

the**business**

Ready, Set, Go!

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Welcome



We were delighted with the positive response to the first issue of *The Business* produced by our Business Advisory Services (BAS) Division for the SME sector. We are now committed to producing the newsletter three times a year.

This issue has a feature on the benefits of outsourcing, an often neglected but very cost-effective way of freeing up management time in the small and often not-so-small business. We also have a reminder that, at some point, every owner must dispose of their business. At this point most will hope to reap the

reward for their years of hard work. But to get a company into a position where its value can be maximised can take a long time and all business owners should have one eye on their exit strategy at all times.

If you have any comments or requests about the newsletter, please get in touch and we will try to incorporate them in the next issue.

**Eric Hindson, Partner
Business Advisory Services**

Business news

Credit card fraud

Bargain store 'TK Maxx' was targeted recently in what is thought to be the world's biggest ever case of credit card fraud. More than 45 million customers in Britain and the US had their personal details stolen.

However, banks and building societies are taking a harder line with victims of credit card fraud. Compensation claims are now often dismissed and account holders may be accused of collusion in the crimes.

There are a number of ways you can reduce your exposure

to fraud. For example, cancel any credit cards no longer in use and reduce any unnecessarily high limits on the cards you do use. Maintain lower cash balances in your current account and review your statements each month. Also ensure address details are up to date. Finally, if purchasing online, make sure your computer is protected with the latest anti-virus software.

Unclaimed assets

The British Bankers' Association has confirmed the banking industry's support for a new government approach to unclaimed assets.

The scheme, outlined in a government consultation paper in March, would allow longstanding unclaimed monies in bank and building society accounts to be reinvested in the community. However, this would not affect the consumer's right to subsequently reclaim their money. Longstanding unclaimed assets, based on a 15-year definition of inactivity, will be transferred to a central reclaim body for reinvestment. This issue will be discussed further in a separate government consultation document later this spring.

Budget report highlights

- From 6 April 2008, the basic rate of income tax will be cut from 22% to 20% and the 10% rate of income tax abolished.
- The subscription limits to ISAs will be increased from 6 April 2008. Individuals will be able to subscribe up to £3,600 per tax year to a cash ISA and £7,200 into a stocks and shares ISA, subject to an overall limit of £7,200.
- The threshold for inheritance tax will rise to £350,000 by 2010.
- From 2008/09, and subject to state aid approval, the enhanced deduction available to SMEs in terms of qualifying R&D expenditure will increase from 150% to 175%.

Corporation tax:

- Will increase from 20% to 21% for small companies, effective 1 April 2008.
- Will reduce from 30% to 28% for large companies, effective 1 April 2008.
- Will increase from 21% to 22% for small companies, effective 1 April 2009.



Inside outsourcing

Outsourcing has become a strategic response for many big businesses. But, as **Selina Kotecha reports, SMEs can also benefit.**



A wide range of businesses, from start-ups to mature organisations, are finding value in CLB Littlejohn Frazer's dedicated accounts outsourcing department.

One such company is Unilever Ventures Ltd, which advises Unilever Plc on seed, start-up and expansion capital investments. Of the 15 investments in its current portfolio, four outsource all or part of their financial accounting reporting operations to CLB Littlejohn Frazer.

"Our start-up businesses are too small to dedicate the necessary resources to these functions," said Financial Controller Paul Hart. "The quick set-up and flexibility of outsourcing to CLB Littlejohn Frazer means it's ideal for start-ups." However, he adds, "Even when they've grown in size, some of these companies stay with their outsourced operations."

Optimising resources

One of the main advantages of outsourcing is that it frees up senior staff to concentrate on more

strategic areas. "I can focus my time on supporting the business growth agendas," says Paul, "dealing with issues concerning accounting operations only by exception."

Outsourcing can also result in higher quality financial information, enabling better decision-making. And providing that information on time both increases its value and avoids potentially costly penalties and interest charges.

Tailored solutions

Whatever the size of your organisation, an outsourcing partner should offer you both flexibility and control. For example, the software used by CLB Littlejohn Frazer's outsourcing team allows clients to access their accounts 24/7 through our secure website. We can also work either from our offices or at your own location.

"Regardless of their size, organisations will face similar benefits and concerns about outsourcing – control, cost reduction, consistent processes, best practice and relationships,"

says Paul. "But the balance between these will vary for each business." The service should therefore be tailored to your individual needs.

Whatever your requirements, you could find real value in accounts outsourcing.

For more information, contact Selina Kotecha, Outsourcing Manager, on 020 7369 3889 or email skotecha@clblf.com

Selecting an outsourcing partner – Unilever's Paul Hart gives us his tips

- Consider the organisation as a whole – don't rely on the services of a key individual.
- Check that the partner has past experience in working with businesses and issues similar to your own.
- Ensure you will have access to technical expertise.
- Process or control deficiencies should be dealt with before outsourcing, or in partnership with your provider.

When the day comes for you and your SME to part company, will you be ready? We find out the benefits of having an exit strategy in place.

Ready? Set? Go!



“**P**roperly planning your exit route can achieve two main goals,” says Melvin Crutchley, partner and head of the Business Advisory Services team. “It can maximise the value you receive for your shares and minimise your tax liabilities on that value.”

Aside from a public offering or liquidating the company, the principal exit routes open to you as majority shareholder involve either a sale or passing the shares on to the next generation of your family. Sale could be to an external third party or to a management team (MBO/MBI), although the latter is only an option for those companies with a sufficiently developed management structure.

However, as Melvin points out, there is no one right way. “Every company has its own background, financial considerations and underlying structures, which make some routes impossible and others more favourable.” It’s vital therefore that SMEs look far enough ahead and take advice on their own best-fit solution.

Preparing for sale

To maximise the value of your shares, the company should be made as attractive to potential buyers as possible. This is not a last minute job and a number of factors must be taken into account.

“It’s important to consider how prospective purchasers will view the company without you at the helm,” comments Melvin. “It may be necessary to spend a few years ensuring that a competent second tier of management is in place or, if one already exists, to begin divesting yourself of responsibility.” Crucially, you and the success of the business shouldn’t be seen as mutually exclusive.

The financial position of the company is also of key importance. “When preparing to sell, look at the profit issues,” advises Melvin. “If one part of the business is under-performing it can have a negative impact on the overall picture.” Secondly, consider the cash position.

Tightening your belt in the run-up to a sale can give a healthier bank balance. “However,” he warns, “investment shouldn’t entirely cease. This could damage the perceived earnings potential of the company.”

Under the microscope

Once a price has been agreed, your company will go through a due diligence process, which is crucial in determining the final value you receive. “Due diligence is the business equivalent of a homebuyer’s survey,” explains Melvin. “It involves, among other areas, a financial and legal examination of your company and can result in the purchaser forcing a price reduction.” He goes on to explain that a pre-sale due diligence can avoid this loss of value. “By uncovering any potential problem areas in advance, you can correct or mitigate them prior to selling.”

Welcome relief

Because selling your shares is likely to result in a capital gain, it’s important to look ahead at ways to minimise your tax liabilities. “Your capital gain can be reduced by Business Asset Taper Relief based on the period of time the capital asset has been held,” explains senior tax consultant Barry Luscombe. “If the business rate is due, the gain can be reduced by up to 75%, meaning a tax rate of 10%.

But, again, to take full advantage of this means planning well ahead. “It’s advisable to prepare for a sale up to 10 years in advance,” says Barry. “Taper

relief is looked at over a 10-year period, and to get the full business rate, the qualifying conditions must have been met for all of that, or for the period of ownership, if shorter. Otherwise, any gain is apportioned between business and non-business periods.”

While the business element of the gain will qualify for the business rate if the holding period is more than two years, any non-business element will get a much lower rate of relief. “A typical error that people make is to transfer shares to a spouse or family member less than two years prior to sale,” says Barry.

Keep it in the family

Indeed, if you’ve decided not to sell the family business, but instead to pass it on to the next generation, the question becomes one of timing. Should you transfer it during your lifetime or wait until after your death? “The latter is often better,” says Barry, “in the hope that the inheritance tax will be covered by business property relief and the capital gain will be washed out by means of the tax-free uplift on death.” However, there is no fit-all solution.

“Whichever exit strategy you eventually choose,” says Melvin, “planning well in advance is essential. Leaving it until you are ready to go could prove to be a costly oversight.”

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Enduring, but it won't last!



Enduring Powers of Attorney will soon be replaced by new Lasting Powers of Attorney.



Many people are now aware of the benefits of setting up an Enduring Power of Attorney (EPA). This is a relatively quick and inexpensive procedure, in which someone is appointed as attorney to manage your affairs should you lose mental capacity. However, from 1 October 2007, while existing EPAs will remain effective, it will not be possible to make new ones.

The EPA will be replaced by a new Lasting Power of Attorney (LPA) which, while likely to prove more costly, is intended to protect against some of the perceived abuses of the EPA system. The LPA will enable your attorney

to make decisions not only on financial matters but also personal welfare and healthcare, although different attorneys can be nominated for these roles.

The LPA must be registered with the Office of the Public Guardian before your attorney can act. It should also be certified by a professional to confirm that you are able to understand what you are signing. Anyone wishing to create or amend an EPA should do so before 1 October.

For more information on EPAs or wills, please contact senior tax consultant Barry Luscombe on 020 7369 4504 or email bluscombe@clblf.com

Where there's a will...

When it comes to inheritance, discretion is the better part of vicariousness.

How would you feel if you had to send a £120,000 cheque to HM Revenue and Customs to pay taxes that could have been completely and legally avoided? This is how your children will feel if you waste your nil-rate band for inheritance tax.

Everyone is entitled to pass on a tax-free sum of £300,000 after their death or during the previous seven years. In a marriage, both spouses should receive this allowance, but often only one will be obtained. It is, however, relatively simple to ensure that your wills allow for both allowances to be received, while still preserving the surviving spouse's access to income and capital.

Discretionary trusts up to the available nil-rate band now feature as standard in the wills of the well-advised, with beneficiaries including both the surviving spouse and the children.

Following new government restrictions on the creation of lifetime trusts, it is also important to consider what happens to assets when the surviving spouse dies. A discretionary trust of residue – if your spouse pre-deceases you – allows your offspring to choose whether to take their inheritance or leave the trust in place for the future.

Our tips – Tax

- Simplify your reporting. A dispensation, available from HM Revenue and Customs, enables companies to avoid reporting certain expenses in their annual benefits in kind return (form P11D). This is useful when there are many forms to complete, but only reimbursed business expenditure to include.
- Pay taxes on time. HM Revenue and Customs will charge interest after the due date – as much as 7.5%, depending on the type of tax.
- Small employers (fewer than 50 employees) may be entitled to an incentive payment (£100 for 2007/08) by filing the employers' annual return (form P14) online.
- Help us to help you. If we are preparing your personal tax return, the earlier we receive your information, the quicker we can get it back to you.

Facing the green gauge



Climate change is arguably the most important issue facing the world today. But what are the implications for business? Azhar Rana reports.

It is becoming increasingly important in business to demonstrate corporate social responsibility, and that includes consideration of a firm's impact on the environment. Failure to do so could have a negative impact on how your business is perceived and, ultimately, on your bottom line.

Employee expectations

At graduate level, environmental issues are a real concern among potential recruits, who want to work for a business that is in tune with them. Many companies are now taking note of this in an effort to attract the best staff.

This was a major driver behind a recent decision by a leading professional services business to aim to become carbon neutral. Meanwhile, another prominent business is offering Oyster Cards to staff in an effort to reduce taxi usage. It is calculated that by switching to the tube for just one journey each week, it could save 300 tonnes of CO₂ emissions in a year.

Green investment

As tighter measures are taken to curb the greenhouse effect, a company's emissions will increasingly be taken into account by investors. In industries with high emissions – such as power generation, heavy manufacturing, mining, oil and transport – companies could find their balance sheets shifting

dramatically. High emissions assets may be worth less and low emissions assets more.

A growing market

Of course, with problems come opportunities. It was estimated in the recent Stern review that the global market for low carbon technology would reach upward of \$500 billion by 2050. New businesses are emerging, from environmental audit consultants and alternative technology companies to investment trading firms, including carbon traders.

Emissions trading

Carbon trading is now seen as a key mechanism in controlling emissions, and with it has come the birth of a massive new business sector.

Carbon trading puts a price on pollutants by limiting the amount of greenhouse gases that a country or company can emit. It then allows them to trade emissions rights with one another. Companies needing to exceed their allowance must buy spare permits from cleaner businesses that have reduced emissions. As an indication of how confident it is in the market, Morgan Stanley announced a £3 billion investment in emissions trading in January this year.

As green business increasingly becomes big business, companies will need to ensure they measure up.

We'll manage IT! How MERIT, CLB Littlejohn Frazer's network support and IT consultancy division, is helping one SME.

Greenback Alan, a growing firm of chartered accountants, relies heavily on IT to provide a cost-effective but quality service. However, it can't justify employing specialist IT staff.

In the past, the firm relied on third parties for its IT maintenance and support, but found service levels disappointing and managing the suppliers a burden.

The solution

Since outsourcing to MERIT in 2003, Greenback Alan has seen huge benefits. "As MERIT faces the same regulatory and operational issues as us, they're likely to have already implemented the solutions we require in their own firm."

By outsourcing, Greenback Alan is able to focus its resources on other areas of expertise. "It is vital that our IT systems are reliable and do not absorb too much management time," said Stephen Dabby, the Managing Partner.

Filling the gaps

MERIT also works with businesses that have some in-house IT personnel. It can be difficult for non-IT professionals to manage IT staff and to ensure appropriate decisions are being made. SMEs often find it difficult to recruit and retain high-quality IT personnel. Outsourcing can also help when key IT staff are unavailable, or when a problem exceeds their expertise or resources.

By creating a flexible but well-defined relationship with a third-party, it's possible to retain in-house expertise, while benefiting from pre-contracted external advice and support.

For more information on MERIT, contact Ian Singer on 020 7987 5030, or email isinger@clblf.com

Meet the **team**

In the last edition of *The Business*, we introduced you to the five partners in the Business Advisory Services (BAS) division – here, it's the turn of the managers. There are eight managers in the BAS division and they play a vital role in delivering its services. The management team comprises four core client managers – who coordinate the day-to-day delivery of a whole range of services – and three other specialists who are involved in pensions administration, outsourcing and company secretarial services respectively. We invited the client managers to give us their perspective on what it takes to be successful in the job.

What makes a good manager?



Cheryl Mead

"An essential part of creating a successful team is being able to work together towards a common goal: to deliver a quality service that is forward-thinking and adaptable to our clients' individual needs. That means we need to provide the support and tools to achieve that."

Cheryl qualified in 2000, has been part of the BAS team since 1999 and will become a partner from 1 June. She has a wide-ranging portfolio of owner-managed businesses.

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Stacey Perrin

"A good manager will listen to clients' needs, act on them promptly and provide both value for money and a value-added service. We must be approachable with any query and, if we don't have the expertise to deal with it, make sure it is passed on to someone who does."

Stacey has been with our BAS team for over five years. Her diverse clients include travel agents and companies regulated by the Financial Services Authority, for which she is involved in the preparation of regulatory returns. Her work also includes the administration of several trusts.

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Rajesh Patel

"A good manager is someone who can bring many skills together, one of the most important of which is knowing when to delegate. Effective delegation enables us to get things done sooner and free up time to focus on adding real value where it counts."

Rajesh qualified in 2000 and joined BAS in 2004. His portfolio covers a broad range of sectors, from insurance broking to the manufacturing industry.

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Tim Herbert

"Managing a portfolio of clients means managing deadlines as well as staff. Quite often, you will be doing work with 10-15 different clients in any given week, so it's important to keep on top of what needs to be done and by when."

Tim joined CLB in 1999 as an audit trainee and qualified in 2002. In 2004, he moved over to the Business Advisory Services division, where he deals with a wide variety of clients, from sole traders to AIM-listed companies.

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