.

Have you considered these?
- Minimising tax on your parents' estates
- Investing
- Inheritance tax planning

Retirement

Have you reviewed your pensions and investments? What plans have you put in place for them?

Have you considered these?
- Pensions and investments review
- Inheritance tax planning
- Making gifts

Death

Knowing that your assets will be in safe hands can provide some comfort. Early planning is key to ensure everything will be cared for as you intended.

Have you considered these?
- Choosing your executors
- Tax planning on and around death
- Assistance and advice for the beneficiaries
- Acting as trustee

Is your investment portfolio performing?

GET IN TOUCH
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2016 may have been contentious in the world of politics but it was a good year for stock markets. Was it good for your portfolio? Matt Hodge, Director in Buzzacott's Financial Planning team, explains why you should not take investment performance at face value.

2016 investment returns suggest that many discretionary investment managers significantly underperformed. In our experience, disappointing results year on year are often going unchallenged or are masked by the performance of the markets; 2016 was not a one-off in this respect.

Last year in the UK, the FTSE 100 produced a total return of 19.1%. Compare this to the return of the WMA Balanced Index for 2016, which was 17.1%*. This index is made up of underlying indices that represent the main asset classes commonly used in a 'balanced' risk portfolio. It effectively models an investment manager who uses a relatively static asset allocation, populating with funds that 'track' relevant assets or markets. The WMA index return does not include investment manager fees but even so, taking this relatively static approach would have given returns aligned to market performance.

But the ARC Balanced Index tells a very different story, with a return of 8.9%**. The ARC indices are based on real performance numbers provided by participating discretionary investment managers for given risk profiles. Therefore, the indices are more representative of investment managers making active asset allocation and fund/stock selection decisions, as well as taking fees into account. Given that this is an active approach, we would have expected performance to have been better.

Some might say an 8.9% return for a 'balanced' risk portfolio is still attractive. Crucially however, the chosen investments may not have added value compared to the level of risk taken, or even captured all of the return given by the market's performance. Therefore, we encourage investors to ask their investment manager if they have added value by additional returns or by reducing risk compared to indices.

The key to 'diversified' portfolios

An investment manager overseeing a 'diversified' portfolio has two key decisions to make.

The first is asset allocation – a manager will need to decide whether to deviate from the sector average for a specific risk profile. For example, if a standard 'balanced' portfolio has 60% of its portfolio in equities, a manager may choose to cap theirs at 50%; therefore, returns will differ to the average.

The second decision is fund/stock selection, where a manager obtains exposure to those asset classes with specific investments. Here again, these choices will impact performance.

The Buzzacott view

While the FTSE 100 return of 19.1% appears highly attractive, it is worth remembering that being fully invested in the FTSE 100 from November 2007 to October 2008 would have resulted in negative returns of -32.30%. Few investors today would wish to be exposed to just one market and asset class; diversification is crucial.

"Some might say an 8.9% return for a 'balanced' risk portfolio is still attractive. Crucially however, the chosen investments may not have added value compared to the level of risk taken"

Our expertise and experience helps us to interrogate portfolio performance in greater detail. We align asset allocation to our clients' risk profiles, regularly reviewing and rebalancing. Our approach continues to build rewarding relationships with our clients, who trust us to control risk, reduce cost and capture market returns.

* No fees apply to the WMA indices as they are hypothetical indices whereas the ARC indices are net of investment manager fees
** ARC Balanced Index

A BUZZACOTT GOODBYE

BETS Team Leader Tony Hopson says a fond farewell to Jenny Livingstone, a formative figure in Buzzacott's history.

When Jenny Livingstone merged her founding tax practice into Buzzacott in 1999, fourteen staff joined with her, myself included. The Buzzacott Expat Tax Services (BETS) team has since grown to five times that size. Now operating from three countries, almost half of the original joiners remain at Buzzacott, testament to Jenny's cohesive leadership and enduring legacy.

An extremely talented tax practitioner, Jenny began her working life at HMRC before moving to Arthur Anderson, where she picked up her US expertise. Following a stint at Ernst & Young, Jenny recognised that there was a gap in the market for a boutique firm and applying her usual determination, the Knightsbridge-based Livingstone & Co. was soon born.

I joined the practice as its fourth professional, a week before Jenny's daughter, Nicci Flood. Servicing private clients from film producers to entrepreneurs, our Buckingham Palace Road offices particularly pleased one American client, who confessed to leaving out his tax returns to impress snooping house guests.

When the time came, Buzzacott was chosen for the Livingstone merger over offers from another top accountancy firm and a wealth management firm. A strong-minded businesswoman, Jenny immediately made her presence known in the office. She was a dynamic leader, forever breathing life into stale meetings and a fierce advocate of new ideas.

During her three years as Team Leader of BETS, Jenny's influence was seen most clearly in the relationships she forged with everyone around her. She was incredibly supportive of her staff, who in turn deeply respected her leadership. Likewise, many of Jenny's clients counted her as a friend; she'd be just as likely to meet them at the theatre than the office. It is no wonder some are still with us today.

> *"She was proud of our expansion, and indeed when we opened Buzzacott's first overseas office in Hong Kong last year, it seemed in keeping with Jenny's legacy of maverick ideas."*

Jenny's great client service partnered with considerable technical strength. Post-merger, her masterminding of several high-profile recruits led BETS from strength to strength. Logistics were forever a forte. Away-days were meticulously timetabled, right down to the all-important '6.30pm: Gin & Tonics in Villa 248'.

Even into her retirement, Jenny remained dedicated to her team and to the firm, attending yearly client gatherings at the Mall Galleries. She was proud of our expansion, and indeed when we opened Buzzacott's first overseas office in Hong Kong last year, it seemed in keeping with Jenny's legacy of maverick ideas.

The number of Partners and staff, retired and present, that attended Jenny's funeral bore witness to how widely she will be missed. The BETS team of today is a fitting legacy to an inspiring founding figure.

Brian Regan

We were very sorry to learn of the death in December 2016 of Brian Regan, a former Senior Partner of one of our founding firms, Watson O'Regan and Co. Brian played a pivotal role in helping to grow the firm and was the founding Chairman and Chief Executive of Buzzacott Investment Management Limited, the forerunner to the Buzzacott Financial Planning team. Brian retired from the firm in 1999 but remained a consultant for a short period thereafter. Everyone at Buzzacott is grateful for his significant contribution to making the firm what it is today. Our thoughts and prayers are with his family at this difficult time.

Directory

About us

People trust Buzzacott. We blend pragmatism with the insightful knowledge of an industry leader, driven by attention to detail.

We're big enough to display deep knowledge over a broad range of specialisms and small enough to understand the power of personal connections.

The values we identify with, the consistency of our advice and our ability to tailor-make solutions means Buzzacott can be trusted to do the right thing.

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